

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

This year, the Belgian economy should register an increase in GDP of 2.7%. In 2008, economic growth is expected to slow down to 2.1%.

In 2006, Belgian exports grew significantly slower than the relevant export markets. Belgian exporters thus suffered from important losses of market share. Despite a steady deceleration of growth in the relevant export markets this year and next year, export growth should accelerate somewhat. Consequently, losses of export market shares should be more in line with their historical trend. The current account balance has worsened since 2003 due to the continued rise in oil prices. In 2007 and 2008, the slower increase in oil prices and the appreciation of the euro should limit the decline of the current account balance to 0.1% of GDP per year.

Domestic demand growth, which is mainly determined by the evolution of private consumption and business investment, should amount to 3.2% this year and 2% next year. In 2007, private consumption will benefit from a strong rise in employment and in property income, while business investment will be stimulated by the high capacity utilisation rate and the ongoing rise in profitability. Next year, private consumption growth should decelerate due to a smaller rise in real disposable income and less favourable demand prospects should weigh on business investment.

Domestic employment should increase by, on average, 61,300 persons in 2007 and 44,200 persons in 2008. As the number of jobs is growing faster than the labour force, broad administrative unemployment is expected to decrease by 57,800 persons this year and 20,400 persons next year. The harmonised Eurostat unemployment rate (which is calculated by means of labour force surveys) is expected to fall from 8.2% in 2006 to 7.2% in 2008.

The evolution of inflation, as measured by the national index of consumer prices, is strongly influenced by the evolution of natural gas prices, which should decline in 2007 and rise substantially in 2008. Consequently, inflation should amount to 1.7% this year and 2.2% next year.

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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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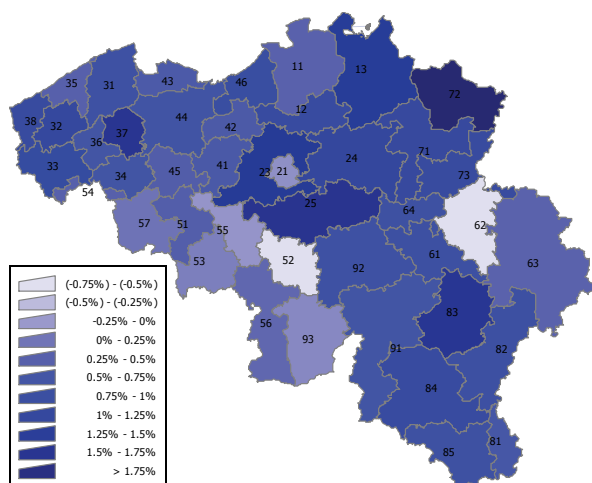
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Regional labour market dynamics in Belgium

Over the last few years, policy analyses with a regional component have been attracting growing interest in Belgium, as in many other European countries. An important element in this context is the description and analysis of regional differences in labour market developments. In this special topic, we try to get some insight into the factors explaining differences in regional employment growth in Belgium from a long-term point of view.

Between 1970 and 2005, employment (in number of persons) increased by 0.4% on average per year in Belgium as a whole. Looking at this at the level of the 43 administrative regions (the so-called "arrondissementen/arrondissements" corresponding to the Eurostat NUTS3 level), annual employment growth varied between -0.7% and 2.0% over the same period, with 7 regions experiencing a growth rate above 1%, while 6 regions had to contend with a fall in their employment level. This leads to the conclusion that large regional disparities in employment growth have occurred in Belgium over the past 35 years.

Graph 1 - Employment growth at NUTS3 level: 1970-2005
annual growth rates in %



Source: NBB, NIS/INS, calculations FPB

Trying to find out what have been the underlying reasons for these significant uneven regional employment dynamics is a very complex job. In the extensive theoretical literature concerning this issue, a long list of possible explanatory factors can be found. Among the most cited are the industry structure of the economic activity, the quantity and quality of labour supply, the extent of innovative activity, geographical location, accessibility

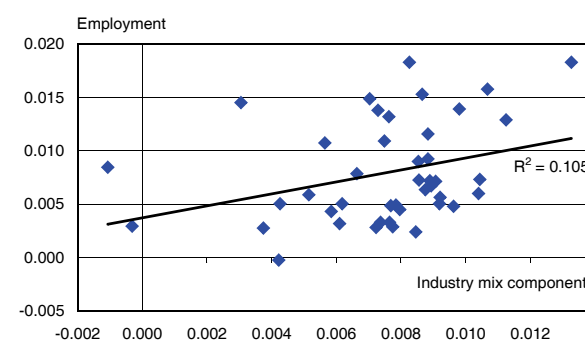
and the availability of infrastructure, of other business support services and of natural resources.

The analysis that follows first examines the extent to which differences in regional employment developments can be attributed to the industry mix on the one hand and other, so-called region-specific characteristics on the other hand. This will be done using a classical shift-share analysis. In the second stage, we will try to identify the importance of the quantity of labour supply in the list of region-specific characteristics.

Shift-share analysis

Shift-share analysis is a (purely statistical) technique often used to analyse trends in regional job growth. It allows identification of the parts of regional employment growth disparities that can be attributed to regional differences in industry mix. A region, for example, with a relatively high proportion of employment in a fast-growing industry (such as services), is expected to experience a faster employment growth than a region which is specialised in a slow-growing or even declining industry, such as manufacturing. Differences between this expected (industry-mix-based) outcome and the realised employment growth are then attributed to (at this stage still unidentified) 'region-specific characteristics'.

Graph 2 - Shift-share analysis 1995-2005: employment and industry mix
annual average growth rates



Source: NBB, calculations FPB

Graph 2 shows the results of a shift-share analysis based on employment data for Belgium at the NUTS3 level over the period 1995-2005¹. It compares the observed

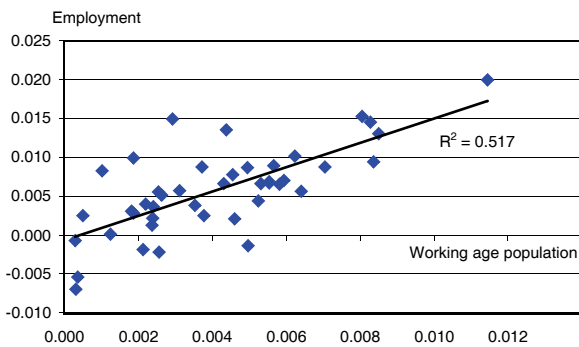
1. This analysis was made at the most detailed industry level available (113 industries, unpublished data coherent with official Regional accounts 1995-2005). We would like to thank the National Bank of Belgium for providing these data.

employment growth between 1995 and 2005 to the employment growth for each region based on its unique industry mix¹. The plotted regression line shows that, as expected, there is a positive relation between the two outcomes. The scatter plot, however, indicates that the relationship is rather weak. A favourable industry mix does not guarantee above-average employment growth (this is only true in 6 out of 15 regions), and 9 out of 28 regions perform better than on average in spite of an unfavourable industry mix. All this leads to the conclusion that region-specific factors play a more prominent role in the explanation of regional employment growth differences than the industry mix. This conclusion confirms earlier findings for a large set of countries².

Employment and population

Among the other factors (other than industry mix) explaining uneven employment dynamics, population is undoubtedly the most frequently cited. In the real world, population and employment interact simultaneously: labour supply adjusts to shifts in labour demand (job opportunities trigger migration) and *vice versa* (labour supply and consumer demand incite firms to locate near people). Econometric analysis for the Netherlands nevertheless reveals that regional population changes have a stronger impact on employment growth than the other way around³.

Graph 3 - Relationship between employment and working age population at NUTS3 level: 1970-2005
annual average growth rates



Source: NBB, Statistics Belgium, calculations FPB

Graph 3 shows the relationship at NUTS3 level between employment growth and growth of population of working age⁴ over the period 1970-2005. Over a long time

1. The industry mix component has been calculated here as the weighted average of sectoral employment growth figures, with weights depending on each region's initial industry mix. In a dynamic shift-share analysis (as here), the weights change over time.
2. See OECD (2000), Employment Outlook, Chapter 2: Disparities in regional labour markets, p. 49.
3. See Vermeulen W. and J. van Ommeren (2004), Interaction of Regional Population and Employment: Identifying Short-Run and Equilibrium Adjustment Effects, Tinbergen Institute Discussion Paper, TI 2004-083/3. This analysis for the Netherlands is made on a comparable spatial aggregation level (namely data collected at the COROP level, i.e., 40 NUTS3 zones).

span (as considered for instance in Graph 3), the interaction between employment and population leads to a strong correlation.

Modelling long-term regional labour market dynamics in Belgium

From the preceding discussion, we have learned that the large differences in employment performance across the Belgian regions cannot be explained exclusively by differences in the industry mix. Other 'region specific' characteristics are responsible for generating regional outcomes, which often more than offset the disadvantages or advantages stemming from sectoral structure. Among these other factors, the supply of labour is, especially from a long-term point of view, a very important element; other factors are less tangible and/or can less easily be quantified.

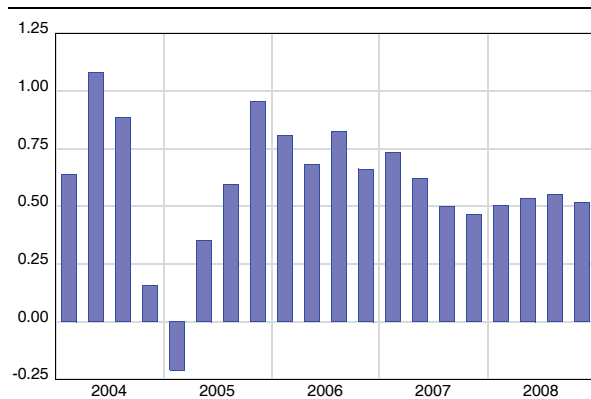
Based on these stylised facts and findings, the FPB built a small regional employment dispersion model at NUTS3 level. The model is largely inspired by the CPB Regional Labour Market Model for the Netherlands⁵. It is set up as an empirically founded econometric model with a long-term scope, estimated on an extensive data set⁶. It incorporates the industry mix component as explanatory variable. The influence of (working age) population takes the form of a dynamic specification that distinguishes between short-run and equilibrium adjustment effects (error correction model). All other explanatory factors are captured by region-specific constant terms.

The model can be used to construct long-term employment dispersion projections based on scenarios for expected structural changes in economic activity (industry mix) and regional demographic projections (working age population). Employment has become less spatially concentrated in Belgium over the 1970-2005 period, with medium-sized and small regions experiencing a faster employment growth than the five (historically) largest⁷ regions. According to our central projections, this trend should continue during the coming decades, albeit at a somewhat slower pace.

4. The population of working age was spatially weighted in order to account for interregional commuting. The weights are based on the origin-destination matrix for commuting taken from the socio-economic survey of 2001.
5. See Verkade E. and W. Vermeulen (2005), The CPB Regional Labour Market Model. A tool for long-term scenario construction, in: F. van Oort, M. Thissen and L. van Wissen (eds.), A survey of spatial economic planning models in the Netherlands. Theory, application and evaluation, Netherlands Institute for Spatial Research, p. 46-61.
6. Panel data regression model for 43 NUTS3 zones estimated on yearly data for 1970-2005.
7. The five largest regions in terms of employment levels in 1970 are: Brussels, Antwerp, Liège, Ghent and Charleroi.

With an average quarterly growth rate of 0.7%, the Belgian economy performed as well during the first half of 2007 as it did last year. In line with the international business cycle, growth should shift to a more moderate average rate of 0.5% in the second half of the year, resulting in an average annual increase of 2.7% in 2007. In 2008, quarterly economic growth should be between 0.5 and 0.6%, bringing the annual rate to 2.1%.

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



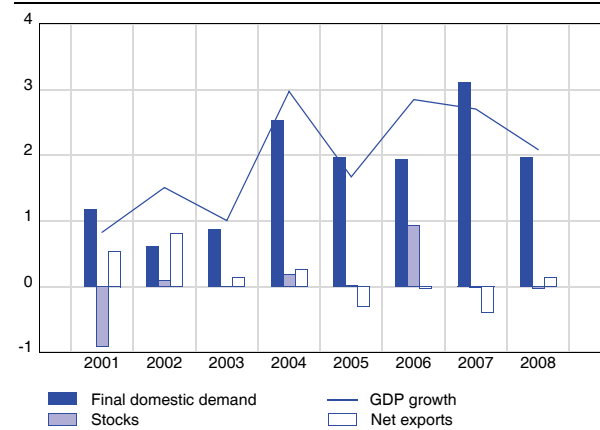
After an exceptionally strong performance in 2006, the European economy has returned to a more moderate growth rate.

In 2006, the euro area recorded strong GDP growth of 2.8%. This year, in spite of a modest slowdown (2.5%), growth in the euro area should exceed US economic growth for the first time since 2001. This is mainly due to the strong dynamics of domestic demand, whereas the US economy is facing a strong weakening of the housing market. In 2008, US GDP growth should slightly improve, thus surpassing growth in the euro area again, which is estimated at 2.2%. This scenario supposes that the mortgage crisis will have a temporary and limited impact on US private spending. If the present crisis has a larger impact on the US economy or lasts longer than expected, it cannot be ruled out that the slowdown of the European economy will turn out to be more powerful than currently anticipated.

