Quarterly Newsletter of the Federal Planning Bureau

Short Term Update (STU) is the quarterly newsletter of the Belgian Federal Planning Bureau. It contains 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

Euro area economic growth slowed down substantially in 2011Q2 (0.2%), after a vigorous 0.8% in 2011Q1. The economic slack is expected to continue during the rest of this year due to the weakening in world trade growth and a major decline in consumer and business confidence. Under the assumption that financial market tensions, which are driven by worries about Europe's sovereign debt, recede towards the end of this year (i.e., if European monetary and fiscal policy makers can restore calm), quarterly GDP growth should accelerate gradually in the course of next year. However, even then, euro area growth should not exceed 1.2% for 2012 as a whole. However, if the turmoil in financial markets persists or worsens, households and businesses could further reduce their spending and European banks could face (additional) losses on their holdings of sovereign debt. This would endanger any economic recovery.

The global economic slowdown should have a significant impact on Belgian GDP growth in the second half of this year (0.2% per quarter on average). In our baseline scenario, quarterly growth should gradually recover in the course of next year. On a yearly basis, however, this would lead to a deceleration in GDP growth from 2.4% in 2011 to 1.6% in 2012.

Domestic employment rose sharply between 2010Q1 and 2011Q1. In the second half of this year and in the course of 2012, far fewer jobs are expected to be created, owing to the economic slowdown. Backed by a favourable starting point, employment should still increase by 54 200 units on average in 2011. In 2012, net job creation should remain limited to around 30 000 units. The number of unemployed should still decrease by 23 600 units this year, but rise by 9 500 units next year. As a result, the unemployment rate (Eurostat definition) should rise from 7.3% in 2011 to 7.4% in 2012.

Our most recent inflation forecasts were finalised at the end of September. Belgian inflation, as measured by the yoy growth rate of the national consumer price index, should accelerate to 3.4% on average this year (compared to 2.2% in 2010), mainly as a result of higher crude oil prices. According to futures market quotations, oil prices should remain below their peak levels of April 2011. This should bring consumer price inflation down to 1.8% on average in 2012.

STU 3-11 was finalised on 29 September 2011.

The Federal Planning Bureau (FPB) is a public agency under the authority of the Prime Minister and the Minister of Economy and Reform. 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 macroeconomic forecasting, analysing and assessing policies in the economic, social and environmental fields.

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FPS Economy, S.M.E.s,
Self-employed and Energy

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Product market competition: Belgium compared to other EU members

Belgian competitiveness with respect to its neighbouring countries is being hampered by growth in hourly wages that is insufficiently compensated by productivity growth. In particular, total factor productivity (TFP) growth, which should indicate technological progress, is falling behind that of its neighbours. Among the determinants of TFP growth, competition can play an important role. According to certain performance measures, however, competition in Belgium may be weak when compared to other EU countries. Although conditions are improving, they are doing so in many other Member States too. Therefore Belgium's relative position is not changing a great deal. A further improvement could thus be vital from a policy point of view, expecially since this does not, generally, hurt the budget.

Productivity and competition

Competition should stimulate producers to improve their efficiency. The most efficient of them might gain ground against the less efficient, some of whom might even leave the market. This should make an industry's productivity increase. There are, however, circumstances that can make the opposite happen. For example, very intensive competition involves the risk that investments in efficiency are not earned back; or producers who are technologically behind may be discouraged to invest. Still, there is a wide consensus that competition and productivity are positivily related. Improving the intensity of competition could thus enhance TFP growth. Other determinants of TFP, as put forward by the literature, may be R&D, human capital, technology diffusion, and international trade.

Since competition is a complex phenomenon, its measurement is not a straightforward task. It is done by assessing certain of its features. Eight of these were recently studied by the FPB and the results will be published shortly: entry and exit of producers in their markets; number of and dominance among producers (market concentration); variability of market shares; government intervention in markets; consumer price differences between countries; monopoly rents; sensitivity of profits to cost changes; and market penetration of foreign products. The assessment of each should reveal whether competition is relatively intensive in that respect. One should, however, be aware that these also have their limitations. There may be a certain ambiguity in interpretation, or data sources that do not match the theoretical requirements of the measure and/or are of limited quality. For these reasons the measures provide a proxy of what they should measure from a theoretical point of view.

Intensity of competition

For each of the eight measures, Table 1 shows how Belgium ranks among the sample of EU countries for which the measures have been calculated. The samples are of between 7 and 26 countries and each includes a sufficient number of large economies. The ranking is based on averages over a certain period. These periods also differ, but typically run from the second half of the nineties to the second half of the past decade.

Table 1 - Ranking of Belgian competition conditions among other EU member states

	Years available	No. of Member States	Rank of Belgium among EU sample		Normalised rank of Belgium (scale 0-10)[1]	
			Manuf.	Serv.	Manuf.	Serv.
Entry and exit	2006	23	22	22	0.5	0.5
Market regulation	1995-2007	18	18	16	0.0	1.2
Market concentration	1997-2006	21	18	15	1.5	3.0
Monopoly rents	1996-2005	9	5	6	5.0	3.8
Market share variability	1998-2005	13	6	7	5.8	5.0
Consumer prices	1999-2009	26	5	12	8.4	5.6
Sensitivity to cost changes	1997-2005	7	3	3	6.7	6.7
Import penetration	1995-2007	15	2	1	9.3	10.0

Sources: Eurostat, OECD, EIKLEMS, FPB, UGent.

1) The higher the score, the better Belgium performs among the sample of Member States.

On half of the measures, Belgium performed below the sample average. This is reflected by a low ranking: 5 or lower on a scale of 10. Within the samples and during the given time spans, Belgian entry and exit seemed to be weak, markets were prone to regulation and seemed to be highly concentrated, and monopoly rents seemed to prevail. Note that the applied OECD measure of regulation not only considers the heaviness of regulation but also its quality. On three more measures, Belgium was close to the sample average: variability of market shares, consumer price differences, and sensitivity to cost changes. The latter measure indicates whether rivalry in the market makes a producer take advantage of its efficiency improvements. On only one measure did Belgium do better: import penetration. Belgium outperformed all other countries in the sample, implying that it also did better than the other mid-sized open economies.

Evolution of competition

Consequently, except for import penetration, competition conditions in Belgium seem to range between modest and very weak. The average performance hides their evolution, which was positive in most cases. Such positive trends, however, were found in other Member States as well. Hence, Belgium's relative performance did not improve. For six of the measures, the trends are summarised in Table 2. For the other two, no trend was established due to data shortcomings.

Table 2 - Evolution of competition conditions in Belgium and other EU Member States[1]

	Belgium	EU sample	Change in the relative position of Belgium	
			Manuf.	Serv.
Market regulation	improved	improved	converged weakly	unchanged
Market concentration	improved	improved	unchanged	converged
Monopoly rents	worsened	worsened	diverged weakly	diverged
Consumer prices	worsened	n.a.	EU average converged	EU average overtook Belgium
Sensitivity to cost changes	improved	improved	Belgium overtook EU average	Belgium overtook EU average
Import penetration	improved	improved	EU average converged weakly	unchanged

Sources: Eurostat, OECD, EIKLEMS, FPB, UGent.

1) See Table 1 for the available years and sample sizes.

The sensitivity to cost changes was the only measure in which Belgium evolved better than the other countries. The initial arrears turned into a lead in 2003, although for services the differences were slight. Throughout the EU, markets were deregulated, market concentration fell, and the pressure of imported products increased during the sample period. The Belgian lead and arrears on these measures was not or hardly changed. The evolutions of price-cost margins suggest that, throughout the EU, monopoly rents should have increased. The increase in Belgium was, however, stronger than the average in the other Member States studied, in particular for services. Finally, Belgium lost most of its lead in consumer prices. For goods, the lead strongly diminished. For services, it even turned into arrears in 2005. Hence, although certain market conditions improved, there seemed to be no impact on important performance indicators such as prices and rents. This was more so in Belgium than in the other Member States studied.

Competition by industry

The European Council pinpointed the weak intensity of competition in Retail trade and Gas & electricity, and recommended this issue be addressed urgently. For Retail, the Council considers the industry's regulation to be detrimental to competition. For Gas & electricity, and network industries at large, it criticized the incumbents' dominance and the high entry thresholds. Although the FPB calculated the competition measures at industry level, more than a quantitative assessment alone is needed to judge the intensity of competition by industry. Insight into the economic and institutional context of each market is also needed.

Retail trade is known to be strongly regulated (e.g. regarding outlet location, seasonal sales, and opening hours) and was found to perform feebly or badly on all measures. An earlier FPB study indeed suggested a close relationship between its regulation and its performance. For Gas & electricity, the analysis did reveal relatively high rents and consumer prices, which are essential features of market performance. Other measures seemed to do better but their meaning should be carefully interpreted within the economic and institutional context of the market. Unfortunately, because of data limitations there was no data on entry, exit and market concentration for this industry, which were considered by the European Council to be crucial.

Competition-enhancing policy

To further improve the intensity of competition in Belgium, three strands of policy seem to be of relevance: entrepreneurship, market dominance, and market regulation. Support of entrepreneurship could promote market entry, while accepting the reality of exit. Although competition policy has been enhanced during the past two decades, the monitoring of dominant positions could still be further enhanced. In particular, the former incumbents of deregulated network industries are still exploiting their dominant positions. Finally, the remaining market regulation could be screened and adjusted where necessary. The screening should be based on theoretical reasoning, to predict why a regulatory measure could have an adverse impact.

Economic forecasts 2011-2012

Moderate growth in the euro area…

Following a severe recession in 2009, the economy of the euro area expanded by 1.7% in 2010. In 2011, GDP growth should also amount to 1.7%. This is mainly owing to a vigorous first quarter (0.8%) as growth during the remaining three quarters should only amount to 0.1% or 0.2% per quarter due to the weakening in world trade growth and sagging consumer and business confidence (brought about by the turmoil in the financial markets). The assumed ebbing towards the end of the year of financial markets' distrust over the European sovereign debt crisis should allow quarterly GDP growth in the euro area to accelerate gradually and reach 0.5% in the second half of 2012. For 2012 as a whole, this would result in economic growth of 1.2%. This modest performance is in line with the slowdown in the world economy. Within the euro area, growth divergences remain large as the economies of Germany and its neighbours continue to outpace most other Member States' economies.

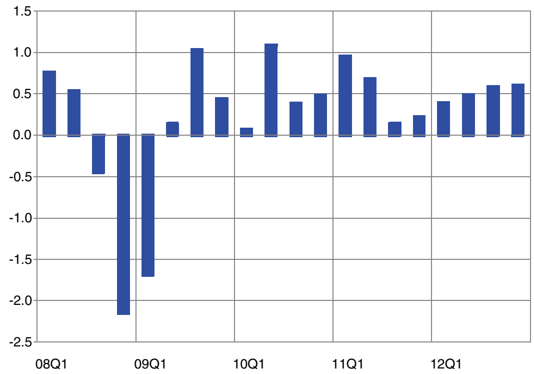
…and important negative risks

Several factors could endanger the above-mentioned growth outlook for the euro area. Firstly, these forecasts were produced under an unchanged policy assumption, while some euro area countries will be faced with an unavoidable consolidation of their public finances to prevent an escalation of the public debt crisis. However, this consolidation effort could significantly curb economic growth. Secondly, if the turmoil in financial markets owing to the European sovereign debt crisis persists or worsens, households and businesses could further reduce their spending and banks holding many government bonds issued by countries with debt problems could limit the supply of credit to the private sector. Thirdly, the current international outlook could deteriorate if US economic growth fails to pick up.

