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

The recovery of Belgian GDP started by mid-2003, driven by an improvement of the worldwide business cycle, which persisted during the first half of this year. As a result, GDP growth should accelerate to 2.4% in 2004 and 2.5% in 2005, after a modest increase of only 1.3% in 2003,

Economic growth in 2004 should be more balanced than in 2003, when it was boosted entirely by domestic demand and net exports contributed negatively. In 2004 net exports should make a positive contribution of 0.4% to economic growth and hence become the driving force behind the pick up in growth. Growth of final national demand should accelerate to 2% this year, from 1.7% in 2003.

Next year's economic growth will depend on final national demand. The sharp rise in investment, in particular, will cause an acceleration in national demand of up to 2.6% in 2005. Combined with strong export growth, this implies a speeding up of imports, resulting in a zero contribution of net exports to economic growth next year.

After a net gain of 2,300 persons in 2003, employment should show an average annual rise of respectively 17,700 and 31,700 persons in 2004 and 2005. The unemployment rate should mark its third consecutive rise this year and only decline marginally in 2005.

The decrease in underlying inflation from 2% last year, to 1.6% in 2004 and 1.5% in 2005 will be more than compensated for by the recent oil price rises, resulting in headline inflation of 2.1% in 2004 and 2% in 2005.

STU 3-04 was finalised on October 4th 2004

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

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

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The effects of an oil price shock on the Belgian economy and public finances

The price of oil has risen sharply over the course of recent months. In this context of persistently high oil prices, the FPB's Hermes macro-econometric model has been used to investigate the effects of an oil price shock on the Belgian economy and the public finances [1]. The results of the simulation of a permanent 20 percent rise in the price of crude oil show that the Belgian economy would be affected negatively, with real GDP falling by up to 0.17 percent, private consumption by up to 0.32 percent, and consumer prices rising by up to 0.46 percent [2]. The country's public finances are equally negatively affected, as the recessionary impact on output and inflationary price effects combine to produce a stronger rise in government spending than in tax income. At the same time, the oil price shock tends to shift the weight of the overall tax burden more heavily towards household income and expenditure on private consumption.

The macro-economic effects on the Belgian economy

The 20 percent rise in oil prices has a direct effect on Belgian import prices, as well as on the volume of effective foreign demand for Belgian exports. In the first year the rise in oil prices leads to a 1.09 percent rise in total import prices relative to the baseline scenario. Import prices then continue to rise, before falling back to a 0.96 percent rise in the medium term. The rise in import prices leads to higher domestic inflation, reducing real household disposable income and corporate real profit margins.

The oil price shock also has a direct real effect on the Belgian export volume. Indeed, as the oil price shock develops and impacts the global economy, it also produces recessive effects on the other main importers of oil, which are among Belgium's foremost trading partners. One first result is a drop in domestic demand from Belgium's trading partners, including their demand for imports from Belgium. The rise in their domestic inflation is assumed, however, to be only partly passed on to their own export prices for non-energy goods and services, as they attempt to maintain their overall competitiveness. The global effects of the oil price shock reduce Belgian exports by 0.31 percent in the first year and by 0.10 percent in the medium term.

The rise in import prices feeds Belgian domestic inflation, as the oil price shock trickles down through the production price and into the price to private consumers. The consumer prices rise by 0.27 percent immediately, then continues to rise and reaches 0.46 percent in the medium term. Rising consumer price inflation reduces household real disposable income, and this fall in household purchasing power leads to a fall in private consumption. The oil price shock affects the components of private consumption in various ways. The demand for fuel and power falls only slightly on impact, but the effect becomes more pronounced over time. The initial fall in demand for personal transportation and its related equipment is much more abrupt, but diminishes over time. Purchased transportation increases after the rise in oil prices, as the price of this component rises only modestly.

Table 1 - Effects on selected components of private consumption
constant prices, % differences relative to baseline

	t	t+7
Volumes		
Total private consumption	-0.25	-0.31
Food, beverages, tobacco	-0.14	-0.19
Clothing and footwear	-0.91	-0.68
Recreation, education, culture	-0.38	0.35
Fuel for heating	-0.33	-2.04
Power	-0.03	-0.71
Personal transport equipment	-1.01	-0.44
Operation of personal transport equipment	-1.05	-0.26
Purchased transport	0.05	0.25
Prices		
Total private consumption	0.27	0.46
Food, beverages, tobacco	0.07	0.16
Clothing and footwear	0.04	0.20
Recreation, education, culture	0.07	0.17
Fuel for heating	4.43	8.78
Power	0.14	2.41
Personal transport equipment	0.06	0.11
Operation of personal transport equipment	4.14	4.51
Purchased transport	0.09	0.22

Source: Federal Planning Bureau

Firms' profits also feel the squeeze from the higher energy price, which immediately raises their production costs. At the same time, rising prices reduce private consumption and lead to a reduction in GDP. The loss in GDP and rising inflation initially lead firms to cut employment, further reducing household income.

1. The calibration of the exogenous world demand and prices in HERMES was inspired by a study carried out by the OECD and the IEA. See: International Energy Agency, May 2004, "Analysis of the impact of high oil prices on the global economy". Internet: http://www.iea.org/Textbase/Papers/2004/High_Oil_Prices.pdf
2. All the simulation results are given as percentage or percentage point deviations from the baseline scenario.

Table 2 - Main macro-economic effects on the Belgian economy
constant prices, % differences relative to baseline

	t	t+7
Demand and Production		
Private consumption	-0.25	-0.32
G.F.C.F.	-0.16	-0.44
Total domestic demand	-0.18	-0.26
Exports of goods and services	-0.31	-0.10
Imports of goods and services	-0.32	-0.24
G.D.P.	-0.17	-0.11
Prices		
Private consumption	0.27	0.46
Health index	0.18	0.38
Imports	1.09	0.96
G.D.P. deflator	-0.11	0.04
Employment and Costs		
Employment	-0.07	0.02
Nominal wage cost, per employee (market sector)	0.06	0.04
Real wage cost, per employee (market sector)	-0.21	-0.42
Real Incomes		
Real disposable income	-0.31	-0.43
Corporate gross profit margin	-0.76	-0.47

Source: Federal Planning Bureau

At the same time, the inflationary shock causes a rise in the health index, to which nominal wages and various public transfers to households are indexed. The automatic indexation mechanism tends to limit the fall in real household wage income, putting further pressure on firms' overall production costs, and leading to further employment losses. The initial drop in employment and labour productivity then tend to temper demands for nominal wage increases, pushing real wage costs down. In t+7, the oil price shock leads to no significant effect on either total employment or nominal wage costs, although real per capita wage costs fall by 0.42 percent. The price shock has a relatively balanced effect on the distribution of income, as household real disposable income drops by 0.43 percent, and corporate gross profits decline by 0.47 percent. Overall, Belgian constant price GDP falls by 0.17 percent in the first year of the shock, and the decline stabilises at 0.11 percent in the medium term.

Effects on Belgian public finances

The world oil price shock also has adverse effects on Belgium's public finances. Taxes on corporate income go down by no more than 0.05 percent of GDP, following the decline in corporate gross profit margins due to the higher cost of intermediate inputs and higher unit labour costs. Initially, taxes on household incomes and social security contributions rise by 0.05 percent and 0.04 percent of GDP respectively, due to the indexation of nominal wages and the fall in the GDP deflator. While the rise in oil prices leads to declining real income for both households and the corporate sector, the rise in inflation also skews the weight of income taxes towards households. As the average tax rate on household income is higher than the average corporate tax rate, this produces an autonomous rise in the overall tax burden on income, which then boosts government revenue.

Table 3 - Effects on public sector accounts
% of GDP, differences in percentage points relative to baseline

	t	t+7
Net lending capacity	-0.16	-0.25
Primary balance	-0.13	-0.16
Receipts	0.08	0.03
Taxes on household income	0.05	0.00
Social contributions	0.04	0.03
Taxes on corporate income	-0.05	-0.03
VAT	0.02	0.02
Excise duties	-0.01	-0.01
Other income	0.02	0.01
Primary expenditure	0.21	0.19
Public consumption and investment	0.07	0.07
Unemployment benefits	0.02	0.01
Other social benefits	0.10	0.10
Other primary expenditure	0.02	0.02
Interest charges	0.03	0.09

Source: Federal Planning Bureau

The oil price shock's recessionary effect on private consumption tends to reduce tax revenue related to consumption, especially income from excise duties on energy products. When taken together, however, total receipts from VAT and excise duties tend to rise as a percentage of GDP, albeit marginally. This limited though positive effect on consumption tax receipts stems from the rise in consumer prices, which compensates for the decline in the volume of real consumer spending, and from the relatively faster rise in consumer prices than the price of GDP. Notwithstanding the positive effects of inflation on tax receipts, the recessionary effects of the oil price shock limit the overall rise in current government receipts to somewhat below 0.10 percent of GDP. On the whole, the rise in world oil prices produces a slight shift in the fiscal burden, away from the relatively more exposed corporate sector and toward both household income and household private consumption expenditure.

The oil price shock leads to a rise in total public expenditure of about 0.28 percent of GDP in the medium term. This rise in spending is due to higher social security outlays, rising public sector consumption, and the rise in the interest rate charges on public sector debt.

The adverse inflationary shock raises the public sector net borrowing requirement by about 0.16 percent of GDP in the first year and, as public spending rises, the borrowing requirement rises to 0.25 percent of GDP in t+7.

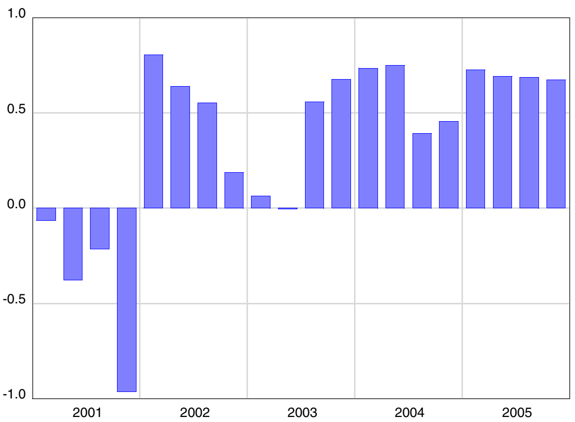
Economic forecasts 2004-2005

After 3 years of substandard economic growth, the Belgian economy ought to perform better in 2004 and 2005. Real GDP growth should accelerate to 2.4% in 2004 and 2.5% in 2005, after a modest increase of only 1.3% in 2003. The recovery already started by mid-2003, driven by an improvement in the worldwide business cycle, and persisted during the first half of this year. Quarterly GDP growth is expected to weaken in the second half of 2004, due to the recent surge in oil prices. In 2005 the impact of this oil price rise should subside and qoq growth rates will speed up to 0.7%.

Compared to 2003, economic growth in 2004 should be not only stronger, but also more balanced. Last year, economic growth was boosted entirely by domestic demand, while net exports contributed negatively (-0.4%). In 2004 however, net exports should make a positive contribution of 0.4% to economic growth, thus becoming the driving force behind the pick up in growth. Belgian foreign export markets, situated largely inside the eurozone, are currently benefiting from the worldwide recovery (with especially strong growth in the US, Japan and China). The past appreciation of the euro is still somewhat hampering Belgian exports, resulting in an export growth rate of 4.2% this year.