Financial markets expect a further easing of American monetary policy. As a consequence, the euro appreciated considerably against the dollar, thus affecting the competitiveness of European exports. Finally, prices of crude oil remain very high. According to recent forward market rates, the average Brent oil price should end up at USD 70 per barrel in 2007 and at USD 78 in 2008.

In 2007, the Belgian economy will put up a strong growth performance stimulated by domestic demand. In 2008, both consumers and enterprises are expected to adopt a rather reticent attitude.

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



Last year, Belgian *export growth* (2.6%) strongly fell short of growth in the relevant export markets (8.9%), thus resulting in an important loss of market share. However, annual exports were strongly mitigated by a weak performance in the first quarter. Export growth should again be stronger in 2007 and 2008 (respectively 4.6% and 5.2%) than it was in 2006, despite a weakening of growth in the relevant export markets (respectively 6.7% and 6.5%). Although Belgian exports continue to lose export market shares, the loss should be nearer its historical trend. Import growth remains stronger than export growth, but as a result of the relatively favourable evolution of terms of trade, the current account surplus should roughly stabilise and end up at 2.2% of GDP in 2008 (compared to 2.4% in 2006).

This year, *domestic demand* should increase by 3.2%, compared to 3% in 2006. That slight increase is related to consumer spending and gross fixed capital formation. In 2008, the growth of domestic demand should drop to 2% as a result of a weakening in private consumption and business investment growth.

Households' real disposable income increased by 2.6% in 2006, mainly as a result of the rise in labour income and the implementation of the last stage of the personal income tax reform. As a result, *private consumption* growth went up to 2%. From 2007 on, the personal income tax reform will not provide an additional boost to disposable income. Nevertheless, purchasing power will still increase by 2.1% due to a faster increase in employment and an increase in property income (owing to higher interest rates). The favourable economic condi-

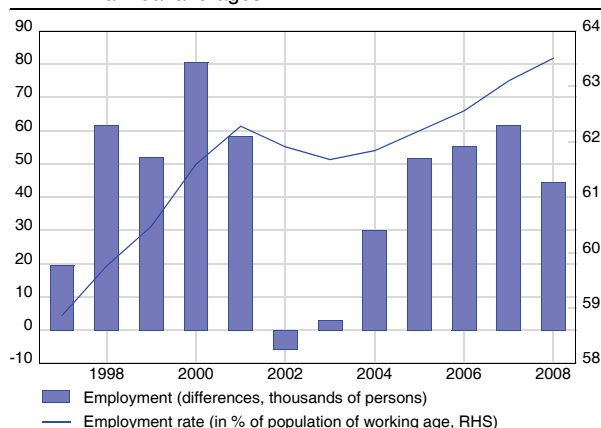
tions were reflected in consumer confidence, which remained at a high level until mid-2007. Household spending was very dynamic during the first half of this year and should register an average annual rise of 2.5% in 2007. As a result, the household savings rate will weaken to 12.1%. In 2008, the increase in purchasing power should be limited to 1.4% due to a more modest increase in employment and higher inflation. The further decline in the savings rate is expected to lead, however, to a stronger rise in private consumption (1.7%).

During the first half of 2007, *business investment* (corrected for purchases of public buildings) and private consumption were the main engines behind economic growth. In view of the less favourable demand prospects from mid-2007 onwards, the pace of investment growth should ease slightly. Thanks to a strong performance in the beginning of 2007, average business investment growth should amount to 8.9%, compared to 2.6% in 2006. In 2008, the yearly growth rate (3.2%) should exceed GDP growth for the fifth consecutive year. Quarterly growth of *housing investment* strongly accelerated until the third quarter of 2006, but slowed down afterwards due to the increase in mortgage rates (which raised financing costs) and the deceleration in real disposable income growth. As a consequence, real housing investment growth should weaken to 3.8% in 2007 and 1.2% in 2008 (compared to 7.6% in 2006). The growth path of public investment is largely determined by local authorities' infrastructure works. These boomed in view of the local elections in October 2006. If the sales of public buildings are not taken into account, public investment rose by 5.9% in 2006 and should drop by 7.5% this year. In 2008 public investment should drop further, although to a lesser extent.

Strong employment growth pushes back unemployment

The average annual rise in domestic employment amounted to 52,700 persons in 2006. As in previous years, job growth in 2007 and 2008 will be stimulated by limited increases in wage costs, a reversal in the downward trend of the number of self-employed workers (i.e. they have increased since 2004), and the further extension of the government-subsidized voucher system for domestic-type services. As employment typically reacts with a time-lag to changes in economic activity, it should increase even faster this year (61,300 persons) than last year.

Graph 3 - Evolution of employment and employment rate annual averages



In 2008, employment should again register a considerable increase (44,200 persons). The employment rate should rise from 62.6% in 2006 to 63.5% in 2008. As employment increases faster than the labour force, the number of unemployed (broad administrative definition) should diminish by 57,800 persons in 2007 and 20,400 persons in 2008. The harmonised Eurostat unemployment rate (which is calculated by means of labour force surveys) is expected to fall from 8.2% in 2006 to 7.2% in 2008.

Inflation rises to 2.2% in 2008 due to the evolution of energy prices

Headline inflation, as measured by the yoy increase in the national index of consumer prices (NICP), should amount to 1.7% in 2007 and to 2.2% in 2008. In both years, inflation will be strongly influenced by the development of energy prices. In 2007, the increase of the NICP will be mitigated by the liberalisation of the gas and electricity markets in the Brussels and the Walloon Region, whereas the acceleration of inflation in 2008 is mainly explained by the price increases already announced for natural gas. The impact of the rise in oil prices that are expressed in US dollars on Belgian inflation should be relatively limited due to the simultaneous appreciation of the euro. The health index, which is not affected by changes in the price of fuel, tobacco and alcoholic beverages, should increase by 1.6% this year and 2.2% next year. According to the monthly forecasts for the health index, the pivotal index (currently 106.22) should be exceeded in January and the next pivotal threshold (108.34) in December 2008.

“Economische begroting 2008 – Budget économique 2008”, INR/ICN, September 2007.

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 28 September 2007)

	2005	2006	2007	2008
Private consumption	1.3	2.0	2.5	1.7
Public consumption	-0.2	0.0	2.4	2.5
Gross fixed capital formation	6.7	4.2	5.9	2.3
Final national demand	2.1	3.0	3.2	2.0
Exports of goods and services	3.6	2.6	4.6	5.2
Imports of goods and services	4.2	2.7	5.3	5.3
Net-exports (contribution to growth)	-0.3	0.0	-0.4	0.1
Gross Domestic Product	1.7	2.8	2.7	2.1
p.m. Gross Domestic Product - in current prices (bn euro)	301.97	316.62	331.63	345.50
National consumer price index	2.8	1.8	1.7	2.2
Consumer prices: health index	2.2	1.8	1.6	2.2
Real disposable income households	-0.1	2.6	2.1	1.4
Household savings ratio (as % of disposable income)	12.2	12.5	12.1	11.8
Domestic employment (change in '000, yearly average)	51.1	52.7	61.3	44.2
Unemployment (Eurostat standardised rate, yearly average) [1]	8.4	8.2	7.5	7.2
Current account balance (BoP definition, as % of GDP)	2.5	2.4	2.3	2.2
Short term interbank interest rate (3 m.)	2.2	3.1	4.2	4.3
Long term interest rate (10 y.)	3.4	3.8	4.3	4.3

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

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2007	2008	2007	2008	2007	2008	
Federal Planning Bureau [1]	2.7	2.1	1.7	2.2	.	.	09/07
INR/ICN [1]	2.7	2.1	1.7	2.2	.	.	09/07
National Bank of Belgium [2]	2.5	2.2	1.6	1.8	-0.1	-0.2	06/07
European Commission [2]	2.3	2.2	1.8	1.8	-0.1	-0.2	05/07
OECD [2]	2.5	2.3	1.1	1.8	0.2	0.0	05/07
IMF [2]	2.2	2.0	1.9	1.8	0.0	0.0	04/07
ING [1]	2.5	2.0	1.7	2.0	-0.2	-0.4	09/07
Fortis Bank [2]	2.5	2.2	1.8	1.9	0.0	-0.1	09/07
Dexia [1]	2.6	2.1	1.5	1.9	-0.1	-0.2	09/07
KBC Bank [1]	2.7	1.9	1.5	1.8	-0.1	-0.1	09/07
Petercam [1]	2.5	1.8	1.5	1.5	-0.2	-0.4	09/07
IRES [1]	2.8	2.5	1.7	1.7	0.1	-0.1	07/07
Consensus Belgian Prime News [2]	2.6	2.0	1.7	1.9	-0.1	-0.2	09/07
Consensus Economics [2]	2.5	2.3	1.8	1.8	.	.	09/07
Consensus The Economist [2]	2.6	2.3	1.8	1.8	.	.	09/07
Consensus Wirtschaftsinstitute [2]	2.5	2.4	1.7	1.7	-0.2	-0.3	04/07
Averages							
All institutions	2.5	2.1	1.7	1.9	-0.1	-0.2	
International public institutions	2.3	2.2	1.6	1.8	0.0	-0.1	
Credit institutions	2.6	2.0	1.6	1.8	-0.1	-0.2	

[1] Inflation forecasts based on the evolution of the national index of consumer prices

[2] Inflation forecasts based on the evolution of the harmonised index of consumer prices

General economic activity

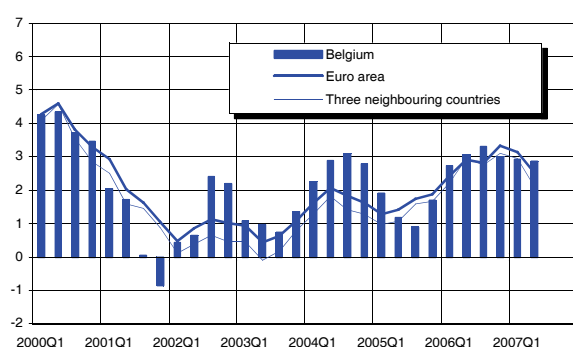
Table 1 - GDP growth rates, in % [1]

	2005		2006		YoY growth rates, in %					QoQ growth rates, in %				
	2005	2006	2006Q2	2006Q3	2006Q4	2007Q1	2007Q2	2006Q2	2006Q3	2006Q4	2007Q1	2007Q2		
Germany	1.0	3.1	3.0	3.2	3.9	3.6	2.5	1.3	0.7	1.0	0.5	0.3		
France	1.7	2.2	2.7	2.1	2.1	1.9	1.3	0.9	0.1	0.4	0.6	0.3		
Netherlands	1.5	3.0	3.2	2.8	2.9	3.2	2.4	1.1	0.6	0.7	0.8	0.3		
Belgium	1.4	3.0	3.1	3.3	3.0	2.9	2.9	0.7	0.8	0.7	0.7	0.6		
Euro area	1.6	2.9	2.9	2.8	3.3	3.2	2.5	1.0	0.6	0.9	0.7	0.3		
United States	3.1	2.9	3.2	2.4	2.6	1.5	1.9	0.6	0.3	0.5	0.2	0.9		
Japan	1.9	2.2	2.2	1.4	2.5	2.6	1.7	0.6	-0.1	1.4	0.7	-0.3		

[1] Adjusted for seasonal and calendar effects

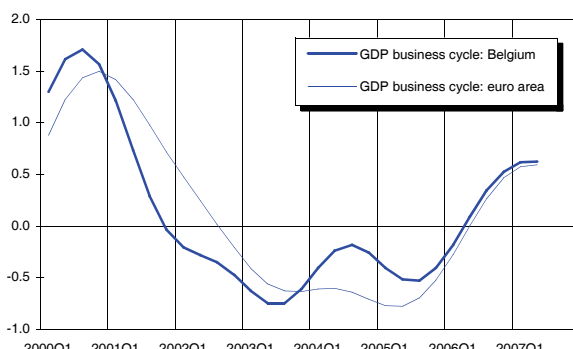
Source: INR/ICN, National sources, Eurostat

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



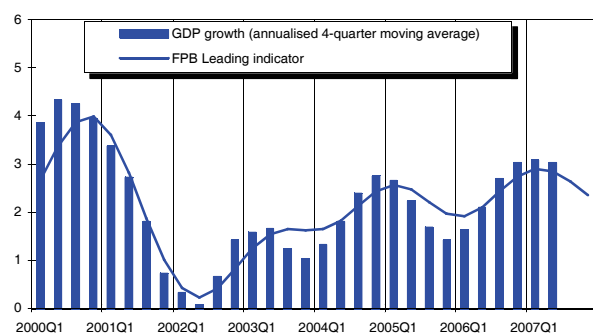
Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle



Source: INR/ICN, Eurostat, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

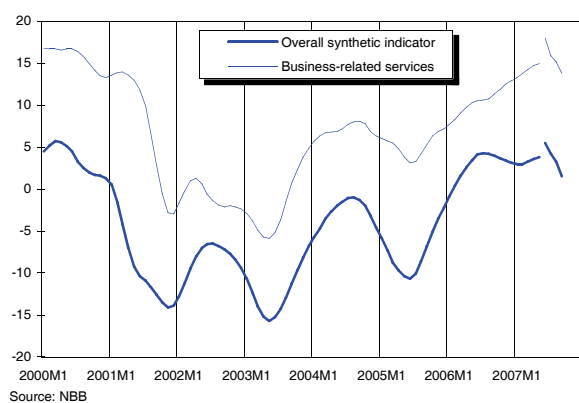
After a modest 0.2% in the first quarter, US qoq economic growth recovered to 0.9% in 2007Q2. This pick-up was mainly due to business investment and net exports, whereas private consumption growth decelerated sharply from 0.9% to 0.4%. Consumer spending growth will probably remain moderate, partly due to negative wealth effects from falling house prices. Residential investment is likely to continue to act as a drag on economic growth throughout 2007.