Lower Belgian economic growth in 2012 due to weakening of exports and domestic demand

The Belgian economy grew vigorously in 2011Q1 (1%) and in 2011Q2 (flash estimate of 0.7%). The global economic slowdown should have a significant impact on Belgian GDP growth in the second half of the year (quarterly average of 0.2%). The strong annual growth figure for 2011 (2.4%) is hence entirely due to the excellent first half of the year. In 2012, quarterly growth should gradually strengthen to reach 0.6% in the second half of the year, backed by exports, private consumption, and business investment. Nevertheless, on a yearly basis, domestic as well as foreign demand should grow more slowly than in 2011, leading to a deceleration in GDP growth (1.6%).

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



Belgian exports posted a strong rebound in 2010 (10.5%) and continued to grow strongly in 2011Q1. In line with demand from relevant export markets, quarterly export growth should slow down considerably during the remainder of 2011 and then gradually recover in 2012. Helped by a favourable starting position, annual export growth in 2011 (6%) should exceed next year's (4%).

Last year's strong export growth brought the current account back into positive territory (1% of GDP), but this should prove to be temporary as higher oil prices and less dynamic exports are likely to result in an evaporation of the surplus in 2011.

In 2010, the indexation of wages and social benefits lagged behind inflation. The difference ought to be smaller this year, while indexation is expected to exceed sharply declining inflation in 2012. In addition, the interprofessional agreement allows for a 0.3% increase in gross hourly wages before indexation in 2012. Real disposable income should hence increase by 1.9% in 2012, against 1.2% in 2011 and a quasi-stabilisation in 2010. Private consumption growth should be more stable (1.2% in 2012, against 1.5% in 2011 and 1.6% in 2010) since changes in the savings rate generally dampen the effects of fluctuations in income. Moreover, due to the current erosion of consumer confidence, households are expected to save a larger part of their disposable income.

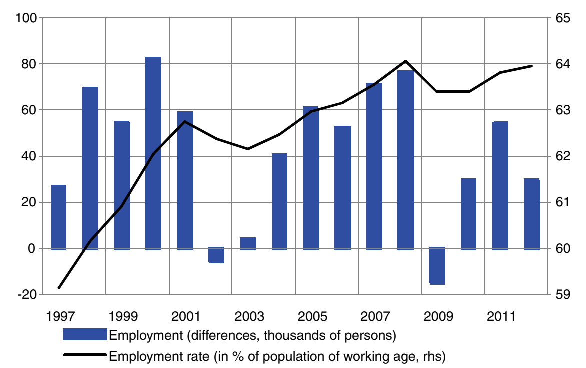
From 2010Q2 onwards, residential and business investment picked up again, albeit insufficiently to fully compensate for the decline in the previous year. On an annual basis, these investment categories declined by, respectively, 2.5% and 0.7% in 2010. In 2011 and 2012, the recovery in housing investment should remain modest (growing by 1.1% and 0.9%, respectively) as interest rates gradually rise and the positive effects of lower VAT rates on building projects submitted before April 2010 dissipate. The economic recovery in the past few quarters has resulted in an improvement in corporate profitability and a rise in the industrial capacity utilisation rate (above its long-term average), but the economic slowdown is now reducing the need for expansion investment. Consequently, business investment should grow by 3.6% this year and remain limited to 2.6% in 2012.

Growth in the volume of public consumption should only amount to 1.4% in 2011 and 1.7% in 2012. In contrast, public investment is expected to increase by 11.4% and 7.2%, respectively, due to investments by local authorities in the run-up to the 2012 local elections.

Employment continues to increase but in 2012 the number of unemployed rises

Domestic employment rose sharply between 2010Q1 and 2011Q1. In the second half of this year and in the course of 2012, far fewer jobs are expected to be created, owing to the economic slowdown. Backed by the favourable starting point, employment should still increase by 54 200 units on average in 2011 (compared to 29 500 in 2010). In 2012, net job creation should remain limited to around 30 000 units. Nearly a quarter of the net job creation in the period 2011-2012 is to be attributed to a further increase in the number of people that work in the government-subsidised voucher programme for domestic-type services. After dropping to 63.4% in 2009 and 2010, the employment rate should pick up to 63.9% in 2012.

Graph 2 - Evolution of employment and employment rate annual averages

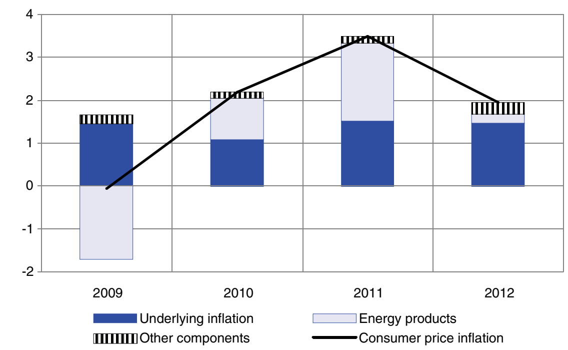


Although unemployment started to decline from 2010Q2 onwards, the number of unemployed was still 8 100 units higher on average in 2010 than in 2009 (broad administrative definition). Taking the evolution of the labour force into account, the number of unemployed should decrease by 23 600 units this year but rise by 9 500 units next year. As a result, the harmonised unemployment rate (Eurostat definition) should rise from 7.3% in 2011 to 7.4% in 2012.

Inflation cools down to 2% on average in 2012[1]

Belgian inflation, as measured by the yoy growth rate of the national consumer price index, should amount to 3.5% on average this year, compared to 2.2% in 2010. This acceleration in inflation is largely due to price increases for energy products as a result of higher oil prices. Moreover, underlying inflation is also creeping up as the rise in commodity prices is feeding into prices of other goods and services with a certain delay.

Graph 3 - Decompostition of consumer price inflation Contributions in %-points



Despite a limited decrease in the course of 2012, underlying inflation should just about stabilise at nearly 2% on average on a yearly basis. Crude oil prices remain below their record levels of end April 2011 and, according to futures market quotations, should drop further. As a consequence, growth in consumer prices of energy products should barely exceed 2% and consumer price inflation should cool down to 2% next year.

The increase in the health index, which is not affected by price developments in petrol and diesel, should fall from 3% in 2011 to 2.1% in 2012. According to the forecasts for the monthly development of the health index, the current pivotal index of public wages and social benefits (117.27) should be exceeded in February 2012.

"Economische begroting 2012 – Budget économique 2012", INR/ICN, September 2011.

1. Inflation forecasts were recently revised downwards. See page 15 for further information.

Summary of Economic Forecasts

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 8 September 2011)

	2009	2010	2011	2012
Private consumption	-0.3	1.6	1.5	1.2
Public consumption	0.6	1.2	1.4	1.7
Gross fixed capital formation	-5.4	-1.3	3.6	2.5
Final national demand	-2.2	0.2	2.5	1.5
Exports of goods and services	-11.6	10.5	6.0	4.0
Imports of goods and services	-11.1	8.4	6.3	4.0
Net-exports (contribution to growth)	-0.5	1.7	-0.1	0.1
Gross domestic product	-2.8	2.2	2.4	1.6
p.m. Gross domestic product - in current prices (bn euro)	339.16	352.94	369.73	384.04
National consumer price index	-0.1	2.2	3.5	2.0
Consumer prices: health index [2]	0.6	1.7	3.0	2.1
Real disposable income households	1.6	-0.2	1.2	1.9
Household savings ratio (as % of disposable income)	18.3	16.8	16.5	17.1
Domestic employment (change in ‘000, yearly average)	-15.9	29.5	54.2	29.8
Unemployment (Eurostat standardised rate, yearly average) [1]	7.9	8.3	7.3	7.4
Current account balance (BoP definition, as % of GDP)	0.0	1.0	-0.4	-0.3
Short term interbank interest rate (3 m.)	1.2	0.8	1.4	1.1
Long term interest rate (10 y.)	3.9	3.4	4.2	4.4

[1] Other unemployment definitions can be found on page 14
[2] Inflation forecasts were recently revised. See page 15 for more information.

Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2011	2012	2011	2012	2011	2012	
Federal Planning Bureau [1]	2.4	1.6	3.5 [3]	2.0 [3]	.	.	09/11
INR/ICN [1]	2.4	1.6	3.5	2.0	.	.	09/11
National Bank of Belgium [2]	2.6	2.2	3.4	2.2	-3.5	-4.1	06/11
European Commission [2]	2.4	2.2	3.6	2.2	-3.7	-4.2	05/11
OECD [2]	2.4	2.0	3.6	2.4	-3.6	-2.8	05/11
IMF [2]	2.4	1.5	3.1	2.0	-3.5	-3.4	09/11
ING [1]	2.3	1.7	3.2	2.2	-3.6	-2.8	05/11
BNP Paribas [2]	2.1	1.0	3.5	2.1	-3.5	-3.4	09/11
Dexia [1]	2.4	1.3	3.5	2.3	.	.	09/11
KBC Bank [1]	2.3	1.3	3.6	1.8	.	.	09/11
Deutsche Bank [2]	2.3	1.1	3.4	2.2	-3.6	-3.3	09/11
IRES [1]	2.6	2.4	3.6	1.9	-3.4	-3.9	07/11
Consensus Belgian Prime News [2]	2.0	1.9	3.0	2.2	-4.4	-3.8	03/11
Consensus Economics [2]	2.3	1.7	3.2	2.3	.	.	09/11
Consensus The Economist [2]	2.4	1.6	3.1	2.4	.	.	09/11
Consensus Wirtschaftsinstitute [2]	2.2	1.5	2.8	1.9	-4.5	-4.1	04/11
Averages							
All institutions	2.3	1.7	3.4	2.1	-3.7	-3.6	
International public institutions	2.4	1.9	3.4	2.2	-3.6	-3.5	
Credit institutions	2.3	1.4	3.3	2.2	-3.8	-3.3	

[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
[3] Inflation forecasts were recently revised downwards. See page 15 for further information.

