

# SHORT TERM UPDATE

## 3-02

Quarterly Newsletter  
September 2002

Headlines Belgian Economy

Special Topic in this issue  
Minimum allowances and  
the measurement of poverty

# 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

*The world economy recovers slowly after a net decline in 2001. Both 'soft' (e.g. confidence indicators) and 'hard' indicators (e.g. industrial production and world trade) reached a turning point by the end of last year. In a first wave, the magnitude of the upswing, mainly in the US, was a surprise. More recently, however, several confidence indicators started to decline again.*

*In this context, Belgian real GDP should grow by only 0.7 % in 2002, somewhat below last year's figure of 1 %. Two consecutive years of weak economic growth should lead to a fall in domestic employment (-0.2 % in 2002), the first decline since 1994.*

*The global recovery scenario for 2003 remains in place, despite the current hitch in the international business climate. In Belgium, the cyclical recovery is already clearly visible in exports and most recent indicators are pointing to a positive reversal in private consumption in the course of this year. The consequences of last year's downturn for investor confidence and employment however have not yet been overcome, but this should change as the correction of overinvestment seems to be gradually coming to an end and entrepreneurs should begin to increase their staff by the end of this year, reacting with a certain time lag to the recovery of economic activity. As a result, Belgian real GDP should grow by 2.6 % next year. The underlying scenario of a sustained recovery in the world economy during the coming quarters is however surrounded by a number of risks, as is reflected in the current volatility of stock markets.*

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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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## Belgian minimum allowances and the relative method of measuring poverty: a comparison

This Special Topic explains the so-called legal and relative methods of measuring poverty in Belgium and compares the poverty thresholds based on these methods. The methodological and conceptual problems associated with this comparison are then discussed. Finally, a brief overview is given of some important developments at the Belgian, European and UN levels concerning the fight against poverty and social exclusion.

One method often used to measure poverty is to focus on a person's income. Below a certain income threshold it becomes difficult or even impossible to keep up with prevailing living standards. A person with an income below this threshold is thus considered poor. In Belgium, for instance, two methods of determining this income threshold are frequently used.

### Legal method

The so-called legal method refers to the minimum income guaranteed by the Belgian minimum allowance schemes: the Subsistence Income (SI) and the Minimum Income for the Elderly (MIE).<sup>1</sup> The term 'legal' is used because the amount, the specific eligibility criteria and the procedures used in these schemes are based on legal provisions. These means-tested schemes are price-indexed and the amount varies according to the household type of the beneficiary (referred to as the category). They can be adjusted upwards in accordance with the evolution of the standard of living. In 2001, 91,715 MIEs and 70,364 SIs were granted respectively. Table 1 indicates the percentage of SI allowances according to their category.<sup>2</sup>

**Table 1 - Breakdown of total number of SI allowances granted in 2001 by category**

Spouses living together	7.2 %
Single person with children living at home	52.1 %
Single person	21.5 %
Person living with someone else	19.3 %

### Relative method

The relative method of measuring poverty involves generating a threshold from the income distribution pattern. It is relative because the income distribution is specific to each country and time-period, so the threshold

follows the evolution of the living standard. The relative poverty threshold (RPT) used by Eurostat for the European Union is equal to 60% of the median equivalised income in each country.<sup>3</sup> It is calculated using the self-reported income of the European Community Household Panel (ECHP). According to this method 15.5% of the Belgian population was living with a household income below this threshold in 1997. This percentage varies according to the person's most frequent activity status, as table 2 indicates.<sup>4</sup> If an RPT of 50 and 70% of the median equivalised income is used, the percentages of the population living on incomes below these thresholds are 10.1 and 24.2% respectively.<sup>5</sup>

**Table 2 - Percentage of individuals living in households where the household income is below 60% of the equivalised median income in 1997 by most frequent activity status.**

Employed (not self-employed)	4 %
Self-employed	15 %
Unemployed	29 %
Retired	18 %
Inactive- other	24 %

### Comparison of the legal and relative poverty thresholds

The figures shown in bold in table 3 indicate the SI and the MIE in 1997 for certain household types, expressed as a percentage of RPT for that same year, i.e. 60% of the median equivalised income.<sup>6</sup> The SI for a single adult is 74% of the RPT. For a single adult with one child it is 90%. This increase is explained by the fact that the increase in the income of a single adult with one child as compared with the income of a single adult is higher than the proportional increase in the RPT for these household types.<sup>7</sup> The SI for a single adult with two children is slightly lower: 88% of the RPT. Here the relative increase in income from having one extra child is slightly lower than the relative increase in the RPT. The ratio for a household with a minimum of two adults, i.e.

3. The term 'equivalised' means that the RPT accounts for differences in household size and composition.

4. European Council and Commission, Joint Inclusion Report 2001. Annex, p. 9. The figures cover the population aged 16 or more.

5. Ministry of Social Affairs, Public Health and Environment, National Action Plan on Social Inclusion complete version, June 2001, p. 55.

6. The thresholds are calculated using the figures, based on the ECHP, presented in the Belgian National Action Plan on Social Inclusion. The equivalence scale used is:  $\{1 + [0.5 * (\text{number of adults} - 1)] + [0.3 * \text{number of children}]\}$ . The amount of the allowances is based on *Praktijkboek Sociale Zekerheid* (1997) and Vranken, et al., (2001) *Armoede en sociale uitsluiting, Jaarboek 2001*. Where relevant the guaranteed child allowance for a child between 6 and 12 years old is added to the SI. Pensioners are assumed to have no dependent children and not to be disabled.

7. Note that the SI of 1997 for a single person with children living at home is higher than for a single person and that the former also receives the guaranteed child allowance.

1. The Act on the Right to Social Integration of 26/05/02 uses for SI the term 'Leefloon' in Dutch and 'Revenu d'intégration' in French. The Act on the Income guarantee for Elderly of 22/03/01 uses for the MIE the term 'Inkomensgarantie voor ouderen' in Dutch and 'Garantie de revenus aux personnes âgées' in French.

2. Vranken, et.al, *Armoede en sociale uitsluiting, Jaarboek 2001*, p 420-421, 430.

approximately 65%, is systematically lower than the ratio for households with only one adult (with or without children). This can be accounted for by the fact that the relative increase in income due to having one adult extra in the household is lower than the relative increase in the RPT. It also explains the difference between the MIE ratio for one adult (74%) and for a household with two adults (66%). The differences between household types that have been mentioned are systematically reproduced for alternative thresholds, i.e. 50 and 70% of the median equivalised income.

**Table 3 - The amount of Subsistence Income and Minimum Income for the Elderly in 1997 for certain household types expressed as a percentage of 50, 60 and 70% of the median equivalised income of 1997.**

	relative poverty threshold		
	50%	60%	70%
<b>Subsistence Income</b>			
One adult with			
- No children	89%	<b>74%</b>	64%
- One child	108%	<b>90%</b>	77%
- Two children	106%	<b>88%</b>	76%
Household with two adults with			
- No children	79%	<b>66%</b>	57%
- One child	78%	<b>65%</b>	56%
- Two children	81%	<b>67%</b>	58%
<b>Minimum Income for the Elderly</b>			
One adult	89%	<b>74%</b>	64%
Household with two adults	79%	<b>66%</b>	57%

Can these figures be used to decide whether these allowances are adequate? This should be the case, insofar as the RPT is calculated using the income as reported in a representative survey of a country's population. On the other hand it must be acknowledged that the RPT is not entirely free of normative factors. Important choices have to be made, such as the preferred percentage used for the median equivalised income (60% or 50%) and how differences in household composition are accounted for (the type of equivalence scale used). Methodological arguments can be useful guides, but ultimately the choice will be normative or based on a convention. Acceptance of the RPT and the figures produced by it will therefore inevitably be linked to approval of the quality of the sample data and the methodological choices made.

What is more, two important issues need to be highlighted. Firstly, the methods described above do not show whether these allowances actually meet the needs that are essential in order to function in a given country or society and thus to prevent situations of poverty. One way of addressing this issue could be to compare the minimum allowance for specific household types with the value of a basket of goods and services that are essential to allow these household types to function in the Belgian context. Secondly, a multidimensional view of poverty - such as presented in the context of sustainable

development - argues that it is insufficient to focus on the lack of income because poverty is not only determined by this and it is an incomplete indicator of deprivation as related to access to public services and social welfare provision. Controlling whether the beneficiaries of these schemes are confronted with situations of exclusion in relation to these services and types of provision could provide complementary information.

#### Raising concerns about poverty and social exclusion

Some recent developments can be seen at the Belgian, European and UN levels concerning the policy on combating poverty and social exclusion.

In 2002 Belgium adopted the Act on the Right to Social Integration and raised the SI by 4% to adjust it to the evolution of the living standard.<sup>1</sup> This Act guarantees persons with insufficient income, under certain conditions, the right to social integration by offering them the SI or, especially for younger persons, by offering them a job suited to the person's possibilities, the latter being one of the new features of this act. It also stresses the importance of individual route counselling as a way of integrating the beneficiary in society.

In June 2001 the EU Member States submitted National Action Plans on Social inclusion in response to the common objectives on poverty and social exclusion agreed by the EU at Nice in December 2000. In these biannual plans each Member State, such as Belgium, presents its priorities and efforts in the area of combating poverty and social exclusion. At Laeken in December 2001 the EU adopted a multidimensional portfolio of 18 indicators on poverty and social exclusion in order to monitor these efforts.

At the UN level, the Millennium Declaration has set several objectives for the eradication of poverty worldwide, such as halving the proportion of people living on less than 1 dollar a day - yet another method of measuring poverty - between 1990 and 2015. The World Summit on Sustainable Development in September 2002 discussed the measures needed to achieve these objectives.

The words of Molly Orshansky, the developer of the US poverty threshold, can be inspiring when it comes to bridging the conceptual difficulties in relation to poverty (measurement) that have been mentioned here and reaching these objectives: '*Unlike some other calculations, those relating to poverty have no intrinsic value of their own. They exist only in order to help them disappear from the scene...*'<sup>2</sup>

1. Act of 26/05/02 and Royal Decree of 24/12/01.

2. Cited by Gordon Fisher, *The development and history of the poverty thresholds* in Social Security Bulletin, Volume 55, 1992, 4.

## Economic forecasts 2002-2003

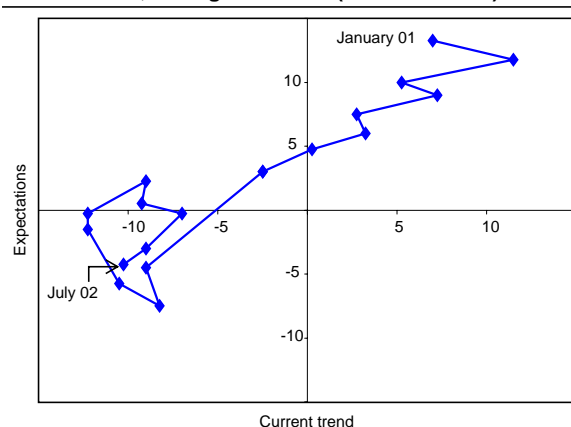
The FPB has prepared economic forecasts for the Institute of National Accounts (INA). These forecasts serve as the basis for the federal budget in 2003.

