2. Economic developments in Belgium

In Belgium, GDP grew by 0.2 % as an annual average. After a period of stagnation lasting more than a year and a half, a modest recovery emerged from the second quarter, in parallel with a revival in business and consumer confidence. The recovery was supported by private consumption and exports. However, employment continued to feel the effects of the previous sluggishness of activity. It was down by an average of 11 000 units over the year, and the unemployment rate reached 8.5 %, a sharper deterioration than at the height of the recession in 2008 and 2009, partly on account of corporate restructuring. Inflation was down sharply at an average of 1.2 % for the year, owing to the combined effects of declining pressure from underlying inflation and a reduction in energy prices. More particularly, the fall in retail prices for gas and electricity was encouraged by keener competition on these markets. The rise in labour costs slowed as a result of indexation, while real negotiated wage increases were frozen. The upturn in consumption was due to an – albeit small – increase in purchasing power, and a slight fall in the savings ratio. On the other hand, investment in housing showed a further significant fall, while business investment remained weak. The balance of current transactions remained weak, with direct and portfolio investment income being affected by the low yield environment.

2.1 Economic situation

Modest revival in activity during 2013, after almost two years of stagnation

After a long period of stagnation beginning in the second half of 2011, activity in Belgium was restored to positive growth in the second quarter of 2013. Real GDP was up by 0.2 % over the whole year under review, whereas it had fallen by 0.1 % in 2012. The still hesitant upturn in activity during the year was driven mainly by the recovery of certain domestic demand components – particularly private consumption, after eight quarters of inertia or decline – and by export growth, primarily as a result of the revival in the euro area. However, it was held back by the uncertainty still surrounding a number of factors fundamental to support economic growth, such as employment, the rise in household incomes, and the medium-term sales outlook for firms.

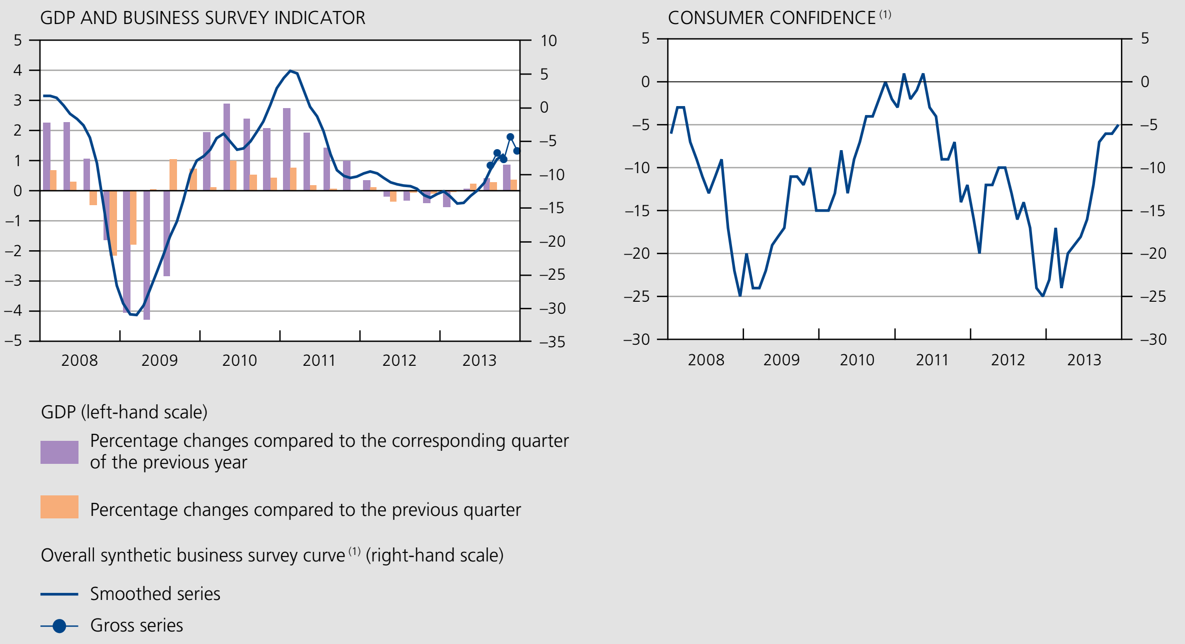
The weakness of the annual average GDP growth recorded in 2013, like the minor acceleration against the previous year, can be attributed largely to a negative spillover effect at the beginning of the year. Activity subsequently gained momentum. After having remained stable in the first quarter, partly owing to the traditional fall in public investment following the local elections, GDP climbed steadily for the rest of the year, in parallel with the improvement in household and business confidence, and mirroring the picture for the euro area as a whole. In Belgium, GDP was up by 0.2 % in the second quarter and growth gradually gathered pace to 0.4 % in the fourth quarter.