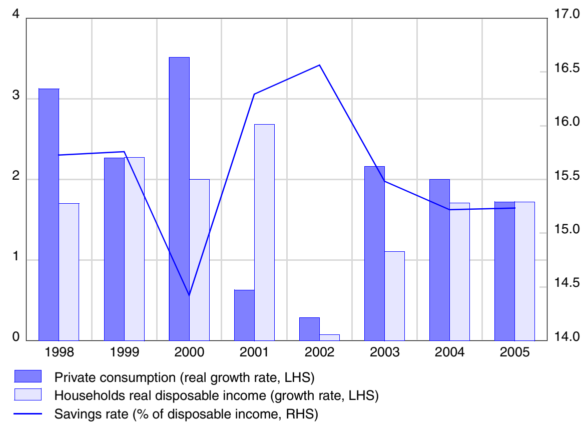
Graph 1 - Quarterly GDP at constant prices

qoq growth rates, seasonally adjusted and corrected for calendar effects



Growth in final national demand should accelerate to 2% this year, up from 1.7% in 2003. This is mainly due to the strong recovery of business investment which, after two years of decline, should record a 1% gain this year thanks to favourable financing conditions (as a result of the fall in long-term interest rates), a positive growth outlook and improved corporate profitability. Households, however, should be quite reticent. Private consumption and residential investment are both expected to increase less rapidly than in 2003. The recovery in household consumption came surprisingly fast in 2003, fed by an upturn in the level of employment and a rise in consumer confidence which started as early as the second quarter of 2003. This move continued during the first quarter of 2004, when private consumption was also stimulated by the bi-annual motor show. Growth in household consumption should, however, slow during the second half of the year due to the stabilization of consumer confidence since April and the relatively weak growth of consumers' purchasing power. Purchasing power is being dampened by high oil prices which are causing wage indexation to trail behind the growth in consumer prices. In spite of the further rise in the unemployment rate and the stagnation of consumer confidence, the savings rate will continue to decrease in 2004, resulting in private consumption growth of 2%.

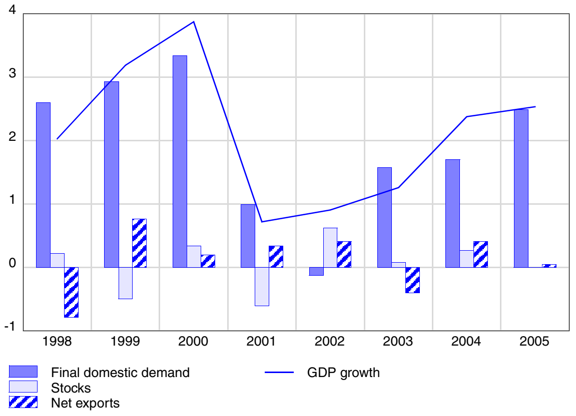
Graph 2 - Private consumption and savings rate



Belgian foreign export market growth will not accelerate further in 2005. The small acceleration in euro area economic growth (2% in 2005 compared to 1.8% in 2004) will be cancelled out by the weakening of growth in the US and Japan. As the negative effects of the appreciation of the euro gradually fade, export growth will rise to 5.5%.

Increased competitiveness will boost domestic firms' sales potential and hence business investment growth (4.7% in 2005). Furthermore, we expect a strong rise in investment in infrastructure by local authorities with a view to the local elections in 2006. As a consequence, growth of government investment will surge in 2005, making a positive contribution of 0.4% to economic growth. After a decline of 1.4% in the savings rate during 2003-2004, a stabilisation is expected in 2005, resulting in a 1.7% increase in both private consumption and households' real disposable income. Growth of residential investment ought to slow down further to 2%.

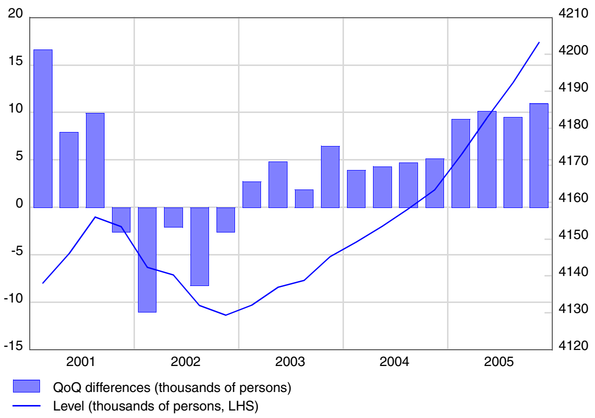
Graph 3 - Decomposition of real GDP growth
contributions to GDP growth in percentage points



All in all, this means that next year's economic growth will depend on final national demand. The sharp rise in investment, in particular, will cause an acceleration in national demand up to 2.6% in 2005. Combined with strong export growth, this implies a speeding up of imports, resulting in a zero contribution of net exports to economic growth next year.

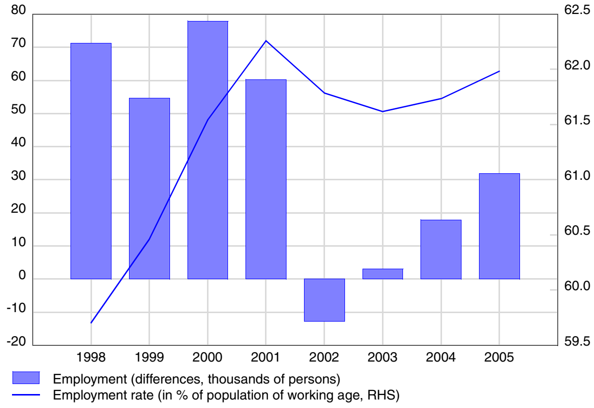
Between the last quarter of 2001 and the end of 2002, employment followed a downward path. Despite modest economic growth, the decline had already halted in early 2003. In spite of the unfavourable level reached by the beginning of 2003, the average annual level was 2300 persons higher than the average level in 2002. The qoq increase in domestic employment should accelerate this year and particularly next year, leading to average annual rises of 17,700 and 31,700 persons respectively.

Graph 4 - Quarterly development of domestic employment
seasonally adjusted



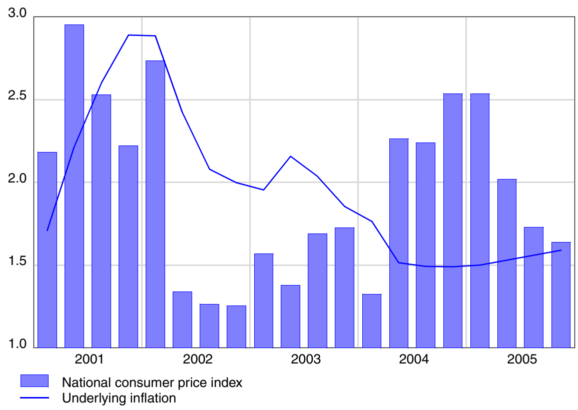
The employment rate should only increase slowly (from 61.6% in 2003 to 62% in 2005), as job creation barely exceeds the increase in the population of working age. The unemployment rate should mark its third consecutive rise this year and decline only marginally in 2005.

Graph 5 - Evolution of employment and employment rate
annual averages



The level of inflation, as measured by the yoy growth rate in the national consumer price index, should be 2.1% and 2% in 2004 and 2005, respectively. Although underlying inflation, which reflects the fundamental evolution in consumer prices, should fall further from 2% last year, to 1.6% in 2004 and 1.5% in 2005, this decrease would be more than offset by the recent oil price rises and the further dampening of the downward effect of the abolition/reduction in radio and television licence fees (depending on the region). The health index, which excludes fuel prices, should increase less vigorously than the overall index (1.6% in 2004 and 1.7% in 2005).

Graph 6 - Quarterly development of inflation
yoy growth rates



The pivotal index level was crossed in September 2004. As a result, social benefits will be adjusted by 2% in line with the higher cost of living in October 2004. The same will also happen to public sector wages in November 2004. The monthly forecasts for the health index indicate that the pivotal index level – currently standing at 116.15 – should not be exceeded in 2005.

"Economische begroting 2005", "Budget économique 2005", INR/ICN, September 2004.

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 30 September 2004)

	2002	2003	2004	2005
Private consumption	0.3	2.2	2.0	1.7
Public consumption	2.3	2.7	1.3	1.9
Gross fixed capital formation	-3.7	-0.9	1.7	5.8
Final national demand	0.5	1.7	2.0	2.6
Exports of goods and services	1.5	1.7	4.2	5.5
Imports of goods and services	1.0	2.3	3.8	5.6
Net-exports (contribution to growth)	0.4	-0.4	0.4	0.0
Gross Domestic Product	0.9	1.3	2.4	2.5
p.m. Gross Domestic Product - in current prices (bn euro)	261.12	269.55	280.57	293.04
National consumer price index	1.6	1.6	2.1	2.0
Consumer prices: health index	1.8	1.5	1.6	1.7
Real disposable income households	0.1	1.1	1.7	1.7
Household savings ratio (as % of disposable income)	16.6	15.5	15.2	15.2
Domestic employment (change in '000, yearly average)	-12.4	2.3	17.7	31.7
Unemployment (Eurostat standardised rate, yearly average) [1]	7.3	8.1	8.6	8.5
Current account balance (BoP definition, as % of GDP)	5.3	3.8	3.9	3.7
Short term interbank interest rate (3 m.)	3.3	2.3	2.1	2.6
Long term interest rate (10 y.)	5.0	4.1	4.2	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
	2004	2005	2004	2005	2004	2005	
Federal Planning Bureau	2.4	2.5	2.1	2.0	.	.	10/04
INR/ICN	2.4	2.5	2.1	2.0	.	.	10/04
National Bank of Belgium	2.3	2.6	1.8	1.7	-0.3	-1.0	6/04
European Commission	2.0	2.5	1.5	1.6	-0.5	-0.7	3/04
OECD	2.0	2.6	1.6	1.4	-0.2	-0.7	5/04
IMF	2.5	2.3	1.8	1.6	-0.2	-0.4	9/04
ING	2.7	2.6	1.9	1.8	-0.3	-1.0	9/04
Fortis Bank	2.5	2.7	1.9	1.8	0.0	-0.5	9/04
Dexia	2.4	2.1	2.2	1.9	-0.8	-0.8	9/04
KBC Bank	2.6	2.2	2.0	1.8	-0.2	-0.5	9/04
Morgan Stanley	2.6	2.1	2.1	1.9	-0.5	-0.8	9/04
Petercam	2.4	1.9	2.0	1.75	.	.	10/04
IRES	2.7	3.0	2.0	1.6	-0.1	-0.8	6/04
DULBEA	2.5	2.5	2.0	1.8	-0.5	-0.8	9/04
Consensus Belgian Prime News	2.5	2.5	1.9	1.8	-0.1	-0.4	9/04
Consensus Economics	2.3	2.4	1.8	1.7	.	.	9/04
Consensus The Economist	2.4	2.1	1.9	1.6	.	.	9/04
Consensus Wirtschaftsinstitute	1.9	2.1	1.9	1.6	.	.	4/04
Averages							
All institutions	2.4	2.4	1.9	1.7	-0.3	-0.7	
International public institutions	2.2	2.5	1.6	1.5	-0.3	-0.6	
Credit institutions	2.5	2.3	2.0	1.8	-0.3	-0.7	

Collaborating institutions for The Economist: ABN Amro, Deutsche Bank, EIU, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, UBS Warburg.
Wirtschaftforshungsinstitute: DIW (Berlin), Ifo (München), HWWA (Hamburg), IfW (Kiel), IWH (Halle), RWI (Essen)