#### The world economy recovers slowly after a net decline

After a sharp decrease, confidence indicators stabilised at the end of last year - when industrial production growth in the US, Europe and Japan was at its lowest level - and recovered during the first few months of 2002. World trade has followed a similar pattern. After three consecutive quarters of decline and a stabilisation in the last quarter of 2001, world trade registered positive growth from the first quarter of 2002 onwards.

The economic recovery in the three main economies spread to the rest of the world. In a first wave, the magnitude of the upswing, mainly in the US, was a surprise. More recently, however, several confidence indicators started to decline again. During the second quarter of 2002, GDP growth in the US, Europe and Japan remained moderate. Financial markets were seriously hit by doubtful bookkeeping practices in the US, as well as by muted and disappointing US corporate profits.

**Graph 1 - Assessment of the business situation in the euro area, average balances (last 19 months)**



The average business assessment in the four main sectors of the economy in the euro area points to a turnaround in expectations since April 2002, while an upswing had been recorded in the first few months of this year (see graph 1).

#### Global recovery scenario for 2003 remains in place

The downward adjustments of growth forecasts for this year and next year, published by a number of research institutes in the last few weeks, are limited. Both the European and the American economies are now at a better starting-point than a year and a half ago. During the course of 2001 excessive inventories were reduced and

the correction of overinvestment seems to be gradually coming to an end. The consequences of the current stock exchange slump for private consumption and business investment ought to be of short duration if a subsequent fall in share prices fails to occur. While in the euro zone it was particularly exports that led the economic recovery in the first few months, a confirmation of the recovery during the coming quarters will mainly depend on the evolution of corporate investment and employment.

Uncertainty about the strength of the recovery led main central banks to keep their official interest rates at the low level reached at the end of last year. As inflation is decreasing and economic activity is losing momentum, no move is expected in the coming months. An increase in interest rates is only expected during the course of 2003 and will certainly not be strong enough to dampen the expected revival of growth.

#### Belgian GDP in 2002: Second consecutive year with weak growth

A growth figure of 0.7 % in 2002 would mean an increase in real GDP this year somewhat below last year's figure. The increase in households' real disposable income will still be fairly high (2.1 %), but this will not lead to equally strong growth in private consumption. The fall in employment and the decline in share prices (the latter have been continuing for more than a year and a half now), will cause a considerable rise in the household savings rate from 14.4 % in 2001 to 15.8 %<sup>1</sup> this year.

Corporate investment growth will be negative this year (-2.8 %), which is largely a correction to the overinvestment seen over the past few years. Despite a marked revival of exports in the course of 2002, their average annual growth will remain slightly negative (-0.4 %). The phenomenon of stock reduction that took place in 2001 will disappear this year, resulting in a positive contribution of 0.6 % to economic growth.

#### GDP growth resumes in 2003

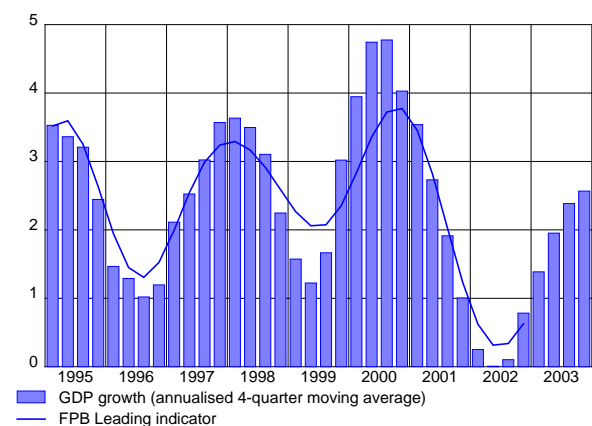
The FPB leading indicator for GDP shows a turning point in the second half of 2002 (cf. graph 2). The cyclical recovery is already clearly visible in Belgian exports. It should be followed by a positive reversal in private consumption. Private consumption will not be curbed by an increase in the savings rate next year. In contrast to this

1. It should be added that part (almost one fourth part) of this rise is due to the change in classification (from private to public sector) of the broadcasting and television services from January 2002 onwards, which affects the breakdown of total consumption into private and government consumption in 2002.

year, households' disposable income should be boosted by an increase in employment. Together with the continuing reform of income taxes, this should make households' purchasing power rise by 2.3 % next year.

The present uncertainty concerning the strength of the economic recovery, the malaise in the stock exchange and the reduced profitability of companies are hampering an improvement in business investment in 2002. This should result in a moderate growth rate of 2.9 % for business investment in 2003.

**Graph 2 - Quarterly evolution of GDP**

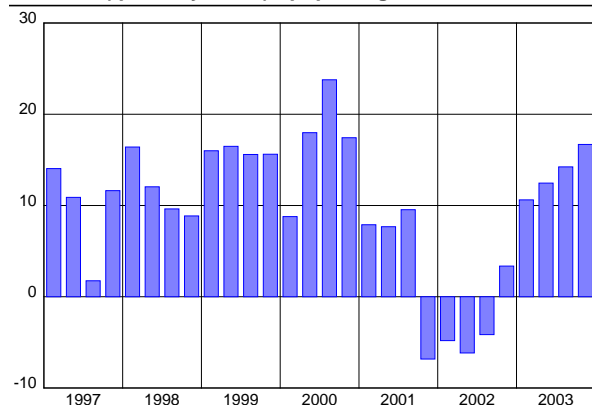


Total domestic demand should grow by 2.3 % next year, following a meagre 0.7 % this year. Exports should rise by 5.7 % in 2003, resulting in a positive contribution of 0.4 % from net exports. Despite GDP growth of 2.6 % next year, output should still remain 1 % below its trend.

### Gradual upturn in employment

The sustained growth in employment was abruptly arrested during the final quarter of 2001, partly due to the events of 11 September and the bankruptcy of Sabena.

**Graph 3 - Evolution of domestic employment (quarterly basis), qoq change in 000**



The early phase of a recovery typically coincides with strong productivity growth, so that employment growth should not turn positive until the fourth quarter of 2002. Employment growth should gradually become

stronger next year. This quarterly profile implies that domestic employment will shrink by 0.2 % (-9,700 persons) in 2002 and grow by 0.8 % (30,300 persons) in 2003. The employment rate (the ratio between total employment and total population of working age, using annual averages) will therefore decline from 59.6 % in 2001 to 59.1 % in 2002, but rise back to 59.5 % by 2003.

The labour force (as defined by the Federal Ministry of Employment and Labour, FMTA/MFET) should also continue to increase (by a rounded number of 37,000 persons). The increasing participation of women in the labour market is being amplified by the 1-year rise in the pensions entitlement age for women in 2003. Moreover, measures to promote participation rates among employees aged 50+ are leading to a reduction in the number of early retirements. Under these circumstances unemployment (FMTA/MFET definition) should still climb slightly in 2003 (by 5,800 persons), while the unemployment rate should remain stable at 11.0 %.

### Headline inflation stays below 2 % in 2002 and 2003

From the second quarter of 2002 onwards, underlying inflation decreased heavily. This decline should continue until the end of this year. As the upswing gains strength in 2003, underlying inflation should increase somewhat. Consequently the annual growth rate of underlying inflation should be 2.3 % in 2002 and 2.0 % next year. Headline inflation will be lower than underlying inflation this year and next year due to two factors: the lower energy prices resulting from, among other things, the liberalisation of the electricity market, and the abolition of the radio and television license fee in Brussels and the Flemish Region. All in all, the national CPI should rise by 1.5 % in 2002 and 1.4 % in 2003.

### Risks to the worldwide recovery scenario

First of all there are uncertainties surrounding the volatility and development of the stock markets. If US corporate profits remain below expectations, the crisis of confidence can only worsen, which would endanger a further improvement in the US business cycle. A less vigorous performance from the US economy has serious implications for world demand, while the possibly accompanying depreciation of the dollar would hurt the competitiveness of European exporting firms in the short run.

The international economic environment could also be darkened by a further lasting rise in oil prices in the context of continuing military tensions in the Middle East. More expensive oil will erode households' purchasing power and could, at this phase in the economic cycle, place a heavy burden on the expected recovery of European domestic demand.

## Economic forecasts for Belgium by the Federal Planning Bureau

Changes in volume (unless otherwise specified) (finalisation date of forecasts: September 4, 2002)

	2000	2001	2002	2003
Private consumption	3.8	1.6	0.5	2.3
Public consumption	2.5	1.8	1.5	1.9
Gross fixed capital formation	2.6	0.0	-2.2	2.8
Final national demand	3.8	0.8	0.7	2.3
Exports of goods and services	9.7	-1.0	-0.4	5.7
Imports of goods and services	9.7	-1.4	-0.4	5.6
Net-exports (contribution to growth)	0.5	0.2	0.0	0.4
Gross Domestic Product	4.0	1.0	0.7	2.6
p.m. Gross Domestic Product - in current prices (bn euro)	248.34	256.59	263.65	274.84
National consumer price index	2.5	2.5	1.5	1.4
Consumer prices: health index	1.9	2.7	1.7	1.3
Real disposable income households	2.3	1.1	2.1	2.3
Household savings ratio (as % of disposable income)	14.8	14.4	15.8	15.8
Domestic employment (change in '000, yearly average)	62.1	46.2	-9.7	30.3
Unemployment (Eurostat standardised rate, yearly average) [1]	6.9	6.6	6.9	6.9
Current account balance (BoP definition, as % of GDP) [2]	4.5	4.6	4.7	4.8
Short term interbank interest rate (3 m.)	4.4	4.2	3.4	3.7
Long term interest rate (10 y.)	5.6	5.1	5.2	5.4

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

[2] The current account figure for 2001 has been revised to 4.9% after the finalisation of the forecasts. This should bring the current account surplus to 5.0% in 2002 and 2003.

## Economic forecasts for Belgium by different institutions

	GDP-growth		Inflation		Government balance		Date of update
	2002	2003	2002	2003	2002	2003	
Federal Planning Bureau	0.7	2.6	1.5	1.4	.	.	9/02
INR/ICN	0.7	2.6	1.5	1.4	.	.	9/02
National Bank of Belgium	1.1	.	1.7	.	-0.1	.	6/02
European Commission	1.1	2.8	1.7	1.7	-0.2	0.2	4/02
OECD	1.1	2.7	1.8	2.0	0.0	0.0	4/02
IMF	0.9	3.2	1.1	1.2	-0.3	0.1	4/02
BBL	0.6	2.3	1.6	1.5	-0.2	-0.1	9/02
Fortis Bank	0.5	1.8	1.6	1.3	-0.4	-0.1	9/02
Dexia	0.9	2.2	1.8	1.8	.	.	9/02
KBC Bank	0.6	2.5	1.4	0.9	0.0	0.1	9/02
Morgan Stanley	0.5	3.0	1.8	1.7	0.0	0.3	8/02
Petercam	0.5	1.75	1.7	1.1	0.0	0.0	9/02
IRES	1.0	3.2	1.7	1.9	-0.2	0.0	6/02
DULBEA	0.8	2.0	1.75	1.5	0.0	-0.2	9/02
Consensus Belgian Prime News	1.3	2.8	1.7	1.5	-0.2	0.2	6/02
Consensus The Economist	1.1	2.7	1.7	1.5	.	.	9/02
Consensus Wirtschaftsinstitute	1.2	2.9	2.0	1.8	0.0	0.3	4/02
<b>Averages</b>							
All institutions	0.9	2.6	1.7	1.5	-0.1	0.1	
International public institutions	1.0	2.9	1.5	1.6	-0.2	0.1	
Credit institutions	0.6	2.3	1.7	1.4	-0.1	0.0	

