

Quarterly Newsletter of the Federal Planning Bureau

Short Term Update (STU) is the quarterly newsletter of the Belgian Federal Planning Bureau. It contains, in English, the main conclusions from the publications of the FPB, as well as information on new publications, together with an analysis of the most recent economic indicators.

HEADLINES BELGIAN ECONOMY

The medium-term outlook for Belgium points towards an average GDP growth rate of 2.2% during the 2006-2011 period, which is slightly higher than potential (2.0%). This pace of growth should follow a slowdown in economic growth in 2005 (1.5%) and a rebound in 2006 (2.4%). Economic growth in Belgium should remain slightly higher than in the euro area, on average.

Despite moderate wage increases, the average yearly growth rate for private consumption should reach 1.8% during the 2006-2011 period, in particular because of the increase in household disposable income (stimulated especially by reductions in personal income tax and increases in employment and social benefits). Investment growth should reach 2.5% during the 2006-2011 period, mainly reflecting the path of business investment growth, but also an acceleration in public investment at the end of the projection period. Growth in exports should be 5.4% on average and the contribution of net exports to GDP growth is expected to be 0.3%-points. The external surplus, which was strongly reduced between 2002 and 2005, should increase again after 2007 and attain 3.2% of GDP in 2011 (partly as a result of the improvement of the terms of trade). Limited increases in wage costs, the decline in oil prices after 2007 and a negative output gap until the end of the projection period, should allow the inflation rate to remain below 2% in the medium term.

The expected evolution of employment reflects a favourable macroeconomic context, a limited increase in wage costs and various policy measures. After the net creation of approximately 39,000 and 41,000 jobs in 2005 and 2006 respectively, about 35,000 jobs should be created every year during the 2007-2011 period. Between 2005 and 2011, industrial employment should fall by 30,000 persons, but the number of jobs created in market services should exceed 250,000. Nevertheless, in view of the strong increase in the labour force (mainly in the 50-64 age class) the fall in unemployment will be limited to 38,000 persons. The unemployment rate (broad administrative statistics) should fall from 14.3% in 2005 to 13.1% in 2011.

Under the assumption of constant policy, public accounts are expected to deteriorate markedly, with a net public financing requirement of 0.3% of GDP appearing in 2006, widening to 1.2% in 2007, before gradually falling to 0.3% by the end of the projection period. Nevertheless, the total public debt to GDP ratio is still expected to decline from 93.9% in 2005 to 78.0% in 2011.

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

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

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Decomposition analysis of changes in CO₂ emissions by the Belgian industries

Within the Belgian National Accounts Institute, the Federal Planning Bureau (FPB) has been assigned responsibility for the environmental satellite accounts¹. One of these accounts is the National Accounting Matrix including Environmental Accounts for Air pollution (NAMEA Air). The NAMEA Air for Belgium currently contains data on greenhouse gas emissions, acidifying emissions, photochemical emissions, emissions of fine dust particles and emissions of lead for 1990 and for the period 1994-2002. The air pollutant that has received the most attention over the last decade is, without any doubt, carbon dioxide, the emissions of which are closely linked to energy use. This special topic investigates the driving forces behind the changes in CO₂ emissions by the Belgian industries by means of decomposition analysis. Emissions by households are thus not considered. The industries were responsible for the largest part of Belgian CO₂ emissions, more specifically 76%, in 2002. In that year, CO₂ emissions represented 87% of total greenhouse gas emissions covered by the Kyoto protocol.

Decomposition analysis allows a distinction to be made between the impact on CO₂ emissions of volume changes and the impact of efficiency changes. These efficiency changes can be linked to either energy efficiency or the emission intensity of the energy mix². Concurrently, the impact of changes in the structure of the economy can be taken into account. The first part of the text briefly explains the methodological issues. Following parts present the decomposition results for CO₂ emissions by the Belgian industries between 1990 and 2002.

Decomposition analysis

On the basis of current knowledge and the available data, Belgian CO₂ emissions can be decomposed into four underlying causes. These causes are: the emission intensity of the energy used³; the energy intensity of value added creation; changes in the structure of the economy, measured by the share of value added of the different industries in GDP and economic growth measured by GDP.

The decomposition method can be formalised as follows:

$$POL_i = \frac{POL_i}{E_i} \cdot \frac{E_i}{VA_i} \cdot \frac{VA_i}{GDP} \cdot GDP \quad [1]$$

With:

POL	physical amount of CO ₂ emissions in thousands of tons
E	total energy used in TeraJoules
VA	value added in millions of euros at constant prices
GDP	gross domestic product in millions of euros at constant prices
i	industry 1 to 34

Changes in CO₂ emissions can then be expressed as a weighted sum of the right-hand side variables in equation [1]. There are multiple solutions for these weights. Each weight in the different decomposition forms is written as the product of the other explanatory variables, each of which is evaluated either at the start of the period or at the end. The product of these weights and the change in the explanatory variable can be interpreted as showing the isolated impact on CO₂ emissions of the change in that particular explanatory variable, thus assuming that the other explanatory variables are constant. The explanatory variables are, in other words, assumed to change in a specific order. Since in reality such an order does not exist, a reasonable solution to the multiplicity problem is to take the average of all possible decomposition forms, each of which corresponds to a specific order of change¹.

1. A more thorough explanation of this specific decomposition method, which considers only isolated effects and uses a mixed evaluation, can be found in Seibel, S. (2003), Decomposition analysis of carbon dioxide emission changes in Germany, Eurostat Working Papers and Studies, Theme 2, February.

The decomposition method was applied to the 34 industries for which consistent air pollution data exist in the NAMEA Air for Belgium. The sum of the last two explanatory variables shows the impact on pollution of the economic growth of a given industry. Economic growth of an industry consists of two components, namely economic growth of the entire economy (GDP)⁴, and the change of the share of the industry in total value added (VA_i/GDP). Summing the impacts of the latter over all industries results in the impact on pollution of the change in the economic structure.

Global results

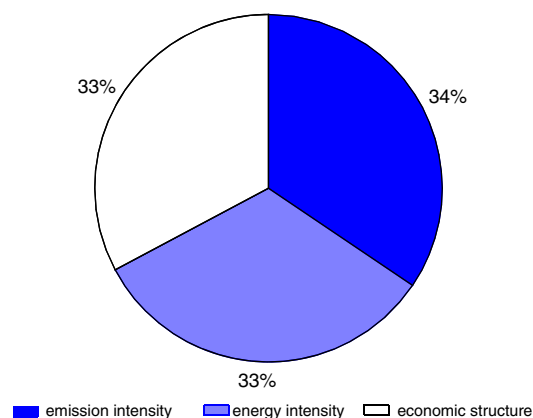
Total CO₂ emissions by all Belgian industries increased by about 2.5% between 1990 and 2002. Economic growth during that period equalled 24%. This implies that

1. See: FPB, Vandille, G. and B. Van Zeebroeck, De Belgische milieu-rekeningen, Planning Paper 93, June 2003.
2. The energy data were taken from the NAMEA Energy, which is consistent with the NAMEA Air. Both databases were compiled on the basis of regional data in the context of pilot projects financed by Eurostat and the European Commission, Environment DG.
3. The impact of changes in emission intensity should be interpreted as following from a change in the energy mix as long as no technology is used to capture CO₂ emissions. Such technology is not yet used in Belgium.

4. In our calculations the impact of GDP growth was set at identical values for all industries, using a two-step procedure in which the impact of value added growth was decomposed into the separate last two explanatory variables of equation (1)

changes in emission intensity, energy intensity or the structure of the economy must have contributed to the relative decoupling of CO₂ emissions from economic growth.

Graph 1 - Contribution to relative decoupling of CO₂ emissions from economic growth (1990-2002)



Source: FPB calculations

Graph 1 shows that during the period under consideration changes in the three underlying factors have each been one-third responsible for CO₂ emission mitigation.

Industry specific results

Table 1 - Impact of underlying causes on CO₂ emissions by industry (1990-2002, in %)

NACE	Change in CO ₂ emissions	Emission intensity	Energy intensity	Economic structure	Economic growth	p.m.: Share in 2002 emissions
40	+2	-4	-31	+13	+24	23.3
27	-15	-4	-17	-18	+24	14.9
26	-7	-4	-8	-19	+24	10.1
60	+21	-2	+1	-2	+24	9.4
24	+18	-28	-15	+37	+24	8.6
01-14	-6	-7	-32	+9	+24	3
15-37	-5	-10	+2	-21	+24	45
40-93	+12	-4	-15	+7	+24	50
Total	+2	-8	-7	-7	+24	98 ^a

a. 2% of industry CO₂ emissions could not be allocated to a particular NACE category.

Source: FPB calculations

The upper part of Table 1 shows the decomposition results for those industries with a share in total 2002 CO₂ emissions by the industries above 5%. Together, these five industries accounted for two thirds of total emissions. If the three other factors had remained constant, CO₂ emissions would have increased by 24% for each of these industries. This was clearly not the case for the three major contributors to CO₂ emissions. The energy industry (NACE 40), which accounted for almost a quar-

ter of industry CO₂ emissions in 2002, only registered an increase of 2%. The factor that clearly contributed the most to this tempering of CO₂ emissions was the decrease in energy intensity. Together with a moderate contribution from the change in the energy mix, this almost fully compensated for the impact of economic growth and structural changes.

The moderately negative impact of changes in emission intensity can also be observed for the basic metals industry (NACE 27), the other non-metallic mineral products industry (NACE 26) and land transport (NACE 60). However, as the impact of energy intensity and economic structure differed strongly among these industries, the resulting changes in emissions were also very diverse. CO₂ emissions by the basic metals industry decreased by 15%. Changes in energy intensity and the economic structure contributed equally to this decrease. CO₂ emissions by the other non-metallic mineral products industry decreased by 7%, mainly as a consequence of the fall of its share in total value added. CO₂ emissions by the land transport industry increased by over a fifth. Its emission intensity, energy intensity and share in total value added barely changed over the period considered. CO₂ emissions by the chemical industry (NACE 24) increased by almost a fifth, in spite of the impressive gains that the industry obtained in the fields of emission and energy intensity. This follows from the fact that its importance in the Belgian economy increased even more than that of the energy industry.

The lower part of Table 1 shows that a decrease of CO₂ emissions was registered for both the primary sector (NACE 01-14) and the manufacturing industries (NACE 15-37). For the primary industries this was caused chiefly by the fall in energy intensity. For the manufacturing industries the decrease was mainly due to changes in the economic structure. For both aggregated industries, emission intensity also contributed to the decrease of emissions. The downward impacts on CO₂ emissions of emission intensity and energy intensity were not able to compensate for the impact of economic growth by the energy, construction and services industries (NACE 40-93). As a consequence, their emissions increased by 12%.

Conclusion

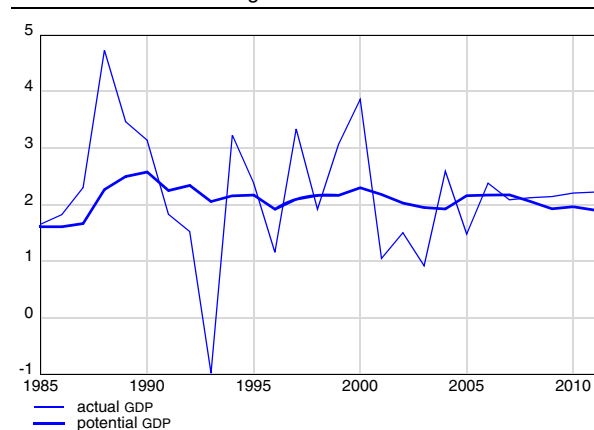
Between 1990 and 2002 changes in the structure of the economy towards less CO₂-intensive activities, in the energy mix towards types of energy with a lower carbon content, and in the decrease of the energy intensity of the Belgian industries all compensated for the impact of economic growth on CO₂ emissions. All three factors were equally important. However, their impact was not large enough to cause CO₂ emissions to fall.