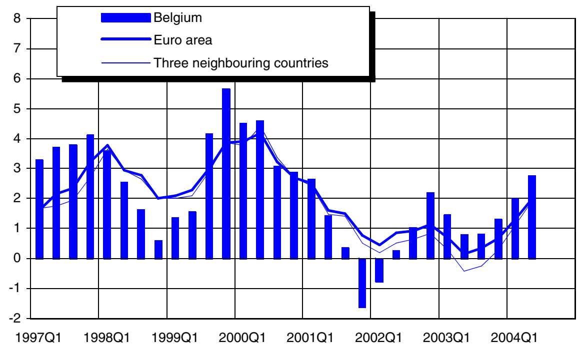
General economic activity

Table 1 - GDP growth rates, in %

			YoY growth rates, in %					QoQ growth rates, in %				
	2002	2003	2003Q2	2003Q3	2003Q4	2004Q1	2004Q2	2003Q2	2003Q3	2003Q4	2004Q1	2004Q2
Germany	0.1	-0.1	-0.3	-0.3	0.0	0.8	1.5	-0.2	0.3	0.3	0.4	0.5
France	1.1	0.5	-0.1	0.4	1.0	1.6	2.8	-0.4	0.7	0.5	0.8	0.7
Netherlands	0.6	-0.9	-1.4	-1.4	-0.5	0.9	1.4	-0.7	0.1	0.5	0.8	-0.1
Belgium	0.7	1.1	0.8	0.8	1.3	2.0	2.7	0.0	0.6	0.7	0.7	0.8
Euro area	0.8	0.5	0.1	0.3	0.7	1.3	2.0	-0.2	0.5	0.4	0.6	0.5
United States	1.9	3.0	2.3	3.5	4.4	5.0	4.8	1.0	1.8	1.0	1.1	0.8
Japan	-0.3	2.4	2.2	1.8	3.5	5.1	4.3	1.1	0.6	1.9	1.6	0.3

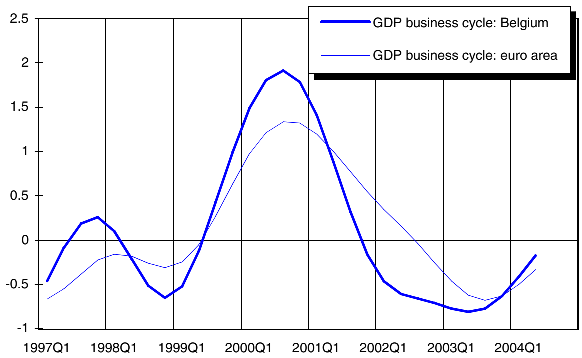
Source: INR/ICN, National sources, Eurostat

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



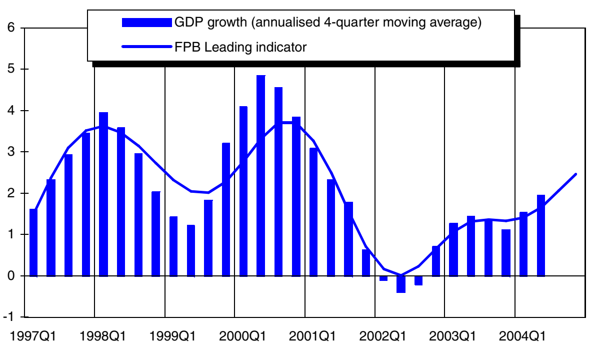
Source: INR/ICN, National sources, Eurostat

Graph 2 - GDP business cycle



Source: INR/ICN, Eurostat, FPB

Graph 3 - GDP growth and leading indicator



Source: INR/ICN, FPB

In the year to 2004Q1 the US economy grew at an average pace of 1.2% qoq driven by very loose monetary policy and large tax cuts. In 2004Q2, however, growth slowed considerably to a rate of 0.8% due to a strong rise in oil prices (which negatively impacts households' real disposable income) and fading monetary and fiscal stimuli. In these circumstances, qoq growth is expected to remain close to its current rate for the rest of 2004. This message is supported by the leading indicator of the Conference Board and the ISM-activity index, both of which confirm that US growth has peaked.

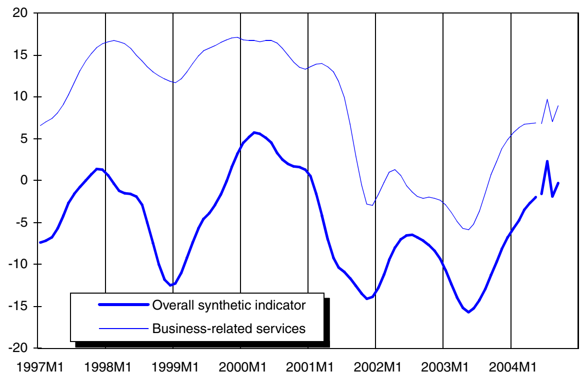
The Japanese economy has also grown rapidly during the year to 2004Q1, reaching the fastest yoy growth rate (5.2%) since the bursting of the stock market and real estate bubbles in the early 90s. Continuing strength in foreign demand (especially from China) and rising profits have enabled companies to increase investment and employment. This, in turn, has had a positive effect on consumption. In 2004Q2, growth slowed down to only 0.3%, owing to a deceleration of the growth rate of private consumption, exports and business investment.

Economic growth in the euro zone reached 0.5% in 2004Q2, only slightly below the growth rate seen in the previous quarter (0.6%). European growth is still largely being driven by exports, while consumption is still lacklustre (especially in Germany) due to weak employment growth and high oil prices.

In Belgium, economic activity was quite strong in the first half of 2004, easily outpacing the average growth of its main trading partners. While French growth remained strong and German growth improved, Dutch growth turned negative again in 2004Q2.

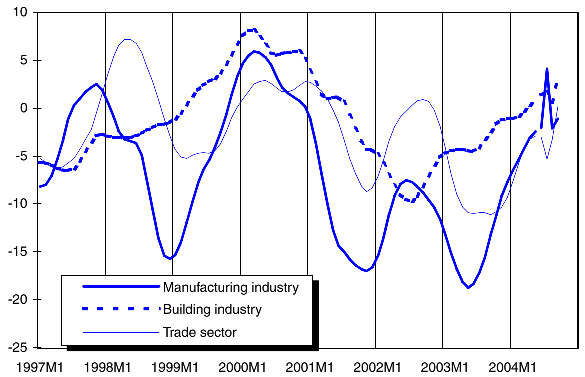
The Belgian business cycle has been on a higher growth path than the euro area cycle during the past 6 months. According to the FPB's leading indicator, Belgian GDP should accelerate in the second half of 2004, therefore reaching an average growth figure of 2.4% this year as compared with 1.1% in 2003.

Graph 4 - Business cycle: global evolution



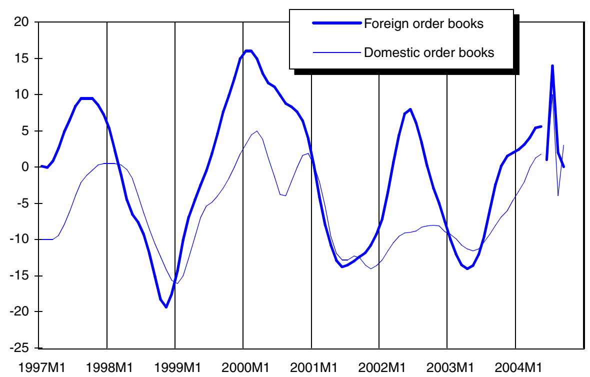
Source: NBB

Graph 5 - Business cycle: sectoral evolution



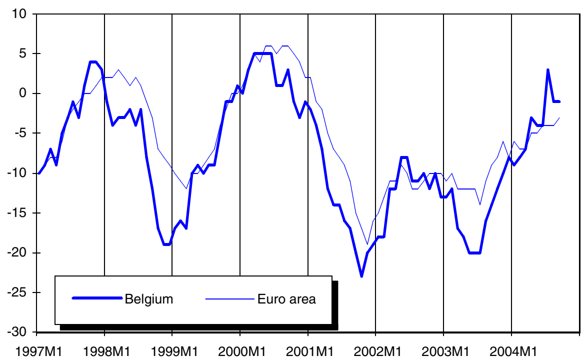
Source: NBB

Graph 6 - Manufacturing industry: order books



Source: NBB

Graph 7 - Industrial confidence: international comparison



Source: Eurostat

The very convincing upturn in Belgian business confidence during the second half of 2003 continued during the first seven months of this year. In July the business confidence indicator reached its highest level for almost four years. The rising path was seen in all of the three branches that are part of the overall synthetic indicator (manufacturing industry, building industry and the trade sector). Even the indicator for business-related services, which is not taken into account when calculating the synthetic indicator, recorded a noticeable increase. It therefore seems that services have reinforced the current business cycle, which has not generally been the case in the past.

Although the overall indicator is still in expansive territory, its performance during the last two months has been rather less convincing. In August it fell very sharply and despite the correction in September, the smoothed indicator (which reflects the fundamental position of the business cycle with a four-month delay) is at risk of flattening out in the coming months.

The upturn in manufacturing industry was mainly export-driven during the second half of last year. Since the beginning of 2004, however, the more subdued improvement in foreign order books was more than compensated by an acceleration in domestic orders. During recent months, developments in the manufacturing industry indicator are mainly being driven by the development of the current situation as expectations for the coming months are rather stable.

In the trade sector, indicators referring to the current and future situation moved hand in hand. The deterioration in the survey result since May and its improvement since August were the result of similar developments in both components.

The slight decline in the building industry indicator between June and August was more than offset by the rise in this indicator in September. The smoothed indicator has been on an upward path for more than two years, which is one year longer, on average, than the other economic sectors covered by the NBB survey.

Compared to the euro area, Belgian industrial confidence improved significantly more strongly. This was already taking place during the beginning of the upturn, but it also continued throughout 2004. An analysis of the indicators shows that the investment and the intermediate goods sectors in particular can account for this difference in performance as the consumer goods sector stabilised in both Belgium and the euro area during the course of 2004. The same is true of the capacity utilisation rate: while it continued to rise in Belgium during the first two quarters, it was still below the level reached at the end of 2003 in the euro area in 2004Q2.

Private consumption

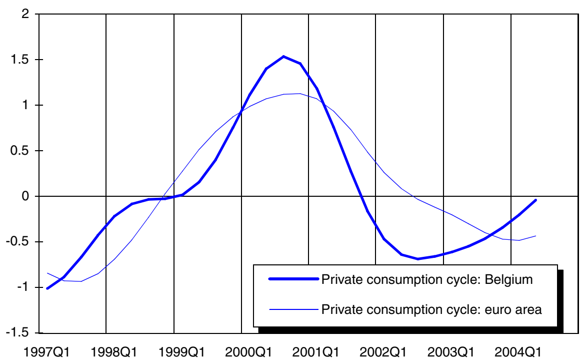
Table 2 - Private consumption indicators

	2002	2003	2003Q4	2004Q1	2004Q2	2004Q3	2004M4	2004M5	2004M6	2004M7	2004M8	2004M9
Turnover (VAT) - retail trade [1]	2.4	5.7	9.4	8.6	6.7	.	7.0	0.7	12.7	9.2	.	.
New car registrations [1]	-4.3	-1.9	18.6	11.2	12.7	-3.9	22.9	5.0	8.9	-11.5	2.9	-1.9
Consumer confidence indicator [2]	-2.7	-10.8	-8.3	-4.0	-3.7	-2.7	-4.0	-6.0	-1.0	-4.0	-2.0	-2.0

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

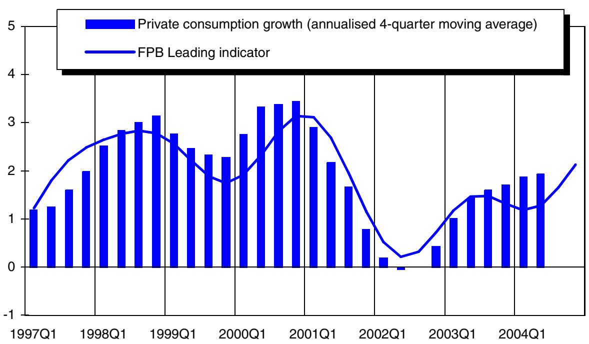
Source: NIS/INS, Eurostat, Febiac, FPB

Graph 8 - Private consumption cycle



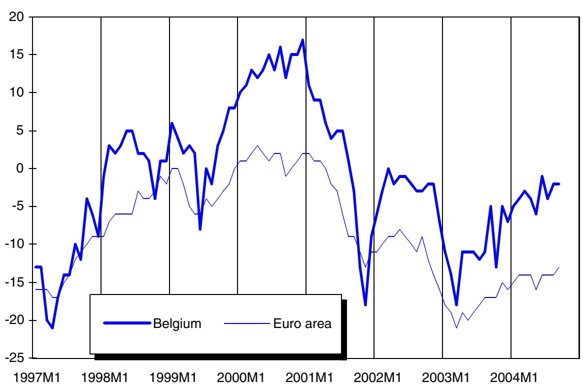
Source: INR/ICN, Eurostat, FPB

Graph 9 - Private consumption growth and leading indicator



Source: INR/ICN, FPB

Graph 10 - Consumer confidence: international comparison



Source: Eurostat

Although the Belgian and euro area private consumption cycles developed in a very similar way during the previous upturn, this was not really the case from the end of 2000 onwards. The Belgian cycle deteriorated dramatically and took only seven quarters to reach its trough in the second quarter of 2002. The downturn in the euro area cycle, however, was much less pronounced and continued until the beginning of this year. As a result, Belgian private consumption had already reached its trend level by the second quarter of 2004, whereas it was still 0.4% below its trend in the euro area.