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



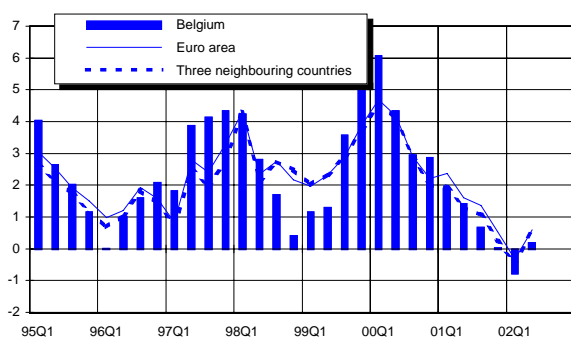
General economic activity

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

			YoY growth rates, in %					QoQ growth rate, in %				
	00	01	01Q2	01Q3	01Q4	02Q1	02Q2	01Q2	01Q3	01Q4	02Q1	02Q2
Germany	2.9	0.6	0.6	0.4	-0.1	-1.2	0.5	0.0	-0.2	-0.3	0.3	0.3
France	4.0	1.8	2.0	2.0	0.5	0.2	0.9	-0.1	0.5	-0.5	0.5	0.5
Netherlands	3.5	1.1	1.6	1.0	0.4	0.2	0.1	0.4	0.0	-0.1	0.1	0.1
Belgium	4.0	1.0	1.4	0.7	0.0	-0.8	0.2	-0.4	0.1	-0.4	0.4	0.2
Euro area	3.5	1.5	1.6	1.4	0.5	-0.3	0.6	0.0	0.2	-0.3	0.4	0.3
United States	3.8	0.3	-0.1	-0.4	0.1	1.4	2.1	-0.4	-0.1	0.7	1.2	0.3
Japan	2.4	-0.2	0.6	-1.3	-3.0	-3.8	-0.6	-1.2	-0.7	-0.7	0.0	0.5

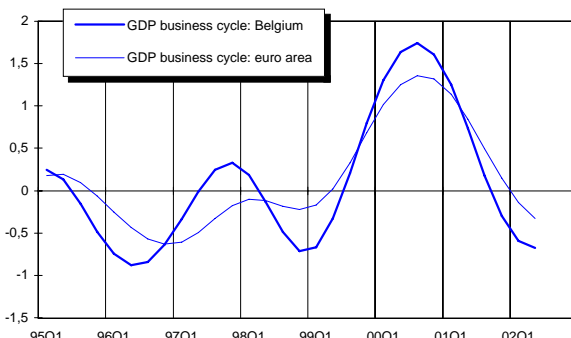
Source: INR/ICN, National sources, Eurostat

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



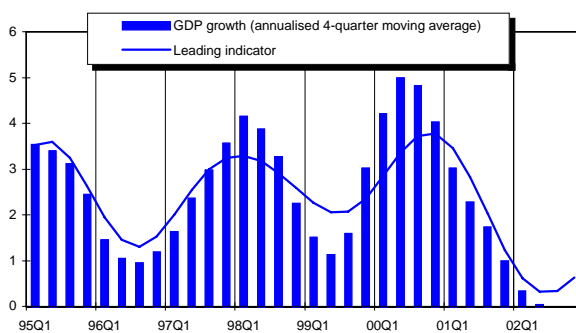
Source: INR/ICN, National sources, Eurostat

**Graph 2 - GDP business cycle**



Source: INR/ICN, Eurostat, FPB

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



Source: INR/ICN, FPB

The first quarter of 2002 brought several positive surprises in relation to the recovery of the world economy. The upswing in US GDP (1.2 % qoq) was far more pronounced than had previously been anticipated and the euro area registered slow, but positive (0.4 % qoq), economic growth, mainly driven by exports. Most leading and confidence indicators were on a rising trend so that a turning point in the investment cycle was expected in a near future.

During the summer months, however, economic activity already appears to have lost momentum and confidence has started to decline again. On the one hand, quarterly GDP growth during the second quarter of 2002 appeared to have been very moderate in the three main industrial economies (between 0.3 % and 0.5 % qoq). On the other hand the financial markets were seriously hit by doubtful bookkeeping practices in the US, as well as by muted and disappointing US corporate profits, resulting in rising uncertainties about the strength of the American economy and its capacity to raise profits and create new jobs. In the euro area, the surge in exports fell off somewhat, while internal demand remained sluggish and both business and consumer confidence were affected by the fall in the financial markets. The strong growth acceleration which was anticipated for the second half of 2002 now appears to have been postponed until the beginning of next year when the investment and employment cycles should reach their turnaround.

The graph of the GDP cycle shows the current high level of synchronisation between Belgium and the euro area, as both have registered a steep downward movement between the third quarter of 2000 and the last quarter of 2001. The quarterly profile of Belgian GDP over the past few quarters is still in line with the euro area average in terms of both magnitude and timing. Contrary to the US, recession, defined as two consecutive quarters of negative qoq GDP growth, has been avoided in both Belgium and the euro area. Among its main trading partners, Belgium is performing better than Germany and the Netherlands, but not as well as France.

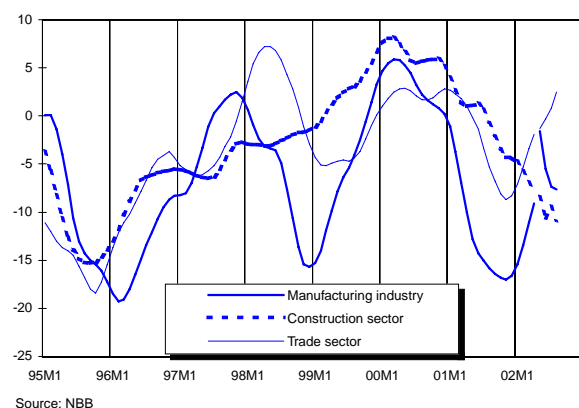
**Table 2 - Monthly business surveys [1]**

	00	01	01Q3	01Q4	02Q1	02Q2	02M3	02M4	02M5	02M6	02M7	02M8
Synthetic indicator	4.2	-9.4	-11.3	-15.6	-11.3	-5.2	-8.8	-7.4	-2.6	-5.5	-6.5	-6.6
Manufacturing industry	4.1	-12.8	-15.5	-19.0	-13.6	-5.1	-9.9	-8.3	-1.6	-5.5	-7.4	-7.6
Construction sector	6.6	-0.6	-0.3	-4.4	-5.5	-9.5	-7.7	-9.4	-8.4	-10.6	-9.4	-10.9
Trade sector	2.4	-2.5	-2.8	-10.6	-6.1	-1.0	-5.0	-1.3	-1.3	-0.3	0.8	2.5

[1] Qualitative data

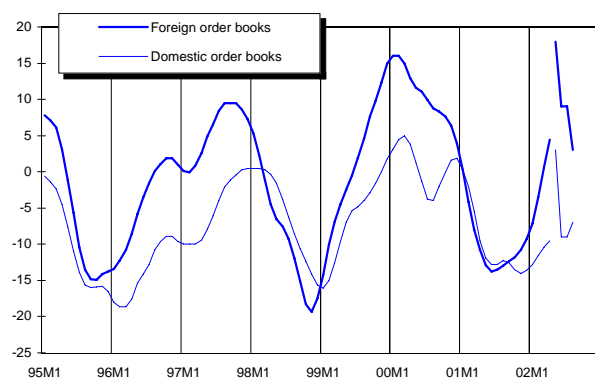
Source: NBB, FPB

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



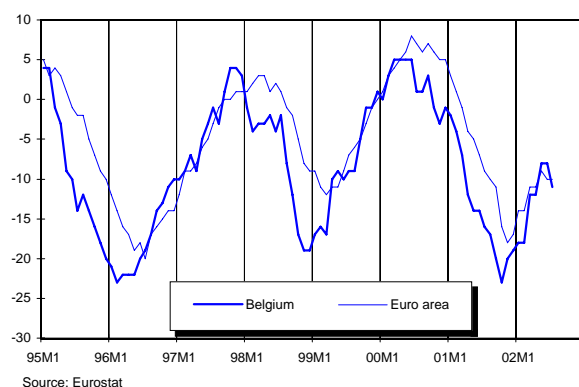
Source: NBB

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



Source: NBB

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



Source: Eurostat

The quarterly pattern of moving average growth rates in Belgian GDP and its leading indicator, shows that, after being low in the first half of the current year, GDP growth should accelerate somewhat in the second half. Due to the low starting point, however, the annual GDP growth rate should not exceed 0.7 % this year.

The synthetic indicator of the National Bank of Belgium has been on an upward trend during the first five months of 2002, before falling in June and stabilizing at this lower level in the summer months. A similar pattern has been recorded in most survey data across the euro area and across sectors. This reflects the sluggishness of the recovery in the euro area at present, as well as more cautious sentiments in relation to the strength of the recovery in the second half of the current year. Indeed, when looking at European surveys it appears that a large part of the deterioration is coming from the questions that ask after expectations rather than current trend.

In Belgium, this downward trend in the survey almost exclusively reflects the development in manufacturing industry. Indeed, after five consecutive months of recovery, a new fall appeared in manufacturing industry, while the improvement registered since February in the trade sector is continuing. The business cycle in the construction sector follows a different pattern to the two other sectors, since its decline in 2001 has been less pronounced but also no recovery has been registered in the first half of the current year.

Most of the deterioration in the business situation in manufacturing industry is coming from lower demand forecasts resulting from the fall in both foreign and domestic order books. Although both series registered a relatively similar pattern in recent months, the magnitude of the upswing was far more pronounced in the case of foreign orders, as most of the economic revival came from stronger exports. Subsequently the recent downturn has also been more pronounced.

## Private consumption

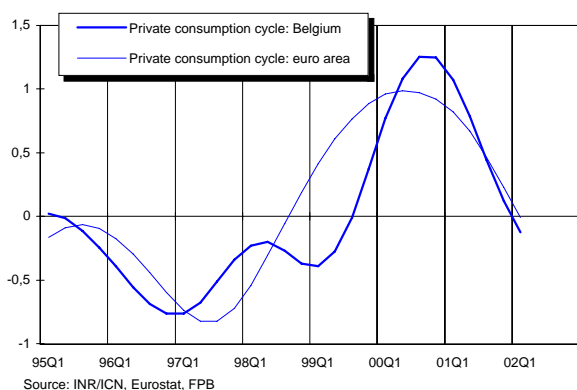
**Table 3 - Private consumption indicators**

	00	01	01Q3	01Q4	02Q1	02Q2	02M3	02M4	02M5	02M6	02M7	02M8
Turnover (VAT) - retail trade [1]	8.9	4.5	5.3	-0.7	-4.6	5.0	6.0	5.5	8.1	1.6	.	.
New car registrations [1]	5.2	-5.1	5.1	4.8	5.4	-3.6	5.8	15.0	-11.0	-14.8	-13.1	-20.8
Consumer confidence indicator [2]	13.5	0.6	1.0	-13.3	-3.0	-1.3	0.0	-2.0	-1.0	-1.0	-2.0	.