The recovery which began in 2013 boosted activity above the level prevailing at the beginning of 2008, before the great recession. Belgium had already regained that level in the first quarter of 2011 and maintained its position during the eight ensuing quarters. Among the main neighbouring countries, only Germany has also exceeded its pre-crisis level of activity, and to a more marked degree. Conversely, France and the Netherlands remain below that level.

The revival in activity steadily spread to all the main branches of activity, albeit with varying intensity.

CHART 22 GDP IN BELGIUM AND CONFIDENCE INDICATORS

(volume data adjusted for seasonal and calendar effects, unless otherwise stated)

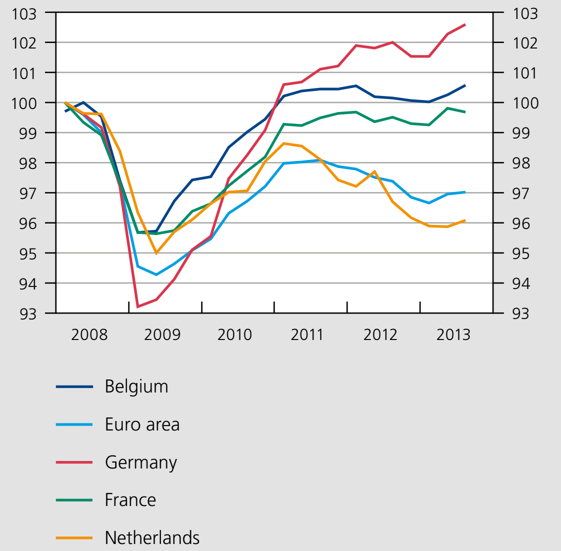


Sources: NAI, NBB.
(1) Balance of replies to the monthly survey, non calendar adjusted data.

Being closely integrated with increasingly global production processes, and – more generally – being very sensitive to cyclical fluctuations, manufacturing industry clearly benefited from the resurgence of demand, and more especially the recovery of foreign trade. The growth of this branch, which accounts for an estimated 16 % of the total economy's value added, thus returned to positive territory from the second quarter of 2013, following a marked fall in 2012 and at the beginning of the year under review. In parallel with these favourable developments, confidence in manufacturing industry rose sharply, following a clear improvement in the assessment of demand and the corresponding outlook.

CHART 23 GDP IN BELGIUM, THE EURO AREA AND THE THREE MAIN NEIGHBOURING COUNTRIES

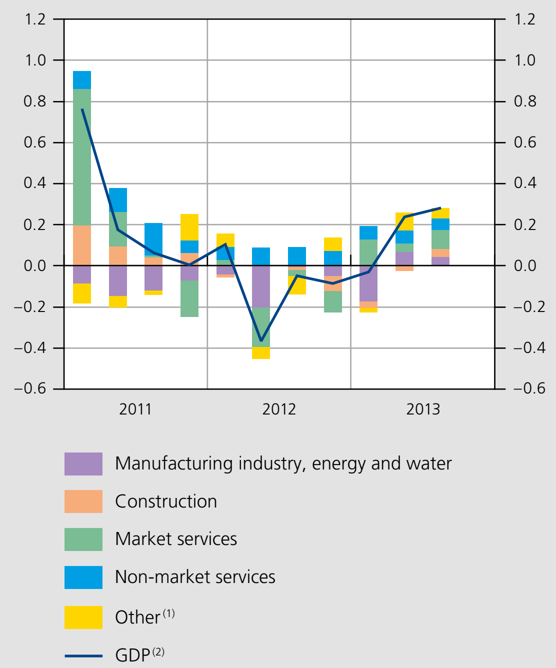
(indices, pre-recession peak in 2008 = 100, volume data adjusted for seasonal and calendar effects)



Sources: EC, NAI.