Belgian private consumption was surprisingly strong during the first quarter of this year and increased by 1.1% (qoq), which can be partly explained by some catching up after the stabilisation in 2003Q4. During the following quarter, private consumption growth fell to 0.5%, which is close to its long-term average growth.

Most indicators of private consumption presented quite an optimistic picture for the first half of this year, but have recently shown some hesitation. Despite the losses in April and May, consumer confidence was on a clear upward path until June. Since then, however, rising oil prices have caused some pessimism concerning the economic outlook. Consequently, consumer confidence has dropped somewhat and has not yet shown any signs of a further strengthening. Car sales have also recorded substantial yoy increases until April, but weakened markedly since then. This profile should be interpreted with caution, though, since car sales were boosted during the first few months of this year by the biannual motor show held in Brussels in January. The NBB indicator for the trade sector also shows a significant deterioration during recent months. The only indicator that has not yet shown any clear signs of weakening are retail sales. Most of those indicators are summarised in the FPB leading indicator, which points to an annual rate of growth in private consumption of around 2% this year.

The divergence between Belgian and euro area consumer confidence has become more striking during recent months. While the Belgian indicator improved further during the first half of 2004, consumer confidence in the euro area stabilised since February.

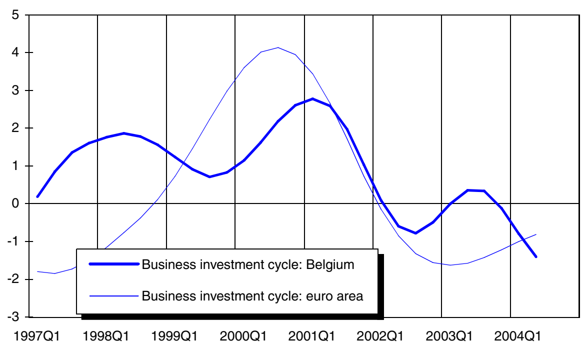
Business investment

Table 3 - Business investment indicators

	2002	2003	2004	2003Q3	2003Q4	2004Q1	2004Q2	2004M2	2004M3	2004M4	2004M5	2004M6
Investment (VAT) [1]												
Industrial companies	-5.4	-5.1	.	5.0	-15.7	-2.1	-9.0	-15.8	6.4	-3.7	-13.8	-9.3
Non-industrial companies	-3.2	-1.1	.	-2.9	-8.0	3.9	-11.1	26.6	-10.9	-13.8	-6.6	-12.6
Total companies	-3.7	-2.6	.	0.0	-11.2	2.4	-9.4	10.5	-4.4	-9.5	-7.8	-10.7
Investment survey [1]	-13.0	-4.1	3.3									
Capacity utilisation rate (s.a.) (%)	79.9	78.8	.	79.0	79.5	79.7	81.4					

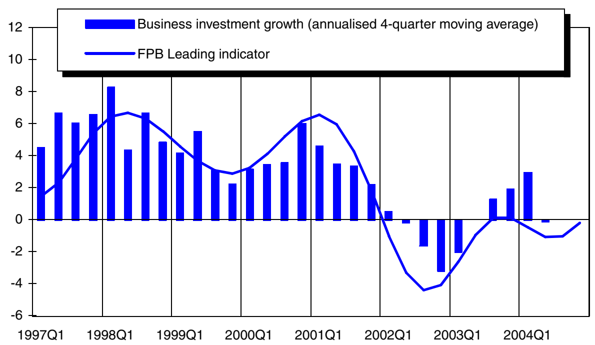
[1] Change (%) compared to same period previous year

Graph 11 - Business investment cycle



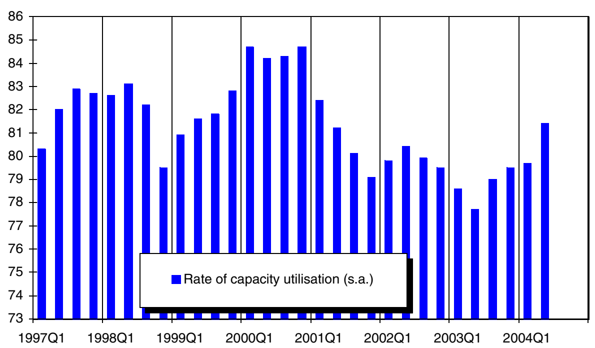
Source: INR/ICN, Eurostat, FPB

Graph 12 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 13 - Capacity utilisation in manufacturing industry



Source: NBB, FPB

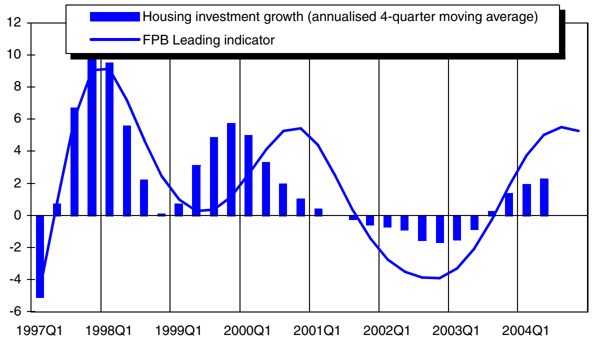
Since the end of 2002, the evolution of the Belgian business investment cycle has been at odds with the development of the business cycle. In fact, the investment cycle started a subdued upturn by the end of 2002, while evidence of a solid economic recovery was more or less absent at that time. Only three quarters later, when the Belgian economy finally got back on track again, the business investment cycle had already peaked and begun a new decline that was not even showing any signs of weakening by the second quarter of 2004. In the euro area, the development of the investment cycle is easier to explain as it developed more or less in line with the GDP cycle. Both cycles reached their trough (investment cycle two quarters ahead of the GDP cycle) after a downturn of almost three years, and have improved since then.

After a massive decline of 4.7% (qoq) in the third quarter of last year, Belgian business investment at constant prices recovered somewhat during the following two quarters with qoq growth rates of between 1% and 2%. During the second quarter of 2004, however, investment plummeted again by 4.9% and reached its lowest level since mid-2002. The VAT-based investment statistics show that the fall was most pronounced in the non-industrial sector, although the industrial sector barely performed any better. Due to this disappointing development, the investment rate at constant prices (real business investment as a percentage of GDP) fell to only 13.7% on average during the first half of this year.

On the basis of most indicators, a change for the better can be expected during the second half of this year. The latest NBB investment survey showed that entrepreneurs in the industrial sector are planning to invest more this year than in 2003, after three years of negative growth rates. Capacity utilisation continued its upward path and even accelerated during the second quarter of this year, which brought it to the highest level since 2001. Those positive signals are confirmed by the FPB leading indicator, which is improving cautiously during the second half of 2004.

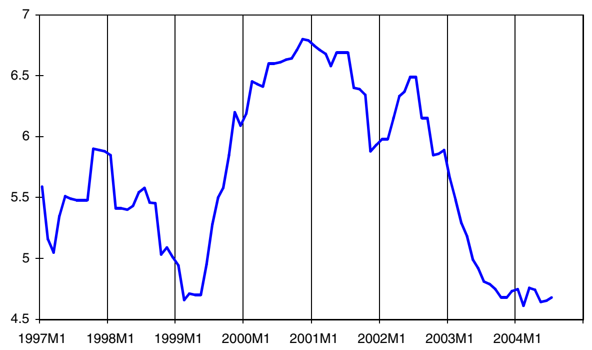
Housing investment

Graph 14 - Housing investment growth and leading indicator



Source: INR/ICN, FPB

Graph 15 - Mortgage rate (%)



Source: NBB

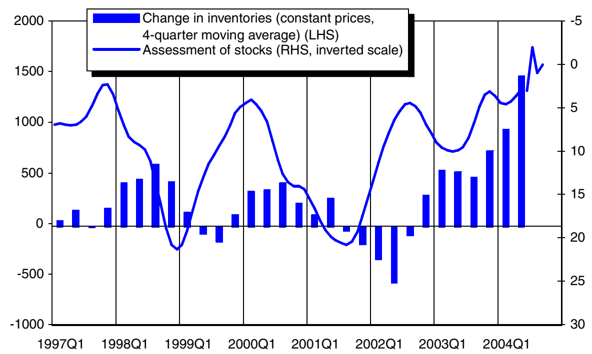
According to the latest quarterly national accounts, housing investment has continued on its rising path during the first two quarters of this year, with qoq growth rates of 0.4% and 1.2% respectively. Notwithstanding these large increases, it is expected that housing investment growth will lose some strength during the second half of this year.

According to the FPB leading indicator, the current upturn in housing investment should begin to level off by the end of this year. The results of the survey among architects and mortgage applications submitted for building and conversion projects, which all have about a one-year lead, started to fluctuate in the third quarter of last year. As these indicators have not improved further since then, some moderation of housing investment growth rates can be expected during the second half of this year. Indicators relating to the early stages of the building process, taken from the NBB business survey, have a shorter lead. They also began to level off recently, confirming the information coming from the other indicators.

After a decline of one and a half years, mortgage rates have stabilised at historically low levels since the beginning of this year. As long-term interest rates (and hence mortgage rates) are not expected to increase very fast in the near future, they should continue to encourage housing investment.

Stock building

Graph 16 - Stock building indicators



Source: INR/ICN, NBB

The massive stock rebuilding process that began in the third quarter of 2002, continued throughout the first half of this year. The exceptional nature of the recent rise in inventories is demonstrated by the 4-quarter moving average of the change in stocks, which reached an all-time high in the second quarter of 2004.

During the last two quarters of 2003, the increase of stocks went hand in hand with an increasing number of entrepreneurs considering their stocks to be insufficient, which offers an explanation for the huge expansion of inventories during the first two quarters of this year. During the latter period, however, most entrepreneurs had not changed their opinion about their level of stocks, which is probably a sign of a slowdown in the current rebuilding process, even though the number of entrepreneurs facing stock shortages did increase somewhat recently.