Japan recorded a negative qoq economic growth in 2007Q2 (-0.3%, against 0.7% in the first quarter). GDP growth has been highly volatile in recent quarters and the weakening of business investment and private consumption growth is likely to prove temporary, given the high capacity utilisation, strong profit growth in the business sector and the improved situation in the labour market. Nevertheless, economic growth in Japan should soften somewhat to about 1.9% in 2007 (from 2.2% in 2006).

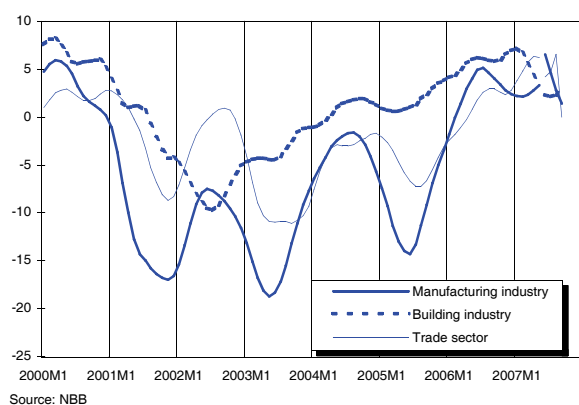
Euro area qoq growth cooled down to a disappointing 0.3% in 2007Q2 (from 0.7% in 2007Q1). This was largely attributable to a contraction in investment spending, as the mild winter weather provided a temporary boost to construction activity at the expense of the second quarter. GDP growth is expected to pick up slightly in the second half of 2007. This results in continuing solid GDP growth of 2.5% in 2007 (from 2.9% in 2006).

Belgian qoq growth slowed only a little to 0.6% in 2007Q2, thereby posting a much better growth figure than its three main trading partners, i.e. France, Germany and The Netherlands. The weaker growth performance of these three countries largely reflects slower or even negative investment growth. Belgian growth is expected to weaken somewhat in the second half 2007 (the FPB leading indicator reached a turning point in 2007Q1), whereas its main trading partners should regain some strength after the weak second quarter. This should result in a Belgian GDP growth of about 2.7% in 2007, which is slightly higher than the economic growth in our three neighbouring countries

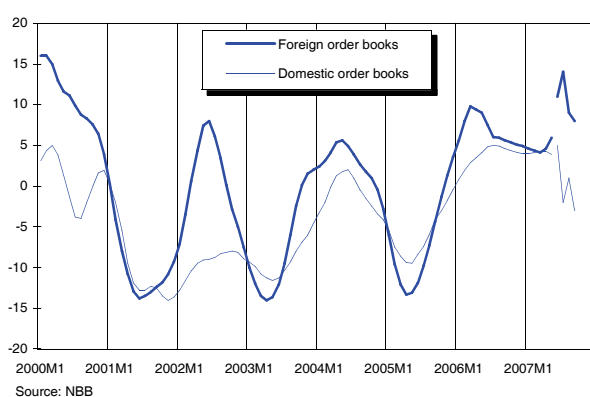
Graph 4 - Business cycle: global evolution



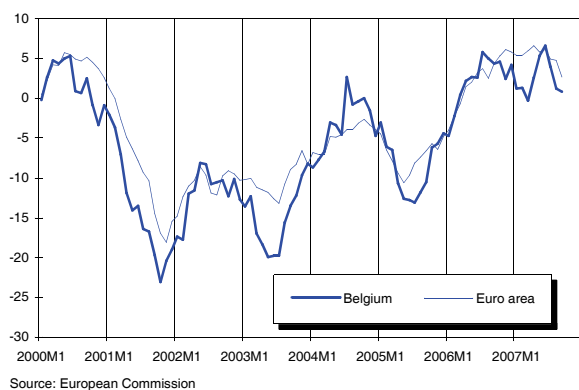
Graph 5 - Business cycle: sectoral evolution



Graph 6 - Manufacturing industry: order books



Graph 7 - Industrial confidence: international comparison



After reaching a peak in July 2006, business confidence (shown as the overall synthetic indicator in Graph 4) edged lower until the beginning of this year. During 2007Q2 it improved somewhat with the expectation of a strengthening of both US and euro area economic growth. This renewed optimism was short-lived and business confidence lost ground again in recent months, mainly due to a worsening of sentiment in the trade sector and the manufacturing industry. Meanwhile, business-related services confidence, which is not taken into account in calculating the overall synthetic indicator, continued the rise that had started by mid-2005. This sector also seems to have reached a peak recently.

The recent decline in business confidence was pretty broad-based as it occurred in all sectors covered by the survey.

Graph 6 shows that the worsening in manufacturing industry sentiment mainly stems from a strong weakening of domestic order books. Export order books, which declined considerably in the second half of last year and in 2007Q1 due to the slowdown of the US economy and the expected weakening in German economic activity related to the VAT-rate hike, bounced back in the last two quarters as the fear of a severe weakening of the German economy ebbed away and as the slowdown of the US seemed to be short-lived. Belgian company directors thus expect a moderate weakening of domestic demand and a robust export growth path in the second half of 2007. This scenario is confirmed by the FPB's short-term forecasts. It is possible, however, that the current crisis in the US subprime mortgage market will affect US economic growth more than expected. If this scenario materialises, European economic growth would also be hampered through a weakening of exports, which already seem to be suffering from the appreciation of the euro against the dollar.

The building industry indicator dropped during the first two quarters of this year because of a fast decline in current activity and in received orders. In the third quarter of this year, the indicator arrested its decline, but it seems too soon to expect a new upturn in this sector.

The decline in the trade sector and in the business-related services indicator mainly stems from a worsening of the current situation. Activity and employment prospects remained rather optimistic.

Graph 7 shows that industrial confidence in the euro area has been a lot less volatile than in Belgium over the last few quarters. While Belgian confidence went through a kind of 'mini-cycle', euro area confidence remained at a high level around the turn of the year and only started to weaken clearly during summer.

Private consumption

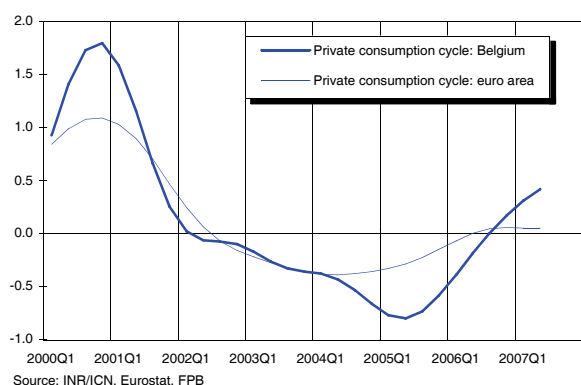
Table 2 - Private consumption indicators

	2005	2006	2006Q4	2007Q1	2007Q2	2007Q3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9
Turnover (VAT) - retail trade [1]	3.5	3.2	1.1	5.2	5.4	.	6.4	2.9	6.9	.	.	.
New car registrations [1]	-1.0	9.6	4.6	-7.8	-2.2	6.5	-6.7	-7.4	8.4	12.0	2.6	4.6
Consumer confidence indicator [2]	-7.9	-2.6	-1.7	-0.3	1.7	-1.7	2.0	2.0	1.0	-1.0	-2.0	-2.0

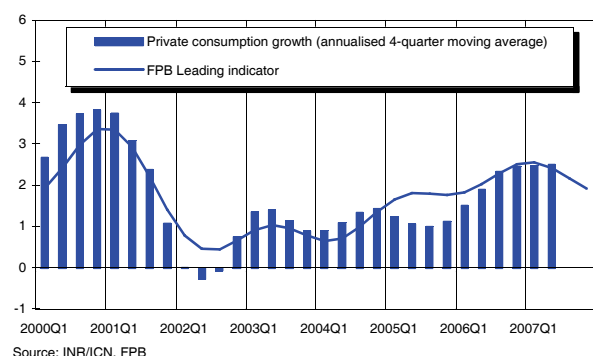
[1] Change (%) compared to same period previous year; [2] Qualitative data

Source: DGSSB, NBB, Febiac

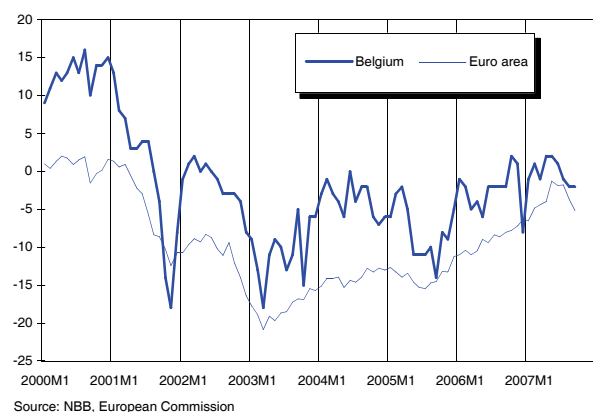
Graph 8 - Private consumption cycle



Graph 9 - Private consumption growth and leading indicator



Graph 10 - Consumer confidence: international comparison



The timing of peaks and troughs in the private consumption cycles in the euro area and in Belgium have differed over the last few years. While the euro area reached a trough by the beginning of 2004, the Belgian cycle continued to decline until mid-2005. In the course of 2006, the Belgian consumption cycle registered a strong upturn, whereas the euro area cycle levelled off during the second half of the year. These developments were confirmed during the first half of 2007: Belgian private consumption continued to grow faster than its trend and euro area consumption progressed in line with its trend.

The solid performance of Belgian private consumption from 2006Q2 until 2007Q2 is related to strong employment growth and the implementation of the last phase of the fiscal reform (in 2006) that pushed up the real disposable income of households. From this year on, the fiscal reform will not provide additional strength to disposable income. During the second half of this year, private consumption growth is expected to weaken somewhat, which is confirmed by the FPB leading indicator.

Since June, consumer confidence has weakened somewhat. Increased optimism with respect to the labour market situation (i.e. a decreased probability of becoming unemployed) was counterbalanced by a worsening of consumers' sentiment regarding the general economic situation and their own financial condition. The discrepancy between labour market conditions and the business cycle is related to the fact that employment generally reacts with a time-lag to changes in economic activity. The evolution of car sales indicates that the current state of households' financial situation is still quite good. The motor show held in Brussels only takes place once every two years. It was not organised this year, but the total amount of registrations of new cars during the first three quarters of this year was only 2.4% lower than in 2006.

Consumer confidence in the euro area also worsened somewhat during the last few months. The only difference with Belgium is that for the euro area as a whole, unemployment prospects have also worsened.

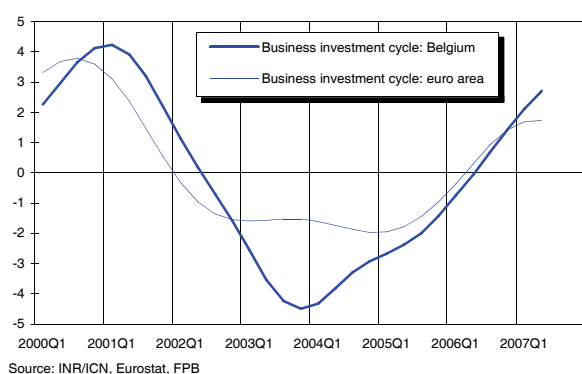
Business investment

Table 3 - Business investment indicators

	2005	2006	2007	2006Q3	2006Q4	2007Q1	2007Q2	2007M2	2007M3	2007M4	2007M5	2007M6
Investment (VAT) [1]												
Industrial companies	4.5	6.6	.	4.2	5.9	15.5	7.3	6.6	12.9	5.9	1.1	14.0
Non-industrial companies	8.4	1.6	.	13.3	14.1	13.0	15.5	20.5	6.7	10.6	13.8	20.9
Total companies	7.1	3.6	.	10.6	11.7	14.0	13.3	15.9	8.9	9.7	10.0	19.2
Investment survey [1]	-1.7	3.3	18.4									
Capacity utilisation rate (s.a.) (%)	79.4	83.4	.	83.4	83.2	82.7	82.7					

[1] Change (%) compared to same period previous year
Source: DGGSB, NBB

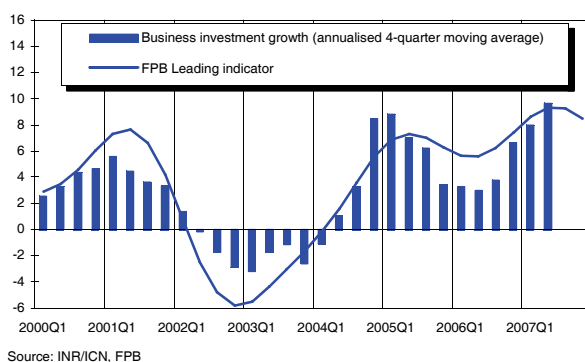
Graph 11 - Business investment cycle



Although the business cycles in Belgium and the euro area (see Graph 2 on page 8) both levelled off recently, the evolution of their investment cycles diverged significantly. While the Belgian investment cycle has continued an uninterrupted increase that started in 2004, the euro area investment cycle seems to have reached a peak in 2007Q2.