Economic forecasts 2006-2011

The FPB medium-term economic outlook of May 2006 covers the period 2006-2011 and presents detailed analyses of macroeconomic, sectoral and labour market developments. There is also detailed comment on the public finance performance of the federal government, regions and communities, local authorities and social security departments. A special chapter is devoted to the evolution of energy consumption and greenhouse gas emissions. The baseline is a constant policy scenario, particularly with respect to fiscal and social policies and institutional arrangements, taking into account all currently known decisions. Based on this scenario, the general government financing capacity is expected to be negative from 2006 onward and a deficit should persist until the end of the forecasting period. As a result, the objectives set out in the Stability Programme will not be reached without additional measures.

Forecasts from international organisations suggest that euro area economic growth, after a modest performance in 2005 (GDP growth of only 1.3%), should gather pace in 2006: overall GDP growth is expected to pick up to 2.1% in 2006 as a result of more dynamic domestic demand and a higher contribution from the external sector. A somewhat lower expansion in euro area GDP is expected for 2007, mainly as a result of a drop in German growth (caused by a VAT rate increase). Euro area GDP growth should then (period 2008-2011) stabilize at a rhythm close to its potential (2.0% per year). Inflation should gradually decrease to below 2%, mainly because of wage increases that are expected to remain below productivity gains. Moreover, the expected increase in nominal interest rates should contribute to keeping inflation under control.

Graph 1 - Actual and potential GDP growth
annual % changes



Belgian economic activity gradually accelerated in 2005 and GDP growth should reach 2.4% in 2006 (against only 1.5% in 2005) and 2.1% in 2007. This improved performance can be accounted for by domestic demand, as well

as by an acceleration of exports (as a result of an increase in growth in Belgium's main trading partners). From 2008 onwards, Belgian GDP growth should stabilize slightly above its potential (equal to 2% on average), notably as a consequence of new budgetary impulses.

After moderate growth in 2005, private consumption should become more dynamic from 2006 onwards, mainly as a result of a favourable development in household disposable income (stimulated especially by reductions in personal income tax and by the rise in employment). Investments which were very dynamic in 2005, should continue to register strong growth: the average growth should amount to 2.5% during the 2006-2011 period, mainly reflecting the path of business investment growth, but also an acceleration in public investment at the end of the projection period.

Growth in exports should be 5.4% on average and the contribution of net exports to GDP growth is expected to be 0.3 %-points. The external surplus, which fell strongly between 2002 and 2005, should increase again after 2007 and attain 3.2% of GDP in 2011 (partly as a result of the recovery of the terms of trade). The level of the external surplus also reflects a high level of domestic savings, compared to the European average.

Limited wage growth (lower than productivity gains), the increase in interest rates, a negative output gap (until 2011) and a moderate increase in imported costs are the main factors that will keep the inflation rate below 2% in the medium term.

Limited increases in wage costs are first and foremost the consequence of moderate wage demands (real hourly gross wages should increase by a mere 1% per year on average). In application of the 1996 law on the promotion of employment and on the safeguarding of competitiveness, wage costs are assumed to be guided by expected wage developments in Belgium's most important trading partners. Wage cost moderation and specific measures aimed at promoting low-qualified labour will put a check on labour productivity growth (1.3% per year on average), which is following a trend that has come down dramatically since the eighties. Deflated by the price index of value added, real unit labour costs will decrease by 0.5% on average.

In the context of favourable macroeconomic developments (average GDP growth of 2.2% per year), domestic employment will increase substantially (0.8% per year; 216,000 extra jobs over the entire period). This increase will be accompanied by ongoing structural shifts in the sectoral composition of employment. In the manufac-

turing industry - which will benefit from an extension in targeted wage subsidies - the rate of job destruction will diminish slightly, but a further loss of 36,000 jobs is expected to be incurred. Market services, on the other hand, should gain 253,000 jobs, bringing its share in total business sector employment to 74.9% in 2011 (54.0% in 1980 and 72.2% in 2005).

The employment rate is expected to rise from 61.9% in 2005 to 64.0% in 2011, despite an increase in the population of working age (by 0.3% on average per year, but strongly falling back towards the end of the period). Since at the same time the latter's age structure will shift in favour of the older age groups - where participation rates tend to be lower than the average - demographic factors will no longer contribute to labour force growth. Nevertheless, labour force growth should remain substantial (0.6% per year; 179,000 persons over the entire period), and is mainly attributable to the structural rise in female activity rates and to policy measures designed to boost activity at the top of the age scale.

Net job creation is barely sufficient to force down unemployment, which should decrease by 38,000 persons during the projection period. The decrease in the unemployment rate (broad administrative measure) is limited (from 14.3% to 13.1%), but is expected to intensify towards the end of the period. In the age group 15-49, the unemployment rate should drop from 13.2% to 11.0%, just below the level that was reached in 2001, in the aftermath of the business cycle peak in 2000. The probability of significant additional pressure on wages in the medium term is low, given that the projected wage development implies only a very slight decrease in the structural rate of unemployment.

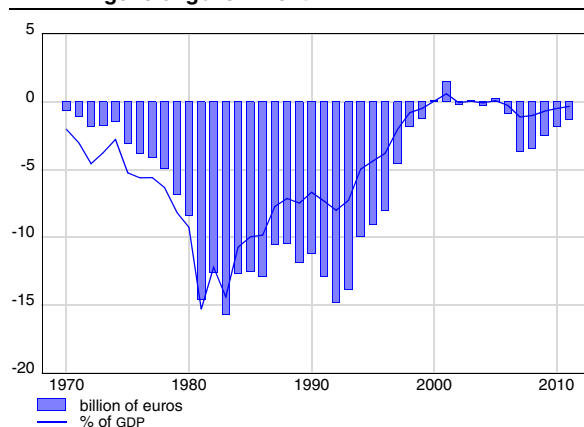
As usual, the exercise assumes that policy remains constant. The projection takes into account the measures decided within the framework of the 2006 budget control. A general government net financing requirement of 0.3% of GDP is expected to appear in 2006, widening to 1.2% in 2007, before gradually falling to 0.3% by the end of the projection period.

The objectives set out in the Stability Programme (budget balance in 2006, a financing capacity of 0.3% of GDP in 2007, and increasing thereafter by 0.2% yearly until reaching 1.5% of GDP in 2013) will not be reached without additional measures. Nevertheless, the total public debt to GDP ratio will continue to decline, from 93.9% in 2005 to 78.0% in 2011.

The reappearance of a public deficit is mainly due to the expansionary character of budgetary decisions, within a background of relatively limited room for manoeuvre. The expansionary policy mainly concerns public expenditure, notably social security spending and labour

subsidies. As far as receipts are concerned, policy decisions will have more varied effects: reductions in labour taxation will be partially compensated for by increases in other taxes, notably on capital income.

Graph 2 - Net lending (+) or net borrowing (-), general government



In the last chapter, the evolution of energy consumption and greenhouse gas emissions is presented. Due to high energy prices (which stimulate the penetration of energy-efficient technologies) and the reorganisation of the industrial sector, final energy consumption should grow moderately by 0.7% per year on average, whereas the energy-intensity of GDP should decrease yearly by 1.4% on average. Total greenhouse gas emissions (CO₂, CH₄, N₂O, HFC, PFC and SF₆) should decrease slightly due to moderate energy consumption and to structural changes in energy consumption from solid and liquid fuels to gaseous fuels, electricity and renewable resources. However, in 2011 total emissions are expected to be still 8.4% higher than the objective. Further efforts should be made in order to reach the Kyoto Protocol target.

Key figures for the medium-term economic outlook
period averages, changes in volume unless otherwise stated

	1990	2000-	2006
	1999	2005	2011
Potential export markets	6.2	5.8	6.4
Private consumption	1.9	1.6	1.8
Public consumption	1.6	2.2	2.1
Gross fixed capital formation	2.2	2.4	2.5
Stock building (contribution to GDP growth)	-0.1	0.0	0.0
Final domestic demand	1.8	1.8	2.0
Exports	4.5	3.7	5.4
Imports	4.2	3.7	5.3
Net exports (contribution to GDP growth)	0.3	0.1	0.3
GDP	2.1	1.9	2.2
Private consumption prices	1.8	2.4	1.9
Real disposable income households	2.0	0.6	1.9
Domestic employment (annual changes in '000)	19.6	31.7	36.0
Unemployment, FPB definition ^a			
- thousands	624.2	710.4	672.3
- % of labour force	13.3	14.3	13.1
Current account balance (% of GDP) ^a	5.2	2.3	3.2
General Government financing capacity (% of GDP) ^a	-0.5	0.1	-0.3

a. End of period

"Perspectives économiques 2006-2011",
"Economische vooruitzichten 2006-2011", FPB, May 2006.

Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (cut-off date of forecasts: 30 April 2006)

	2004	2005	2006	2007
Private consumption	1.5	1.3	1.5	1.9
Public consumption	2.0	0.7	1.9	2.3
Gross fixed capital formation	4.2	8.4	2.3	2.1
Final national demand	2.6	2.3	1.8	2.0
Exports of goods and services	6.2	2.6	5.0	5.0
Imports of goods and services	6.4	3.6	4.5	5.1
Net-exports (contribution to growth)	0.1	-0.7	0.6	0.1
Gross Domestic Product	2.6	1.5	2.4	2.1
p.m. Gross Domestic Product - in current prices (bn euro)	288.09	298.67	311.48	323.87
National consumer price index	2.1	2.8	1.8	1.8
Consumer prices: health index	1.6	2.2	1.7	1.8
Real disposable income households	-0.2	1.1	1.5	2.1
Household savings ratio (as % of disposable income)	12.8	12.6	12.6	12.7
Domestic employment (change in '000, yearly average)	23.7	38.6	41.0	37.7
Unemployment (Eurostat standardised rate, yearly average) [1]	8.4	8.4	8.3	8.3
Current account balance (BoP definition, as % of GDP)	3.4	1.7	1.5	1.4
Short term interbank interest rate (3 m.)	2.1	2.2	3.1	3.3
Long term interest rate (10 y.)	4.1	3.4	3.9	4.1

[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
	2006	2007	2006	2007	2006	2007	
Federal Planning Bureau	2.4	2.1	1.8	1.8	-0.3	-1.2	04/06
INR/ICN	2.2	.	1.8	.	.	.	02/06
National Bank of Belgium
European Commission	2.3	2.1	2.4	2.1	-0.3	-0.9	05/06
OECD	2.5	2.4	2.2	1.9	-0.4	-1.0	05/06
IMF	2.1	2.4	2.4	1.8	-0.4	-1.1	04/06
ING	2.4	2.1	2.1	1.8	-0.3	-1.2	05/06
Fortis Bank	2.3	.	2.2	.	0.0	.	03/06
Dexia	2.3	1.9	1.9	1.9	-0.2	-0.3	05/06
KBC Bank	2.4	1.7	2.1	1.9	0.0	-1.0	05/06
Petercam	2.25	1.75	2.3	1.5	-0.5	-1.5	05/06
IRES	2.8	.	1.8	.	0.0	.	04/06
Consensus Belgian Prime News	2.2	1.9	2.1	1.6	-0.5	-0.4	03/06
Consensus Economics	2.3	2.1	2.3	1.9	.	.	05/06
Consensus The Economist	2.2	1.9	1.8	1.8	.	.	05/06
Consensus Wirtschaftsinstitute	2.0	2.1	2.5	2.0	0.0	0.3	04/06
Averages							
All institutions	2.3	2.1	2.1	1.9	-0.3	-0.8	
International public institutions	2.3	2.3	2.3	1.9	-0.4	-1.0	
Credit institutions	2.3	1.9	2.0	1.8	-0.3	-0.7	