Foreign Trade

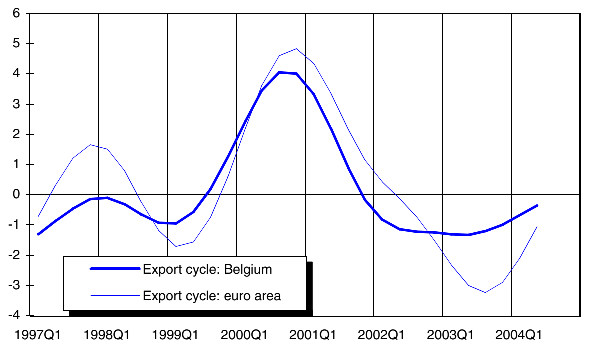
Table 4 - Belgium - Trade statistics (goods, intra/extrastat, national concept)

	2002	*2003*	*2003Q3*	*2003Q4*	*2004Q1*	*2004Q2*	*2004M1*	*2004M2*	*2004M3*	*2004M4*	*2004M5*	*2004M6*
Exports - value [1]	0.2	1.0	0.3	0.8	4.3	7.5	-1.7	3.3	10.7	6.3	3.7	12.4
Imports - value [1]	-1.6	1.5	0.6	0.4	3.3	9.3	-2.9	1.5	11.0	6.1	3.0	18.7
Exports - volume [1]	1.0	3.3	2.6	3.6	6.7	4.8	2.4	5.4	12.0	5.9	-0.1	8.5
Imports - volume [1]	0.5	3.8	3.7	4.0	6.3	6.1	0.5	4.8	13.3	3.9	-1.1	15.2
Exports - price [1]	-0.9	-2.2	-2.1	-2.7	-2.4	2.6	-4.0	-2.0	-1.2	0.5	3.9	3.6
Imports - price [1]	-2.1	-2.2	-2.9	-3.5	-2.9	3.1	-3.4	-3.2	-2.1	2.1	4.1	3.1

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

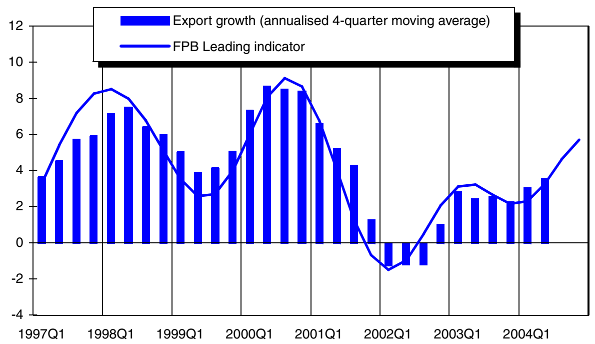
Source: INR/ICN, FPB

Graph 17 - Export cycle



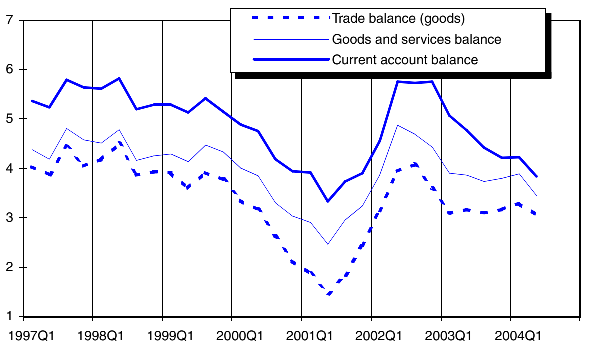
Source: INR/ICN, Eurostat, FPB

Graph 18 - Export growth and leading indicator



Source: INR/ICN, FPB

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



Source: INR/ICN, NBB, FPB

The Belgian export cycle began to bottom out around mid-2002, but showed no upward momentum until mid-2003. The trough was finally reached in 2003Q3 and a subdued acceleration was seen in the first half of 2004. The euro area export cycle experienced a much steeper decline and bottomed out one quarter later, but it is now faster than the Belgian cycle.

The recovery in exports is the result of a vigorous expansion in world trade from mid-2003 onwards, with particularly strong growth in Asia and the US. The negative effect on exports of the appreciation of the euro, which depressed extra-euro zone exports somewhat in 2003, has been fading during the last 6 months. Due to the acceleration of domestic demand in the euro zone (especially in France), intra-euro zone exports were also on a rising trend in 2004.

Most leading indicators for Belgian exports have continued to improve strongly in the last few months, suggesting that exports should continue to develop favourably in the near future. The FPB composite leading indicator for exports has improved markedly in the last 6 months and points to an acceleration of export growth to more than 4% this year. In 2005 export growth will probably accelerate further as the effects of the past appreciation of the euro will have been completely worn off.

Trade statistics reflect the significant deflationary impact of the appreciating euro exchange rate on trade prices in 2003 and in the first quarter of 2004. From the second quarter onwards, however, the euro depreciated, which accounts for the rise of import and export prices in that quarter.

The Belgian current account surplus, expressed as a percentage of GDP, declined considerably during the course of 2003. Due to the recovery in export growth and the modest growth in domestic demand, the declining trend has stabilized. The surplus, expressed as a percentage of GDP, is expected to remain at about 3.8%.

Labour market

Table 5 - Labour market indicators

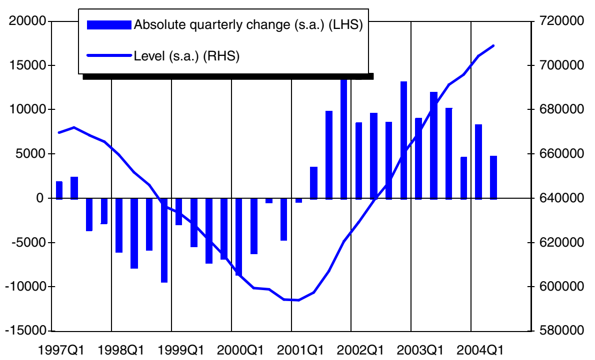
	2002	2003	2003Q3	2003Q4	2004Q1	2004Q2	2004M3	2004M4	2004M5	2004M6	2004M7	2004M8
Unemployment [1][2]	643.8	684.6	691.5	696.1	704.4	709.1	706.6	706.5	709.7	711.3	706.8	711.9
Unemployment rate [2][3]	13.3	14.0	14.2	14.2	14.4	14.4	14.4	14.4	14.4	14.5	14.4	14.5
Unemployment rate-Eurostat [3][4]	7.3	8.1	8.2	8.3	8.5	8.6	8.5	8.5	8.6	8.6	8.6	8.6

[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

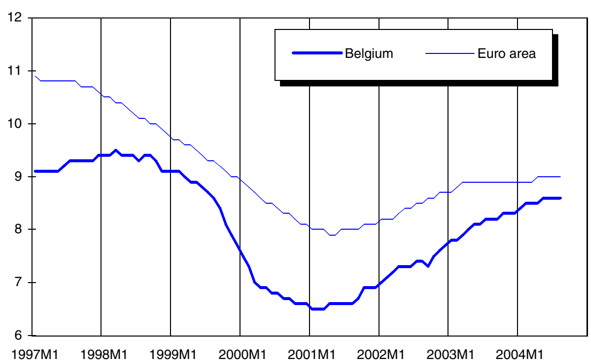
Source: RVA/ONEm, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older)



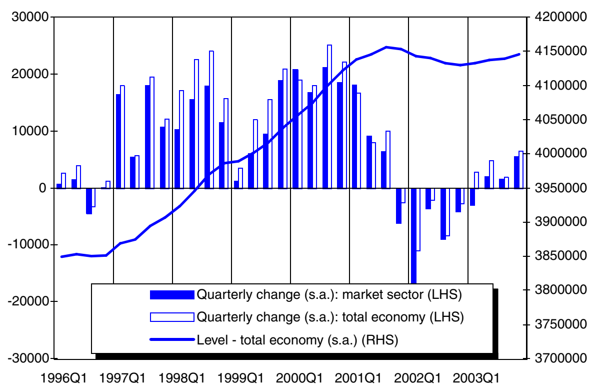
Source: RVA/ONEm

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



Source: Eurostat

Graph 22 - Evolution of domestic employment



Source: INR/ICN

After delays caused by an in-depth revision of the data-collecting process by the social security authorities, official estimates for employment in 2003 have finally become available. These figures indicate that employment in 2003 has been less affected by three consecutive years of poor economic growth than was previously assumed. Total domestic employment actually increased slightly (0.1%; 2,000 persons), a 0.5% upward revision compared with earlier estimates. Consequently, the drop in the employment rate in 2003 (from 61.8% to 61.6%) is only half as large as expected.

True, in part this may be explained by a new (and unexpected) surge in public employment (increase of 9,900 persons). Even so, private sector employment growth (-0.2%) has also been revised upwards (previous estimates stood at –0.5%). Consequently, private sector (hourly) productivity growth for 2003 is now estimated to have been only 1.5% rather than 1.9%.

Moreover, on a quarter-to-quarter, seasonally adjusted basis, employment growth has been positive throughout the whole past year (average quarterly growth of 0.1%). Even without any change in the dynamics of the expected quarterly evolution in employment for 2004, this new 2003 quarterly profile also automatically improves estimates of average employment growth for the current year.

Finally, with unemployment data already available up to the second quarter of 2004, the new employment figures imply a significant upward revision of labour force growth for 2003 (increase by 0.9% instead of 0.5%), and, given the revised 2003 quarterly profile for employment, they are also tending to lift estimates of labour force growth for the current year. The fact that the increase in unemployment has still been substantial during the first two quarters of 2004 (seasonally adjusted quarter-on-quarter increases of 1.2% and 0.7% respectively) and is only diminishing slowly also points to larger-than-expected labour force growth, particularly since a scenario of gradually improving employment growth during 2004 has been given additional credibility by the revised employment figures for 2003.

Prices

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

	2002	*2003*	*2003Q4*	*2004Q1*	*2004Q2*	*2004Q3*	*2004M4*	*2004M5*	*2004M6*	*2004M7*	*2004M8*	*2004M9*
Consumer prices: all items	1.64	1.59	1.73	1.33	2.26	2.23	1.92	2.61	2.26	2.41	2.26	2.03
Food prices	2.20	2.04	2.24	1.88	2.05	0.81	2.05	2.33	1.77	1.57	0.97	-0.11
Non food prices	0.60	1.18	0.91	0.26	2.45	2.82	1.75	2.98	2.62	2.82	2.86	2.78
Services	2.66	1.75	2.50	2.38	2.21	2.51	2.09	2.35	2.19	2.51	2.42	2.60
Rent	2.46	2.22	2.07	2.01	1.94	1.80	1.98	2.01	1.82	1.90	1.77	1.74
Health index	1.78	1.45	1.63	1.32	1.69	1.60	1.58	1.88	1.61	1.73	1.63	1.43
Brent oil price in USD (level)	25.0	28.8	29.4	31.9	35.4	41.5	33.4	37.7	35.2	38.3	42.8	43.3

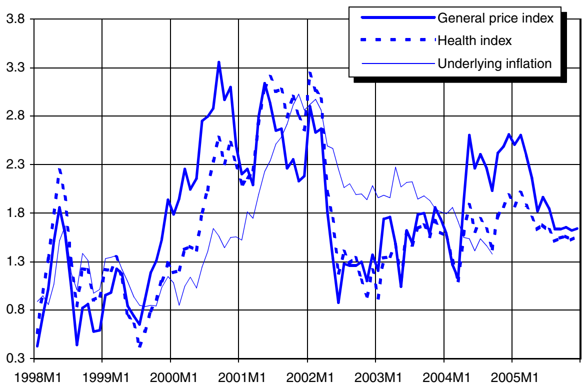
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2004M1	*2004M2*	*2004M3*	*2004M4*	*2004M5*	*2004M6*	*2004M7*	*2004M8*	*2004M9*	*2004M10*	*2004M11*	*2004M12*
Consumer prices: all items	113.32	113.74	113.91	114.52	114.96	114.91	115.30	115.44	115.52	115.58	115.87	115.94
Consumer prices: health index	112.67	113.02	113.05	113.50	113.67	113.65	114.00	114.03	114.08	114.14	114.46	114.54
Moving average health index	112.38	112.59	112.77	113.06	113.31	113.47	113.71	113.84	113.94	114.06	114.18	114.31
	2005M1	*2005M2*	*2005M3*	*2005M4*	*2005M5*	*2005M6*	*2005M7*	*2005M8*	*2005M9*	*2005M10*	*2005M11*	*2005M12*
Consumer prices: all items	116.16	116.70	116.64	117.00	117.05	117.17	117.43	117.33	117.41	117.49	117.75	117.84
Consumer prices: health index	114.78	115.29	115.17	115.49	115.53	115.56	115.85	115.75	115.84	115.92	116.20	116.33
Moving average health index	114.48	114.77	114.95	115.18	115.37	115.44	115.61	115.67	115.75	115.84	115.93	116.07

