

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

During the past few months, the signals concerning the development of the economy have been mixed. There are three indicators worth mentioning on the negative side. Growth in world trade, and in particular intra-European trade, has slowed. Partly in connection with this, it is estimated that Belgian exports have actually fallen in the second half of 1998, compared to the first half of the year. Thirdly, industrial confidence has continued to decline.

On the positive side there are four factors worth noting. Unemployment has continued to decline for the sixth consecutive quarter. Consumer confidence remains high and has even improved during the last few months. Thirdly, real interest rates have continued to fall and finally the government deficit fell sharply in 1998.

There are some fragile indications that the slowdown in the economy will only be temporary and that activity may soon resume its upward trend. Nevertheless, in terms of annual averages, 1999 should show a weakening in GDP growth, which is estimated to be 2%.

The upturn should be most visible in exports. Year-on-year growth rates for exports and private consumption should be relatively low at the beginning of the year and gradually improve thereafter.

Inflationary pressures should be absent. Underlying inflation will continue to hover around 1.4%, while oil prices should, on average, be lower than in 1998, leading to consumer price inflation of 1%, which is the same growth rate as in 1998. The health index should rise by 1.2%.

The labour market was particularly vigorous in 1998, with 54,000 more people in work (from June to June). In the second half of 1998 and into 1999, job creation is expected to be less dynamic. The June-to-June change for 1999 should be 33,000. The standardized unemployment rate should continue to fall, from 8.6% in 1998 to 8.2% this year.

In the area of public finances, the net borrowing requirement should be around 1.3% of GDP in 1998 and decline further in 1999. The primary surplus is expected to be above 6% in 1998 and 1999.

STU 1-99 was finalised on February 18th 1999.

Editorial Board

Henri Bogaert
Michel Englert
Bart Hertveldt
Evelyne Hespel
Etienne Rohaert
Joost Verlinden

DTP & Web Publishing

Geert Bryon
Dominique van der Wal
Brenda Breugelmans

Printed by

Ministry of
Economic Affairs

The Federal Planning Bureau (FPB) is a public agency under the authority of the Prime Minister and the Minister of Economic Affairs. The FPB has a legal status that gives it an autonomy and intellectual independence within the Belgian Federal public sector.

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



Table of Contents

Special Topic.....	3
• A sustainable development approach to climate change: why and how?	
Economic Forecasts.....	5
• Economic forecasts 1998-99	
Summary of Economic Forecasts	7
• Economic Forecasts by the Federal Planning Bureau	
• Economic forecasts for Belgium by different institutions	
Recent Economic Evolution	8
• General economic activity	
• Private consumption	
• Business investment	
• Housing investment	
• Stockbuilding	
• Foreign Trade	
• Labour market	
• Prices	
• Interest rates	
• Exchange rates	
• Fiscal indicators	
Recent Publications	19
• Sustainable Development: a world scale project	
• Demographic ageing and the financing of social security: a sustainable challenge?	
• Tradable permits on CO ₂ emissions and climate change - an analysis of macro-sectoral impacts on the Belgian economy using a general equilibrium model	
• Belgian economic policy in the third stage of Economic and Monetary Union (EMU)	
News	22
• Other Recent Publications	
• Forthcoming Publications	
Economic Policy Measures	23
• Recent history of major economic policy measures	
Abbreviations	24

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

A sustainable development approach to climate change: why and how?

Global climate change may serve as a warning but also as a catalyser for change towards more sustainable ways of production and consumption, that could result into reduced greenhouse gas emissions. Reversing the emissions trend will require far reaching measures in the context of intensive international co-operation.

Facing the warning of global warming

Uncertainties remain in the science of climate change. However, a concerted body of evidence, assembled by some 2500 scientists of the International Panel on Climate Change (IPCC)¹, suggests that the probable magnitude of global warming and its associated detrimental environmental and socio-economic impact is substantial: "With the growth in atmospheric concentrations of greenhouse gases, interference with the climate system will grow in magnitude and the likelihood of adverse impacts from climate change that could be judged dangerous will become greater" (IPCC 1995).

The rate of temperature change that is occurring today is indeed significantly higher than any observed over the last 10,000 years (IPCC 1995). According to IPCC estimates, at current emission trends, by the year 2100 global temperatures could increase between 0.5°C and 3.5°C. After this date, temperature increases are bound to continue to intensify. This could result in substantial adverse socio-economic, human health and environmental impacts which in turn would translate into real economic costs. Changes in temperature could cause sea levels to rise between 15cm and 95cm by the year 2100 (IPCC 1995). Other long-term detrimental effects could include: reductions in agricultural output and food security; risks to ecosystems and accelerated loss in biodiversity; loss in available fresh water resources; spread of pests and diseases; changes in hydrological patterns and increases in the number of extreme climatic events (such as droughts, storms, hurricanes and floods); accelerated soil erosion and desertification and consequently increases in the number of environmental refugees².

Making decisions regarding such risks is rendered diffi-

cult due to large uncertainties in cost and benefit estimations and controversies surrounding monetary valuations of environmental damages. A classical cost-benefit approach thus offers insufficient evidence to justify or postpone action and a new type of approach has to be admitted. Despite the remaining scientific uncertainties, the long time-lags that exist between emissions of greenhouse gases and their detrimental effects, the potential irreversibility of the phenomenon and the existence of possible important thresholds (e.g. a sudden change in ocean currents), are all decisive reasons for the international community to not postpone action further and to opt for a sustainable development approach. Based on the Precautionary Principle, this type of approach is generally gradual. This approach can also be seen as the action of a well-informed, risk-averse society that wishes to take out an insurance policy against the uncertain but according to the IPCC highly likely and potentially dramatic consequences of climatic change. Its first major common step in this field was the negotiation and adoption of the United Nations Framework Convention on Climate Change, called here "the Convention".

The ultimate objective of the Convention (Article 2) is to achieve stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. A stabilization of CO₂ atmospheric concentrations at the current level would require immediate emission reductions of 50% to 70%. Meanwhile, the International Energy Agency's 1998 edition of the World Energy Outlook indicates that in the absence of new measures, energy-related CO₂-emissions will rise world-wide to 175% of 1990 levels by the year 2020. To achieve these enormous reductions in greenhouse gas emissions, structural adjustments of production and consumption patterns will be required. Measures will be needed especially to reduce the demand for energy and restructure the energy supply-side by shifting from high to alternative, low CO₂-emission energy sources. The politics of spatial planning, transport and agriculture will also be important levers for change. Such an outcome can only be achieved progressively and spread out over a long period of time.

The gradual approach to legally binding targets

In 1992 the first diplomatic breakthrough of Rio for a global co-operative approach towards the challenges of a global climate change, materialized in the form of the Convention's agreement on developed countries (Article 4.2) to return their emissions by the year 2000 to 1990 levels. In 1995 the first Conference of Parties (or COP1

1. The Intergovernmental Panel on Climate Change (IPCC) was established in 1988 by the World Meteorological Organisation (WMO) and the United Nations Environment Programme (UNEP) to assess the available scientific, technical, and socio-economic information in the field of climate change. The "IPCC Second Assessment" was published in 1995
2. See among others: Pearce, D.W. (1995) «Blueprint 4 : capturing global environmental value », Earthscan, London.
Elliot, L. (1998), «The global politics of the environment», MacMillan Press, London.
European Environment Agency, (1995) «The Dobris Assessment: Europe's Environment», Denmark, Copenhagen.

which gathered signatory countries of the Convention in Berlin) decided, in the Berlin Mandate, to adopt gradually stronger emission commitments based on the increasing evidence of global warming, together with a compliance regime that would enforce the agreement by penalizing those countries that did not respect the emission commitments. At this stage, these stronger commitments would only be imposed upon countries listed in "Annex-I" of the Convention: OECD countries and countries with economies in transition (EIT).

This led to the adoption in December 1997, by COP3 (more than 155 countries gathered in Kyoto), of the Kyoto Protocol. This protocol to the Convention establishes legally binding emission quotas for 39 OECD and EIT-countries. Total Annex-I countries greenhouse gas emissions now have to be reduced by 5.2% in the period 2008-2012 compared to 1990 levels. The number of greenhouse gases considered is extended from three to six (CO₂, N₂O, CH₄, HFC, PFC and SF₆). Table 2 shows the distribution of emission reduction or limitation efforts that was agreed upon between Annex- I countries (some countries were allocated emission reduction targets, while others received a target that limits the amount by which emissions may increase, and which should be lower than expected in a Business as Usual scenario of emission growth).

Table 1 - Emission targets of co2 equivalent emissions compared to 1990 levels (average for the period 2008-2012)

European Union, Switzerland, Eastern Europe (except Hungary & Poland)	-8%
United States	-7%
Japan, Canada, Hungary, Poland	-6%
Russia, New Zealand, Ukraine	0%
Norway	+1%
Australia	+8%
Iceland	+10%
Average Annex-I countries	-5.2%

Source : Kyoto Protocol (1997)

Based on Article 4 of the Protocol, the EU distributed its reduction target of 8% freely among individual member states (in the so-called European Bubble), varying from -28% for Luxembourg to +27% for Portugal. Belgium committed itself to reducing its emissions by 7.5%, but conditioned its agreement to this target on the adoption of a sufficient number of European Common and Co-ordinated Policies and Measures. Nevertheless, most measures remain to be decided and implemented at the national, regional or local level, and this will require mobilizing substantial financial and human resources within the public and private sector.

The range of policies and measures to be taken should be ranked and implemented according to their declining cost-effectiveness. Part of these policies and measures

will induce and promote investments in energy-efficiency that can reduce CO₂-emissions and generate cost-savings at the same time in terms of reduced energy bills and reduced energy dependency. Furthermore, certain measures can induce secondary benefits in terms of reduced local or transboundary pollution. For Norway, Alfsen et al. (1993) estimated secondary benefits to be as high as 30% to 50% of the initial abatement costs, whereas Barker (1993) found secondary benefits for the UK could amount to 100% of initial abatement costs¹. Finally, opportunities for a double dividend may exist through a shift of the tax burden from labour to energy consumption, generating reductions in CO₂-emissions and a corresponding rise in employment. Several studies of the FPB conclude that significant opportunities for a double dividend exist, both for Belgium and for the EU as a whole. The reasons for immediate action are reinforced by this existence of a substantial number of "no-regret measures".