General economic activity

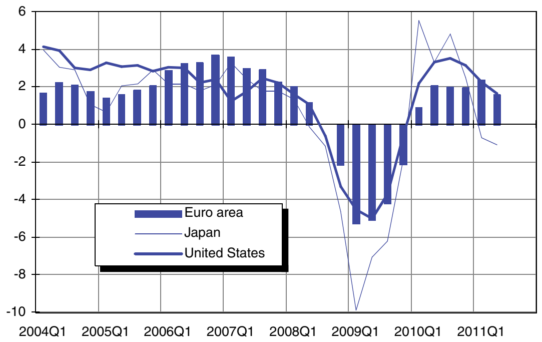
Table 1 - GDP growth rates, in % [1]

			YoY growth rates, in %					QoQ growth rates, in %				
	2009	*2010*	*2010Q2*	*2010Q3*	*2010Q4*	*2011Q1*	*2011Q2*	*2010Q2*	*2010Q3*	*2010Q4*	*2011Q1*	*2011Q2*
Germany	-5.1	3.6	4.1	4.0	3.8	4.6	2.8	1.9	0.8	0.5	1.3	0.1
France	-2.6	1.4	1.5	1.6	1.4	2.2	1.7	0.5	0.4	0.3	0.9	0.0
Netherlands	-3.5	1.6	2.4	1.7	1.9	2.3	1.8	0.7	0.1	0.7	0.8	0.2
Belgium	-2.7	2.1	2.7	2.0	2.1	3.0	2.5	1.1	0.4	0.5	1.0	0.7
Euro area	-4.2	1.7	2.0	2.0	1.9	2.4	1.6	0.9	0.4	0.3	0.8	0.1
United States	-3.5	3.0	3.3	3.5	3.1	2.2	1.6	0.9	0.6	0.6	0.1	0.3
Japan	-6.3	4.0	3.3	4.8	2.5	-0.7	-1.1	-0.2	1.0	-0.6	-0.9	-0.5

[1] Adjusted for seasonal and calendar effects

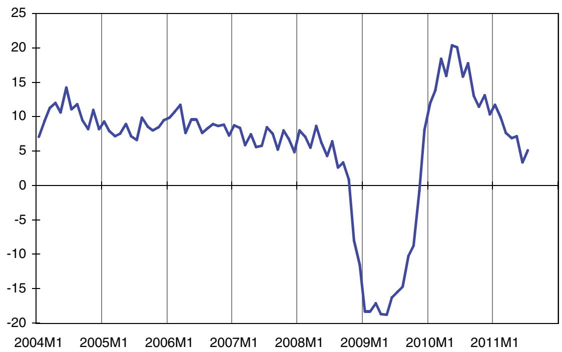
Source: INR/ICN, National sources, Eurostat

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



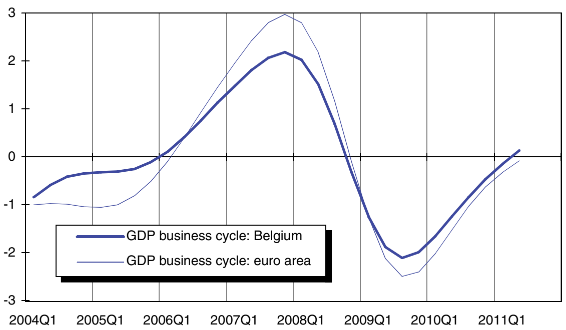
Source: Eurostat, National sources

Graph 2 - World trade growth (t/t-12), in %



Source: CPB Netherlands Bureau for Economic Policy Analysis

Graph 3 - GDP business cycle



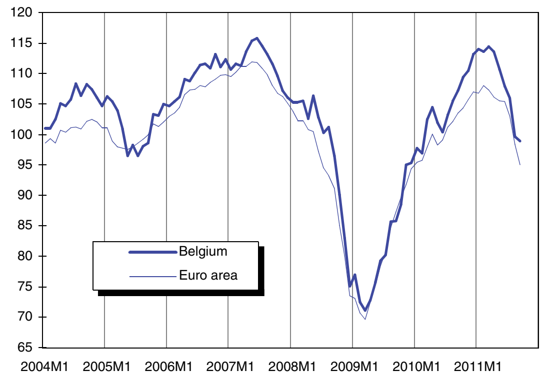
Source: INR/ICN, Eurostat, FPB

US GDP growth figures for the past three years have been substantially revised downward, implying that the recession was much deeper than previously estimated and that economic activity has still not fully recovered from the financial crisis. US economic growth (qoq) also proved to be very weak in the first half of this year as it amounted to only 0.1% in 2011Q1 and 0.2% in 2011Q2. This is mostly due to the commodity-induced rise in inflation and very weak job growth, which have depressed households' purchasing power and weighed down on private consumption. Furthermore, ongoing declines in house prices and stock markets quotations have led to substantial wealth losses for households. The strong decline in a host of leading indicators brought about by turbulence in financial markets and the political stand-off over the increase of the debt ceiling also points to weak demand in the second half of this year. A new recession cannot be excluded. While GDP growth will probably amount to 1.5% this year, it will also remain subpar next year, weighed down by a restrictive fiscal policy as this year's stimulus measures (e.g. the payroll tax cut) will not be extended.

Japanese economic activity dropped significantly during the first half of this year as the earthquake, the tsunami, and the nuclear disaster led to the destruction of production capacity, power cuts, and the disruption of supply chains. Moreover, Japanese exports suffered from the unabated appreciation of the yen and the economic slowdown of its main trading partners. In the second half of the year, the reconstruction effort ought to allow for a firmly positive growth rate.

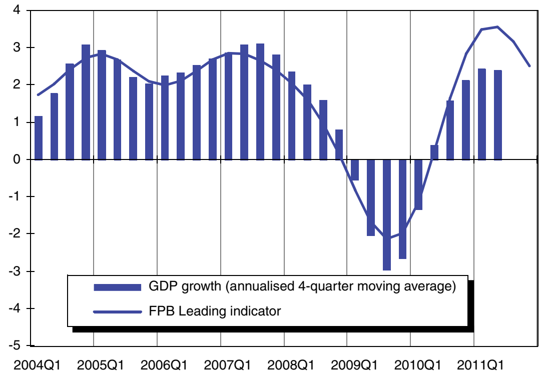
Euro area GDP growth accelerated strongly in 2011Q1 (0.8%), powered by Germany and France. Although a slowdown was expected in 2011Q2 due to weaker export growth (slowdown in world trade and appreciation of the euro) and weaker private consumption growth, economic growth proved to be surprisingly weak (0.2%).

Graph 4 - Economic sentiment indicator: international comparison



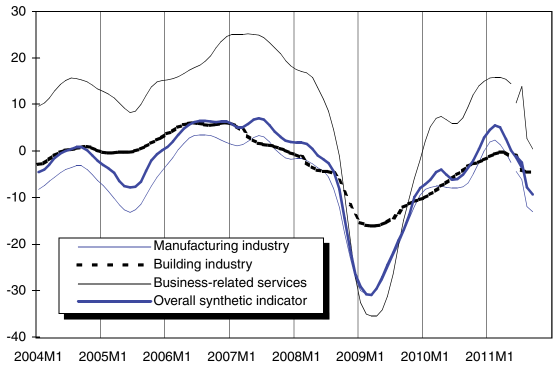
Source: European Commission

Graph 5 - GDP growth and leading indicator



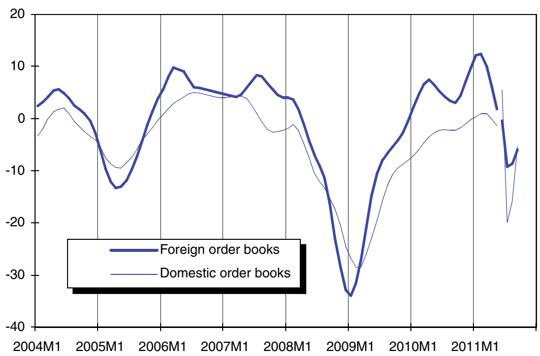
Source: INR/ICN, FPB

Graph 6 - Belgian business cycle indicator



Source: NBB

Graph 7 - Manufacturing industry: order books



Source: NBB

This was mainly due to the near stagnation of GDP in Germany, France, and the Netherlands, whereas the peripheral countries' economies remained as weak as before. Greece especially stands out, with another fierce decline in economic activity in 2011Q2. Following a GDP decline of 4.5% in 2010, the Greek economy is likely to register an even larger drop this year, weighed down by its severe austerity programme and the increased probability of a default. Doubts about European policymakers' ability to address the sovereign debt crisis in a decisive way, coupled with financial market volatility, has affected business and consumer confidence severely. Together with the strong weakening in world trade, this augurs for weak economic growth in the second half of the year.

Belgian GDP growth amounted to 0.7% in 2011Q2 (flash estimate), outpacing both the average for the euro area and the average of its three main trading partners. Compared to 2007Q4 (before the first phase of the financial crisis started to affect economic growth) Belgian GDP was 2.3% higher in 2011Q2, while the euro area average was still below its pre-crisis level. According to our latest short term forecast, Belgium is expected to continue to grow more strongly than the euro area, but it should be noted that this is under an unchanged budgetary policy assumption. In fact, Belgium is rather expected to grow in line with its neighbouring countries as they do not face problems similar to those in the peripheral countries in the euro area.

Since March, the Economic Sentiment Indicator (ESI, Graph 4), which is based on business and consumer confidence, has declined more in Belgium than in the euro area. This is because the ESI has fallen less in the countries that are in the eye of the storm of the sovereign debt crisis (the so-called PIIGS) than in the other euro area countries, such as Belgium, where the crisis-related contagion to the financial sector only started to hit confidence during the summer. The decline in the ESI is mainly related to the decline in industrial confidence, traditionally the industry that is most sensitive to business cycle developments.

The decline in the Belgian overall business cycle indicator (Graph 6) did not come as a surprise initially, but the speed at which industrial confidence worsened did. While the decline from March to July was mainly related to a worsening of demand prospects, it was reinforced in July and August by a sharp deterioration in the assessment of order books. Graph 7 shows that order books were somewhat better filled again in September, indicating a possible bottoming out of the overall indicator during the coming months.

Private consumption

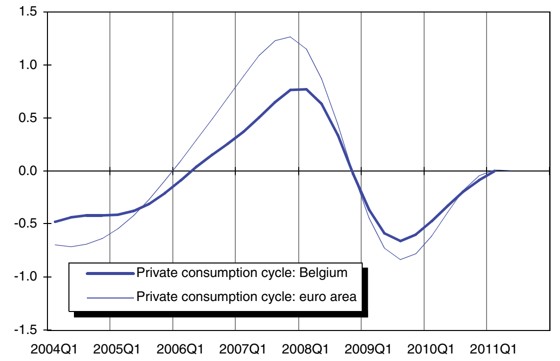
Table 2 - Private consumption indicators

	2009	2010	2010Q4	2011Q1	2011Q2	2011Q3	2011M4	2011M5	2011M6	2011M7	2011M8	2011M9
New car registrations [1]	-11.1	14.9	11.9	5.3	-1.5	.	-7.0	15.0	-10.2	-11.3	0.7	.
Consumer confidence indicator [2]	-16.9	-7.7	-1.3	-1.3	-1.0	-7.3	-1.0	1.0	-3.0	-4.0	-9.0	-9.0

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

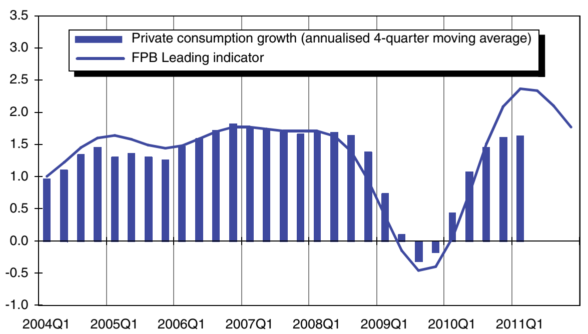
Source: NBB, Febiac

Graph 8 - Private consumption cycle



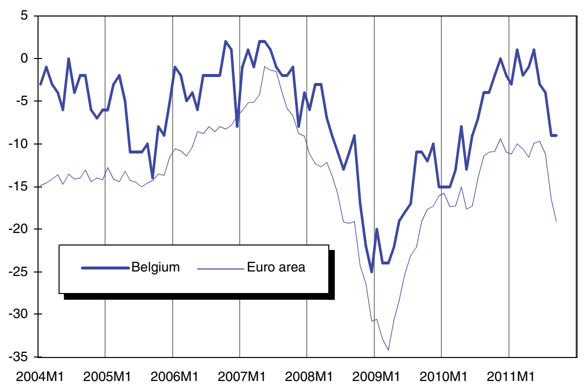
Source: INR/ICN, Eurostat, FPB

Graph 9 - Private consumption growth and leading indicator



Source: INR/ICN, FPB

Graph 10 - Consumer confidence: international comparison



Source: NBB, European Commission

The upturn in the euro area private consumption cycle since 2009Q4 seems to have been stronger than that in the Belgian consumption cycle. However, a look at the growth figures for private consumption shows that this is only due to a lower estimate for trend consumption growth in the euro area. While euro area private consumption progressed by 1.5% during the period 2009Q4-2011Q1, Belgian private consumption rose by 2.2%. In 2011Q2, the upturn in the euro area cycle came to a halt as private consumption declined (qoq) by 0.2%. The decline was particularly strong (-0.7%) in Germany and France. Belgian consumption figures for 2011Q2 were not available at the time of writing.