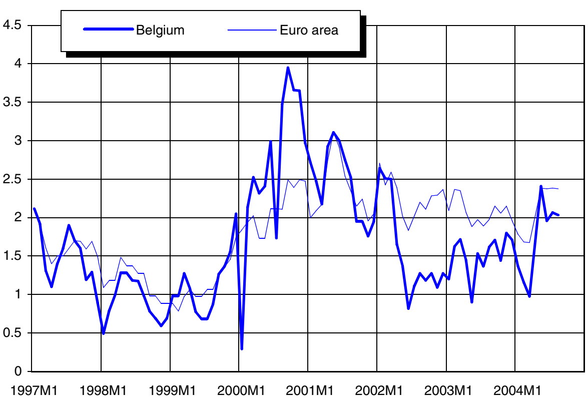
Source: Observations (up to 04M9): FPS Economy; forecasts: FPB

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



Source: FPS Economy, from 04M10 on: forecasts FPB

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



Source: Eurostat

The impact of oil prices on domestic consumer prices has been very obvious during recent months. For a variety of reasons, such as disruptions of the oil supply from Iraq and Russia, the Brent oil price has been above 35 dollars per barrel since May. Expressed in euro, it was more than 30% higher on average between May and September than during the same period last year. Consequently, headline inflation, as measured by the yoy growth rate in the NICP, has been clearly above 2% since May. Since crude oil prices are not expected to fall considerably in the near future, NICP inflation should only cool down from March 2005 onwards.

Underlying inflation has continued to decelerate from 1.8% in the first quarter to 1.5% in the second quarter and since seems to have stabilised close to that rate. This suggests that the downward effect on underlying inflation of low non-energy import prices (due to the past appreciation of the euro) has come to an end, while higher oil prices should only be passed on very slowly to prices of other goods.

All in all, average NICP inflation should be 2.1% this year and 2.0% next year. The pivotal index for public wages and social benefits was crossed in September. According to our monthly forecasts for the 'health index', the next pivotal index threshold (116.15) should not be exceeded during 2005.

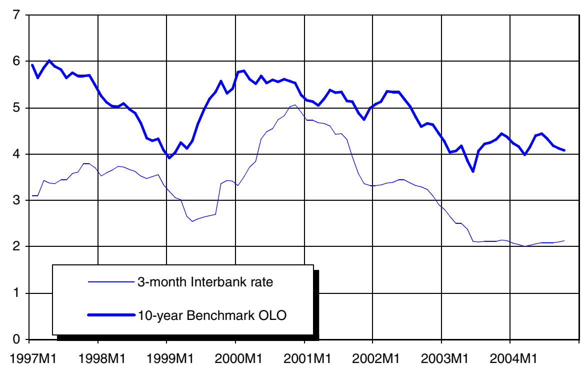
Interest rates

Table 8 - Interest rates

	2002	2003	2003Q4	2004Q1	2004Q2	2004Q3	2004M4	2004M5	2004M6	2004M7	2004M8	2004M9
Short-term money market rates (3 months)												
Belgium	3.29	2.31	2.13	2.04	2.06	2.09	2.03	2.07	2.09	2.09	2.09	2.10
Euro area (Euribor)	3.32	2.33	2.15	2.06	2.08	2.12	2.05	2.09	2.11	2.12	2.11	2.12
United States	1.73	1.15	1.10	1.05	1.25	1.70	1.08	1.20	1.46	1.57	1.68	1.86
Japan	0.02	-0.03	-0.06	-0.04	-0.04	-0.02	-0.04	-0.04	-0.04	-0.02	-0.02	-0.01
Long-term government bond rates (10 years)												
Belgium	4.97	4.14	4.37	4.13	4.34	4.21	4.16	4.40	4.45	4.33	4.17	4.12
Germany	4.79	4.09	4.31	4.08	4.24	4.13	4.11	4.27	4.33	4.26	4.10	4.04
Euro area	4.90	4.13	4.34	4.12	4.30	4.18	4.15	4.35	4.40	4.30	4.15	4.08
United States	4.59	3.99	4.27	4.00	4.58	4.29	4.32	4.69	4.72	4.48	4.27	4.12
Japan	1.24	0.99	1.36	1.30	1.60	1.63	1.51	1.50	1.78	1.80	1.64	1.46

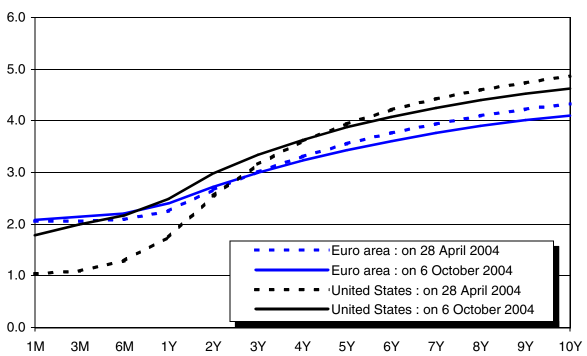
Source: NBB, ECB

Graph 25 - Interest rate levels in Belgium, %



Source: NBB

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



Source: Datastream, data based on interest rate swaps

Despite strong economic growth of the US economy in the second half of 2003, the Federal Reserve kept interest rates on hold at the beginning of this year because employment growth was still very weak, causing doubts about the sustainability of the US recovery. Since that time, however, employment growth accelerated considerably and economic growth was also quite strong in the first and second quarters of this year. This brought the FED to increase its refinancing rate from 1% in June to 1.75% in September. The American central bank is expected to continue to increase rates gradually in order to bring them to a more neutral level.

The ECB has kept its refinancing rate at 2% this year, despite a rapid rise in the inflation rate, reaching 2.5% in March of this year. The breaching of the 2% ceiling, however, is considered to be a temporary phenomenon since it was caused by the rise in oil prices and administrative tax increases in some euro area countries (on tobacco and alcohol for example). Up to now there have been no signs of second-round effects (higher headline inflation translating into higher wage demands), and as a result the ECB is comfortable with the current level of interest rates.

Strong employment growth and increased inflation expectations drove US long-term interest rates higher during the second quarter, after initial weakness in the first quarter. During the summer, however, new doubts arose about the sustainability of the US recovery (caused by record oil prices and a slowdown in job creation), pushing long-term interest rates lower again. Due to an increase in short-term rates, especially in the US, and a small downward correction of long-term rates, yield curves have become less steep both in the euro area and in the US.

Exchange rates

Table 9 - Bilateral exchange rates

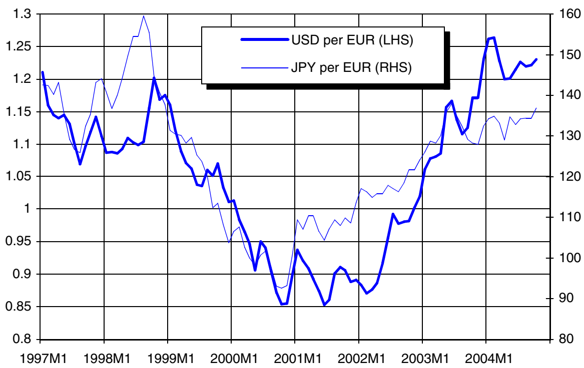
	2002	2003	2003Q4	2004Q1	2004Q2	2004Q3	2004M4	2004M5	2004M6	2004M7	2004M8	2004M9
USD per EUR	0.945	1.132	1.191	1.251	1.205	1.222	1.199	1.201	1.214	1.227	1.219	1.221
UKP per EUR	0.629	0.692	0.698	0.680	0.667	0.672	0.665	0.671	0.664	0.666	0.670	0.681
JPY per EUR	118.1	131.0	129.5	134.0	132.2	134.4	129.1	134.6	132.8	134.2	134.4	134.4

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

	2002	2003	2003Q3	2003Q4	2004Q1	2004Q2	2004M3	2004M4	2004M5	2004M6	2004M7	2004M8
Euro	81.8	90.9	91.2	92.5	94.3	92.2	93.3	91.6	92.6	92.4	93.0	93.0
Growth rate [1]	3.1	11.0	-0.7	1.4	2.0	-2.2	-1.5	-1.8	1.1	-0.2	0.7	0.0
US dollar	119.9	107.5	107.7	102.2	99.6	102.1	100.7	101.4	103.2	101.8	100.8	101.3
Growth rate [1]	-1.1	-10.4	-0.4	-5.1	-2.6	2.6	1.7	0.6	1.8	-1.4	-0.9	0.5
Japanese yen	140.2	140.1	138.3	145.3	144.1	142.9	143.3	145.4	140.4	142.8	142.3	141.3
Growth rate [1]	-5.2	-0.1	0.9	5.1	-0.9	-0.8	-0.5	1.5	-3.4	1.7	-0.4	-0.7

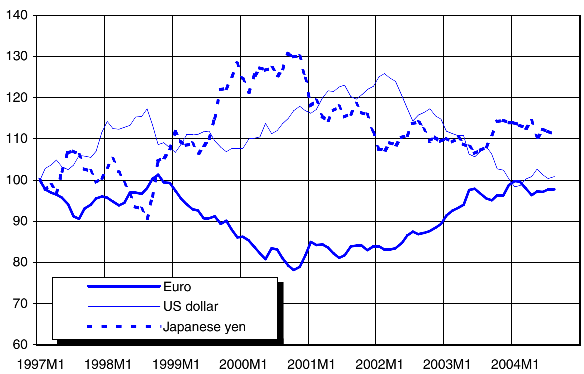
[1] Change (%) compared to previous period
Source: BIS, NBB

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



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

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



Source: NBB, BIS

A renewed rise of the US current account deficit and doubts about the sustainability of the economic recovery, caused by weak job growth, pushed the dollar to record lows against the euro in January and February. Over the next 3 months, however, US job growth accelerated and with it the anticipation of an aggressive tightening of monetary policy. This helped the dollar appreciate versus the euro. From mid-May onwards, however, new doubts about the US recovery and fairly strong growth in the euro zone supported the euro again. Since then EUR/USD exchange rate has been hovering between 1.20-1.25. Financial markets are not expecting any significant move in EUR/USD during the coming year.

Vis-à-vis the Japanese yen, the USD initially depreciated a lot, despite interventions by the Bank of Japan to prevent the yen from appreciating too much, too fast (there were fears that it might choke the export-driven Japanese recovery). From April on however, the euro regained territory vs. the yen, finally arriving at a level close to its starting level for the year. Against the British pound the euro also initially lost value, driven by the anticipation of continued monetary tightening by the Bank of England. In the last few months the euro has bounced back versus the pound but is still some 4% below its value at the beginning of 2004.

At the beginning of this year the nominal effective euro exchange rate was still about 10% higher than its level in January 2003. With the rebound in the USD and the mixed performance of the euro versus other currencies this year, its yoy appreciation declined to only 2.5% in August.