CHART 24 VALUE ADDED OF THE MAIN BRANCHES OF ACTIVITY

(contributions to the change in GDP compared to the previous quarter, unless otherwise stated; volume data adjusted for seasonal and calendar effects)



Source: NAI.
(1) Namely the "Agriculture, forestry and fishing" branch and product-related taxes net of subsidies.
(2) Percentage changes compared to the previous quarter.

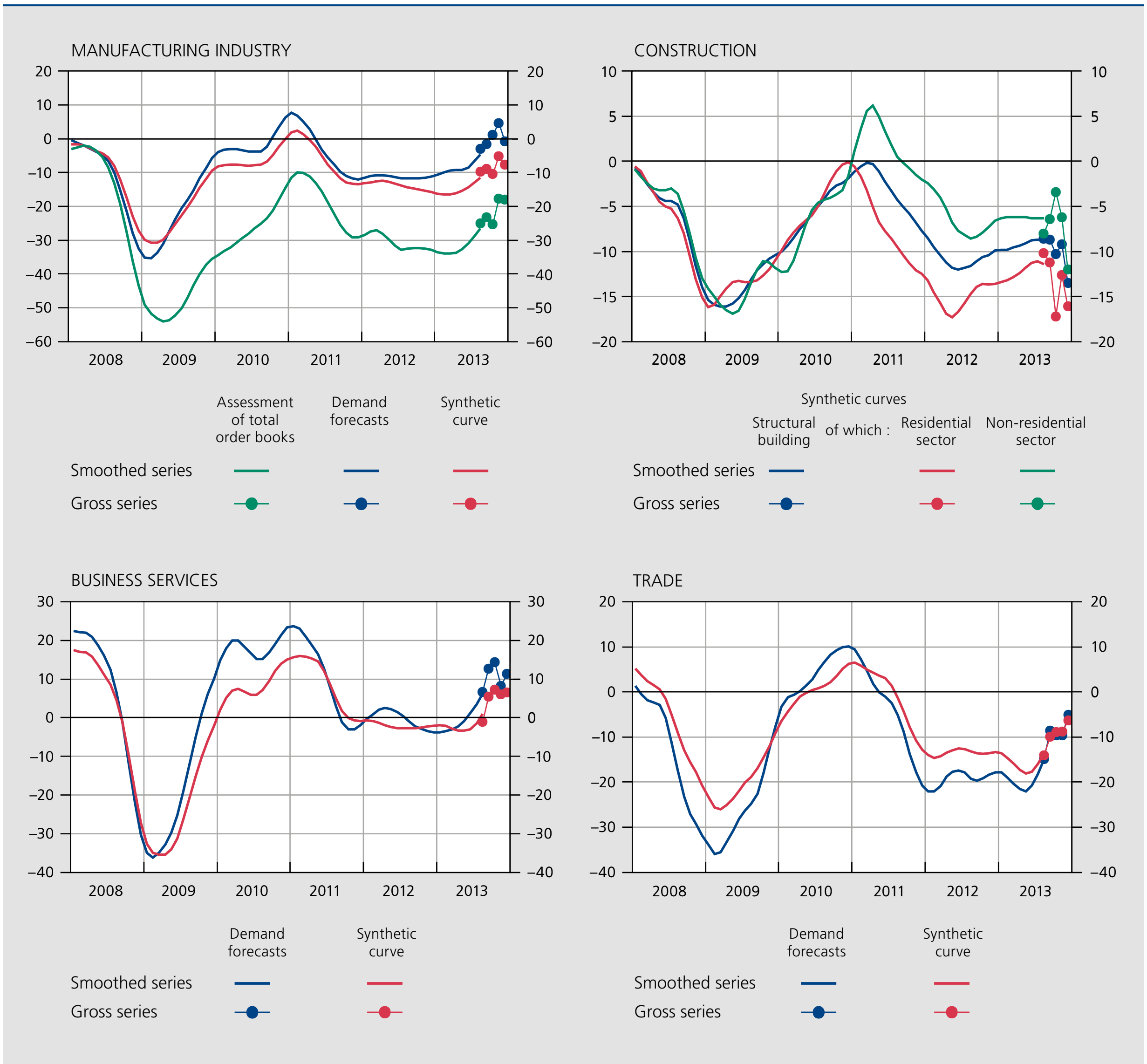
Construction, which represents 6 % of the value added of the economy as a whole and where activity is generally less sensitive to the international situation than in manufacturing industry, stood out from the other branches of activity in the first half of 2013. In fact, the quarterly growth of value added was negative, thus maintaining the trend that had begun in the first quarter of 2012. This branch of activity, dependent on fixed capital formation, clearly suffered at the beginning of the year from the bad weather conditions and the slump in housing investment and, above all, public investment. However, like business confidence in this branch, the quarterly growth of the volume of activity tended to improve over the first nine months of the year, returning to positive territory in the third quarter. In that respect, the slight improvement in the business climate in structural building at the beginning of the year was most evident in housing construction, while there was little change in activity and confidence in non-residential construction. In the fourth quarter, the business climate deteriorated in both sub-branches.