Households' real disposable income registered substantial growth (2.3% per year on average) during the period 2006-2008, mainly due to considerable increases in employment. As consumption growth is generally less volatile than disposable income growth, the savings rate increased during this period. In the course of 2008, the financial crisis made consumer confidence plunge, indicating that consumers became more cautious about spending money (especially on big-ticket items). Consequently the increase in the savings rate intensified in 2009 and it reached its highest level in 15 years. Consumer confidence rebounded swiftly during the recovery following the crisis and reached its pre-crisis level by the end of 2010. This underpinned private consumption in the course of 2010 despite a (limited) decline in real disposable income.

During recent months consumer confidence has nose-dived in Belgium as well as in the euro area as the sovereign debt crisis in the euro area has got out of hand. Especially, increasing pessimism about economic and labour market prospects has been behind this deterioration. This is expected to affect consumption and lead to a new increase in the savings rate. Even so, car registrations fared particularly well during the first half of the year, even outperforming the record year of 2010. Nonetheless, a deceleration is expected in view of the uncertain economic situation. This is confirmed by the FPB leading indicator, which points to a weakening in consumption growth during the second half of this year.

Business investment

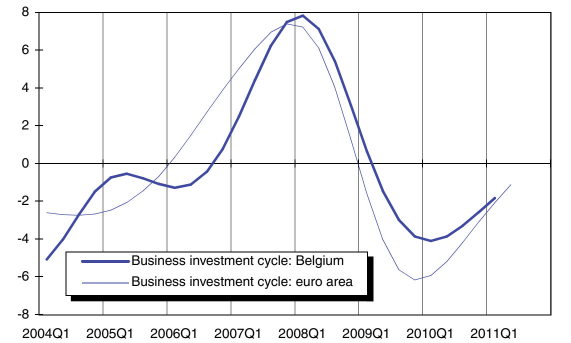
Table 3 - Business investment indicators

	2009	2010	2011	2010Q4	2011Q1	2011Q2	2011Q3	2011M5	2011M6	2011M7	2011M8	2011M9
Business survey, capital goods [2]												
Synthetic indicator	-25.5	-5.6	.	-0.1	5.6	3.3	-8.1	1.8	2.6	-0.3	-10.6	-13.4
Order book appraisal	-46.0	-34.6	.	-23.0	-10.3	-0.3	-16.3	0.0	-1.0	-6.0	-21.0	-22.0
Demand forecasts	-28.0	2.7	.	6.3	15.3	0.7	-12.7	-1.0	-5.0	-11.0	-21.0	-6.0
Investment survey [1]	-20.4	0.8	20.4									
Capacity utilisation rate (s.a.) (%)	72.5	79.0	.	80.0	81.2	79.8	.					

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

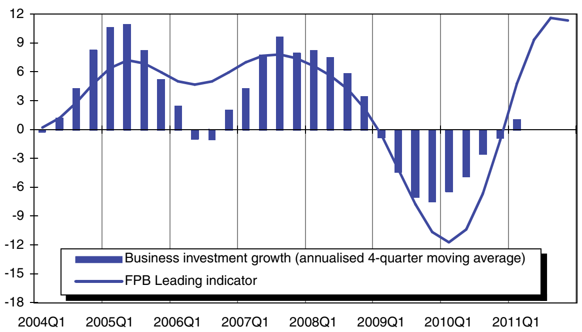
Source: NBB

Graph 11 - Business investment cycle



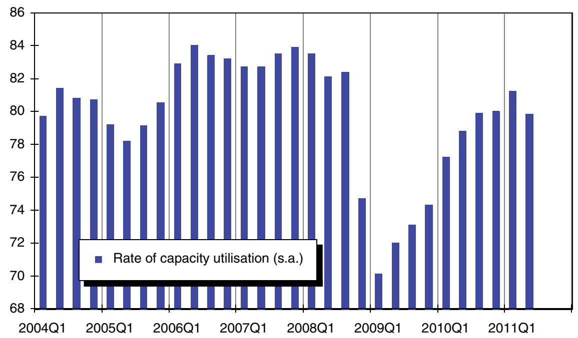
Source: INR/ICN, Eurostat, FPB

Graph 12 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 13 - Capacity utilisation in manufacturing industry



Source: NBB

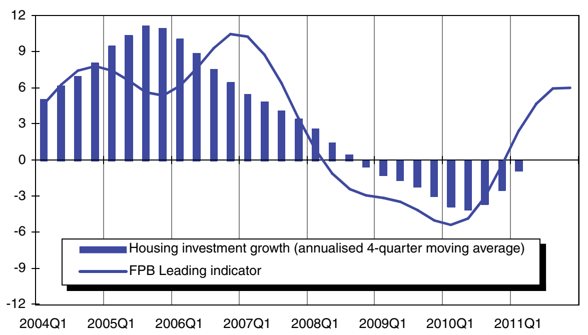
Although the Belgian and euro area investment cycles have recovered since the beginning of 2010, they are still well in negative territory, in contrast to the overall business cycle (based on GDP, see Graph 3), which was close to zero in 2011Q2. On the one hand, this could indicate that there is quite some upward potential for business investment. On the other hand, the current highly uncertain economic situation is likely to lead to a postponement of investment until demand prospects have improved.

Belgian business profitability registered a noticeable increase from 2002 to 2007: the share of the gross operating surplus in corporate value added increased from 34% in 2002 to 39% in 2007. This went hand in hand with a decline of the same magnitude in the wage share (share of compensation of employees in corporate value added). Improved profitability, sustained economic growth (over 2% per year on average), and a high degree of capacity utilisation (81% on average) pushed up the investment share (business investment as a percentage of GDP at current prices) from 12.5% in 2003 to 14.4% in 2008.

The recession that started in 2008Q4 made capacity utilisation plummet to a record low. This strongly affected business investment, which declined by about 11% from 2008Q2 to 2010Q1. By the beginning of this year, the rate of capacity utilisation had recovered to its long-term average, which led to an expectation of increased dynamism in business investment. However, by the beginning of the summer, business confidence as well as capacity utilisation seemed to be on a declining path again due to weakening economic growth and the sovereign debt crisis in the euro area. Moreover, the negative effects of this crisis on the financial sector could make banks less prone to grant loans for (riskier) investment projects. All in all, this does not bode well for business investment and seems at odds with the excellent results of the most recent investment survey. As this survey was held just before the breakout of the crisis, its results are probably no longer relevant, given the current circumstances.

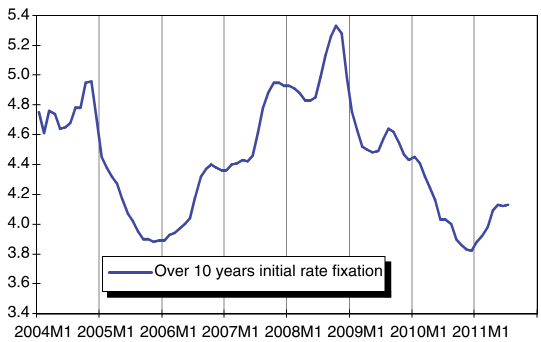
Housing investment

Graph 14 - Housing investment growth and leading indicator



Source: INR/ICN, FPB

Graph 15 - Mortgage rate (%)



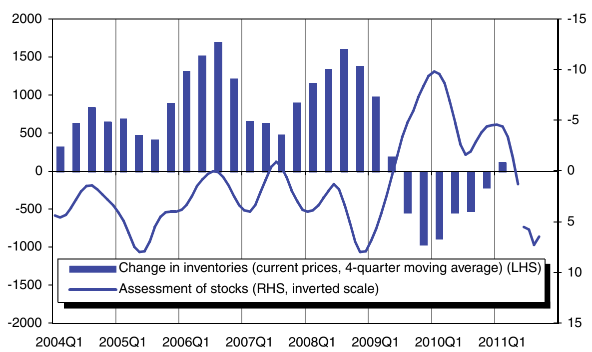
Source: NBB

After a considerable decrease during 2008-2009, Belgian residential investment started to recover in the course of 2010, supported by the temporary VAT reduction for new buildings and renovation projects for which the building application was filed before April 2010. Moreover the mortgage rate declined continuously between 2008Q4 and 2010Q4. The recovery in housing investment is expected to remain modest as the positive effects of the VAT reduction dissipate and interest rates gradually became less supportive (the mortgage rate already increased slightly in the first half of 2011).

The downturn in housing investment is also seen in the FPB leading indicator, which went down between the beginning of 2007 and the beginning of 2010. Its components (information from the architects' survey and the total value of mortgage applications) have a lead of about four quarters. The FPB indicator suggests that the current recovery in housing investment could be short-lived as it should already reach a peak during the second half this year.

Stock building

Graph 16 - Stock building indicators



Source: INR/ICN, NBB

As changes in inventories can take on positive as well as negative values, the series that can be calculated using chain-linked volume indices does not provide any useful information and is no longer published in the quarterly national accounts. Therefore, the change in inventories is only shown at current prices (Graph 16). However, its contribution to GDP volume growth can be derived as a residual, when given the contribution of the other demand components.

Inventories at current prices have fallen between 2009Q3 and 2010Q4, which could be due to stronger than expected rises in demand. Inventories increased again during the first part of this year, but the number of entrepreneurs considering their stock levels as excessive has increased swiftly since June. This indicates that the increase in stocks will be curbed during the second half of 2011.

