

# Quarterly Newsletter of the Federal Planning Bureau

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*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

*After a period of rapid expansion during 1999 and the first half of 2000, a clear worldwide slowdown was recorded in the second half of 2000. Current forecasts are assuming that world trade will recover in the second half of 2001. In line with this international scenario (lower growth, higher inflation), economic growth in Belgium has been revised downwards to 2.4% (compared to 2.8% in the economic budget last February). GDP growth next year should reach 2.8%, driven by stronger growth in exports and domestic demand.*

*In addition to the impact of the recovery of international trade, activity in 2002 should be fuelled by various internal factors boosting private consumption, such as wage and employment increases, the indexation of wages and social benefits above consumer price growth and personal income tax reform.*

*Domestic employment should rise by around 40,000 persons in 2001 and 45,000 in 2002, leading to a new improvement in the employment rate. Nevertheless, the impact on unemployment will be smaller, given the forecast increase in the labour force.*

*Inflation should be significantly lower in 2002 than in 2001 (1.5% as against 2.4% for consumer prices), thanks to a small decrease in energy prices, the stabilization of the euro exchange rate and lower prices for food products. The impact on inflation of the conversion of prices into euro is uncertain and any changes, should mainly be seen in 2001.*

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



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## Some implications for Belgium of the Eastern EU enlargement

The impact of EU enlargement to the 10 central and eastern European countries (CEECs) can occur through different channels. Trade can be affected through lower trade barriers, increased competition and specialisation, and a 'catching-up' effect in the CEECs. The labour market, growth and public finances will also be affected through the influx of foreign workers. This special topic presents initial findings on the implications for the Belgian economy of the EU enlargement focusing only on some aspects of trade and migration between Belgium and the CEECs.

### Implications for trade between Belgium and the CEECs

With EU enlargement, the future trade patterns between Belgium and the CEECs will be affected by the free movement of goods, services and factors between the EU and the CEECs. Although thought to be moderate, this impact is difficult to assess because trade between the EU and the CEECs has already been liberalised to a large extent and because some developments can be attributed to the transition process in general. In addition to the tariff liberalisation already realised on the basis of the Europe Agreements between the EU and the CEECs, full membership implies the elimination of all non-tariff barriers because of the extension of the Single market to the CEECs and the further reduction in trade costs.

This further liberalisation of trade between the EU and the CEECs means that firms can find additional outlets for their products, new trading partners, and new opportunities to invest. But at the same time, this process might be a source of concern for producers in the current EU countries, as competition will intensify, which may force a number of products out of the market because of cheaper substitutes being produced in the CEECs. To analyse the extent to which the different sectors of the Belgian economy are exposed to trade with the CEECs, it is necessary to account for the existing trade pattern and the rather modest involvement of Belgium in trade with the CEECs. To some extent, this "backward looking" analysis also contains elements of forecast of the future impact of Eastern EU enlargement.

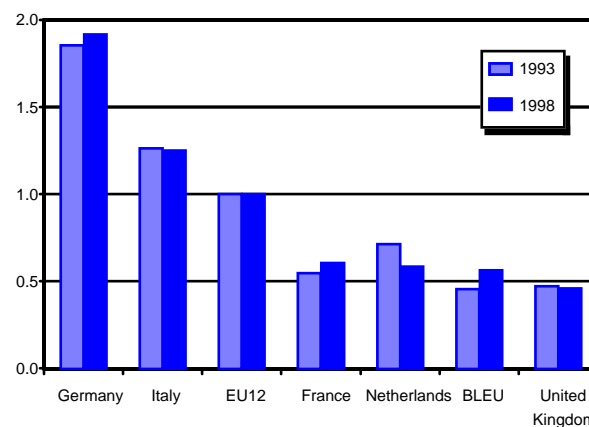
At the aggregate level, the main features of trade development between the BLEU<sup>1</sup> and the CEECs are as follows:

- The CEECs represent a modest share of the total trade of the BLEU for the period 1990-1998. Also, the CEECs make up less trade with the BLEU than any of its main

trading partners<sup>2</sup>. However, starting from a very low level, trade between the BLEU and the CEECs grew significantly over the period under review, especially with respect to exports. Between 1990 and 1998, the share of total exports of the BLEU accounted for by the CEECs increased from 0.50% to 2.37%. By contrast, the growth in the share of BLEU imports from the CEECs was much less, it increased from 0.53% in 1990 to 1.63% in 1998. This compares to the following results in Germany: in the same period, the share of German total exports made up by the CEECs increased from 2.05% to 8.11%, while total imports from the CEECs increased from 2.27% to 7.65%.

- The exports to the CEECs increased more rapidly than imports, implying that the trade balance between the BLEU and the CEECs is positive and increasing since 1991.
- As shown in graph 1, the performance of the BLEU in the EU export to the CEECs in comparison to the performance in overall foreign markets has improved between 1993 and 1998.

**Graph 1 - Ratio between the share of a country in the EU exports to the CEECs and the share of a country in the total EU exports**



At the disaggregated level, the main features of trade development between the BLEU and the CEECs are as follows:

- The export performance of mechanical machinery and electrical machinery from the BLEU to the CEECs in 1998 has been much better than the equivalent performance in the intra-EU and extra-EU markets. However, this result is still significantly inferior to the EU export performance in the case of the mechanical machinery. This may represent a weakness for Belgium in the context of industrial restructuring in the CEECs. The plastic industry ranks third in the export

1. Trade data used in this special topic come from Eurostat. For Belgium, the trade data cover Belgium-Luxembourg Economic Union area (BLEU) until 1998.

2. The main trading partners of Belgium are Germany, France, the Netherlands, the United Kingdom and Italy.

performance of the BLEU to the CEECs. The automotive industry ranks fourth, but this result is only slightly better on the CEECs markets than on the extra-EU markets and much inferior than the export performance of the BLEU in the intra-EU market. Next, is the pharmaceutical industry with a higher share in the exports of the BLEU on the CEECs markets than in the intra-EU and extra-EU markets.

- The imports of the BLEU from the CEECs in 1998 are much more concentrated on mechanical machinery than the imports of the BLEU from the intra-EU and extra-EU markets. Next, is electrical machinery, the automotive industry, the furniture industry and the apparel articles.
- As shown in table 1, there is a rapid change in the factor intensity of imports of the BLEU from a sub-group of countries among the CEECs (especially Hungary and the Czech Republic) between 1993 and 1998, demonstrating a significant increase in the trade of products requiring intensive skilled labour and capital/technology. This result reflects a growing diversification of their industrial exports towards engineering products (mechanical industry and electric industry) and highlights the role of foreign direct investments in the export performance of some of the CEECs and the rapid process of restructuring.

**Table 1 - The factor intensity of trade between the BLEU and the CEECs in 1993 and 1998 (in % of total)**

|        |          | Natural resources |      | High-skilled labour, capital-technology |      | Low-skilled labour |      |
|--------|----------|-------------------|------|---|------|--------------------|------|
|        |          | 1993              | 1998 | 1993                                    | 1998 | 1993               | 1998 |
| Export | Central5 | 17.0              | 15.5 | 60.5                                    | 69.2 | 13.4               | 12.6 |
|        | Baltic3  | 27.2              | 19.1 | 43.6                                    | 59.1 | 12.5               | 19.2 |
|        | Balkan2  | 64.9              | 33.6 | 20.6                                    | 43.4 | 8.1                | 19.4 |
|        | Extra-EU | 43.2              | 38.7 | 44.4                                    | 53.4 | 11.6               | 7.4  |
|        | Intra-EU | 32.7              | 31.0 | 49.5                                    | 54.8 | 15.2               | 12.0 |
| Import | Central5 | 32.0              | 17.4 | 38.2                                    | 58.3 | 22.5               | 15.0 |
|        | Baltic3  | 48.6              | 48.0 | 21.4                                    | 17.3 | 20.6               | 29.1 |
|        | Balkan2  | 76.9              | 23.8 | 9.8                                     | 20.0 | 4.8                | 52.2 |
|        | Extra-EU | 45.6              | 40.8 | 41.8                                    | 44.1 | 10.7               | 12.9 |
|        | Intra-EU | 36.3              | 32.8 | 50.2                                    | 57.2 | 11.0               | 7.7  |

Source: Eurostat, own calculations.

Notes:

The CEECs are classified into three sub-groups of countries:

Central5= Poland, Hungary, the Czech Republic, Slovakia and Slovenia,  
Balkan2= Bulgaria and Romania,  
Baltic3= Estonia, Latvia and Lithuania.

The factor intensity of the sectors are based on the OECD typology.

Natural resource: animal products; vegetal products, animal and vegetable fats, prepared foodstuff, mineral products, hides and skins, wood pulp products, pearl, precious and semi-precious stones (metals), base metals and articles thereof.

High-skilled labour, capital/technology: chemical products, plastics and rubbers, machinery and mechanical appliances, transportation equipment, instruments, measuring, musical, arms and ammunition.

Low-skilled labour: wood and wood products, textiles and textile articles, footwear, headgear, article of stone, plaster, cement, miscellaneous, works of art

- The EU enlargement will also imply higher adjustment costs for the countries that have their comparative advantages in the same sectors as the CEECs. In this respect, it is worth noting that the automotive industry shifted from a comparative advantage to a comparative disadvantage between 1993 and 1998 in the trade specialisation of the BLEU with the CEECs. This development reflects the change from a positive to a negative contribution of that sector to the total trade

balance, resulting from a decrease in the share of exports of the BLEU to the CEECs while the imports from the CEECs have correspondingly increased.

The prospects for future trade of Belgium with the CEECs should also consider the process of catching up. Nevertheless, the macroeconomic impact of increased trade flows is thought to be negligible, but the increased competition could place downward pressure on mark-ups and lead to an acceleration of growth.

#### Implications for migration between Belgium and the CEECs

The likely impact of Eastern EU enlargement on the migration of populations and workers to and from Belgium is limited. On January 1 2000, the CEECs citizens (12,300 people) accounted for only 1.4% of the total number of foreigners living in Belgium (897,100 people). In 1999, their net migration flows to and from Belgium (1,500 people) represented 7.1% of all net migrations of foreigners (21,300 people).

A recent report produced by a European Integration Consortium of research centres<sup>1</sup> projected the effects of EU enlargement on net migration flows from the CEECs to EU countries once the borders are opened up. On the basis of these projections, Belgium would experience an increase in its total population and workforce. Compared to current population forecasts, which are already taking into account regularly increasing flows without the free movement of persons, EU enlargement in 2002 would give rise to a population increase of 12,300 by 2010, 7,700 of whom would join the labour force.

An increase in migration should benefit economic growth and employment and could also increase social expenditure. In the medium term, the increase in the labour force in the EU would lead to faster economic growth. On the basis of a study performed by the Commission and a simulation using the FPB's international model, the EU's GDP is forecast to increase by 0.3% after ten years. For Belgium, the macroeconomic and budgetary implications of the induced additional export growth to the EU, together with a modest increase in Belgium's labour force, can be assessed using the FPB's national macroeconomic model. The majority (almost 70%) of the increase in the labour force should be reflected in higher employment. GDP should increase by 0.1% - 0.2% in the medium term; social and education expenditure should rise slightly (unemployment, family allowances, health care). Overall there would be virtually no effect on the state financing capacity (as a percentage of GDP).

1. Tito Boeri and Herbert Brücker, main authors, European integration consortium: DIW, CEPR, FIEF, IAS, IGIER, "The impact of Eastern enlargement on employment and labour markets in the EU Member States - Final report", Berlin and Milano 2000

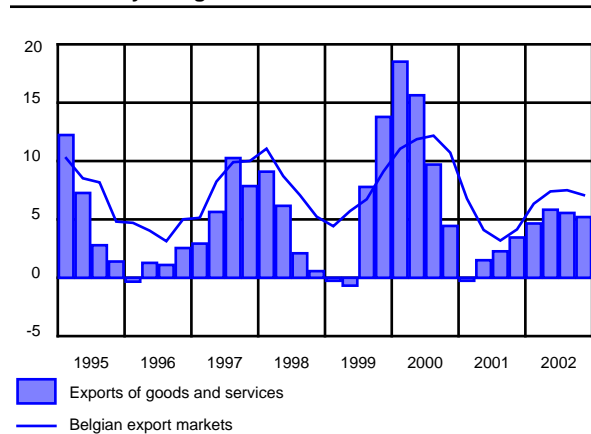
The FPB has prepared economic forecasts for the Institute of National Accounts. After approval by the Board of Directors and the Scientific Committee of the INA, these forecasts are used for the elaboration of the Federal Government budget. The present forecasts were completed on 4 July 2001.

Real GDP growth of 2.8% in 2002 as compared with 2.4% in 2001

During the past few months the international economic climate has deteriorated. While the slowdown in growth in the US seems to be gradually coming to an end, Europe appears to be less immune to the slowdown in world economic growth than was initially expected. The slowdown is apparently mainly affecting exports and business investment. Moreover, inflation, which is higher than expected, is eroding households' purchasing power.