In market services, quarterly growth of value added remained positive throughout the year under review, thus halting the 2012 trend. This branch of activity, which comprises trade, accommodation and food service activities, transport and communication, and financial, real estate and business services, accounts for over half of Belgium's total value added. The upturn in activity was evident in most market services. In particular, accommodation and food service activities, along with retail trade, benefited from the increase in household consumption expenditure, while business services gained from the rise in industrial output. The synthetic business survey curves for trade and business services in fact displayed a favourable trend during the year under review, principally in the second half of the year, and partly thanks to the more optimistic demand outlook.

The growth revival during 2013 had no influence on non-market services, as the latter are less sensitive to fluctuations in the business cycle. As usual, this branch of activity, consisting primarily of education, public administration, health and social work, and representing almost a quarter of the value added of the total economy, maintained positive quarterly growth of value added, varying on average between 0.2 and 0.3 %. However, activity slowed slightly, reflecting the effects of fiscal consolidation by the federal government and local authorities which related in particular to the workforce.

CHART 25 BUSINESS SURVEY INDICATORS FOR THE MAIN BRANCHES OF ACTIVITY

(balances, seasonally adjusted data)



Source: NBB.

2.2 Labour market

Employment continued to feel the effects of the previous weakness of activity

The labour market takes some time to respond to the movement in economic activity. The fall in GDP in 2012 therefore continued to influence employment during the year under review, as the beneficial effect of the revival in activity in 2013 had yet to be felt. Employment was down by 0.2 %, after expanding for three years in succession.

Net job losses were actually more numerous than during the great recession, despite a much less severe contraction in activity. Labour-hoarding mechanisms no longer acted as a buffer to the same extent as in 2008 and 2009. There were at least two reasons for that: first, the long duration of the crisis and the hesitant exit from it undermined the resilience of firms, making workforce adjustments unavoidable; second, the conditions governing temporary lay-offs on economic grounds were tightened up by introduction of an responsibilisation contribution. Thus, the number of days of temporary lay-offs declined in 2013 and approached its long-term average (around three million days not worked per quarter). In addition, several collective redundancy programmes have been implemented in the past few years as firms have restructured or closed down ; however, as Box 3 shows, those job destructions take some time to come into effect. Employment's late response is also due partly to the expiry of certain measures supporting demand for labour that had been reinforced in 2010. More particularly, in the second quarter of 2013, the numbers benefiting from the Activa win-win scheme – which had concerned up to 50 000 persons, on average in 2011 – declined to zero.