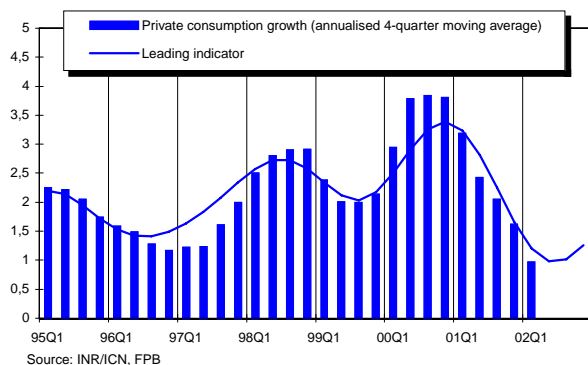
[1] Change (%) compared to same period previous year; [2] Qualitative data

Source: NIS/INS, Eurostat, Febiac, FPB

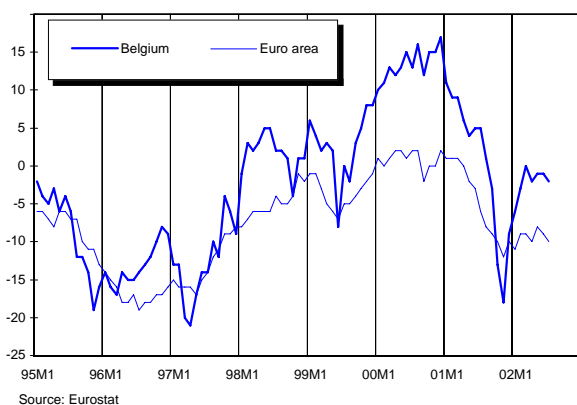
**Graph 7 - Private consumption cycle**



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



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



Following the deterioration in the global business cycle, the Belgian private consumption cycle began to decline from the first quarter of 2001. Graph 7 shows that the consumption cycle reached its turning point somewhat later in Belgium than in the euro zone. Moreover, the decline in Belgium in the course of 2001 was more pronounced than in the euro zone, which can also be seen in the evolution of consumer confidence (graph 9).

During the first two quarters of 2001, the weakening of private consumption growth was mainly due to the erosion of households' purchasing power caused by stubborn core inflation. Moreover, the household savings rate began to rise from the third quarter of 2001 onwards, reflecting rising consumer caution due to the decline in stock markets (already from the last few months of 2000) and the deterioration in the labour market situation.

The most recent short-term private consumption indicators give a somewhat mixed picture. The turnover in retail trade shows a very high growth rate in the second quarter of this year, after a negative figure in the first quarter. Car sales, on the other hand, followed an opposite path (with a positive figure in 2002Q1 and negative in 2002Q2), although the "seasonal" boost to new car registrations after the bi-annual motor show held in Brussels in January must be taken into account. After a sharp rise during the first three months of this year, the consumer confidence indicator has not significantly improved since and seemed somewhat undecided during the last few months.

The global picture for 2002 corresponds to what is observed in the rest of the euro zone: the recovery that began in the first quarter of 2002 was mainly due to foreign demand picking up, while domestic demand, the most important ingredient of which is private consumption, remained sluggish. The leading indicator for household consumption growth indicates a turning point in the third quarter of this year, after which growth rates should increase again.

## Business investment

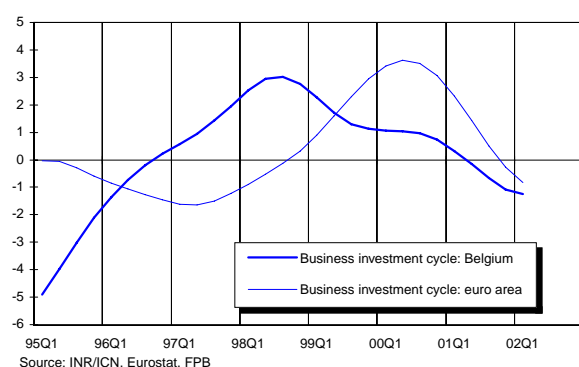
**Table 4 - Business investment indicators**

	00	01	02	01Q3	01Q4	02Q1	02Q2	02M2	02M3	02M4	02M5	02M6
Investment (VAT) [1]												
Industrial companies	3.3	-0.4	.	2.3	-4.2	-18.6	-8.8	-21.6	-13.3	-12.7	-12.8	-2.1
Non-industrial companies	8.5	5.1	.	3.4	6.8	-8.4	-6.4	-9.0	-7.2	-6.9	-5.2	-7.1
Total companies	6.6	3.1	.	3.0	2.8	-12.4	-7.5	-14.1	-9.4	-9.2	-8.1	-5.4
Investment survey [1]	2.8	-1.0	-3.8									
Capacity utilisation rate (s.a.) (%)	84.5	80.7	.	80.1	79.1	79.8	80.4					

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

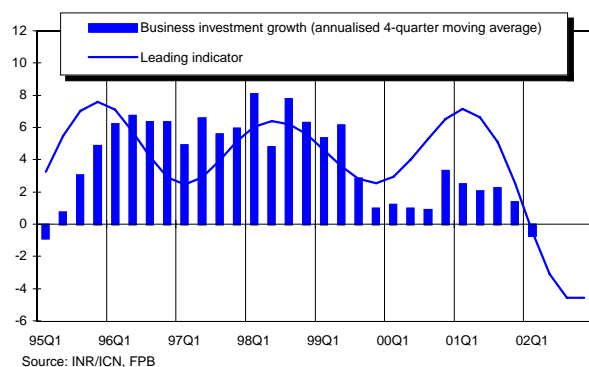
Source: NIS/INS, NBB, FPB

**Graph 10 - Business investment cycle**



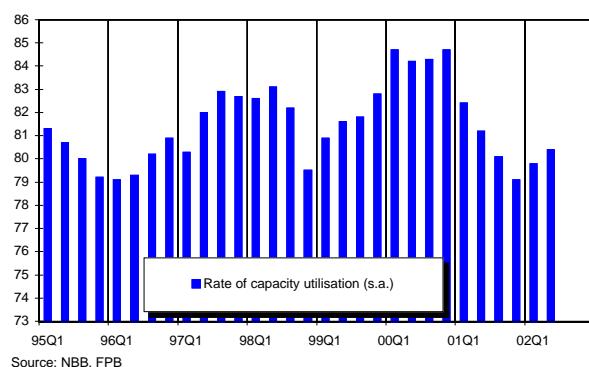
It seems that business investment is being seriously hit during the current economic downturn. Both the Belgian and the euro area business investment cycles are still on a downward path that does not seem to be coming to an end yet. As a result, both series are now more than 1 % below their trend level. After the negative qoq growth rates of the first quarter of 2002, the first indications for the second quarter are not very optimistic. For the euro area as a whole, for example, investment fell for the sixth consecutive quarter.

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



The worsening of the corporate investment cycle is also clear from the quarterly profile of moving average growth rates, which were already low in 2000 and 2001 and even became negative in the first quarter of this year. A look at the latest VAT statistics also shows that both industrial and non-industrial companies invested much less than a year ago.

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

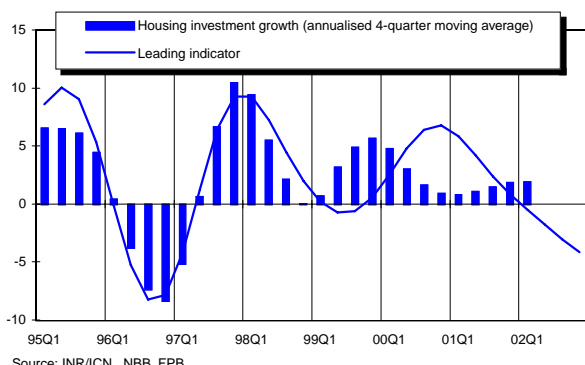


The leading indicator for business investment continues its downward path of 2001 until the third quarter of 2002. From then on, the indicator stabilises, but does not yet show an improvement, which means that no recovery in business investment should be expected before the beginning of 2003. Our forecasts point to a negative growth rate (-2.8 %) in business investment this year, while growth of 2.9 % is expected for 2003. This implies a fall in the investment rate at constant prices (real business investment as a percentage of GDP) of almost 0.5 percentage points in 2002, while the rate should rise somewhat in 2003. The decline in business investment in 2002 is partly the result of a correction in response to the overinvestment that took place over the past few years. The recent weakening of the stock markets and the lack of momentum in most indicators also did not help to sustain business investment.

The rate of capacity utilisation in the manufacturing sector decreased in the course of 2001 to 79.1 %. Since the beginning of this year it has again been on a rising trend, but investment decisions will probably be postponed until there is more certainty about the strength of the improvement in the business cycle.

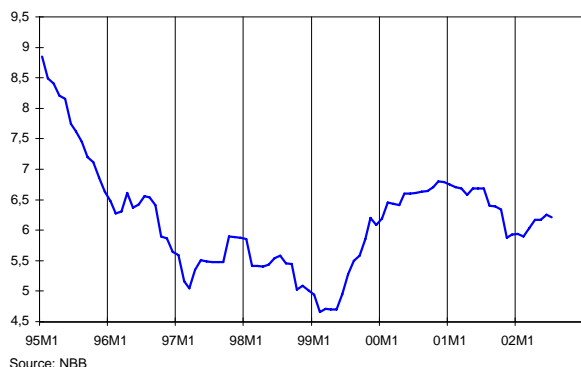
## Housing investment

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



In the first quarter of this year housing investment fell by 0.9 % qoq. First estimates for the second quarter are pointing to a second negative quarter in a row. These figures confirm the deterioration shown by the leading indicator, which reflects a number of quantitative and qualitative indicators including surveys of architects. Moreover, the leading indicator is not pointing to a turning point before the end of this year. A bottoming out of the downturn in housing investment should only take place during the course of next year. According to this pattern, annual growth rates should be close to zero (or even slightly negative) this year and positive, but very low, next year.

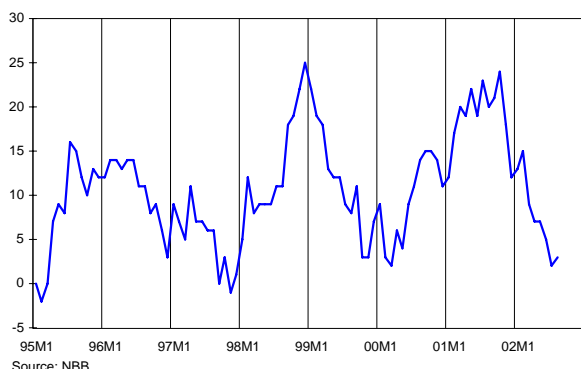
**Graph 14 - Mortgage rate (in%)**



The timing of the turning-point is surrounded by a lot of uncertainty. As the housing investment cycle is traditionally somewhat behind the global business cycle, we do not expect it to recover much before the end of 2002. A substantial recovery in housing investment should not, in any case, take place before a clear improvement in the labour market situation appears. There should not be much of an impulse from the financial side either, since long-term interest rates (and hence mortgage rates) are not expected to fall any further in the course of 2002.

## Stock building

**Graph 15 - Appreciation of stocks**



The slowdown in the business cycle that began in the final months of 2000 was partly fed by substantial destocking by firms, as was also the case in other European countries. Both the yoy and the qoq contributions of stock building towards economic growth were negative from the last quarter of 2000 until the third quarter of 2001.