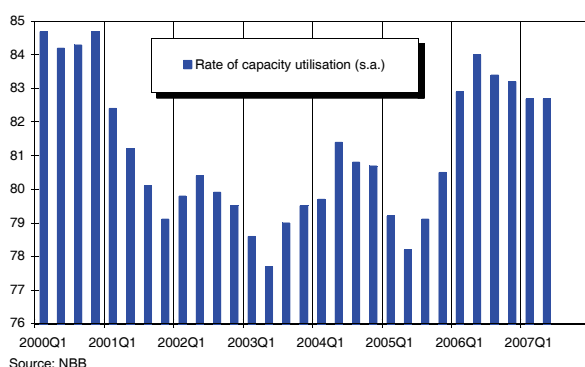
From 2004 to 2006, Belgian business investment increased faster than GDP due to strong demand growth and the continuous rise in business sector profitability, mainly driven by the limited increases in wage costs. Consequently, the investment rate (business investment as a percentage of GDP at current prices) rose from 12.6% in 2003 to 13.3% in 2006.

Graph 12 - Business investment growth and leading indicator



During the first two quarters of this year, the volume of business investment continued to record robust growth rates (3.8% on average when the downward influence of the purchase of government buildings on business investment growth in 2007Q1 is not taken into account). The VAT-based statistics in Table 3 indicate that industrial as well as non-industrial companies contributed to the strong performance in 2007Q1, while non-industrial companies were the main driver behind growth in 2007Q2.

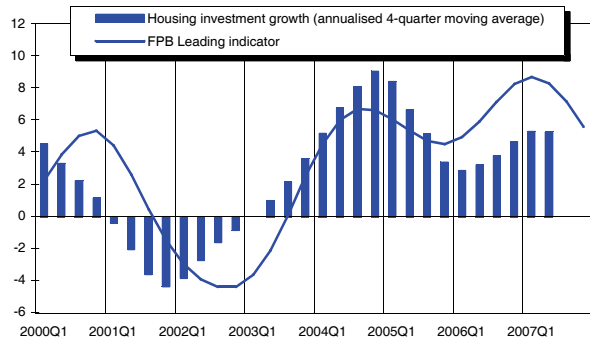
Graph 13 - Capacity utilisation in manufacturing industry



Indicators for the capital goods sector (from the NBB business survey) related to activity prospects for the coming months have clearly worsened, while those for current activity recently peaked. The capacity utilisation rate reached a high level in 2006Q2, but has receded somewhat since then due to a slight weakening of economic growth. As a result, the FPB leading indicator points to a deceleration of business investment growth during the second half of this year. The latest investment survey (held in spring 2007) points to an acceleration of investment at current prices in the manufacturing sector, but a comparison of investment forecasts and observations in previous years reveals that company directors tend to be overly optimistic in their investment predictions.

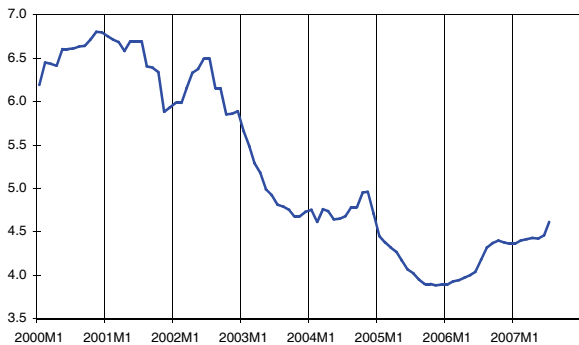
Housing investment

Graph 14 - Housing investment growth and leading indicator



Source: INR/ICN, FPB

Graph 15 - Mortgage rate (%)



Source: NBB

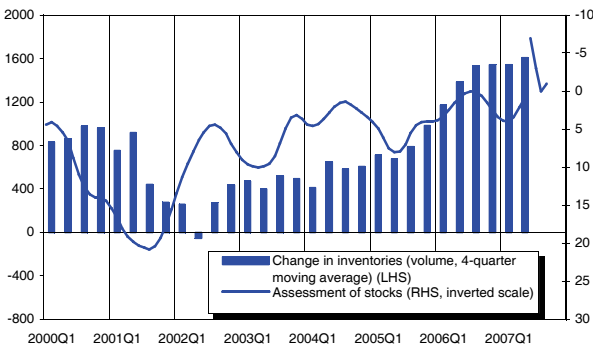
While housing investment growth in the United States has declined for six consecutive quarters since the beginning of 2006 (by more than 3% per quarter), it has remained rather robust in Belgium so far. According to the latest quarterly accounts, residential investment growth (qoq) has lost some momentum since 2006Q4, but still amounted to 0.4% in 2007Q2. As is indicated by the FPB leading indicator, growth rates should decelerate further during the next few quarters, although they are unlikely to become negative.

Indicators for the building industry coming from the NBB business survey, which are closely related to the actual state of housing investment, started to weaken by the beginning of this year. The amount of mortgage applications, and indicators coming from the survey among architects have a lead of about four quarters vis-à-vis the housing investment cycle. These indicators started to decline by the beginning of 2006, but seem to have bottomed out recently. This can be taken as an indication that the current downturn in the residential building sector is likely to come to an end by mid-2008.

After an increase of about 50 basis points in the course of 2006, the mortgage rate almost stabilised during the first half of 2007. The rise of the rate seen in July will probably continue during the next few months as it still has to adapt to the rise of the long-term interest rate registered during the first half of this year. This will also act as a drag on housing investment in the near future.

Stock building

Graph 16 - Stock building indicators



Source: INR/ICN, NBB

Increases in inventories have clearly intensified over the last few years. As this evolution went hand in hand with a rising number of company owners considering their stocks to be insufficient, most of the stock building process has been intentional.

The sudden upswing in industrial confidence in June 2007 brought the willingness of company owners to increase their level of inventories to its highest level since the start of the survey in 1980. This sudden optimism was, however, short-lived. With a deceleration of economic growth at hand, which reduces the need for a buffer to meet unexpected rises in demand, it is highly probable that the pace of stock building will slow down somewhat.

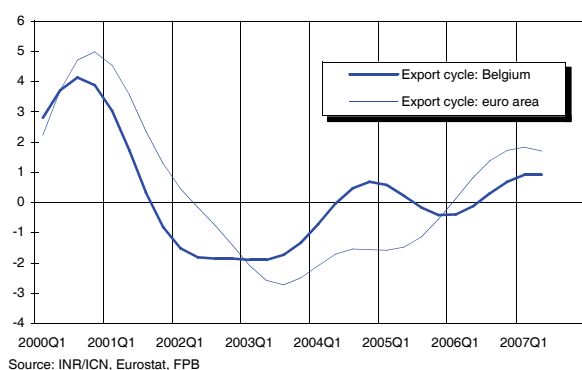
Foreign Trade

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

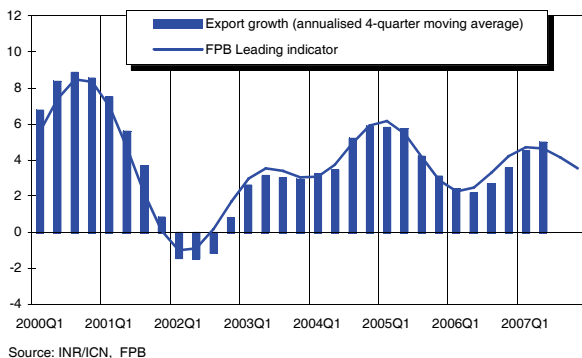
	2005	2006	2006Q3	2006Q4	2007Q1	2007Q2	2007M1	2007M2	2007M3	2007M4	2007M5	2007M6
Exports - value [1]	7.0	5.9	5.2	4.3	4.5	6.9	8.1	4.6	1.3	9.7	4.4	6.8
Imports - value [1]	8.9	7.1	6.1	3.0	-0.4	8.8	3.0	1.7	-4.9	10.2	8.9	7.5
Exports - volume [1]	0.4	0.8	0.3	1.1	3.4	3.4	6.5	3.6	0.7	4.9	1.8	3.5
Imports - volume [1]	1.2	2.2	2.2	2.7	3.3	7.3	7.4	4.8	-1.4	7.4	7.7	6.8
Exports - price [1]	6.5	5.1	5.0	3.1	1.0	3.4	1.5	1.0	0.7	4.6	2.6	3.1
Imports - price [1]	7.6	4.7	3.9	0.2	-3.6	1.5	-4.2	-3.0	-3.5	2.6	1.1	0.7

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

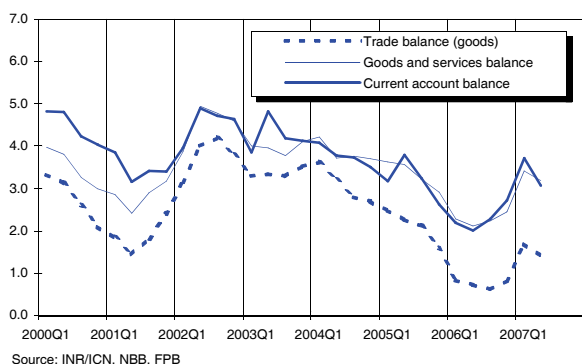
Graph 17 - Export cycle



Graph 18 - Export growth and leading indicator



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



Following a rise throughout most of 2006, the Belgian export cycle appears to have reached a peak in the first half of this year. The euro area export cycle, which moved ahead of the Belgian cycle from mid-2005 onwards, seems to have started a downturn in 2007Q2. Over the last few years, euro area exports were especially driven by German exports, owing to strong gains in competitiveness and an attractive export product mix (especially capital goods, as global demand for machines was fierce).

As in 2006, Belgian exports started the year with meagre growth in the first quarter (0.2%), but then rebounded in the second quarter (1%). On average, export growth slowed significantly between the second half of 2006 and the first half of 2007 (from 1.8% to 0.6%) owing to a significant deceleration of world trade growth, which is related to the slowdown in US economic growth that constrained import demand. The Dutch Centraal Planbureau expects a rebound of world trade in the second half of this year, which should lead to an acceleration of export growth. In spite of the continuous appreciation of the euro (which weighs on competitiveness), export growth should remain relatively firm in 2008.

The evolution of exports in 2007 seems to contradict the evolution of the FPB composite leading indicator, which points to a growth slowdown. However, the expected acceleration of exports in the second half of 2007 implies a decline of the annualised 4-quarter moving average growth rate due to unfavourable base effects.

Monthly trade statistics in Table 4 show that import volume growth has generally been higher than export volume growth between mid-2006 and mid-2007. This volume effect is more than outweighed by price effects. As import prices remained firmly under control due to the appreciation of the euro against most currencies and the decrease of the Brent oil price by the end of 2006, imports increased less than exports in value terms. As a result, the current account balance improved markedly during the last few quarters.

Labour market

Table 5 - Labour market indicators

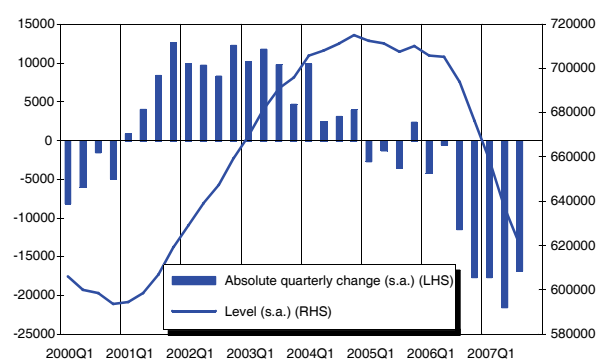
	2005	2006	2006Q4	2007Q1	2007Q2	2007Q3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9
Unemployment [1][2]	710.4	695.4	676.3	658.6	637.1	620.4	646.7	637.0	627.7	626.8	622.7	611.5
Unemployment rate [2][3]	14.3	13.9	13.5	13.2	12.7	12.4	12.9	12.7	12.6	12.5	12.5	12.2
Unemployment rate-Eurostat [3][4]	8.4	8.2	7.9	7.8	7.8	.	7.9	7.8	7.8	7.7	7.7	.

