

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

Sustained economic growth in Belgium in 1998 was supported by rapidly growing private consumption and investment. In contrast, the contribution of trade to real economic growth was negative in 1998. Nevertheless, a strong increase in terms of trade, due to the low prices of raw materials, allowed trade still to make a positive contribution towards growth in nominal terms.

Export performance remains the key question for 1999: the deterioration of our export markets led to negative growth in Belgian exports in 1998Q4 (t/t-4) and the timing and strength of a recovery remain uncertain. International organisations are forecasting a clear upturn in world trade in mid-1999. On the basis of this scenario, the FPB is forecasting economic growth in Belgium of 2% in 1999.

So far, however, leading indicators suggest that the upturn in exports in 1999 could be weaker than expected. The Balkan crisis is also having a negative impact on growth prospects. On the other hand, the recent fall in interest and exchange rates in the euro area does improve prospects for 1999.

Domestic demand is not expected to be as buoyant as in 1998, and it should continue to drive growth in 1999. With a 1% increase in employment, consumer confidence will remain high: private consumption growth should be around 2%. Inflation remains at around 1%. The general government borrowing requirement should be less than 1% of GDP, due to the low level of interest rates.

The medium-term outlook for Belgium points to an average growth rate of GDP of 2.5% per year during the 2000-2004 period in an "unchanged policy" scenario. Gross nominal wages are expected to be broadly in line with nominal labour costs in the neighbouring countries. Planned cuts in non-wage costs should therefore lead to enhanced competitiveness. Nonetheless, the slightly accelerated pace of inflation in Europe should cause domestic inflation to rise to 1.6%. The average rate of growth of employment, strongly supported by active labour market policy measures, is estimated at around 0.9% per year in average, leading to a drop in unemployment.

Based on this scenario, the general government financing capacity should become positive from 2001 onward. The "budgetary margins", which will cumulatively reach 1.7% of GDP in 2004, will probably be used to decrease the tax burden or/and increase expenditure: this "changed policy" scenario implies stronger macroeconomic performance than the "unchanged policy" scenario.

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

The FPB macroeconomic leading indicators

The recent publication of quarterly national accounts by the Institute for National Accounts (INA), as well as the development of new data bases with a quarterly or even monthly periodicity, has allowed the FPB to start constructing new statistical tools that aim to improve the perception of business cycle evolution. Our first efforts were concentrated on the development of a system of leading indicators for the major macroeconomic variables.

The forecasting process

Twice a year, in February and July, the FPB produces macroeconomic forecasts for the INA. The FPB also presents two revisions of these forecasts in May and November. The econometric model MODTRIM plays a key role in the forecasting process. However, the model results are adjusted on the basis of experts' views and are also adjusted to take into account all the relevant monthly or quarterly information, which cannot be incorporated directly into the annual model. Our system of leading indicators is designed to supply extra information about the business cycle turning points and the intensity of upturn and downturn phases.

The methodology of leading indicators

The National Bureau of Economic Research originally developed this methodology in the United States during the 1930s and 1940s. Since then, this approach has been used widely by other national institutes as well as by international organisations such as the OECD¹. The principle of a composite leading indicator can be described as follows. While most macroeconomic data (called the reference series hereafter) are only available with a certain delay, a number of variables (here called the leading indicators) can be combined to form a composite leading indicator. These series must be available at an earlier stage than that of the reference series and possess cyclical movements that predate those of the reference series. The main purpose of a composite indicator is to give a clear picture of the current state of the business cycle and to anticipate the turning points of the reference series.

To construct a leading composite indicator for the cyclical component of a reference series, the following procedure is adopted. Initially, a set of potential indicators has to be selected. Then, in order to display the link between the cyclical component of the reference series and the indicators, the irregular component, the seasonal component and the trend have all to be eliminated. All series are then normalised to avoid indicators with large fluctuations from having too much influence. Afterwards, a statistical test is run to examine whether or not the past values of the indicator help explain the present value of the reference series. On the basis of these test results a final selection of indicators is made. These indicators then have to be synchronised with the reference series; this means that for every indicator the lead possessing the highest correlation is retained. During the penultimate stage all possible combinations are generated and the average of each combination is calculated. At the final stage the composite indicator that best fits the reference series – especially with respect to the coincidence of turning points – is then chosen.

The methodology of leading indicators is used in combination with an econometric model to produce a complete macroeconomic forecast. As a result, we are not only interested in the overall business cycle, but also in the different expenditure categories and the various sectors of the economy. Therefore, we follow the same methodology as the Centraal Planbureau in the Netherlands²: the leading indicator technique is applied for each private expenditure component (private consumption, business investment, housing investment and exports) and for each market sector (manufacturing industry, construction and market services). By calculating weighted averages of the composite indicators for the individual series, a composite indicator for the cyclical component of GDP is then constructed for each approach (expenditure and production). Finally, we combine these two series to obtain a composite indicator for the overall business cycle.

To illustrate our approach we will first examine the historical (or *ex post*) performance of the composite indicator for the overall business cycle. This will be followed by a discussion of how leading indicators can be used in the forecasting process.

1. OECD, "OECD Leading Indicators and Business Cycles in Member Countries, 1960-1985", Main Economic Indicators, Sources and Methods, No 39, January 1987.

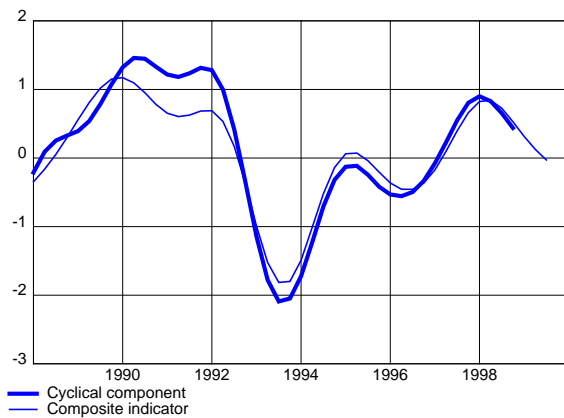
2. CPB "CPB-Conjunctuurindicator", Werkdocument, juni 1990 and "Leading Indicators and Macroeconometric Models: the CPB Experience", Ad Hoc Expert Group on Leading Indicators, OECD, September 1996.

Ex post and ex ante performance

Before analysing the chart, it is necessary to understand how to interpret the position and the shape of the curve. Every point on the curve with a positive (negative) ordinate corresponds to a level above (below) trend level, while a positive (negative) slope indicates a growth rate above (below) the trend growth rate¹. Thus, a turning point (peak or trough) indicates a situation where the growth rate changes from an above/below trend growth rate to a below/above trend growth rate.

The *ex post* performance of a composite indicator is assessed essentially on the basis of the simultaneousness of turning points and the intensity of the cycle. The overall business cycle is represented by the cyclical component of GDP. As illustrated by the chart, the indicator, with the exception of 1990Q2, correctly reproduces the main peaks and troughs (1990Q2, 1993Q3, 1995Q2, 1996Q2 and 1998Q1).

Graph 1 - Gross Domestic Product



Of particular interest are the forecasting (or *ex ante*) performances of the composite indicators, i.e. the capacity to foresee the turning points before they are actually observed in the reference series. The *ex post* performance of an indicator is not always a guarantee for the *ex ante* indicator performance because data revisions can be substantial and also because the nature of cyclical behaviour can change over time (which in turn implies that the composition of the indicator has to be modified). To minimise these risks it is important to use indicators from different sources and to mix quantitative information with qualitative data (the latter source not being subject to subsequent revisions). In any case the 'forecasts' produced by such a system are complementary to those generated by other tools and should be interpreted with caution. At the FPB the system of leading indicators is used to check the consistency of our annual model-forecasts, with the composite indicators containing the latest available information.

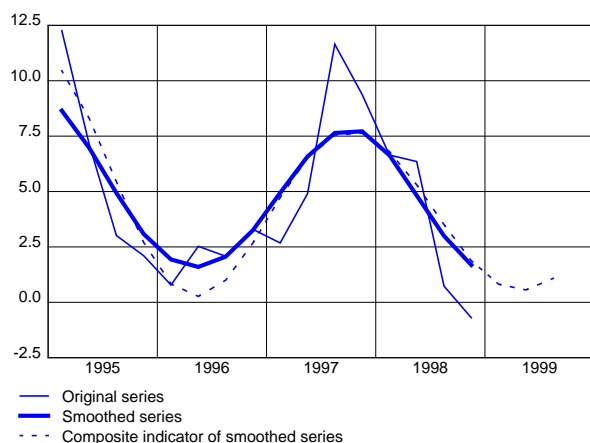
Signs of a business cycle upturn in 1999 still weak

The main questions regarding the present business cycle are concerned with whether and when the expected upswing in exports will materialise and what the intensity of any upswing may be. Our system has a maximum forecasting horizon of 3 quarters. Of course the further the horizon, the more fragile the forecast because more information becomes unavailable and must therefore be replaced by forecasts generated by ARIMA models.

In the following chart, the trend has been reintroduced in order to derive growth rates for the composite indicator for the coming quarters. The use of these growth rates as a forecast for the original series seems tempting, but there are a number of factors that need to be accounted for. First, the composite indicator provides an indication of the evolution of the smoothed series and not the original series. Second, there can be a gap between the smoothed series and this indicator at the end of the observation period, which render further growth rates of the composite indicator difficult to interpret.

Having addressed the precautions associated with the forecasts, what can be deduced from the chart? The slowdown in export growth is likely to continue at least until the second quarter of 1999. The 'forecast' for the third quarter, which rely only partially on available information, seems to indicate that the situation will not deteriorate further and that export growth should pick up during the current quarter or the next quarter. Nevertheless, the scenario of a strong recovery during the second half of 1999 (as was expected only a few months ago) is at the present time less likely than a more timid upturn. With private consumption and investment slowly returning to their trend level, an upturn in GDP is unlikely to materialise during 1999.

Graph 2 - Growth of exports (t/t-4)



1. Note that the trend growth rate is changing smoothly over time.

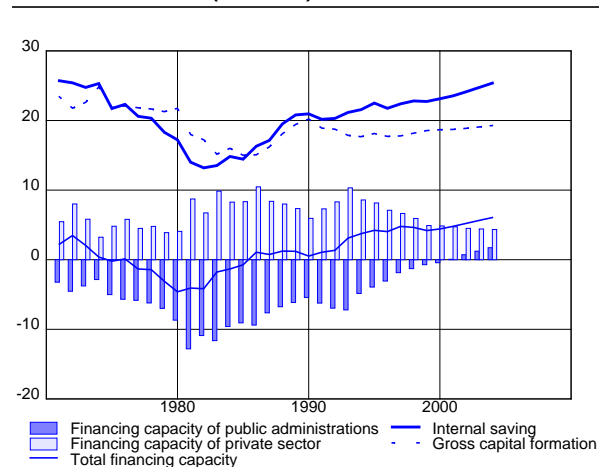
The FPB medium term economic outlook for April 1999 covers the period 1999-2004. Detailed analyses of macroeconomic, sectoral and labour market developments are presented. Detailed results concerning the public finances of the federal government, regions and communities, local authorities and departments of social security are also commented on. A special chapter is devoted to the evolution of energy consumption and carbon dioxide emissions. The baseline is a constant policy scenario, notably with regard to fiscal and social policies as well as institutional arrangements. In this scenario, General Government would obtain an increasing primary surplus in the short term and a positive financing capacity in the medium term. In such a context, a "changed policy" scenario is conceivable, in which the budgetary margins (computed on the basis of the "Stability Program of Belgium" and of the "European Pact of Stability and Growth") are used. The possible macroeconomic and budgetary effects of using these margins are presented.