For this year and next year, economic growth in Belgium will depend to a large extent on the recovery in world trade. International trade expanded strongly in 1999 and during the first half of 2000. In the second half of 2000, however, an obvious worldwide slowdown was seen. These forecasts assume a recovery in world trade in the second half of 2001, following a weak first half of the year. Next year Belgium's export markets should grow by 7%, which corresponds more or less to the average growth over the past ten years. This scenario implies that the recent cautiously positive signs, which suggest a cyclical turning-point (mostly business surveys in the US), should be confirmed during the next few weeks.

Graph 1 - Exports of goods and services  
Yoy real growth rates



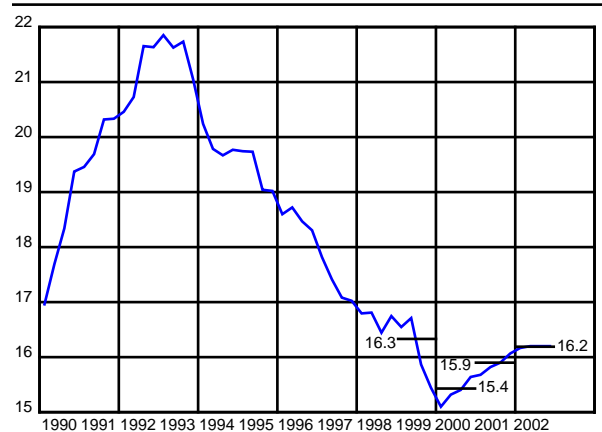
In line with this international scenario (lower growth, higher inflation), economic growth in Belgium has been revised downwards to 2.4% (as compared with 2.8% in last February's economic budget). Next year GDP

growth should reach 2.8%.

In comparison with 2001, exports and domestic demand should grow more strongly in 2002

In 2001 and 2002 the volume of private consumption should not increase as quickly (by 1.8% and 2.5% respectively) as real households' disposable income. Households' purchasing power should grow more next year than this year (2.9% as against 2.4%) due to factors including faster job creation and higher wage increases. Due to falling oil prices and a downward trend in inflation, wage indexation and benefits should be higher next year than general consumer price inflation. Moreover, households' disposable income should benefit from measures to reform personal income tax. The expected increase in the household savings rate in 2001 and 2002 can only partly be accounted for by the less favourable economic situation, declining consumer confidence and the falls on the stock market. This rise mainly offsets the falling savings rate seen between mid-1999 and mid-2000. As households' purchasing power fell last year due to oil price increases, individuals temporarily reduced the amount that they saved in order to keep up their levels of consumption.

Graph 2 - Households' savings rate  
(quarterly, in % of disposable income)



Business investment should increase in real terms by 4.1% this year and 4% next year. As such, growth in business investment will be less pronounced than over the past three years, which can be explained by the slight fall in business profitability. The investment rate (share of business investment as a percentage of nominal GDP) should stabilize at the level seen in 1999 and 2000 (14.5%). Investment in buildings should recover slightly from next year onwards (2.4%) after a weak 2001 (1.5%). Government investment usually falls in the year after local elections. This year, this phenomenon will be further emphasised by the sale of public buildings. As such, public investment should fall this year

(-9% in real terms). In 2002, however, slight positive growth (2.2%) should be seen.

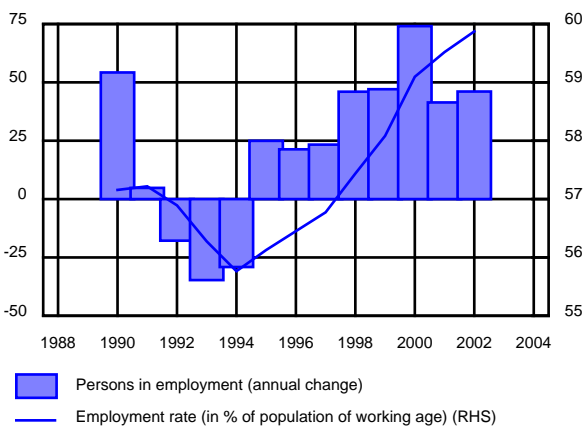
Domestic demand should grow overall by 2.5% in 2002 as compared to 1.9% this year. Exports should benefit from the recovery in foreign export markets. As such, the real growth rate of exports of goods and services should reach 5.3% next year as compared with 1.7% this year. The recovery in domestic demand will, however, stimulate import demand. The contribution of net exports towards economic growth will therefore be lower than this year (0.4% in 2002 as compared to 0.6% in 2001) in spite of the recovery in exports.

**Job creation follows the profile of economic growth**

Weaker economic growth in 2001 is also adversely affecting domestic employment. Between June 2000 and June 2001, domestic employment should rise by 40,000 units (growth of 1.0%) (including 4000 jobs in the public sector), as compared to 73,000 persons during mid-1999 and mid-2000.

In 2002 domestic employment should grow by 45,000 people (June-to-June change), with public employment remaining virtually unchanged. The employment rate (expressed as the persons in employment as a percentage of the population of working age) should therefore be 59.9% in mid-2002 or 4.1 percentage points higher than in 1994 (i.e. an average growth of more than 0.5% percentage points per year).

**Graph 3 - Employment and employment rate on June, 30th**

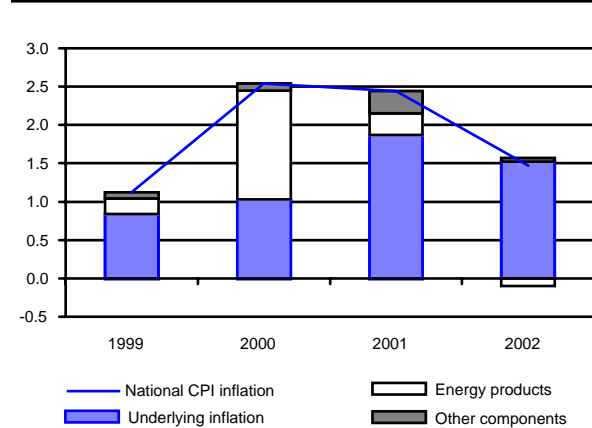


Next year, the increase in employment should lead to a fall in the number of people unemployed accounting for slightly more than 40% of the increase, while almost 60% comes from the increase in the labour force. Unemployment, as defined by the federal Ministry of Employment, should fall between June 2001 and June 2002 by almost 20,000 persons. If the expected increase in the number of older unemployed persons not seeking employment is considered, only a fall in unemployment (in this broad definition) by 12,000 people would be seen.

**Major fall in inflation in 2002**

The deceleration of inflation at the beginning of 2001 has turned around into a new rise as from the Spring of this year. Causes of this were ballooning oil prices, the depreciation of the euro and the exceptional boom in some foodstuffs due to unfavourable weather conditions (fresh vegetables and fruit) and diseases affecting livestock. Part of this increase can also presumably be accounted for by a temporary factor i.e. the gradual introduction of prices in euro (problem of rounding off). On the assumption that oil prices should move down to a lower level in a more sustainable way (about 25 USD per barrel) and the euro does not undergo any further substantial depreciation from its current level, the upward price pressure due to the imported inflation should fall gradually. Furthermore, the impact of a few individual factors, which have emerged this year, should fall gradually. Inflation should therefore fall to 2.4% this year and 1.5% next year; this is calculated on the basis of the national consumer price index (CPI). Since petrol and diesel are not taken into account in calculating the health index, the latter should increase by slightly more than the general CPI in both years i.e. by 2.5% in 2001 and 1.6% in 2002.

**Graph 4 - Breakdown of inflation Contributions (in %) towards CPI inflation**



**Uncertainties for 2001-2002**

The main uncertainty underlying the forecasts for 2001 and 2002 concerns the timing of the recovery in the United States. If the slowdown in the US is longer or more drastic than expected, the recovery in international trade will be postponed until next year. This would undermine the growth forecasts for European exports and further affect consumer and investor confidence in Europe.

If inflation remains higher than expected and is no longer considered to be a temporary rise, households may adjust their spending patterns accordingly. Moreover, a wage-price spiral may arise, leading to consequences for employment and economic growth.



## Economic Forecasts by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (data in ESA-95)

|   | 1999 | 2000 | 2001  | 2002  |
|---|------|------|-------|-------|
| Private consumption   | 1.9  | 3.1  | 1.8   | 2.5   |
| Public consumption  | 3.4  | 2.7  | 1.6   | 1.4   |
| Gross fixed capital formation                                 | 4.8  | 4.4  | 2.4   | 3.5   |
| Final national demand   | 2.1  | 3.4  | 1.9   | 2.5   |
| Exports of goods and services                                 | 5.2  | 11.8 | 1.7   | 5.3   |
| Imports of goods and services                                 | 4.5  | 11.4 | 1.0   | 5.1   |
| Net-exports (contribution to growth)                          | 0.7  | 0.8  | 0.6   | 0.4   |
| Gross Domestic Product  | 2.7  | 4.0  | 2.4   | 2.8   |
| p.m. Gross Domestic Product - in current prices (bn BEF)      | 9423 | 9924 | 10432 | 10906 |
| National consumer price index                                 | 1.1  | 2.5  | 2.4   | 1.5   |
| Consumer prices: health index                                 | 0.9  | 1.9  | 2.5   | 1.6   |
| Real disposable income households                             | 1.6  | 2.1  | 2.4   | 2.9   |
| Household savings ratio (as % of disposable income)           | 16.3 | 15.4 | 15.9  | 16.2  |
| Domestic employment (change in '000, situation on June 30th)  | 46.1 | 73.1 | 40.4  | 45.1  |
| Unemployment (Eurostat standardised rate, yearly average) [1] | 8.8  | 7.0  | 6.8   | 6.5   |
| Current account balance (BoP definition, as % of GDP)         | 4.4  | 4.6  | 5.2   | 5.6   |
| Short term interbank interest rate (3 m.)                     | 2.9  | 4.4  | 4.4   | 4.3   |
| Long term interest rate (10 y.)                               | 4.8  | 5.6  | 5.3   | 5.4   |

[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 |
|-----------------------------------|------------|------|-----------|------|--------------------|------|----------------|
|                                   | 2001       | 2002 | 2001      | 2002 | 2001               | 2002 |                |
| Federal Planning Bureau (*)       | 2.4        | 2.8  | 2.4       | 1.5  | 0.7                | 0.7  | 7/01           |
| INR/ICN                           | 2.8        | .    | 1.5       | .    | .                  | .    | 2/01           |
| National Bank of Belgium          | 2.6        | .    | 2.2       | .    | 0.5                | .    | 5/01           |
| European Commission               | 3.0        | 3.1  | 1.7       | 1.5  | 0.6                | 0.7  | 4/01           |
| OECD                              | 2.8        | 2.7  | 1.7       | 1.7  | 0.7                | 0.7  | 4/01           |
| IMF                               | 2.4        | 2.4  | 2.2       | 1.3  | 0.3                | 0.3  | 5/01           |
| BBL                               | 2.2        | 2.7  | 2.2       | 1.7  | 0.0                | 0.4  | 6/01           |
| Fortis Bank                       | 2.5        | 3.0  | 2.1       | 1.7  | 0.0                | 0.2  | 6/01           |
| Dexia                             | 2.2        | 2.5  | 2.5       | 1.8  | -0.1               | 0.2  | 7/01           |
| KBC Bank                          | 2.1        | 3.0  | 2.2       | 1.9  | -0.1               | 0.1  | 7/01           |
| Morgan Stanley Dean Witter        | 2.5        | 2.8  | 2.4       | 1.6  | 0.2                | 0.5  | 6/01           |
| Petercam                          | 1.75       | 2.5  | 2.4       | 1.7  | 0.0                | .    | 7/01           |
| IRES                              | 2.3        | 2.6  | 2.2       | 1.5  | 0.2                | 0.2  | 6/01           |
| DULBEA                            | 2.5        | 2.75 | 2.5       | 1.75 | 0.0                | 0.25 | 7/01           |
| Consensus Wirtschaftsinstitute    | 2.8        | 2.7  | 2.3       | 1.9  | 0.3                | 0.6  | 4/01           |
| <b>Averages</b>                   |            |      |           |      |                    |      |                |
| All institutions                  | 2.5        | 2.7  | 2.2       | 1.7  | 0.2                | 0.4  |                |
| International public institutions | 2.7        | 2.7  | 1.9       | 1.5  | 0.5                | 0.6  |                |
| Credit institutions               | 2.2        | 2.8  | 2.3       | 1.7  | 0.0                | 0.3  |                |
| Consensus The Economist           | 2.3        | 2.6  | 2.4       | 1.9  |                    |      | 7/01           |

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

Wirtschaftsforschungsinstitute: DIW (Berlin), Ifo (München), HWWA (Hamburg), IfW (Kiel), IWH (Halle), RWI (Essen)

(\*) The source for the government balance forecast is : FPB, Medium Term Economic Outlook 2001-2006, April 2001.