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

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

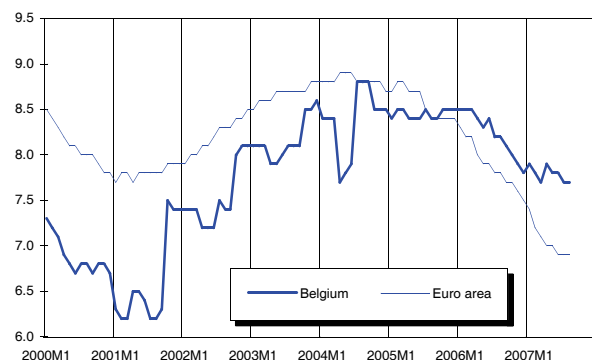
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older)



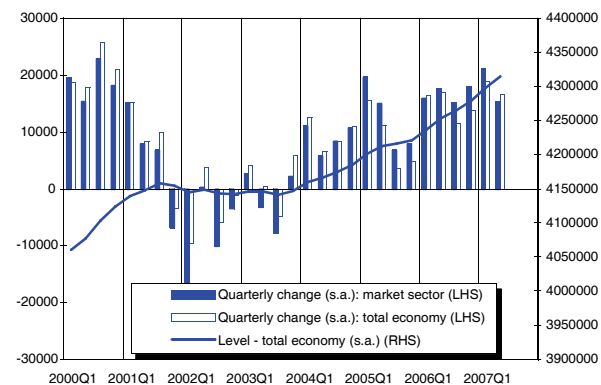
Source: RVA/ONEM

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



Source: Eurostat

Graph 22 - Evolution of domestic employment



Source: INR/ICN

In the market sector, value added grew by 3.1% last year, unprecedented since the first year of this decade. Nevertheless, on the basis of the latest information from the national accounts, it may be concluded that hourly productivity only increased slightly (to 1.25% on a year-to-year-average basis), indicating that recent economic growth has been relatively labour-volume-intensive. It is true that part of the acceleration in labour demand has been met by an increase in average hours worked (growth of 0.25%), with the impact on market sector employment itself being slightly lower (growth of 1.6%).

Employment growth in the market sector has benefited from a considerable increase in the number of self-employed persons, boosted in particular by the growth of incoming labour migration after the enlargement of the European Union. Also, the government-subsidized voucher system for domestic-type services is still contributing substantially to the creation of additional low-skill jobs in the market sector, and tends to have a moderating impact on both labour productivity and real wage growth. Moreover, the system is now estimated to have contributed more than originally expected to overall net job growth, not just substituting for services previously produced in the informal sector, but rather prompting an increase in the total demand for domestic-type services. Hence, estimates for the increase in total residential employment for last year (growth of 1.3%) have been slightly revised upwards.

Despite the gradual deceleration in economic growth, the qoq increase in employment has remained sizeable during the first half of this year (0.4% growth on average). However, even when taking into account the sustained pace of job creation over the last year, the extent of the recent decrease in administrative unemployment remains rather surprising. The broad administrative unemployment rate stood at 14.1% (seasonally adjusted) during the second quarter of last year, but in the space of five quarters it has dropped to 12.4%. This implies a considerable and sudden slowing-down in the growth of the labour force, which seems hard to explain given that the same structural socio-demographic forces as before are expected to be dominating its evolution.

Prices

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

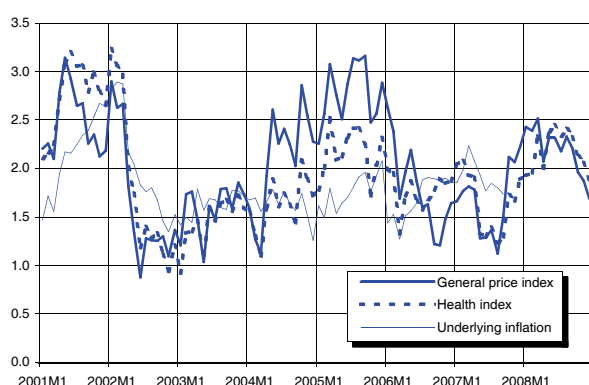
	2005	2006	2006Q4	2007Q1	2007Q2	2007Q3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9
Consumer prices: all items	2.78	1.79	1.45	1.75	1.45	1.33	1.78	1.28	1.29	1.37	1.12	1.51
Food prices	1.93	2.21	3.92	4.02	3.37	2.76	4.50	2.53	3.10	3.33	2.57	2.37
Non food prices	3.60	1.56	0.19	0.63	0.08	0.36	0.28	0.00	-0.05	0.07	-0.05	1.06
Services	2.35	1.47	1.22	1.99	2.19	1.79	2.27	2.28	2.01	1.98	1.82	1.58
Rent	1.99	3.50	3.34	1.80	1.83	1.74	1.86	1.86	1.76	1.81	1.82	1.61
Health index	2.17	1.77	1.87	2.02	1.52	1.31	1.91	1.34	1.30	1.39	1.24	1.29
Brent oil price in USD (level)	54.4	65.2	59.7	57.8	68.7	74.9	67.5	67.4	71.2	77.0	70.8	76.9

Source: FPS Economy, Datastream

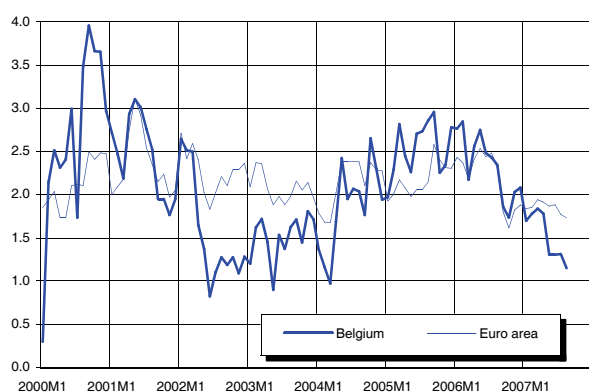
Table 7 - Monthly inflation forecasts

	2007M1	2007M2	2007M3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9	2007M10	2007M11	2007M12
Consumer prices: all items	105.20	105.77	105.78	106.26	106.13	106.12	106.57	106.44	106.54	106.97	107.18	107.50
Consumer prices: health index	104.92	105.46	105.23	105.58	105.34	105.28	105.70	105.67	105.71	106.12	106.32	106.66
Moving average health index	104.63	104.91	105.07	105.30	105.40	105.36	105.48	105.50	105.59	105.80	105.96	106.20
	2008M1	2008M2	2008M3	2008M4	2008M5	2008M6	2008M7	2008M8	2008M9	2008M10	2008M11	2008M12
Consumer prices: all items	107.76	108.30	108.44	108.46	108.59	108.58	108.89	108.92	108.90	109.07	109.19	109.32
Consumer prices: health index	106.94	107.52	107.68	107.69	107.85	107.85	108.17	108.21	108.17	108.38	108.51	108.66
Moving average health index	106.51	106.86	107.20	107.46	107.69	107.77	107.89	108.02	108.10	108.23	108.32	108.43

Source: Observations (up to 07M9): FPS Economy; forecasts: FPB

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

Source: FPS Economy, from 07M10 on: forecasts FPB

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

Source: Eurostat

After a temporary upswing during the first few months of this year, underlying inflation - which disregards price changes of administrative origin and products with a very volatile price evolution - has stabilised around 1.8% since June. Despite the recent rise of oil prices, underlying inflation should remain around its current level and even decline somewhat in the course of 2008 as economic activity is slightly losing strength and as wage costs continue to increase only moderately.

Headline inflation, as measured by the yoy growth rate of the national index of consumer prices (NICP), has been well below underlying inflation since the beginning of this year due to the downward influence of two factors. Firstly, gas prices have fallen significantly following the liberalisation of the gas and electricity market in the Brussels and the Walloon Region, and also because of a new registration method for gas prices in the NICP. Secondly, yoy growth rates of the Brent oil price expressed in euro were negative until August. Inflation rates should be much higher again during the coming months as yoy growth rates of oil prices have turned positive since September and as some gas suppliers have announced increases in their prices for the coming months.

All in all, the NICP should rise by 1.7% this year and by 2.2% next year, while increases in the health index should amount to 1.6% and 2.2% respectively. The current pivotal index for public wages and social benefits (106.22) should be exceeded in January 2008 and the next pivotal threshold (108.34) in December 2008.

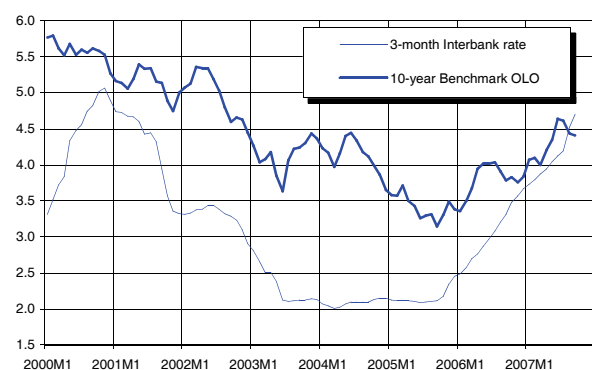
Interest rates

Table 8 - Interest rates

	2005	2006	2006Q4	2007Q1	2007Q2	2007Q3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9
Short-term money market rates (3 months)												
Belgium	2.16	3.06	3.58	3.80	4.04	4.48	3.95	4.05	4.13	4.19	4.53	4.71
Euro area (Euribor)	2.18	3.08	3.60	3.82	4.06	4.50	3.97	4.07	4.15	4.22	4.54	4.74
United States	3.51	5.15	5.32	5.31	5.32	5.42	5.31	5.31	5.33	5.32	5.49	5.46
Japan	0.01	0.27	0.46	0.59	0.67	0.87	0.64	0.65	0.71	0.74	0.90	0.97
Long-term government bond rates (10 years)												
Belgium	3.42	3.81	3.81	4.05	4.40	4.48	4.21	4.35	4.64	4.61	4.43	4.41
Germany	3.38	3.78	3.77	4.01	4.34	4.35	4.15	4.28	4.58	4.51	4.30	4.24
Euro area	3.42	3.84	3.83	4.07	4.39	4.45	4.21	4.34	4.63	4.59	4.40	4.35
United States	4.28	4.79	4.63	4.68	4.85	4.73	4.69	4.75	5.10	5.00	4.67	4.51
Japan	1.37	1.73	1.69	1.67	1.74	1.71	1.67	1.67	1.89	1.88	1.65	1.60

Source: NBB, ECB

Graph 25 - Interest rate levels in Belgium, %

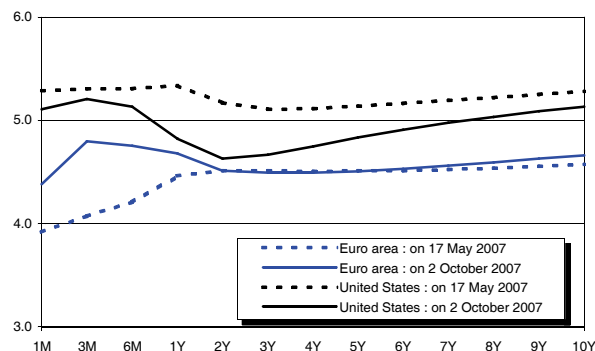


Source: NBB

After more than one year of unchanged interest rate policy, the Federal Reserve cut the Federal Funds rate by 50 basis points to 4.75% in September to help forestall the adverse effects on the real economy that might arise from the recent disruption in the financial markets. The financial markets are counting on several interest rate cuts this year and next year. This is a dramatic reversal from the unchanged interest rate policy that was expected until July.

In May, the ECB raised its refinancing rate by 25 base points to 4%. At that time, financial markets expected subsequent rate hikes for the remainder of the year. However, the ECB kept rates on hold in September because of the turmoil in the financial markets and the somewhat disappointing growth performance in 2007Q2. It now seems quite likely that the ECB will not raise rates any further this year or next.

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



Source: Datastream, data based on interest rate swaps

In the first half of 2007, US long-term interest rates rose by some 60 base points as the end of the slowdown in economic activity seemed near. Then the crisis in the mortgage and credit markets, the resulting flight to quality and the disappointing August payroll figures pushed long-term interest rates down again to below the level seen at the start of the year. Euro area long rates followed the evolution of US rates, but they rose less in the first half of the year (better growth outlook) and declined less since this summer (less fear for the negative consequences of the financial crisis on economic growth), leading to a substantial reduction of the spread between both rates. Over the last few months, the short end of the yield curve in the euro area became inverted, while the inversion of that part of the US yield curve became more pronounced. This points to increased uncertainty about short-term future economic activity, especially in the US.