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

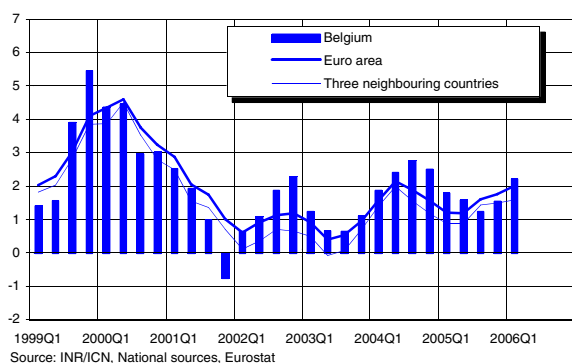
General economic activity

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

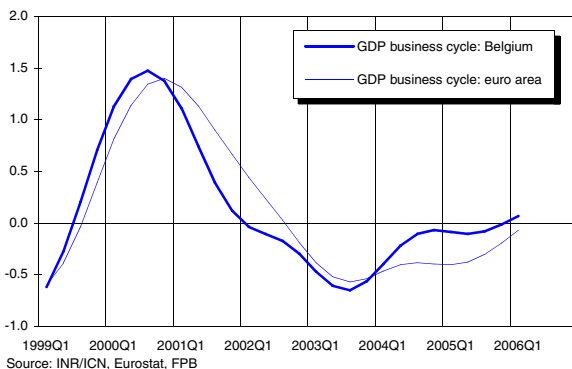
			YoY growth rates, in %					QoQ growth rates, in %				
	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1
Germany	1.1	1.2	0.6	0.8	1.6	1.7	1.4	0.6	0.4	0.6	0.0	0.4
France	2.0	1.2	1.6	0.8	1.4	1.1	1.5	0.1	0.0	0.6	0.3	0.5
Netherlands	1.7	1.1	0.2	1.0	1.3	2.0	2.1	0.0	0.7	0.7	0.6	0.2
Belgium	2.4	1.5	1.8	1.6	1.2	1.5	2.2	0.1	0.3	0.5	0.6	0.8
Euro area	1.8	1.4	1.2	1.2	1.6	1.8	2.0	0.3	0.4	0.7	0.3	0.6
United States	4.2	3.5	3.6	3.6	3.6	3.2	3.5	0.9	0.8	1.0	0.4	1.2
Japan	2.3	2.6	1.1	2.7	2.7	4.0	3.0	1.4	1.3	0.1	1.1	0.5

[1] Adjusted for seasonal and calendar effects
Source: INR/ICN, National sources, Eurostat

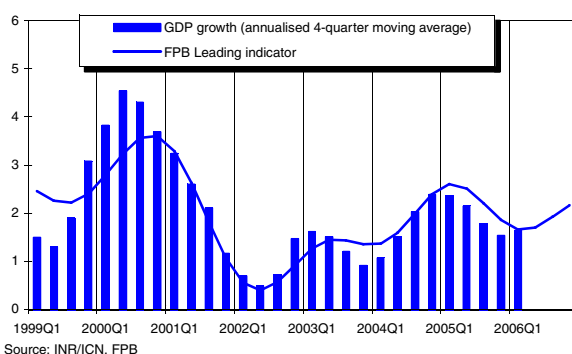
Graph 1 - GDP-growth (t/t-4), in %



Graph 2 - GDP business cycle



Graph 3 - GDP growth and leading indicator



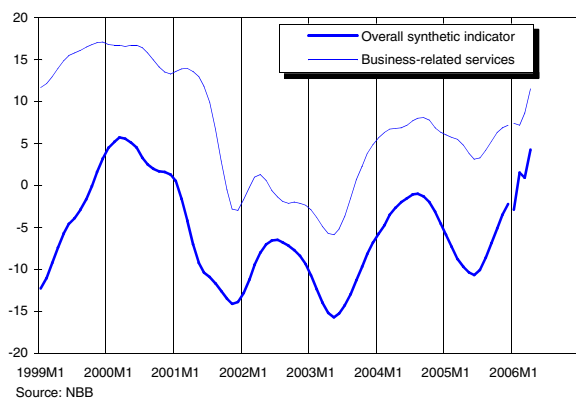
In the US, qoq GDP growth bounced back to 1.2% in 2006Q1, after a temporary slowdown in late 2005. This profile stems partly from exceptional factors, such as the rebuilding and recovery efforts in 2006Q1 following severe hurricanes (that dampened economic activity in 2005Q4) and the fall in car sales in 2005Q4 (due to incentives that encouraged car buyers to bring purchases forward to 2005Q3). Given these temporary effects, as well as the expectation that home prices will provide less support to consumer expenditure, economic growth should decelerate somewhat in the course of 2006.

Japan recorded a GDP growth of 2.6% in 2005. The current economic recovery has become more sustainable than previous ones as it is not only underpinned by exports, but also driven by domestic demand (corporate investment and consumer expenditure). Japanese GDP expanded again in 2006Q1 (for the fifth straight quarter), although qoq growth halved to 0.5% (from 1.1% in 2005Q4) due to higher oil prices. Nevertheless, both exports and domestic demand should remain supportive to Japanese economic growth in 2006.

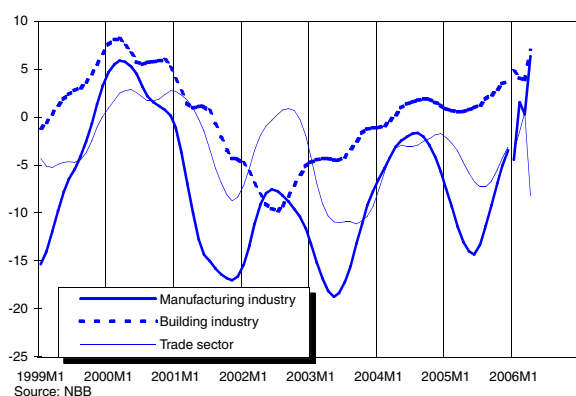
Economic growth in the euro area was volatile on a qoq basis in the second half of 2005, but this volatility was largely of technical nature. On a yoy basis, economic activity accelerated throughout the year, although private consumption remained the weak spot. The rate of expansion improved again in 2006Q1. Exports and domestic demand (particularly corporate investment) should continue to underpin GDP growth in 2006 (2.1% versus 1.4% in 2005).

As in the previous quarter, Belgium outperformed its main trading partners regarding GDP growth in 2006Q1. Belgian economic activity grew by 0.8% qoq and by 2.2% yoy. Only Dutch GDP growth slowed down on a qoq basis (to 0.2%), but remained dynamic on a yoy basis. The FPB leading indicator declined for most of 2005, but bottoms out in the second half of 2006, which points to stronger GDP growth in 2006 (2.4% versus 1.5% in 2005).

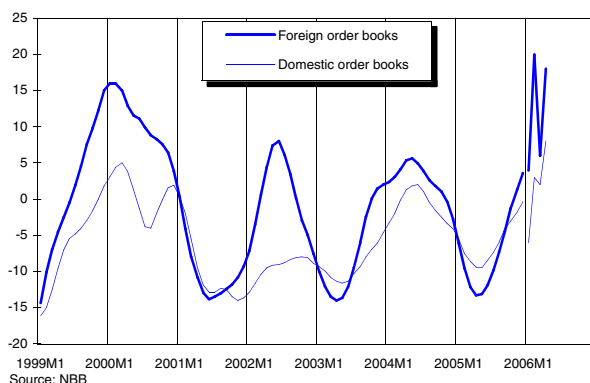
Graph 4 - Business cycle: global evolution



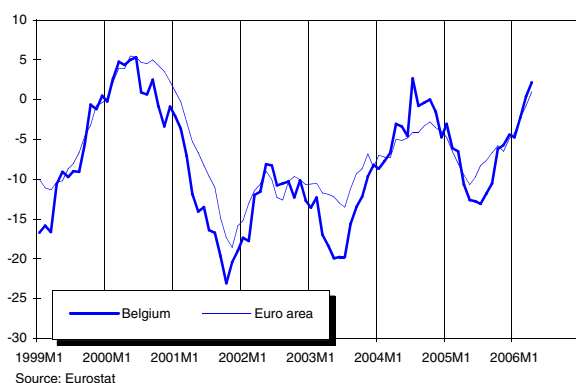
Graph 5 - Business cycle: sectoral evolution



Graph 6 - Manufacturing industry: order books



Graph 7 - Industrial confidence: international comparison



Business confidence (shown as the overall synthetic indicator in graph 4) is now at its highest level since 2000, when the Belgian economy grew by 3.7%. The recent improvement is due to an acceleration of European economic growth and benign prospects for the near future. In particular, the brightening economic outlook of two of our main trading partners, Germany and the Netherlands, which have experienced dismal growth performance over the last five years (average growth rates of 0.7% and 0.8% respectively), has pushed up prospects for the Belgian economy. Although the strong rise in business confidence points to strong economic growth in the first half of this year, the surge in oil prices and the appreciation of the euro exchange rate might dampen business confidence and economic growth in the second half of the year.

The rise in business confidence over the last quarter was broadly-based as confidence in three of the four sectors covered by the NBB survey (manufacturing, construction and business-related services) brightened. Only sentiment in the trade sector worsened.

The biggest improvement in sentiment was seen in the *manufacturing sector*, which, as the most export-orientated sector, benefited from an acceleration of external demand and the depreciation of the euro in the course of 2005. This is clearly visible in the surge in the foreign orders component. Domestic order books also rose, but substantially lagged behind the increase in foreign orders. It is also worth noting that, for the first time since 2001, entrepreneurs in the manufacturing sector generally expect employment to increase rather than to fall.

Sentiment in the *trade sector* gradually improved over the last year, but plunged by more than eight points in April due to a worsening of export orders and demand prospects, and a fall in sales. However, one should be careful when interpreting the trade indicator, as it has always been rather volatile.

The indicator for the *building industry* has also improved further over the last few months, mainly due to better-filled order books. As mortgage rates are on the rise, activity in this sector will probably be curbed somewhat in the second half of this year.

The indicator for *business-related services* rose only marginally over the last few months, driven almost entirely by an improvement in employment prospects.

The trough in industrial confidence was reached earlier in the euro area than in Belgium, but the rise of the Belgian indicator has been markedly stronger. While three months ago, the rise in business confidence in the euro area was mainly driven by the rise in confidence in Germany, other countries' business confidence indicators have now caught up with the German IFO-indicator.