On the basis of the forecast of international organisations, the outlook for Europe suggests a temporary slowdown in activity for 1999, followed by a progressive recovery in European growth from 2000 onwards. This recovery would be encouraged by strong economic fundamentals as well as by the stabilisation of world growth (notably in Japan and in the emerging economies). Moreover, European inflation as well as nominal interest rates should remain low.

The baseline forecast indicates that, after growth being limited to 2% in 1999, Belgian GDP growth should attain an average of 2.5% for the period 2000-2004. This favourable development would be largely explained by exports and investment evolution; private consumption would play a less important role than the role it played during the period 1997-1998.

Gross fixed capital formation should increase rapidly during the period of the forecast thanks to the favourable development of business investments. In turn, private consumption would increase at a more moderate pace, due in particular to a slight increase of the saving rate. After 1999, exports should be boosted by the favourable evolution of the world economy as well as by the sustained competitiveness of the Belgian economy. Consequently, the contribution of net exports to growth should be significant, boosting the external surplus to more than 6% of GDP, with the total claims of Belgium on the rest of the world exceeding 40% of GDP. The increase in the external surplus also reflects abundant domestic savings set against the background of a declining public sector deficit.

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



Moderate wage increases, cuts in social security contributions, and the extension of production capacity are the main internal factors behind a low inflation rate in the medium term (the rate of inflation does not exceed an average of 1.5% for the period 1999-2004).

Another crucial result of the forecast concerns employment. Employment figures should show a gradual improvement during the period of forecast, with 35,000 jobs being created on average every year (compared to 30,000 jobs being created on average during the period 1995-1998). This can be explained by the following:

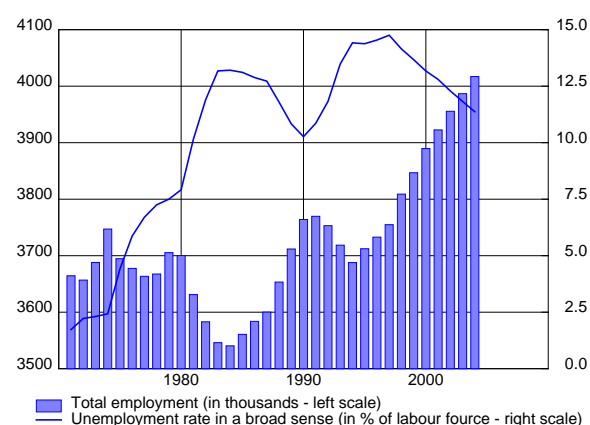
- The favourable macroeconomic context, with an average GDP growth rate of 2.4% for the period 1999-2004;
- The moderate wage increases (according to The 1996 Law on Employment Promotion and on Preventative Safeguard of Competitiveness) and the reduction in employers' social security contributions implied by the Employment Action Plan of Belgium - the increase in unit labour costs will only be 0.9% per year over the period 1999-2004;
- The various measures taken in favour of employment (mainly activation and insertion programs).

The decline of industrial employment is likely to continue, but the number of jobs lost in industry between 1999 and 2004 should be limited to 26,000 (compared with 116,000 during the period 1991-1998). On the other hand, the number of jobs created by the market services should exceed 200,000, bringing the market services share of total employment to about 56% (compared with 36% in 1970 and 53.1% in 1998).

The increase in employment is not reflected in an equivalent decrease in unemployment because of the rise in the size of the labour force (notably due to the rise in the pre-pension age and the legal pension age for women).

The rate of unemployment in a broad sense should decrease from 14.2% in 1998 to 11.4% in 2004. However, if older unemployed people (whose number is likely to increase by 50,000 persons) are excluded from the computation, the rate of unemployment should decrease from 11.6% in 1998 to only 7.7% in 2004. The employment rate (as a percentage of the population with an age between 15 and 64 years) should increase from 57.6% in 1998 to 60.4% in 2004 (compared with 61.3% in 1974).

Graph 2 - Employment and unemployment



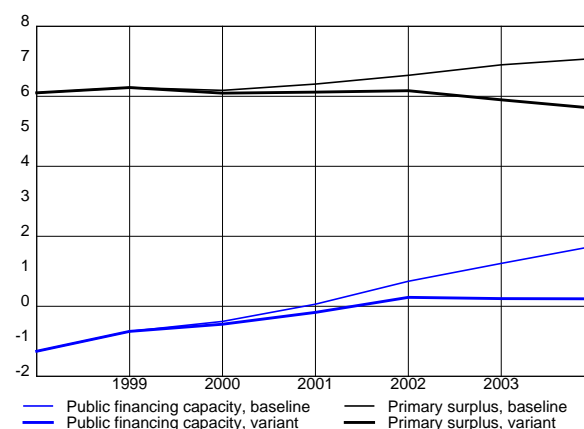
As far as public finances are concerned, the baseline forecast assumes that all existing laws and policies will be applied to the whole simulation period. In particular, this will result in low rates of growth in public expenditures and in the invariability of taxation rates, except where changes have already been decided (such as price linking of income tax brackets, and decreases in the rates of social security contributions).

In the medium term, the primary surplus of General Government should increase again, rising from 6.1% of GDP in 1998 to 7.1% in 2004. Moreover, interest payments should decrease considerably (from 7.4% of GDP in 1998 to 5.4% in 2004), as a result of a fall in the interest rates and a reversed “snowball” effect.

The combination of increased primary surpluses and lower interest payments should result in an elimination of the public deficit in the medium term. For the first time since 1974, the current deficit (measured in terms of public gross savings) has disappeared in 1998; the public net borrowing should also disappear by 2001. The public net financing capacity might even increase to 1.7% of GDP in 2004, indicating that new budgetary margins could be derived for new policies.

The budgetary margins should rise to the substantial amount of 195 billion Belgian francs in 2004, with more than two thirds of this total being obtained in 2003 and 2004. The macroeconomic and budgetary effects of an utilisation of those margins are also presented. With a proportional distribution of the margins across the most important receipts and expenditures of the global public account, economic growth rises to an annual average of 2.7%, with an increase in employment and a fall in inflation. However, the process of decreasing indebtedness would be slowed down.

Graph 3 - Budgetary margins (% of GDP)



Perspectives économiques 1999-2004, Bureau fédéral du Plan, avril 1999. Economische vooruitzichten 1999-2004, Federaal Planbureau, april 1999.

Table 1 - Key figures of the medium term economic outlook (period averages - changes in volume unless otherwise specified)

	1981-1985	1986-1990	1991-1994	1995-1998	1999-2004
Potential export market	2.2	6.6	4.5	6.9	5.6
Private consumption	0.7	2.8	1.3	2.1	2.0
Public consumption	0.5	-0.1	1.4	1.1	1.5
Gross fixed capital formation	-3.9	9.4	-1.8	3.7	3.3
Final internal demand	-0.4	3.6	0.7	2.2	2.2
Exports	3.1	5.7	3.6	4.8	4.8
Imports	0.9	6.9	3.3	4.8	4.7
GDP	0.7	3.0	1.1	2.4	2.4
Private consumption prices	6.8	2.4	3.0	1.8	1.5
Real disposable income households	-0.4	3.6	1.8	0.8	2.0
Domestic employment (changes in '000)	-27.9	40.7	-19.1	30.3	34.7
Unemployment rate (level, in percent of labour force, end of period)					
-including older unemployed people	13.1	10.3	14.4	14.2	11.4
-excluding older unemployed people	12.3	8.7	12.9	11.6	7.7
Current account balance (% of GDP, end of period)	-0.6	0.7	3.9	4.6	6.1
General Government financing capacity (% of GDP, end of period)	-9.1	-5.4	-4.8	-1.3	1.7

Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified)				
	1997	1998 (est)	1999	2000
Private consumption	2.1	3.6	2.2	2.0
Public consumption	0.8	1.5	2.0	1.5
Gross fixed capital formation	5.4	4.9	4.1	3.1
Final national demand	2.2	4.2	2.6	2.1
Exports of goods and services	7.1	4.0	2.9	4.6
Imports of goods and services	6.3	5.8	3.7	4.4
Net-exports (contribution to growth)	0.9	-1.1	-0.5	0.3
Gross Domestic Product	3.0	2.9	2.0	2.3
p.m. Gross Domestic Product - in current prices (bn BEF)	8675	9101	9380	9730
Traditional consumer price index	1.6	1.0	1.1	1.3
Consumer prices: "health" index	1.3	1.3	1.2	1.3
Real disposable income households	1.1	2.8	1.5	2.4
Households saving rate (as % of disposable income)	15.2	14.6	14.0	14.3
Domestic employment (change in '000, situation on June 30th)	22.0	54.1	37.9	42.8
Unemployment (Eurostat standardised rate, yearly average) [1]	9.3	8.7	8.2	7.7
Current account balance (as % of GDP) (nation. accounts def.)	4.6	4.6	4.2	4.5
General Government borrowing requirement (as % of GDP)	1.9	1.3	0.7	0.4
Short term interest rate (3 m.)	3.4	3.6	3.1	3.4
Long term interest rate (10 y.)	5.8	4.7	4.2	4.7

[1] Other unemployment definitions can be found on page 14 (table 7).

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government deficit		Date of update
	1999	2000	1999	2000	1999	2000	
Federal Planning Bureau	2.0	2.3	1.1	1.3	0.7	0.4	5-99
INR/ICN	2.0	.	1.0	.	.	.	16-2-99
National Bank of Belgium	.	.	.	.	.	.	.
European Commission	1.9	2.5	1.0	1.3	0.9	0.6	30-3-99
OECD	2.3	2.3	1.2	1.4	1.3	1.1	17-11-98
IMF	1.9	.	1.1	.	1.2	.	8-3-99
BBL	2.1	.	1.4	.	1.2	.	15-4-99
Generale Bank/Générale de Banque	1.9	2.8	1.2	1.6	1.2	0.8	27-2-99
Gemeentekrediet/Crédit Communal	2.0	.	1.0	.	1.1	.	4-99
KBC	2.0	3.3	0.8	1.4	1.1	0.5	11-99
J.P. Morgan	1.9	2.7	1.1	1.6	1.5	1.3	2-4-99
Morgan Stanley Dean Witter	1.9	2.9	0.4	1.0	1.7	1.5	12-3-99
Artesia Bank	2.0	.	1.2	.	1.4	.	9-12-98
Petercam	2.0	2.2	1.3	1.8	1.5	1.0	1V/98
IRES	1.8	.	1.3	.	1.0	.	8/4/99
DULBEA	2.5	.	1.0	.	1.0	.	1/99
Averages							
All institutions	2.0	2.6	1.1	1.4	1.2	0.9	
International institutions	2.0	2.4	1.1	1.4	1.1	0.9	
Credit institutions	2.0	2.8	1.1	1.5	1.3	1.0	
Consensus The Economist	1.9	2.4	1.0	1.4			10-4-99