Exchange rates

Table 9 - Bilateral exchange rates

	2005	2006	2006Q4	2007Q1	2007Q2	2007Q3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9
USD per EUR	1.244	1.256	1.290	1.311	1.348	1.375	1.352	1.352	1.342	1.372	1.362	1.391
UKP per EUR	0.684	0.682	0.673	0.671	0.679	0.680	0.680	0.681	0.675	0.675	0.677	0.689
JPY per EUR	136.8	146.1	151.9	156.5	162.9	161.9	160.7	163.3	164.6	166.7	159.0	160.0

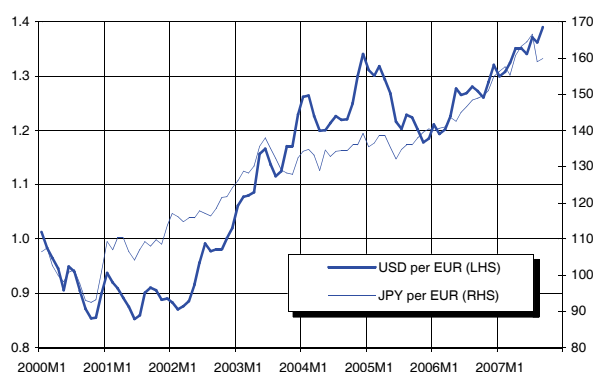
Table 10 - Nominal effective exchange rates (1990=100)

	2005	2006	2006Q4	2007Q1	2007Q2	2007Q3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9
Euro	120.8	121.7	123.4	124.8	127.4	128.1	127.3	127.6	127.1	128.1	127.3	128.8
Growth rate [1]	-0.5	0.8	0.6	1.2	2.0	0.6	1.2	0.3	-0.4	0.8	-0.6	1.2
US dollar	84.9	83.9	83.1	83.3	81.3	79.3	81.6	81.2	81.1	79.8	79.7	78.3
Growth rate [1]	-2.3	-1.2	-0.1	0.3	-2.4	-2.4	-1.4	-0.5	-0.1	-1.6	-0.1	-1.7
Japanese yen	86.0	80.3	78.3	76.8	74.9	76.1	76.1	74.9	73.8	73.5	77.1	77.6
Growth rate [1]	-3.5	-6.6	-2.0	-1.9	-2.5	1.6	-2.4	-1.6	-1.5	-0.3	4.9	0.7

[1] Change (%) compared to previous period

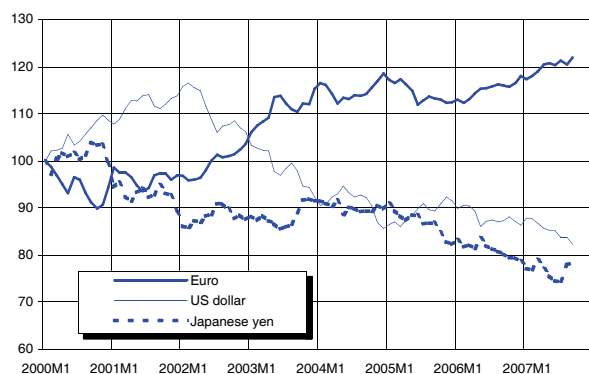
Source: BIS, NBB

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



Source: NBB

Graph 28 - Nominal effective exchange rates (2000M1=100)



Source: NBB, BIS

The steady appreciation of the euro against the dollar that started in the beginning of 2006 has continued this year under the influence of the decreasing interest rate differential between the US and the euro area. This evolution was only briefly interrupted in August as the dollar temporarily benefited from the turmoil on financial markets and the increasing risk aversion, whereby US investors repatriated funds. When it became clear that the credit crisis could dent US economic growth and financial markets started to anticipate interest rate cuts by the Fed, the euro appreciated again vis-à-vis the dollar, reaching the highest level since the introduction of the euro (1.42 dollars per euro).

Large-scale borrowing in Japanese yen (against a very low interest rate) to invest in high yielding currencies (thereby selling the yen), has been a popular investment strategy over the last few years, exerting constant downward pressure on the yen. This was also the case in the first half of this year, but the financial turmoil suddenly rendered this investment strategy less popular, leading to an appreciation of the Japanese currency. The yen/euro exchange rate is now close to its value at the beginning of the year.

Over the last four months the euro also appreciated against the British pound, the Swedish Krona and the Eastern European currencies, with the exception of the Czech Koruna. Against the Norwegian Krone and the Canadian dollar the euro lost ground. In nominal effective terms, the euro exchange rate appreciated continuously this year (except in August), leaving it about 3% higher than at the end of last year. The nominal effective dollar, for its part, is close to reaching its lowest level since 1995.

Tax indicators

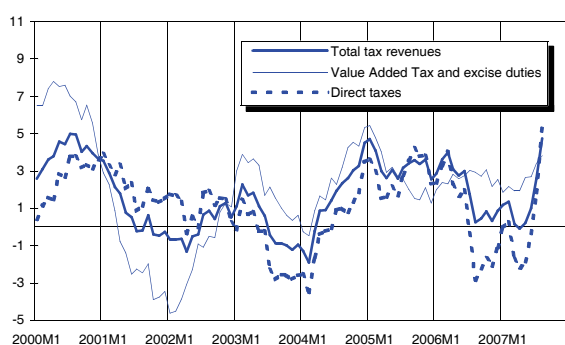
Table 11 - Tax revenues (1)

	2005	2006	2006Q3	2006Q4	2007Q1	2007Q2	2007M3	2007M4	2007M5	2007M6	2007M7	2007M8
Total [2], of which:	5.4	2.6	-1.9	5.1	4.0	2.9	-12.5	-3.3	5.0	11.3	11.1	21.3
Direct taxes, of which:	5.2	0.6	-6.2	5.7	3.7	1.3	-27.8	-8.6	0.9	18.5	10.1	43.2
Withholding earned income tax (PAYE)	3.9	3.7	3.1	3.4	4.5	6.6	8.6	7.0	5.3	7.4	-9.7	-1.8
Prepayments	5.7	5.5	-1.7	12.1	.	-2.7	.	-3.3	.	.	8.6	.
Value Added Tax and excise duties	4.1	4.3	3.0	4.2	3.7	6.2	0.8	5.6	11.6	1.9	11.2	6.6

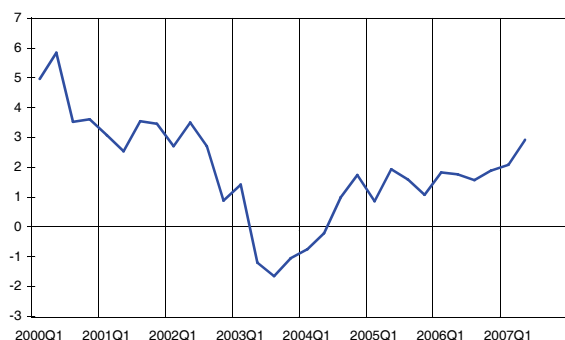
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: FPS Finance

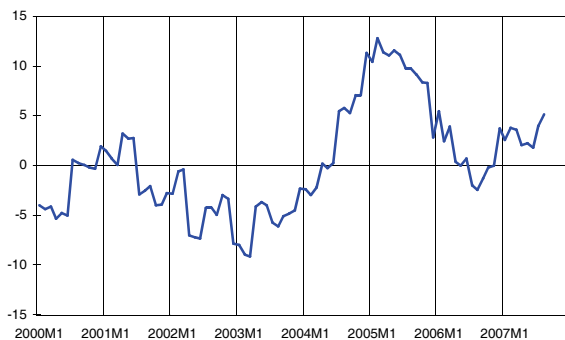
Graph 29 - Real tax revenues (3)



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



Graph 31 - Real prepayments (3)



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

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

Recent figures for total direct tax receipts are poorly informative as they are largely affected by changes in the seasonality of taxes collected by means of assessment. Refunds of personal income taxes, traditionally concentrated on the 5-6 month period starting in April (Q2 and Q3), have been particularly large in March this year (Q1). As regards corporate taxes, the acceleration in assessments made it possible to collect taxes in January and February 2007, whereas collection normally begins in March. These movements make the monthly and quarterly series in 2007 difficult to compare with the corresponding data of 2006.

However, this is not the case for receipt categories not collected by means of assessment. Among those, pay as you earn personal income tax, mainly levied on wages, is closely correlated to the evolution of employment, which has increased gradually over the last three years. Consequently, the 4-quarter moving average growth rate in real terms (Graph 30) has been constantly positive since mid-2004, and has even tended to increase over time.

Advance payments on a 12-month real term moving average basis (Graph 31) declined until mid-2006 and recovered slightly thereafter. The decline in 2006 may be related to the introduction of an allowance for notional interests (also known as allowance for corporate equity) that has led to a general reduction in the effective corporate tax rate. Delayed effects of this new measure may still be appearing in 2007 as advance payments for the first and second due dates of 2007 (April and July) seemed quite low as compared to the expected evolution of profits and the strength of the business cycle.

VAT receipts are still performing well thanks to the dynamism of domestic demand, including car sales (in spite of the absence of a motor show this year) and housing investment. However, a deceleration in VAT receipts is possible by the end of the year due to an expected growth in VAT reimbursements (delayed) and because the business cycle will have reached its peak

A Medium-Term Outlook for the World Economy: 2007-2013

The August 2007 issue of the NIME Outlook for the World Economy presents a 2007-2013 macroeconomic outlook for the major areas of the world. The outlook was produced using NIME, the Federal Planning Bureau's macroeconometric world model.

In the euro area, real GDP is projected to rise at an average annual rate of 1.9% over the 2007-2013 period. Growth in the euro area should build on the components of domestic demand, with a small negative contribution to GDP growth stemming from net foreign trade. Moreover, economic growth is set to fall below the period average as of 2010, as growth in the labour supply declines due to the area's rapidly ageing population. Consumer price inflation - as measured by the change in the deflator of private consumption - should average 1.9% per annum, held in check by a vigilant monetary policy while effective demand surpasses potential output levels. The nominal short-term interest rate is projected to rise from a yearly average level of 4.1% in 2007 to 5.8% in 2013. The euro's nominal effective exchange rate should appreciate on average by 2.5% per annum over 2007-2013 due to a combination of higher average inflation in the rest of the world and higher interest rates in the euro area than in other parts of the world economy. Substantial progress is expected with respect to fiscal consolidation over the projection horizon; indeed the area's fiscal position is projected to return to balance in 2010 and remain in surplus thereafter.

Real GDP in the United States is expected to rise at an average annual rate of 2.8% over the projection period. However, growth will most likely be somewhat erratic from year to year as, under current US laws and policies, a number of significant tax cut provisions should expire and reduce domestic demand growth. As tax cuts expire over the projection period, the US fiscal deficit is projected to decline to just 0.3% of GDP in 2013. The US current account deficit is projected to recede from 5.7% of GDP in 2007 to 4.6% of GDP in 2013.

Real GDP in Japan is expected to progress at an average

annual rate of 1.3% over 2007-2013. Consumer price inflation should turn positive on a year-on-year basis in 2009 and reach 1.9% in 2013. Japan's growth momentum should fall off noticeably by the end of the projection horizon as the ageing of the country's population leads to an ever stronger decline in the labour supply. Japan's overall budget deficit is expected to fall from 3.8% of GDP in 2007 to 3% in 2009; the fiscal shortfall should then increase once again to 4.5% in 2013 due to rising public sector wages, transfers to households and debt interest payments.

Gross output in the rest of the world should expand at an average annual rate of 6.7% over the 2007-2013 period, while inflation should average 4.9% per year over the same period. Growth is thus projected to continue at a rapid pace, surpassing the 6.2% average annual increase for the 2000-2006 period.

A stochastic evaluation of the risks surrounding the projection's main results indicates that, throughout the projection period, there is only a very low probability that GDP growth in the euro area will exceed 2.9%, or that it will fall below 0.5%. In comparison, GDP growth in the United States is unlikely to exceed 4.7% or fall below 1.1%. (The difference in length of the two confidence intervals stems from the different parameter estimates for each region, while the asymmetry of the confidence intervals is a result of the stochastic simulation, which does not necessarily lead to a symmetric distribution of the simulated values around the mean.) In our view, the current major medium-term downside uncertainty - in light of its potential to curtail worldwide economic growth - can be seen in a continued sharp increase in world energy prices. A possible upside risk is currently seen in a possible underestimation of trend productivity growth, especially in the European Union and Japan.

*"A Medium-Term Outlook for the World Economy: 2007-2013",
The NIME Outlook for the World Economy, August 2007.*

Regionalisation of long-term energy projections for Belgium (horizon 2030)

In 2004, the Federal Planning Bureau has published two reports on long-term energy projections¹. They describe long-term energy projections for Belgium, but do not pro-

vide results on the level of the three Belgian regions (Flemish, Walloon and Brussels Capital). Since some major responsibilities in the field of energy have been regionalised, an insight into regional energy projections seems to be indispensable. The regions not only have to prepare an energy policy plan for the short term, but also have to come up with an energy plan that overlooks a more elaborate time horizon. At the request of the

1. D. Gusbin, B. Hoornaert, Energievooruitzichten voor België tegen 2030, Perspectives énergétiques pour la Belgique à l'horizon 2030, Planning Paper 95, 2004 and D. Gusbin, Demande maîtrisée d'électricité: élaboration d'une projection à l'horizon 2020, Working Paper 19-04, 2004.

regions, the Federal Planning Bureau therefore embarked on a regionalisation of the energy scenarios described in the two cited reports, the results of which can be found in two working papers: one describing the results for the Flemish Region, the other the Region of Brussels Capital.

All scenarios discussed in the reports of 2004 have been disaggregated to obtain figures per region, namely

- the reference scenario
- the sensitivity analysis on energy prices
- the "renewable energy sources and combined heat and power" scenario
- the two "return to nuclear energy" scenarios
- the "a new intermodal allocation in transport" scenario
- the "mastering the electricity demand" scenario

The regionalisation is performed for the following sectors: energy transformation, industry, tertiary, residential and transport. It concerns primary energy demand, power and steam generation and final energy and non-energy demand. It encompasses the most important categories of energy forms: solid fuels, liquid fuels, gaseous fuels, electricity, steam and renewable energy sources.

The regionalisation starts from the energy projections for Belgium for the horizon 2030 as obtained with the aid of the energy model PRIMES. PRIMES is a modelling system developed at the NTUA in Athens that simulates a market equilibrium solution for energy supply and demand in the EU Member States and, as such, gives results both on the aggregated (EU) and the national (eg. Belgian) level; regional projections, however, are not generated. When one is interested in regional projections based on the national energy projections constructed with PRIMES, an ad hoc regionalisation exercise should be performed. The main reason for the need of a novel approach is that differences exist between the regional energy balances on the one hand and the national energy balance as published by Eurostat and as used by PRIMES to construct its long term energy projections on the other¹.