Foreign trade

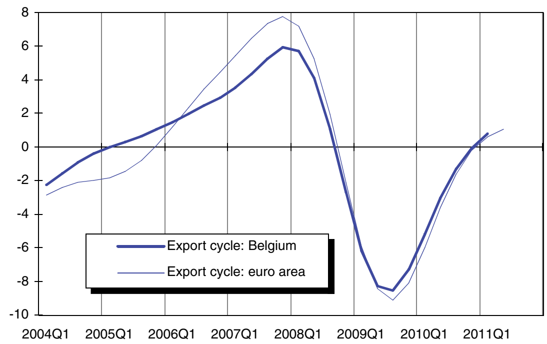
Table 4 - Belgium - Trade statistics (goods, intra/extrastat, national concept)

	2009	2010	2010Q3	2010Q4	2011Q1	2011Q2	2011M1	2011M2	2011M3	2011M4	2011M5	2011M6
Exports - value [1]	-20.6	17.9	20.4	14.1	24.0	15.2	24.6	27.1	20.9	16.2	27.9	3.3
Imports - value [1]	-22.1	16.6	17.9	16.0	24.0	15.6	24.8	24.9	22.5	12.5	28.2	7.2
Exports - volume [1]	-14.7	9.3	12.0	3.1	10.8	4.4	14.7	13.2	5.8	4.8	14.7	-4.9
Imports - volume [1]	-13.3	5.7	7.8	1.2	8.9	3.5	10.1	10.2	6.6	-0.3	14.6	-2.9
Exports - price [1]	-6.8	7.9	7.4	10.6	11.7	10.3	8.6	12.3	14.2	11.0	11.5	8.5
Imports - price [1]	-10.0	10.3	9.4	14.6	13.8	11.7	13.4	13.3	14.9	12.9	11.8	10.5

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

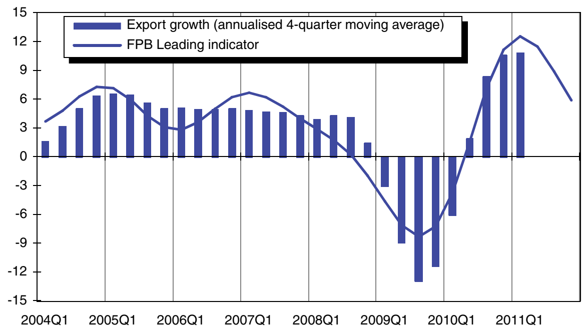
Source: INR/ICN

Graph 17 - Export cycle



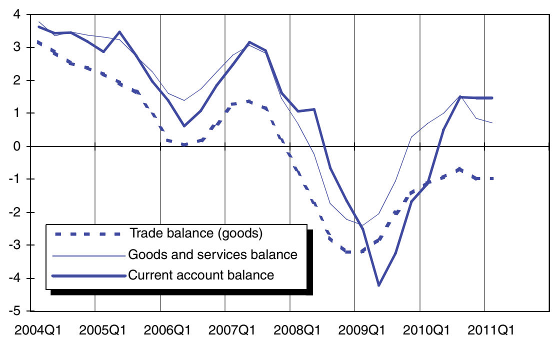
Source: INR/ICN, Eurostat, FPB

Graph 18 - Export growth and leading indicator



Source: INR/ICN, FPB

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



Source: INR/ICN, NBB, FPB

The rebound of the Belgian and European export cycles, which started in 2009Q3, continued in the first quarter of 2011 (Graph 17). While the European and Belgian export cycles have now reached or surpassed their trend levels, a flattening of the export cycle is in the offing as world trade growth has tumbled and as growth forecasts for the second half of 2011 have been revised down strongly since the beginning of this summer. In 2011Q2, exports from Germany, the Netherlands, and Austria continued to grow at brisk pace, while they slowed down considerably in most other countries. In Ireland, severe cuts in wages have resulted in a strong improvement in competitiveness and allowed for a remarkable recovery of its exports as they recently surpassed their 2007Q4 level.

Belgian export growth was remarkably strong from mid-2009 to mid-2010, but has slowed down substantially since, in line with world trade. An acceleration in export growth is not expected in the course of this year. For 2011Q2, the available monthly trade data (Belgian quarterly national accounts for 2011Q2 had not yet been released at the time of writing) point to a weak performance, and GDP growth among our trading partners came close to a standstill. In the second half of 2011, export growth should remain rather weak as euro area growth is expected to remain feeble. This scenario is confirmed by our leading indicator (Graph 18). Next year, the assumed ebbing of the sovereign debt crisis and an acceleration of world trade should allow for a strengthening of exports.

While having declined substantially in the years before, the current account slid to deficit territory during the financial crisis and the global recession. Last year's strong export growth brought the current account back into positive territory, but this should prove to be temporary as higher oil prices and less dynamic exports are likely to result in an evaporation of the surplus in 2011.

Labour market

Table 5 - Labour market indicators

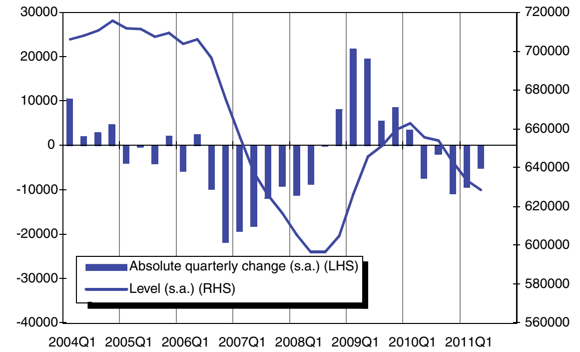
	2009	2010	2010Q3	2010Q4	2011Q1	2011Q2	2011M3	2011M4	2011M5	2011M6	2011M7	2011M8
Unemployment [1][2]	645.7	653.8	653.7	642.9	633.5	628.5	632.1	629.7	631.0	624.9	625.3	625.8
Unemployment rate [2][3]	12.5	12.6	12.5	12.4	12.1	12.0	12.1	12.1	12.1	12.0	12.0	12.0
Unemployment rate-Eurostat [3][4]	7.9	8.3	8.3	7.9	7.2	7.3	7.1	7.2	7.4	7.4	7.5	.

[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

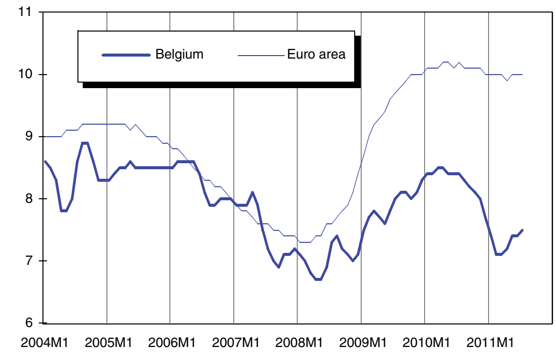
Source: RVA/ONEM, FPS Employment, Eurostat, FPB

Graph 20 - Evolution of unemployment (incl. older)



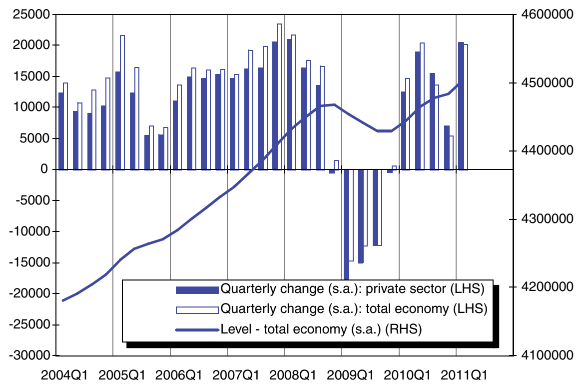
Source: RVA/ONEM

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



Source: Eurostat

Graph 22 - Evolution of domestic employment



Source: INR/ICN

Private sector employment has increased for five consecutive quarters since 2010Q1, at an average pace of almost 0.45% per quarter. With value added growing at a robust 0.7% per quarter during this period, this implies surprisingly low growth in productivity per head, considering that we are still recovering from a severe downward shock in activity. In fact, hourly productivity fell sharply in the two quarters immediately after the financial crisis (2008Q4-2009Q1), recovered vigorously in the three succeeding quarters, but has hardly grown since. So, although firms seem to have been very keen on rehiring the more flexible fringes of their workforce, over a long stretch of time they also seem to have been accepting a substantial amount of labour hoarding for workers on longer-term contracts.

Average hours worked per person fell during the financial crisis, but have taken much more time to recover, a process that seems to have lasted at least until 2011Q1. During all this time, labour hoarding through temporary working time reduction has been made easier for firms by the government-subsidised system of temporary unemployment for blue collar workers. Moreover, it should be kept in mind that both hourly productivity and average hours worked per person remain subject to downward pressure from the vast expansion in the number of jobs that have been created within the government-subsidised voucher programme for domestic-type services and since 2010Q1 from additional temporary hiring subsidies targeted at the low-skilled and long-term unemployed.

Although the labour force has been growing significantly due to the combined stimulus of persistent net immigration and increasing activity rates in the 50+ age bands, job growth has been strong enough to push back unemployment considerably over the last year and a half. Almost half of the increase in broad administrative unemployment that was accumulated during the period 2008Q4-2010Q1 had already been eliminated by 2011Q2. It does seem, however, that the decrease in unemployment has been losing pace over recent quarters and months, a trend that is likely to persist in view of the current deceleration in activity growth.

Prices

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

	2009	2010	2010Q4	2011Q1	2011Q2	2011Q3	2011M4	2011M5	2011M6	2011M7	2011M8	2011M9
Consumer prices: all items	-0.05	2.19	2.99	3.37	3.48	3.63	3.41	3.35	3.67	3.75	3.60	3.55
Food prices	1.06	1.54	2.56	1.94	2.28	2.56	2.00	2.13	2.70	2.91	2.53	2.23
Non food prices	-2.72	3.17	4.40	4.97	5.16	5.62	5.00	4.96	5.51	5.67	5.51	5.68
Services	2.85	1.43	1.67	2.50	2.29	1.95	2.49	2.23	2.15	2.04	2.01	1.81
Rent	2.01	1.11	0.98	0.97	1.11	1.07	1.08	1.15	1.10	1.09	1.01	1.11
Health index	0.59	1.67	2.56	2.82	3.01	3.17	2.88	2.89	3.27	3.32	3.14	3.04
Brent oil price in USD (level)	61.5	79.5	86.5	104.9	117.6	113.5	123.7	115.1	114.0	116.8	110.5	113.2

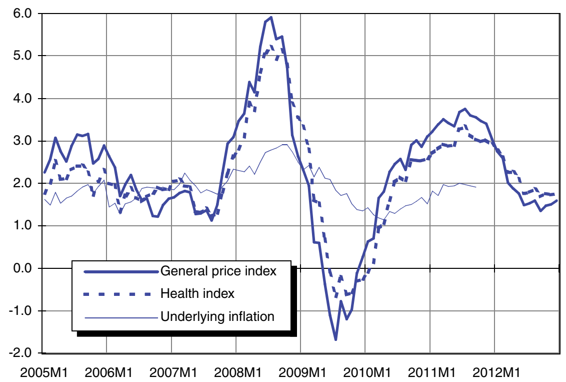
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

	2011M1	2011M2	2011M3	2011M4	2011M5	2011M6	2011M7	2011M8	2011M9	2011M10	2011M11	2011M12
Consumer prices: all items	115.66	116.33	116.91	117.20	117.59	117.95	118.09	117.99	118.31	118.37	118.45	118.50
Consumer prices: health index	114.38	115.05	115.39	115.57	115.98	116.43	116.61	116.49	116.73	116.84	116.98	117.14
Moving average health index	113.81	114.21	114.67	115.10	115.50	115.84	116.15	116.38	116.57	116.67	116.76	116.92
	2012M1	2012M2	2012M3	2012M4	2012M5	2012M6	2012M7	2012M8	2012M9	2012M10	2012M11	2012M12
Consumer prices: all items	118.85	119.34	119.27	119.41	119.65	119.70	119.90	119.87	119.91	120.12	120.23	120.39
Consumer prices: health index	117.54	118.07	118.00	118.17	118.43	118.48	118.69	118.65	118.69	118.89	119.01	119.20
Moving average health index	117.13	117.43	117.69	117.95	118.17	118.27	118.44	118.56	118.63	118.73	118.81	118.95