The Kyoto Protocol also opened the door to a number of instruments for international co-operation. These vary from increased scientific and political co-operation, and technology transfer and capacity building, to common administrative and economic instruments, including the so-called Kyoto Mechanisms (International Emission Trading, Joint Implementation and Clean Development Mechanism). The theoretical foundation of these mechanisms, inter alia, is the allocation of abatement efforts between countries in such a way that they induce minimal abatement costs to society. Annex-I countries could thus achieve part of their emission reductions in other countries in the context of an international market for greenhouse gas emission. Both countries and private entities would most likely be allowed to participate. Yet, the potential use of these mechanisms raises questions of political feasibility considering the debates on their environmental effectiveness, social equity and economic efficiency. Indeed, the Protocol still contains a number of important blanks and controversies that will have to be overcome before it can be ratified by a sufficient number of countries. Many industrialized countries are nevertheless already preparing themselves fully to be ready for its implementation. Considering the far reaching economic consequences of the provisions under the Protocol (in a magnitude comparable to the implementation of the World Trade agreement), a good preparation seems essential knowing that the Convention will require the adoption of even more stringent commitments in the coming decades.

1. Alfsen, K., H. Birkelund and M. Aaserud, (1993), «Secondary benefits of the EC Carbon/Energy tax», Research Department Discussion Paper, n°104, Statistics, Norway, Oslo.
Barker, T. (1993), «Secondary benefits of greenhouse gas abatement: the effects of a UK Carbon/Energy tax on air pollution», Energy Environment Economy Modelling Discussion Paper n°4, Department of Applied Economics, University of Cambridge.

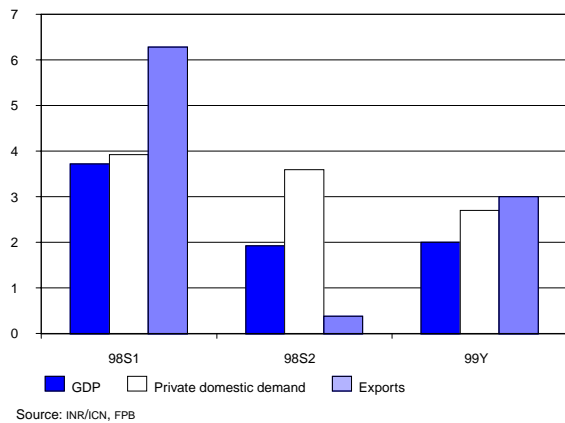
Since the publication of the bi-annual Economic forecasts in July by the Institute of National Accounts, it has become clear that an adjustment in the forecasts was necessary due to considerable changes in the world environment. The FPB has already revised GDP growth for 1999 downwards in November, and it also warned of significant downside risks.

One of those risks, the effect of contagion from the crisis in Brazil, has become a reality. On the other hand, the scenario of a hard landing in the US or a deepening of the crisis in Asia has become less likely. Growth in European countries has weakened considerably, probably due to the fall in world demand and a stock building cycle.

Deteriorating export cycle

Average growth in 1998 has been very much as anticipated. The composition of growth has changed substantially during the year: exports have weakened while growth in domestic demand has remained relatively stable. Private domestic demand in graph 1 is defined as the sum of private consumption, business investment and investment in housing.

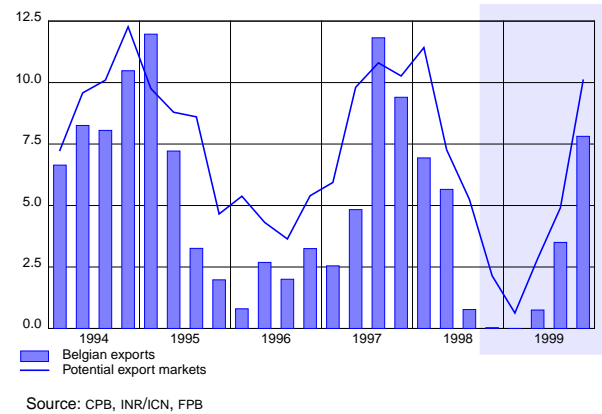
Graph 1 - GDP growth in 1998-99 (change on the previous year)



For 1999, the FPB expects that the slowdown in world imports and hence Belgian exports should come to an end from the second quarter of 1999 onwards. The strength of the expected upturn in world demand is shown in figure 2. While the average growth rate of potential export markets (i.e. world imports weighted according to our share of exports) will be lower in 1999 than in 1998 (4.6% and 6.4% respectively), the upturn in the course of 1999 will nevertheless be significant. Improvements in competitiveness should be rather small: wages in Belgium will rise somewhat more slowly than wages in competing countries in national currency terms but the appreciation of the BEF (or the

euro from 1999 onwards) will wipe out some of those gains. Belgian exports are therefore expected to follow the development of world demand closely. This should result in an average export growth rate of 3% in 1999.

Graph 2 - Potential export markets and Belgian exports (year-on-year growth rates)



Domestic demand still dynamic

Domestic demand will continue to grow quite strongly, although less so than in 1998. Private consumption has grown at what must be considered as an exceptional pace in 1998. It must be considered to be exceptional for two reasons: GDP has grown by more than 3% for five consecutive quarters, leading to very strong growth in employment and secondly, new car registrations remained very high until the end of the year. Real disposable income will grow less in 1999; growth in consumption is therefore not likely to grow at the same pace as in 1998 but it is still expected to remain buoyant.

Business investment has not shown a particularly pronounced pattern during the past three years. Profitability has gradually increased and is expected to remain more or less constant in 1999. Interest rates have fallen further but demand expectations have probably been revised downwards. The latest NBB investment survey revised the 1998 estimate from 12.4% to 3.9%. The postponement of a number of investment projects from 1998 to 1999 led to a forecast for 1999 of 8.7%. The realisation of this forecast is conditional on a more favourable demand evolution.

Investment in housing should continue to grow at more or less the same pace as in 1998. Household income, job creation and low nominal interest rates continue to provide support.

Stockbuilding contributed significantly to GDP growth in 1998, particularly in the first quarter. It is unclear,

however, how these figures should be understood. Part of the stockbuilding can be interpreted as a statistical adjustment. It is therefore assumed that stockbuilding will not contribute towards GDP growth in 1999.

Public consumption is not expected to grow significantly. Public employment is assumed to grow as expressed in terms of the number of workers but not as expressed in terms of the number of hours. This reflects the popularity of the career break option which is available to government employees. People (with part-time jobs) taking time off in this way will be replaced, often by other part-time workers.

Public investment, however, will probably expand for the third consecutive year. This is largely due to the increase in investment by local authorities. Local authorities traditionally increase their investments considerably in the year before local elections, which will be held in October 2000.

GDP is expected to grow by 2% overall. The quarterly profile (t/t-4) is largely given by the development in exports and private consumption: the second part of the year should be stronger than the first.

Job creation still buoyant

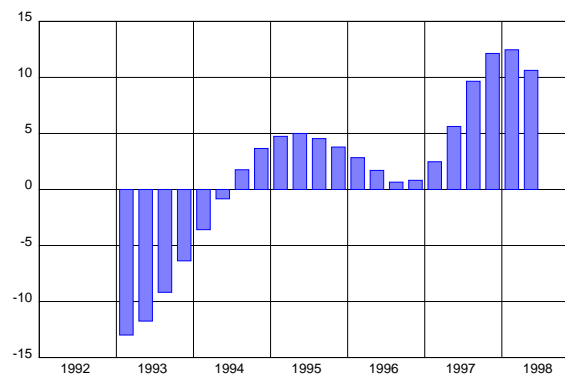
The evolution of employment should be influenced by two main factors in 1999: the slowdown in GDP growth and the effect of labour market policies. The productivity cycle is expected to be pronounced since employers expect the slowdown to be temporary, making a cut in employment costly.

The impact of labour market programs is increasingly becoming visible. Job creation in non-market sectors is being more intensively subsidised (mainly health care and culture) through cuts in employers' social contributions ("social Maribel").

Furthermore, unemployed people are allowed to work a number of paid hours; some of these people are considered as employed (those with "Smet" jobs, local employment agencies, ...). Finally, the amount of part-time work in public administrations is still increasing (career breaks), leading to replacement by other workers (who often work part-time themselves).

The total number of jobs is expected to grow by about 33,000 people in 1999 (compared to +54,000 in 1998), of which 22,000 should be in the private sector and around 11,000 in the public sector. The productivity of labour in enterprises should grow by around 1.6%.

Graph 3 - Employment in enterprises
(quarterly differences, in '000, smoothed)



Source: FMTA/MFET, FPB

Consumer price inflation should remain subdued. Import prices have continued to fall and the slowdown in world demand means that inflationary risk is very low. Underlying inflation will continue to grow at around 1.4%. Moreover, the average price of oil is expected to be lower in 1999 than in 1998. Overall consumer price inflation is expected to be 1.0% while the "health index" (used for wage indexation) should rise by 1.2%.

Real wages are growing at the same pace as labour productivity, leading to a stabilising of the wage share. The growth in wages is due to the continuing application of the "wage norm" - an agreement between the social partners on the basis of the 1996 Act. The latest agreement provides for 5.9% increases in hourly wages over the 1999-2000 period.

Uncertainties

These forecasts are based on the understanding that the present slowdown is only temporary and will not deepen any further. This is currently considered to be the most plausible scenario by most international institutions. It is also supported by relatively strong growth rates in the US and first signs that confidence levels may have begun to rise in Europe. If, however, contagion from what began as the Asian crisis should widen and/or deepen, world demand may not begin to grow as expected. If this is the case, employers in Europe may begin to shed employees, which, in turn, would lead to a downward adjustment in domestic demand.

On the other hand, financial markets are expecting further interest rate cuts by the ECB. If these are forthcoming, the euro could depreciate further from the level of 1.16 USD per euro which is used in the forecasts. At the beginning of February this scenario seems rather likely with the USD at around 1.12 per euro. This, then, could lead to a faster recovery in Europe than is currently anticipated, arising from faster export growth.

Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified)				
	1996	1997	1998	1999
Private consumption	1.8	2.1	3.6	2.4
Public consumption	1.4	0.8	1.5	1.9
Gross fixed capital formation	0.5	5.4	4.8	4.2
Final national demand	1.3	2.2	4.3	2.7
Exports of goods and services	2.2	7.1	3.2	3.0
Imports of goods and services	2.2	6.3	5.1	4.0
Net-exports (contribution to growth)	0.1	0.9	-1.2	-0.7
Gross Domestic Product	1.3	3.0	2.9	2.0
p.m. Gross Domestic Product - in current prices (bn BEF)	8305	8675	9093	9371
Traditional consumer price index	2.1	1.6	1.0	1.0
Consumer prices: "health" index	1.7	1.3	1.3	1.2
Real disposable income households	-0.4	1.1	2.6	1.7
Households saving rate (as % of disposable income)	16.1	15.2	14.5	13.9
Domestic employment (change in '000, situation on June 30th)	20.5	22.0	53.6	33.1
Unemployment (Eurostat standardised rate, yearly average) [1]	9.8	9.3	8.6	8.2
Current account balance (as % of GDP)	4.2	4.7	4.7	4.2
Short term interest rate (3 m.)	3.2	3.4	3.6	3.1
Long term interest rate (10 y.)	6.5	5.8	4.7	3.8

[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
	1998	1999	1998	1999	1998	1999	
Federal Planning Bureau	2.9	2.0	1.0	1.0	.	.	16-2-99
INR/ICN	2.9	2.0	1.0	1.0	.	.	16-2-99
National Bank of Belgium	2.9	.	1.0	.	1.3	.	11-2-99
European Commission	2.8	2.5	1.1	1.4	1.3	1.2	10-98
OECD	2.9	2.3	1.0	1.2	1.5	1.3	17-11-98
IMF	2.9	2.2	1.0	1.2	.	.	21-12-98
BBL	3.0	2.1	1.0	1.3	1.5	1.3	2-2-99
Generale Bank/Générale de Banque	3.0	2.0	1.0	1.2	1.5	1.3	12-98
Gemeentekrediet/Crédit Communal	3.0	2.0	1.0	1.0	1.2	1.4	1-99
KBC	3.1	2.1	1.0	1.4	1.5	1.3	11-12-98
J.P. Morgan	3.3	1.6	1.0	0.7	1.3	1.6	15-1-99
Morgan Stanley Dean Witter	2.9	1.9	0.9	1.0	1.7	2.0	24-12-98
Artesia Bank	2.7	2.0	1.0	1.2	1.4	1.4	9-12-98
Petercam	2.5	2.0	1.0	1.3	1.6	1.5	IV/98
IRES	3.2	2.0	1.0	1.2	1.3	1.0	19-1-99
DULBEA	3.3	2.8	1.0	1.3	1.3	0.8	15-11-98
Averages							
All institutions	3.0	2.1	1.0	1.2	1.4	1.3	
International institutions	2.9	2.3	1.0	1.3	1.4	1.3	
Credit Institutions	2.9	2.0	1.0	1.1	1.5	1.5	
Consensus The Economist	3.0	1.9	1.0	1.0			13-2-99

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

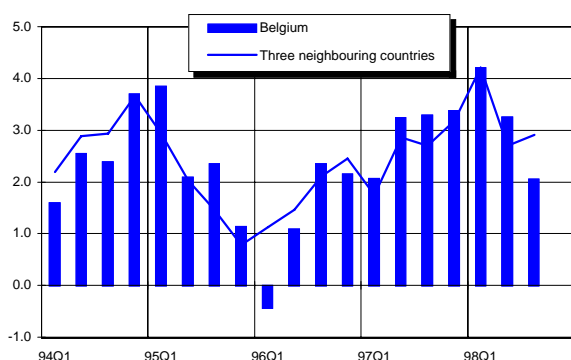
General economic activity

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

	96	97	98	96Q3	96Q4	97Q1	97Q2	97Q3	97Q4	98Q1	98Q2	98Q3
Germany	0.3	2.2	2.8	1.9	2.0	1.2	2.9	2.3	2.6	4.3	1.6	2.8
France	1.4	2.3	.	1.4	2.2	1.2	2.4	2.6	3.1	3.6	3.3	2.8
Netherlands	3.1	3.6	.	3.4	3.5	3.4	3.5	3.4	4.3	4.9	3.7	3.2
Belgium	1.3	3.0	.	2.3	2.2	2.1	3.2	3.3	3.4	4.2	3.3	2.1

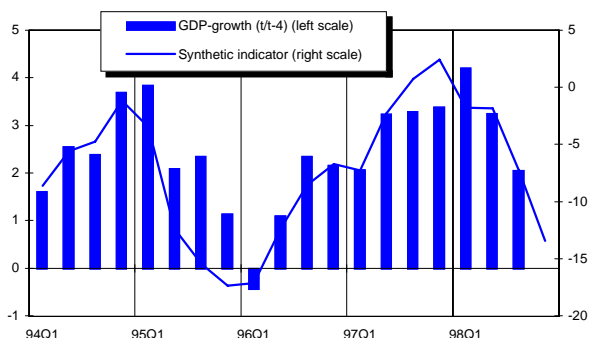
Source: National sources, INR/ICN

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



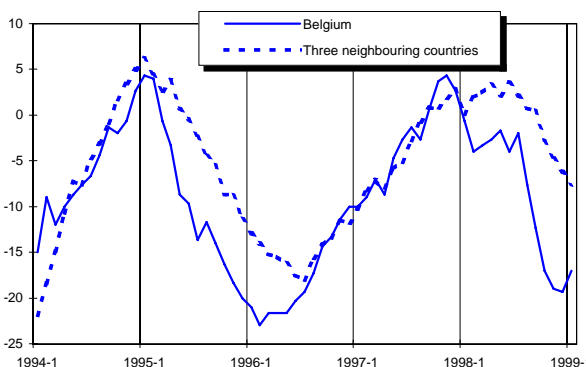
Source: INR/ICN, National sources

Graph 2 - Belgian GDP-growth and synthetic indicator



Source: INR/ICN, NBB

Graph 3 - Industrial confidence: international comparison



Source: European Commission

GDP in Belgium probably increased 2.9% in 1998, which is, for the second consecutive year, higher than the figure for Germany. The Dutch economy, however, continued to grow more rapidly.

The composition of growth changed significantly during the year. Exports grew (t/t-1) strongly early in the year, but clearly slowed down in the second half. Private consumption was very strong, especially during the first half of 1998. This is also expected to weaken during the second half. Stocks also contributed significantly to GDP growth during the first quarter of the year.

The quarterly growth profile (t/t-4) indicates that economic growth weakened significantly over the year. While growth was close to 4% during the first half (compared to last year), it is estimated to be only 2% during the second part of the year. So, while the average growth rate has remained high during 1998, its profile has a considerable effect on forecasts for 1999.

The NBB's confidence indicators show a similar picture: a significant drop since the end of last year. This is especially true for the industrial confidence survey. Moreover, while the indicator fell significantly for each of the neighbouring countries, the fall was nowhere more pronounced than in Belgium. Contrary to the situation seen in France, Germany and the Netherlands, however, small signs of improvement were noted in the Belgian manufacturing sector.

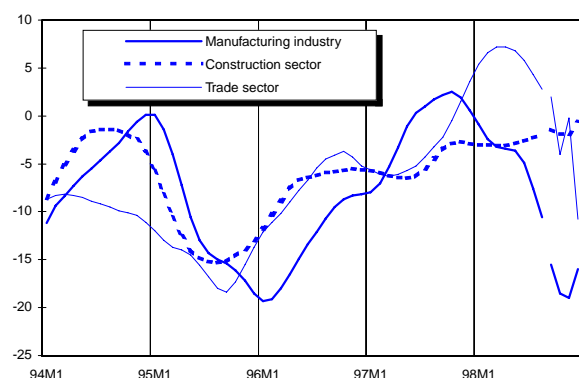
Table 2 - Monthly business surveys [1]

	97	98	98Q1	98Q2	98Q3	98Q4	98M7	98M8	98M9	98M10	98M11	98M12
Synthetic indicator	-1.6	-6.1	-1.8	-1.8	-7.3	-13.4	-2.5	-8.6	-10.8	-13.8	-13.6	-12.9
Manufacturing industry	-0.3	-8.8	-3.4	-3.5	-10.5	-17.8	-3.6	-12.4	-15.5	-18.5	-19.0	-16.0
Construction sector	-5.1	-2.5	-2.6	-3.5	-2.4	-1.5	-4.9	-1.0	-1.4	-1.9	-1.9	-0.7
Trade sector	-4.0	3.0	6.5	7.7	2.8	-5.0	4.8	1.5	2.0	-4.0	-0.2	-10.8

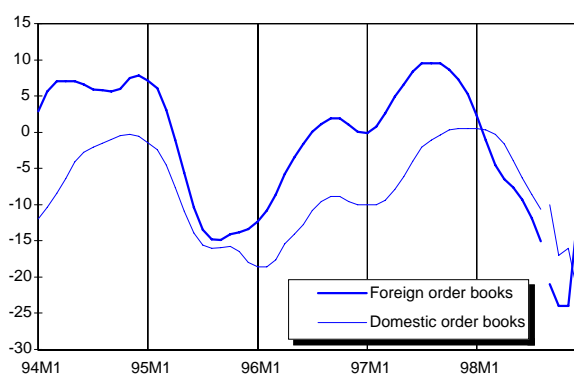
[1] Qualitative data

Source: NBB, FPB

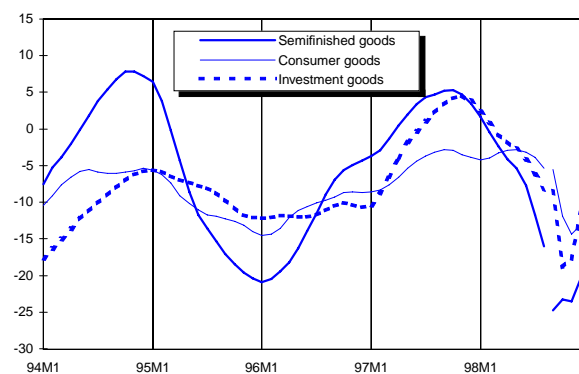
Graph 4 - Business cycle: sectoral evolution



Graph 5 - Manufacturing industry: order books



Graph 6 - Manufacturing industry: different types of goods



Source: Business cycle survey NBB

The change in the composition of growth during 1998 can also be analysed from the three components of the synthetic NBB survey indicator. While the indicator for the manufacturing sector has fallen considerably, the cycle in the construction and trade sector has been much less pronounced.

The manufacturing sector is seriously affected by lower growth in imports by our trading partners. While the drop in exports (and hence in the indicator for manufacturing industry) was limited immediately after the Asia shock in the second half of 1997 (because of the limited exposure of Belgian exports to this area), the indirect effects were much more significant. The effects of contagion in Russia and Latin America, as well as the fall in import growth in EU countries, led to considerable falls in the survey indicators. A stabilising and even an increase in some indicators - particularly production expectations and export orders - may be the first signs - although still fragile - that the cycle reached its bottom at the end of 1998.

The clearest cycle is found in the indicators for foreign order books and manufacturing of semifinished goods. This supports the view that the present weakness in the manufacturing sector in Belgium finds its origin in imports from our trading partners and the structure of Belgian industry. A reversal in the cycle is expected to be seen in these indicators first, as was observed during the previous upturn, beginning at the end of 1995.

The indicators for the trade and construction sector have so far not followed the cycle in the manufacturing sector, and they are still at levels that must be considered as high. Some weakening in the trade sector is compatible with slower growth in private consumption. The fact that the indicator for consumer goods manufacturing has showed a less pronounced cycle further indicates that growth in consumption is still relatively strong.

Activity in the construction sector is still fuelled by strong growth in disposable household income and low nominal long-term interest rates.