Collaborating institutions for The Economist: ABN Amro, Deutsche Morgan Grenfell, EIU, Goldman Sachs, HSBC Securities, IBJ, KBC Bank, Long-Term Credit Bank of Japan, Merrill Lynch, J.P. Morgan, Morgan Stanley, Nordbanken, Paribas, Primark Decision Economics, Royal Bank of Canada, Salomon Smith Barney, Warburg Dillon Read, Scotiabank

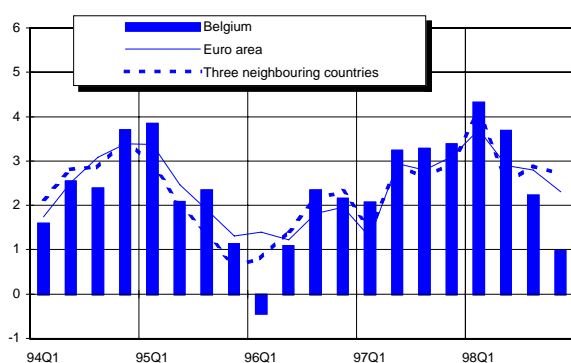
General economic activity

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

	96	97	98	96Q4	97Q1	97Q2	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4
Germany	1.3	2.2	2.8	1.8	0.9	3.0	2.4	2.4	4.3	1.6	2.8	2.5
France	1.6	2.3	3.1	2.4	1.2	2.4	2.6	3.1	3.6	3.3	2.8	2.8
Netherlands	3.1	3.6	3.8	3.5	3.4	3.5	3.4	4.3	4.9	3.7	3.2	3.3
Belgium	1.3	3.0	2.8	2.2	2.1	3.2	3.3	3.4	4.3	3.7	2.2	1.0

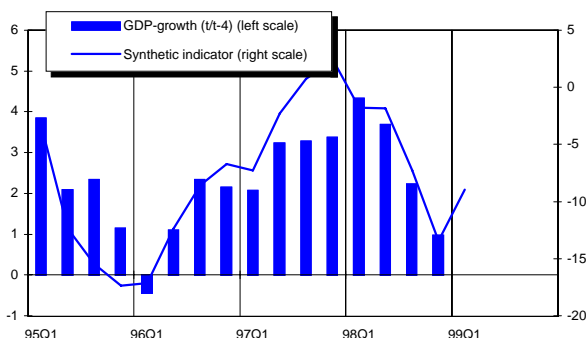
Source: National sources, INR/ICN

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



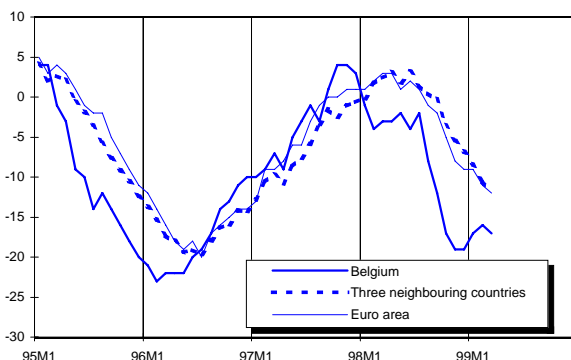
Source: INR/ICN, National sources, Eurostat

Graph 2 - Belgian GDP-growth and synthetic indicator



Source: INR/ICN, NBB

Graph 3 - Industrial confidence: international comparison



Source: European Commission

The Institute of National Accounts has started to publish National Accounts for Belgium using the ESA-95 methodology. This involves the use of new sources and a new estimation method. The new methodology results in different levels for the major macroeconomic aggregates but relatively small differences in the year-on-year growth rates set out in the quarterly accounts.

This publication includes the former ESA-79 figures. The data resulting from the new methodology will be introduced gradually.

GDP in Belgium rose by 2.8% in 1998. While this yearly growth rate is comparable to what is observed in Germany and France, the quarterly profile is rather different. GDP-growth has slowed down since the beginning of 1998 in all countries considered in table 1, but the slowdown was most considerable in Belgium. Slower export growth was very pronounced in Belgium and has had a considerable negative impact on overall growth. Consumption growth also weakened somewhat, but remained in all countries relatively robust.

The fall in industrial confidence since the beginning of 1998 was in sharp contrast to the upward trend in consumer confidence during the same period. Taking historical experience into consideration, the duration of this period of divergence between the two indicators is rather exceptional. It can, however, be explained by the nature of the shock (the Asian crisis), which mainly affected the industrial (export-oriented) sector, and had only a minor impact on the construction and services sectors.

The divergence is expected to narrow during the course of 1999, mainly due to a rise in industrial confidence, while consumer confidence should tend to remain stable. A scenario in which the deterioration in the business climate which has taken place results, after a delay, in subdued labour market performance and a substantial fall in consumer confidence does not seem very probable at this stage.

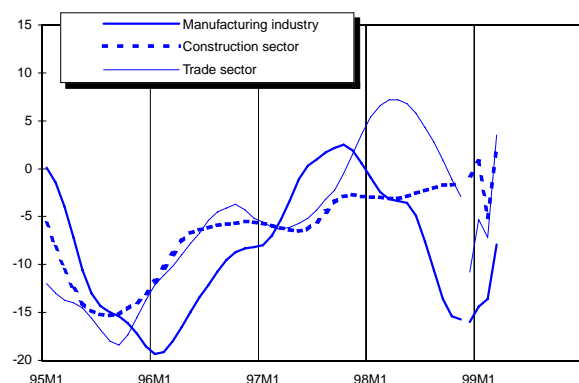
Table 2 - Monthly business surveys [1]

	97	98	98Q2	98Q3	98Q4	99Q1	98M10	98M11	98M12	99M1	99M2	99M3
Synthetic indicator	-1.6	-6.1	-1.8	-7.3	-13.4	-8.9	-13.8	-13.6	-12.9	-10.8	-11.4	-4.6
Manufacturing industry	-0.3	-8.8	-3.5	-10.5	-17.8	-12.0	-18.5	-19.0	-16.0	-14.4	-13.6	-7.9
Construction sector	-5.1	-2.5	-3.5	-2.4	-1.5	-0.7	-1.9	-1.9	-0.7	0.7	-5.1	2.4
Trade sector	-4.0	3.0	7.7	2.8	-5.0	-3.0	-4.0	-0.2	-10.8	-5.3	-7.2	3.5

[1] Qualitative data

Source: NBB, FPB

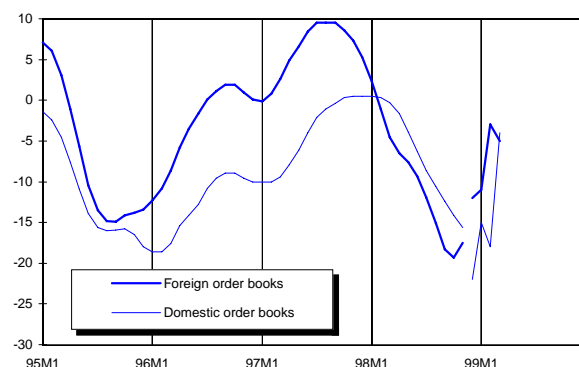
Graph 4 - Business cycle: sectoral evolution



The latest results from the NBB's survey indicators confirm that the trough of the cycle was situated at the end of last year. Three months ago indications of any upturn were very scarce. Since then the survey results for the manufacturing sector and the trade sector have clearly improved. The gain for the month of March has been very pronounced and was broadly based.

This supports the idea that the slowdown is only temporary and has mainly affected the manufacturing sector. In order to obtain 2% growth in GDP for 1999, the survey indicators will have to improve further.

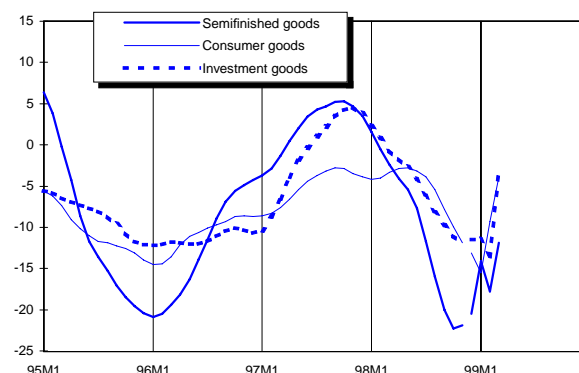
Graph 5 - Manufacturing industry: order books



Foreign order books and the indicator for semifinished goods in the manufacturing industry first began to deteriorate in the middle of 1997, following the diminished potential for exports to Asia. The fall between the summer of 1997 and the autumn of 1998 has been strong and was fed by the contagious effects of the financial crisis in Russia and Brazil and the deterioration of intra-European trade.

The risk of further contagious effects from the financial crisis has recently fallen. The economies of emerging countries most severely affected are growing again. Moreover, strong growth in the US has had a positive effect on confidence levels.

Graph 6 - Manufacturing industry: different types of goods



Source: Business cycle survey NBB

The indicators for the coming months will have to take new factors into account: the interest rate cut by the ECB in early April and the political crisis in the Balkans. This latter factor could hamper a further improvement of the export-linked indicators during the coming months.

Sectors with a more domestic base (trade and construction sector) have a less pronounced cycle. The level of construction sector activity remains good. The trade sector, as well as the consumer goods manufacturing, improved remarkably in March.

Private consumption

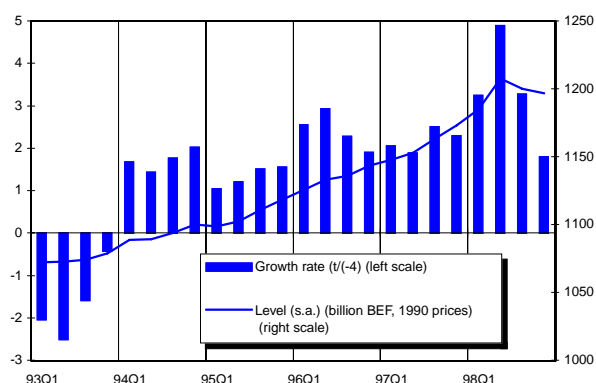
Table 3 - Private consumption indicators

	97	98	98Q2	98Q3	98Q4	99Q1	98M10	98M11	98M12	99M1	99M2	99M3
Turnover (VAT) - retail trade [1]	3.5	5.7	7.1	5.3	4.6	.	0.9	8.4	5.1	5.2	.	.
New car registrations [1]	-0.3	14.1	15.4	14.1	17.1	15.7	15.5	27.8	6.7	23.5	2.7	19.8
Consumer confidence indicator [2]	-21.7	-5.6	-4.7	-5.0	-5.7	0.0	-9.0	-6.0	-2.0	1.0	-1.0	0.0

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

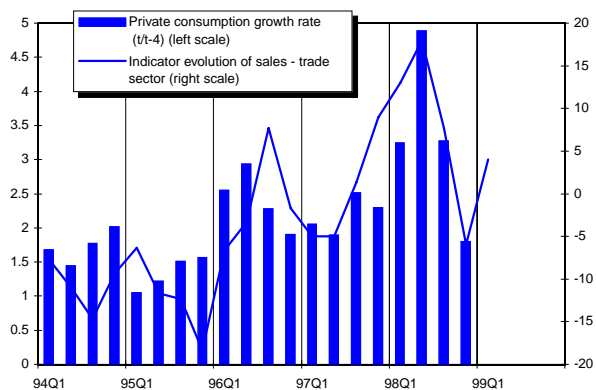
Source: NIS/INS, Eurostat, Febiac, FPB

Graph 7 - Private consumption at constant prices



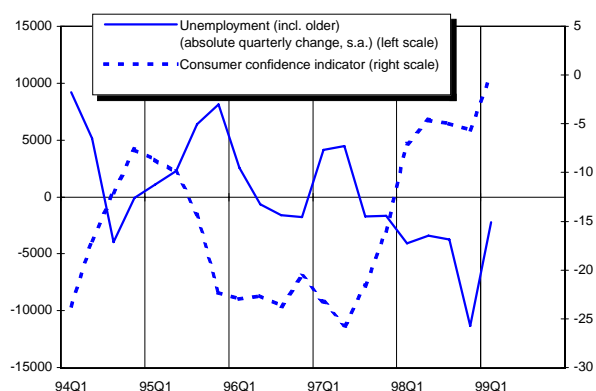
Source: INR/ICN

Graph 8 - Private consumption and related survey indicator



Source: INR/ICN, NBB

Graph 9 - Consumer confidence and unemployment



Source: RVA/ONEm, Eurostat, FPB

The analysis of private consumption in 1998 reveals a two-sided diagnosis. On the one hand, private consumption was the main driving force behind economic growth. For the first time in the 1990s, growth in consumption was higher than 3% on an annual basis. On the other hand, the level of consumption reached by the second quarter of 1998 was clearly a peak level. Since then, some cooling has been observed in the consumption dynamics. According to quarterly national accounts (ESA-79), private consumption growth, which had been in excess of 4% year-on-year during the first half of 1998, fell back to 3.3% in the third quarter and then to 1.8% in the final quarter.