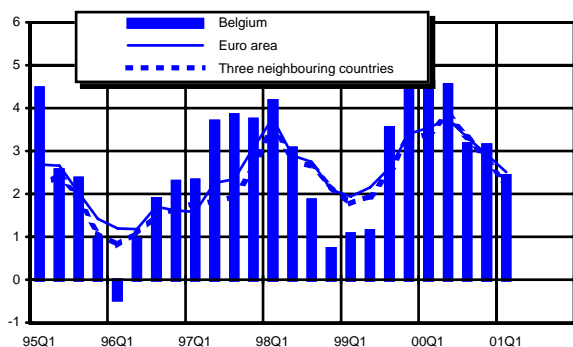
General economic activity

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

|               |     |     | YoY growth rates, in % |      |      |      |      | QoQ growth rates, in % |      |      |      |      |
|---------------|-----|-----|------------------------|------|------|------|------|------------------------|------|------|------|------|
|               | 99  | 00  | 00Q1                   | 00Q2 | 00Q3 | 00Q4 | 01Q1 | 00Q1                   | 00Q2 | 00Q3 | 00Q4 | 01Q1 |
| Germany       | 1.4 | 3.1 | 2.6                    | 4.0  | 3.3  | 2.6  | 2.0  | 1.0                    | 1.2  | 0.3  | 0.2  | 0.4  |
| France        | 3.0 | 3.3 | 3.7                    | 3.5  | 3.2  | 2.9  | 2.7  | 0.6                    | 0.7  | 0.8  | 0.8  | 0.5  |
| Netherlands   | 3.9 | 3.9 | 4.9                    | 4.3  | 3.5  | 2.8  | 1.6  | 0.9                    | 0.7  | 0.6  | 0.8  | 0.1  |
| Belgium       | 2.7 | 4.0 | 5.4                    | 4.6  | 3.2  | 3.1  | 2.4  | 1.1                    | 0.2  | 0.6  | 1.2  | 0.5  |
| Euro area     | 2.5 | 3.4 | 3.5                    | 3.7  | 3.3  | 2.9  | 2.5  | 0.9                    | 0.7  | 0.6  | 0.6  | 0.5  |
| United States | 4.2 | 5.0 | 5.3                    | 6.1  | 5.2  | 3.4  | 2.6  | 1.1                    | 1.4  | 0.6  | 0.3  | 0.3  |
| Japan         | 0.8 | 1.7 | 2.4                    | 0.9  | 0.3  | 2.5  | -0.1 | 2.4                    | 0.1  | -0.7 | 0.6  | -0.2 |

Source: INR/ICN, National sources, Eurostat

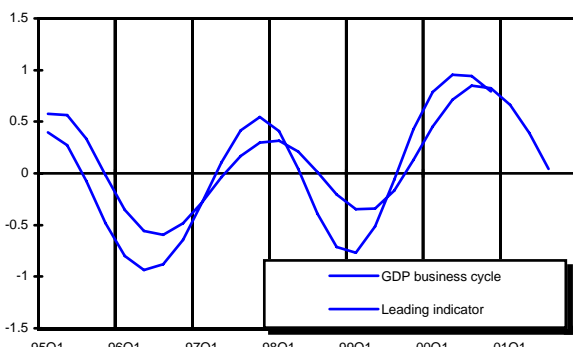
**Graph 1 - GDP-growth (t/t-4), in %**



Source: INR/ICN, National sources, Eurostat

In the first quarter of 2001, growth remained moderate in the United States and decreased somewhat further in the euro area as compared with the previous quarter. Some positive signs indicate that the US downturn could reach a bottom soon, reinforcing prospects of a recovery from the second half of the year on. Forecasts for the European economy, on the other hand, have recently been revised downwards as a result of the increasing spill-over effect of the downturn of world demand on European exports and investments as well as the disappointing development of private consumption. This has been held down by the loss of household purchasing power due to rising European inflation rates.

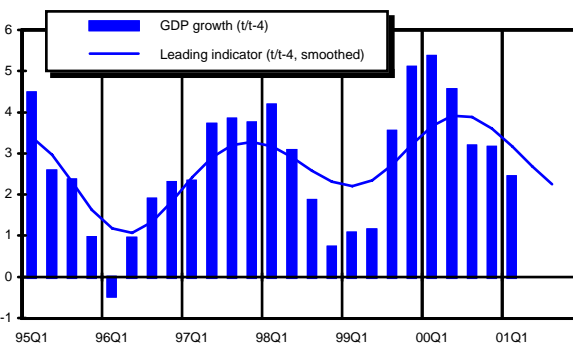
**Graph 2 - GDP business cycle and leading indicator**



Source: INR/ICN, FPB

The economic slow-down in the first quarter of 2001 has had a widespread impact among those countries taking part in monetary union in general and among our main trading partners in particular. The most significant setback has been recorded in the Netherlands. The German economic activity is suffering from the effects of both a slackening in its external demand and of the lack of dynamism in its own internal demand, especially due to the crisis in the construction sector. In Belgium, economic activity increased by 0.5% qoq at the beginning of the current year. Compared with the same period last year, Belgian GDP grew at about the same pace as the average of its three neighbouring countries and the euro area.

**Graph 3 - GDP growth and leading indicator**



Source: INR/ICN, FPB

The slowing pace of European activity is also reflected by the loss of momentum in industrial production that has coincided with the widespread deterioration in the business climate. Since no turning point in this leading indicator is visible so far, we can expect a further weakening in activity in Europe in the coming months. The FPB's leading indicator of Belgian economic activity also suggests that the present weakening in the overall cycle could continue to be seen in the next two quarters, since the expected turning-point in this downward trend has not yet been seen.



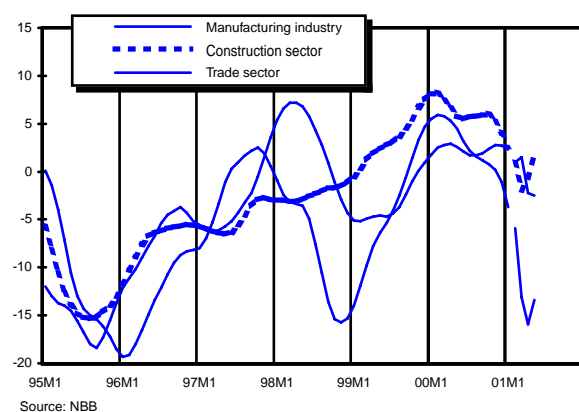
**Table 2 - Monthly business surveys [1]**

|                        | 99   | 00  | 00Q2 | 00Q3 | 00Q4 | 01Q1 | 00M12 | 01M1 | 01M2 | 01M3  | 01M4  | 01M5  |
|------------------------|------|-----|------|------|------|------|-------|------|------|-------|-------|-------|
| Synthetic indicator    | -2.9 | 3.8 | 4.6  | 2.8  | 1.9  | -3.9 | 0.2   | 1.2  | -3.8 | -9.2  | -11.6 | -9.5  |
| Manufacturing industry | -4.1 | 3.5 | 4.4  | 2.2  | 1.2  | -6.5 | -1.5  | -0.6 | -5.9 | -13.1 | -15.9 | -13.4 |
| Construction sector    | 2.9  | 6.5 | 4.9  | 6.1  | 5.9  | 0.0  | 5.6   | 0.9  | 0.9  | -1.9  | -0.6  | 1.7   |
| Trade sector           | -3.0 | 2.7 | 4.9  | 2.3  | 1.1  | 4.2  | 2.8   | 10.0 | 1.0  | 1.5   | -2.2  | -2.5  |

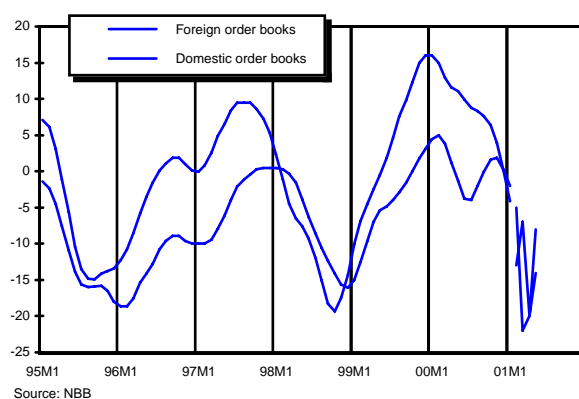
[1] Qualitative data

Source: NBB, FPB

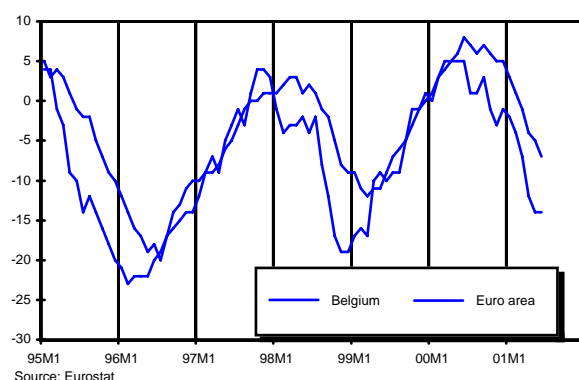
**Graph 4 - Business cycle: sectoral evolution**



**Graph 5 - Manufacturing industry: order books**



**Graph 6 - Industrial confidence: international comparison**



The sharply downward trend in the NBB synthetic indicator, however, which has been seen since the beginning of this year, was reversed in May. This turnaround still remains to be confirmed over the next few months before it can be expressed in the smoothed indicator which reveals the underlying trend in the overall business cycle. This is particularly true in the case of the manufacturing industry, since this sector has seen the most volatile evolution in the current cycle and has been most exposed to the slump in external demand since the Autumn of last year.

When it comes to those sectors that are more exposed to internal demand, some deterioration was seen in the trade sector in the recent months, but demand forecasts seem to be levelling off. In the construction sector, and more markedly in the civil engineering sector, the slight downward trend recorded since the beginning of 2001 has been followed by a slight recovery during April and May.

In manufacturing industry, the rapid collapse of firms' evaluation of their production trend and order books seen during the past three months (from February to April) seems to be bottoming out. However, companies' assessment of their export order books is still on the low side and their evaluation of stocks of finished goods rests at a historically high level.

According to the European Commission's business surveys, industrial confidence fell further during the second quarter of 2001, both in Belgium and in the euro area. Whereas this fall has been continuous in the euro area, some levelling off was seen in Belgium in June. In both areas, most of the decline recorded during the past quarter was due to lower production trend and expectations, probably, and more certainly in Belgium, caused by depressed export order books.

## Private consumption

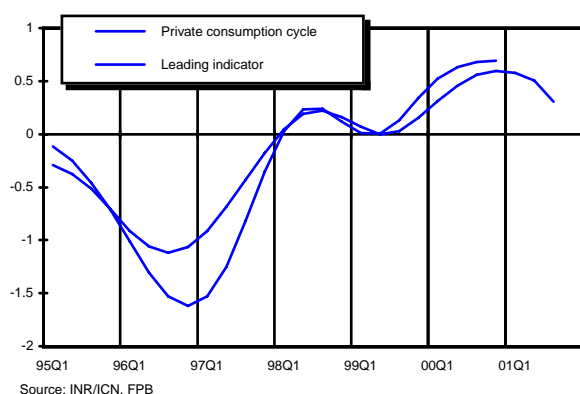
**Table 3 - Private consumption indicators**

|                                   | 99   | 00  | 00Q3 | 00Q4 | 01Q1  | 01Q2 | 01M1 | 01M2  | 01M3  | 01M4  | 01M5 | 01M6 |
|-----------------------------------|------|-----|------|------|-------|------|------|-------|-------|-------|------|------|
| Turnover (VAT) - retail trade [1] | 3.5  | 8.9 | 7.8  | 9.4  | 6.6   | .    | 16.2 | 2.1   | 2.7   | 3.9   | .    | .    |
| New car registrations [1]         | 8.3  | 5.2 | -4.7 | -0.7 | -13.9 | -7.6 | -0.7 | -20.8 | -19.8 | -13.7 | -9.9 | 2.4  |
| Consumer confidence indicator [2] | -1.9 | 9.3 | 11.0 | 13.0 | 10.7  | 6.3  | 12.0 | 11.0  | 9.0   | 8.0   | 5.0  | 6.0  |

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

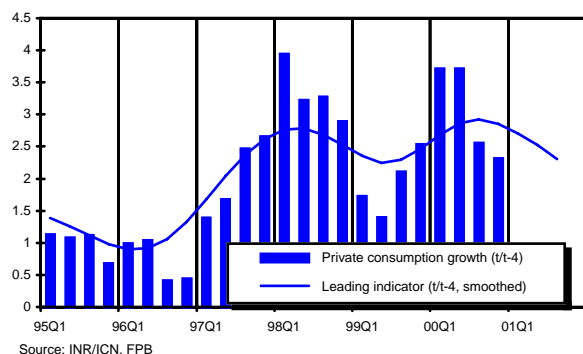
Source: NIS/INS, Eurostat, Febiac, FPB

**Graph 7 - Private consumption cycle and leading indicator**



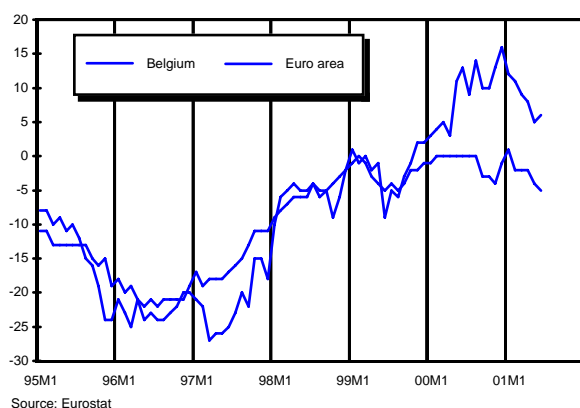
Source: INR/ICN, FPB

**Graph 8 - Private consumption growth and leading indicator**



Source: INR/ICN, FPB

**Graph 9 - Consumer confidence: international comparison**



Source: Eurostat

Between mid-1999 and mid-2000, private consumption grew at an annualised rate of 3.7%. As a result, private consumption increased well above its trend path, leading to a marked positive value for the consumption cycle (see graph 7).