Private consumption

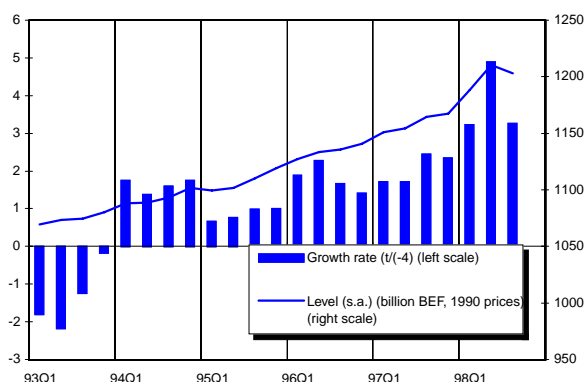
Table 3 - Private consumption indicators

	97	98	98Q1	98Q2	98Q3	98Q4	98M8	98M9	98M10	98M11	98M12	99M1
Turnover (VAT) - retail trade [1]	3.5	.	5.6	7.1	5.1	.	4.5	6.0	1.1	7.5	.	.
New car registrations [1]	-5.7	8.3	5.1	10.0	8.4	11.0	22.1	0.9	8.8	22.9	-0.2	18.3
Consumer confidence indicator [2]	-21.7	-5.6	-7.0	-4.7	-5.0	-5.7	-6.0	-5.0	-9.0	-6.0	-2.0	1.0

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

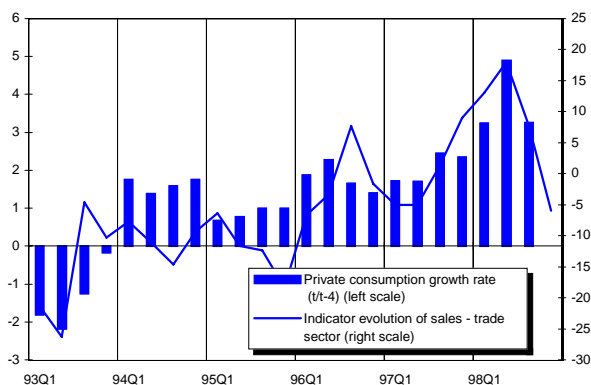
Source: NIS/INS, Eurostat, Febiac, FPB

Graph 7 - Private consumption at constant prices



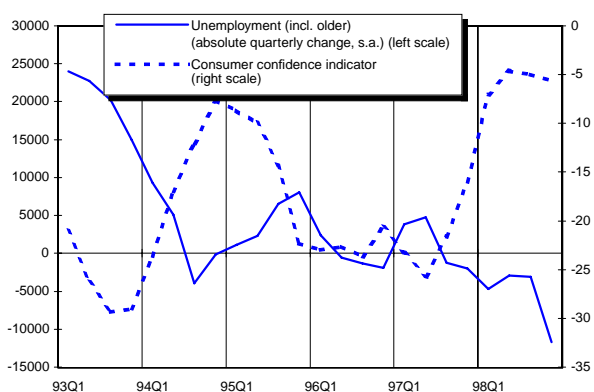
Source: INR/ICN

Graph 8 - Private consumption and related survey indicator



Source: INR/ICN, NBB

Graph 9 - Consumer confidence and unemployment



Source: RVA/ONEm, Eurostat, FPB

Economic growth in 1998 was largely consumption driven. Private consumption growth is estimated at 3.6% for 1998 as a whole, after a growth rate of 4% during the first half of the year. Such strong consumption growth on an annual basis has not been seen since 1989.

Over the first eleven months of the year, retail sales grew by 5.6% in nominal terms. Retail sales were positively affected by purchases of new cars. New car registrations remained very high until the end of the year, with a growth rate (t/t-4) of almost 10% during the second half. In 1996, however, the last year with a Motor Show, new car registrations clearly fell back in the second half. This rather different development is not surprising in view of the current state of consumer confidence. The level of consumer confidence that was reached in 1998 was clearly higher than in 1996, and the highest since 1990. The high level of consumer confidence was, among other things, due to the improvement in the labour market situation during the last one and a half years.

The rise in employment was undoubtedly the main driving force behind the upswing in consumption in 1998. It brought about both an increase of households' disposable income and a fall in their savings rate. Moreover, disposable income was positively affected by a stronger increase in real hourly wages.

The NBB survey indicators for the trade sector reached a peak in the second quarter of 1998, and have shown a pronounced fall since then. The fall in these indicators (especially in December last year) may to some extent constitute an over-reaction. The consumer confidence indicator has not followed the sharp deterioration in industrial confidence recorded in 1998, but has roughly stabilised during the second half of the year at the high level reached by mid-1998. From November 1998 onwards, consumer confidence continued on its rising trend. Moreover, car registrations remained surprisingly high in January 1999. In line with this mixed image of consumption indicators, some cooling in the dynamism of private consumption is expected in 1999, resulting in a growth rate that is markedly lower than in 1998, but still slightly higher than the trend growth rate.

Business investment

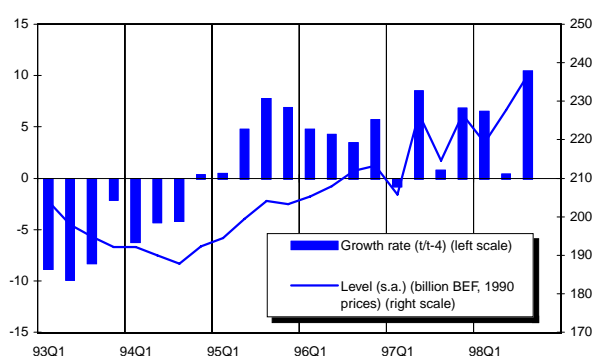
Table 4 - Business investment indicators

	97	98	99	98Q1	98Q2	98Q3	98Q4	98M7	98M8	98M9	98M10	98M11
Investment (VAT) [1]												
Industrial companies	1.7	.	.	5.0	3.6	9.6	.	-3.2	11.5	19.1	1.0	-9.7
Non-industrial companies	11.2	.	.	9.8	-6.3	14.2	.	4.3	-0.8	36.9	-0.5	17.2
Total companies	7.4	.	.	7.9	-2.8	12.4	.	1.3	4.4	29.1	0.3	4.7
Investment survey [1]	5.6	3.9	8.7									
Capacity utilisation rate (s.a.) (%)	82.0	81.8	.	83.0	82.7	81.9	79.7					

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

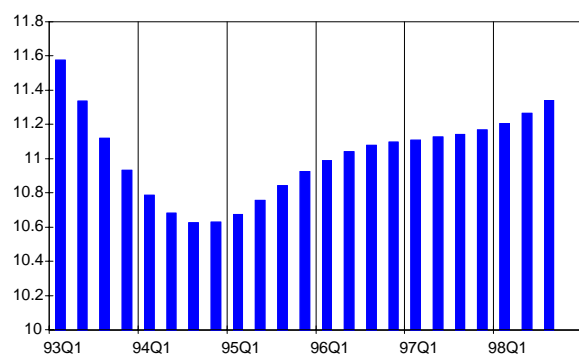
Source: NIS/INS, NBB, FPB

Graph 10 - Business investment at constant prices



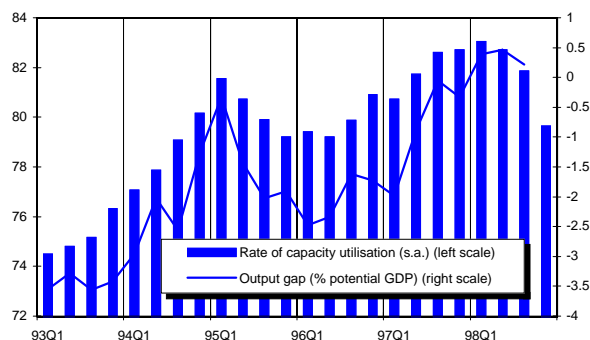
Source: INR/ICN

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



Source: INR/ICN, FPB

Graph 12 - Business investment indicators



Source: NBB, INR/ICN, FPB

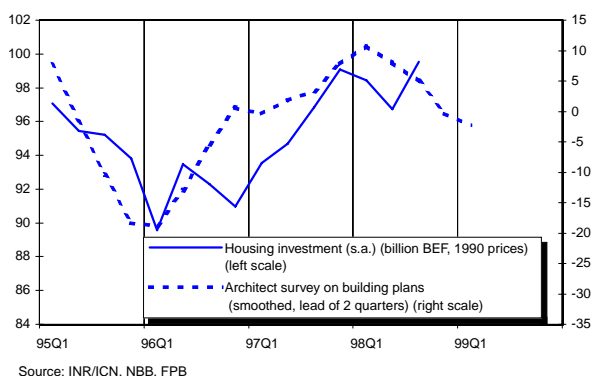
When considering recent business investment behaviour, two striking features are clearly evident. Firstly, the *quarterly* investment pattern has been extremely unstable over the last two years. This makes any clear diagnosis of the actual situation difficult. On the other hand, *yearly* growth rates have been very stable during the years 1995-98: between 4 and 5% in volume terms. So business investment has been almost insensitive to the business cycle over the past four years.

The deterioration in the climate of industrial confidence from the beginning of 1998 was followed, with a certain time lag and on a less pronounced basis, by a decline in the rate of capacity utilisation in manufacturing industry. The degree of capacity utilisation fell from almost 83% (on a seasonally adjusted basis) during the first half of the year, to less than 80% during the last quarter of 1998. Accordingly, the output gap, which had been slightly positive during the first six months of 1998, became negative during the second half of the year.

The crucial question for 1999 is whether business investment will react negatively to the observed fall in capacity utilisation and output gap. Much depends on how investors assess the recent slowdown in the business cycle. The NBB investment survey of manufacturing industry dating from November 1998 made clear that a number of investment projects originally planned in 1998 had been postponed. If entrepreneurs consider that the drop in (especially) external demand is only temporary (as in 1995), these investment plans will be carried out during the course of 1999. Moreover, the other elements determining business investment (long-term interest rates and business profitability) should stay roughly at their 1998 levels (which support investment). Further improvement in business profitability and further falls in the level of long term interest rates compared to current levels are not, however, expected.

Housing investment

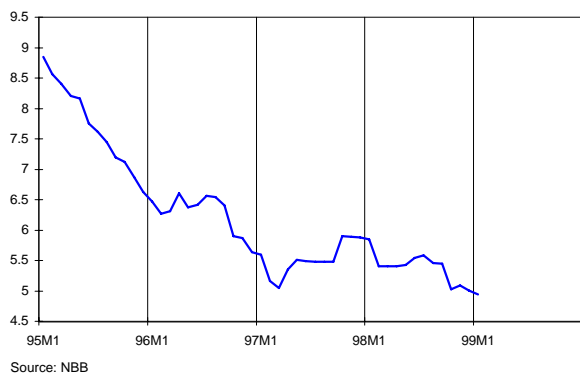
Graph 13 - Activity in the residential housing sector



Following the strong upward cyclical trend from mid-1996 until the end of 1997, investment in housing is estimated to have grown by 3.2% in 1998.