After four consecutive quarters of falling inventories, the national accounts are pointing to a positive contribution from stock building both yoy and qoq in the fourth quarter of 2001 and a zero contribution in the first quarter of this year. This leads to the conclusion that the present recovery, certainly in its early stage, was partly due to the fact that destocking came to an end. Looking at graph 15 it seems clear that the number of entrepreneurs who consider their stocks to be excessive is now at a very low level. After a large negative contribution of -0.5 % to Belgian GDP growth in 2001, stock building is expected to make a positive contribution to economic growth this year (+0.6 %).

## Foreign Trade

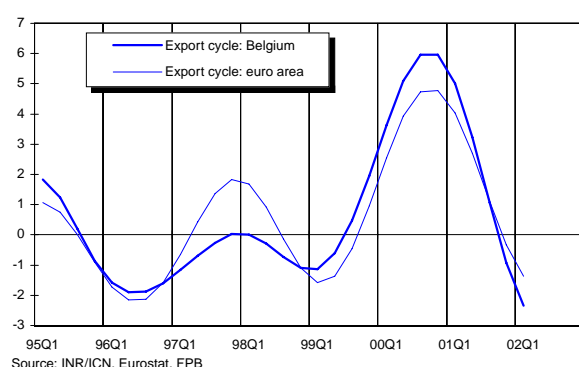
**Table 5 - Belgium - Trade statistics (goods, intra/extrastat)**

	00	01	01Q2	01Q3	01Q4	02Q1	01M12	02M1	02M2	02M3	02M4	02M5
Exports - value [1]	21.3	3.9	6.2	1.6	-3.1	0.7	-3.0	1.6	0.8	-0.2	9.5	3.3
Imports - value [1]	24.3	3.5	8.3	-0.4	-6.4	-2.1	-4.6	-3.7	-2.0	-0.7	4.6	-3.2
Exports - volume [1]	10.4	1.8	1.1	0.7	-0.5	1.0	0.0	1.8	0.6	0.7	10.0	4.9
Imports - volume [1]	10.4	1.1	2.1	-2.3	-1.4	-0.6	0.6	-1.8	0.5	-0.6	7.4	0.8
Exports - price [1]	9.9	2.1	5.0	1.0	-2.7	-0.3	-2.9	-0.2	0.2	-0.9	-0.4	-1.5
Imports - price [1]	12.6	2.4	6.2	2.1	-5.0	-1.5	-5.1	-2.0	-2.5	-0.1	-2.6	-3.9

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

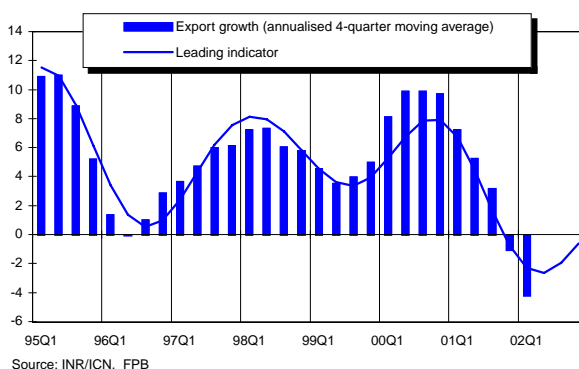
Source: INR/ICN, FPB

**Graph 16 - Export cycle**



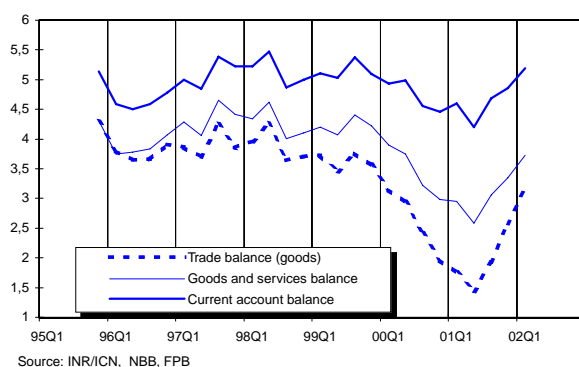
Source: INR/ICN, Eurostat, FPB

**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 export cycle graph shows the high level of synchronisation of export cycles for Belgium and the euro area. It also indicates that the magnitude of the Belgian export cycle has been somewhat more pronounced than it was in the euro area. Both cycles have been on a steep downward trend throughout 2001 and exports were even below their trend level from 2001Q4 onwards. The sharp fall in Belgian export markets in the second half of last year had a serious impact on Belgian exports, which registered their highest decrease in 2001Q4.

In the first quarter of 2002, however, the downswing in export cycles, both for Belgium and the euro area, appears to be less steep than at the end of 2001. At the beginning of the year, growth was indeed driven by a revival in exports. This improvement does not, however, appear yet in the moving average growth rate of Belgian exports on graph 17, as this still suffers from the sharp decrease in exports in the last quarter of 2001.

Despite the loss of momentum of the economic recovery in the US and Europe in the second quarter of 2002, as well as rising uncertainties surrounding the strength and timing of the upswing, the Belgian leading indicator for exports still shows a turning-point in the second quarter of the current year. Belgian exports are expected to register quite strong growth rates throughout the whole year, but, due to the very negative level effect, their annual average growth rate should still be negative in 2002 (-0.4 % against -1 % in 2001).

Trade statistics indicate that, since the beginning of 2002, export volumes are on a higher level than during the same period last year. It should be considered, however, that these data are subject to an upward bias, since from December 2001 onwards large quantities of pharmaceutical products have been imported from Ireland before being re-exported from Belgium.

In the first quarter of 2002, import growth remained negatively affected by sluggish internal demand, and import prices fell by more than export prices. As a result the current account surplus recovered further.

Labour market

Table 6 - Labour market indicators

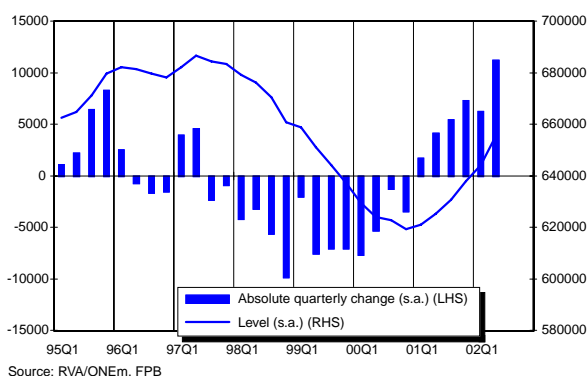
	00	01	01Q3	01Q4	02Q1	02Q2	02M3	02M4	02M5	02M6	02M7	02M8
Unemployment (excl. older) [1]	474.4	469.7	502.2	481.6	473.7	457.2	470.4	461.3	454.7	455.6	516.8	525.2
Unemployment (incl. older) [1]	624.1	629.1	662.4	643.3	637.3	624.4	635.1	627.9	621.8	623.4	684.9	693.4
Unemployment rate-FMTA/MfET[2]	10.8	10.7	11.5	11.0	10.8	10.5	10.8	10.5	10.4	10.4	11.8	12.0
Unemployment rate-Eurostat [3]	6.9	6.6	6.5	6.7	6.7	6.9	6.8	6.9	6.9	6.9	6.9	6.9

[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

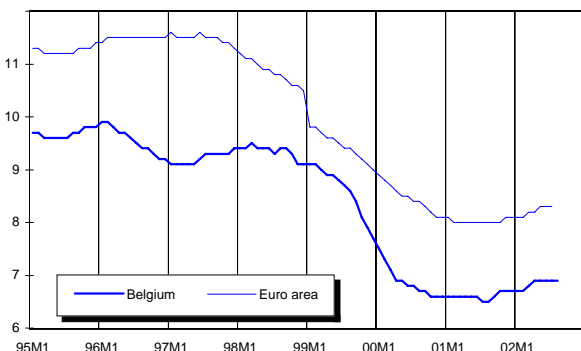
Source: RVA/ONEm, FMTA/MfET, Eurostat, FPB

Graph 19 - Evolution of unemployment (incl. older)



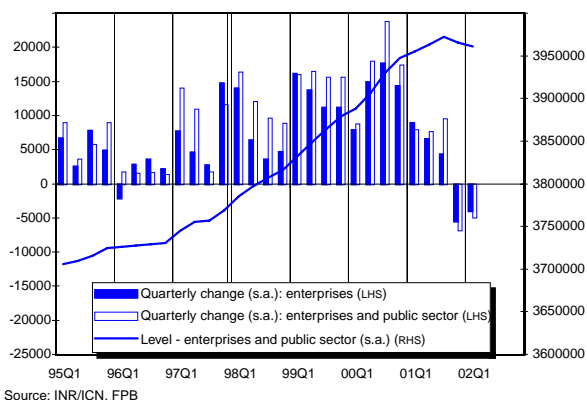
Source: RVA/ONEm, FPB

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



Source: Eurostat

Graph 21 - Evolution of domestic employment



Source: INR/ICN, FPB

It has now become clear that a 7-year spell of uninterrupted quarter-to-quarter growth in employment came to an end during the last quarter of 2001. The quarterly national accounts estimate the falls in domestic employment at -0.17 % and -0.12 % for the last quarter of 2001 and the first quarter of 2002 respectively. The general trend in these figures is confirmed by the latest information that has become available through the social security records. As for the breakdown by sector of activity, apart from manufacturing, also business services and – not surprisingly, given the September attacks and the closure of Sabena - transport and communications seem to have been hit relatively hard by the economic downturn.

Moreover, broad unemployment figures have tended to deteriorate even further since the first quarter of 2002, soaring (in seasonally adjusted terms) by approximately another 11,000 persons during the second quarter. Contrary to what was conjectured a few months ago, the unemployment outlook has continued to deteriorate relatively more rapidly in the Flanders region, even when allowing for a number of statistical flaws in the unemployment time series data. In particular the considerable rise in the number of unemployed school-leavers during the summer months gives pause for thought.

The evolution of broad unemployment that has been observed makes it very likely that employment growth has remained negative during the second quarter and will remain negative during the third quarter. In the wake of the economic recovery, employment growth is expected to turn positive again during the last quarter of 2002. Such a quarter-to-quarter scenario implies that - for the first time since 1994 - yearly growth in employment should be negative in 2002 and the employment rate should decline (by an estimated 0.5 percentage points). This negative outcome can be blamed partly on the timing of the productivity cycle, with year-on-year growth in productivity accelerating rapidly in the course of 2002 as activity picks up again.