The NBB survey indicators for the trade sector also peaked during the second quarter of 1998, followed by a pronounced fall in the second half of 1998. The indicators for the first three months of 1999 suggest that the situation in the trade sector is clearing up again. During the second half of last year the consumer confidence indicator more or less stabilised at the high level reached by mid-1998. The most recent observations for consumer confidence show a renewed upturn in the first quarter of '99 in comparison with the second half of '98.

After the Motor Show at the beginning of 1998 and massive purchases of new cars during the first half of 1998, new car registrations did not fall back during the second half of 1998, but remained buoyant until the end of the year, resulting in a 14% growth rate over the whole of 1998. Furthermore, in the first quarter of 1999 new car registrations continued to rise, resulting in a 15.7% growth rate compared to the first quarter of 1998. This extraordinarily high growth rate after a year with a Motor Show was partly due to a secondary Motor Show for special leisure vehicles held at the beginning of 1999. Markedly lower year-on-year growth rates for new car registrations are expected for the remaining quarters of 1999.

All in all the slow-down in private consumption compared to the first half of 1998 is confirmed by recent short-term indicators. It should be seen as a return to a more sustainable growth trend.

Business investment

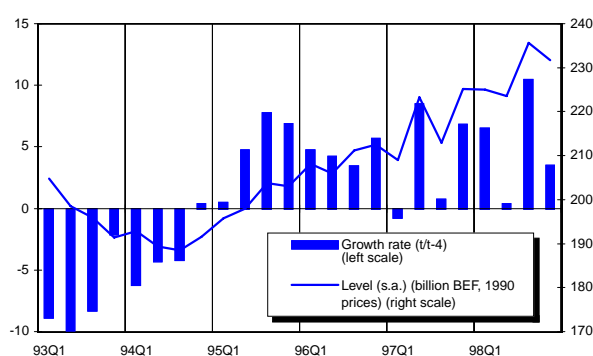
Table 4 - Business investment indicators

	97	98	99	98Q2	98Q3	98Q4	99Q1	98M9	98M10	98M11	98M12	99M1
Investment (VAT) [1]												
Industrial companies	1.7	3.0	.	3.6	9.6	-3.3	.	19.1	1.4	-9.8	-1.8	-3.0
Non-industrial companies	11.2	6.2	.	-6.3	15.5	8.4	.	38.5	-3.0	14.3	11.8	1.3
Total companies	7.4	5.0	.	-2.8	13.2	3.8	.	30.1	-0.8	3.3	6.6	-0.4
Investment survey [1]	5.6	3.9	8.7									
Capacity utilisation rate (s.a.) (%)	82.0	81.8	.	83.1	82.2	79.5	80.9					

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

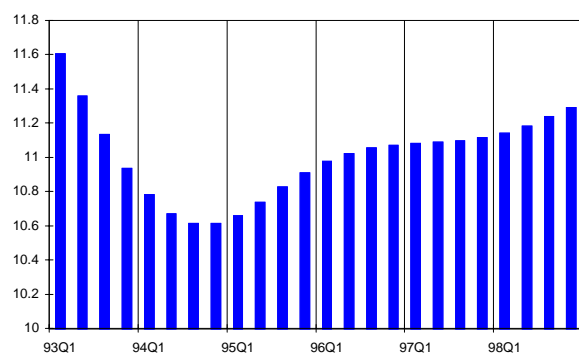
Source: NIS/INS, NBB, FPB

Graph 10 - Business investment at constant prices



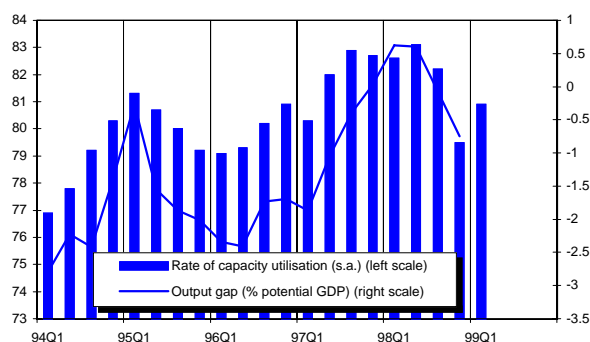
Source: INR/ICN

Graph 11 - Business investment rate (in % of GDP, smoothed)



Source: INR/ICN, FPB

Graph 12 - Business investment indicators



Source: NBB, INR/ICN, FPB

Quarterly national accounts (ESA-79) showed that business investment grew by 3.5% (year-on-year) in the fourth quarter, after a 10.5% growth rate in the third quarter. Hence the very unstable quarterly pattern in business investment that has been observed since the beginning of 1997 continued during the fourth quarter of 1998. What seems at first sight to be an erratic short-term pattern of business investment has, however, been characterized by a regular alternation of quarters with strong and weak growth. Consequently average yearly growth rates are virtually unaffected by this erratic quarterly pattern.

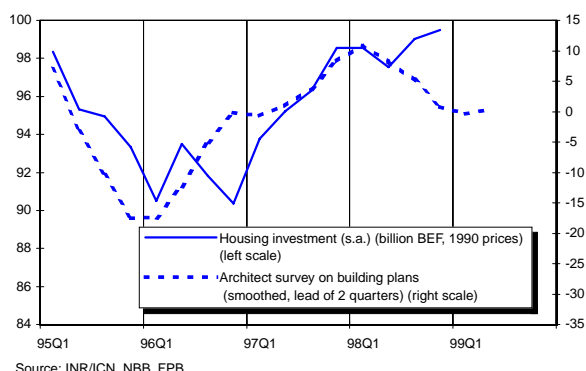
For 1998 as a whole, business investment grew by almost 5%. For the fourth successive year growth in business investment was between 4 and 5% in volume terms. In other words, business investment has been almost completely insensitive to the impact of the business cycle since 1995. This is all the more surprising because business investment is traditionally considered as particularly sensitive to business cycle movements. Gradually increasing business profitability and falling interest rates probably compensated for the temporary business cycle downturns in 1995 and 1998.

The 1995-98 investment upsurge, that lifted the business investment rate from 10.6% at the beginning of 1995 to 11.3% by the end of 1998, is not comparable to the investment boom of the end of the eighties. Both the levels reached and the pace of the increase are lower than at the end of the eighties. Between 1987 and 1990 the rate of business investment rose from 10% to 13.3%.

Smoothing out the erratic quarterly pattern, the underlying trend in business investment remained positive until the end of 1998. From the first quarter of 1999 onwards, business investment is expected to lose some momentum. However, as the degree of capacity utilisation is again picking up (from 79.5% in the last quarter of 1998 to 80.9% in the first quarter of 1999), and a narrowing of the output gap is accordingly expected, the loss of investment dynamism should be limited.

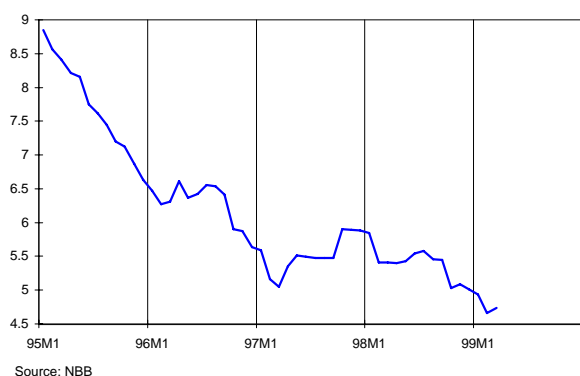
Housing investment

Graph 13 - Activity in the residential housing sector



Housing investment is estimated to have grown by 2.7% in 1998 (ESA-79). After a strong first quarter, housing investment growth (t/t-4) has been decelerating during the rest of 1998. The architect survey on building plans does not indicate a rebound in the coming months, but a slight improvement during the second half of the year can be expected.

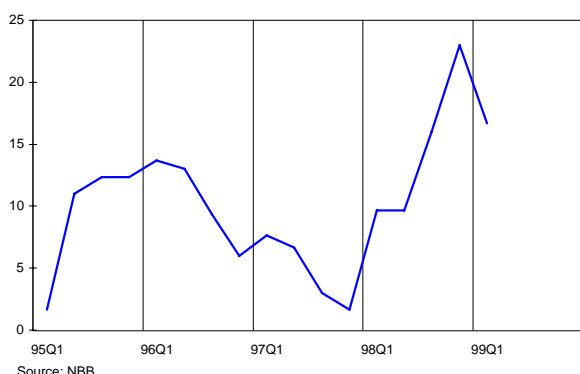
Graph 14 - Mortgage rate (in %)



Indeed, mortgage rates are even lower at the beginning of this year than last year. After a strong increase in employment and in real disposable income of households in 1998, consumer confidence is very high and should remain so, as further improvement in the labour market situation is expected. Due to these favourable factors, housing investment growth should remain at about 3% in 1999.

Stockbuilding

Graph 15 - Appreciation of stocks



In 1998, stockbuilding contributed positively to economic growth in the euro zone (about 0.5%) and in Belgium (about 1%), although in Belgium, this larger than anticipated contribution may be partly due to statistical adjustments.

Quarterly national accounts show that stockbuilding has been largely influenced by the quarterly profile of foreign demand. Indeed, facing the slowdown of final demand, a growing number of entrepreneurs considered, by the end of last year, their stocks as too high, and accordingly reduced their stocks. In the first quarter of 1999, the number of entrepreneurs that considered their stocks as too excessive returned to more normal values. So, stockbuilding is expected to add almost nothing to economic growth in 1999.