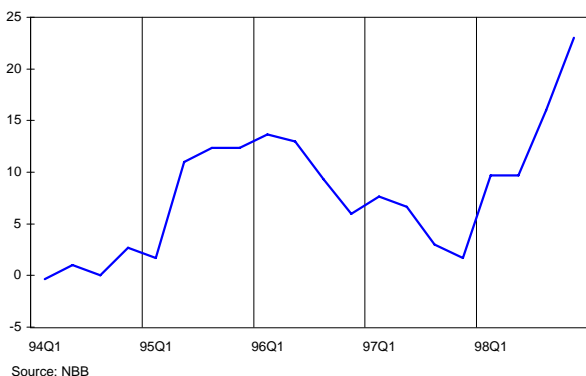
Certain factors should lead to a similar growth rate in housing investment in 1999. Mortgage rates are low and had fallen even further by the end of 1998. Real disposable household incomes should increase by more than 2% on average over 1998-99, markedly faster than during the past five years. Finally, a further improvement in the labour market situation should also make a positive contribution.

Graph 14 - Mortgage rate (in %)



Stockbuilding

Graph 15 - Appreciation of stocks



In 1996 and 1997 stockbuilding contributed negatively to economic growth. As foreign demand fell back rather unexpectedly, stocks were built up on a massive scale during the first months of 1998 in Belgium, as in most other European countries. Quarterly national accounts show a strong positive contribution of stockbuilding to GDP growth, especially in the first quarter of 1998 (although this large figure may be partly due to statistical adjustments). However, as a growing number of entrepreneurs consider that their stock levels are excessive, stocks should have been somewhat reduced by the end of the year. On the whole, stockbuilding is expected to make a positive contribution towards economic growth of 0.7% in 1998.

Foreign Trade

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

	96	97	97Q4	98Q1	98Q2	98Q3	98M6	98M7	98M8	98M9	98M10	98M11
Exports - value [1]	4.9	13.1	12.6	10.7	8.7	2.2	13.0	4.9	2.0	0.0	-4.4	-0.2
Imports - value [1]	7.7	10.9	13.0	10.1	6.2	4.3	11.2	7.1	5.2	1.2	-3.8	3.4
Exports - volume [1]	2.1	7.4	6.3	6.4	7.2	4.1	12.3	6.1	4.2	2.2	-2.1	3.7
Imports - volume [1]	4.2	4.5	7.2	8.5	6.7	8.5	11.3	10.5	10.1	5.6	0.8	9.5
Exports - price [1]	2.7	5.3	5.9	4.0	1.4	-1.8	0.7	-1.1	-2.2	-2.1	-2.3	-3.7
Imports - price [1]	3.4	6.1	5.4	1.5	-0.5	-3.9	-0.1	-3.1	-4.4	-4.2	-4.5	-5.6

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

Source: INR/ICN, FPB

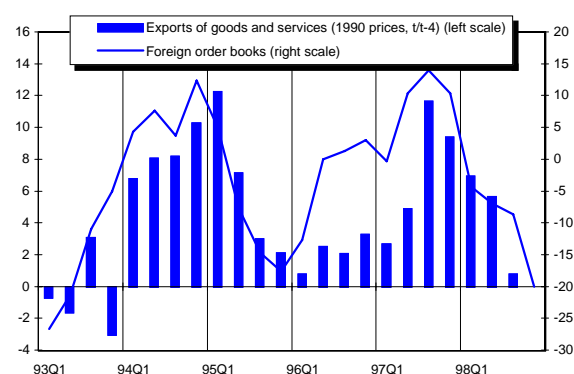
Table 6 - Belgium - Balance of payments statistics

	96	97	97Q4	98Q1	98Q2	98Q3	98M4	98M5	98M6	98M7	98M8	98M9
Exports - goods [1]	5.2	12.2	13.3	9.5	6.9	-1.2	4.4	3.7	12.6	-1.9	2.8	-3.7
Imports - goods [1]	5.7	12.7	14.7	9.5	6.5	-0.4	4.2	4.4	10.9	4.4	-2.6	-2.9
Trade balance [2]	323	341	76	77	107	87	34	33	40	23	25	39
Exports - goods and services [1]	4.9	12.4	14.3	9.6	6.6	-0.6	4.5	3.3	11.8	-2.4	3.9	-2.5
Imports - goods and services [1]	5.2	12.3	14.7	10.8	6.6	-0.1	4.6	4.9	10.2	3.6	-1.7	-2.4
Goods and services balance [2]	335	383	96	91	104	83	34	31	39	13	27	44
Exports - current transactions [1]	1.8	10.7	12.8	9.7	6.9	0.9	5.3	4.5	10.6	-0.7	4.3	-0.5
Imports - current transactions [1]	1.7	10.3	12.6	10.9	7.3	1.5	5.8	5.8	10.1	4.0	0.5	0.0
Current account [2]	350	409	127	81	94	84	35	27	33	13	24	47

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

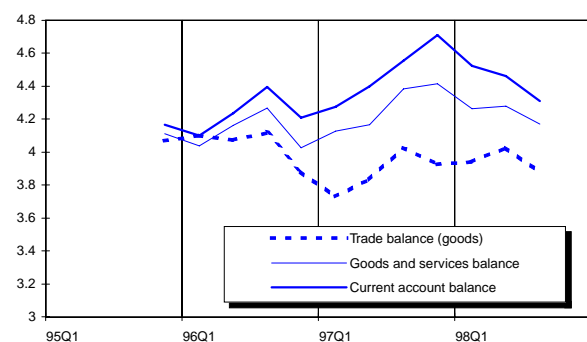
Source: NBB, FPB

Graph 16 - Growth of exports and related indicator



Source: INR/ICN, NBB, FPB

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



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

As forecast, growth in export volume has continued to decline significantly during the third quarter of 1998. Export growth is expected to decline further during the last quarter of 1998 and the first months of 1999, but the geographical origin of this slowdown is changing. Triggered initially by a drop in exports mainly to East Asia and Japan, import demand from other European countries is now weakening as well. In value terms, Belgian exports to the rest of the European Union have dropped slightly on average in October 1998 (in comparison to last year's results) and exports to the Netherlands and the United Kingdom have suffered a more marked fall.

This slow-down in intra-European trade is not yet reflected in the Belgian import figures for the third quarter (unlike German imports, for example) but should appear during the last quarter of 1998.

Rapidly declining import prices do, of course, reflect falls in oil and commodity prices but were also partially caused by the appreciation of the effective exchange rate of the BEF during 1998 and increased competition in international goods markets. This situation, combined with a high import component in Belgian exports (more than 50%) implies a sharp decline in export prices since the summer of 1998.

Labour market

Table 7 - Labour market indicators

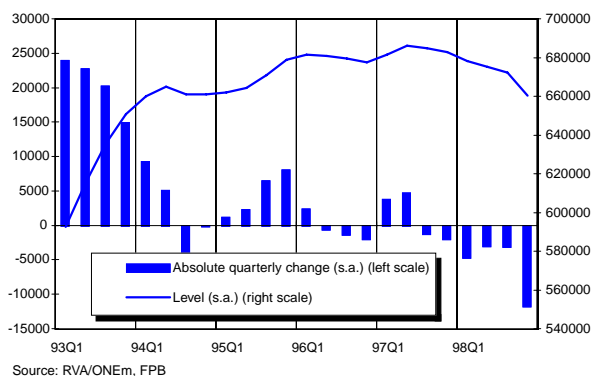
	97	98	98Q1	98Q2	98Q3	98Q4	98M8	98M9	98M10	98M11	98M12	99M1
Unemployment (excl. older) [1]	570.0	541.0	551.8	514.5	569.1	528.9	584.2	568.9	539.5	521.6	525.6	526.5
Unemployment (incl. older) [1]	683.9	671.5	674.8	644.5	701.9	664.7	717.1	702.3	674.4	657.5	662.3	664.0
Unemployment rate-FMTA/MfET[2]	13.2	12.5	12.7	11.9	13.1	12.2	13.5	13.1	12.5	12.0	12.1	12.2
Unemployment rate-Eurostat [3]	9.3	8.8	9.0	8.9	8.8	8.5	8.9	8.8	8.6	8.5	8.5	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)



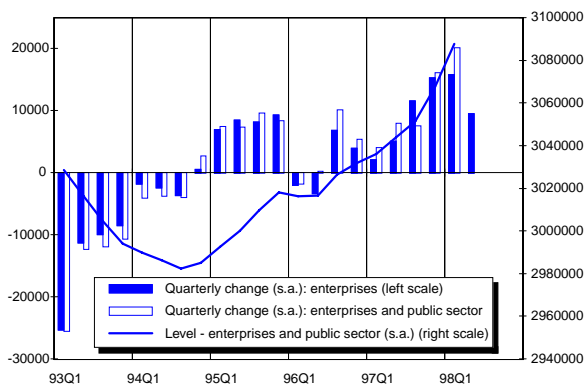
Source: RVA/ONEm, FPB

Recent employment and unemployment figures have confirmed the analysis published earlier by the FPB. Three sets of figures have been released recently. First, the Federal Ministry of Employment and Labour confirmed increases in employment of over 20,000 in 1996 and 1997.

Secondly the second-quarter 1998 figures from RSZ-ONSS (provisional estimates) indicate that employment in enterprises has increased by around 50,000 (year-on-year). Moreover, earlier indications of the employment rate for people under 21 and over 50 have been confirmed by these figures as well as by provisional figures from the NIS/INS-survey on the labour force.

Thirdly, unemployment figures for the fourth quarter of 1998, as compared with the third quarter, show the largest cut in the number of people unemployed for the past 10 years. The definition used here includes 'older' unemployed people, the number of whom has increased constantly for the past two years.

Graph 19 - Evolution of employment



Source: RSZ/ONSS, FPB

Active labour market policies have accounted for part of the recent improvement in the labour market. In particular, reductions in employers' contributions to social security in the health care and cultural sector are possible provided new jobs are created. Unemployed people who work a sufficient number of hours are considered to be employed. These special programmes should account for net job creation in enterprises of around 7,000 people in 1998 and 11,500 in 1999. Moreover, the number of career breaks in the government sector has increased significantly, leading to their replacement by other workers (often part-time themselves).

Job creation in 1999 should be lower due to weaker economic growth.