Both working papers start off with the description of the methodology developed in order to regionalise long-term energy projections, followed by its results: energy projections up to the horizon of 2030 per scenario for the Flemish and Brussels Capital Region respec-

tively. The methodology breaks down into two parts. First, the existing regional energy data for the base year 2000 is (slightly) adapted in order to conform to the Eurostat format and so that the sum of these regional "adapted" energy statistics equals the official Eurostat energy balance for the year 2000, which was used as input for the national PRIMES energy projections. Second, a number of hypotheses are formulated that, in their turn, allow to determine the evolution of the regional energy balances up to 2030. The latter method is based on the definition of a dual working approach: the method of the energy intensities that is principally used for the regionalisation of the final demand sectors (with the exception of the industrial subsector iron and steel) and an ad hoc approach based on regional data specific to certain sectors that supplements the method of energy intensities (eg. households) or even replaces it in some cases (eg. power and steam generation).

A crucial feature of the regionalisation method is that the sum of the three regional projections should at all times equal the national PRIMES projections as described in the PP95 and WP19-04. Results are presented in the Eurostat balance format for the seven scenarios and the two regions. They are accompanied by a description of the methodology complemented by numerical examples and an elaborate analysis of the results.

The two regions provided assistance during the period of the project through the establishment of regional follow-up committees that discussed hypotheses, gave valuable on-the-floor input and examined results.

“Regionalisatie van de energievoorzichten voor België tegen 2030: resultaten voor het Vlaams Gewest”, “Régionalisation des perspectives énergétiques pour la Belgique à l’horizon 2030: résultats pour la Région flamande”, D. Devogelaer, D. Gusbin and L. Janssen Working Paper 7-07, April 2007.

“Regionalisatie van de energievoorzichten voor België tegen 2030: resultaten voor het Brussels Hoofdstedelijk Gewest”, “Régionalisation des perspectives énergétiques pour la Belgique à l’horizon 2030: résultats pour la Région de Bruxelles-Capitale”, D. Devogelaer, D. Gusbin and L. Janssen, Working Paper 9-07, June 2007.

1. Energy balances describe the energy quantities that are produced, imported, transformed and consumed in a particular geographic entity, during a particular year. Energy quantities are provided by energy form (coal, gasoline, etc.) and by sector (industry, transport, etc.).

Recent research regarding Belgian exports and export market growth

This working paper gives an overview of recent research aimed at refining forecasts and analysis of Belgian foreign trade. Regarding export markets, a new leading indicator is introduced as an additional tool for assessing the growth profile for Belgium's potential export markets in the first quarters to be forecast. With respect to exports, an analysis is made concerning the considerable and partly unexplained loss of export market share in recent years. It appears that (a lack of) competitiveness plays an important role in the evolution of Belgium's export market share, but it cannot explain it entirely.

Potential export market growth is the most important explanatory variable in the export equations of the macroeconomic models at the FPB. In the drawing up of the economic budget (see also Economic forecasts 2008 in this STU), it is calculated as the weighted average of import growth of Belgium's trading partners. This is done by means of yearly data. The establishment of a quarterly profile is inspired by the monthly world trade data (both observations and short-term forecasts) computed by the Dutch Centraal Planbureau. The new leading indicator can be used as a supplementary tool for assessing the quarterly profile of the potential export market growth projection. The current version of the leading indicator contains two European indicators (Dutch consumer confidence and the OECD leading indicator for Germany) and two US indicators (the OECD leading indicator for the US and the assessment of the economic situation in the US from the IFO World Economic Survey). The fit of the leading indicator with the reference series is quite satisfactory.

A striking observation is that Belgian exports are confronted with a considerable loss of market share, i.e. a negative growth differential between exports and potential export markets. As already mentioned, our concept of potential export markets reflects the geographical composition of Belgium's exports, so that from the export market share we abstract losses due to an unfavourable geographical orientation.

As the evolution of Belgian exports in recent years has appeared rather difficult to explain, the second chapter presents an attempt to improve forecasts of Belgium's exports by breaking down the current aggregate equation in the quarterly model into a goods and a services component. However, an out-of-sample simulation reveals that this approach overestimates export growth to the same extent as the current approach.

In the third chapter, we take a closer look at the evolution of Belgium's export market share by comparing it with the situation of its three main trading partners (France, Germany and the Netherlands) over the past 25 years. Our results indicate that a lack of competitiveness (measured by means of a real effective exchange rate based on unit labour costs) plays an important role in the loss of export market share, but it cannot explain it entirely. In all four countries, competitiveness appears to explain the evolution of export market shares quite well in the eighties and the first half of the nineties. Since 1995, this link has become less clear-cut for Belgium and France. Belgium posted gains in competitiveness in the second half of the nineties while it experienced its strongest losses in market shares. France experienced huge competitiveness gains in the second half of the nineties, yet still lost some market share. Since the beginning of this decade, the development of both countries' export market shares seems to be more in line again with competitiveness. Nevertheless, structural factors (the export product mix and the role of re-exports) as well as statistical factors (breaking up exports into a price and a volume component) are likely to have affected export performances, especially in Belgium.

*"Foreign trade in Modtrim",
B. De Ketelbutter, L. Dobbelaere and F. Vanhorebeek,
Working Paper 10-07, September 2007.*

Belgium's NRP - Macroeconomic effects of reducing the tax wedge on labour

Every three years, each EU Member State is required to set out its political priorities related to economic growth and job creation in a so-called National Reform Programme (NRP). The 2005-2008 programme prepared by the Belgian authorities proposes six lines of action for boosting growth and employment. For each of these lines of action, one or two quantitative objectives have been set out. In this working paper we compare the main macroeconomic objectives contained in the Belgian NRP with the results of the latest medium-term economic out-

look produced by the Federal Planning Bureau. This no-policy-change scenario also serves as a baseline for analysing the effects on the main macroeconomic objectives of the government of a further reduction in social security contributions in order to ease the tax wedge on labour as foreseen in the NRP.

The medium-term economic outlook is a very detailed macroeconomic projection that covers developments by industry, evolutions in the labour market, in public fi-

nances and in energy consumption and associated greenhouse gas emissions. The main objective of this projection is not to produce the forecasts that best anticipate the most likely political decisions, but rather to provide a consistent benchmark scenario under the assumption of no changes in economic and social policies. According to this scenario, compliance with the main macroeconomic objectives contained in the Belgian NRP would still require efforts in all areas and especially in the labour market.

We therefore computed the impact of a further reduction in social security contributions in order to achieve the target of lowering the fiscal and parafiscal pressure on labour by 2.2 percentage points of GDP between 2005 and 2010. This policy was simulated using the HERMES model under two different wage settings. The first modality supposes that the reduction in social security contributions has no effect on the wage bargaining process. Gross wages before indexation remain in this case identical to the baseline and as a result reductions in employers' social security contributions have full repercussion on the wage cost while a cut in employees' contributions leave the labour cost practically unchanged. The other modality assumes, on the contrary, that reductions in social security contributions do affect the wage setting according to the wage bargaining process specified in LABMOD, the FPB's labour market model: a reduction in employees' social security contributions will induce a decrease in gross wages while a reduction in employers' contributions will be partly captured by wage earners and gross wages will therefore increase. Concerning the latter, two types of policies were tested: a general reduction in employers' contributions and a reduction targeted at low wage earners.

With the modality of unchanged gross wages, both policies have a positive impact on growth and employment but the targeted reductions in employers' contributions induce the creation of more jobs and a slightly higher GDP, despite their dampening effects on labour productivity. In the other wage setting framework, the impact of the policies tends to be somewhat more favourable as the lowering of the gross wages induced by the reduction in employees' contributions dominates the increasing impact caused by the cut in employers' contributions. All in all, reducing the tax wedge undeniably boosts economic activity and increases the employment rate.

Nevertheless these policies have a negative impact on the other objectives of the NRP, notably regarding public finances and greenhouse gas emissions. The budget balance deteriorates in comparison with the reference scenario because the additional public revenues and reduced public expenditure generated by the simulated policies are insufficient to fully compensate for the initial budgetary cost. Note that the policy targeting low wage earners produces the worst outcome for the budget balance, as the substitution in favour of this category of workers tends to slow down the increase in the wage bill and, as a result, income tax revenue. Moreover, the Kyoto protocol objectives become even more difficult to attain because the higher economic growth produces a rise (although limited) in greenhouse gas emissions.

"Le programme national de réforme de la Belgique. Effets macroéconomiques de réductions de charges sur le travail", D. Bassilière, F. Bossier, I. Lebrun, P. Stockman, Working Paper 11-07, August 2007.

Age and wage related versus across-the-board labour cost reducing policies

The distinction between the young and the elderly within low- and high-wage earning employment in HERMES, the FPB's medium-term macroeconomic model, enables the assessment of both age- and wage-related labour cost reduction policies.

The political debate on the employment of older workers in general and the emergence of age-related labour-cost cutting policies from both federal and regional governments in particular - either through cuts in employers' social-security contributions (SSCs) or wage subsidies - were an incentive to rethink the modelling of the labour market in HERMES, the FPB's medium-term macroeconomic model. The age structure of salaried employment in each branch of activity is embedded in a three-stage mechanism. First, aggregate demand and

the relative cost of labour to capital determine salaried employment. Next, relative wages allocate employment among three major labour categories: low-paid jobs, high-paid jobs and special-employment programmes. Finally, within each labour category relative wages allocate employment between the young (aged less than fifty) and the elderly (aged fifty or more). Underlying this segmentation is the assumption that there are innate differences in skills and productivity across age and wage categories, causing imperfect substitution and warranting wage discrepancies.

Three policies that have gained prominence lately were looked into: employers' SSC cuts aimed at the low-wage end of the young, employers' SSC cuts aimed at the elderly and across-the-board wage subsidies to night-time

work and work in shifts. These three policies are gauged against an across-the-board cut in employers' SSCs. Both a rigid and a flexible wage version of HERMES were used.

Cutting employers' social-security taxes on young low-wage earners generates more employment than any other social-security contributions cut or wage subsidy increase, in spite of job losses for the elderly and the young high-wage earners. The substitution effect favouring the low-wage segment causes the average wage cost to fall far beyond the initial labour cost cut. Because of this indirect effect, far more jobs are generated in the process than would have been the case otherwise.

SSC cuts targeting the elderly are at the expense of young low-wage employment. Because the elderly are more prominent in the high-wage than the low-wage category, elderly labour cost cutting policies result in bigger labour cost cuts for the high-wage earners than the low-wage earners. This explains why - apart from boosting both low-wage and high-wage elderly employment - young high-wage employment is stimulated as well.

Increasing the subsidy to low-wage and high-wage employment organised in work in shifts - in fact an across-the-board wage subsidy to manufacturing - yields less jobs but a higher increase in value added than an all-sector, across-the-board cut in employers' SSCs. The employment of all wage and age classes is stimulated alike, just as an across-the-board SSC cut would do.

In the flexible wage version of HERMES used in this study, real gross wages are affected by the unemployment rate and by labour productivity, but there is no direct impact of the tax wedge on wages. The Phillips

curve effect - raising real gross wages - explains why the employment and value added effects of employers' SSC cuts are slightly less benign in the flexible wage regime of HERMES than in a wage regime that keeps domestic real gross wages in line with foreign wages in the base-line. In the case of the work-in-shifts subsidies, the Phillips curve effect on manufacturing gross wages is weakened by the sharp decline in manufacturing's labour productivity, causing a more favourable effect on exports and hence value added. In contrast, if the tax wedge did impact directly on wages, e.g. in a setting with right-to-manage wages, then lowering employers' SSCs or increasing wage subsidies would definitely raise the real gross wage, allowing the employees to appropriate some of the drop in the tax wedge.

Both work-in-shifts subsidies and low-wage SSC cuts are a drag on the government finances in the sense that only a small proportion of the initial budgetary cost is recovered, significantly smaller than in the case of across-the-board or elderly SSC cuts (13% and 18% versus 30%). In the case of low-wage SSC cuts, the proportion that is recovered is significantly higher in a flexible wage regime (30%) than in a rigid wage environment (13%), but is still below the budgetary outcome of the across-the-board policy in a flexible wage regime (38%). However, if gauged by the budgetary cost per additional job, targeting young low-wage labour is by far the cheapest option (EUR 51,000) whereas work-in-shifts subsidies are manifestly the most expensive policy (EUR 131,000 or EUR 151,000), whatever the wage regime.

“Wage and age related employers' SSC cuts and wage subsidies in the 2007 vintage of HERMES”

P. Stockman,

Working Paper 12-07, September 2007.

Unemployment benefits and the long-term effectiveness of labour tax cuts

If unemployment benefits are indexed to gross wages and the replacement rate between unemployment benefits and net wages affects the wage rate, then cutting taxes falling on the supply of labour (personal income taxes or employees' social-security contributions) increases employment more than reducing taxes falling on the demand for labour (employers' social-security contributions).

The macroeconomic effectiveness of cuts in personal income taxes, and employers' and employees' social-security contributions (SSC) generally depends on the mechanism that drives wages. Furthermore, the feedback of wages to unemployment benefits matters as well. Aggregate demand-driven models featuring exogenous

real gross wages usually imply that cutting employers' SSCs generates more jobs than reducing employees' SSCs or personal income taxes. Even models featuring negotiated wages do not necessarily impose equivalence between labour taxes on supply and demand, at least not in the short run. Whether long-run equivalence among these three policy instruments holds or not, depends on the nature of the feedback of wages to unemployment benefits. This follows from experiments with LABMOD, the FPB's labour market model of the market sector, which features a wage rate that depends on labour productivity, the unemployment rate, the replacement rate between unemployment benefits and take-home wages and the fiscal wedge, and which assumes homogeneous labour categories.