Prices

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

	00	01	01Q3	01Q4	02Q1	02Q2	02M3	02M4	02M5	02M6	02M7	02M8
Consumer prices: all items	2.55	2.47	2.53	2.22	2.73	1.34	2.67	1.81	1.33	0.88	1.28	1.26
Food prices	0.86	4.23	4.67	4.97	5.08	1.72	4.43	2.67	1.89	0.60	1.20	0.68
Non food prices	3.87	1.71	1.62	0.07	0.82	0.03	0.86	0.68	-0.10	-0.49	0.37	0.42
Services	2.01	2.46	2.50	3.58	4.04	2.85	4.23	2.78	2.89	2.89	2.44	2.73
Rent	1.45	1.91	1.88	2.09	2.30	2.43	2.35	2.32	2.51	2.46	2.55	2.62
Health index	1.88	2.74	2.97	2.82	3.09	1.64	2.98	2.01	1.74	1.18	1.40	1.28
Brent oil price in USD (level)	28.4	24.4	25.3	19.3	21.1	25.0	23.8	25.6	25.3	24.2	25.8	26.7

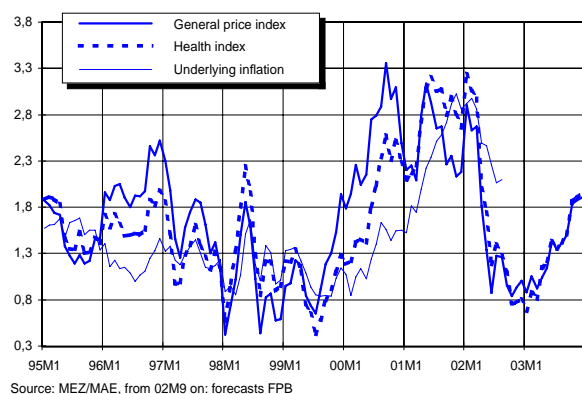
Source: MEZ/MAE

**Table 8 - Monthly inflation forecasts**

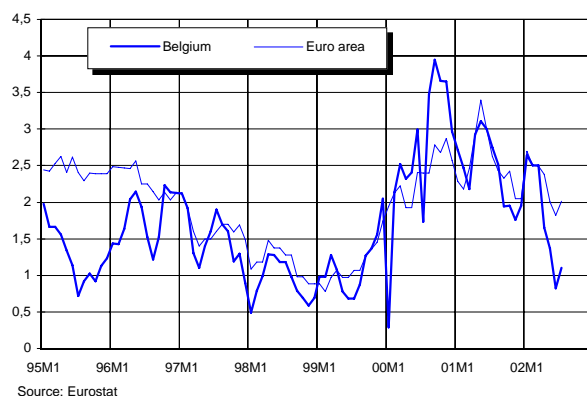
	02M1	02M2	02M3	02M4	02M5	02M6	02M7	02M8	02M9	02M10	02M11	02M12
Consumer prices: all items	110.22	110.40	110.69	110.72	110.89	110.58	110.94	110.91	110.89	110.59	110.82	110.66
Consumer prices: health index	109.93	110.09	110.33	110.11	110.35	110.09	110.44	110.39	110.36	110.04	110.27	110.11
Moving average health index	109.45	109.67	109.90	110.12	110.22	110.22	110.25	110.32	110.32	110.31	110.27	110.20
	03M1	03M2	03M3	03M4	03M5	03M6	03M7	03M8	03M9	03M10	03M11	03M12
Consumer prices: all items	111.19	111.56	111.71	111.87	112.16	112.17	112.43	112.48	112.55	112.62	112.90	112.77
Consumer prices: health index	110.67	111.05	111.22	111.38	111.69	111.66	111.93	111.96	112.02	112.09	112.37	112.25
Moving average health index	110.27	110.53	110.76	111.08	111.34	111.49	111.67	111.81	111.89	112.00	112.11	112.18

Source: Observations (up to 02M8): MEZ/MAE; forecasts: FPB

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



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



Headline inflation, as measured by the yoy change in the national CPI, fell from 2.7 % in March 2002 to 0.9 % in June. These downward price movements are first of all a result of the abolition of the radio and television license fee in the Flemish and Brussels regions (which corresponds to a drop of 0.3 percentage points in the index figure in both April and October 2002). Due to the small decline in oil prices (in USD terms) and the appreciation of the euro against the dollar, oil prices expressed in EUR decreased quite heavily in May and June which also contributed negatively to headline inflation. The last effect disappeared from July onwards as a lack of stability in the Middle East pushed up crude oil prices. Consequently, inflation edged upwards somewhat, but it is still at a low level thanks to low underlying inflation and more moderate rises in the price of fresh food and services as compared to the beginning of the year.

In fact, underlying inflation continued its downward trend from the second quarter throughout the third quarter, falling to 2.1 % in August. According to our forecasts, underlying inflation should continue this decline until the end of this year, while it should rise somewhat next year as the upturn gains momentum. All in all, headline inflation should be 1.5 % this year and 1.4 % next year.

According to our monthly forecasts for the 'health index', the pivotal index for public wages and social benefits (currently 111.64) should next be reached in July 2003.



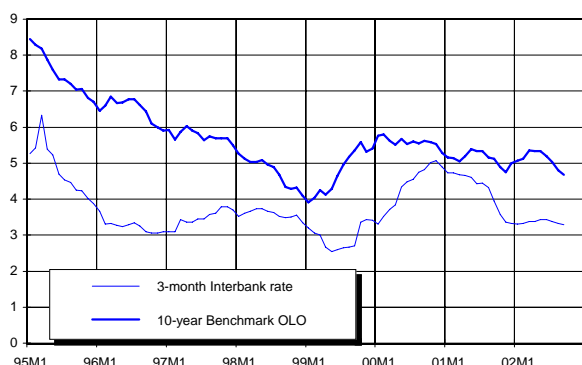
Interest rates

Table 9 - Interest rates

	00	01	01Q3	01Q4	02Q1	02Q2	02M3	02M4	02M5	02M6	02M7	02M8
<b>Short-term money market rates (3 months)</b>												
Belgium	4.36	4.23	4.24	3.42	3.34	3.42	3.37	3.39	3.44	3.44	3.38	3.32
Euro area (Euribor)	4.39	4.26	4.27	3.44	3.36	3.45	3.39	3.41	3.46	3.46	3.41	3.35
United States	6.46	3.69	3.34	2.06	1.83	1.83	1.92	1.87	1.82	1.81	1.79	1.73
Japan	0.25	0.12	0.05	0.04	0.04	0.03	0.03	0.04	0.03	0.02	0.03	0.02
<b>Long-term government bond rates (10 years)</b>												
Belgium	5.59	5.12	5.21	4.87	5.18	5.29	5.35	5.34	5.34	5.19	5.03	4.80
Germany	5.27	4.79	4.92	4.53	4.94	5.16	4.96	5.20	5.11	5.18	4.94	4.73
Euro area	5.43	4.99	5.07	4.77	5.10	5.23	5.27	5.27	5.28	5.14	4.99	4.71
United States	6.03	5.01	4.97	4.74	5.07	5.08	5.29	5.20	5.14	4.90	4.61	4.22
Japan	1.77	1.32	1.34	1.34	1.45	1.35	1.41	1.38	1.36	1.32	1.26	1.23

Source: NBB, ECB

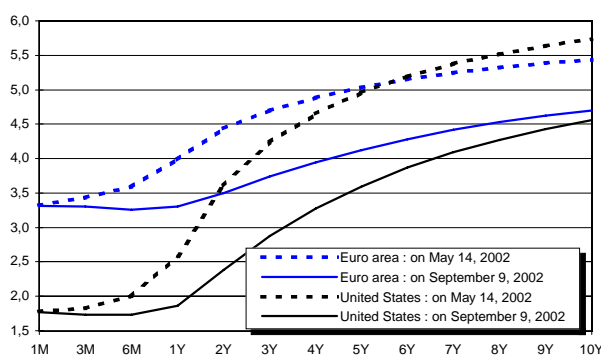
Graph 24 - Interest rate levels in Belgium, in%



Source: NBB

Central banks on both sides of the Atlantic have left their official rates unchanged since the beginning of the year. Consequently the Federal Funds rate and the ECB's main refinancing rate are still 1.75 % and 3.25 % respectively. While central bankers considered the signs of an upturn at the beginning of the year to be too ambiguous to raise interest rates, the discussion about a further loosening of monetary policy became more relevant later on as business cycle indicators failed to improve further or even worsened. In general, however, the consensus seems to be that both central rates will remain at their current level for the remainder of the year. As a consequence of this consensus, short-term money market rates have not shown large changes at all in either the euro area or the US during the past few months. Due to low inflation rates and poorer economic prospects, short-term market interest rates are slightly lower in August than in April in the three main economic areas.

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



Source: Datastream, data based on interest rate swaps

Due to US accounting scandals such as Enron and Worldcom, investors have reallocated a huge part of their capital from the stock market to the less risky bond market. Since the interest in government bonds was particularly strong, their yields plummeted. Long-term government bond rates declined by about 50 basis points in the euro area between April and August, while this decrease was almost twice as big in the US. The decline of long-term interest rates, however, should be partially reversed once more solid signs of a recovery become evident.

The yield curve flattened enormously due to the downward movement of long term interest rates, reflecting the fact that investors are now more pessimistic about economic prospects than they were a few months ago.

## Exchange rates

**Table 10 - Bilateral exchange rates**

	00	01	01Q3	01Q4	02Q1	02Q2	02M3	02M4	02M5	02M6	02M7	02M8
BEF per USD	43.65	45.05	45.28	45.07	46.01	43.85	46.02	45.51	43.99	42.18	40.65	41.25
USD per EUR	0.924	0.895	0.891	0.895	0.877	0.920	0.877	0.886	0.917	0.956	0.992	0.978
UKP per EUR	0.609	0.622	0.619	0.620	0.615	0.629	0.616	0.614	0.628	0.644	0.638	0.636
JPY per EUR	99.58	108.73	108.17	110.77	116.09	116.52	114.85	115.86	115.83	117.87	117.14	116.38

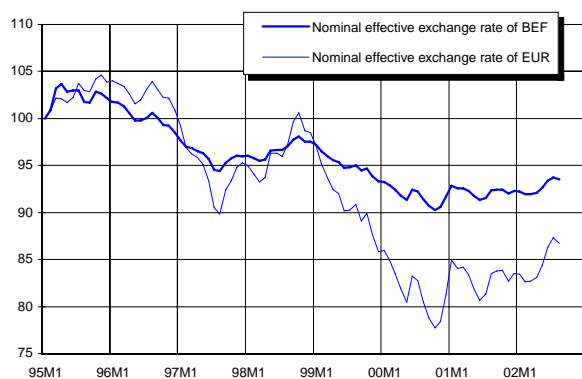
**Table 11 - Nominal effective exchange rates (Jan. 95 =100)**

	00	01	02	01Q3	01Q4	02Q1	02Q2	02M4	02M5	02M6	02M7	02M8
Effective exchange rate BEF	91.8	92.2		92.1	92.3	92.1	92.7	92.1	92.6	93.4	93.7	93.5
Growth rate [1]	-3.5	0.5		0.4	0.1	-0.2	0.7	0.1	0.6	0.8	0.3	-0.2
Id. with constant rate till year end			0.8									
Effective exchange rate EUR	81.6	83.1		82.9	83.3	82.9	84.6	83.1	84.4	86.3	87.3	86.7
Growth rate [1]	-10.5	1.8		1.1	0.6	-0.5	2.1	0.5	1.6	2.3	1.1	-0.7

[1] Change (%) compared to previous period

Source: NBB, BIS, FPB

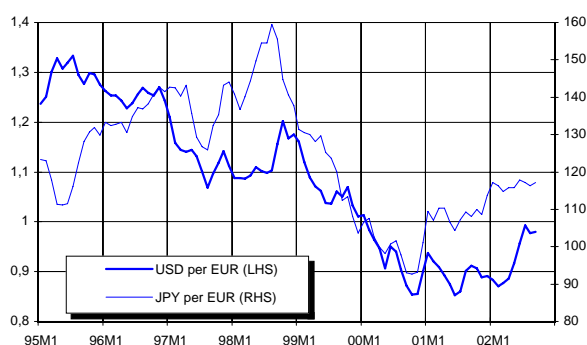
**Graph 26 - Effective exchange rates (Jan. 95=100)**



Source: NBB, BIS, FPB

The euro appreciated by about 14 % against the dollar from March to July and reached its highest level since January 2000. This appreciation of the euro began when worries arose about the structural features of the US economy. It is obvious that the American economy is plagued with a huge current account deficit that puts downward pressures on the dollar. Foreign investors were also disappointed by the evolution of the stock market and by cyclical indicators that failed to confirm their upward trend seen at the beginning of the year. As a result, large capital flows left the US and around mid-July one euro was even worth more than one dollar. It seemed that everyone was focusing on bad news coming from the US during this episode, while bad news from the euro area was hardly taken into account. In August, however, investors became aware of the fact that any economy cannot be immune to a downturn in the American economy and the dollar appreciated somewhat against the euro.