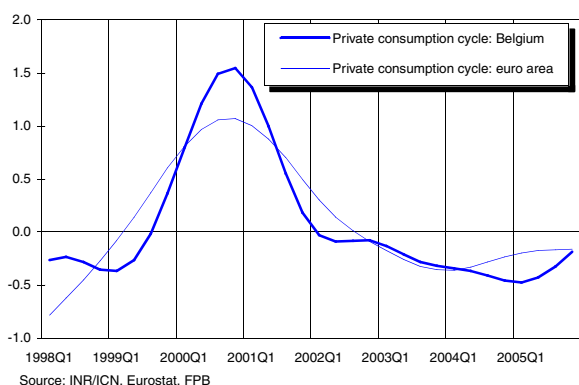
Private consumption

Table 2 - Private consumption indicators

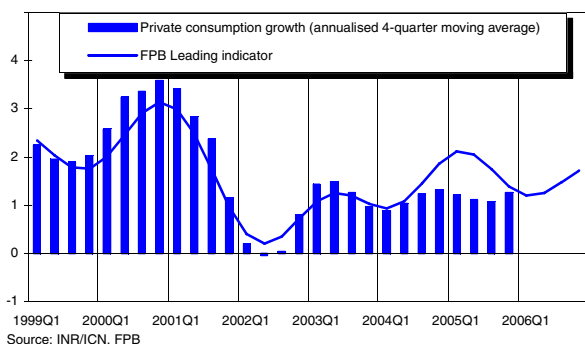
	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M11	2005M12	2006M1	2006M2	2006M3	2006M4
Turnover (VAT) - retail trade [1]	5.9	3.4	3.2	4.2	4.5	.	5.8	5.8	6.9	5.1	.	.
New car registrations [1]	5.7	-1.0	2.1	6.9	-4.4	20.0	5.9	-16.6	14.1	20.8	25.2	6.5
Consumer confidence indicator [2]	-3.3	-7.6	-8.7	-11.8	-6.8	-4.8	-8.6	-5.5	-3.5	-5.0	-5.8	-4.8

[1] Change (%) compared to same period previous year; [2] Qualitative data
Source: DGSD, European Commission, Febiac, FPB

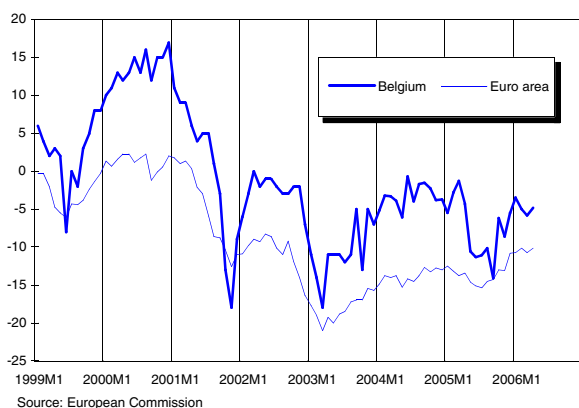
Graph 8 - Private consumption cycle



Graph 9 - Private consumption growth and leading indicator



Graph 10 - Consumer confidence: international comparison



From the beginning of 2003 until the end of 2004, the Belgian private consumption cycle decreased somewhat as average qoq consumption growth (0.2%) was lower than its trend growth rate (0.3% qoq). In the course of 2005, however, qoq private consumption growth accelerated to 0.5% on average, which brought about the first rise in the consumption cycle since 2001. The euro area consumption cycle followed roughly the same path as the Belgian cycle, although the current upturn started a few quarters earlier in the euro area.

After two years of growth below 1%, Belgian private consumption increased again by more than 1% in 2004 and 2005. This growth acceleration was accompanied by a decline in the savings rate (from 14.3% in 2003 to 12.6% in 2005) as real disposable income growth remained subdued. The savings rate has been on a downward path since 1994 and is now 9%-points lower than in 1993. Despite this decline, it still exceeds the European average.

After a relatively stable evolution in the second half of 2004 and 2005Q1, Belgian consumer confidence fell fairly heavily during the second quarter of last year due to increased pessimism regarding the general economic situation as well as regarding consumers' personal financial situations. These developments were probably related to the steep rise in oil prices, which negatively affected purchasing power. Consumer confidence strengthened again by the end of last year and roughly stabilised during the first few months of 2006. The recent rise in oil prices to around USD 70 per barrel will probably have a negative effect on consumer confidence in the near future. Other private consumption indicators, such as retail sales and indicators for the trade sector coming from the monthly NBB survey, have developed in roughly the same way as consumer confidence. They also improved during 2005Q4 and showed some signs of levelling off during 2006Q1. As a result, the FPB leading indicator, which summarises this information, points to a very limited increase in private consumption growth this year. This is in line with the latest FPB projection in which private consumption is expected to increase by 1.5% in 2006.

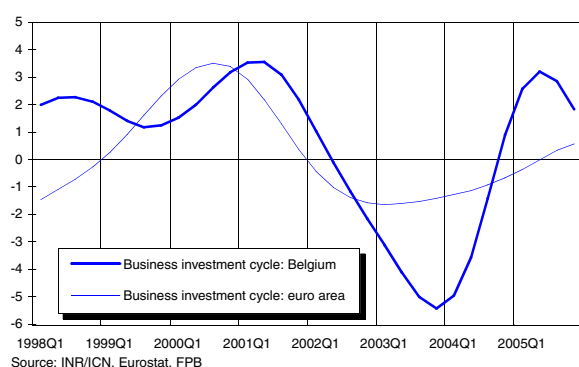
Business investment

Table 3 - Business investment indicators

	2004	2005	2006	2005Q2	2005Q3	2005Q4	2006Q1	2005M10	2005M11	2005M12	2006M1	2006M2
Investment (VAT) [1]												
Industrial companies	-0.9	4.8	.	6.5	0.4	10.2	.	7.0	18.4	7.3	3.2	9.0
Non-industrial companies	7.0	8.3	.	39.6	-8.1	-2.4	.	-1.5	16.5	-13.0	-10.4	11.2
Total companies	4.6	7.2	.	28.1	-5.3	1.8	.	1.3	16.8	-6.1	-6.6	9.9
Investment survey [1]	-9.9	-6.7	21.6									
Capacity utilisation rate (s.a.) (%)	80.7	79.4	.	78.2	79.1	80.5	82.9					

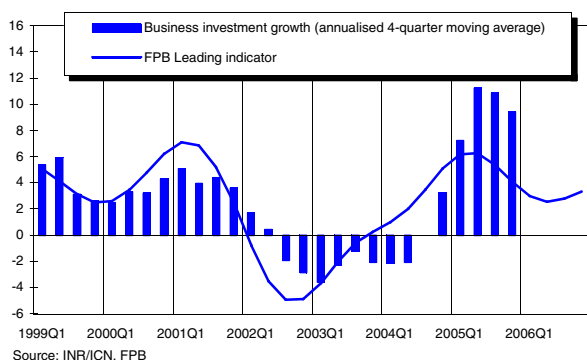
[1] Change (%) compared to same period previous year
Source: DGSSB, NBB, FPB

Graph 11 - Business investment cycle



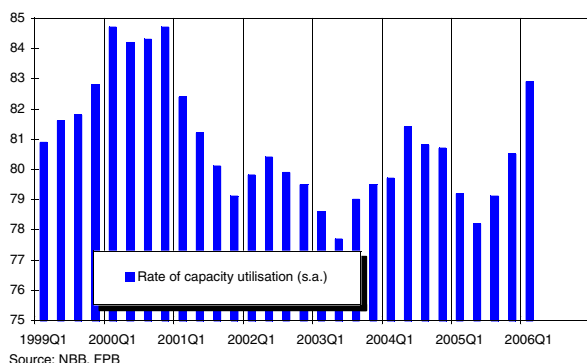
Source: INR/ICN, Eurostat, FPB

Graph 12 - Business investment growth and leading indicator



Source: INR/ICN, FPB

Graph 13 - Capacity utilisation in manufacturing industry



Source: NBB, FPB

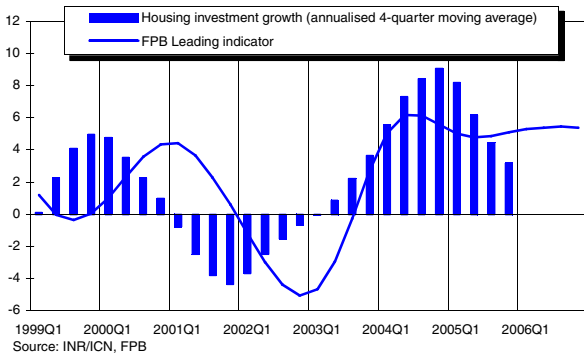
The downturn in Belgian business investment between 2001 and 2003 was followed by a spectacular upturn from the beginning of 2004 until mid-2005 in which the losses of the previous three years were almost entirely offset. During the second half of last year, Belgian business investment growth slowed down somewhat, which caused a weakening of the investment cycle. In the euro area, the investment cycle had already reached a trough in 2003Q1 and subsequently registered a weak upturn that gained some momentum during the first half of 2005.

After two years of negative growth, Belgian business investment increased by 3.1% in 2004. The underlying dynamics were not very strong as investment growth in 2004 was boosted by two exceptional factors. Firstly, sales of government buildings, which appear in the national accounts as a sale of assets by the government and as an investment by the business sector, rose heavily compared to 2003. Secondly, some maritime companies bought an exceptionally high amount of sea vessels in 2004 (as well as in 2005). The real upturn in business investment only appeared in 2005 (+9.6%). Graph 12 shows that business investment was largely below the FPB leading indicator in 2004 and well above the indicator in 2005. This indicates that many firms postponed investment projects from 2004 to 2005. As shown by the VAT-based statistics, this was certainly the case in the industrial sector, which experienced a rise in investment of 4.8% in 2005 after a decline in 2004. Business investment has grown a lot faster than GDP over the past two years, raising the investment rate at constant prices (real business investment as a percentage of GDP) from 13.5% in 2003 to 14.7% in 2005.

Due to strong economic growth, the capacity utilisation rate rose quickly from 2005Q2 and reached its highest level since 2000 in 2006Q1. This confirms the message from the FPB indicator, which points to robust investment growth this year, despite the fading out of the exceptional maritime investment operations.

Housing investment

Graph 14 - Housing investment growth and leading indicator

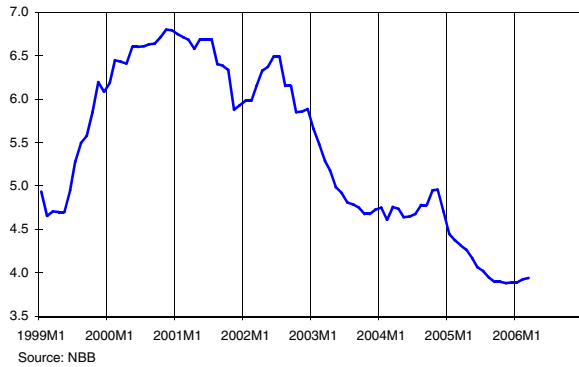


During the first half of 2004, qoq growth rates of housing investment reached more than 3%, the highest rates since 1997. Despite the growth deceleration in the second half of the year, housing investment increased by 9% in 2004. In 2005, qoq growth rates of housing investment picked up from an average of 0.4% in the first half of 2005 to 1.1% in the second half of the year. This resulted in an average annual increase of 3.2%.

Most indicators related to housing investment - such as the survey among architects, the NBB survey in the building industry and the total amount loaned for mortgages - were on an upward path during the past two years. Recently, however, those indicators have tended to level off. This is also seen in the FPB leading indicator that predicts a stabilisation of housing investment growth in 2006.

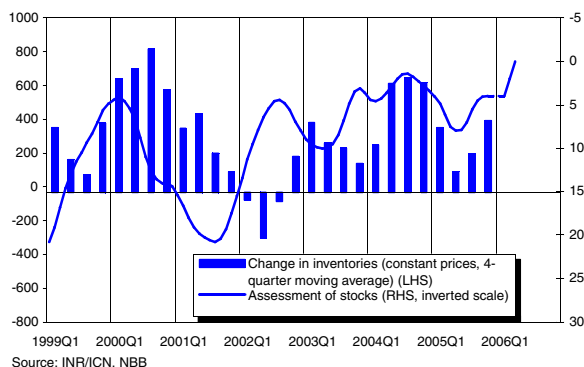
Since 1980, mortgage rates have never been lower than in 2005. In real terms, i.e. corrected for the evolution of consumer prices, the decline in the mortgage rate between mid-2002 and 2005 was even more spectacular than in nominal terms as inflation was then on a rising path. Due to the rise of long-term interest rates, the mortgage rate has crept up again since the beginning of 2006, which will have a dampening effect on housing investment.