Prices

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

	97	98	98Q1	98Q2	98Q3	98Q4	98M8	98M9	98M10	98M11	98M12	99M1
Consumer prices: all items	1.63	0.95	0.73	1.65	0.76	0.68	0.44	0.82	0.86	0.58	0.59	0.95
Food prices	2.20	1.84	2.06	4.59	0.49	0.28	0.03	-0.07	0.01	0.39	0.44	1.46
Non food prices	1.50	-0.44	-0.79	-0.08	-0.41	-0.49	-0.74	-0.43	-0.42	-0.48	-0.58	0.22
Services	1.48	2.34	1.97	2.38	2.50	2.51	2.24	3.04	3.16	2.13	2.23	1.58
Rent	1.69	1.16	1.29	1.16	1.10	1.09	1.12	1.04	1.10	1.06	1.11	1.49
"Health" index	1.32	1.27	0.96	2.00	1.12	1.02	0.84	1.22	1.21	0.90	0.94	1.22
Brent oil price in USD (level)	19.1	12.9	14.3	13.3	12.5	11.4	11.9	13.4	12.9	11.3	9.9	11.0

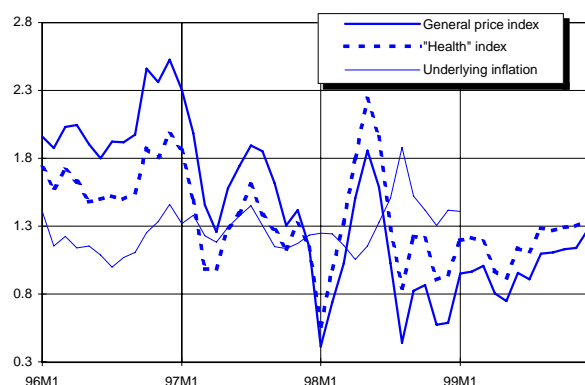
Source: MEZ/MAE

Table 9 - Monthly inflation forecasts

	98M1	98M2	98M3	98M4	98M5	98M6	98M7	98M8	98M9	98M10	98M11	98M12
Consumer prices: all items	101.99	102.19	102.02	102.48	102.99	102.89	103.14	102.75	102.70	102.72	102.70	102.62
Consumer prices: "health" index	101.83	102.08	101.95	102.44	102.99	102.89	103.14	102.74	102.71	102.72	102.70	102.71
Moving average "health" index	101.71	101.86	101.90	102.08	102.36	102.57	102.86	102.94	102.87	102.83	102.72	102.71
	99M1	99M2	99M3	99M4	99M5	99M6	99M7	99M8	99M9	99M10	99M11	99M12
Consumer prices: all items	102.96	103.18	103.05	103.31	103.76	103.87	104.08	103.88	103.83	103.88	103.87	103.93
Consumer prices: "health" index	103.07	103.32	103.16	103.44	103.93	104.06	104.29	104.06	104.01	104.05	104.04	104.09
Moving average "health" index	102.80	102.95	103.06	103.25	103.46	103.65	103.93	104.08	104.10	104.10	104.04	104.05

Source: Observations (up to 99M1): MEZ/MAE; forecasts: FPB

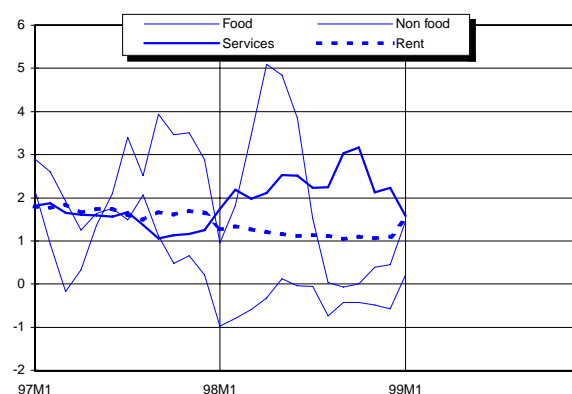
Graph 20 - Monthly inflation evolution in % (t/t-12)



Source: MEZ/MAE, from 99M2 on: forecasts FPB

In 1998 as a whole, general consumer price inflation was 0.95%, as compared to 1.63% in 1997. This reduction in inflation was almost completely due to the fall in prices of energy products. In 1997, world oil prices in dollar terms were lower than in 1996, but a large appreciation of the USD against the BEF led to higher domestic prices for oil products and an upward contribution to CPI inflation of some 0.4%. In 1998, oil prices expressed in both USD and BEF terms fell dramatically, reducing domestic inflation by more than 0.3%. Since the "health" price index is less affected by energy prices, the fall in inflation measured in this way was much smaller: from 1.32% in 1997 to 1.27% in 1998.

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



Source: MEZ/MAE

For 1999, underlying inflation (which is not affected by energy prices, food prices or indirect taxes) is expected to remain constant around the current level (1.4%). As in 1997 and 1998, indirect taxes are expected to make a zero contribution towards inflation. Taking into account current extremely low oil prices, energy prices should in 1999, even if they rise slightly during the year, again contribute negatively towards domestic inflation. CPI inflation should amount to 1.0% this year. The health index growth rate should be, for the same reason as last year, somewhat higher than CPI inflation: 1.2% in 1999.

Public-sector wages were adjusted (by 2%) for price changes in October 1997, and they were not adjusted in 1998. In 1999 public wages should be adjusted in June. This follows from the fact that the pivotal index for the public sector (currently 103.14) should be reached in April 1999.

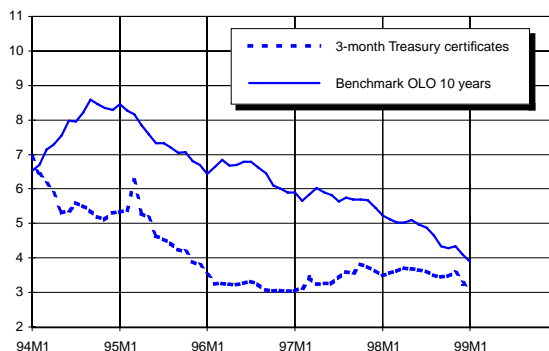
Interest rates

Table 10 - Interest rates

	97	98	98Q1	98Q2	98Q3	98Q4	98M8	98M9	98M10	98M11	98M12	99M1
Short-term rates (3 months)												
Belgium	3.44	3.56	3.57	3.68	3.53	3.46	3.51	3.46	3.50	3.56	3.32	3.19
Germany	3.26	3.48	3.48	3.54	3.45	3.47	3.43	3.43	3.51	3.58	3.32	3.19
Long-term rates												
Belgium: traditional bonds (6+ y)	5.59	4.70	5.03	4.96	4.57	4.21	4.61	4.29	4.23	4.32	4.08	3.90
Belgium: 10 y benchmark OLO	5.75	4.75	5.12	5.03	4.63	4.23	4.66	4.34	4.28	4.33	4.09	3.90
Germany (7-15 y)	5.5	4.6	5.0	4.9	4.4	4.1	4.5	4.1	4.1	4.2	3.9	3.7
Germany: 10 y benchmark	5.64	4.57	5.00	4.89	4.38	4.00	4.42	4.04	4.03	4.10	3.87	3.72

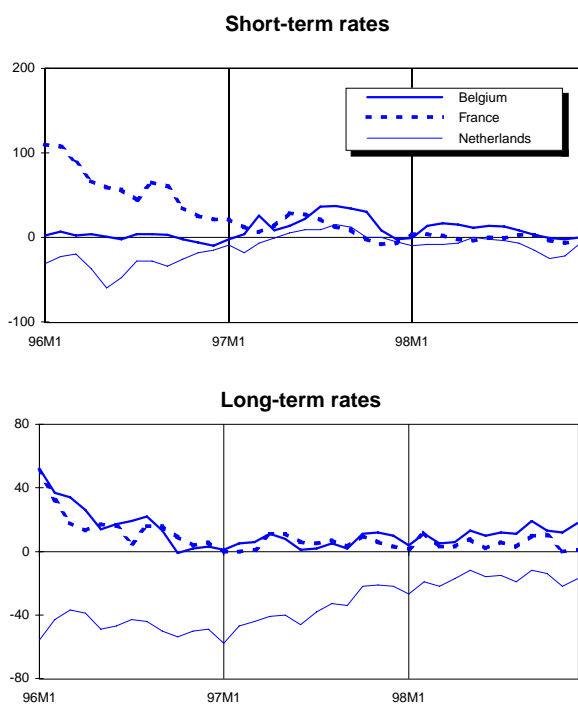
Source: NBB

Graph 22 - Interest rate levels in Belgium, in %



Source: NBB

Graph 23 - Interest rate differentials with Germany (in basis points)



Source: NBB

During the fourth quarter of 1998, financial turbulence seemed to have stabilised, as reflected by the slowing down in capital flows out of emerging markets and also by the reduction in stock market volatility. Western stock markets regained their historical high levels in December 98 after the "flight to safety" to government bond markets which contributed to the reduction in long term interest rates in the United States and Europe. The Brazilian financial crisis and fears of a devaluation of the Chinese yuan added further pressure to long-term interest rates in January 99.

However, the differential between bond yields in the United States and in the euro zone widened at the end of the year. The US 10-year interest rate increased slightly to 4.7% in January while the equivalent German interest rate dropped to 3.7%. The long-term interest rate differential with Belgium and other EMU countries narrowed to about 20 basis points due to the disappearance of the exchange rate risk premium. This further drop in European long-term bond yields led to a flattening in the yield curve for the euro zone. This can be attributed to internal factors such as declining inflationary expectations and lower short-term growth prospects.

It also reflects the interest rate cuts to 3% by central banks in the euro zone on 3 December 1998. This reduction came sooner than expected and was motivated by weakening signs of economic growth in the euro zone. This level was also seen as the short-term rate that would prevail at the beginning of the third stage of EMU, as it was considered to suit the ECB's objective of price stability. Indeed, on 22 December 1998, the ECB set its first refinancing rate at 3%.

On the money markets in the euro zone, short-term interest rates declined during the fourth quarter of 1998. From the beginning of the third stage of EMU, the Euribor has become the reference interest rate on the European money market. The Euribor reached around 3.1% in January. During this period, short-term interest rate differentials between participating countries narrowed.

Exchange rates

Table 11 - Exchange rate (Belgian francs per ...)

	97	98	98Q1	98Q2	98Q3	98Q4	98M8	98M9	98M10	98M11	98M12	99M1
Deutschemark [1]	20.63	20.63	20.63	20.63	20.62	20.63	20.62	20.63	20.63	20.63	20.63	20.63
French franc [1]	6.13	6.15	6.16	6.15	6.15	6.15	6.15	6.15	6.15	6.15	6.15	6.15
Dutch guilder [1]	18.33	18.30	18.31	18.31	18.29	18.30	18.29	18.29	18.29	18.30	18.30	18.31
Italian lira [1]	2.10	2.09	2.09	2.09	2.09	2.08	2.09	2.09	2.09	2.08	2.08	2.08
British pound	58.59	60.13	61.76	61.21	60.07	57.50	60.25	59.00	57.28	57.68	57.53	57.41
American dollar	35.78	36.29	37.53	37.01	36.36	34.32	36.87	35.11	33.81	34.72	34.45	34.76
ECU - euro [1] [2]	40.41	40.70	40.81	40.77	40.66	40.56	40.67	40.57	40.64	40.55	40.48	40.34

[1] Observations for 99M1 are the irrevocable conversion rates adopted by the EU Council on 31 December 1998; [2] From 99M1 on: euro instead of ECU.