This strong consumption dynamic was sustained by a substantial increase in disposable income and a reduced propensity to save. The latter not only reflected rising consumer confidence and higher job creation, but it was also due to households responding to rising inflation. As the increase in oil prices was considered as a temporary phenomenon, households were prepared to reduce their propensity to save for some time in order to compensate for their loss of purchasing power and maintain strong growth in consumption.

From the summer of last year onwards private consumption lost some momentum, partly because households increased their saving rate. During the second half of last year the private consumption cyclical indicator stabilised, after rising for four quarters. Yoy growth rates returned to almost 2.5%.

The FPB's leading indicator suggests that the private consumption cycle reached a turning point at the beginning of this year. For the whole of 2001 the leading indicator has been pointing downwards. This should bring private consumption back to its trend level by the end of this year. With an expected growth rate of 1.8% in 2001, private consumption growth will be about 0.5 of one percentage point below its trend growth rate.

This downward movement can also be seen in the recent changes in of consumer confidence and the results of the business survey in the trade sector during the past few months. After falling for six consecutive months, consumer confidence is now back at the same level seen in early 2000. Despite this fall, consumer confidence is still at a historical high level, as it is throughout the euro area.

## Business investment

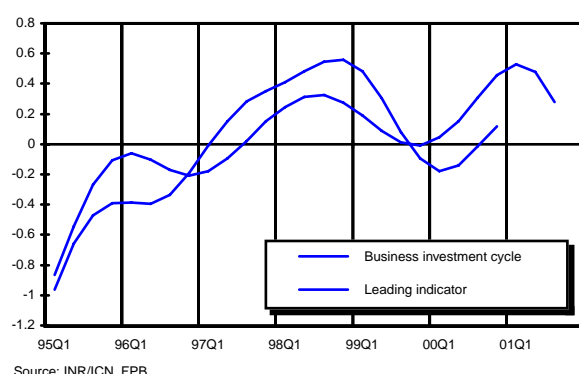
**Table 4 - Business investment indicators**

|                                      | 99   | 00   | 01  | 00Q2 | 00Q3 | 00Q4 | 01Q1 | 00M11 | 00M12 | 01M1 | 01M2 | 01M3 |
|--------------------------------------|------|------|-----|------|------|------|------|-------|-------|------|------|------|
| Investment (VAT) [1]                 |      |      |     |      |      |      |      |       |       |      |      |      |
| Industrial companies                 | 4.6  | 3.3  | .   | 4.4  | -0.3 | 4.5  | 3.2  | 7.1   | 4.6   | 20.3 | -1.5 | -5.5 |
| Non-industrial companies             | 8.7  | 8.5  | .   | 5.5  | 3.2  | 10.3 | 6.0  | 19.7  | 4.3   | 24.6 | -2.7 | -0.2 |
| Total companies                      | 7.2  | 6.6  | .   | 5.1  | 2.0  | 8.1  | 5.1  | 14.7  | 4.6   | 23.1 | -2.1 | -2.1 |
| Investment survey [1]                | 2.3  | 2.8  | 7.5 |      |      |      |      |       |       |      |      |      |
| Capacity utilisation rate (s.a.) (%) | 81.9 | 84.5 | .   | 84.2 | 84.3 | 84.7 | 82.4 |       |       |      |      |      |

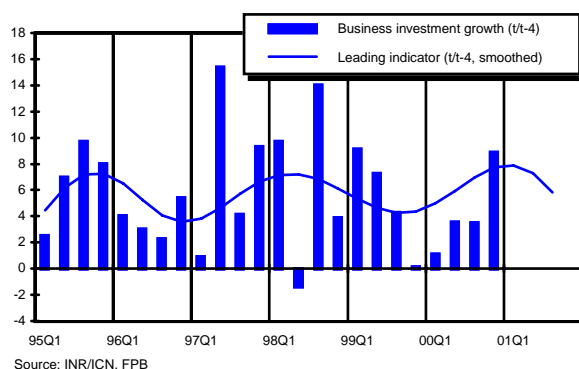
[1] Change (%) compared to same period previous year

Source: NIS/INS, NBB, FPB

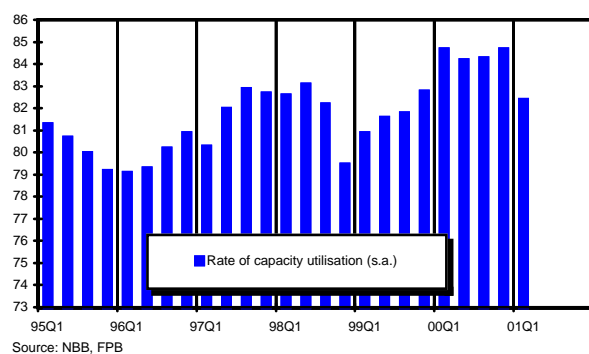
**Graph 10 - Business investment cycle and leading indicator**



**Graph 11 - Business investment growth and leading indicator**



**Graph 12 - Capacity utilisation in manufacturing industry**



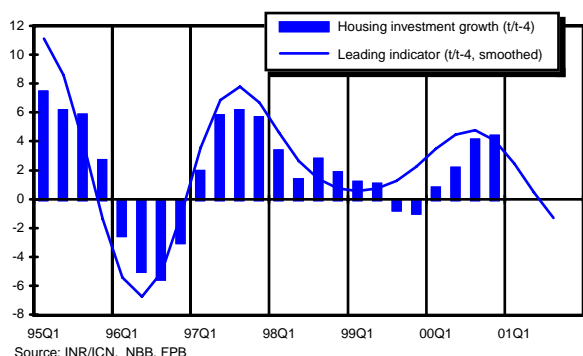
Since the mid-1990s the global economic cycle has been characterised by a succession of short-lived cyclical movements, with only six quarters on average between peaks and troughs. During the same period the business investment cycle has been quite different from this global business cycle. In particular, investment in ICT and in the non-industrial sector has developed rather independently of the general business cycle, while industrial investment has shown a somewhat closer, although far from robust, relationship with global economic movements, as reflected in the export cycle and the degree of capacity utilisation in manufacturing industry. All in all, business investment has, unlike GDP, followed an almost steady upward trend since mid-1994, at an average annualised growth rate of more than 5.5%. Only the first half of 1996 and the whole of 1999 have shown signs of a limited cyclical downturn in business investment.

The most recent indicators for business investment reveal a somewhat mixed picture. According to VAT statistics, both industrial and non-industrial investment performed rather well during the first quarter of this year, although this was entirely due to largely positive yoy growth rates in January, while February and March showed negative yoy growth rates. The NBB investment survey carried out in May this year has led to a downward revision of investment prospects in manufacturing industry for 2001, although the current estimate of 9.3% for this year implies a recovery in industrial investment as compared to 2000 (the survey actually gives a figure of only 2.9% for 2000). The downward revision of the investment survey result for 2001 should not be surprising, since the level of capacity utilisation in manufacturing industry seems to have reached a high at the end of 2000 and is now on a downward path.

All in all the FPB's leading indicator suggests that business investment should remain rather strong during the first half of this year, while losing some momentum during the second half. Taking into account this pattern and the positive 'carry-over effect', a real growth rate of around 4% is expected for 2001.

## Housing investment

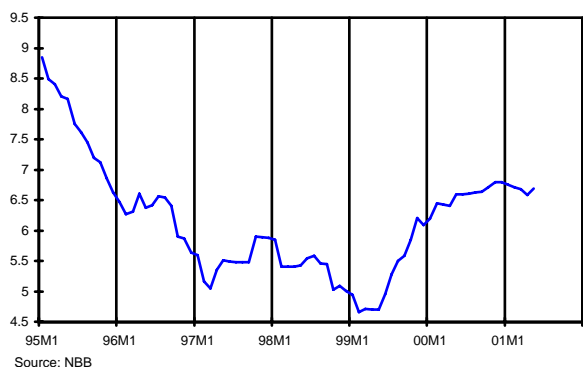
**Graph 13 - Housing investment growth and leading indicator**



Investment in housing (new construction and major renovation) saw a vigorous recovery in 2000, with an average real growth rate attaining nearly 3%. According to the quarterly national accounts, however, the cycle of residential investment has already levelled off in the third quarter of 2000 while the fourth quarter of last year saw a marked downturn in terms of quarter to quarter increases.

Most surveys are indicating the current lack of dynamism in these investments and the FPB's leading indicator is pointing towards a further slackening during the next few quarters. Indeed, the speculative increase in land prices in Flanders and the almost uninterrupted rise in mortgage interest rates throughout 2000 have tempered the number of requests for building permits.

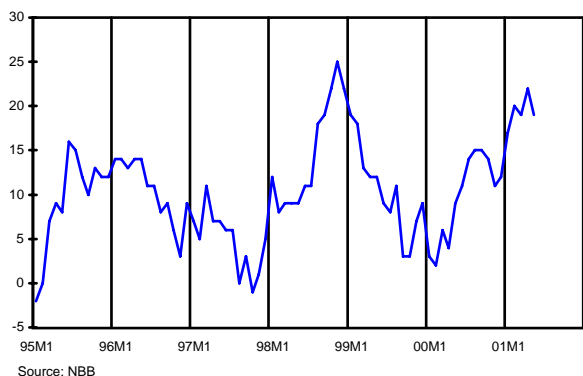
**Graph 14 - Mortgage rate (in%)**



Thanks to its upswing in 2000, however, the carry-over recorded by this component of demand had already reached about 1.3% by the end of last year. We expect housing investment to expand by an average of 1.5% in 2001. The year 2001 could then become a year of transition before acceleration begins anew in 2002, based on sound economic prospects and the sustained increase in household purchasing power which is forecast for the 2001-2002 period.

## Stockbuilding

**Graph 15 - Appreciation of stocks**



The economic downturn observed in Belgium since the second half of 2000 has led to significant reductions of stockbuilding. From mid-2000 to the first quarter of 2001, the NBB survey of manufacturing industry showed that manufacturers increasingly considered their level of stocks to be excessive in a context of slowing demand and prospects. We are therefore expecting the yoy contribution of stockbuilding towards economic growth to remain negative during the first quarter of 2001, as was already the case in the two previous quarters.

The first surveys on the second quarter of 2001 have, however, indicated a stabilisation in companies' opinions of their stock levels. We can expect, therefore, that this negative contribution will fall during the next few quarters until it is virtually zero on average over the whole of 2001.