Foreign Trade

Table 5 - Belgium - Trade statistics (intra/extrastat)

	97	98	98Q1	98Q2	98Q3	98Q4	98M8	98M9	98M10	98M11	98M12	99M1
Exports - value [1]	13.1	4.3	10.6	6.9	1.7	-1.8	1.9	-0.7	-2.6	0.9	-3.6	-6.0
Imports - value [1]	10.9	4.9	9.9	6.1	5.8	-1.5	7.2	2.5	-0.5	4.7	-8.4	-9.4
Exports - volume [1]	7.4	4.3	6.4	5.8	3.5	1.7	3.6	2.0	0.5	4.8	0.1	-0.6
Imports - volume [1]	4.5	7.1	8.4	6.7	9.8	3.9	11.7	6.7	4.5	10.3	-2.6	-2.6
Exports - price [1]	5.3	0.0	4.0	1.1	-1.7	-3.5	-1.6	-2.7	-3.0	-3.7	-3.7	-5.4
Imports - price [1]	6.1	-2.0	1.5	-0.6	-3.6	-5.3	-4.0	-3.9	-4.8	-5.0	-6.0	-7.0

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

Source: INR/ICN, FPB

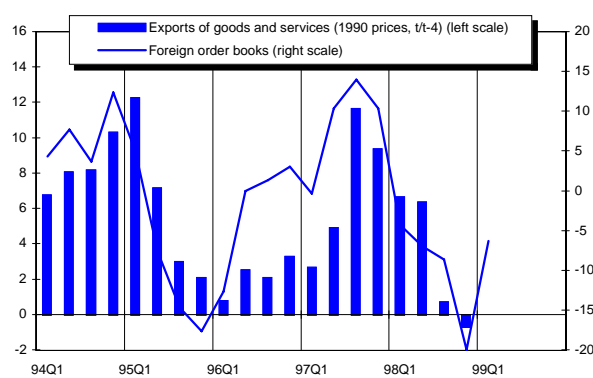
Table 6 - Belgium - Balance of payments statistics

	97	98	98Q1	98Q2	98Q3	98Q4	98M7	98M8	98M9	98M10	98M11	98M12
Exports - goods [1]	11.9	3.0	9.8	7.7	-1.4	-3.5	-3.7	0.7	-0.9	-7.1	-4.6	0.9
Imports - goods [1]	12.1	3.4	10.6	7.5	1.4	-4.9	7.1	-1.1	-1.7	-9.7	-1.4	-3.5
Trade balance [2]	351	340	67	106	70	97	7	13	49	43	15	39
Exports - goods and services [1]	12.1	3.2	9.9	7.4	-0.6	-3.2	-2.8	2.3	-0.9	-7.3	-2.4	0.0
Imports - goods and services [1]	11.7	4.1	11.8	7.8	1.9	-3.9	6.3	0.0	-0.9	-7.9	-0.2	-3.4
Goods and services balance [2]	396	353	81	103	61	108	-1	14	48	40	25	44
Exports - current transactions [1]	10.5	4.1	10.0	7.6	0.9	-1.7	-0.8	3.0	0.9	-5.4	-1.1	1.1
Imports - current transactions [1]	9.9	5.1	11.6	8.2	3.2	-2.1	6.3	1.9	1.3	-5.6	1.0	-1.3
Current account [2]	422	364	72	93	63	136	1	11	51	38	41	57

[1] Change (%) compared to same period previous year; [2] Level in Billion BEF

Source: NBB, FPB

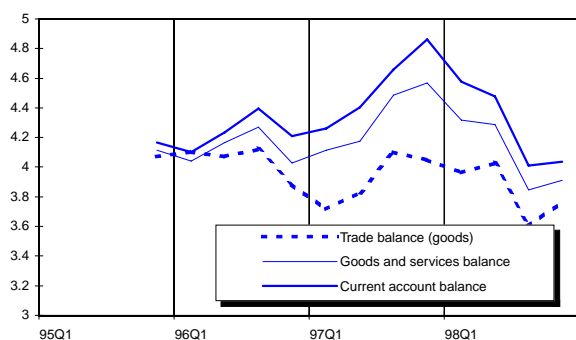
Graph 16 - Growth of exports and related indicator



Source: INR/ICN, NBB, FPB

In line with our previous forecast, growth in export volume declined further during the fourth quarter of 1998 and the preliminary results for January confirm that this deceleration is continuing. Export growth in value terms was actually negative during the last quarter of 1998 due to the sharp fall in export prices. In January 1999 export declined in value terms by no less than 6% in comparison with January 1998 (volume -0.6% and prices -5.4%). An upswing is not expected before the second half of the year and this could also be weaker than previously anticipated.

Graph 17 - Belgium foreign balances (4 quarters cumul, % of GDP)



Source: INR/ICN, NBB (BoP), FPB

After a strong third quarter, import growth in volume terms fell significantly during the fourth quarter of 1998, reflecting the further decrease in export growth, and probably also less dynamic internal demand. Like exports, imports experienced a negative growth rate in value terms during the fourth quarter due to an even more significant fall in prices. As a result, the terms of trade improved further during the fourth quarter of 1998.

Labour market

Table 7 - Labour market indicators

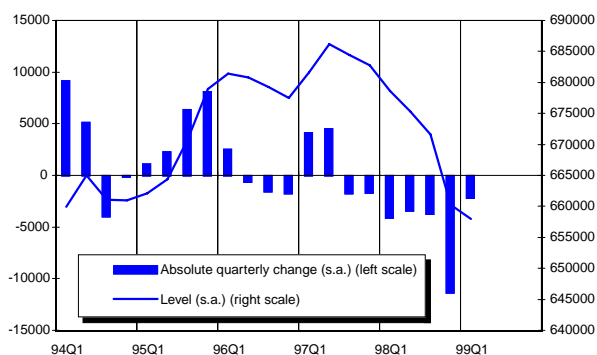
	97	98	98Q2	98Q3	98Q4	99Q1	98M10	98M11	98M12	99M1	99M2	99M3
Unemployment (excl. older) [1]	570.0	541.0	514.5	569.1	528.9	515.2	539.5	521.6	525.6	526.5	515.7	503.5
Unemployment (incl. older) [1]	683.9	671.5	644.5	701.9	664.7	653.9	674.4	657.5	662.3	664.0	654.3	643.3
Unemployment rate-FMTA/MfET[2]	13.2	12.6	11.9	13.2	12.3	12.0	12.5	12.1	12.2	12.2	12.0	11.7
Unemployment rate-Eurostat [3]	9.3	8.8	8.9	8.8	8.5	8.4	8.6	8.5	8.5	8.5	8.4	8.4

[1] Level in thousands; [2] In % of labour force of June 1996, 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 18 - Evolution of unemployment (incl. older)



Source: RVA/ONEm, FPB

Unemployment figures for the first quarter of 1999 reveal a further fall in the level of unemployment. Unemployment, using a broad definition (i.e. including "older" unemployed people) dropped (in seasonally adjusted terms) by some 2,000 to less than 660,000. The fall in the first quarter of 1999 was, however, smaller than in the previous four quarters.

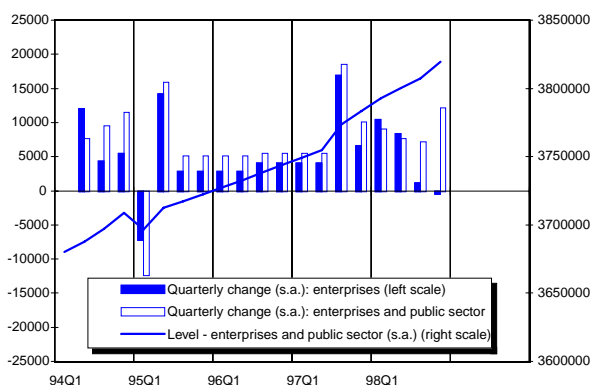
The first quarter of 1999 was the seventh successive quarter showing a fall in the level of unemployment. Between the second quarter of 1997 and the first quarter of 1999, unemployment has decreased by about 28,000 persons (on average some 4,000 per quarter).

This downward trend in unemployment so far amounts to a quarter of the previous period with falling unemployment levels, namely from 1987 to mid-1990. During this period, which lasted for 14 quarters, unemployment (still using the same broad definition and in seasonally adjusted terms) fell by about 110,000 persons (at a rate of almost 8,000 persons per quarter). So far, therefore, both the length and the strength of the current downward unemployment trend are about half of the previous one.

A similar comparison can be made in terms of the unemployment rate. From the middle of 1997 onwards, the unemployment rate (as defined by Eurostat) fell by 1%, from 9.4% to the current level of 8.4%. Between the beginning of 1987 and mid-1990, the unemployment rate dropped by almost 4% (from 10.3% to 6.6%).

According to new quarterly employment statistics made by the INR/ICN, the number of wage and salary earners in the enterprise sector increased by about 42,500 persons (1.75%) between mid-1997 and mid-1998. In the second half of 1998, total domestic employment continued its upward trend. According to provisional estimates, this rise in domestic employment was mainly due to increased employment in the public sector.

Graph 19 - Evolution of employment



Source: INR/ICN, FPB

Prices

Table 8 - Inflation rates: change compared to the same period in the previous year, in %

	97	98	98Q2	98Q3	98Q4	99Q1	98M11	98M12	99M1	99M2	99M3	99M4
Consumer prices: all items	1.63	0.95	1.65	0.76	0.68	1.05	0.58	0.59	0.95	0.98	1.23	1.17
Food prices	2.20	1.83	4.59	0.49	0.27	1.52	0.38	0.43	1.46	1.56	1.54	0.63
Non food prices	1.50	-0.45	-0.09	-0.41	-0.50	0.41	-0.49	-0.58	0.22	0.22	0.81	1.21
Services	1.48	2.34	2.37	2.50	2.50	1.58	2.12	2.23	1.58	1.60	1.57	1.47
Rent	1.69	1.15	1.16	1.09	1.09	1.43	1.06	1.11	1.49	1.35	1.46	1.49
"Health" index	1.32	1.27	2.00	1.12	1.02	1.26	0.90	0.94	1.22	1.20	1.34	1.10
Brent oil price in USD (level)	19.3	13.4	14.0	13.0	11.8	11.5	11.9	10.3	11.1	10.5	12.9	15.4

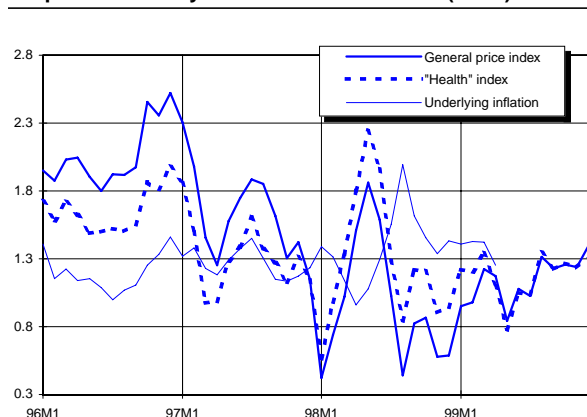
Source: MEZ/MAE

Table 9 - Monthly inflation forecasts

	99M1	99M2	99M3	99M4	99M5	99M6	99M7	99M8	99M9	99M10	99M11	99M12
Consumer prices: all items	102.96	103.19	103.27	103.68	103.86	104.00	104.20	104.10	103.96	104.01	103.97	104.05
Consumer prices: "health" index	103.07	103.31	103.32	103.57	103.79	103.97	104.21	104.12	103.97	104.02	103.97	104.06
Moving average "health" index	102.80	102.95	103.10	103.32	103.50	103.66	103.89	104.02	104.07	104.08	104.02	104.01