Graph 15 - Mortgage rate (%)



Stock building

Graph 16 - Stock building indicators



The assessment of the level of stocks is continuing to develop in line with the business cycle. Since the middle of 2005, the number of business owners willing to reduce their stock levels has declined markedly together with an acceleration of economic growth from 0.3% in 2005Q2 to 0.8% in 2006Q1. Consequently, the pick-up in the pace of stock building since 2005Q3 can be considered as mainly intentional.

Due to the fall in the level of stocks during the first half of last year, the contribution of stock building to economic growth was negative in 2005 as a whole (-0.3 percentage points). This year, stocks should be neutral to economic growth, as the expected deceleration in economic growth (qoq) will slow down the rate of stock building.

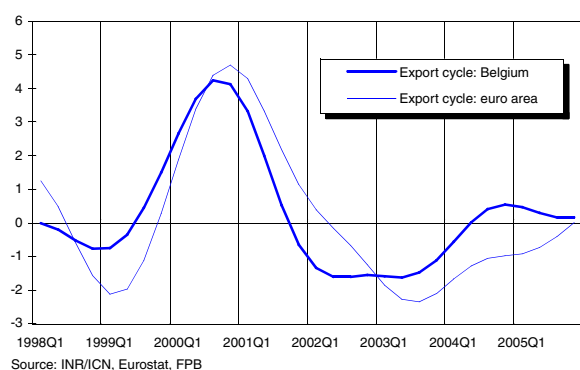
Foreign Trade

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

	2004	2005	2005Q1	2005Q2	2005Q3	2005Q4	2005M9	2005M10	2005M11	2005M12	2006M1	2006M2
Exports - value [1]	8.9	8.4	9.3	10.2	8.5	5.9	9.8	-0.6	11.3	7.2	14.0	14.2
Imports - value [1]	10.5	12.2	11.4	12.2	9.9	15.0	11.4	6.2	20.1	18.6	21.9	15.8
Exports - volume [1]	6.6	1.7	2.1	4.0	1.8	-1.1	2.9	-6.4	3.3	-0.3	4.9	6.3
Imports - volume [1]	7.0	4.5	3.5	5.7	2.4	6.3	3.4	-2.2	12.6	8.4	7.7	5.2
Exports - price [1]	2.1	6.7	7.1	5.9	6.6	7.2	6.7	6.3	7.8	7.4	8.8	7.4
Imports - price [1]	3.2	7.3	7.5	6.1	7.2	8.2	7.6	8.5	6.7	9.5	13.2	10.0

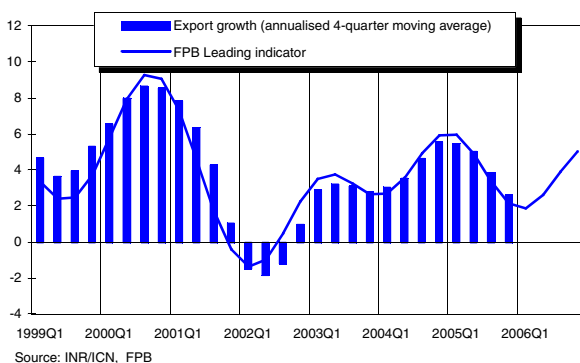
[1] Change (%) compared to same period previous year
Source: INR/ICN, FPB

Graph 17 - Export cycle



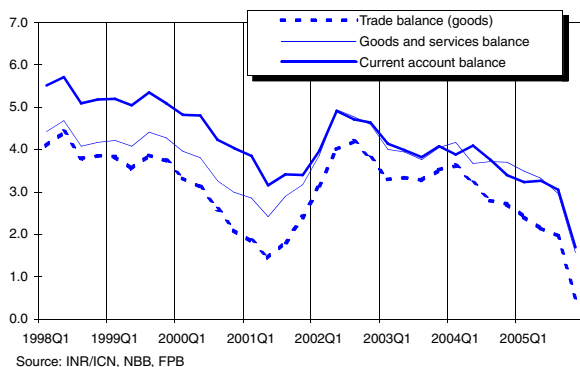
The Belgian export cycle roughly stabilised from mid-2004, but tended to start increasing again in 2005Q4. The European export cycle, which has been lagging behind the Belgian cycle since early 2003, has improved strongly over the last few quarters, as a result of strong export growth in the last three quarters of 2005. The European cycle has almost caught up with the Belgian cycle and both are now close to their trend levels.

Graph 18 - Export growth and leading indicator



No longer hampered by the negative effect on competitiveness from the appreciation of the euro in 2004 and helped by an upturn of world trade growth, Belgian export growth bounced back vigorously in the second half of 2005 after a weak export performance in the first half of the year. Belgian export growth should remain fairly strong during 2006Q1 as first estimates point to an acceleration of economic growth for our main trading partners. In fact, GDP growth in the euro area – to which around 60% of our exports are directed – doubled between 2005Q4 and 2006Q1 (from 0.3% to 0.6%).

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



The favourable outlook for Belgian exports is confirmed by the FPB composite leading indicator, which points to a hefty acceleration of export growth in 2006 as a whole. All components of this indicator, i.e. Belgian export orders and the OECD leading indicators for the German, French and Dutch economy, soared in the last few months. In the second half of 2006, a limited deceleration of export growth can be expected as the recent appreciation of the euro could start to weigh on competitiveness.

Import price growth recently accelerated again due to a new surge in crude oil prices. Export price growth accelerated as well, but to a lesser extent. If this trend were to continue in the course of the year, the terms of trade would deteriorate for the fourth consecutive year.

The Belgian current account surplus, expressed as a percentage of GDP, declined to 1.7% last year. This year, the surplus should decrease further as the increase in net exports will be outweighed by a significant worsening of the terms of trade.

Labour market

Table 5 - Labour market indicators

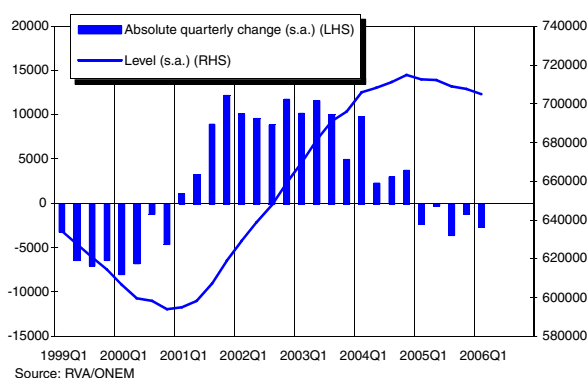
	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M11	2005M12	2006M1	2006M2	2006M3	2006M4
Unemployment [1][2]	710.1	710.4	712.4	708.8	707.6	705.0	707.7	707.3	706.9	704.9	703.1	704.1
Unemployment rate [2][3]	14.4	14.3	14.4	14.3	14.2	14.1	14.2	14.2	14.2	14.1	14.1	14.1
Unemployment rate-Eurostat [3][4]	8.4	8.4	8.5	8.4	8.4	8.2	8.4	8.4	8.2	8.3	8.3	8.4

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

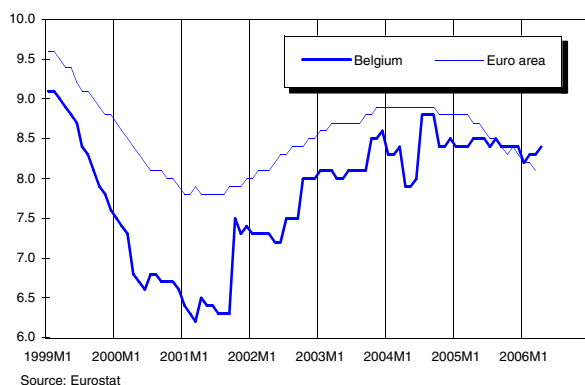
[4] Recent figures are based on administrative data and may be subject to revision

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

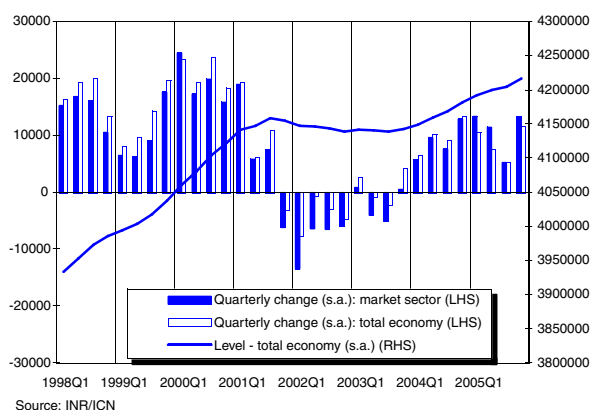
Graph 20 - Evolution of unemployment (incl. older)



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



Graph 22 - Evolution of domestic employment



According to the statistical evidence currently at hand, quarter-to-quarter growth in market sector employment decelerated somewhat during the third quarter of last year (from just below 0.4% on average during the first two quarters to less than 0.2%) in response to the sharp slowdown in activity at the outset of the year. However, with value added growth already recovering in the second quarter, employment growth seems to have picked up strongly during the fourth quarter of last year and to have resumed its previous pace (latest quarterly national accounts figures: growth of 0.4%).

In spite of the temporary fallback in activity, yearly-average market sector employment growth accelerated from 0.5% in 2004 to 1.3% in 2005. It benefited from a positive spill-over effect stemming from 2004 in-year dynamics and from a (still ongoing) government-subsidised transfer of a number of domestic services formerly located in the household sector. For the latter reason and also in view of the sharp decline in public sector employment growth during last year, total domestic employment accelerated significantly less than market sector employment (from 0.6% in 2004 to 0.9% in 2005). Even so, last year's employment growth markedly outpaced growth in the population of working age (which remains considerable: 0.5% in 2005), bringing the employment rate from 61.7% in 2004 to 61.9% in 2005.

On the other hand, the net result of all socio-demographic forces (ageing population of working age, countered by increasing female participation rates) on the overall participation rate remains clearly positive (increase from 72.1% to 72.3% in 2005), structurally boosting labour force growth (to 0.8% last year). This implies that the growth in domestic employment merely allowed the number of unemployed persons (broad administrative definition) to stabilise last year and that the unemployment rate only decreased marginally (from 14.4% to 14.3%). On a qoq basis, however, unemployment decreased moderately during the whole of last year (on average: 0.3% per quarter), and continues to do so at a slightly increased pace during the first quarter of this year, suggesting substantial ongoing job creation.