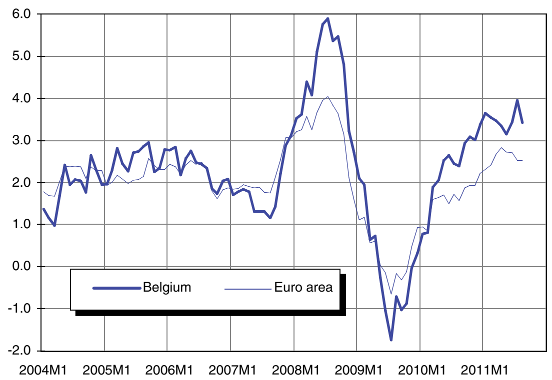
Source: Observations (up to 11M9): FPS Economy; forecasts: FPB

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



Source: FPS Economy, from 11M10 on: forecasts FPB

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



Source: Eurostat

Headline inflation, as measured by the yoy growth rate of the national consumer price index, rose from -1.7% in July 2009 to 3.5% in March 2011. Since then, it has been fairly stable, hovering between 3.3% and 3.8%. Underlying inflation has been much more stable since mid-2009 in a band between 1.1% and 2% as energy prices had accounted for the better part of inflation fluctuations. Indeed, crude oil prices plummeted from over USD 130 in July 2008 to barely USD 40 in December 2008, then increased gradually to more than USD 110 in March 2011 and have remained fairly stable since. During this period, the EUR/USD-exchange rate has limited the influence of oil prices on domestic prices in the euro area as the exchange rate has generally appreciated during oil price increases and vice versa. Going forward, the expected decline in inflation is mainly related to a fall in yoy growth rates of oil prices in EUR (from around 40% in September to a slightly negative figure in the course of 2012). Underlying inflation should also diminish due to the cooling down of the economy, but is of lesser importance in explaining overall inflation.

All in all, annual average inflation should decline from 3.4% in 2011 to 1.8% in 2012, while growth in the health index should amount to 3% and 2%, respectively. On the basis of these forecasts, the current pivotal index (117.27) should be crossed in February 2012 by the 4-month moving average of the health index.

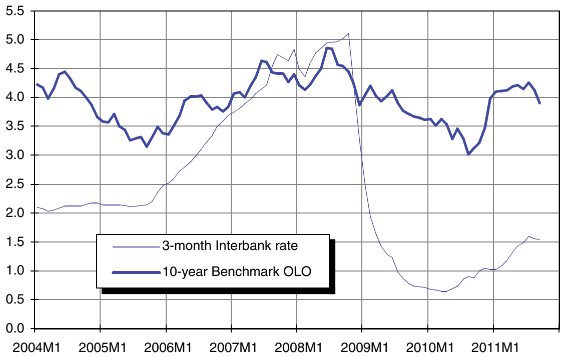
Interest rates

Table 8 - Interest rates

	2009	2010	2010Q3	2010Q4	2011Q1	2011Q2	2011M4	2011M5	2011M6	2011M7	2011M8	2011M9
Short-term money market rates (3 months)												
Euro area (Euribor)	1.23	0.81	0.87	1.02	1.09	1.41	1.32	1.43	1.49	1.60	1.55	1.54
United States	0.56	0.31	0.34	0.28	0.28	0.22	0.23	0.21	0.22	0.24	0.29	0.33
Japan	0.52	0.29	0.33	0.27	0.32	0.26	0.23	0.24	0.30	0.24	0.33	0.78
Long-term government bond rates (10 years)												
Belgium	3.89	3.43	3.14	3.56	4.11	4.18	4.19	4.22	4.14	4.26	4.12	3.91
Germany	3.26	2.77	2.45	2.60	3.17	3.13	3.35	3.08	2.98	2.79	2.25	1.84
Euro area	3.71	3.34	3.10	3.37	3.94	3.98	4.10	3.94	3.91	4.05	3.59	3.41
United States	3.24	3.20	2.77	2.85	3.45	3.19	3.43	3.15	2.99	2.99	2.28	1.97
Japan	1.34	1.17	1.04	1.04	1.24	1.18	1.26	1.15	1.13	1.12	1.03	1.00

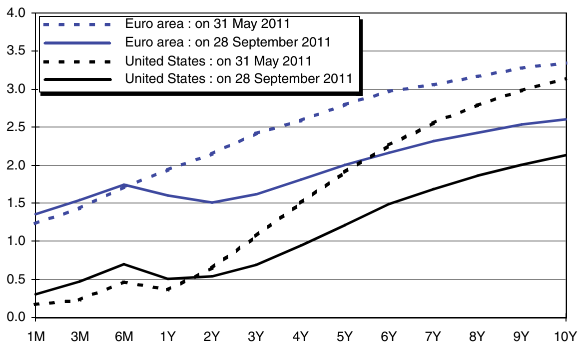
Source: Datastream

Graph 25 - Interest rate levels in Belgium, in %



Source: NBB

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



Source: Datastream, data based on interest rate swaps

The ECB has raised its policy rate twice by 25 basis points (to 1.5%) so far this year, but is now on the verge of cutting rates because of the disappointing growth figures, the turmoil in financial markets, and plunging confidence. To prevent Italian and Spanish government bond yields rising to unsustainable levels, the ECB has intervened massively on the secondary bond market via its Securities Market Programme. While a controversial measure in northern countries, the ECB felt it had no choice until the revamped EFSF rescue fund was up and running (which might take a while as it has to be approved by all the national parliaments). The worsening of the sovereign debt crisis is also causing renewed stress in the European banking sector. Rising distrust between financial institutions is leading to reduced access to market funding and an increasing dependence on liquidity provided by the ECB.

The US Federal Reserve has announced that it would keep its policy at rock bottom level until mid-2013 due to the severe weakening of GDP growth. So far, it has not yet opted for a new quantitative easing programme.

The fear of a new economic recession and strong risk aversion in the financial markets has driven investors to the safe haven of US Treasuries. Consequently, US long-term interest rates have declined to their lowest level since the beginning of the 1950s. The decline in long-term interest rates in the euro area was much less pronounced as the strong decline of ten-year yields in Germany (considered as the safe haven in the euro area) was largely offset by increasing borrowing costs in countries with weak growth and/or sovereign debt problems. The interest rate differential between Belgian and German government bond yields has also widened considerably since July, but the rise in this spread seems to have been curbed recently.

Exchange rates

Table 9 - Bilateral exchange rates

	2009	2010	2010Q3	2010Q4	2011Q1	2011Q2	2011M4	2011M5	2011M6	2011M7	2011M8	2011M9
USD per EUR	1.393	1.327	1.293	1.359	1.368	1.440	1.446	1.433	1.440	1.428	1.432	1.377
UKP per EUR	0.891	0.858	0.834	0.860	0.854	0.883	0.883	0.877	0.888	0.884	0.876	0.872
JPY per EUR	130.3	116.4	110.8	112.1	112.6	117.4	120.2	116.3	115.8	113.3	110.3	105.8

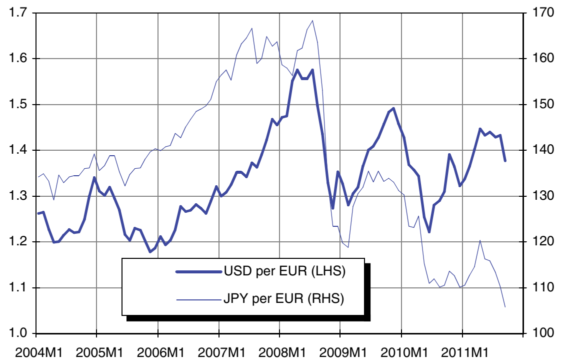
Table 10 - Nominal effective exchange rates (2005=100)

	2009	2010	2010Q3	2010Q4	2011Q1	2011Q2	2011M2	2011M3	2011M4	2011M5	2011M6	2011M7
Euro	112.8	104.9	102.1	104.4	103.8	106.8	103.5	105.3	107.6	106.4	106.5	105.2
Growth rate [1]	0.2	-7.0	-1.3	2.3	-0.7	3.0	1.2	1.8	2.2	-1.1	0.1	-1.2
US dollar	94.0	90.6	91.3	87.8	86.5	83.9	86.6	85.4	84.0	83.9	83.9	83.3
Growth rate [1]	4.4	-3.6	-1.9	-3.9	-1.5	-3.0	-1.1	-1.4	-1.7	-0.1	0.0	-0.7
Japanese yen	116.9	122.9	127.0	128.0	127.1	125.1	126.6	127.0	122.3	125.7	126.7	128.1
Growth rate [1]	15.7	5.2	6.7	0.8	-0.7	-1.6	-0.8	0.3	-3.7	2.8	0.8	1.1

[1] Change (%) compared to previous period

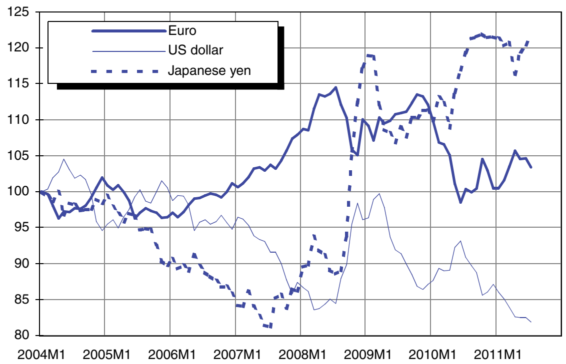
Source: BIS, NBB

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



Source: NBB

Graph 28 - Nominal effective exchange rates (2003M1=100)



Source: NBB, BIS

Following an appreciation in the euro exchange rate against the dollar in 2011Q1, it hovered between 1.40 and 1.45 dollars per euro until August. While the euro was plagued by the threat of a Greek default and doubts about the survival of the currency union, the dollar suffered from the near stagnation of economic growth and the lingering political discussion about raising the US debt ceiling. Recently, changing expectations on the stance of European monetary policy (no longer raising, but cutting interest rates) and a further escalation in the sovereign debt crisis pushed the euro below the 1.40 EUR/USD threshold in September.

The currencies benefiting most from the lingering euro crisis have been the so-called "safe haven currencies" such as the Swiss franc to which investors flock in times of stress. However, the strong appreciation of the Swiss franc against the euro (+30% since the start of 2010) has resulted in a dramatic deterioration in competitiveness that has risked choking Swiss exports. To prevent this from happening, the Swiss national bank has announced that it will buy unlimited amounts of foreign currencies to keep the euro exchange rate at a minimum of 1.20 Swiss francs per euro.

The move by the Swiss national bank might usher in a new phase in the so-called "currency wars", whereby each country tries to depress its currency as much as possible to shore up export and overall economic growth. With interest rates at or near zero and fiscal policy stimulus either exhausted or ruled out politically in most of the advanced economies, currencies are one of the only policy tools left.