## Foreign Trade

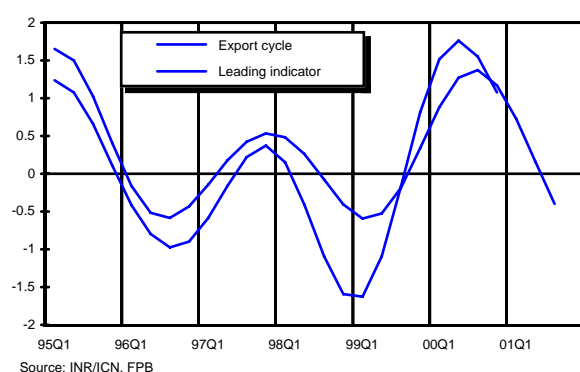
**Table 5 - Belgium - Trade statistics (goods, intra/extrastat)**

|                      | 99   | 00   | 00Q2 | 00Q3 | 00Q4 | 01Q1 | 00M11 | 00M12 | 01M1 | 01M2 | 01M3 | 01M4 |
|----------------------|------|------|------|------|------|------|-------|-------|------|------|------|------|
| Exports - value [1]  | 4.5  | 20.3 | 21.4 | 17.3 | 19.6 | 10.9 | 22.8  | 12.5  | 21.7 | 7.0  | 5.8  | 5.9  |
| Imports - value [1]  | 4.5  | 21.8 | 21.4 | 21.2 | 20.4 | 11.1 | 27.5  | 11.6  | 24.3 | 7.0  | 4.4  | 9.4  |
| Exports - volume [1] | 5.0  | 9.4  | 10.6 | 6.2  | 7.7  | 5.5  | 11.5  | 1.9   | 15.6 | 1.8  | 0.7  | 0.6  |
| Imports - volume [1] | 3.2  | 8.2  | 8.2  | 7.2  | 6.3  | 3.8  | 11.5  | -0.2  | 14.3 | -0.1 | -1.0 | 3.7  |
| Exports - price [1]  | -0.6 | 10.0 | 9.8  | 10.4 | 11.0 | 5.2  | 10.1  | 10.4  | 5.3  | 5.1  | 5.1  | 5.3  |
| Imports - price [1]  | 1.2  | 12.6 | 12.2 | 13.1 | 13.3 | 7.1  | 14.3  | 11.8  | 8.7  | 7.1  | 5.5  | 5.5  |

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

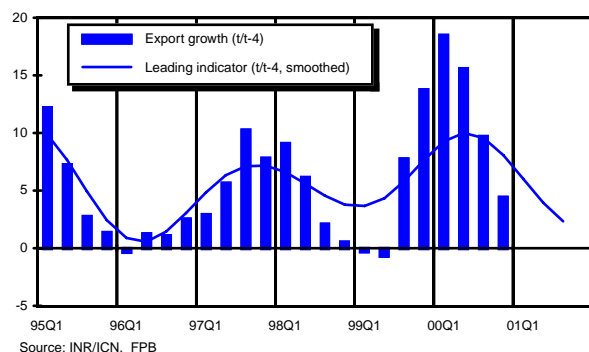
Source: INR/ICN, FPB

**Graph 16 - Export cycle and leading indicator**



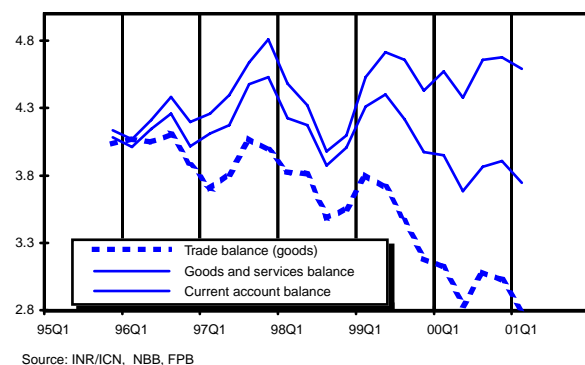
Source: INR/ICN, FPB

**Graph 17 - Export growth and leading indicator**



Source: INR/ICN, FPB

**Graph 18 - Belgium foreign balances (4 quarters cumul,% of GDP)**



Source: INR/ICN, NBB, FPB

The downswing in the Belgian economy since mid-2000 is most obvious in the export cycle. The slowing pace in the volume of global trade has indeed negatively affected the Belgian export market. The Belgian cyclical pattern for exports of goods and services, however, has been far more pronounced than the shape of their potential markets. Indeed, between mid-1999 and mid-2000 Belgian exports grew faster than the foreign markets whereas the reversal has been observed during the second half of last year.

Despite the fact that, so far, no turning point in the Belgian export cycle has yet become discernible in the FPB's leading indicator, our scenario assumes that Belgium's export markets should recover during the second half of 2001. If this should be confirmed, we would expect that Belgian exports would benefit from this recovery and follow an upturn similar to the foreign export markets (in terms of qoq increase). Nevertheless, triggered back by their past quarterly profile that gives rise to a quasi null carry-over at the end of 2000, the average growth rate of exports in 2001 will be lower than the growth rate of foreign potential markets.

As in 2000, the yoy quarterly profile of imports should remain similar to the profile for exports. Consequently, due to the high positive level of the Belgian goods and services balance and the expected slowing of internal demand, the contribution of net exports towards real GDP growth should continue to be largely positive in 2001.

In 1999 and 2000, under the impulse of oil price increases and the depreciation of the euro, the Belgian economy has been affected by losses in the terms of trade. During the first quarter of 2001, the slowing pace of world economic activity has negatively affected world trade prices and the effective euro exchange rate has recovered somewhat during this period. Nevertheless as both export and import prices have decelerated, the terms of trade have remained negative during the first three months affecting the balance of goods and services.

Labour market

Table 6 - Labour market indicators

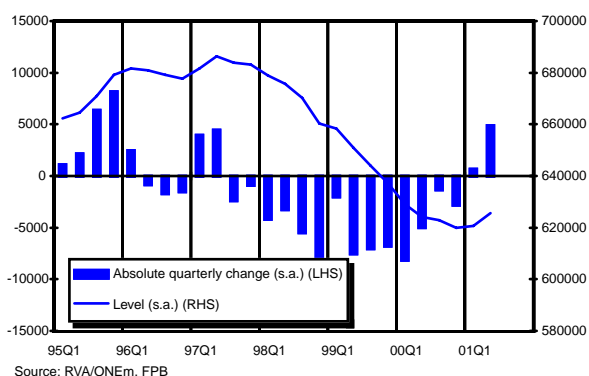
|                                | 99    | 00    | 00Q3  | 00Q4  | 01Q1  | 01Q2  | 01M1  | 01M2  | 01M3  | 01M4  | 01M5  | 01M6  |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Unemployment (excl. older) [1] | 507.6 | 474.4 | 503.4 | 469.8 | 458.4 | 436.8 | 467.0 | 460.1 | 448.0 | 442.9 | 436.1 | 431.3 |
| Unemployment (incl. older) [1] | 647.8 | 624.1 | 654.3 | 623.9 | 615.1 | 595.6 | 623.0 | 616.7 | 605.6 | 601.3 | 594.9 | 590.7 |
| Unemployment rate-FMTA/MfET[2] | 11.6  | 10.8  | 11.5  | 10.7  | 10.5  | 10.0  | 10.7  | 10.5  | 10.2  | 10.1  | 10.0  | 9.9   |
| Unemployment rate-Eurostat [3] | 8.8   | 7.0   | 7.0   | 6.9   | 6.8   | 6.8   | 6.8   | 6.8   | 6.8   | 6.8   | 6.8   | 6.8   |

[1] Level in thousands; [2] In % of labour force of June 1999, not seasonally adjusted

[3] Seasonally adjusted, in % of labour force (Eurostat standard); recent figures of unemployment rate are based on administrative data and can be revised

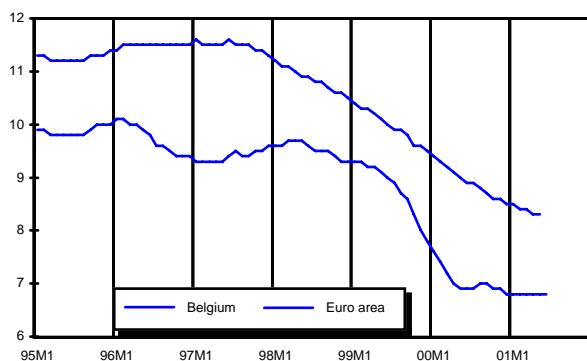
Source: RVA/ONEm, FMTA/MfET, Eurostat, FPB

Graph 19 - Evolution of unemployment (incl. older)



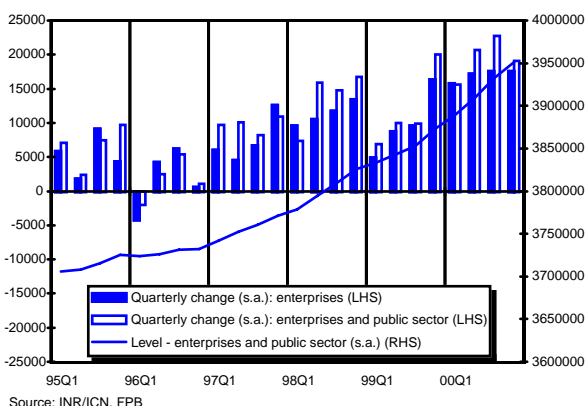
Source: RVA/ONEm, FPB

Graph 20 - Harmonised unemployment rates (% of labour force)



Source: Eurostat

Graph 21 - Evolution of domestic employment



Source: INR/ICN, FPB

During the second quarter of the current year broad unemployment (including “older unemployed” people) continued on an upward trend (graph 19). On a seasonally adjusted basis, the rise in broad unemployment actually accelerated clearly, from 700 persons during the first quarter to nearly 5000 persons during the second quarter. Moreover, the change in official unemployment (excluding “older unemployed” people) switched on a seasonally adjusted basis from negative (decrease of 2200 persons) during the first quarter to positive (increase of 2500 persons) during the second quarter. This puts an end to a 15-quarter spell of uninterrupted decreases in official unemployment.

Disappointing unemployment figures are to a certain extent due to the arrival in the (measured) labour force of people who have submitted requests to the Belgian authorities to have their status “regularised”. This effect has been in place since the second quarter of 2000, but it is now petering out. It has now been supplanted, however, by a new type of measurement error, following the adoption of new rules for removing job searchers from the administrative records in Flanders. This tends to statistically overestimate the rise in official Flemish unemployment figures for the first half of the current year.

When allowances are made for the statistical impact of those measurement problems, unemployment may have decreased slightly during the second quarter. Still, it is undeniable that by any measure the rate at which unemployment is falling has slowed considerably in 2001. This suggests that job growth clearly has suffered from the pronounced slowdown in cyclical momentum in Belgium from the middle of 2000 onwards. Since employment figures are subject to a time-lag, there is scant evidence of considerably slower job growth as yet. However, where the latest available quarterly national accounts figures still point to an increase in private sector employment by approximately 17,500 in the fourth quarter of 2000 (graph 21), recent data from social security records for the same quarter suggest a substantially lower increase in employment. According to these figures, job growth could have started to slacken as early as the fourth quarter of 2000.



Prices

**Table 7 - Inflation rates: change compared to the same period in the previous year, in%**

|                                | 99   | 00   | 00Q3 | 00Q4 | 01Q1 | 01Q2 | 01M1 | 01M2 | 01M3 | 01M4 | 01M5 | 01M6 |
|--------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Consumer prices: all items     | 1.12 | 2.55 | 3.01 | 2.85 | 2.18 | 2.95 | 2.20 | 2.25 | 2.09 | 2.79 | 3.14 | 2.93 |
| Food prices                    | 0.20 | 0.86 | 2.23 | 1.98 | 2.71 | 4.55 | 2.48 | 2.35 | 3.30 | 3.79 | 5.00 | 4.85 |
| Non food prices                | 1.24 | 3.87 | 4.02 | 4.19 | 2.31 | 2.89 | 2.48 | 2.50 | 1.95 | 3.05 | 3.09 | 2.54 |
| Services                       | 1.57 | 2.01 | 2.31 | 1.69 | 1.66 | 2.07 | 1.66 | 1.86 | 1.47 | 1.82 | 2.06 | 2.32 |
| Rent                           | 1.43 | 1.45 | 1.53 | 1.61 | 1.78 | 1.87 | 1.72 | 1.81 | 1.80 | 1.85 | 1.87 | 1.89 |
| Health index                   | 0.94 | 1.88 | 2.32 | 2.37 | 2.17 | 3.01 | 2.10 | 2.17 | 2.24 | 2.72 | 3.09 | 3.21 |
| Brent oil price in USD (level) | 17.8 | 28.4 | 30.4 | 29.4 | 25.8 | 27.3 | 25.5 | 27.4 | 24.4 | 25.7 | 28.4 | 27.8 |