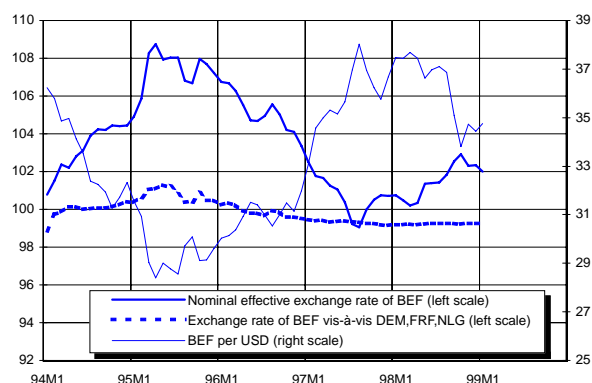
Table 12 - Nominal effective exchange rate of the Belgian franc

	97	98	99	98Q1	98Q2	98Q3	98Q4	98M9	98M10	98M11	98M12	99M1
Level (Jan.92=100)	100.7	101.5		100.5	101.0	101.9	102.5	102.5	102.9	102.3	102.3	102.0
Growth rate [1]	-4.2	0.8		-1.5	0.1	2.5	1.9	2.5	2.4	1.5	1.6	1.2
Id. with constant rate till year end			0.5									

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

Source: NBB, FPB

Graph 24 - Effective exchange rate (Jan. 92=100) and dollar rate



Source: NBB, FPB

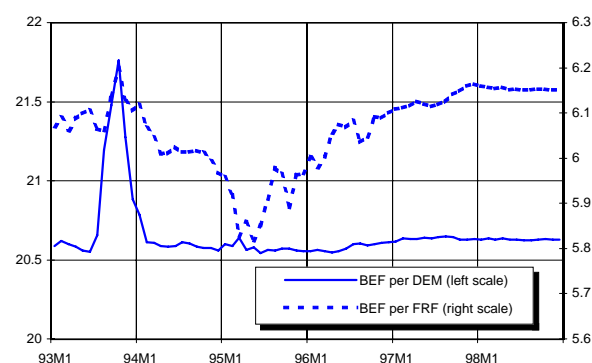
Foreign exchange rates remained volatile during the fourth quarter of the year. The yen appreciated strongly against the US dollar, reflecting repatriation flows to Japan. After the depreciation of the US dollar against main European currencies last October, and despite the third reduction in short-term interest rates by the Federal Reserve in November, the US dollar regained some strength during the two last months of the year.

On 31 December 1998, the irrevocable conversion rates between the euro and the national currency units were adopted. On that date the euro was quoted at 1.168 US dollar before decreasing slightly to reach an average of 1.16 US dollar in January.

Three months ago, further depreciation of the US dollar was still expected against the euro, resulting from the increasing risk of a hard landing in the US economy. Since then, the US stock market has recovered strongly, and US economic growth has accelerated strongly during the fourth quarter of 1998, while European economic growth is decelerating. At the middle of February 1999 the euro was quoted less than 1.12 US dollars.

In 1998, the BEF appreciated by about 0.8% against its main trading partners. This appreciation was mainly due to the weakening of the US dollar and the British pound during the two last quarters of 1998. On 31 December, the euro was quoted at 40.3399 BEF. In January 1999, the BEF nominal effective exchange rate was about 0.5% higher than its average level in 1998 as a result of the appreciation of the BEF by about 4.5% against the US dollar and the pound sterling.

Graph 25 - Belgian francs per French franc and Deutschemark



Source: NBB

Fiscal indicators

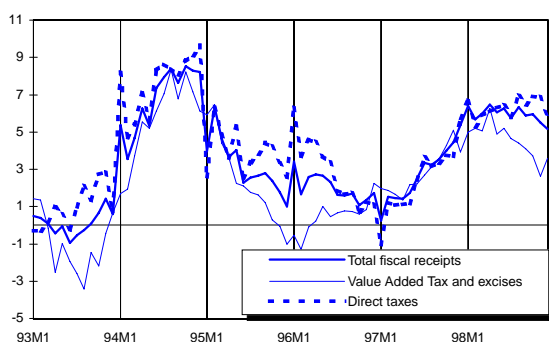
Table 13 - Fiscal receipts (1)

	97	98	98Q1	98Q2	98Q3	98Q4	98M7	98M8	98M9	98M10	98M11	98M12
Total, of which:	7.0	6.2	6.7	7.4	4.9	5.7	5.4	8.7	0.3	7.3	2.2	6.3
Direct taxes, of which:	7.4	6.8	5.6	8.3	5.9	6.9	5.9	12.6	1.3	10.2	2.5	6.1
Withholding earned income tax	5.5	4.9	6.3	2.7	6.2	4.3	-27.1	63.4	5.2	5.4	10.4	-0.5
Advance payments	13.5	20.2	38.5	12.5	30.0	22.2	28.3	.	55.2	20.7	45.0	23.3
Value Added Tax and excises	5.6	4.6	7.4	5.6	2.6	3.4	2.6	5.7	-1.2	4.4	-1.3	5.8

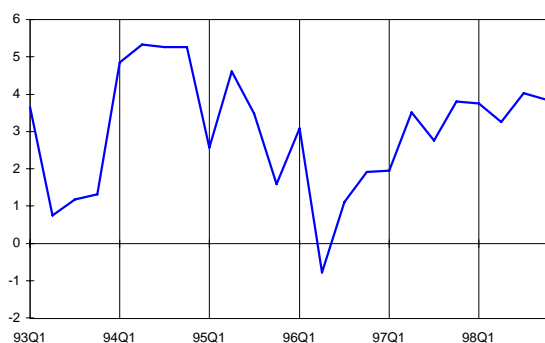
[1] Change (%) compared to same period previous year

Source: MvF/MdF, FPB

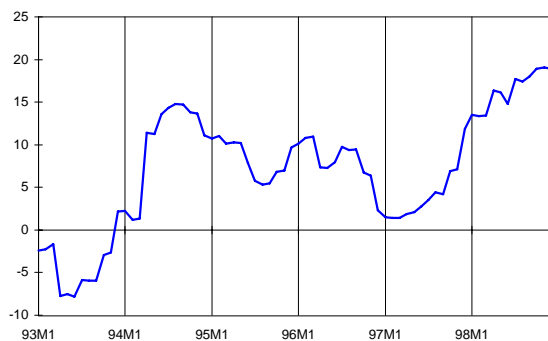
Graph 26 - Real total fiscal receipts (2)



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

Total tax revenues increased by just over 5% in real terms during 1998, which was very close to the growth rate observed in 1997. Growth rates in total revenues per quarter, have benefited from the good performance of the internal demand, despite the slowing down in total economic growth during the year. Some changes in the quarterly profile, however, can be indicated.

VAT receipts were clearly stronger in the first half of the year than in the second half. This may be due to exceptionally dynamic sales of durable goods at the beginning of the year. While indirect tax receipts have not been able to maintain the same dynamism during the second half of the year, direct taxation has remained strong. Employment growth has been very strong in the first half of the year and should also have been vigorous (compared to a year earlier) in the latter part.

Advance payments by enterprises increased more than expected for the whole year. This supports the view that the current lower level of economic growth is seen as temporary by the business sector. Enterprises expect their profits to remain high. From a historical perspective, direct taxes received by enterprises (as a percentage of GDP) have never been higher since national accounts were compiled.

For 1999, a weakening in the rate of tax revenue growth is very likely, due to lower expected growth in economic activity. This weakening should be seen particularly in advance payments by enterprises and, to a lesser extent, in VAT receipts.

Sustainable Development: a world scale project

This Planning Paper provides synthetic and recent information on the evolution and current state of implementation of sustainable development on a world scale, along the lines set out in "Agenda 21".

As this Earth agreement towards improved living standards for all in the 21st century is still widely unknown, part I of the paper recalls why and how it was adopted in Rio, June 1992, by the world's community, after years of difficult negotiations. The paper describes progress and failures met since Rio in the implementation of the agreement. Part II summarises the context and conclusions of the official review of progress achieved that was made in June 1997 by political representatives of the international community. It acknowledges a number of positive results but also deep concerns on the overall trends regarding sustainable development. These trends are worse today than in 1992. The last six years have been characterised by accelerated globalisation of interactions among countries, which present new opportunities and challenges. However, only some developing countries were able to take advantage of these trends.

Part III stresses that the world's population growth rate has fallen more swiftly than demographers expected. However, these demographic changes are not sufficient yet to overcome the complexity of the poverty issue and the increase in the number of people living in absolute poverty. Huge difficulties remain for developing countries in meeting basic needs, such as adequate food provision, health care, and shelter, while unsustainable patterns of production and consumption, particularly in the industrialised countries, continue to aggravate the threat to the environment. Part IV shows how much the global environment has continued to deteriorate and to what extent significant environment problems remain embedded in socio-economic evolution. Nevertheless,

major groups (such as non-governmental organisations, local authorities, business and industries, workers and their trade unions) have demonstrated what can be achieved by reflecting grass-roots concerns and building consensus. Committed actions taken by the major groups and obstacles met are described in Part V. Part VI addresses the means of implementation of Agenda 21, both from the public and private sector. The present downward trends in the rate of Official Development Assistance to GNP cause concern, particularly for the least developed countries. However, policies and measures should also be taken to reduce the present volatility of private investment flows to developing countries and to promote long-term investment flows, which contribute to sustainable development. This part also reviews the observed and committed development of other means of implementation, such as the transfer of environmentally sound technology, the science for sustainable development, the promotion of education, the raising and training of public awareness.

The last part of this paper considers the efforts needed to design strategies that take up the challenge of sustainable development. It starts with illustrating these efforts by the various aspects of the Kyoto Protocol implementation (see Special Topic) and ends by addressing the issue of sustainable development policymaking, pointing out the Belgian Law on the Co-ordination of the Federal Policy on Sustainable Development (May 5th 1997). This paper thus describes the world context in which the FPB (see forthcoming publications) is preparing the Belgian Federal Report on Sustainable Development.

*"Développement durable: un projet à l'échelle mondiale".
"Duurzame ontwikkeling: een project op wereldschaal".
Nadine Gouzée, Natacha Zuinen, Stéphane Willems,
Planning Paper 85, February 1999.*

Demographic ageing and the financing of social security: a sustainable challenge?

The Minister of Pensions asked the FPB to test alternative policy scenarios in preparing for a global reform of the legal private-sector pension scheme (law of 26 July 1996). The FPB organised a conference to broadcast this work and to hear from other implicated actors. Summaries of the contributions will now be published¹.

The National Institute of Statistics presented the model with which demographic perspectives are regularly issued, in collaboration with the FPB and experts from

the academic or institutional world. Specialists exposed recent trends and perspectives in fertility, mortality, internal migrations and external migrations.