Prices

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

	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M11	2005M12	2006M1	2006M2	2006M3	2006M4
Consumer prices: all items	2.10	2.78	2.71	3.14	2.64	2.23	2.57	2.88	2.63	2.38	1.69	1.96
Food prices	1.53	1.93	2.28	1.67	1.71	1.06	1.75	1.86	1.65	1.48	0.06	0.66
Non food prices	2.23	3.60	3.41	4.62	3.33	3.05	3.10	3.74	3.66	3.06	2.45	2.47
Services	2.36	2.35	2.17	2.20	2.39	1.50	2.44	2.49	1.46	1.68	1.37	1.84
Rent	1.88	1.99	1.84	2.06	2.25	3.65	2.22	2.34	3.79	3.57	3.59	3.40
Health index	1.63	2.17	2.18	2.36	2.03	1.76	2.04	2.32	2.00	1.95	1.33	1.72
Brent oil price in USD (level)	38.2	54.4	51.7	61.5	56.9	61.8	55.2	56.8	62.9	60.2	62.2	70.3

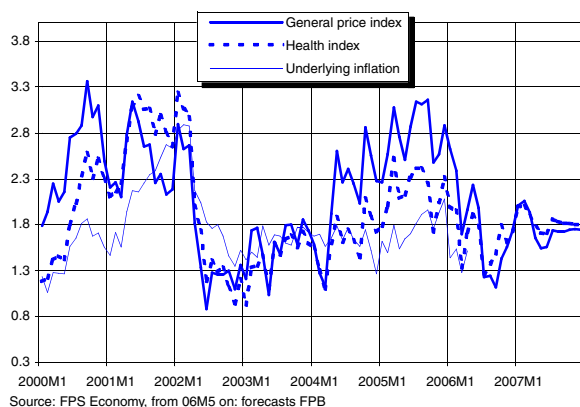
Source: FPS Economy, Datastream

Table 7 - Monthly inflation forecasts

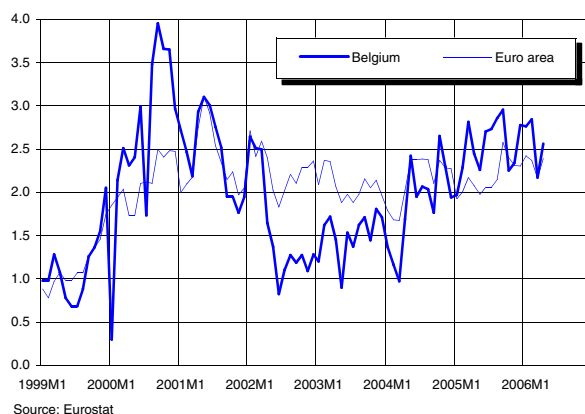
	2006M1	2006M2	2006M3	2006M4	2006M5	2006M6	2006M7	2006M8	2006M9	2006M10	2006M11	2006M12
Consumer prices: all items	103.48	103.93	103.89	104.40	104.83	104.89	104.74	104.86	104.85	104.98	105.08	105.25
Consumer prices: health index	102.82	103.31	103.23	103.60	103.99	104.05	103.92	104.06	104.06	104.21	104.33	104.53
Moving average health index	102.66	102.89	103.03	103.24	103.53	103.72	103.89	104.01	104.02	104.06	104.17	104.28
	2007M1	2007M2	2007M3	2007M4	2007M5	2007M6	2007M7	2007M8	2007M9	2007M10	2007M11	2007M12
Consumer prices: all items	105.56	106.07	105.90	106.13	106.45	106.52	106.56	106.67	106.66	106.81	106.92	107.09
Consumer prices: health index	104.88	105.37	105.19	105.44	105.77	105.82	105.85	105.97	105.95	106.10	106.21	106.41
Moving average health index	104.49	104.78	104.99	105.22	105.44	105.56	105.72	105.85	105.90	105.97	106.06	106.17

Source: Observations (up to 06M4): FPS Economy; forecasts: FPB

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



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



In 2005, oil prices expressed in euro increased by 43% on average. Also during the first four months of 2006, average yoy growth remained well above 40%. While the rise in 2005 was entirely due to the oil price increase in USD terms, the figure for the first four months of 2006 is also partly explained by the depreciation of the euro against the dollar in the course of 2005. Nevertheless, headline inflation (as measured by the yoy growth rate of the national consumer price index) fell from 2.8% in 2005 to 2.2% on average between January and April 2006. This decrease is almost entirely attributable to underlying inflation, which plummeted between December 2005 and January 2006 due to the introduction of a new price measure. The base year of the consumer price index shifted from 1996 to 2004. Consequently, the price evolution of many 'new' products - such as mobile phones, computers etc. - is now taken into account to determine inflation. As prices of these products remain relatively stable or are even decreasing, underlying inflation is restrained.

All in all, average NICP inflation should be 1.8% this year. According to our monthly forecasts for the 'health index', the pivotal index for public wages and social benefits (currently 104.14) should be exceeded in November 2006. The next pivotal index threshold (106.22) should not be crossed in 2007.

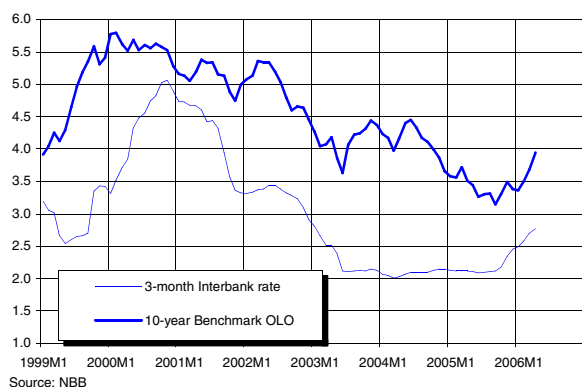
Interest rates

Table 8 - Interest rates

	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M11	2005M12	2006M1	2006M2	2006M3	2006M4
Short-term money market rates (3 months)												
Belgium	2.08	2.16	2.10	2.11	2.33	2.59	2.35	2.46	2.49	2.58	2.70	2.76
Euro area (Euribor)	2.11	2.18	2.12	2.13	2.34	2.61	2.36	2.47	2.51	2.60	2.72	2.79
United States	1.56	3.51	3.23	3.74	4.30	4.72	4.31	4.45	4.56	4.72	4.88	5.03
Japan	-0.03	0.01	0.01	0.01	0.02	0.05	0.02	0.02	0.02	0.03	0.09	0.08
Long-term government bond rates (10 years)												
Belgium	4.13	3.42	3.40	3.25	3.39	3.51	3.49	3.39	3.36	3.50	3.68	3.94
Germany	4.06	3.38	3.34	3.19	3.36	3.49	3.46	3.37	3.34	3.48	3.66	3.92
Euro area	4.10	3.42	3.38	3.23	3.41	3.54	3.51	3.40	3.38	3.53	3.71	3.98
United States	4.26	4.29	4.16	4.21	4.49	4.58	4.55	4.46	4.41	4.60	4.72	4.99
Japan	1.49	1.37	1.25	1.34	1.52	1.57	1.52	1.51	1.46	1.57	1.68	1.91

Source: NBB, ECB

Graph 25 - Interest rate levels in Belgium, %

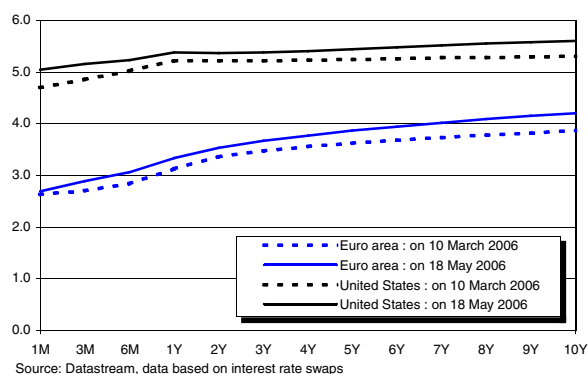


Source: NBB

This year the Federal Reserve has already raised the Federal Funds rate by 50 basis points, bringing it to a level of 4.75%. Strong GDP growth in 2006Q1, robust payroll growth and a rise of the PMI manufacturing and services activity indicators suggest that it is still too early to stop the rate tightening cycle. Markets currently expect one or two more interest rate hikes of 25 base points in the coming months.

The ECB raised its refinancing rate by 0.25 percentage points in March in order to bring the rate to a more neutral level. The ECB is worried about the effect that the low real interest rate (which is still close to 0%) might have on consumer borrowing and property prices, both growing at a brisk pace. The fact that confidence indicators throughout the euro area are soaring facilitated the ECB's move. However, as core inflation still remains very low (1.3% yoy in March) and as the ECB is wary of raising interest rates too fast after years of sluggish economic growth, it will probably continue to raise interest rates, but only at a measured pace.

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



Source: Datastream, data based on interest rate swaps

Worldwide, long-term interest rates have risen considerably over the last few months, owing to a rise of worldwide economic growth in 2006Q1 after the deceleration in 2005Q4. Furthermore, for the first time in many years all major central banks (Fed, ECB, Bank of Japan, People's Bank of China) are now tightening monetary policy in order to reduce global surplus liquidity. Finally, the latest surge in oil prices is stoking fears about inflation. This is also visible in the yield curves of both the US and the euro area, which have steepened substantially, a classic sign of the bond markets' fear of inflation. The spread between US and euro area long-term interest rates has not changed since the beginning of the year as they both rose by about 75 base points.

Exchange rates

Table 9 - Bilateral exchange rates

	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M11	2005M12	2006M1	2006M2	2006M3	2006M4
USD per EUR	1.244	1.244	1.259	1.219	1.189	1.202	1.178	1.186	1.211	1.194	1.202	1.227
UKP per EUR	0.679	0.684	0.678	0.683	0.680	0.686	0.679	0.680	0.686	0.683	0.690	0.694
JPY per EUR	134.4	136.8	135.4	135.6	139.3	140.6	139.6	140.4	139.9	140.7	141.1	143.6

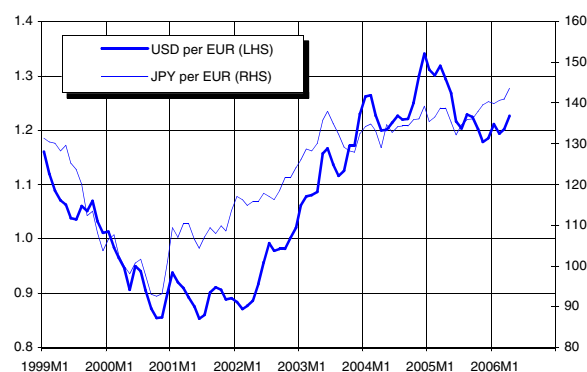
Table 10 - Nominal effective exchange rates (1990=100)

	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M11	2005M12	2006M1	2006M2	2006M3	2006M4
Euro	121.4	120.8	120.8	119.7	118.9	119.2	118.7	118.8	119.4	118.7	119.5	120.8
Growth rate [1]	3.5	-0.5	-2.3	-0.9	-0.7	0.2	-0.6	0.1	0.5	-0.6	0.7	1.1
US dollar	86.9	84.9	84.4	85.7	87.2	86.0	87.9	87.2	85.6	86.2	86.2	85.1
Growth rate [1]	-7.4	-2.3	2.4	1.6	1.8	-1.4	1.5	-0.8	-1.9	0.8	-0.1	-1.3
Japanese yen	89.1	86.0	87.2	85.8	82.4	81.5	81.9	81.3	82.2	80.9	81.3	80.6
Growth rate [1]	2.0	-3.5	-1.6	-1.6	-4.0	-1.1	-2.2	-0.7	1.0	-1.6	0.5	-0.9

[1] Change (%) compared to previous period

Source: BIS, NBB

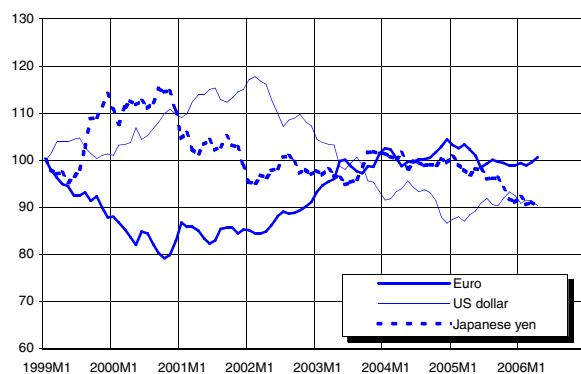
Graph 27 - Euro-dollar and euro-yen bilateral exchange rates



Source: NBB

Since December 2005, when the ECB raised its interest rates for the first time in five years, the euro has appreciated against the dollar. The improvement of euro area growth prospects (indicated by the surge in business confidence, described above) combined with signs of a slowdown of the US economy are the main drivers behind the strength of the euro as they are fuelling expectations of a narrowing of the short-term interest rate differential between the euro area and the US. Furthermore, the dollar suffered from rumours that various central banks (in Asia and in the OPEC countries) are planning to diversify their currency reserves at the expense of the dollar, and from the new record deficit reached on the US current account (7% of GDP in 2005Q4). In the beginning of May, the dollar weakened further as financial markets expected a smaller rise in interest rates than before.