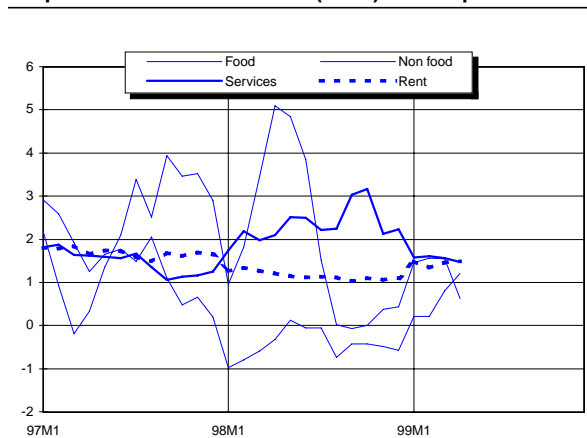
Source: Observations (up to 99M4): MEZ/MAE; forecasts: FPB

Graph 20 - Monthly inflation evolution in % (t/t-12)



Source: MEZ/MAE, from 99M5 on: forecasts FPB

Graph 21 - Inflation rates in % (t/t-12): decomposition



Source: MEZ/MAE

In the first quarter of 1999, inflation as measured by the overall CPI was at 1.1%, as compared to only 0.7% during the second half of 1998. This increase was mainly a result of the upturn in the prices of fresh food and oil products. The Brent oil price rose from USD 10.3 per barrel in December 1998 to USD 12.9 in March and USD 15.4 in April this year. Since the "health" price index is less affected by energy prices, the rise in inflation measured in this way was smaller: from 1.1% during the second half of 1998 to 1.3% in the first quarter of 1999. The underlying level of inflation (which is not directly affected by energy prices) remained stable at around the 1.4%-level, as was indeed forecast in STU 1-99.

For the remainder of 1999, underlying inflation is expected to remain constant. Indirect taxes should, as in 1997 and 1998, make a zero contribution towards inflation. The Brent oil price per barrel is expected to be 13.1 USD on average for 1999 as a whole, which implies a rather lower oil price for the rest of the year than currently observed. This implies that the overall CPI inflation (1.1% forecast for 1999) is still expected to be somewhat lower than the level of inflation as measured by the "health" price index (1.2% forecast for 1999).

As expected, the pivotal index for the public sector was reached in April. This implies that public wages and social benefits will be adjusted (by 2%) for price changes in June. As inflation is expected to be well below 2% next year, the pivotal index (currently 105.20) should next be crossed in the summer of 2000.

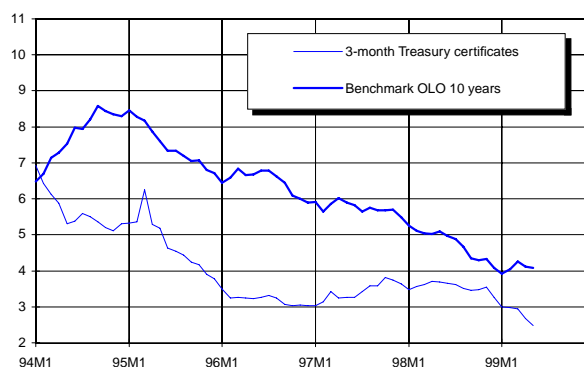
Interest rates

Table 10 - Interest rates

	97	98	98Q2	98Q3	98Q4	99Q1	98M11	98M12	99M1	99M2	99M3	99M4
Short-term rates (3 months)												
Belgium	3.43	3.55	3.68	3.52	3.43	2.97	3.55	3.27	3.00	2.97	2.95	2.67
Euro area (Euribor)	.	.	.	.	.	3.09	.	.	3.14	3.09	3.05	2.70
United States	5.74	5.56	5.69	5.62	5.28	5.00	5.32	5.23	5.01	5.00	5.01	5.00
Long-term rates (10 years)												
Belgium	5.76	4.76	5.03	4.63	4.24	4.07	4.33	4.09	3.92	4.04	4.25	4.12
Germany	5.65	4.57	4.89	4.38	4.00	3.86	4.10	3.87	3.72	3.83	4.02	3.87
Euro area	5.97	4.71	4.99	4.56	4.15	3.97	4.26	3.96	3.82	3.94	4.15	4.00
United States	6.35	5.26	5.59	5.19	4.67	4.98	4.84	4.65	4.71	5.00	5.22	5.18
Japan	2.30	1.46	1.59	1.36	1.05	1.90	0.89	1.45	1.87	2.05	1.77	1.62

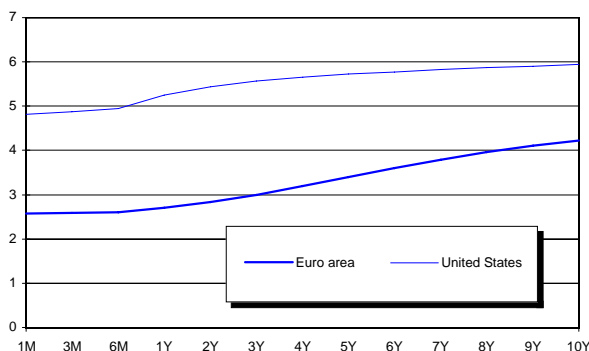
Source: NBB, ECB, Datastream

Graph 22 - Interest rate levels in Belgium, in %



Source: NBB

Graph 23 - Yield curves for the euro area and the us



Source: Datastream (situation on April 27th 1999), based on interest rate swaps

On April 8 the European Central Bank cut its main refinancing rate by a larger than expected 50 basis points to 2.5 percent. A 50 basis points cut was motivated by the fact that monetary growth was close to its reference value, that the Harmonized Index of Consumer Prices had been below 1 percent for several months, that no immediate pressures were evident in the bond and foreign exchange markets, and that growth prospects for the euro area were worsening. This larger than expected cut was also intended to put a stop to speculation of any further cuts in the near future. Following this policy measure, the Euribor fell from 3.14 percent in January to 2.70 percent in April.

The US short-term interest rate remained stable during the first four months of 1999 at about 5.0 percent, but after the rate cuts by the Federal Reserve, they were about 70 base points lower in April 1999 than a year earlier, reflecting market sentiment that inflationary pressures in the US economy will remain subdued, despite high levels of activity and very tight labour markets. In Japan the short-term interest rate remained very low, falling as low as 0.16 percent in April 1999, as consumer and business confidence was low and a quick rebound of economic activity in Japan was not expected.

The average long-term interest rates in the euro area, as in Belgium, were about 4 percent during the first four months of 1999, reflecting expectations of low inflation and further consolidation of fiscal policies. After having reached historical low levels between December 1998 and February 1999, they have increased somewhat in March, reflecting the slowdown in capital flows out of emerging markets. In the United States, long-term interest rates have risen since the end of 1998, and in April 1999 the US long-term interest rate yielded 120 basis points over the average long-term interest rate for the euro area. Nevertheless, at the end of April, the gap between yields in the US and euro area was narrower at the upper end of the yield curve than at the lower end.

Exchange rates

Table 11 - Bilateral exchange rates

	97	98	98Q2	98Q3	98Q4	99Q1	98M11	98M12	99M1	99M2	99M3	99M4
BEF per USD	35.78	36.31	37.01	36.36	34.32	35.95	34.72	34.45	34.76	36.02	37.06	37.68
BEF per UKP	58.59	60.13	61.21	60.07	57.50	58.71	57.68	57.53	57.41	58.62	60.10	60.64
BEF per 100 JPY	29.62	27.84	27.29	25.99	28.76	30.87	28.82	29.40	30.68	30.91	31.02	31.47
USD per EUR	.	.	.	.	.	1.12	.	.	1.16	1.12	1.09	1.07
UKP per EUR	.	.	.	.	.	0.69	.	.	0.70	0.69	0.67	0.67
JPY per EUR	.	.	.	.	.	130.68	.	.	131.45	130.52	130.07	128.21

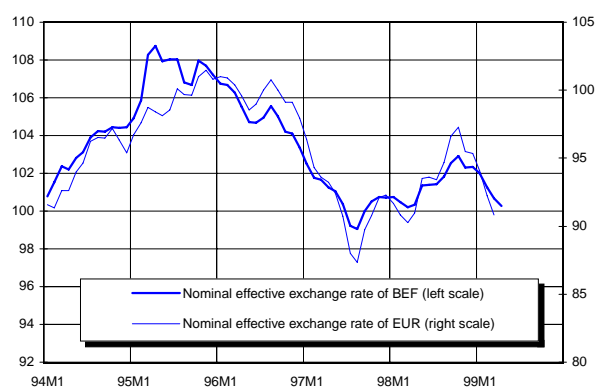
Table 12 - Nominal effective exchange rates (Jan. 92=100)

	97	98	99	98Q2	98Q3	98Q4	99Q1	98M12	99M1	99M2	99M3	99M4
Effective exchange rate BEF	100.7	101.5		101.0	101.9	102.5	101.3	102.3	102.0	101.3	100.7	100.3
Growth rate [1]	-4.2	0.7		0.6	0.9	0.6	-1.2	0.0	-0.3	-0.7	-0.6	-0.4
Id. with constant rate till year end			-0.9									
Effective exchange rate EUR	91.8	93.6		92.7	94.9	96.0	92.4	95.4	94.1	92.2	90.8	.
Growth rate [1]	-8.0	2.1		2.0	2.4	1.2	-3.8	-0.2	-1.3	-1.9	-1.5	.

[1] Change (%) compared to previous period

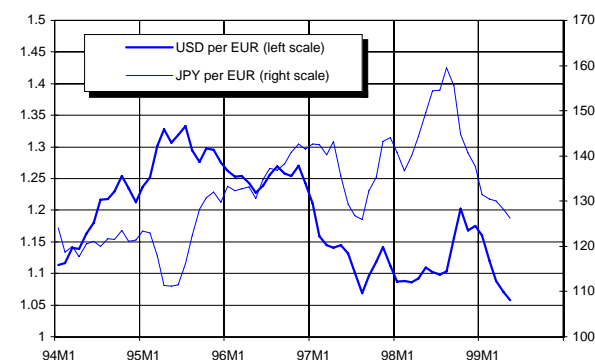
Source: NBB, BIS, FPB

Graph 24 - Effective exchange rates (Jan. 92=100)



Source: NBB, BIS, FPB

Graph 25 - Euro-dollar and euro-yen bilateral exchange rates



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

The euro was introduced on January 4 without any significant problems. From January to April, the euro fell against the US dollar and Japanese yen by 7.8 and 2.5 percent respectively. The main factor contributing to the weakening of the euro has been the difference in the relative cyclical performance in the United States and the euro area, with activity in the United States stronger than expected, and activity in the euro area weaker than expected. Despite news of a record widening US trade deficit, this development was further exacerbated by adverse developments in the Balkans and by a larger than expected interest rate cut by the ECB.

Sentiment in global financial markets has improved and the risk of a systemic melt-down has been considerably reduced. Emerging markets in Asia are rebounding and capital is flowing back to the region. Growth in Latin America as a whole could resume at the turn of the year. Nevertheless, the vulnerability of the emerging economies and the growing current account imbalances in the main currency blocs continue to pose serious risks to the stability of international financial markets.