The MALTESE model used by the FPB takes into account, beyond the demographic variables, variables covering socio-economic behaviour, economic fundamentals, social legislation, etc. It analyses the future financing of the whole social security system and its effects on the public finances. A persistent decline in the public debt, a cautious social policy and a reasonable economic growth would allow the budgetary cost of ageing to be

1. Further reading on the subject can be found in Planning Papers 81, 82 and 83 preparatory to the Colloquium.

financed.

The Administration of Public Pensions has developed a model EXSYSPEM that registers each public employee and pensioner, with his or her individual characteristics, and can simulate the evolution of public pensions. The Administration of Private Pensions has tested alternative policies regarding private pension expenditures through a representative sample.

Representative of a Mutual sickness fund analysed the impact of ageing on health expenditures: the growing number of elderly people, the higher morbidity of this age group and also the increasing healthcare demand through the successive generations boost forward health expenditures.

Representatives of the IMF and the OECD presented their studies and concluded that the Belgian legal pension system would be unsustainable; cautious and targeting reforms, benefiting younger workers and improving labour activity, would be urgent. Also, the European Commission integrated the pension expenditures projections carried out by member states; generally legal pension systems would be sustainable, although deeper reforms would be necessary.

The FPB performed a comparison of existing approaches. The conclusions of the IMF and the OECD would be strongly dependent on pessimistic assumptions on economic growth, and don't take into account factors such

as legal parameters and possible reallocation of resources between the different social security schemes.

Representatives of private insurance companies stressed the comparative advantages of joining pension funds and individual pension saving schemes to the legal pension schemes in order to insure efficiency, but also to prevent intergenerational inequity. The wage moderation in recent years has hindered the expansion of the pension funds.

During a round-table discussion, specialists of trade unions and employers' federations acknowledged the opportunity of long term studies, but underlined the numerous uncertainties. They debated on the solidarity, or insurance character, of a social security system.

The Minister of Pensions and the Prime Minister stressed the main ambitions of their policy: a reform of the public sector pensions that should not be delayed, the reform of the private sector pension system that guarantees its future, and wage moderation that is still obligatory for the sake of economic growth and employment. The reduction of the public debt remains an imperative target in order to face the cost of ageing.

"Vieillesse 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 - Planning Paper 86.

Tradable permits on CO₂ emissions and climate change - an analysis of macro-sectoral impacts on the Belgian economy using a general equilibrium model

The working paper presents a technical analysis of the macro-sectoral impacts of a market of tradable emission permits for mitigating greenhouse gas emissions (GHG). A general equilibrium model of the Belgian economy is used for this purpose. The model evaluates the macro-sectoral impacts of fiscal and regulatory instruments combined with tradable emission permits.

The opportunity to use tradable permits comes from the adoption of the Kyoto Protocol, in December 1997. As a result of a long international negotiation process, the Protocol promotes many co-operative strategies between partners on the basis of three fundamental mechanisms: emission-trading, joint implementation and clean development mechanisms. In this context, industrialised countries would have the possibility to buy or to sell emission quotas between them, or to receive emission credits when financing projects for emission reduction in developing countries. To date, the measures implementing these three mechanisms still remain to be defined.

The introduction of a system of tradable permits may raise many practical difficulties. Yet, tradable permits have the advantage of minimising the economic cost of GHG reduction by combining economic flexibility and environmental effectiveness. The analysis reveals that it is necessary to target the system on some specific agents. This selection should notably include firms having very different marginal costs of emission reduction and a high level of emission. The generalisation of emission permits across all the private agents of an economy (including consumers) would not only be unrealistic from a practical point of view but also less efficient (high transaction costs, complexity of system, etc.). All in all, tradable permits must not be perceived as a competitor with fiscal measures on energy or fossil fuels. The choice of policy instruments must be made by taking account of the intrinsic characteristics of the economic agent concerned in order to maximize the environmental impact and to minimize the economic costs.

The simulations carried out in this study show that,

when introduced in the service and industrial sectors, tradable permits allow a reduction in GHG emissions with a low recessive effect. The model reveals that sectoral mechanisms play a key role in the shaping of macro-economic effects, in particular the choice of the initial allocation among the sectors and the exchanges of permits are important. In the case of a uniform allocation of permits between sectors and a 10% reduction in CO₂ emissions, market services and the energy sectors turn out to be net purchasers of permits. The marginal cost of emission reduction is higher in the sheltered sectors than in the exposed sectors. In the perspective of an international market of tradable permits, Belgium proves rather sensitive to the functioning of this market. Of course this result depends on the marginal costs of reduction for the international partners, and on the repercussions of the market for permits on competitiveness.

Combining fiscal policy and tradable permits could bring out some room for employment policy. Besides the implementation of tradable permits, a reduction in the employer's social contributions financed by a carbon tax on households results in both a reduction in GHG emissions and a rise in total employment (double dividend). The strong incentive for technological innovation produced by the emission quota show the strategic importance of regulatory measures. The model reveals that the existence of potentially "cheap" energy savings facilitates the respect of emission quotas and allows the economic cost of emission cuts to reduce by one third.

"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". Thierry Bréchet, Working Paper 10-98, November 1998.

Belgian economic policy in the third stage of Economic and Monetary Union (EMU)

The paper presents the main objectives and instruments of the economic and structural policy co-ordination that are taking place in the European Union, as well as the respective "roles" and efficiencies of the monetary, budgetary and income policies for regulating business cycles in the EMU. The report outlines the possible implications that EMU may have for Belgian economic policy.

Within the EMU a common monetary policy will not imply an important change for monetary policy in Belgium, as interest rates and exchange rates have not been used since the BEF anchorage to the DEM.

Fiscal policies will remain the responsibility of the national governments, but they will be constrained by the Stability and Growth Pact. The Pact commits member states to move towards a structural budget position close to balance or in surplus in the medium term. It should give room to allow for the automatic stabilisers to work in response to a shock, without having to apply pro-cyclical measures, and without exceeding the maximal deficit admitted by the Treaty (3 percent of GDP).

Under these constraints, the government still has to determine its budgetary cyclically adjusted position as the Stability and Growth Pact remains unclear about the budgetary position's reference value and also about the speed at which to achieve it. The government has to define this value by taking into account a structural margin for stabilisation purposes and also the risk of running into an excessive deficit due to unexpected shock. This structural margin also depends on the trade-off between the government's aim to satisfy new needs and its objective for debt reduction in order to finance the costs related to the ageing of its population.

Budgetary policy could play an important stabilising (or supporting) policy role, in case of asymmetric and also symmetric shocks, especially if discretionary budgetary policies are co-ordinated at a European level. At a national level, budgetary policy should be efficient in stabilising asymmetric shocks. However, in countries with a high level of openness in their economy, high private savings ratios and high fiscal and para-fiscal pressures like Belgium, discretionary fiscal policies have a relatively small impact on activity and employment.

Under EMU, the conditions for sustainable medium-term growth are very strict and the increased competition requires structural reforms at the European and national levels, in order to improve the functioning of the markets. Co-ordination and harmonisation of fiscal and social legislation should be increased in order to avoid harmful tax competition. The Belgian economy enters EMU having average wage costs that are among the highest in the European Union. The fiscal and para-fiscal wage wedge largely explains this situation. In the labour market, one should, if necessary, reconsider the mechanisms of wage negotiation by taking into account the recommendations of the Broad Economic Guidelines, such as aggregate nominal wage increases consistent with price stability, and wage agreements reflecting better the differentials in productivity levels.

"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 Monetaire Unie". H. Bogaert, E. Hespel, Working Paper 1-99, February 1999.

Other Recent Publications

[Medium-Term Economic Outlook 1998-2003](#), April 1998
(available in Dutch and in French).

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

[Working Paper 7-98](#), September 1998

F. Bossier, K. Hendrickx, C. Streeel "Macro-economische impact van bijkomende patronale bijdrageverminderingen in het Belgisch Actieplan voor Werkgelegenheid". "Impact macroéconomique des réductions supplémentaires de cotisations patronales du Plan d'Action Belge pour l'Emploi".

[Publication INR/ICN](#), October 1998

L. Avonds, J. Floridor, A. Gilot, C. Hambye, D. Rase,

K. Versteegen, "Tableau entrées-sorties 1985: une analyse des structures économiques de la Belgique". "De input-output tabel van 1985: een analyse van de economische structuur van België".

[Working Paper 8-98](#), October 1998.

F. Bossier, L. Lemiale, S. Mertens, E. Meyermans, P. Van Brusselen, P. Zagamé "An Evaluation of Fiscal Measures for Energy Products in the European Union. Results from the HERMES-Link System".

[Working paper 9-98](#), December 1998 - February 1999.

Bart Van den Cruyce, "De impact van innovatie op de groei van de toegevoegde waarde en tewerkstelling: een studie van de levenscyclus van innoverende en niet-innoverende ondernemingen in België".

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.

[Medium-term economic outlook 1999-2004](#)

The spring outlook covers the period 1999-2004. It focuses on changes in the main economic aggregates, in the labour market, in public finances, in inflation formation and in energy consumption and related emissions. Long-term implications for public finances are discussed. Emphasis is also placed on prospects concerning reductions in social security contributions and wage rate evolution. As usual, a series of detailed tables describing every aspect of the Belgian economy is presented.

[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 neokeynesian 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).

[General benchmarking of the Belgian economy](#)

The study, requested by the Belgian federal government, presents the first results of an extensive survey on the comparative position of Belgium with respect to a limited number of countries; that is the neighbouring countries, France, Germany, the Netherlands, and the economic blocks, Japan, United States and the European Union. The methodology used is the "benchmarking of framework conditions" which aims to compare different countries on the basis of key indicators that affect the business environment. The purpose of this study is to identify the strengths as well as the limiting factors, with respect to the competitive position of the Belgian economy. Reference to best performing countries and the way that these outstanding positions were achieved will provide some guidelines for policy recommendations.

Recent history of major economic policy measures

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	<p>The Federal Government presented its 1999 Budget. The primary surplus for the overall government should remain 6%. Tax brackets will be price-linked from July 1999 onwards. Most of the supplementary reductions of employers' contributions to Social security for 1999 (see April 1998) should only start in July. A number of social transfers to households have been somewhat increased and direct taxation has decreased a little for married couples.</p>
September 1998	<p>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.</p>
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	<p>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.</p>
October 1997	<p>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.</p>
July 1997	<ul style="list-style-type: none"> • Changes in the pension system for the private sector were introduced. Men and women will gradually be treated equally in the calculation of their pension. • The EU-Amsterdam Summit extended the "Stability and Growth Pact" to include an employment chapter. Countries with budget deficits above 3% of GDP could receive fines between 0.2% and 0.5% of GDP unless there are exceptional circumstances (e.g. an economic recession). • 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; the total reduction of contributions is increased from 18 to 25 billion.
December 1996	<p>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.</p>
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	<p>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.</p>
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

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
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
FIM	Finnish markka
FRF	French franc
IEP	Irish pound
ITL	Italian lira
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