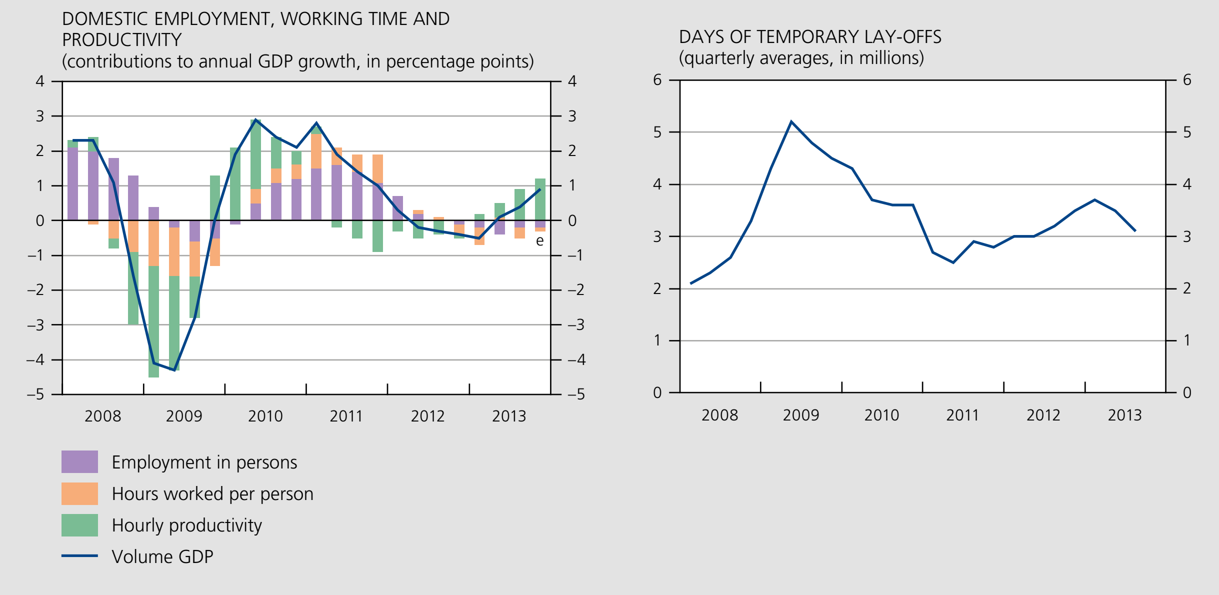
Against the backdrop of the economic growth revival, while job losses persisted on an annual basis until the end of the year, labour productivity was the main adjustment variable. It began rising from the first quarter of the year, thus ending seven consecutive quarters of decline.

Altogether, domestic employment was down by 11 000 persons compared to the previous year. That fall was attributable mainly to the decline in the number of employees in branches sensitive to the business cycle. Those branches recorded net job losses from 2012 which intensified during the year under review to reach an average of 25 000. However, the rate of job losses slowed down in the second half of the year, reflecting the delayed reaction to changes in activity. Industry was where employment declined most steeply over the first three quarters of 2013. However, that trend had already set in previously : between the third quarter of 2008 and the same quarter of 2013, the workforce contracted by 68 000 units. In contrast to what happened during the great recession, the public administration and education branch was also affected recently (down by 1 000 persons), against the backdrop of fiscal consolidation at various levels of power. On the other hand, as in previous years, the heavily subsidised other services branch (mainly health care and social work) made a positive contribution to employment of around 8 000 additional employees. As in 2012, however, that support was significantly less than it had been on average between 2008 and 2011.

Other subsidised jobs, such as those covered by the service voucher system, also continued to foster job creation, with net recruitment amounting to 9 000 persons. In their case, too, the growth rate was slower than in 2008 and 2009, owing to such factors as the gradual saturation of demand and successive increases in voucher prices.

In Belgium, just over six out of ten employees work in branches sensitive to the business cycle. However, that average conceals significant differences between the Regions. For instance, in 2012, two-thirds of employees in Flanders worked in those branches, compared to around 57 % in Wallonia and Brussels. In these two Regions, public administration and education are the principal employers. In Brussels, apart from trade, it is business services

CHART 26 GDP, EMPLOYMENT, PRODUCTIVITY AND TEMPORARY LAY-OFFS
(data adjusted for seasonal and calendar effects)



Sources : NAI, NEO, NBB.

TABLE 4 LABOUR SUPPLY AND DEMAND

(annual averages; changes, unless otherwise stated; thousands of persons)

	2009	2010	2011	2012	2013 e	*p.m. Level* *2013 e*
Population of working age (1)	50	55	45	22	22	*7 269*
Labour force	43	45	43	25	14	*5 209*
National employment	–8	31	63	11	–11	*4 625*
Frontier workers	1	1	0	1	0	*81*
Domestic employment	–9	30	63	9	–11	*4 544*
Self-employed	4	6	10	9	6	*751*
Employees	–13	24	54	1	–18	*3 793*
Branches sensitive to the business cycle	–38	3	32	–6	–25	*2 353*
Public administration and education	14	7	4	–1	–1	*804*
Other services	11	14	18	7	8	*636*
p.m. Service vouchers (2)	*19*	*15*	*12*	*8*	*9*	*118*
Unemployment (3)	51	14	–20	14	24	*584*

Sources: FPB, DGSEI, NAI, NEO, NSSO, NBB.
(1) Population aged from 15 to 64 years.
(2) On the basis of the NSSO data.
(3) Unemployed job-seekers, comprising totally unemployed persons claiming benefits (except older unemployed persons not seeking work), and other job-seekers registered on a compulsory or voluntary basis. Those working via the local employment agencies who are already included in employment are excluded from this total.

and financial activities that employ the most workers, while industry represents a much smaller proportion of employment there than elsewhere. Finally, Wallonia is notable for the relatively larger proportion of persons employed in human health and social work.