Graph 28 - Nominal effective exchange rates (Jan. 99=100)



Source: NBB, BIS

The yen/dollar exchange rate has hovered between 115 and 120 yen per dollar since the beginning of the year. Recently, the yen appreciated to 112 yen per dollar as markets expect the Bank of Japan to raise its central rate (in view of strong economic growth and rising inflation). The euro, however, has continued to appreciate over the last three months against the yen.

Since the beginning of this year, the effective exchange rate of the euro has appreciated, while that of the yen and the dollar has depreciated.

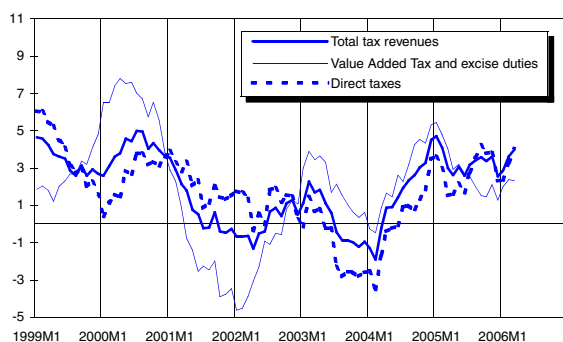
Tax indicators

Table 11 - Tax revenues (1)

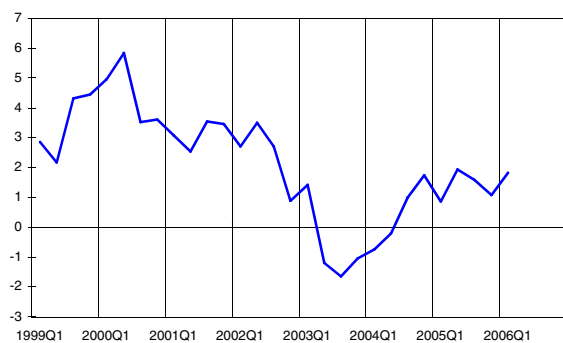
	2004	2005	2005Q2	2005Q3	2005Q4	2006Q1	2005M10	2005M11	2005M12	2006M1	2006M2	2006M3
Total [2], of which:	6.7	5.4	4.4	10.6	4.9	8.4	4.6	8.6	3.1	8.6	9.6	7.0
Direct taxes, of which:	5.7	5.2	4.6	14.4	2.8	7.6	4.0	6.9	0.1	5.2	10.9	7.6
Withholding earned income tax (PAYE)	3.9	3.9	5.1	5.6	3.2	4.3	6.5	2.2	1.3	2.3	16.9	-5.5
Prepayments	13.8	5.7	10.0	11.4	-2.3	.	6.3	.	-9.8	.	.	.
Value Added Tax and excise duties	7.6	4.1	2.5	4.8	6.1	7.4	3.7	10.7	4.9	12.4	4.7	4.2

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

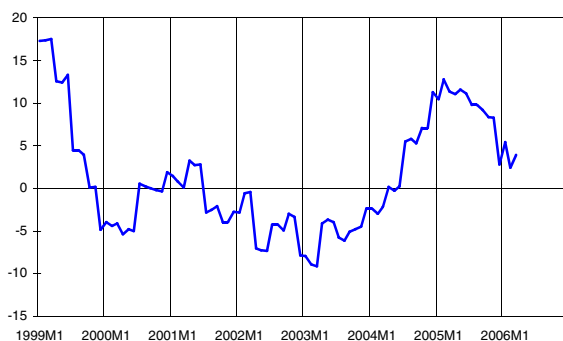
Graph 29 - Real tax revenues (3)



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



Graph 31 - Real prepayments (3)



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

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

After a decline in yoy growth of tax revenues in 2005Q4 – mainly due to a temporary slowdown in direct taxes – it recovered again to 8.4% during 2006Q1. It is worth noting that total tax revenues grew faster than their two components in Table 11 due to an impressive increase in succession and registration duties, the latter reflecting the swift expansion of the real estate market that also resulted in an acceleration in house prices.

On a yoy 12-month moving average basis, growth in real tax revenues (Graph 29) roughly stabilised during the second half of last year before recovering from January 2006 on. This profile reflects the evolution of economic growth, which has registered an upturn since mid-2005.

Oil prices have increased again since the beginning of this year and have thus continued to boost VAT receipts from energy products. Moreover, growth in VAT reimbursements decreased together with the decline in yoy export growth rates in the course of 2005. The evolution of excise duties on energy products from January to March was not influenced by duty rate reductions. In April, however, excise duties on diesel were reduced on three occasions to partially compensate for the effect of oil price increases. On the other hand, excises on tobacco products have plummeted since February 2006, which is probably the consequence of the ban on smoking in the workplace since 1 January 2006.

As PAYE revenue is mainly wage-related, it is closely correlated to the evolution of employment, which has increased gradually over the last few quarters. Consequently, growth in PAYE revenue has remained relatively stable since 2004Q1.

As advance payments are traditionally very low during the first three months of the year (less than 5% of the annual total), the figure for the first quarter is not informative and is not reported in the table. Provisional figures for April 2006 show a quasi-stabilisation (yoy) due to a fall in advance payments from the self-employed.

A stochastic simulation evaluation of the risks related to NIME projections for the world economy

This Working Paper presents the methodology and results of a stochastic simulation evaluation of the risks related to the medium-term world economic outlook produced using the Federal Planning Bureau's NIME model in January 2006. The results include confidence intervals around a baseline projection for the euro area, the United States and Japan, as well as probability estimates for specific occurrences.

The baseline projections of the NIME Economic Outlooks are the outcomes of deterministic simulations of the NIME model. In a deterministic simulation, the values of the error terms of the model's behavioural equations are assumed to be zero, while the values of the exogenous variables are set to predetermined levels. The stochastic simulation of the NIME model is based on repeated random drawings for the values of the error terms of the equations as well as for the exogenous variables of the model; for both of these types of variable the distributions are based on the historical variances of the variables' error terms. The resulting set of stochastic runs can be presented in terms of confidence intervals around a baseline, as well as in terms of probabilities of specific occurrences.

In this Working Paper we construct confidence intervals on the basis of one thousand random drawings. The baseline that is used is the medium-term outlook presented in the NIME Economic Outlook of January 2006. The results indicate for instance that, on the basis of information available at the end of 2005, there is a 95% probability that GDP growth in the euro area will come out between 1.5% and 3% in 2006. Similarly, there is a 95% probability that real GDP growth will come out between 0.3% and 2.8% in 2012. For the United States, the 95% confidence interval places real GDP growth between 2.5 and 4.2% in 2006 and between 1.3% and 3.3% in 2012. For Japan, there is a 95% probability that real GDP

growth will come out between 0.8% and 2.8% in 2006 and between 0.1% and 2.4% in 2012.

Stochastic simulation also allows us to estimate the probabilities of specific occurrences. For instance, the simulation results indicate that there is a limited 1% probability that, under a constant policy assumption, GDP growth in the euro area will be lower in 2006 than in 2005. Furthermore, the probability that GDP growth in the euro area will come out above 3% for every year of the 2010-2012 period, as aimed for under the European Union's Lisbon Agenda, is also negligible. There is only a 13% probability that euro area inflation will effectively stay below the ECB's 2% upper limit for every year of the 2006-2012 period. The probability that the euro area's nominal short-term interest rate will come out at least 25 basis points higher in 2006 than its 2.2% average of 2005, is estimated at 24%. The probability that monetary policy will tighten more strongly, raising the short-term interest rate by an average of at least 50 basis points in 2006, is estimated at only 2% (these probability estimates are based on the NIME Economic Outlook of January 2006, which was itself largely based on data available in the autumn of 2005). This compares with a 84% probability that the US short-term interest rate will come out at least 50 basis points higher in 2006 than in 2005. Finally, although the baseline projection shows that the rise in Japan's deflator of private consumption will come out at 0.3% in 2006, stochastic results indicate that there is still a 32% probability of deflation in 2006. However, the probability of deflation occurring consecutively in 2006 and in 2007 is only 5%.

"An Evaluation of the Risks Surrounding the 2006-2012 NIME Economic Outlook: Illustrative Stochastic Simulations", E. Meyermans and P. Van Brusselen, Working Paper 02-06, April 2006.

The European budget compromise for 2007-2013: what is the financial impact on Belgium?

After the compromise that was reached at the European Council of December 2005, the European Parliament finally approved, on 17 May 2006, the European budget for the next seven years (the Financial Perspective 2007-2013).

At the initiative of the Federal Planning Bureau, a single publication brings together the analyses made during the negotiating period by experts from the Walloon Re-

gion, the Flemish Region and the Federal Planning Bureau, who provided their technical support to the Belgian negotiators.

This publication summarises the community negotiations on the Financial Perspective and details the results of the compromise, closely examining its financial implications for Belgium.

A European budget framework for the years 2007-2013

The Financial Perspectives make up the framework for the community budget for the coming years. They include a 'revenue' section, detailing the sources and methods of financing the budget, and an 'expenditure' section, which interprets the political priorities of the Union for the period covered.

The debate on the Financial Perspectives 2007-2013 occurred within the context of the enlargement of the Union to include twelve new Member States and of the relaunch of the Lisbon Strategy (which aims to increase growth potential and to improve the competitiveness of the European economy), and thus of the financing of these two challenges. The debate has been intense on various points, in particular:

The general level of expenditure. In December 2003, six major net contributor Member States (United Kingdom, France, the Netherlands, Germany, Austria and Sweden) have taken the position of a strict budget limitation of 1% of Gross National Income (GNI), a level far below appropriations for the previous period (2000-2006). Other Member States have defended a more ambitious budget.

The policies to put into practice at the Community level, notably with a view to implementing the Lisbon objectives. In this context, the Cohesion policy (at least, some of its provisions) and the Common Agriculture Policy (CAP) were brought into question by various Member States.

Methods of financing the budget. On one hand, the United Kingdom wished to preserve its 'rebate', obtained in 1984, which raised an obvious problem of fair distribution of enlargement costs (these costs automatically lead to an increase in the British rebate, if there is no correction). At the same time, other net contributors demanded a reduction in their financial contributions, in the name of fairness.

At the conclusion of these negotiations, the budgetary framework approved by Parliament amounts to 864.3 billion euro (2004 prices) for the period 2007-2013, i.e. 1.048% of the GNI of the Union. This represents a reduction of almost 16% compared to the initial proposal drawn up by the European Commission in July 2004.

Regarding financing, the agreement corrects the British rebate progressively but structurally (without a time limit), but allows for temporary reductions in costs (limited to 2013) in favour of the Netherlands, Sweden, Germany and Austria.

Cohesion Expenditure: Belgium's allocation broadly maintained

The study tackles, firstly, the 'expenditure' sheet, focusing on the two most important headings in budgetary terms, which were also the centre of debate: the headings 'Cohesion for growth and employment' and 'Preservation and management of natural resources'. These two headings have the peculiarity of being the object, entirely or in part, of a priori allocations among Member States (the other headings being allocated essentially on a competitive basis). The study describes the eligibility criteria and the system of budget allocation between Member States, and then evaluates the resulting national allocations.

Concerning Cohesion policy, the study shows that the repositioning of a significant part of funds towards the new Member States leads, for the period 2007-2013, to a reduction of 27% of the budget allocated to the 15 old Member States compared to the period 2000-2006. However, among the 15, Belgium is the least affected Member State, with a reduction of only 7%. Belgium will benefit, for the period 2007-2013, from a budget of 577 million euro (2004 prices) under the « statistical phasing out » (Province of Hainaut), 1 265 million euro for the Objective of Regional Competitiveness and Employment (the former Objectives 2 and 3), and from a budget of the order of 170 million euro for the Objective of Territorial cooperation (the former INTERREG Initiative).