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



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

The euro-yen exchange rate hardly changed at all during the appreciation of the euro against the dollar, which means that the yen also appreciated heavily against the dollar. Japanese policy makers obviously disliked this evolution, since they believed that it would harm the upcoming recovery, which seems to be largely export-driven. That is why the Bank of Japan intervened on the exchange rate market several times to pull the yen down.

Due to the appreciation of the euro against the dollar, the effective exchange rate of the euro went up by almost 6 % from March to July. This large rise was somewhat adjusted downwards in August, when the euro depreciated against sterling, yen and the dollar.

**Tax indicators**

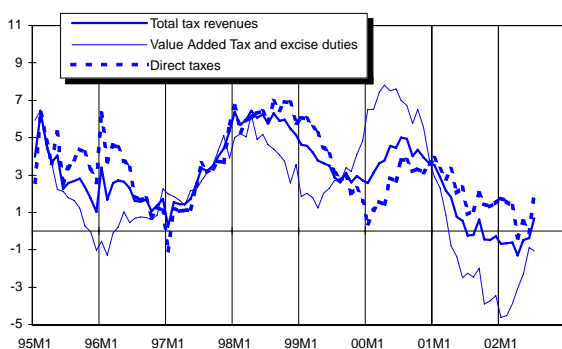
**Table 12 - Tax revenues (1)**

	00	01	01Q3	01Q4	02Q1	02Q2	02M2	02M3	02M4	02M5	02M6	02M7
Total [2], of which:	6.3	2.2	3.7	1.1	-0.2	2.4	-1.7	1.2	-1.5	9.6	3.1	7.9
Direct taxes, of which:	6.2	4.0	3.4	3.1	1.6	0.5	-4.0	0.0	-3.1	11.6	-0.5	11.7
Withholding earned income tax (PAYE)	5.6	4.8	7.2	0.8	8.7	5.0	80.6	5.8	67.6	-23.8	3.7	3.9
Prepayments	4.4	-0.3	-13.0	-0.5	.	-9.3	.	.	-9.3	.	.	0.5
Value Added Tax and excise duties	6.5	-1.0	3.9	-1.8	-3.7	6.5	-1.4	3.1	1.7	8.0	11.9	2.0

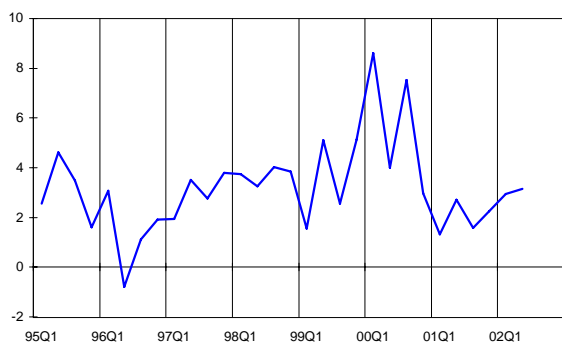
[1] Change (%) compared to same period previous year; [2] Total received by federal government, excl. of death-duties

Source: MvF/MdF, FPB

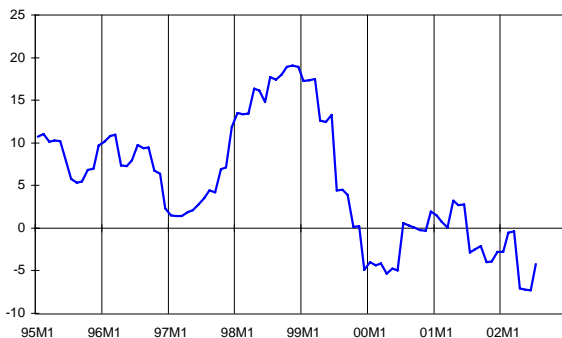
**Graph 28 - Real tax revenues (3)**



**Graph 29 - Real withholding earned income tax (PAYE) (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 evolution of tax revenues appears to be compatible with a scenario in which economic activity has reached a low by mid-2002. Indeed, the year-on-year growth rate in the main categories of taxes (graph 28) has stopped declining in recent months. The tax indicators do not, however, provide any signs of an upturn in economic activity being expected during the next few quarters.

After registering negative growth in 2001, indirect taxation revenues (VAT and excise duties) still fell during 2002Q1. A positive nominal growth rate, however, (+6,5 %) is being seen 2002Q2, as compared to the same period in 2001. Moreover, the real growth rate on the 12-month moving average, although still negative, reveals a tendency change at the beginning of 2002. With regard to VAT, the progression in 2002Q2 comes more from a decrease in reimbursements related to exports and investments than from an increase in gross collections of VAT. The gradual improvement of VAT revenues should be confirmed during the next few months, following the recovery of the private consumption cycle in the last quarter of 2002.

PAYE revenue (mainly on wages) has decelerated significantly as compared with 2000, but its growth rate on a year-on-year basis has remained at around 2 to 3 % in real terms over the last year and half (graph 29). This moderate but significant pace of growth, in spite of a fall in employment from 2001Q4 onwards and additional reductions in the tax rates, is due to real increases in wage rates, mainly in 2002.

Advance payments in April 2002 (first due date for advance payments) were about 9 % lower than in April 2001. This decrease is due to prepayments by both corporate businesses and self-employed workers. In July 2002 (second due date), advance payments were 0.5 % higher than in July 2001. After more than two years of bad performance, the growth profile of the 12-month moving average of total advance payments in real terms is still negative.

## ICT contribution to economic performance in Belgium: preliminary evidence

Information and communication technologies (ICT) have become a significant economic activity in most industrialised countries, as well as an important engine of innovation. Despite the recent sharp decline in technology stocks, the closure of thousands of “dot com” firms around the world and the slump in the ICT equipment industry, ICT still account for a substantial contribution to output growth in most OECD countries. ICT have been recognised as one of the key factors boosting productivity growth and hence business sector competitiveness. Various initiatives have recently been adopted at the regional, national and European levels in order to meet the new challenges posed by the diffusion of ICT. A growing number of indicators are now available in order to assess the position of each country or region in terms of ICT development and to guide policy decisions in this field.

The current data seem to indicate that extensive ICT use is economically positive, mainly because it reinforces the acceleration of productivity gains. One essential question remains, however: what is the nature of these productivity gains - are they economically broad-based or purely cyclical? The fact that the surge in productivity growth in the United States has been sustained even in the midst of the recent economic slowdown could indicate that the impact of ICT is durable. Indeed, the sustained growth of American labour productivity during 2001, a year of recession, is in sharp contrast to the conventional pro-cyclical pattern of productivity growth.

The main aim of this paper is to use all the data currently available to study this question in the context of the Belgian economy. After a brief summary of the methodology of productivity analysis and the data problems that are still pending, the paper analyses the Belgian situation from a macroeconomic point of view in comparison with the United States and the European Union. In a second step, the analysis is carried out at the branch level to establish links between the evolution of productivity and the diffusion of ICT products into the various economic sectors. This analysis leads to a further investigation of the apparent trade-off between productivity and employment which is currently seen in Belgium and the role played by ICT investment.

The impact of ICT on economic growth through productivity gains can be transmitted via three different channels, namely the increase in the ICT capital available per worker (capital deepening), technical progress in ICT producer sectors (TFP growth) and finally, technical progress in ICT user sectors through spillover effects (TFP growth). The empirical evidence indicates that ICT account for more than half of the acceleration in productivity growth in the United States. In Europe the impact seems to be weaker, due both to a less developed ICT producer sector and to a slower diffusion of ICT in the economy. The conclusions for Europe also apply to Belgium. Nevertheless, the average annual growth contribution of ICT capital accelerated between the first and second half of the 1990s. This development puts Belgium slightly above the average for the European Union.

At the sectoral level, the analysis seeks to establish links between the evolution of productivity and the diffusion of ICT in the various economic sectors. This analysis leads to further investigation of the apparent trade-off between productivity and employment that can be seen in Belgium and the role of ICT investment. Financial activities, machines & equipment manufacturing, coke & nuclear industries, electric & electronic equipment manufacturing, leather and shoes industries and transport and communication are the business sectors that appear to have made significant investments in ICT as early as 1995. Sharp productivity growth is observed for all these branches but performance in terms of job creation has been more heterogeneous.

A detailed study of the Belgian sectors leads to the same conclusion as for other countries: ICT producer sectors account for the majority of the overall acceleration in productivity and they are also job creators. The behaviour of the sectors that use ICT intensively is not so clear-cut. Some service sectors that use ICT intensively have recorded both productivity and employment growth while the manufacturing industries have recorded an increase in productivity and a sharp decline in employment. In the first case, spillover effects of ICT on TFP may prevail while in the second case capital deepening may be the dominant effect.

“ICT contribution to economic performance in Belgium: preliminary evidence”, Ch. Kegels, M. van Overbeke and W. Van Zandweghe, Working Paper 08-02, October 2002.

## Agglomeration and dynamics of economic activities in Belgian cities: a spatial and branch approach

The aim of this working paper is to carry out a descriptive analysis of the geographical concentration and urbanization of economic activities in Belgium, based on spatial data on wage and salary earners from townships covering the recent period. This paper should be seen as the first step in a study on the impact of Information and Communication Technologies (ICT) on the geographical concentration of economic activities in cities, which is being financed by the SSTC<sup>1</sup>. This paper provides useful information for the next part of the study that will focus on econometric modelling of the main determinants driving the location of economic activities in cities.

After a brief review of the theoretical literature on the localisation of economic activities, emphasizing the existence and nature of two opposing forces (agglomeration and dispersion forces), the spatial framework of the paper is set out. We use the urban subdivision of Belgium that was proposed by VanderHaegen et al. (1996), with 17 city regions of which 5 are considered as 'major'. Each of these is then divided into a central city, agglomeration and urban fringe. Using geographical concentration indicators for total employment, it is shown that economic activities are far more concentrated than the population. The concentration in city centres is striking, e.g. with one-third of total employment located in the five major central cities, representing only 2% of the Belgian territory. Nevertheless, the analysis of recent changes in employment location shows that the polarisation of city centres within urban regions is declining, in favour of the agglomeration and the urban fringe. On the macro-geographical scale, employment growth is stronger in non-urban areas: unlike most European countries, the process of urban polarization is therefore not seen in Belgium. Some shifts can, however, be detected between the five major city regions, with much stronger growth in Brussels and, to a lesser extent, Ghent. Brussels also seems to be very strongly affected by the economic cycles.