At the end of the first four months of 1999, the nominal effective BEF exchange rate reached about the same level as in the same period of last year. Under the assumption that current observed rates can be extrapolated for the rest of the year, the nominal effective BEF exchange rate should depreciate year-on-year by 0.9 percent in 1999. During the first quarter of 1999, the nominal effective euro exchange rate has depreciated by 3.8 percent as compared with the last quarter of 1998.

Fiscal indicators

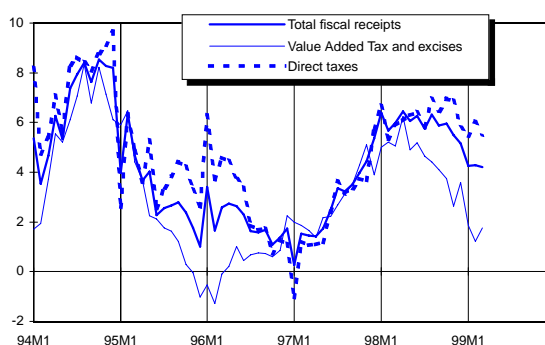
Table 13 - Fiscal receipts (1)

	97	98	98Q2	98Q3	98Q4	99Q1	98M10	98M11	98M12	99M1	99M2	99M3
Total, of which:	7.0	6.2	7.4	4.9	5.7	2.6	7.3	2.2	6.3	0.8	0.3	7.0
Direct taxes, of which:	7.4	6.8	8.3	5.9	6.9	4.8	10.2	2.5	6.1	5.4	5.1	3.5
Withholding earned income tax	5.5	4.9	2.7	6.2	4.3	-2.6	5.4	10.4	-0.5	-3.2	12.3	-19.1
Advance payments	13.5	20.2	12.5	30.0	22.2	-2.2	20.7	45.0	23.3	-19.3	30.0	18.5
Value Added Tax and excises	5.6	4.6	5.6	2.6	3.4	-0.9	4.4	-1.3	5.8	-6.1	-7.2	10.5

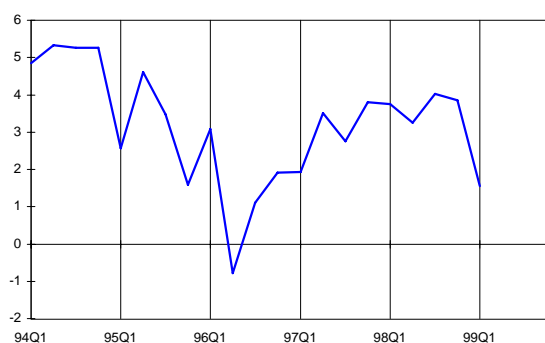
[1] Change (%) compared to same period previous year

Source: MvF/MdF, FPB

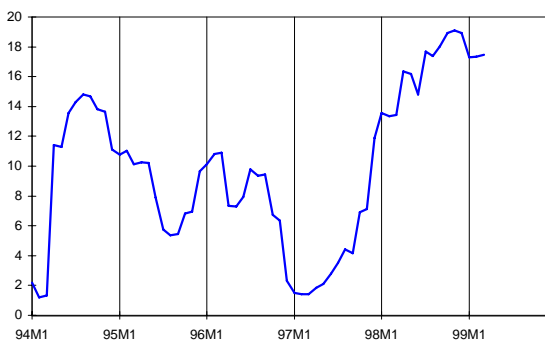
Graph 26 - Real total fiscal receipts (2)



Graph 27 - Real withholding earned income tax (3)



Graph 28 - Real advance payments (2)



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

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

The slowdown in the economy can also be seen from fiscal indicators. Total fiscal receipts were only 2.6% higher in the first quarter of 1999 compared to the same quarter in 1998. Lower growth rates were most clearly observed in indirect taxes. While these grew by around 5% in 1997 and 1998, VAT and excise duties actually fell in the first quarter. This was partly due to temporary factors (e.g. bad weather conditions in February and some accounting practices), but was mainly due to lower levels of economic activity, especially concerning private consumption.

Receipts from direct taxes have been better, even though growth rates have also fallen here. Withholding earned income tax receipts have fallen in 99Q1 as compared with last year. Temporary factors once again account for part of this fall. The level in 98Q1 was also high. Employment growth has fallen and could account for a further part of the drop.

Taxes on dividend payments, on the other hand, have continued to increase in the first quarter. Business profitability in 1998 was certainly strong, which was reflected in the dividends paid out.

Advance payments are traditionally very low during the first quarter and therefore rather unimportant. Provisional figures for April indicate that advance payments made by companies have been rather good. It is unlikely, however, that the high growth rates observed since the end of 1997 should continue.

All in all, tax receipts were very strong in 1998. The slowdown seen in the first quarter reflects lower economic growth. Based on macroeconomic forecasts from the FPB, it is likely that some improvement will occur, mainly during the second part of the year.

Benchmarking the framework conditions: a systematic test for Belgium

At the meeting of the Council of Ministers on the theme "Investment climate in Belgium" on 5 December 1997, the Minister of Economy, called upon the FPB to carry out a general assessment of Belgian competitiveness.

This study is motivated by the belief that Belgium will benefit in its pursuit of its policy objectives by learning from the experience of other countries with high performing economic structures. Pressures from procedures introduced at a European level and also pressures arising from increased competition between national economies, make it necessary to draw the Member States towards a minimum common model which takes into account a number of principles set out in the European Union Treaty. In particular, this includes the principle of an open economy in which free competition takes place, and also a principle of respect for social and environmental values.

To assess the Belgian competitiveness, the method of "benchmarking" applied to framework conditions is used in this study. Benchmarking is a general term to designate, "a continuous, systematic process for comparing performances of organisations, functions or processes against the best in the world, aiming not only to match those performance levels, but to exceed them" (European Commission, DG-III). Although the benchmarking method has traditionally been applied at the firm level to evaluate the performance of management processes, it has recently been extended to include the identification and the assessment of the key factors and structural conditions affecting the environment in which companies have to operate. This extension is called the Benchmarking of Framework Conditions. Similar studies which allow for the comparison of a wide range of indicators relating to welfare and prosperity growth have been realised by the Dutch and Danish governments.

Our study presents a selection of a large number of indicators covering nine specific areas: the macroeconomic context; the labour market; education and training; transport and telecommunications; environmental conditions; energy; research and development (R&D), innovation and its financing; external trade and investment abroad; and taxation. This study is a first step towards benchmarking the Belgian framework condition in relation to our neighbouring countries and the three large economic blocks i.e. the EU, the US and Japan. It should not be seen as an achieved benchmarking exercise, because its purpose was not to distil good or best practices but only to bring about a broad overview of our competitive position.

This study confirms that the standard of living achieved in Belgium is high and relatively equitably distributed through taxes and transfers. In Belgium, the high standard of living is achieved through a combination of a very high macroeconomic labour productivity and a very low employment rate. The high level of qualifications within the labour force and the high productivity level in manufacturing industries contribute to this high overall macroeconomic productivity. The very low employment rates are a well-known feature of the Belgian labour market and must be interpreted along with the very low participation rate and the demography. The Belgian unemployment rate is not highly divergent from the European standard. However, particular attention should be paid to the share of total unemployment being made up by long-term unemployment, which is the highest reported of those countries compared. This is partly due to the high unemployment rate of the low qualified (low secondary school).

In Belgium, the restrictive budgetary policy, reinforced during the last period of the convergence program, has clearly proved to be fruitful in terms of its reduction of the government deficit and debt. However, these transitory measures have affected the role of the government in a number of important matters relating to competitiveness, such as infrastructures, R&D, environmental protection, and a high overall tax burden that is due largely to the relatively high taxation of labour income.

The low performance in the field of industrial research, as measured by the number of patent applications, is mainly due to the small size of the country and the small number of Belgian multinational groups.

The assessment of Belgian foreign trade performance confirms that competitiveness in Belgium is high: the share of exports in final demand is the highest of those countries compared, and the current account balance is positive and increasing. However, market shares have decreased during the last few years. Belgium is an attractive location for foreign direct investment. The labour force is highly skilled and productive, and the wage level is not significantly divergent from those of neighbouring countries. The cost of energy is also one of the lowest reported within those countries compared. Despite the density of our road and rail networks, the problem of congestion remains acute, especially in respect of access to the main cities. This congestion may constrain the development of the Antwerp port and Brussels National airport.

The Study will be soon available on the FPB's website at <http://www.plan.be>

The Input-Output Table 1990

Since the 1994 legal reform of the Belgian statistical apparatus, the FPB is in charge of the construction of input-output tables. The 1990 input-output table is the second table constructed and analysed by the FPB.

In October 1998, the FPB published its first input-output table providing a detailed analysis of the production process, the use of goods and services and the generated income within the economy in 1985. A second input-output table is now presented for 1990. This table will be the last input-output table to adopt the accounting rules of the European System of Integrated Economic Accounts, ESA 1979. The next table (1995) will be constructed using the concepts and definitions of the ESA 1995.

For a technical description of the methodology of constructing the 1990 input-output table, we refer the reader to the publication referring to 1985. Our main concern in this publication is to present the 1990 input-output table and to analyse its coefficients, multipliers, cumulated costs, and leakage indices in 1990 as well as their evolution over time.

In order to understand fully the evolution of the input-output analysis results between 1985 and 1990, it is useful to remind the reader of the economic context of 1990. After 1985, the Belgian economy experienced a period of recovery, a fall in oil prices in 1986, and a revival of private investments.

The reduction (at current prices) in the consumption of energy inputs between 1985 and 1990, accompanied by an increase in value added components, is notable. Meanwhile, the share of investments in final demand has risen, partly to the detriment of exports. Another noticeable evolution is the continuous increase in the demand for market services from households and firms.

The calculation of production multipliers by sectors estimates the direct and indirect impacts on total production of a change in the final demand for domestic products. Calculated in the same way, employment multipliers and multipliers of value added estimate the impact of a change in the final demand on total employment and total value added, respectively. Compared to 1985, production multipliers have not varied much, while employment multipliers have decreased and multipliers of value added have slightly increased.

Considering the relationship between the final demand components and employment, it appears that private consumption and exports remain the major sources of employment in 1990. Within manufacturing industry,

70% of the employment depends on total exports, whereas in market services, less than one third of the jobs is related to exports. Nevertheless, exports appear to generate more employment in services than in industry, which is a new result when compared to 1985.

Cumulated costs, which are all the direct and indirect costs (expressed in cumulated intermediate imports and value added) that are incurred by the production of a final product, have also been analysed. Taking into account the total final demand (including final imports), the share of cumulated intermediate imports has decreased between 1985 and 1990 as a result of the fall in oil prices in 1986. In the long term (1980-1990), this decrease has often been more than compensated for by a rise in final imports with, as a consequence, a slight decrease in the share of value added in the total final demand.

The study of cumulated employment has emphasised the major role played by the production of goods, which represents one half of the final demand for domestic products. In 1990, 200,000 people employed in services were working to satisfy the final demand for domestic industrial products. Nevertheless, the production of the other half of the final demand, the services, requires two-thirds of total employment. This share is still rising due to the growing demand for services, and this rise is reinforced by the relatively low productivity increases in this sector (when compared with manufacturing industry).

The interdependence between the Belgian economy and the rest of the world has also been evaluated, both on the input and output side. Our economy appears to be more exposed to international competition in 1990 as compared to the situation in 1980. However, between 1985 and 1990 this interdependence appears to have slightly decreased, as a consequence of the fall in oil prices and of the slight substitution of investments for in the final demand.