The study also highlights the amendments introduced during the negotiations in order to, on one hand, reduce the budget for the Cohesion policy from the Commission's initial proposal (reduction of 8.5%, i.e. 28.5 billion euro) and, on the other hand, to partly compensate for the reductions recorded by the 15 compared to their appropriations over the previous period (2000-2006).

Regarding the policy of Preservation and management of natural resources, the final compromise provides for a reduction in the overall budget of 7.2% compared to the Commission's initial proposals, i.e. 28.9 billion euro less over the period 2007-2013. It was not possible to give a figure for the total allocation for Belgium in this budget. Nevertheless, concerning the 'direct payments' category of the CAP, the allocation for Belgium is estimated at 3 759 million euro for the period 2007-2013 (2004 prices, before modulation). Regarding Rural Development, Belgium's allocation is estimated at 370 million euro. Finally, Belgium will receive about 23 million euro from the European Fisheries Fund.

Financing the budget: Belgium's contribution slightly reduced

The study then looks at the 'resources' section, namely the adjustments to the method of financing the budget. The financial impacts of these modifications have been evaluated, in particular for Belgium, as well as their effect on the net balances of the major net contributor Member States. Moreover, these impacts were compared with those of other proposals that were not adopted, such as the mechanism for general correction of budget imbalances proposed by the European Commission in July 2004.

The study shows that the reduction in the British rebate set for the United Kingdom, combined with the reductions in contributions granted to other net contributors (the Netherlands, Sweden, Germany and Austria), significantly reduces the difference between these Member States in terms of net balances. If there is improved fairness in terms of net balances, it is nevertheless not the case in terms of gross contributions: the five Member States above contribute less to the financing of the budget, in proportion to their GNI, than many Member States that are, notwithstanding, less prosperous.

At full development (after 2010), the new financing provisions are more advantageous for all the Member States, except the United Kingdom. They reduce, for example, the financial contribution of Belgium by some 30 million euro per year (2004 prices). The major winner is

the Netherlands: the reduction in their contributions amounts to almost 1 billion euro per year (0.20% of their GNI) compared to the former financing provisions.

The British rebate, as well as the new rebates granted to the Netherlands, Sweden, Germany and Austria, will have to be financed by the other Member States: over the period 2007-2013, all these rebates will, on average, cost Belgium some 350 million euro per year. Nevertheless, keeping the previous provisions (with a rebate for only the United Kingdom, but much higher) would have represented a greater cost.

It should be noted that, even though the new financing provisions are more expensive for the United Kingdom (given the reduction in its rebate), the cost of this concession is largely offset, as far as the United Kingdom is concerned, by the reduction in the size of the European budget (and therefore its funding needs) which it was able – with the other net contributors – to impose on the rest of the Union.

"Het Europese begrotingscompromis van december 2005: Financiële impact voor België en de andere lidstaten - Le compromis budgétaire européen de décembre 2005: Impacts financiers pour la Belgique et les autres Etats membres".

F. Hennart (Ministère de la Région Wallonne - Direction de la Politique Economique), M. Saintrain (FPB), T. Vergeynst (Studiedienst van de Vlaamse Regering), Working Paper 3-06, May 2006.

Other Recent Publications

Medium Term Economic Outlook 2006 - 2011, May 2006
(available in Dutch and in French).

"Reforming Network Industries: Experiences in Europe and Belgium - Highlights of Conference 'The Lisbon strategy: A Motor for Market Reforms of the Network Industries'", March 2006

Jointly organised by the European Economic and Social Committee, the Belgian Central Economic Council and the Belgian Federal Planning Bureau

Economic Forecasts 2006, March 2006
(available in Dutch and in French).

Planning Paper 100, February 2006

"Les charges administratives en Belgique pour l'année 2005 - De administratieve lasten in België voor het jaar 2005"

L. Janssen, Ch. Kegels, F. Verschueren

The NIME Economic Outlook for the World Economy,
January 2006

"A Medium-Term Outlook for the World Economy 2006-2012 - Focus: The Macroeconomic Effects of a Shift from Direct to Indirect Taxes in the Euro Area"

Planning Paper 99, January 2006

"Overheidsparticipaties in de marktsector in België, 1997-2003 - Participations publiques dans le secteur marchand en Belgique, 1997-2003"

H. Spinnewyn

Working Paper 1-06, January 2006

"Les conséquences économiques du choc pétrolier sur l'économie belge"

H. Bogaert, F. Bossier, I. Bracke, L. Dobbelaere

Working Paper 19-05, December 2005

"Prijnsregulering in België met een toepassing op de sectoren van OTC-geneesmiddelen en rusthuizen"

Ch. Huveneers, Ch. Kegels, P. Mistiaen,

J. van der Linden, J. Verlinden

Working Paper 18-05, December 2005

"MoSES (Model of The Self-Employed pension Scheme) : une modélisation du régime de pensions des travailleurs indépendants"

B. Scholtus

Working Paper 17-05, December 2005

"Monetary Policy, Asset Prices and Economic Growth in the World Economy over the 1995-2004 Period - A counterfactual simulation with the NIME Model"

E. Meyermans, P. Van Brusselen

"Ontwikkeling begrijpen en sturen/Federaal Rapport inzake Duurzame Ontwikkeling 2000-2004 - Comprendre et gouverner le développement/Rapport fédéral sur le développement durable 2000-2004",
December 2005

Task Force Sustainable Development

Working Paper 16-05, September 2005

"Determinanten van internationale lokalisatie, met toepassing op de Agoriabranches - Déterminants de la localisation internationale, avec application aux secteurs Agoria"

B. Hertveldt, C. Kegels, B. Michel,

B. Van den Cruyce, J. Verlinden, F. Verschueren

Research in Progress

Macroeconomic and budgetary implications of the

"Solidarity Contract Between Generations"

The macroeconomic and budgetary implications of the policy measures included in the "Solidarity Contract between Generations", both in the medium as in the long term, are being explored. These measures notably consist of incentives to prolong working lives and to adjust social benefits to welfare.

contact: maltese@plan.be

Recent developments in poverty among the elderly

In the framework of the preparation of the annual report of the Ageing Study Committee, the FPB assesses the recent evolution of poverty risk among the elderly. Microdata from surveys are being used and projected until 2005.

contact: maltese@plan.be

Macroeconomic, budgetary and GHG emissions prospects

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

contact: hermes@plan.be

Consistent regional-national medium-term macroeconomic modelling

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

contact: hermes@plan.be

Transport and mobility

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

contact: dg@plan.be

EU-KLEMS

As a partner in a European consortium, the FPB works on the development of a database that would allow the evaluation of European performance in terms of prices, output and intermediate consumption. An additional aim is that the database would allow an analysis of the determinants of certain measures of productivity, in particular total factor productivity (TFP).

contact: ck@plan.be

Energy and emissions prospects

At the request of the ministers of the Economy and of the Environment, the FPB carries out energy forecasts until 2030 and emissions forecasts until 2050. Both exercises are aimed at keeping the public debate going and providing a firm basis for energy and environmental policy.

contact: dg@plan.be

Qualitative labour market statistics

As an extension to national accounts and input-output tables, the FPB is carrying out breakdowns of time series for employment (in number of persons and hours) and wages by industry according to a number of qualitative characteristics (e.g. age, gender and education level).

contact: bv@plan.be

Recent history of major economic policy measures

March 2006	<p>Starting in July 2006, the Flemish region will subsidize the hiring of elderly unemployed, aged 50 or older. The subsidy is temporary (4 quarters) and the number of beneficiaries will be limited by a strict budgetary ceiling (22 million euros in 2006).</p> <p>The ECB raised its main refinancing rate by a quarter of a point to 2.5%.</p>
January 2006	<p>In accordance with EU legislation, two steps in the opening of the market for network industries were taken: the extension of free entry in rail traffic to all international freight services; and the extension of the threshold for free entry in postal services to all items above 50 grammes or charged at more than 2.5 times the basic tariff.</p>
December 2005	<p>The ECB raised its main refinancing rate by a quarter of a point to 2.25%</p>
November 2005	<p>The Danish Post and the British investment group CVC agreed with the federal government to acquire a 50%-1 stake in the postal incumbent De Post/La Poste. This will be done by investing fresh capital rather than taking over government shares.</p>
October 2005	<p>At the October conclave, the federal government announced its objectives for public finances for 2006. These are based on assumptions of 2.2% economic growth (1.4% in 2005) and 2.9% inflation (3.0% in 2005).</p> <p>The finances of general government should remain balanced. The federal government and state governments (communities and regions) should each record a 0.1% of GDP surplus. These surpluses should compensate for the forecasted 0.3% GDP deficit in local government finances, related to a temporary surge in infrastructure investment ahead of the next municipal elections. A balance in the social security budget will be achieved through increased transfers from the federal government.</p> <p>The total state debt-to-GDP ratio should decrease from 94.3 % at the end of 2005, to 90.7 % at the end of 2005.</p> <p>The government intends to keep the growth of expenses strictly under control, both in the federal departments and in social security. However, the budget preserves room for manoeuvre for new initiatives in the areas of mobility, justice and security, in health care expenditure, and for selected increases in social allowances.</p> <p>Additional cuts in social security contributions have been decided, targeted on those categories of workers with the lowest rates of activity: young low-wage earners and workers aged 50 or above. These wage-cost reductions are part of the "Solidarity Contract between Generations" proposed by the government, together with the 2006 budget, which also contains various regulatory proposals to discourage early retirement from the labour market. Furthermore, wage subsidies for night-time labour and labour organised in shifts have been increased, as have wage subsidies for researchers.</p> <p>Taxation in the 2006 budget is marked by the introduction of new levies for households on the previously-exempt income from bond funds and insurance-related saving vehicles. On the other hand, the recently-decided corporate tax reform (the "notional interests" deduction) will encourage the financing of companies through risk capital rather than debt. This reform will reduce the corporate tax burden and thus make the Belgium tax system more attractive for foreign investors, compensating, through a general solution, for the planned dismantling of the special regime for coordination centers.</p> <p>As was the case in previous years, the 2006 budget partly relies on non-structural corrective fiscal measures, notably the creation of a public/private investment trusts for the management of public real estate properties, new sales of real estate and a second wave of securitisation of future cash flows from tax arrears. A so-called "tax regularisation operation" is also envisaged, together with a reinforcement of the anti-fraud machinery.</p>
September 2005	<p>The federal government decided to contribute to the cost of fuel oil for heating for private consumers. It will pay the difference between the consumer price and 0.5 euros per litre, with a ceiling of 17.35% of the total price.</p> <p>Furthermore, the so-called 'fuel oil fund' will help people in need to pay their bill.</p>
September 2005	<p>The federal government decided to contribute to the cost of fuel oil for heating for private consumers. It will pay the difference between the consumer price and 0.5 euros per litre, with a ceiling of 17.35% of the total price.</p> <p>Furthermore, the so-called 'fuel oil fund' will help people in need to pay their bill.</p>
June 2005	<p>The implementation of the EU package of directives on electronic communication was finalised by the publication of a new telecommunications act. The most significant element of this act is that telecom providers no longer need regulatory authorisation to enter the market. A notification to the regulator is sufficient.</p> <p>As of tax year 2007, financing investments through equities can lead to a reduction in the tax base of corporate income tax, to the amount of the so-called "notional interests". This measure aims at reducing the gap in the tax incentives between different financing vehicles.</p>
May 2005	<p>In accordance with EU legislation, the Walloon government decides to open up the remaining parts of the regional electricity and gas markets in 2007.</p>
April 2005	<p>The federal government confirms the objective of keeping the budget in balance in 2005. To this end, various measures are taken and a very strict system for monitoring expenditure is put in place, particularly for the health care sector.</p>

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

Abbreviations for names of institutions used in this publication

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

Other Abbreviations

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