Forces of agglomeration and dispersion do not influence all branches to the same extent. In the second part of the working paper we investigate the degree of geographical concentration using common indicators like the Gini, Ellison-Glaeser and Maurel-Sédillot indicators. As in other empirical papers, concentration is shown to be highly dependent on the branch and geographical scale that is used. We therefore use the NACEBEL-2 and 3 digit branch classification for all sectors, and we sharpen the analysis to the NACEBEL-4 digit classification for

the manufacturing sector. Two geographical scales are tested: townships and administrative districts called 'arrondissements'. Some sectors are seen as highly concentrated, both in manufacturing and also in the tertiary sector. The geographical concentration of certain sectors is driven by industrial concentration and natural advantages, as in the manufacture of coke, refined petroleum products and nuclear fuels, the manufacture of motor vehicles and air transport. For other highly concentrated sectors, mainly in the tertiary sector with highly skilled labour, the externalities of urbanisation can be seen as a factor driving agglomeration. This is true in the case of financial intermediation, insurance and pensions and R&D. Textiles manufacturing is also highly concentrated, but neither industrial concentration nor urbanisation externalities seem to have played a crucial role in its location. At the other end of the scale, the most scattered branches of activity can be explained by the geographical spread of production factors (as in the case of farming), final consumers (in the case of construction and the retail trade) or the public nature of the activity (public utilities).

In the last part of the working paper we focus on structural composition and the recent structural shifts in the various urban zones defined earlier. On a macro-geographical scale, the five major city regions show branch specialisation in the tertiary business sector, especially in financial services, business service activities and transport. The level of urban polarisation in the tertiary sector has remained stable in the recent period, but it is the result of opposite trends at the branch level: postal and telecommunication services, and to a lesser extent financial services are growing more rapidly in the urban areas, while branches like transport and commercial activities are growing more slowly than elsewhere. It is within the five major city regions, however, that dramatic changes are taking place. While city centres are still places of concentration for the business and non-business tertiary sector, the sharp decline in transportation and commercial activities, but also and more surprisingly, in business services and to a lesser extent financial services, shows that more and more firms are choosing locations in the near periphery (within agglomeration; especially in the case of Brussels), and the far periphery (urban fringe) for all city regions.

*"Agglomération et dynamique des activités économiques dans les villes belges : une approche spatiale et sectorielle", J.Decrop, Working Paper 09-02, October 2002.*

1. Service federal des affaires scientifiques, techniques et culturelles. Contract S2/64/01

Belgium is a federal state and consequently the implementation of electronic government is decentralized and based on co-operation between all the authorities. There are five implementation platforms: a federal platform, one each for the three regions and another for municipalities. Some public controlled enterprises such as the Post and Belgacom (telephony) also develop e-gov initiatives.

It should be clear that e-gov in Belgium is not an end in itself but is considered as a tool of the so called "Copernicus plan" to modernize the public service in order to achieve better service delivery to citizens, public services that work better and simplified administrative requirements.

Considering the achievements and plans in other countries in relation to e-gov, there are five Belgian e-gov implementation projects which are worthy of note:

- The existing intersection database for social security with the social security smart card.
- The system of electronic job vacancies, which is already in operation.
- The digital identity card project.
- The e-procurement project.
- The project in the Flanders region for internet connections for citizens through their TV sets, allowing interactive communication with the authorities.

In this brief overview the e-gov achievements and plans at each policy level will be dealt with, together with the specific organizational and management systems that are constructed for their implementation.

The following sectoral and general federal e-gov "backbones" are briefly reviewed:

A. Sectoral projects:

1. Social security (3 projects).
2. Intersection database for social security (SIS smart card).
3. Taxes (3 projects).
4. E-Invoicing
5. E-car registration.
6. E-justice.
7. E-procurement and e-tenders
8. Jobs. (Although this an area of regional competence, it is still mentioned here because of its importance and the fact that it exists in all three regions)

B. General projects:

1. UME
2. PKI
3. Portal
4. Digital identity card.
5. FEDMAN.

"Towards e-gov in Belgium. State of affairs in August 2002",  
H. Van Sebreeck, Working Paper 10-02, October 2002

## Other Recent Publications

[Economic Forecasts 2003](#), September 2002,  
(available in Dutch and in French).

[Medium Term Economic Outlook 2002 - 2007](#), April 2002,  
(available in Dutch and in French).

[Planning Paper 91](#), March 2002

“Perspectives financières de la sécurité sociale 2000-2050: Le vieillissement et la viabilité du système légal des pensions / Verkenning van de financiële evolutie van de sociale zekerheid 2000-2050. De vergrijzing en de leefbaarheid van het wettelijk pensioensysteem”, M. Englert, N. Fasquelle, M.-J. Fes-tjens, M. Lambrecht, M. Saintrain, C. Streel, S. Weemaes.

[Planning Paper 90](#), April 2002

“Comptes nationaux environnementaux / Outil d’une politique de développement durable./ De

groene nationale rekeningen - Instrument voor een beleid van duurzame ontwikkeling”, J. de Villers, S. Van Den Berghe .

[Working Paper 04-02](#), May 2002.

“Dualisering in het digitale tijdperk - Een onderzoek naar de verbanden tussen multidimensionele ar-moede en informatie-en communicatietechnologie”, G. Dekkers.

[Working Paper 05-02](#), May 2002

“Automatic fiscal stabilisers in the euro area - Simu-lations with the NIME Model”, E. Meyermans.

[Working Paper 06-02](#), June 2002

“General and selective reductions in employer so-cial-security contributions in the 2002 vintage of HERMES - A revision of WP 08-01”, P. Stockman.

## Research in progress

[The modtrim II model](#)

The ‘Short term forecasts and business cycle analy-sis’ team built a quarterly model for the Belgian economy during the period 2000-2001. Despite its newness, this model has already been re-estimated a couple of times due to the almost continuous chang-es in national accounts methodology. The model was used during the last four forecasting rounds and its quarterly results were presented graphically in the Economic Budget. A new version of the model will be estimated during the autumn and its simulation properties will be published.

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[Labour market analyses](#)

Three areas are currently being investigated in the field of labour market analysis: 1. the impact of la-bour turnover on the evolution of wages, 2. the im-pact of three special employment programmes aimed at specific groups, 3. the development of a macro-econometric model of a segmented labour market including wage setting, labour supply and demand, and matching.

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[The NEMESIS model](#)

In collaboration with a network of European re-search institutions, the FPB is developing a regional macro-sectoral econometric model for Europe, whose baseline should be available soon. This aims at providing tools for decision-making in the fields of energy, the environment and economic policy.  
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[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 compo-nents: macro-economic impact, micro-economic im-pact, digital divide and dualisation, ICT and the localisation of economic activities, e-government, and Internet and indirect taxation.

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[Cities and regions](#)

The aim of the research is to get an insight in the spe-cialisation and dynamism of cities and regions in Belgium. Structural changes in the sectoral composi-tion of the Belgian economy is taken into account. On a regional level, the Belgian regions are com-pared with some other major European regions. On a city and town level, a study on the factors deter-mining the location of economic activities and the lo-cation of households is undertaken.

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## Recent history of major economic policy measures

- September 2002** The federal Council of Ministers has appointed Elia System Operator as Transmission System Operator in Belgium for a period of 20 years.
- August 2002** A WTO arbitration decision in the EU-US dispute concerning the US Foreign Sales Corporation (FSC) tax law has authorised the EU to impose sanctions amounting to US \$4,043 million by increasing customs duties on certain selected products up to 100%.
- Further to an impact assessment study, the Federal Minister for the Environment has not granted the environmental permit for a second offshore wind farm project launched by C-Power, although the State Secretary for Energy and Sustainable Development granted the land concession for this project on 26 February 2002.
- July 2002** The Directive 2002/58/EC on privacy and electronic communication harmonises the stipulations in the member states which are required to ensure an equivalent level of protection of the right to privacy with respect to the processing of personal data in the electronic communication sector.
- A construction permit was granted to Electrabel to build the first onshore wind farm in Wallonia (Bütgenbach). Four wind turbines with a total capacity of 8 MW will produce some 16 GWh from 2003 onwards.
- June 2002** The Belgian government has adopted the law on the phasing-out of nuclear power generation. Parliament still has to approve the text. The debates in Parliament are due to take place in the autumn of 2002.
- The Federal Minister for the Environment has issued the construction and operating permits for the first offshore wind farm in the North Sea. The so-called Synergy project, launched by Electrabel and Jan De Nul, consists of 50 wind turbines of 2 MW each, located some 15 km from the coast (near Knokke). Power generation amounting to some 300 GWh per year is expected to start in 2004. The Secretary of State for Energy and Sustainable Development granted the land concession for this project on 27 March 2002.
- May 2002** The European Council of Ministers unanimously supported the European Commission in its strategy to respond to the illegal safeguard measures taken by the USA on steel in late March. Following the expiry of the mandatory 60 day consultation period, the EU presented a request for the establishment of a panel in WTO to rule on the legality of the measures. In the short-term, the EU will intensify its efforts to negotiate an agreement with the US, which includes both compensation and product exclusions from the US safeguard action. At the same time, the EU will also notify to the WTO a "short list" of potential suspensions of concessions under the WTO Safeguard Agreement that could be applied as early as 18 June.
- The European Council adopted the new Postal Services Directive, pushing forward the gradual and controlled implementation of the Internal Market for postal services, combining more competition with maintaining a universal service. Basically, Member States will have to open up to competition from 2003 the delivery of letters weighting more than 100gr; and from 2006 the delivery of letters weighting more than 50gr.
- April 2002** Social policy measures for 2003 are announced concerning disability benefits for wage-earners (minimal benefits increased by 1%, replacement rate increased from 45% to 50% of the wage for single persons), financial support for the frail elderly (by increasing the income threshold below which access to the solidarity benefit is granted) and for handicapped people (a.o. by maintaining the "participation" benefit for those who earn an income). The budgetary cost of those measures amounts to 100 million euro. Disability benefits for self-employed will also be increased by 50% in July 2002 during the first disability year and by 2.65% after one year; before taking a final decision there will be a round of consultations.
- SN Brussels Airlines, the successor of bankrupt Sabena, made its first flights to Africa. The company plans to build up a network covering African and European destinations.
- The first independent railway company started operating freight services between Antwerp and Munich. This historical event marks the penetration of the European liberalisation onto the Belgian railway network. It was made possible in 1999 when European Directives on railway liberalisation were translated into Belgian law.
- March 2002** The European Commission adopted safeguard measures on steel. Following the US action to severely restrict steel imports on 20 March, the EU measures are designed to prevent floods of steel imports being diverted into the EU. The measures have been drawn up with scrupulous attention to WTO rules. These temporary measures, due to enter into force in the coming days, will last for a maximum of 6 months.
- The Belgian federal government approved a proposal of ministerial decree on the designation of ESO (Elia System Operator) as the operator of the transport electricity network. ESO's shareholders are Elia (70%) and Publi-T (30%).
- The European Council in Barcelona took several decisions in the field of energy, including, among others, the freedom of choice of supplier for all European non-household consumers as of 2004 for electricity and for gas (this will amount to at least 60% of the total market) and the target for Member States of a level of electricity interconnections equivalent to at least 10% of their installed production capacity by 2005.
- The Belgian council of ministers agreed on the preliminary bill introduced by the Secretary of State for Energy and Sustainable Development on giving up any new investment in nuclear power plants and on deactivating existing nuclear power plants 40 years after their entry into operation.

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)