"Tables and comments are available on the FPB website at <http://www.plan.be>.

A printed publication with an accompanying diskette is also available: "Tableau entrées-sorties 1990. Une analyse des structures économiques de la Belgique"; "De input-output tabel van 1990. Een analyse van de economische structuur van België". L. Avonds, J. Floridor, A. Gilot, C. Hambye, D. Rase. May 1999.

Results of the survey

Last November, the Editorial Board of the Short Term Update conducted a survey of all its readers concerning the contents and format of the publication. An overview of the main results and its conclusions are presented.

The FPB is pleasantly surprised to have received 400 completed questionnaires. We have many reasons to thank all of you who have taken the time to help us improve our publication. Our aim here is clearly to make the STU more adapted to the needs of our readers.

About one-half of all the people who filled in the questionnaire are new readers, mostly working in the business sector. Table 1 gives a general overview of the professional background of the readers. In very general terms, about a half of our readers come from the private sector while the other half come from the public sector in the broad sense.

Table 1 - Professional background of readers (in % of total)

Administration, international organisations	24%
Banks and insurance companies	10%
Other private companies	30%
Political and social organisations	16%
Universities and research consultancies	14%
Others (press, etc.)	6%

Most readers (82%) read the publication in paper-form while 11% read it on the Internet. A further 6% use both forms of publication. It was surprising to hear from one of our readers who suggested placing the publication on the Net. We therefore take this opportunity to mention that the full-text version of STU exists on the Net (the FPB home address is www.plan.be). The former versions can also be consulted. Furthermore, in future we may provide some extra services on the Net that will not be available on paper (see *infra*).

Most readers have been very generous and have encouraged us to continue along the way that we started. Concerning the use of English, 95% of our readers do not have a major difficulty with the fact that the publication is written in English. It is perhaps worthwhile repeating our aim, which is for our publication to reach an international audience and also, in the interest of our readers, to make the time between the update of the analysis and the publication as short as possible.

It is clear that most of the readers use the publication to obtain more information concerning the FPB's economic forecasts and analyses of the Belgian economy (see Table 2). General information on the FPB is considered as less important, probably because it is already available elsewhere.

Table 2 - What readers are mainly looking for

Economic forecasts	82%
Economic analyses	78%
Data series	34%
Point of view of the FPB	24%
General information on the FPB	12%

Many readers have given us plenty of ideas on how to further improve the publication. We plan to include many of these suggestions in the forthcoming issues. In this publication, some minor layout changes have been made. Already in this issue we have integrated new benchmark indications for interest rates and exchange rates.

Several readers have asked for greater comparisons with other countries in respect of the evolution of the Belgian economy. Given the increasing importance of the aggregate for the 11 countries taking part in the third stage of EMU, we have started making comparisons using this aggregate in this issue, and also plan to continue to do so in the future.

Furthermore, leading indicators of the Belgian economy are presented. We plan to use these more extensively in our next issue and onwards.

Economic forecasts for the EU-11 zone have become more important. We will include a table for the EU-11 zone, similar to the bottom table presented on page 7. On our website, a continual update of economic forecasts for the EU-11 zone will be made available.

Some readers have asked us to make longer data series available. This is clearly difficult in the paper version, but should be possible on the website with the possibility to download data. We will inform you of changes in this area.

Other extensions to the analysis of the economic situation are linked to the research in the Bureau. Depending on how fast we are able to produce results, we hope to include quarterly forecasts of several economic indicators and a more thorough analysis of the labour market, including the analysis of the evolution of wage rates.

Other Recent Publications

[Medium-Term Economic Outlook 1999-2004](#), April 1999
(available in Dutch and French).

[Economic Forecasts 1999](#), February 1999
(available in Dutch and French)

[Planning Paper 85](#), February 1999.
N. Gouzée, N. Zuinen, S. Willems,
"Développement durable: un projet à l'échelle mondiale",
"Duurzame ontwikkeling: een project op wereld-schaal".

[Planning Paper 86](#),
"Veillissement démographique et financement de la Sécurité sociale: un défi soutenable?" -
"Vergrijzing en financiering van de Sociale zekerheid: een haalbare uitdaging?" -

Actes du Colloque des 2 et 3 décembre 1997 - Handelingen van het Colloquium van 2 en 3 december 1997.

[Working Paper 10-98](#), November 1998

T. Bréchet,
"Permis d'émission de CO₂ et lutte contre le changement climatique - une analyse des enjeux macro-sectoriels en Belgique par un modèle d'équilibre général".

[Working Paper 1-99](#), February 1999

H. Bogaert, E. Hespel,
"Les enjeux de la politique économique belge dans la troisième phase de l'Union Economique et Monétaire".
"De uitdagingen voor het Belgische economische beleid in de derde fase van de Economische en Monetair Unie".

Forthcoming Publications

[Belgian Federal Report on sustainable development](#)

The Report reviews the implementation of Agenda 21 in Belgium. The context and content of the Federal Report are determined largely by the law on the Co-ordination of the Federal Policy for Sustainable Development of 5 May 1997. This law aims to improve the planning and management system at a governmental level, and charges the FPB with drawing up such a report every two years. It describes and analyses social, economic and ecological aspects of sustainable development in this country, and the evolution of related federal policies since 1992. A framework for the appraisal of alternative future developments according to a number of relevant scenarios is proposed.

[The FPB system of leading indicators](#)

The paper describes the system of leading indicators, which has been developed recently at the FPB. This system aims to improve the perception of the business cycle evolution and is used in combination with the econometric model MODTRIM to produce macroeconomic forecasts. The paper presents the methodology, as well as the composition and historical performance of the indicators.

[SPOT: "A general equilibrium model of the Belgian economy"](#)

SPOT (Sustainable Policy Tool) is a new medium-scale model developed for analysing fiscal policy in the long-run, especially in the field of energy and environment. As an applied general equilibrium model, the model is complementary to the neoknesian models used by the FPB. The complete specification of the model is presented as well as databases and building procedures (the model combines both econometrics and calibration). The simulation properties are described with many technical simulations and sensitivity analyses. The SPOT model has already been used for analysing the macro-sectoral impacts of tradable permits to cope with environmental problems (see Working Paper 10-98).

Recent history of major economic policy measures

April 1999	The ECB reduced its refinancing rate to 2.50 percent, which is 50 basis points lower than the rate existing from the beginning of January 1999.
March 1999	The Federal Government has reviewed its 1999 Budget. Measures for around 10 Billion BEF have been taken. These can be divided in three areas: the price-linking of tax brackets for personal taxation and the reduction of social security contributions will start in April, rather than July 1999. Social transfers to households will also be increased.
December 1998	<p>The EU Ministers of Finance fixed the conversion rates between the euro and the currencies of the countries adopting the euro. 1 euro = 40.3399 BEF or LUF, 1.95583 DEM, 166.386 ESP, 6.55957 FRF, 0.787564 IEP, 1936.27 ITL, 2.20371 NLG, 13.7603 ATS, 200.482 PTE, 5.94573 FIM.</p> <p>The Belgian Government presented its Stability Programme for 1999-2002. The deficit should attain 0.3% of GDP by 2002; the primary surplus should remain constant at 6% and the debt ratio should fall from 117.5% in 1998 to 106.8% in 2002. GDP growth is assumed to be 2.3% per year while real short term interest rates should be 2.6% and real long term rates 4.1%.</p>
October 1998	The Federal Government presented its 1999 Budget. The primary surplus for the overall government should remain 6%. Tax brackets will be price-linked. Most of the supplementary reductions of employers' contributions to Social security for 1999 (see April 1998) should only start in July.
September 1998	The social partners agreed on the CRB/CCE report that defined the maximum growth rate for nominal labour costs per hour at 5.9% over 1999-2000 combined.
May 1998	<p>The EU-Brussels Summit has decided that 11 countries will participate in European Monetary Union from January 1999 onwards: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain. At the same time, the Executive Board of the future European Central Bank has been nominated, with Mr. W. Duisenberg being the first chairman.</p> <p>Part of the agreement was that the Belgian primary surplus should remain close to 6% of GDP in the medium term.</p>
April 1998	The Belgian Government has presented the National Action Plan for Employment to the European Union. Particular attention is given to: (i) an extension of the reduction in employers contribution to social security (an additional 18 Billion BEF per year from 1999 to 2004); (ii) more pronounced active labour market policies and (iii) further measures in the area of training and learning.
October 1997	The 1998-Budget was presented to the Parliament. Employers' contributions are to be cut by a further 6 billion BEF in 1998, and by 12 billion in 1999. The Justice Department is to receive an extra 4 billion BEF. Three one-off receipts: 8 billion from a third telephone operator; 2.4 billion from pharmaceutical companies and 1.5 billion from electricity producers.
July 1997	<ul style="list-style-type: none"> • Changes in the pension system for the private sector were introduced. • The EU-Amsterdam Summit extended the "Stability and Growth Pact" to include an employment chapter. • The Federal Government extended and changed the criteria for Maribel: reduction of employers' social security contributions are based on the 'blue-collar intensity'^a of each company.
December 1996	The Federal Government decided that the maximum increase of the wage cost rate (per hour) would be 6.1% over 1997-98, as the Social partners were unable to reach an agreement earlier.
October 1996	<p>The Federal budget 1997 was presented to Parliament. The major measures were:</p> <ul style="list-style-type: none"> • Increase in excise taxes on petroleum and tobacco products and alcohol; • Non-indexation of tax brackets in 97 and 98.
August 1996	Three framework laws gave the Government extensive powers to encourage employment and competitiveness, as well as in the area of budgetary policy with a view to joining EMU and modernising the social security system. One of the laws defined a wage norm providing for a minimum and maximum increase of the hourly compensation.
October 1995	<p>Federal Budget 1996 was presented with the main measures as follows:</p> <ul style="list-style-type: none"> • Excise taxes on petroleum products were increased, "tax" on diesel cars • The 20.5% VAT rate was increased to 21% from January 96 onwards; • The withholding tax rate was increased to 15% from January 1996 onwards (after increases from 10% - see January 90 - to 10.3% in July 1993 and 13.39% in the beginning of 1994); • Extension of the number of "low paid workers" entitled to benefit from lower social security contributions to workers with a gross wage of up to 60,000 BEF per month (applied from April 96 onwards).
November 1993	<p>The Federal Government presented its 'Global plan'. The main measures were as follows:</p> <ul style="list-style-type: none"> • A new price-index was defined (the so-called 'health-index') as the CPI excluding: petroleum and tobacco products, alcohol and a new tax on household energy consumption. This price index would be used to link wages, house rents and social expenditure to prices; • A real wage-freeze in 1995-96; • Increase in indirect taxes (see January 1994); • Reduction of social security contributions.

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

ATS	Austrian schilling
BEF	Belgian franc
BoP	Balance of Payments
CPI	Consumer Price Index
DEM	Deutschemark
ECU	European Currency Unit
EMU	Economic and Monetary Union
ESP	Spanish peseta
EUR	Euro
FIM	Finnish markka
FRF	French franc
IEP	Irish pound
ITL	Italian lira
JPY	Japanese yen
LUF	Luxembourg franc
OLO	Obligations linéaires / Lineaire obligaties
PTE	Portuguese escudo
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