Tax indicators

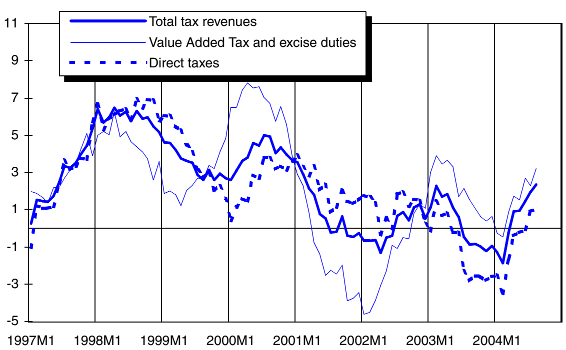
Table 11 - Tax revenues (1)

	2002	2003	2003Q3	2003Q4	2004Q1	2004Q2	2004M3	2004M4	2004M5	2004M6	2004M7	2004M8
Total [2], of which:	2.2	0.6	-0.1	0.7	7.6	5.5	18.8	8.7	0.1	5.0	3.5	7.8
Direct taxes, of which:	1.8	-1.1	-2.4	-1.2	7.6	3.5	20.9	6.3	-1.5	2.5	2.8	3.6
Withholding earned income tax (PAYE)	2.5	0.5	0.2	1.5	3.9	0.7	1.7	3.8	-4.2	2.7	5.8	11.0
Prepayments	-6.4	-0.8	-7.7	-1.8	.	9.5	.	9.8	.	.	23.1	.
Value Added Tax and excise duties	2.7	2.2	1.7	1.9	7.7	7.7	17.0	12.1	1.7	7.6	3.4	11.0

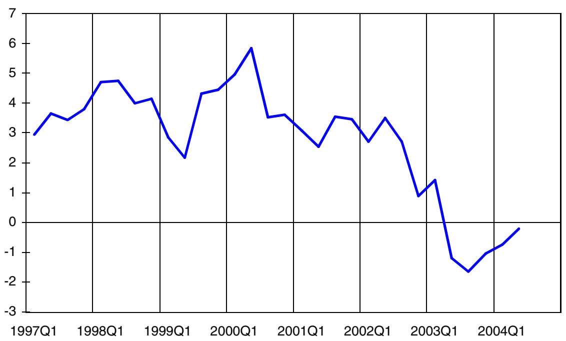
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: FPS Finance, FPB

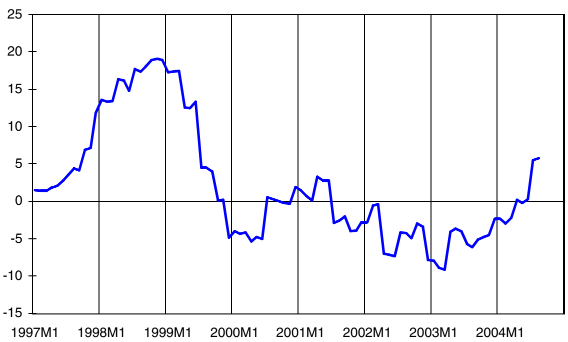
Graph 29 - Real tax revenues (3)



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



Graph 31 - Real prepayments (3)



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

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

Total tax revenues were 7.6% and 5.5% higher in the first and the second quarters of 2004, as compared with the same period in 2003. On a yoy 12-month moving average basis, real growth in both direct and indirect taxation have turned upwards at the beginning of 2004 and now appear to be clearly positive, reflecting both stronger economic growth and the impact of various measures.

The rise in indirect taxes is due to revenue from both VAT and excise duties. The increase in VAT income is due to the acceleration in private consumption growth in general and more dynamic car sales in particular, higher oil prices and increased activity in the housing sector. Excise duties are being boosted by the additional impact of various measures decided during the previous year (including increases in the rate of duty on energy products).

Growth in real PAYE revenue (mainly wage-related) has confirmed its upturn after a 2-year declining trend on a yoy 4-quarter moving average basis. This declining trend was due to fiscal reforms and employment developments, as employment continued to decline in 2003 on a yoy 4-quarter moving average basis despite positive growth on a qoq basis. In 2004 employment is continuing to increase. The fiscal reform is not having any additional impact on PAYE revenues in 2004.

Furthermore, additional categories of social benefits are now submitted to PAYE, and the prefinancing rate for local administrations taxes has been increased.

In July 2004 (the second due date for advance payments), prepayments were about 23% higher as compared to the corresponding period in 2003, due to prepayments by corporate businesses. Taxes on dividends (revenue from these is traditionally concentrated in June and July) also show an upsurge as compared with 2003. This reflects the strong improvement in business profits.

Thematic preparation of the Federal Reports on Sustainable Development

Two Working Papers explore emerging and growing trends in relation to two themes, considered from a perspective of sustainable development: the ageing population and the development of ethical financing. This exploratory work forms part of the thematic preparation work on the Federal Reports on Sustainable Development (FRSD). Under the Belgian law of 5 May 1997 on the Co-ordination of Federal Policy on Sustainable Development Policy, the FPB is responsible for producing these official reports biannually.

Two FRSDs have now been issued. The main functions assigned to these reports by this law, as a basis for the next sustainable development plans, are to review the existing situation, current trends and expected developments and to evaluate (ex post) the federal government's policy in the field of sustainable development. They have been prepared by the Task Force on Sustainable Development and focus on specific, potentially interrelated themes, which may vary from one report to another.

The first two thematic papers, summarized below, use trans-disciplinary tools that were developed during the methodological preparation for the FRSDs and presented in three previous FPB papers (1-04, 4-04 and 6-04). The implementation of the Belgian law of 5 May 1997 must be in accordance with the Sustainable Development commitments made in Rio and Johannesburg. The specific focus on social and economic aspects of sustainable development in these two papers is thus placed in the Belgian context but also examined at the European and global levels.

Sustainable Development and the livelihoods of older non-working people

This WP starts from a perspective of sustainable development and explores the impact of the expected future ageing of the population on guaranteeing the means of subsistence for the older non-working population. Its focus is mainly on the more developed countries and on Europe and Belgium in particular. The paper is innovative, as its theme is analysed using integrated analytical tools which have been developed in the context of sustainable development. This paper stresses that ageing is an integral and key concern of sustainable development strategies. It underlines the importance of the social and economic components of sustainable development, a concept which is often unduly restricted to its environmental component.

The first chapter elucidates the central concepts used in the research and in policy in the areas of both ageing and sustainable development. The meanings of the terms 'generation', 'inter-generational' and 'intragenerational solidarity', which are as used in different ways in these two policy areas, are compared and subsequently integrated in a common framework.

The second chapter describes, for the World, Europe and Belgium, the demographic forces driving the ageing process during the period 1950-2050. Bearing in mind all the uncertainties related to demographic projections, it concludes that, in comparison with the less and least developed countries, the population of the more developed countries is relatively ageing fastest, although there will be more people aged 65+ in developing countries.

The economic, social and institutional aspects of the ageing population are analysed in the third chapter. Firstly, the economic and financial consequences of the ageing population on public pensions expenditure in Belgium and the EU and the different approaches that seek to influence this are explained. This is followed by a description of the way in which the consumption pattern of a nation with an ageing population is likely to change due to this demographic transition. Secondly, some indication is given of the adequacy of pension provision and the likely social consequences of certain measures intended to change this level of provision because of the ageing population. There is also a description of ways in which initiatives from the social economy can meet the specific demands of an ageing population. Thirdly there is a discussion of the influence of the various types of pension provision, the principles on which these are founded and public opinions on policies aimed at guaranteeing the means of subsistence for the older non-working population.

The fourth chapter describes the recent policy of the UN, the EU and the Belgian federal government on sustainable development and ageing on the one hand and on the various areas (such as pensions and employment) that influence the means of subsistence for the older non-working population. It concludes that no specific attempt is being made by the UN to integrate these areas of policy. This is being done in the EU and in federal Belgian policy. In the latter case some new policy measures are planned as a result of this.

"Duurzame Ontwikkeling en bestaansmiddelen voor oudere inactieven: een verkenning." J.M. Frère, Working Paper 17-04, September 2004.

Financing enterprises promoting sustainable development

This WP presents an emerging and growing trend in the financial market, the development of ethical and solidarity financing products. These products meet not only economic criteria but social and environmental criteria as well. Their development is based on the demand from an increasing number of citizens who need to know the destination of their money and the terms on which it is invested. The WP proposes a definition for these ethical and solidarity financial products, describes the situation in Belgium and explains the relevance of a sustainable development approach to deal with this issue.

Chapter 1 summarizes the historical and theoretical origins of ethical and solidarity financing systems. It defines and classifies the different types of products that are currently being developed and distributed on the market. It explains the distinction between ethical funds, also called socially responsible funds, and solidarity financial products (funds or saving accounts). It finishes by describing the different types of ethical funds according to the criteria taken into account in the definition of these funds.

Chapter 2 describes the development of ethical funds and solidarity financial products in Belgium in the late 1990s. Two facets of this development are considered:

- the evolution of the assets invested by savers into ethical funds and solidarity financial products offered by financial institutions (as well as the features of these investments);
- the evolution of the assets invested by financial institutions into enterprises respecting some ethical criteria or into solidarity projects.

For both facets, the market size, the type of product and some features of the market are described.

Chapter 3 specifically analyses the development of ethical funding. Special attention is paid to the relative weight of ethical funds, the relevance of selection criteria in defining these funds and risks and returns associated with the funds. Chapter 3 also addresses the incentives that exist within enterprises, savers and financial institutions to develop and use these ethical and solidarity financial products.

Chapter 4 explains why a sustainable development approach is relevant to address this issue and shows, in particular, how the application of sustainable development principles to enterprise financing could contribute to sustainable development. The relevance of taking into account five specific sustainable development principles is addressed: Common but differentiated responsibilities, the Equity principle, Integration, Precaution and Participation.

The last chapter offers some perspectives on the development of ethical and solidarity financial products. Three scenarios are briefly outlined that are based on different perceptions of risk within the environmental, social and economic fields.

"Financement des entreprises pour un développement durable". N. Zuinen,
Working Paper 2-04, January 2004.

The NIME Economic Outlook for the World Economy, 2004-2010

This Working Paper presents a 2004-2010 macro-economic outlook for the major economic areas of the world. The outlook has been produced using NIME, the Belgian Federal Planning Bureau's macro-econometric world model. The Working Paper also features an assessment of the effects of a permanent 25 percent increase in the price of oil. This World Economic Outlook may be viewed as a baseline projection, providing insights into potential developments linked to world macro-economic imbalances as well as a coherent basis for variant analyses. The reader should be aware, however, that the FPB uses various sources for the assumptions it retains regarding the underlying international economic environment in its short-term forecasts and medium-term projections for the Belgian economy.

The euro area economy is projected to grow by 1.9 percent in 2004, driven mainly by private consumption and investment. In 2005, net exports and employment pick up and GDP growth comes out at 2 percent. On average, the economy grows by 2.1 percent per year throughout the projection period, and the unemployment rate falls to approximately 7.6 percent in 2010. Inflation remains below the ECB's 2.0 percent ceiling, as short-term interest rates rise to 4.4 percent in 2010, thus ensuring a more neutral monetary policy stance. Fiscal deficits fall from 2.8 percent of GDP in 2004 to 1.7 percent of GDP in 2010, while the debt-to-GDP ratio declines only slightly. The euro remains strong against other major currencies, as the euro's nominal effective exchange rate appreciates by an average of 3.0 percent per year.