Tax indicators

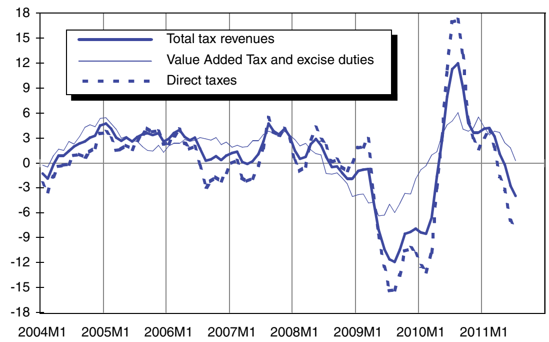
Table 11 - Tax revenues (1)

	2009	2010	2010Q3	2010Q4	2011Q1	2011Q2	2011M2	2011M3	2011M4	2011M5	2011M6	2011M7
Total [2], of which:	-8.0	5.9	3.4	-8.2	5.1	3.5	-4.0	15.3	2.9	6.2	2.3	3.8
Direct taxes, of which:	-11.0	3.9	3.2	-21.1	5.1	3.3	-3.2	13.3	2.1	15.6	-2.8	9.4
Withholding earned income tax (PAYE)	-0.1	0.8	-1.5	-27.0	3.7	3.9	4.5	10.1	0.5	2.9	7.5	7.0
Prepayments	-26.1	11.0	20.0	0.8	.	0.0	.	.	-0.8	.	.	-4.2
Value Added Tax and excise duties	-2.0	7.9	2.4	10.9	2.7	3.1	-9.2	17.7	3.6	-8.2	11.8	-4.9

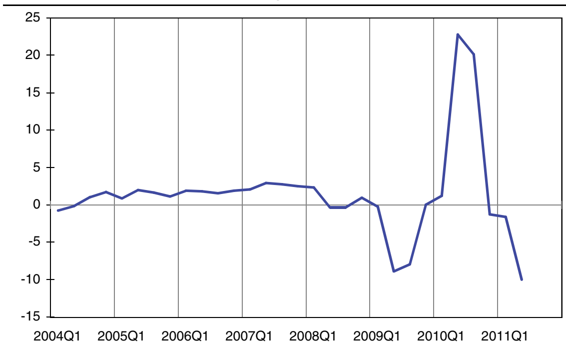
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: FPS Finance

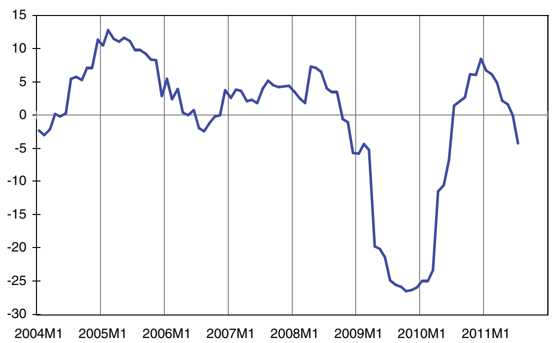
Graph 29 - Real tax revenues (3)



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

Tax collection accelerated during 2010, reflecting the business cycle upturn. The progression remained significant in 2011Q1 and again in 2011Q2. However, not all tax categories contributed to this evolution.

Total prepayments grew significantly in 2010 reflecting the recovery in business profitability, but figures for April and July (the first and second due dates for prepayments) point to a yoy decline. As there is no sign of a deterioration in profitability, this decrease is probably explained by large deductions from taxable income of both losses carried forward and risk capital accumulated during the crisis. Taxes on dividends have increased substantially since the beginning of 2011, confirming the upturn in profitability.

The increase in PAYE personal income tax collection benefited from the surge in employment as from 2010Q1, but was hampered by the very moderate or even negative development in real wage rates. The increase in tax revenue would also have been higher without the continuing sharp increase in labour cost reductions in the form of exemptions from payments of PAYE (especially for night-time and shift-organised labour and the across-the-board wage subsidy).

Strong growth in indirect taxes observed in 2010 continued in 2011Q1 and Q2, especially for VAT revenue as receipts for excise duty are declining, partially due to administrative factors. VAT revenues were mainly backed by high inflation rates and sustained growth in private consumption.

Significant increases were also noted in 2010 and the first half of 2011 regarding registration duties (benefitting from the recovery in the real estate market), inheritance taxes (given the rebound in asset prices), and customs duties (through the expansion in world trade). On the other hand, taxes on interest payments almost stopped progressing during the first half of 2011 (apart from an increase in regularisations) as the average interest rate on outstanding deposits of households was still on a downward yoy trend and households have preferred untaxed savings accounts since the beginning of the crisis.

Recent Demographic Trends and Population Projections 2010-2060

In January 2011, Statistics Belgium delivered the definitive detailed values for the population growth in the years 2007-2009 to the Federal Planning Bureau. The analysis of these data revealed important recent trends: an upward movement in fertility, especially among women of Belgian nationality, continuing progress in life expectancies at birth but with a faster improvement for men, a higher propensity to migrate inside the country as well as to abroad, and again higher values for international immigration. It was therefore necessary to review the hypotheses of the previous Population Projections 2007-2060. The present Planning Paper focuses on the analysis of recent demographic evolutions, linking them to the adopted hypotheses of the new Population Projections 2010-2060, and gives an overview of the main results.

The Belgian Population Projections 2007-2060 were based on the evolution of the population up to 1 January 2007 (cf. FPB Planning Paper 105).

The two components of the natural movement of a population are fertility and mortality. Recently, the fertility rate has increased among women of Belgian nationality, especially in the Flemish and Brussels Regions. Among foreign women it declines moderately except in the Walloon Region, where it is still increasing. For Belgium, the average number of children per woman has moved from 1.67 in 2000 to 1.82 in 2008. Concerning duration of life, life expectancies at birth for men and women in 2009 were 77.7 and 82.9 years, respectively. These should reach 86.2 and 88.8 years in 2060. The gap between the two sexes would therefore evolve from 5.2 years in 2009 to 2.6 in 2060.

Migration movements are rising everywhere. Migration movements inside Belgium are increasing, especially inside the administrative arrondissements themselves. Observing the movements between the regions, the Flemish Region, compared to the Walloon Region, is becoming somewhat more attractive than it was before. International immigration increased greatly in the first decade of the century. Under the present definitions, there were 89 052 immigrants in 2000, 137 699 in 2006, and 166 479 in 2009. According to experts, immigration should further increase slightly, and with the adopted hypotheses should attain a maximum of 176 000 immigrants in the mid-2010s. It would thereafter fluctuate according to the economic attractiveness of Belgium. International immigration is of course compensated by international emigration which recently increased somewhat, in proportion to the population. Net international immigration to Belgium reached +13 732 people in 2000, +49 536 in 2006, and +62 761 in 2009. According to the present hypotheses, it would reach a maximum of +64 900 people in 2012, would decline to +22 000 in the mid-2030s, and then could rise again to around +32 700 in 2060.

The revival in fertility, assumed to stabilize around the present high levels, and the strong international immigration at the beginning of the forecast period contribute to higher future population levels than calculated in the previous projections. In 2060, the population of Belgium should reach 13 515 000 inhabitants (compared to 12 662 800 in the former projections), and that of the Brussels Region 1 475 000 persons (compared to 1 327 700). While the number of people aged 65 and more continues to increase considerably in these projections, the whole population will be younger and the old age dependency ratio will evolve from 26 in 2010 – 26 persons aged 65 and more compared to 100 persons aged 15 to 64 – to 42 in 2060, instead of 45 in the population projections 2007-2060.

This publication and all related tables of annual values for the population projections 2010-2060 as well as the observations as from 2000 – for all geographical levels, from administrative arrondissement to country – are available on the websites of the Federal Planning Bureau and Statistics Belgium.

"Perspectives de population 2010-2060 – Bevolkingsvooruitzichten 2010-2060",
Federal Planning Bureau, Directorate-general Statistics and Economic information,
October 2011.

Impact of the EU Climate-Energy Package on the Belgian energy system and economy – update 2010

At the end of 2008, the Federal Planning Bureau published Working Paper 21-08 (WP 21-08). This Working Paper described and analysed the impact of the EU Climate-Energy Package on the Belgian energy system and economy. Since then, much has changed: macroeconomic projections have changed radically, further to the financial and economic crisis; recent developments in the field of oil and gas have caused fossil fuel price projections to be revised upwards; and a number of energy efficiency measures were agreed upon and made into law in the course of 2008 and 2009. All this made the 2008 study obsolete whilst only 2 years old. This study report therefore updates the analysis reported in WP 21-08. It bases itself on the new economic and policy context and benefits from recent analyses by the European Commission conducted at EU level.

The study follows the same structure as WP 21-08. Next to a baseline, alternative scenarios are scrutinized: the *20/20* and *30/20 target* scenarios, standing for an EU-wide reduction of, respectively, 20% and 30% of greenhouse gas (GHG) emissions in 2020 compared to the 1990 level, and a 20% EU-wide share for renewable energy sources (RES) in gross final energy demand in 2020. The *20/20 target* scenario mimics the EU Climate-Energy legislative Package while the *30/20 target* scenarios simulate a stepping up of the GHG emission target to -30%. The study also includes a couple of variants that evaluate the impact of achieving more GHG emission reductions domestically in the non-ETS sector than considered in the alternative scenarios.

Regarding the impact of the EU Climate-Energy Package, the main conclusions are that the energy system will respond to the twin targets by implementing energy savings and by developing RES. In the 20/20 target scenario, a decrease in final energy demand of 1% can be noted compared to the baseline. The share of RES in Belgian gross final energy demand, stipulated at 13% in the Climate-Energy Package, reaches 12.5%, leaving a 0.5% deficit to be filled by cooperation mechanisms. In terms of GHG emissions, this scenario leads to a domestic reduction of 14% in 2020 compared to 2005 emissions. These changes in the energy system and the reductions in GHG emissions give rise to economic costs. These economic costs are evaluated by means of the direct cost, which encompasses the additional (compared to the baseline) energy equipment costs, fuel purchase costs, and 'disutility' costs, as well as the costs related to flexibility. The direct cost is estimated to be EUR 1.6 billion in 2020.

The stepping up to -30% simulated in the *30/20 target* scenarios leads to a further cut in final energy demand of 3-5% in 2020 compared to the *20/20 target* scenario. This additional drop in final energy demand combined with the same incentive for RES (i.e. same renewable value) translates into a slightly higher share of RES in gross final energy demand, ranging from 12.8 to 13.2% and to a reduction in GHG emissions in Belgium in 2020 by 18-22% of the 2005 levels.

The evaluation of the economic costs involves two complementary approaches. The first approach relies on the assessment of the direct cost. The direct cost of moving to a 30% GHG reduction target (i.e. the additional cost compared to the *20/20 target* scenario) lies between EUR 0.8 and EUR 1.1billion in 2020. The second approach takes the feedback effects on the Belgian economy and its sectors into account. The results depend on the extent to which the new public revenues are recycled back in the economy. The macroeconomic impact would consist of a real GDP reduction of between 0.8% and 0.15% and an employment impact ranging from a loss of about 47 000 jobs to a gain of approximately 25 000 jobs in 2020.

"Impact of the EU Climate-Energy Package on the Belgian energy system and economy – Update 2010",
F. Bossier, D. Devogelaer, D. Gusbin, F. Thiéry,
Working Paper 9-11, 2011.