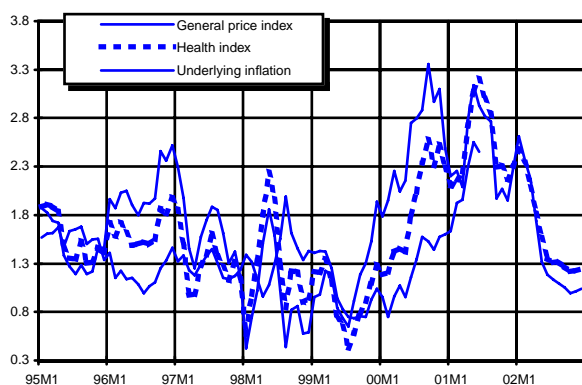
Source: MEZ/MAE

**Table 8 - Monthly inflation forecasts**

|                               | 01M1   | 01M2   | 01M3   | 01M4   | 01M5   | 01M6   | 01M7   | 01M8   | 01M9   | 01M10  | 01M11  | 01M12  |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Consumer prices: all items    | 107.11 | 107.57 | 107.81 | 108.75 | 109.43 | 109.62 | 109.72 | 109.63 | 109.53 | 109.37 | 109.60 | 109.67 |
| Consumer prices: health index | 106.48 | 106.83 | 107.14 | 107.94 | 108.46 | 108.81 | 108.87 | 108.75 | 108.64 | 108.49 | 108.75 | 108.85 |
| Moving average health index   | 106.34 | 106.54 | 106.71 | 107.10 | 107.59 | 108.09 | 108.52 | 108.72 | 108.77 | 108.69 | 108.66 | 108.68 |
|                               | 02M1   | 02M2   | 02M3   | 02M4   | 02M5   | 02M6   | 02M7   | 02M8   | 02M9   | 02M10  | 02M11  | 02M12  |
| Consumer prices: all items    | 109.91 | 110.11 | 110.15 | 110.64 | 110.87 | 110.92 | 110.96 | 110.83 | 110.68 | 110.46 | 110.71 | 110.81 |
| Consumer prices: health index | 109.12 | 109.34 | 109.37 | 109.90 | 110.16 | 110.28 | 110.30 | 110.18 | 110.02 | 109.81 | 110.08 | 110.21 |
| Moving average health index   | 108.80 | 109.02 | 109.17 | 109.43 | 109.69 | 109.93 | 110.16 | 110.23 | 110.20 | 110.08 | 110.02 | 110.03 |

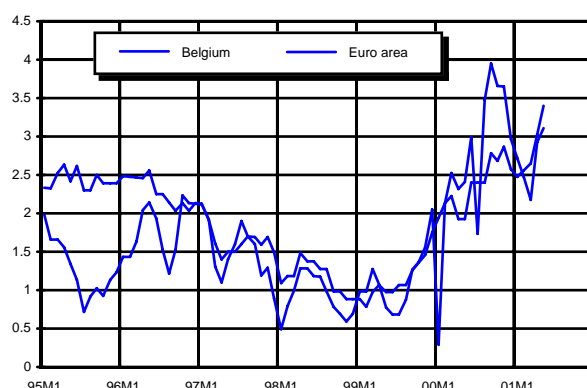
Source: Observations (up to 01M6): MEZ/MAE; forecasts: FPB

**Graph 22 - Monthly inflation evolution in% (t/t-12)**



Source: MEZ/MAE, from 01M7 on: forecasts FPB

**Graph 23 - Harmonised inflation rates in% (t/t-12)**



Source: Eurostat

Headline inflation, as measured by the yoy change in national CPI, fell to 2.2% during the first quarter of this year, having reached a maximum of 3.4% in September 2000. This fall in inflation did not, however, last very long. In Belgium and elsewhere in the euro area, a number of factors pushed inflation back up to higher levels from the Spring onwards, leading to a new peak of 3.1% in May of this year in Belgium and 3.4% in the euro area. The Brent oil price rose from less than 26 USD per barrel in the first quarter of the year to more than 28 USD in May. In June, the euro was again at 85 dollar cents, which is a return to its previous low seen in October 2000 and a complete reversal of all the appreciation of the euro against the dollar that occurred at the end of 2000 and the beginning of 2001. Both factors fuelled imported inflation, which was, after a certain delay, partly passed on to underlying inflation. At the same time, food prices rose to unexpectedly high levels, as a result of bad weather conditions and animal diseases. This should result in average CPI inflation of 2.4% this year.

Since most of the temporary price factors should fade away and the pass-through of high import prices should gradually diminish, CPI inflation is expected to fall back to 1.5% in 2002.

According to our monthly forecasts for the “health index”, the pivotal index for public wages and social benefits (currently 109.45) should next be reached in May 2002.

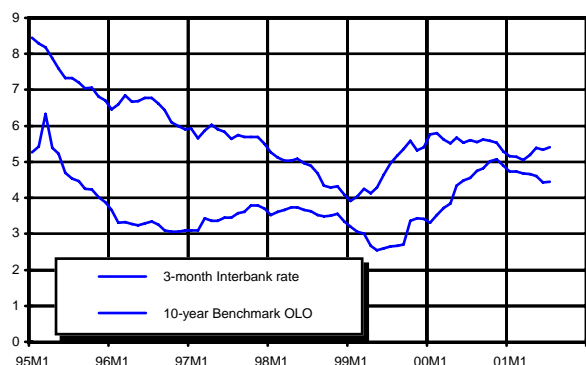
Interest rates

Table 9 - Interest rates

|   | 99   | 00   | 00Q3 | 00Q4 | 01Q1 | 01Q2 | 01M1 | 01M2 | 01M3 | 01M4 | 01M5 | 01M6 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|
| <b>Short-term money market rates (3 months)</b>   |      |      |      |      |      |      |      |      |      |      |      |      |
| Belgium   | 2.94 | 4.36 | 4.71 | 4.99 | 4.71 | 4.56 | 4.74 | 4.73 | 4.67 | 4.66 | 4.60 | 4.42 |
| Euro area (Euribor)                               | 2.96 | 4.39 | 4.74 | 5.02 | 4.75 | 4.60 | 4.77 | 4.76 | 4.71 | 4.69 | 4.64 | 4.46 |
| United States                                     | 5.33 | 6.46 | 6.63 | 6.59 | 5.26 | 4.10 | 5.62 | 5.26 | 4.89 | 4.53 | 4.02 | 3.74 |
| Japan   | 0.13 | 0.25 | 0.27 | 0.55 | 0.33 | 0.05 | 0.46 | 0.37 | 0.16 | 0.07 | 0.05 | 0.03 |
| <b>Long-term government bond rates (10 years)</b> |      |      |      |      |      |      |      |      |      |      |      |      |
| Belgium   | 4.76 | 5.59 | 5.59 | 5.46 | 5.12 | 5.30 | 5.16 | 5.14 | 5.05 | 5.19 | 5.38 | 5.33 |
| Germany   | 4.50 | 5.26 | 5.24 | 5.09 | 4.76 | 4.97 | 4.80 | 4.79 | 4.69 | 4.84 | 5.05 | 5.02 |
| Euro area   | 4.63 | 5.43 | 5.43 | 5.28 | 4.95 | 5.16 | 4.98 | 4.98 | 4.89 | 5.04 | 5.23 | 5.20 |
| United States                                     | 5.63 | 6.03 | 5.89 | 5.55 | 5.05 | 5.26 | 5.15 | 5.13 | 4.88 | 5.14 | 5.38 | 5.26 |
| Japan   | 1.76 | 1.77 | 1.86 | 1.72 | 1.35 | 1.27 | 1.50 | 1.40 | 1.14 | 1.33 | 1.30 | 1.17 |

Source: NBB, ECB

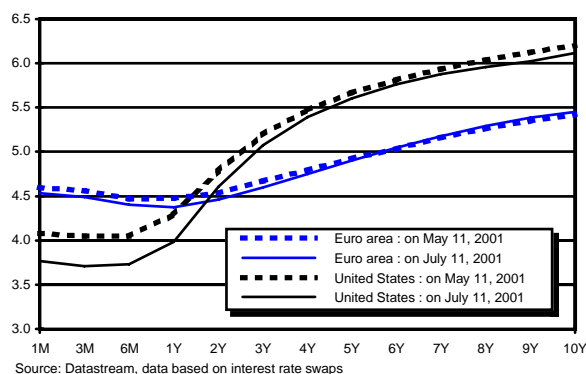
Graph 24 - Interest rate levels in Belgium, in%



Source: NBB

During the past two months, the US monetary authorities have reduced their federal funds rate on two occasions by a total of 75 basis points, from 4.5% to 3.75% at the end of June, in order to counteract the downturn in the US economy. In the euro area, despite increasingly strong signs of a slowdown in economic activity, but facing higher inflation rates (both core and underlying), the ECB has not moved its main refinancing rates since its last cut in mid-May. At a level of 4.5%, it is therefore the first time since the launch of the European monetary union that the key ECB interest rate has been higher than the Fed's key interest rate. On the money markets, short-term interest rates have fallen by the same magnitude as key interest rates, so that the differential between short-term interest rates in the euro area and in the United States has been positive since April 2001.

Graph 25 - Yield curves for the euro area and the US



Source: Datastream, data based on interest rate swaps

After a substantial and virtually uninterrupted reduction between the beginning of 2000 and March 2001, US long-term government bond yields have increased due to rising inflationary expectations and uncertainty about inflation in the United States. The same has been seen in the euro area (partly because of spillover from the US and partly because of higher inflationary pressures) although to a lesser extent. The differential between long-term interest rates in the euro area and in the United States then turned negative again during the April-June period.

Mid July, the slope of yield curve in the euro area is rather the same than the slope seen mid May, just after the last move from the ECB. This may reflect that, despite the downward revision of growth expectations in the euro area for the near to medium term, financial markets are not expecting a further reduction in key interest rates. In the US, the slope of the yield curve has turned sharply more positive after the two latest short-term moves by the Fed.

## Exchange rates

**Table 10 - Bilateral exchange rates**

|             | 99     | 00    | 00Q3  | 00Q4  | 01Q1   | 01Q2   | 01M1   | 01M2   | 01M3   | 01M4   | 01M5   | 01M6   |
|-------------|--------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| BEF per USD | 37.82  | 43.65 | 44.55 | 46.37 | 43.73  | 46.20  | 43.03  | 43.81  | 44.37  | 45.22  | 46.11  | 47.31  |
| USD per EUR | 1.067  | 0.924 | 0.905 | 0.870 | 0.923  | 0.873  | 0.938  | 0.921  | 0.909  | 0.892  | 0.875  | 0.853  |
| UKP per EUR | 0.659  | 0.609 | 0.612 | 0.601 | 0.632  | 0.614  | 0.634  | 0.634  | 0.629  | 0.621  | 0.613  | 0.609  |
| JPY per EUR | 121.38 | 99.58 | 97.47 | 95.63 | 108.92 | 107.06 | 109.41 | 107.02 | 110.34 | 110.36 | 106.53 | 104.30 |

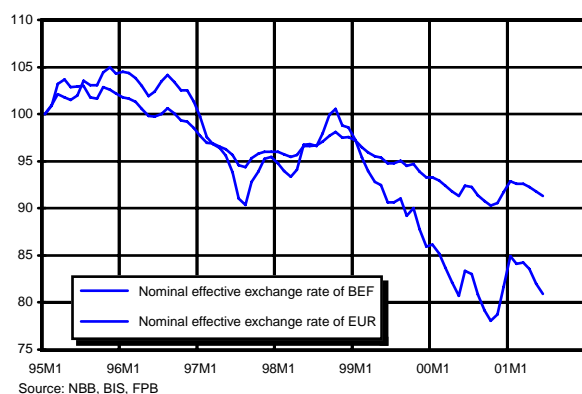
**Table 11 - Nominal effective exchange rates (Jan. 95 =100)**

|                                      | 99   | 00    | 01  | 00Q3 | 00Q4 | 01Q1 | 01Q2 | 01M2 | 01M3 | 01M4 | 01M5 | 01M6 |
|--------------------------------------|------|-------|-----|------|------|------|------|------|------|------|------|------|
| Effective exchange rate BEF          | 95.1 | 91.8  |     | 91.5 | 90.9 | 92.7 | 91.8 | 92.6 | 92.6 | 92.3 | 91.8 | 91.3 |
| Growth rate [1]                      | -1.7 | -3.5  |     | -0.4 | -0.7 | 2.0  | -0.9 | -0.3 | 0.0  | -0.3 | -0.5 | -0.5 |
| Id. with constant rate till year end |      |       | 0.0 |      |      |      |      |      |      |      |      |      |
| Effective exchange rate EUR          | 91.4 | 81.9  |     | 81.0 | 79.5 | 84.4 | 82.2 | 84.1 | 84.3 | 83.5 | 82.0 | 80.9 |
| Growth rate [1]                      | -5.6 | -10.4 |     | -1.3 | -1.8 | 6.2  | -2.7 | -1.0 | 0.2  | -0.9 | -1.8 | -1.3 |

[1] Change (%) compared to previous period

Source: NBB, BIS, FPB

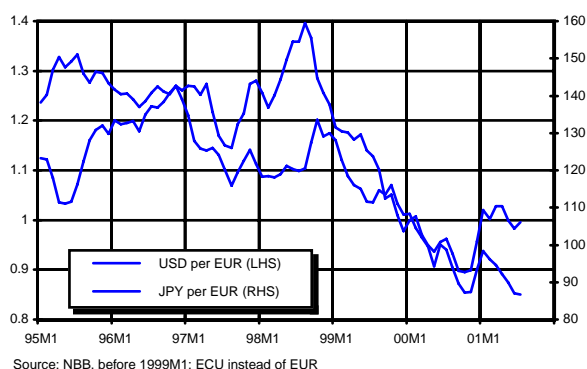
**Graph 26 - Effective exchange rates (Jan. 95=100)**



With a further depreciation of about 4% between April and June 2001 against the US dollar, the euro bilateral exchange rate relinquished all the gains seen during its appreciation between December 2000 and January 2001. This further weakening took place despite the reversal in the spread between the two areas in terms of real economic growth and short-term interest rates.