GDP growth averages 3.0 percent for the group of countries comprising the United Kingdom, Sweden and Denmark, and about 3.5 percent for the New EU Member States. The United States economy is projected to expand at a robust average rate of 3.5 percent, but fiscal and trade imbalances persist. GDP growth in Japan comes out on average at 2.3 percent per year, and the Japanese economy finally moves out of deflation as of 2006. The Rest of the World sees a rise in GDP of 4.8 percent on average.

This Working Paper also features a focus on the macro-economic effects on the world economy of an oil price shock. The shock that is presented corresponds to a permanent 25 percent increase in the price of oil due to a rise in the risk premium on oil prices. For the euro area, such a shock leads to a long run 0.27 percent fall in total private sector output and a 0.25 percent rise in private sector output prices.

"The NIME Economic Outlook for the World Economy, 2004-2010", E. Meyermans, P. Van Brusselen,
Working Paper 16-04, August 2004.

When the lights go out: the costs of a Belgian blackout

During the last couple of months, large parts of the industrialized world have been struck by major blackouts. Not only the USA, but also our neighboring countries such as Luxemburg, Italy and the UK have already experienced the negative effects of breakdowns in their electrical systems. Recent events even point to the possibility that Belgium's electricity network might not be totally immune to defects and might therefore not be able to withstand the pressure of a breakdown. Under such conditions, terms like security of supply and system reliability gain importance: with blackouts becoming one of their chief concerns, (inter)national electric utilities are devoting large amounts of time and resources to reflect on the optimal level of supply and system reliability.

This paper is intended to contribute to the debate by determining the impact of a blackout on the territory of Belgium and then moving on to elaborate on the importance of security of supply for the Belgian electricity system. Qualitatively, the main topics described are the electrical system and the causes and consequences of blackouts. Next, blackouts are quantified in terms of the cost to Belgian society of a one hour stop in electricity supply.

In order to identify the magnitude of the damage that Belgium's society may experience following a blackout, four methods are used. The first is based on value added. This approach results in an estimation of the cost of a one-hour blackout during a working day while all companies are trading to be approximately 66 million euros. Services and government seem to be hurt the most, with estimated damage of 52 million euros. Industry, on the other hand, would 'only' be hit by about 7 million euros.

Households, although not 'true creators' of economic value, are hit equally hard by a blackout. Their main loss is related to the fact that they can no longer spend their free time as they originally planned. Loss of free time means loss of utility: if the hourly wage is taken as a proxy for this loss of utility, the resulting indemnity is 61 million euros. The total cost of a one-hour blackout is therefore 128 million euros. Compared to the value of electricity which is not delivered (±1.4 million euros) the damage sustained by society is significantly greater. Spatial allocation of this damage points to a difference in the harm done in densely populated and economically very active regions on the one hand (such as Antwerp or the Brussels Capital Region) and sparsely populated and less economically active regions on the other (e.g. Luxemburg).

The three alternative methods come up with estimates that are fairly lower. The first two, based on the case of the North-American blackout (in the summer of 2003), point to damages to the Belgian economy and households of between 50 and 88 million euros. The last method, based on interviews and scenario planning in the Netherlands, indicates that the total damage lies in the region of 57 million euros.

Each of these methods has its pros and cons: the value added method is easy to calculate and the data are readily available, but reservations may be expressed concerning the quantification of the value of free time. Case studies and interviews seem to be more real life oriented and based on a truer concept of the costs of a blackout, but it is not clear whether their results can be generalized over time, across continents and between different types of blackouts.

"Een kink in de kabel: de kosten van een storing in de stroomvoorziening", D. Devogelaer, D. Gusbin,
Working Paper 18-04, September 2004.

Assessing the budgetary cost per unemployed person

This Planning Paper is the latest in a series of studies on the cost of unemployment to the government; the previous one was published in September 1997 (Planning Paper 79). The methodology used is the same: the cost to public finances per unemployed person consists of unemployment benefits and the social security contributions and taxes lost due to non-activity. The public finance revenue from an average unemployed person is compared to the revenue received from an average employed worker. This publication covers the years from 1987 to 2002. The budgetary cost of an unemployed person in 2002 was estimated at 25,682 EUR, of which 33.0% is accounted for by unemployment benefits, 42.5% by the loss in employer and employee social security contributions, 21.7% by the loss in direct taxes and 2.8% by the loss in indirect taxes.

The concept of unemployment cost presented here takes into account unemployment benefits, lost social security contributions and lost fiscal revenue, all three estimates being based on the legislation prevailing in 1987-2002. The average budgetary cost of unemployment is equal to the sum of the average direct cost of an unemployed person, based on average daily unemployment benefits, and the loss in social security contributions and tax revenue, based on average private-sector wages.

The paper presents the main results for the period 1987–2002. In current prices, the average budgetary cost of unemployment has increased from 16,408 EUR in 1987 to 25,682 EUR in 2002 (+156%). The composition of that cost is relatively stable, although some trend is visible, mainly reflecting changes in social and tax policies during that period. The importance of unemployment benefits and employee social security contributions as a share of the total cost rose (from 31% to 33% and from 12.3% to 13.6%, respectively), while the share of employer social-security contributions declined from 31.8% to 28.9%. The share of taxes decreased slightly from 25.0% to 24.5%.

"Coût budgétaire d'un chômeur de 1987 à 2002"
"Budgettaire kost van een werkloze van 1987 tot 2002",
V. Bresseleers, N. Fasquelle, K. Hendrickx, L. Masure,
M. Saintrain, B. Scholtus, P. Stockman,
Planning Paper 96, September 2004.

Other Recent Publications

Working Paper 11-04, April 2004
"Personal income tax reform in Belgium: the short-, medium- and long-run impact on wages, employment and value added re-examined by LABMOD",
P. Stockman

Working Paper 12-04, April 2004
"The macro-economic effects of labour market reforms in the European Union. Some selected simulations with the NIME model",
E. Meyermans

Working Paper 13-04, April 2004
"10 jaar Economische Begroting. Een terugblik op de kwaliteit van de vooruitzichten",
L. Dobbelaere, B. Hertveldt

Working Paper 14-04, April 2004
"Modellering op kwartaalbasis van de BTW-ontvangsten in Modtrim II - Modélisation trimestrielle des recettes de TVA dans Modtrim II",
B. Hertveldt, I. Lebrun, M. Saintrain

Working Paper 15-04, May 2004
"La R&D et l'innovation en Belgique: diagnostic sectoriel",
B. Biatour

Planning Paper 95, January 2004
"Energievooruitzichten voor Belgie tegen 2030 - Perspectives énergétiques pour la Belgique à l'horizon 2030",
D. Gusbin, B. Hoornaert - Januari Janvier 2004

INR/ICN, FPB/BFP, Juli 2004
"Input-output-tabellen van België voor 2000"
"Tableaux Entrées-Sorties de la Belgique pour 2000"

City 2004-01, April 2004
"Over steden, stedelijke structuren en stadsgewesten - Villes viables en Belgique"
Een publicatie rond de stedelijke problematiek in België naar aanleiding van het colloquium op 22 april 2004.
Une publication sur la problématique des villes en Belgique pour le colloque du 22 avril 2004 .

Recent history of major economic policy measures

September 2004	Transport system operator ELIA announces to establish next year a short term electricity exchange. This exchange will cooperate with the Dutch and French electricity exchanges.
July 2004	In accordance with EU legislation, the electricity and gas markets have been opened up for all business customers. This increases the total degree of market opening in both markets to 90%. The remaining captive customers are residential customers in Wallonia and Brussels, who make up less than half of the Belgian population. The federal government has approved a draft bill that will transpose the European package of directives on electronic communications into Belgian law.
May 2004	There were two small but significant commercial developments in telecommunication. In mobile communications, a first commercial UMTS service was introduced, albeit on a limited scale. For the time being, this service will be available to professional customers and in the six largest cities only. In the area of broadband connections, Belgacom has followed Telenet in launching an offer for a light Internet service at a price of less than 30 euros per month and with a limit on the connection speed and download capacity.
April 2004	Two small but noticeable measures relating to renewable energy were taken: one was positive and the other was negative. The positive measure is the provision of a license to build a windmill site in the North Sea. From 2007 onwards this site may produce electricity for 400,000 households. The negative one is the decision by the Government of Flanders to suspend the exemption from network access fees for renewable electricity. It was warned by the European Commission because the exemption did not apply to imported electricity.
March 2004	The telecommunications incumbent Belgacom has been floated on the Brussels stock exchange. The equity involved was already held by a private investment consortium. The federal government remains the majority shareholder (51.6%). The federal government has made significant progress in the development and financing of two important railway investment projects for the coming decade. One project is the creation of a high-capacity commuter network around Brussels (RER/GEN), while the other is the building of direct connections to the national airport from cities other than Brussels. Social policy measures are announced, mainly consisting in adjustments to the welfare system affecting certain benefits: in particular, a 2% increase for older pensioners and people with long-term disabilities (wage-earners scheme) in 2005, 2006 and 2007, and increases and wage indexation of ceilings in disability insurance.
February 2004	The federal Council of Ministers speeds up the transposition of European directives into Belgian law. The transposition of at least half of 59 directives falling within the competence of the federal government is scheduled to take place before the end of March. The remainder will follow soon afterwards.
January 2004	A number of measures and general orientations are announced by the federal government, aimed primarily at promoting economic growth and employment in the long term. The measures refer notably to encouraging research and development, improving controls of the willingness to work among unemployed people, better social protection for self-employed (higher minimum pension, extension of the public health insurance scheme to cover "small risks" etc.), and stronger tax incentives for the use of restaurant services in Belgium. To avoid any detrimental effect on the competitiveness of Belgian industry, the government has decided to put a limit on the charges paid by industry for the transport of electricity. The new European rules that extend the minimum rate system to energy taxes for coal, gas and electricity, which had previously only been applied to mineral oils, were transposed into Belgian law. The directive (ref. 2003/96/CE) is part of a set of new rules designed to harmonise tax regimes within the internal market. Some significant measures were taken to shift traffic from road to rail. For passenger traffic, commuters are offered free season tickets. Public employees will be the first to benefit and employees of private companies will follow in 2005. The costs will be covered by employers and the federal government. For freight traffic, domestic container services will be subsidised. In view of the non-transposition of six European directives on telecommunications into Belgian law, the market regulator BIPT had to publish new rules designed to govern the market in a way that complies with the European directives. These new rules mainly relate to the replacement of the existing authorisation procedure by a simpler procedure of notification for new operators of fixed or mobile telephony or telecommunication networks.
December 2003	It is decided to split up the national railway company (NMBS/SNCB). A holding structure will be created, with two major companies within it: a network management and a train operating company. As a significant step towards administrative simplification, a collaboration agreement is concluded between the federal government, the regional governments and the various communities. This agreement addresses the way the different levels of administration work together, to reduce administrative burdens.
November 2003	The new Stability Program confirms the budgetary targets set by the Belgian authorities: the budget (for public administrations as a whole) should be in balance next year and in surplus in 2007 (0.3% of GDP).

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

Abbreviations for names of institutions used in this publication

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

Other Abbreviations

BEF	Belgian franc
BoP	Balance of Payments
CPI	Consumer Price Index
ECU	European Currency Unit
EMU	Economic and Monetary Union
EUR	Euro
JPY	Japanese yen
LHS	Left-hand scale
OLO	Obligations linéaires / Lineaire obligaties
qoq	Quarter-on-quarter, present quarter compared to previous quarter of s.a. series
RHS	Right-hand scale
s.a.	Seasonally adjusted
t/t-4	Present quarter compared to the corresponding quarter of the previous year
t/t-12	Present month compared to the corresponding month of the previous year
UKP	United Kingdom pound
USD	United States dollar
VAT	Value Added Tax
yoy	Year-on-year, i.e. t/t-4 (for quarters) or t/t-12 (for months)