Estimation of inter-industry domestic and international R&D stocks for Belgium

This Working Paper deals with the estimation of direct, inter-industry domestic and international R&D stocks for 25 Belgian industries over the period 1995-2007. These stocks constitute the main technique used to estimate the impact of own R&D and inter-industry domestic and international R&D spillovers on the productivity of an industry. That was the objective of "The determinants of industry-level total factor productivity in Belgium", Biatour, B., Dumont, M., Kegels, C., Working Paper 7-11, April 2011, Federal Planning Bureau. They are constructed by assuming that R&D expenditures diffuse between industries and countries through various channels such as flows of patent or economic transactions.

Research and Development (R&D) activities are generally considered as one of the main determinants of productivity growth. Not only may own R&D activities affect the innovation and productivity growth of firms but also R&D performed by other domestic or foreign firms (R&D spillovers). Two categories of spillovers are usually distinguished in the literature: rent spillovers, occurring when R&D intensive inputs are purchased at less than their full "quality" price; and knowledge spillovers, corresponding to the transfer of knowledge and ideas between firms.

In this paper, direct/own R&D stock of a Belgian industry is constructed from R&D expenditures of the industry, accumulated following the perpetual inventory method. Inter-industry and foreign stocks are constructed as a weighted sum of other industries'/countries' R&D stocks. The weights are derived from Supply and Use Tables (SUT) and bilateral trade to measure R&D diffusion through intermediate consumptions (rent spillovers) and from international patent citations matrices to measure pure transfers of knowledge between industries (knowledge spillovers).

Data show that, in Belgium, R&D activity is highly concentrated in two knowledge-intensive manufacturing industries: Chemicals and Electrical equipment. At the end of the period, Coke, refined petroleum products and nuclear fuel and, to a lesser extent, Rubber and Manufacturing n.e.c are the industries that benefited the most from the R&D of the other Belgian industries via their intermediate consumption (rent spillovers). Over the whole period, foreign R&D stocks were particularly high in Transport equipment, which uses a large number of imported intermediate inputs containing a large number of R&D activities. To a lesser extent, Coke, refined petroleum products and nuclear fuel, Chemicals, and Electrical equipment also benefited from a large foreign R&D stock. These sectors are characterised by a large presence in Belgium of enterprises under foreign control.

Over the period 1995-2007, indirect domestic stocks and foreign stocks constructed with patent citations matrices (knowledge spillovers) were particularly high in the manufacture of Machinery and Electrical equipment. Chemicals also benefited from very high foreign stocks and high indirect domestic stocks. To a lesser extent, the Wood, Rubber products, and Manufacturing n.e.c. industries also had relatively high levels of both stocks in comparison with the other sectors.

For each industry, the inter-industry domestic R&D stock and the foreign R&D stock depend, in fact, on a few industries/countries that are important in terms of intermediate consumption or patent citations for the industry concerned and/or that are intensive in R&D activities. Two major sectors contribute to the inter-industry domestic stock (via SUT) of many industries: Chemicals and Renting of material & equipment. Chemicals and Electrical equipment often appear as a source of international spillovers (via SUT and patent citations matrices) and source of knowledge spillovers among Belgian industries. These two sectors are dominated by multinational enterprises, which can facilitate spillovers between countries. Many Belgian industries also benefit from the R&D activities of the same sector abroad. The same countries are always identified as sources of international spillovers: the neighbouring countries (Germany, France, The Netherlands, and the United Kingdom), the United States, and Japan.

"Estimation of inter-industry domestic and international R&D stocks for Belgium",
B. Biatour,
Working Paper 10-11, July 2011.

A decomposition of industry-level productivity growth in Belgium using firm-level data

In this Working Paper the growth in industry-level total factor productivity, i.e. the part of output growth that cannot be accounted for by growth in the production factors, is decomposed using Belgian firm-level data for the period 2000-2008. Decomposition permits the assessment of the extent to which productivity growth in a given industry results from changes in firm-level productivity, from reallocation of market shares between existing firms or from firm entry and exit.

Total factor productivity (TFP) growth is generally considered as an indicator of technological and organisational change. Given data availability, early empirical studies computed or estimated TFP at the country or industry level. More recently, firm-level or plant-level data have provided insight into how industry-level productivity growth can be explained by business demographics, i.e. firm-level productivity growth, changes in market shares of existing firms (incumbents) and firm exit and entry.

In this Working Paper, data on firms that are established in Belgium were used to decompose TFP growth for 12 manufacturing industries over the period 2000-2008. Five components of productivity growth were distinguished. A first component shows the extent to which industry-level TFP growth results from changes in firm-level TFP growth, for given market shares, and thereby provides an indication of overall changes in technological efficiency. A second component shows the extent to which changes in market shares of firms explain industry-level TFP growth. The third component interacts changes in firm-level TFP with changes in market shares and will be positive if – on average – firms with positive (negative) TFP growth witness an increase (decrease) in their market share and negative if the changes have opposite signs. The final two components indicate the effects on industry-level TFP growth of, respectively, firms that enter the industry and firms that leave the industry.

The Belgian data show that productivity differences between firms within the same industry are substantial and rather persistent. In most industries, incumbent firms are – on average – more efficient than entrants and the latter are – on average – more efficient than firms that left the industry in the period considered.

The decomposition indicates that firm-level TFP growth contributed substantially to industry-level TFP growth. Firms that witnessed high TFP growth – rather than high initial TFP levels – appear to have gained market share at the expense of firms that witnessed low TFP growth. Firm entry contributed positively to industry-level TFP growth but, as the results for those industries where entry played a considerable role show, the fact that entrants have above-average TFP is more relevant than the number of firms that enter a given industry.

Firms with high TFP growth gained market share in terms of value added but at the same time appeared to have decreased their relative demand for labour and capital. The main policy conclusion of the present analysis is that changes in firm-level productivity growth may be reinforced or dampened by the reallocation of market shares between firms. The analysis suggests that there could be some conflict between a policy that aims to increase productivity (e.g. through support for the R&D activities of individual firms) or reallocation towards the more efficient firms within an industry (e.g. through deregulation and competition policy) and policies that aim to enhance employment growth, which would actually benefit from reallocation towards less efficient firms.

"A decomposition of industry-level productivity growth in Belgium using firm-level data"
M. Dumont,
Working Paper 11-11, July 2011.

A computable general equilibrium model for Belgium, with a special focus on the transport sector

This paper seeks to extend the PLANET model to allow for an endogenous influence of transport sector outcomes on the economy. To this end, we have embedded the PLANET data on freight and household transport for 2003 into a static CGE model of the Belgian economy.

With its long term transport model PLANET, the Federal Planning Bureau has available a powerful tool for making detailed projections of the transport sector for Belgium and its regions. However, the relationship between transport and the economy in the PLANET model is unilateral. Projections of the main economic variables – GDP and employment – are exogenous, and results for the transport sector follow in a top-down way. Moreover, welfare evaluation is carried out using outside estimates of the marginal cost of public funds of different tax instruments instead of being endogenously determined within the model.

In reality, the economy influences the transport outcome, but the evolution of transport also influences the economy. The model presented in this paper aims to take the mutual influence of transport and the economy into account. When performing policy analysis, such a two-way link yields additional interesting insights. For example, congestion may raise the cost of travel to households and firms, with negative effects on labour supply and production costs.

This paper provides a first step towards the full endogenization of PLANET by embedding the PLANET data on freight and passenger flows, time, and monetary transport costs into a computable general equilibrium (CGE) model of the Belgian economy using elements from the aforementioned literature. The model consists of one representative household, 27 production sectors, and the government.

The representative household maximizes its utility, subject to a monetary and a time budget constraint, which yields demands for commodities, leisure trips, and leisure. Each day worked is strictly complementary to commuting trips, so that labour supply not only depends on after-tax wages but also on monetary and time costs of commuting. For leisure trips as well as for commuting journeys, they choose between different modes and two time periods – peak and off-peak travel.

Firms minimize production costs, choosing the optimal mix of labour, capital, and intermediate inputs. Among these inputs we discern between four freight modes (trucks, light duty vehicles, inland water ways, and rail), of which the two road modes are again differentiated by time period. For households as well as firms, time costs are endogenous and depend on the total traffic flow.

The government levies taxes, provides transfers, and consumes goods according to mostly exogenous parameters and simple growth rules.

The model is calibrated on a social accounting matrix for the year 2003. All transport data for the year 2003 are taken from the PLANET database.

Three simulations are used for testing the model: a kilometer charge on trucks, a kilometer charge on trucks and light duty vehicles, and a comprehensive charge that includes household transport. We find that, in terms of alleviating congestion, the comprehensive charge is able to achieve substantially more compared to partial reform.

"A Computable General Equilibirum model with a special focus on the transport sector",
I. Mayeres, M. Vandresse, A. Van Steenbergen,
Working Paper 12-11, August 2011.

Public participation in the private sector

The Federal Planning Bureau has published new data on public participation in the private sector. It concerns activities in the private sector where the government (federal, regional or lower) has at least a 5% share in capital. Some notable facts on the evolution over the period 2003-2009 are listed below.

Although the number of companies with public ownership increased by 600, the share of (weighted) value added of companies with public ownership in the total population of non-financial companies decreased by 2.09 %-points.

In 2008-2009, the different levels of government bought shares in BNP Paribas, Dexia, KBC, and Ethias for a total sum of 22 billion euro or 6.49% of GDP in order to consolidate various financial companies that had been subject to great pressure during the financial crisis. The value added of the non-financial companies, weighted by the government share in the capital, amounted to 3.86% of GDP.

As from the nineties, the network industries have experienced considerable reforms under the influence of European directives, advancing towards an internal market for network industry services. As a result, employment in the railway and postal industries has dropped substantially. In 2005, 50% of 'de Post' shifted to private ownership. In the gas and electricity networks, however, employment in companies with public participation steadily increased. Telecommunications and water distribution also displayed a slight growth in employment. The share of network industries in domestic employment, excluding the self-employed, dropped from 3.7% in 2003 to 2.6% in 2009.

"Database available on the FPB website", www.plan.be

Recent history of major economic policy measures

September 2011	Publicly owned gas network company Fluxys-G is expanding its position in Europe. It acquired a vital pipeline through Germany and Switzerland from Italian ENI, which could enhance Belgium's position at the crossroads of European gas flows. It also took a 25% stake in an LNG terminal at Dunkirk.
July 2011	The ECB raised its main refinancing rate by a quarter of a percentage point to 1.50%.
	Standard & Poor's lowered the rating of the railway incumbent, NMBS/SNCB, to AA-. This reduction was due to NMBS/SNCB's persistent poor results.
June 2011	An agreement was made with France to establish a committee of co-ordination to monitor the impact of GdF-Suez decisions on Belgian energy policy. An initiative for this purpose had already been taken in 2009. Energy incumbent Electrabel resigned from the board of DSO Eandis and partly from the management teams of the intermunicipal entities that make up Eandis. Although it did not sell any stock, it improved Eandis' independence.
	The federal government approved two royal decrees that partly transpose railway Directives 2001/14 and 2004/59. One is on the allocation of network capacity and the charging of user's fees. It introduces a bonus-malus system for these fees, which should improve the regularity of both passenger and freight traffic. Under the other decree, the Railway Safety and Interoperability Service (DVIS/SSICF) will be assigned as the safety body, and a research centre for safety and accidents will be established.
	As one of the foremost telecom operators in the world, incumbent Belgacom brought a 4G mobile network on line. For the time being it will only be used by certain professional users. It will be commercialised at a later stage when the licences are sold.

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)