If macroeconomic feedback from labour productivity, the unemployment rate, and the replacement rate are ignored, then the source of taxation (on the supply side through employees' SSCs or personal income taxes or on the demand side through employers' SSCs) does not matter for the long-run outcome: identical percentage point cuts in tax rates (relative to the wage rate) will have identical long-term effects on output and employment.

In the present version of LABMOD the share of the employers in the labour tax burden is 30%: in the long run and ignoring other effects on the wage rate, 30% of an increase (decrease) in the fiscal wedge is borne (appropriated) by the employers through a rise (fall) in the real wage rate whereas 70% is absorbed (appropriated) by the employees through a downward pressure on (an adjustment upwards of) the real take-home wage. Notwithstanding the identical impact on the real wage rate of identical percentage point cuts in labour supply and demand side taxes, the decomposition of the wage rate into the gross wage and employers' SSCs differs between labour supply and demand side taxes. Cutting the employees' SSC or personal income tax rate would decrease the gross wage, whereas reducing the employers' SSC rate would raise the gross wage.

Long-run equivalence among the three policy instruments also holds after allowing for macro-economic feedback if the average unemployment benefit is indexed to consumer prices, making the replacement rate endogenous. A 1% cut in any payroll tax rate lowers the real labour cost by 0.6% and raises employment by 1% in the long run. The differences in the decomposition of the wage rate across policies would be irrelevant because the gross wage rate would not impact on the replacement rate. Notice that a rise in the real take-home wage - resulting from a cut in labour taxes - in conjunc-

tion with consumer inflation proof unemployment benefits would mean a drop in the replacement rate. The latter would cause a further drop in the wage rate and stimulate output and employment even more than in the case of an exogenous replacement rate.

In contrast, long-run equivalence would collapse if the average unemployment benefit were indexed to the gross wage: labour supply tax cuts would create more jobs than labour demand tax cuts (plus 1.3% versus plus 0.8%), reflecting a bigger fall in the real labour cost (minus 0.9% versus minus 0.5%). On the one hand, cutting the employees' SSC or personal income tax rate would trigger a chain of downward pressures on the gross wage, hence on the average unemployment benefit, hence - for an initial rise in the take-home wage - on the replacement rate and finally on the wage rate itself. On the other hand, cutting the employers' SSC rate would put upward pressure on the gross wage, weakening the initial fall in the replacement rate and the wage rate.

It is not clear which hypothesis about the replacement rate best matches Belgian institutions. At the level of the individual, unemployment benefits are either a percentage of the gross wage last earned prior to unemployment, or a fixed stipend for those without prior employment history, but they are also capped, limited in time and consumer inflation proof. The hypothesis of gross wage indexed unemployment benefits might suit low-wage earners well, whereas the hypothesis of consumer inflation proof unemployment benefits may fit high-wage earners better.

*“Werkloosheidsuitkeringen en de effectiviteit op lange termijn van verminderingen in de personenbelastingen, werknemers- en werkgeversbijdragen in LABMOD”,
P. Stockman,
Working Paper 13-07, September 2007.*

Market services labour productivity growth in three small European countries: Austria, Belgium and the Netherlands

To improve our understanding of the divergent evolutions that recently emerged between European countries in terms of labour productivity, this working paper compares the labour productivity growth of three small open European countries: Austria, Belgium and the Netherlands. The analysis focuses on market services as they are the most important single factor that is responsible for the divergences.

The launch of the Lisbon strategy in 2000 was strongly motivated by the observation of a declining trend in European labour productivity growth over the past decade. As US productivity growth accelerated after 1995,

this divergent evolution indicates that after a process of catching up to the US productivity level that started after the World War II, European productivity levels ceased to converge to the US level after 1995. The widening gap in productivity performance was first attributed to a differential in the productivity growth of ICT producer industries and later to divergences in productivity growth of ICT user industries and particularly to ICT user market services.

However, this average European evolution is not necessarily relevant to all European countries considered individually. The second half of the nineties was also a peri-

od of increasing divergence of productivity growth patterns inside the European Union. The productivity performances of Scandinavian countries are, for example, in line with American ones but far from the Spanish or Italian evolution.

This paper compares the evolution of three small open European countries in terms of labour productivity growth by using the March 2007 release of the EUKLEMS database, which is the first data set to present homogeneous variables on growth and productivity for European countries and the US. This EUKLEMS database offers the main advantage of providing a better measure of capital input by calculating capital services rather than capital stocks.

The comparison shows that while Austria and Belgium recorded a decrease in their productivity growth between 1995 and 2004, the Netherlands followed the American pattern and recorded an increase in its

growth rate from 1995. The decomposition of labour productivity growth makes it possible to underline the important role played by total factor productivity (TFP) in the Dutch upsurge in productivity growth. The breakdown of the data by industry shows the importance of the Distribution sector in the Dutch performance. The growth of TFP observed in the Distribution sector is then linked to different potential determinants: ICT accumulation and use, labour qualifications, R&D and innovation and regulations. In summary, the comparison between the three countries provides the insights that the Dutch performance is better in terms of labour force qualification, R&D efforts at the beginning of the period, and regulatory environment.

*“Market services labour productivity growth in three small European countries: Austria, Belgium and the Netherlands”,
B. Biatour, C. Kegels
Working Paper 14-07, October 2007*

Other Recent Publications

Working Paper 8-07, May 2007

“An accuracy assessment of FPB’s medium-term projections”

I. Lebrun

Economic outlook 2007-2012, May 2007

“Perspectives économiques 2007-2012 / Economische vooruitzichten 2007-2012”

Working Paper 6-07, March 2007

“Potential ICT-enabled Offshoring of Service Jobs in Belgium”

B. Michel

Working Paper 5-07, March 2007

“Growth and Productivity in Belgium”

B. Biatour, J. Fiers, Ch. Kegels, B. Michel

Working Paper 4-07, March 2007

“Supply and Use Tables for Belgium 1995-2002: Methodology of Compilation”

L. Avonds, C. Hambye, B. Michel

Working Paper 3-07, March 2007

“Capital services and total factor productivity measurements: impact of various methodologies for Belgium”

B. Biatour, G. Bryon, Ch. Kegels

Working Paper 2-07, February 2007

“Kwalitatieve werkgelegenheidsdata voor België, een SAM-aanpak voor de periode 1999-2004”

V. Bresseleers, K. Hendrickx, B. Hertveldt, B. Van den Cruyce, J. Wera

Economic Forecasts 2007, February 2007

(available in Dutch and in French).

The NIME Outlook for the World Economy, January 2007

“A Medium-Term Outlook for the World Economy 2007-2013”

Working Paper 1-07, January 2007

“Eclairage sur des enjeux de la politique énergétique belge confrontée au défi climatique - Toelichting bij sommige uitdagingen voor het Belgische energiebeleid in het kader van klimaatdoelstellingen”

D. Gusbin, A. Henry

Working Paper 12-06, November 2006

“Beroepsopleiding en tewerkstellingsduur”

V. Bresseleers

Working Paper 11-06, November 2006

“De pensioenbonus in de werknemersregeling: simulatie met het model MEP”

G. Dekkers

Research in progress

Cuts in social security contributions (SSC)

Different studies are being carried out to refine the analysis of the economic implications of SSC cuts policies: these studies refer to the consequences of targeting cuts to specific age groups, to the interaction between cuts and wage formation and to the context of the National Reform Programme.

contact: labour@plan.be

Macroeconomic, budgetary and GHG emissions prospects

Using a consistent modelling approach, medium-term macroeconomic - including labour market - and budgetary prospects, as well as the future evolution of greenhouse gas (GHG) emissions, are investigated. Trends in the forces driving economic growth are analysed.

contact: hermes@plan.be

Consistent regional-national medium-term macroeconomic modelling

In collaboration with experts from the three regional governments, regional medium-term macroeconomic models are being built for Brussels, Flanders and Wallonia, on the basis of a breakdown of the FPB medium-term macroeconomic model for Belgium.

contact: hermes@plan.be

The long term budgetary and social challenges of ageing

Different aspects of the long term dynamics of acute health care, long term care and pension expenditure are scrutinised. Furthermore, the social dimension of pension benefits is investigated using micro approaches.

contact: maltese@plan.be

Demographic projections

New demographic projections for Belgium are prepared in collaboration with Statistics Belgium, a team of scientists, mostly demographers, and representatives of the regional administrations. Results are expected for March 2008.

contact: demo@plan.be

Transport and mobility

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

contact: transport@plan.be

General equilibrium modelling

A general equilibrium model (GEM) for Belgium is under construction. The model will be a long-term model with a particular emphasis on the link between transport and the economy.

contact: transport@plan.be

Determinants of total factor productivity growth in Belgium

Research is under way to look into two specific determinants of total factor productivity (TFP) growth in Belgium: innovation through R&D and market competition.

contact: productivity@plan.be

Labour-oriented social accounting matrix applications

The FPB has constructed time series for employment (in number of persons and hours) and wages by industry according to a number of qualitative characteristics (e.g. age, gender and education level). Based on these series, the FPB is carrying out analyses of different types. One example is the linking of these employment data to input-output data to compute qualitative employment multipliers. Another example is the analysis of the gender wage gap.

contact: io@plan.be

Globalisation

Following up on a longstanding tradition, the FPB is currently working on assessing relocation and its consequences for the Belgian economy. This work is based on supply and use tables and trade and employment data. Furthermore, the BELMOFI database on foreign affiliates of Belgian firms will be updated this year.

contact: regulation@plan.be

Recent history of major economic policy measures

- September 2007** Conditional upon shareholders' approval in Spring 2008, Suez and Gaz de France (GdF) will merge to create one of the largest energy groups in the world. The merged company must fulfil the conditions set by the European Commission in November 2006 in order to reduce its dominant position on the Belgian market. Suez will have to sell the gas trading company Distrigas and give up control of the gas transport system operator, Fluxys. GdF will have to sell its share in the Belgian power generation company SPE. Furthermore, the international gas hub at Zeebrugge will be operated independently from Suez, and new network capacity will be developed.
- June 2007** The ministers of energy from the Benelux countries, France and Germany signed a memorandum of understanding to analyse, develop and implement an extension of the coupling of their electricity markets to those of Luxembourg and Germany from 2009.
- The ECB raised its main refinancing rate by a quarter of a point to 4%.
- April 2007** In order to offset a rise in implicit employees' and employers' SSC rates on low-wage employment, more generous employees' and employers' SSC reduction parameters took effect on April 1st. The rise in the SSC rates follows a raise in the legally guaranteed minimum wage and the pay rises sanctioned by the latest Interprofessional Agreement.
- March 2007** The federal government confirms its objective of achieving a budget surplus of 0.3% of GDP in 2007 (for the general administration) as stated in the December 2006 Stability program and in the so-called "ageing law".
- The ECB raised its main refinancing rate by a quarter of a point to 3.75%
- February 2007** Some significant reductions in telecommunications tariffs were announced. In fixed services, the incumbent, Belgacom, and some competitors will reduce retail prices for calls to mobile networks, following reductions in wholesale prices in November 2006. In mobile services, the second largest operator, Mobistar, will reduce its tariffs for roaming services. The company expects to offset the incurred loss with an increasing use of mobile phones abroad by its customers.
- January 2007** Full market opening for electricity and gas in Belgium was reached by allowing free choice of supplier to the remaining captive consumers: households in the Walloon and Brussels Capital regions. Meanwhile, to further spread demand (and noise), night tariffs were extended to the whole weekend throughout the country.
- Conforming to EU requirements, full market opening was also reached for freight services by rail by allowing free choice of supplier in domestic services. There are five entrants in this market now, who are essentially active in cross-border services. Meanwhile, the state took over the incumbent's pension fund. This will lead to more financial transparency and a better comparability with other transport companies.
- December 2006** The ECB raised its main refinancing rate by a quarter of a point to 3.5%.
- November 2006** The European Commission approved the merger of Suez and Gaz de France (GdF), but under several conditions. Suez will sell the gas trading company Distrigas and give up control of the gas transport network manager Fluxys. GdF will sell its share in the Belgian power generation company SPE. Under these conditions the new company's dominant position on the Belgian energy markets will be alleviated. Furthermore, the international gas hub at Zeebrugge will be operated independently from Suez and new network capacity will be developed.
- Independently of the approved merger, two other projects in the area of energy were implemented. Firstly, the Belpex day-ahead electricity market became operational. It works in close co-operation with the Dutch and French electricity exchanges, which allows for equal prices in the three countries. Secondly, the German company Wingas received permission to operate a gas pipeline from the Port of Antwerp to the nearby Dutch gas network. This allows competition in infrastructure management. The potential market share of the new pipeline is 9%.
- In the area of electronic communications the first stage of reducing mobile termination prices has been implemented. This is based on decisions of the European Commission and the Belgian market regulator BIPT/IBPT. The stepwise reduction will be finalised in mid 2008.

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

Abbreviations for names of institutions used in this publication

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

Other Abbreviations

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