This renewed depreciation of the single currency was associated with recent data releases for the euro area in relation to disappointing GDP growth and also the deterioration in the business climate in some major European countries. On the other hand, positive signs coming from the United States (notably the improvement in leading indicators) have reinforced expectations of an early recovery in the American economy, thereby supporting the dollar. Moreover, as revealed by forward exchange rates, financial markets are not expecting any recovery in the euro exchange rate against the US dollar in the near future as economic forecasts for the euro area have been revised downwards.

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



Despite the slackening of the Japanese economy, the euro also fell against the Japanese yen during the May-June period. This development was probably the result of technical buying by investors and it has contributed to the depreciation of the nominal effective exchange rate of the euro by about 1.5% over the same period.

Under the assumption that the euro would not be subject to a further substantial depreciation compared to its present level, the BEF effective exchange rate should nearly stabilise on average for the whole year 2001.

**Tax indicators**

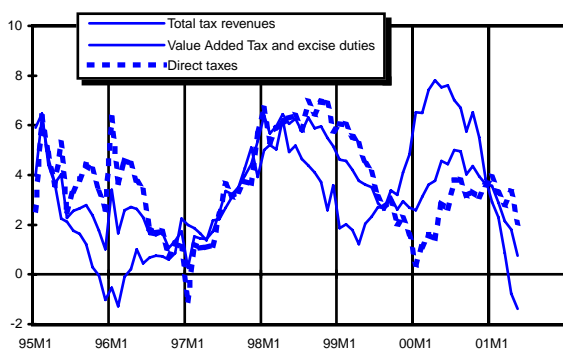
**Table 12 - Tax revenues (1)**

|                                   | 99   | 00  | 00Q2 | 00Q3 | 00Q4 | 01Q1 | 00M12 | 01M1 | 01M2 | 01M3 | 01M4 | 01M5 |
|-----------------------------------|------|-----|------|------|------|------|-------|------|------|------|------|------|
| Total [2], of which:              | 3.9  | 6.3 | 8.4  | 3.7  | 4.9  | 0.9  | 3.8   | 4.0  | -2.0 | -0.1 | 4.9  | -1.6 |
| Direct taxes, of which:           | 2.7  | 6.2 | 8.0  | 5.3  | 5.5  | 1.9  | 6.0   | 2.8  | -1.8 | 4.0  | 9.4  | -1.4 |
| Withholding earned income tax     | 6.3  | 5.6 | 0.0  | 13.3 | -1.0 | 5.3  | 5.2   | 9.7  | 0.3  | 5.2  | 3.5  | 5.4  |
| Prepayments                       | -3.7 | 4.4 | 1.5  | 12.6 | 2.0  | .    | 5.1   | .    | .    | .    | 9.0  | .    |
| Value Added Tax and excise duties | 6.1  | 6.5 | 9.1  | 2.0  | 4.0  | -2.1 | 0.2   | 3.5  | -3.2 | -7.5 | -4.9 | -1.9 |

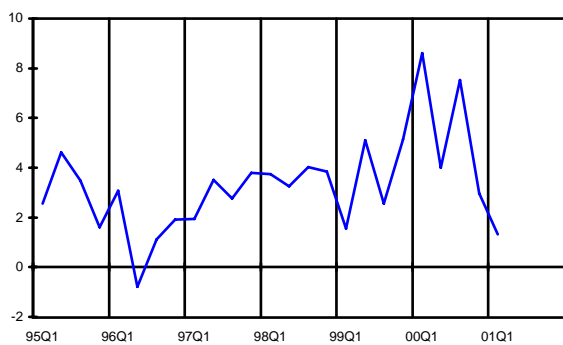
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: MvF/MdF, FPB

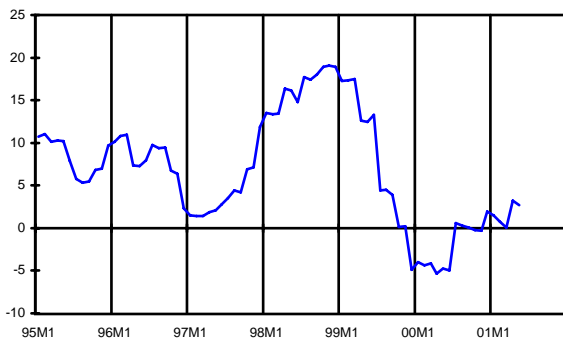
**Graph 28 - Real tax revenues (3)**



**Graph 29 - Real withholding earned income tax (4)**



**Graph 30 - 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

The slowdown in economic activity from mid-2000 onwards has affected tax revenues. On a year-on-year basis, the growth in total tax revenues shows a declining trend since the autumn of 2000. The effect of the economic downturn on indirect taxes became clear several months earlier than in the case of direct taxes.

After experiencing a negative growth rate in the first quarter of 2001, VAT and excise duties have continued to fall during the last two months for which records are available, as compared to the same period in 2000 (which was, however, still benefiting from the acceleration in economic activity from mid-1999). The current negative growth rate in indirect taxes reflects less dynamic car sales, lower petroleum prices and the stabilization of activity in the construction sector. Moreover, VAT reimbursements related to exports and investments remain at a high level.

Despite an erratic monthly and quarterly profile, real withholding earned income tax revenues are decelerating significantly on a year-on-year basis during the last quarter of 2000 and first quarter of 2001. This deceleration is due to a slowdown in the number of jobs created and cuts in the rates of withholding earned income taxes in October 2000 and January 2001.

In April 2001 (April is the first due date for advance payments), advance payments were about 9% higher than in April 1999. This increase was due to prepayments by corporate businesses, while there was a moderate fall in advance payments from self-employed people. On a year-on-year basis, the trend in total advance payments in real terms is slightly positive.

## International co-operation and instruments for climate change policy

This planning paper attempts to appeal to a broad audience of policy makers, members of the civic society, academics and other interested parties. It wishes to enhance the understanding of the complex issue of climate change policy, draw attention to the importance of investing in knowledge, education and capacity building, and thus strengthen decision making in this field.

The first chapter discusses the progress made over the last 10 years in international co-operation in managing the potential threat of climate change. The biggest barriers to this collaboration are the differences in interests between countries. This leads to divergent views on the optimal response strategy, measures to be implemented and rules to be agreed upon for their operationalisation. These differences are illustrated with a description of the most important issues for negotiation. Finally, an analytical framework for the study of instruments for policy support and policy implementation is presented.

The second chapter intends to provide the reader with information on the theoretical foundations of tradable permits and looks at how they can be used in the context of climate change policy. Part one describes the theory behind the use of tradable permits. It presents a classification of different types of tradable permits, discusses their characteristics and indicates which steps should be followed for their implementation. Some barriers to the use of tradable permits are also identified. Part two describes the so-called 'Kyoto mechanisms': International Emissions Trading (IET), Joint Implementation (JI) and Clean Development Mechanism (CDM) are discussed at length. The problems that the negotiators encounter in trying to establish common rules, conditions and guidelines for their operationalisation are discussed. Recent progress in international negotiations is presented up to and including August 2000. The chapter ends with an assessment of the potential effects these mechanisms might have on the environmental effectiveness, social equity, and economic efficiency of the Kyoto Protocol. The consequences for technological innovation and the probability of a rapid ratification of the Protocol are also analysed.

The third chapter assesses the qualities of another subgroup of economic instruments, namely fiscal instruments. First, a description of the main characteristics of these instruments is given, together with a description of the way they work. This is followed by a classification of the different kinds of fiscal instruments. The text then explains the circumstances in which fiscal instruments can be put to use, and the guidelines which should be followed for their design and implementation. In the final part, the theoretical considerations are put into

practice in the context of climate change.

A fourth chapter discusses the use of regulatory instruments in climate policy. Based on a series of definitions and characteristics, a theoretical description is given. This is followed by a classification of regulatory instruments. Subsequently, the different stages in their design are described. Emphasis lies upon the choice and the implementation stages. Finally, the importance of regulatory instruments within the Framework Convention for Climate Change (UNFCCC) and the Kyoto Protocol is discussed, and the role they can fulfil in national and European climate policy.

Chapter five informs decision makers and other stakeholders on the role instruments of communication can play in an integrated climate policy. It reviews the general theoretical framework for the use of communication instruments and their role within the UNFCCC and the Kyoto Protocol. Their purpose and the conditions in which they should be implemented are also addressed. Subsequently, their use within the international climate policy is illustrated. The analysis continues by looking at the requirements of the UNFCCC and the Kyoto Protocol to provide technology transfer to, and capacity building for, developing countries and countries with economies in transition. The latest developments in negotiations are again provided (up to August 2000). The chapter ends with a discussion of the role of communication instruments in future climate policy. Some ideas are put forwards on how Belgium through its climate and development aid policies can fulfil the requirements imposed by the UNFCCC and the Kyoto protocol in terms of technology transfer and capacity building.

The last chapter sheds some light on the use of voluntary agreements in the field of climate change policy. As before, the same structure is followed, where a classification is given to the different kinds of voluntary agreements, followed by a presentation of their most important characteristics. Guidelines are derived for their use in climate policy. The theoretical analysis is illustrated with practical examples of voluntary agreements in climate change at the national and European level.

*"International co-operation and instruments for climate change policy".*

*Th. Bernheim, Planning Paper 89, July 2001.*

## The NIME Model

This working paper describes the first version of the New International Model for Europe (NIME). The NIME model is a macroeconomic world model, which is built to study the transmission effects of economic policies and exogenous shocks on the Belgian and European economies.

The current version of NIME divides the world into six separate blocks: Belgium (BE), the EU block consisting of the countries that joined EMU in 1999 minus Belgium, the NE block consisting of the countries of the European Union that did not join EMU in 1999, the United States (US), Japan (JP) and the “rest of the world” (RW). These country blocks are linked to each other through trade and financial flows.

In the EU, NE, US and JP block, we distinguish a household sector, an enterprise sector, a monetary sector, and a public sector. The long run behavioural relationships of the household sector and the enterprise sector are derived from an explicit optimisation problem. However, in the short run, rigidities prevent immediate adjustment to these long run plans. Error correction mechanisms and partial adjustment processes are used to capture these sluggish adjustment processes. In the short run, supply is determined by demand, while in the long run, supply is at its “natural” level. The monetary authorities set interest rates according to a Taylor rule,

while the exchange rate equilibrates the current account. Fiscal policy, including a debt to GDP target, is to a large extent determined outside the model.

The Belgian block consists of a macroeconomic model currently in use at the FPB. The RW block consists of a few equations capturing trade and financial feedbacks, ensuring coherence with the rest of the model blocks.

The paper starts with a description of the different sectors of the NIME model, followed by a presentation of some technical simulations. These simulations illustrate the main properties of the NIME model, which are the long run neutrality of money, the long run crowding out of private consumption by public consumption, and the long run output effects of an increase in trend productivity. The simulations show also how the endogenous variables may initially over- or under-shoot their steady state values, and that the adjustment process to the long run equilibrium is primarily determined by the adjustment costs in price setting and demand, the policy reaction functions, the speed of gross fixed capital formation, and the speed at which expectations are revised.

“*The NIME Model : A Macroeconomic World Model*”,  
E. Meyermans, P. Van Brusselen,  
*Working Paper 03-01, July 2001*

## E-gov : towards an electronic government in Belgium

The purpose of this paper is to answer the following questions:

1. What exactly is «electronic government (e-gov)» and what are the consequences of its implementation for government services?
2. What are the government strategies and goals for e-gov and what has already been achieved?
3. What are the costs and benefits for the government, the citizens and firms?
4. Will the government budget meet expectation?
5. What are the government strategies for avoiding a so-called ‘digital divide’?
6. What can be learned from foreign experience?

Neither in the countries belonging to the so-called ‘e-gov-elite’ nor in Belgium, is a cost benefit analysis about e-gov investments made. The main reasons are that for the implementation of e-gov, it is almost impossible to differentiate between ICT and e-gov investments. Another reason is that in most of the countries, apart from the architecture of a universal message engine, the electronic service delivery is set up in the existing ministries each with their own budgets (silo construction).

Belgium is no exception.

In practice worldwide, there is more often talk of planning rather than delivery on implementation of electronic government. Countries offering electronic services which operate through a central portal and a back-office with electronic data transmission and case handling are scarce, certainly when those services are delivered 7 days a week, 24 hours a day. If electronic service delivery includes the delivery of certified documents or the electronic payment, using an electronic signature with certified safety keys, then the number of countries belonging to the ‘e-gov-elite’ is very small. Besides security concerns, there are questions relating to the development and financing in the future of the necessary computer scientists and also about avoiding a digital divide.

The general conclusion of the investigation is that Belgium has already laid down the necessary foundations for implementing e-gov. There is, amongst other things, an agreement between all stakeholders, included the regions who will have their own central portal, to use the



same standards, to use a joint platform for the construction and management of portals, to use the same identification numbers for citizens and companies, and to develop a common universal message engine. As for the digital divide, apart from the classical tools such as kiosks and PCs in public libraries, post offices and departments, the Belgian regions hope to solve part of the problem by offering citizens internet access through their televisions. Finally, everything is being done in order to introduce in 2003 an electronic identity card with digital signature.

However in Belgium, there is still a lack of a clear co-ordinated plan with a timetable and progress reporting on a central website. One has to admit however that because of the regional structure of Belgium, with each region having its own implementation plan separate from the federal e-gov plan, this is not an easy task.

*“E-gov : towards an electronic government in Belgium”,  
H. Van Sebreeck, Working Paper 04-01, July 2001.  
The paper is only available in Dutch.*

### Research and innovation policies: economic arguments for public intervention and the current policies in Belgium

Economic growth can be obtained through more and improved production factors as well as through an increase in productivity of both labour and capital. The first chapter shows that growth differentials among industrialised countries are mainly due to a difference in the development of labour force volume. On average, labour productivity increases annually in the 1990s by between 1.5 % and 2.0 % of which half comes from multi factor productivity gains. These gains are largely due to innovation and technical progress, which are partly the results of research and development. Empirical analysis indicates a clear link between research and development expenditures and growth performance at a macro level. The first chapter gives also an overview at a micro level of the different factors that will influence the innovation process inside the firm. These factors are internal and external research capacities, technology diffusion and transfers, the level of competition, as well as the skills of the labour force inherent in the firm.

Public intervention into research and innovation is strongly supported by economic theory. The second chapter presents arguments for why public intervention is needed and how it should be organised. The main reasons for intervention are, on the one hand, the positive impact of research and development (R&D) activities on various economic agents (i.e. there are positive externalities) and, on the other hand, the high level of risk attached to innovative projects, which may deter private sector involvement. Within this framework, public sector support for R&D must aim for the following targets:

- an increase of private and/or public R&D activities;
- better diffusion and transfers of technologies and innovation;
- a reduction in the risk taken by the private sector; and
- a higher level of labour skills.

The third chapter looks at the Belgian position in the area of R&D and innovation and highlights the recent efforts made at the regional level in order to improve

and better target R&D and innovation policies. In the 1990s, the Belgian economy was characterised by poor levels of R&D and innovation performance, although productivity levels were high. This (apparent) paradox may be partly explained by the importance of advanced technical progress that was incorporated into imported equipment. In contrast to the countries with the highest growth performance today, multi-factor productivity growth in Belgium is slowing down and is currently at a low level, which could endanger future economic growth if remaining unchecked. So, it is crucial to improve on the functioning of the national and regional innovation systems in order to provide firms with an environment for more "inside" innovation. Improvement in public policy, as highlighted by economic theories, are required with new objectives: (1) to strengthen basic research in key areas; (2) to stimulate local networking; (3) to improve the visibility and the organisation of innovation services; and (4) to make better use of research made by universities or by private companies.

The regions, which have an important responsibility for R&D policies, are now addressing this challenge. Among them, the Walloon region is refocusing its efforts to improve targeting of public support to key technological fields and to stimulate networking and collaboration between regional actors as well as to improve the diffusion of innovation through greater visibility of scientific and technological knowledge. A two-year programme called Prométhée was implemented in 1999-2000 in order to promote the involvement of all regional actors in the process of redefining the goals and instruments of regional public intervention. The results are briefly presented in chapter three.

*“Research and innovation policies: economic arguments for public intervention and the current policies in Belgium”,  
M. Van Overbeke, Working Paper 05-01, July 2001.  
The paper is only available in French.*

## Other Recent Publications

[Economic Forecasts 2001](#), July 2001,  
(available in Dutch and in French).

[Medium Term Economic Outlook 2001 - 2006](#), April 2001,  
(available in Dutch and in French).

[Planning Paper 88](#), January 2001,  
Perspectives énergétiques 2000-2020 - Scénarios exploratoires pour la Belgique - Energievooruitzichten 2000-2020 - Verkennende scenario's voor België,  
Ch. Courcelle, D. Gusbin.

[Working Paper 02-01](#), February 2001,  
Salaires conventionnels et effectifs en Belgique : une analyse empirique et macroéconomique des écarts,  
Maritza López-Novella.

[Working Paper 01-01](#), January 2001,  
La réforme de l'impôt des personnes physiques - Effets macroéconomiques, budgétaires, et sur la pression fiscale,  
M. Saintrain.

## Research in progress

### [The MODTRIM II model](#)

The 'Short term forecasts and business cycle analysis' team has recently built a quarterly model for the Belgian economy. Although this new model is still being tested, some of its results have already been used in our July forecasts. To this end new routines have been developed in order to deal with the most recent quarters where only some of the data is available. Further research includes a more detailed modelling of public finances and social security. The simulation properties of the model will be analysed in the coming months through the use of exogenous shocks and policy measures.

### [Long-term sustainability of public pensions](#)

The FPB investigates the impact in Belgium of ageing populations on public pension expenditure in particular, and on social security and public finances in general. This update of previously estimated long-term projections includes updated demographic projections, new medium-term macroeconomic developments, and new budgetary forecasts. A new methodology for computing the retirement rates is used. In addition, projections are produced and compared with international results (EC, OECD) in order to allow for international comparability.

### [Administrative simplification](#)

Following a convention with the Agency for Administrative Simplification (ASA/DAV), the FPB helps to perform a new survey in order to quantify the administrative burden on Belgian enterprises and self-employed people for the year 2000. Based on its previous analysis, the FPB has constructed a new questionnaire and has defined the stratification of a sample which should allow us to obtain representative results. A short note containing the first results of the administrative burden, as well as a final detailed report will be published.

### [Foreign Direct Investment](#)

The determining factors of FDI by country are analysed with a particular emphasis on the importance of technical progress. Belgian figures are compared to what is observed in other countries. Specific attention goes to the recent evolution of mergers and acquisitions. The role of Luxembourg and coordination centres in the recent evolution is of particular importance. Finally, the most recent data allow a sectoral decomposition by country of origin and destination.

### [Impact of ICT in Belgium](#)

As a follow-up of its study on ICT diffusion in the Belgian economy, the FPB studies the effects of ICT on the Belgian economy. This project has six components: macro-economic impact, micro-economic impact, digital divide and dualisation, ICT and the localisation of economic activities, e-government, and Internet and indirect taxation.

### [Three types of labour in the FPB medium-term model](#)

The medium-term macroeconomic model HERMES distinguishes between (endogenous) employment in the market sector (comprising both profit and non-profit sectors), and (exogenous) employment in the non-market sector. A desaggregation of labour in the market sector has recently been introduced dividing it into 'regular' low-wage labour (as a proxy for low-skilled labour), 'regular' high-wage labour (as a proxy for high-skilled labour), and labour hired through four major special employment programmes. The composition of labour demand affects the average wage costs, which in turn has a feedback effect on total demand for labour. This new modelling of the labour market allows the assessment of both general and selective wage cost reduction policies. The new labour market model is supported by a methodology to compute the ex ante reductions introduced by the 'Structural Measure'.

## Recent history of major economic policy measures

|               |   |
|---------------|---|
| July 2001     | The parliament has approved the personal income tax reform proposed by the government on 17 October 2000. The reform would enter progressively into force as from the fiscal year 2002. Its budget cost would reach 1.3% of GDP from 2006 onwards.  |
| June 2001     | The Income Guarantee for Elderly (IGE) substitutes for the Guaranteed Income for Seniors (GIS). Now, the minimum pension amount will increase and the former family amount will disappear. Another difference is the basic amount. It will be granted if the applicant is married or is living together with one or more persons. The 'real' single persons will receive a higher basic amount. Before, in the GIS system, persons entitled who were living together, would each receive a higher basic income. This will no longer be the case. What remains the same, are the levelled up age conditions for men and women. Although the means test will still be applicable, conditions will be less severe. |
| June 2001     | CPTE (Electrabel's subsidiary and owner of the Belgian high-voltage electricity network), created a new subsidiary called Elia SA that will operate the Belgian high-voltage grid. The establishment of Elia is a further step towards the appointment by the federal government of an independent Transmission System Operator.  |
| June 2001     | The Flemish Parliament approved The Flemish Gas Act.  |
| May 2001      | The ECB decides to lower the interest rate on refinancing options by 25 base point, reaching as such 4.50 %.  |
| March 2001    | The Walloon parliament adopts the decree, which completes the federal act of 29 <sup>th</sup> April 1999 concerning the opening of the Belgian electricity market. For the Flemish Region, the decree on the organization of the electricity market had already been adopted on 17 <sup>th</sup> July 2000.   |
| February 2001 | Responding to a request by the Council of Ministers of 22 November 2000, the CREG (Commission for the Regulation of Electricity and Gas) presents to the government a declaration of intent concerning its tariff policy. This document presents the main features of the tariff policy and the reasonable margin with respect to the manager of the national electricity-transporting network.   |
| February 2001 | Time to bid for a Belgian UMTS licence has come to an end. According to the Royal Decree (18 January 2001) providing for the terms, conditions and procedure for granting licences for the mobile telecommunication system of the third generation, contenders could submit their bids until 8 February 2001 at 5 p.m. While the law provided for 4 licences, the Belgian Telecommunication Regulatory Organism (IBPT) reported that only three companies have placed an offer: Belgacom-Proximus, France Telecom Mobistar and KPN-Orange.  |
| February 2001 | Euronext (the financial markets of Brussels, Paris and Amsterdam) becomes the sole partner of Amex (American Stock Exchange) for trade in so-called 'trackers', being index-funds.  |
| January 2001  | From January 2001 on, social benefits are adjusted (by 2%) for price changes one month after the month in which the smoothed (4-month moving average) 'health price index' reaches the pivotal index. For public wages, the indexation system remained unchanged, i.e. indexation by 2% two months after the month in which the smoothed (4-month moving average) 'health price index' reaches the pivotal index.   |
| January 2001  | As decided by the Council on basis of the conclusions of the 2000 Commission Convergence Report and the ECB report, Greece becomes the 12th Member of the euro zone. The conversion rate between the euro and the Greek drachma has been fixed on December 29 at 340.75 GRD per euro.   |
| December 2000 | Social partners reach a general inter professional agreement for the years 2001-2002. The agreement limits the maximum increase in nominal hourly labour costs to be negotiated at sectoral level. In principle, this should be 6.4% for the two years, extendable to 7% in well-performing sectors. Social partners also specify the outcomes of a collective agreement to be concluded with regard to the instalment of 'time credits', a generalised system of partial (one-fifth) career breaks and the introduction of flexible formulas of working time reduction at the end of the career.   |
| December 2000 | The government accepts the 'Stability Pact 2001-2005', which is essentially based upon the long-term program which was presented on 16 October 2000. Government budget will be in surplus from 2001 on and will increase up to 0.7 of GDP in 2005. This way, debt should reach 100% of GDP in 2003 and decrease to 88.7% GDP in 2005. These figures do not take the future revenues of the auction of the UMTS licences into account.   |
| December 2000 | The European Commission formally holds Belgium liable for not opening the electricity market to suppliers from other member states.   |
| November 2000 | The 15 member states of the European Union decide to harmonise the fiscal treatment of residents of other member countries. From 1 January 2003 on, member states can choose between letting fiscal authorities exchange information on interest payments made to residents of other member states, or implementing a levy on savings which are stilled within the Union but outside the own country.   |
| November 2000 | In the two first weeks of November, the ECB intervenes four consecutive times on foreign exchange markets by purchasing euros for dollars. These interventions were less coordinated than the joint intervention of September 2000.   |

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"                          |
| FMTA/MFET | Federaal Ministerie van Tewerkstelling en Arbeid / Ministère fédéral de l'Emploi et du Travail |
| FPB       | Federal Planning Bureau  |
| IMF       | International Monetary Fund  |
| INR/ICN   | Instituut voor de Nationale Rekeningen / Institut des Comptes Nationaux                        |
| IRES      | Université Catholique de Louvain - Institut de Recherches Economiques et Sociales              |
| MEZ/MAE   | Ministerie van Economische Zaken / Ministère des Affaires Economiques                          |
| MvF/MdF   | Ministerie van Financiën / Ministère des Finances  |
| NBB       | National Bank of Belgium   |
| NIS/INS   | Nationaal Instituut voor de Statistiek / Institut National de Statistique                      |
| OECD      | Organisation for Economic Cooperation and Development  |
| RSZ/ONSS  | Rijksdienst voor Sociale Zekerheid / Office national de la Sécurité Sociale                    |
| RVA/ONEm  | Rijksdienst voor Arbeidsvoorziening / Office National de l'Emploi                              |

Other Abbreviations

|        |   |
|--------|---|
| 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)                  |