As in previous years, employment was supported by self-employed workers, the number of whom increased by 6 000.

The number of self-employed workers has risen steadily over the past ten years. That growth is attributable, among other factors, to nationals of East European countries that joined the EU in 2004 and in 2007. Before 2009, Estonian, Hungarian, Latvian, Lithuanian, Polish, Slovak, Slovenian and Czech citizens could not work as employees in Belgium unless they had a work permit. Since those restrictions did not apply to self-employed workers, up to 2008 large numbers of citizens from those eight new Member States (primarily Poles) adopted that status. From 2009 onwards, that inflow diminished. Up to 31 December 2013, similar restrictions still governed access to salaried employment for Bulgarian and Romanian nationals. The number of self-employed workers of those two nationalities has risen constantly, and in 2012 they represented 2.5 % of self-employed workers in Belgium, compared to 1.1 % for nationals of the other East European countries. In addition, on the basis of the latest available information, around 25 000 self-employed workers – taking all nationalities together – worked on secondment in Belgium in 2012.

The characteristics of self-employment vary according to the individuals' nationality. Most nationals of the "new" Member States worked in construction in 2012 (62 %), whereas the type of work is more diversified among Belgians, who are represented to a greater extent in trade and the liberal professions. Moreover, these professions have gained ground in recent years since they are less dependent on the business cycle, and new personal service activities have developed (consultancy, coaching, etc.) together with improvements in the social status of the self-employed.

In 2012, there were around 150 000 employees from other countries working on secondment in Belgium, an increase of 9 % against 2011. Employees on secondment work temporarily (in principle for a maximum of twelve months) in Belgium, whereas they normally work or were recruited in another country. The contractual relationship between the foreign employer and the seconded worker is maintained, and the worker is in fact subject to the

TABLE 5 STRUCTURE OF SALARIED DOMESTIC EMPLOYMENT PER BRANCH OF ACTIVITY AND PER REGION, IN 2012

(in % of total salaried employment)

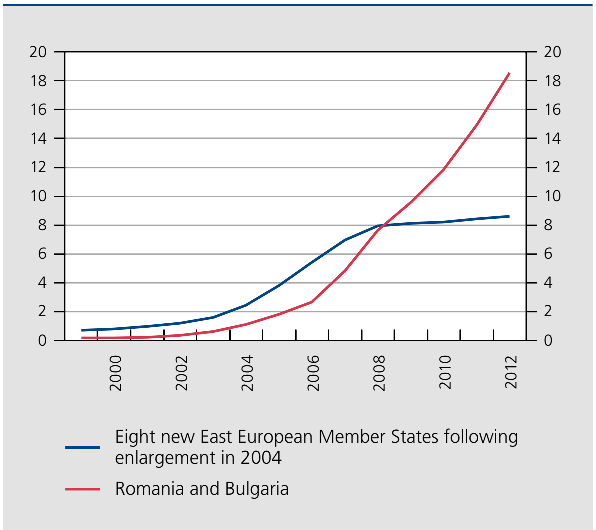
	Brussels	Flanders	Wallonia	Belgium
Branches sensitive to the business cycle	56.9	66.6	56.8	62.4
of which:				
Industry	4.6	17.6	14.4	14.6
Construction	2.5	6.2	6.7	5.8
Trade, transport and hotels and restaurants	20.3	23.6	21.4	22.4
Financial and insurance activities	9.8	2.3	1.8	3.4
Business services	13.6	13.6	10.1	12.6
Public administration and education	28.5	17.3	24.6	21.1
Human health and social work	9.3	12.9	14.6	12.7
Other service activities (1)	5.3	3.2	4.1	3.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: NAI.
(1) Arts, entertainment and leisure activities; activities of households as employers; undifferentiated production of goods and services by households for their own use; other service activities.

social security system of the country of origin, though the employer is required to respect the social legislation in force in the host country (e.g. in regard to working time, minimum pay, etc.). Before any work is done, a declaration has to be made to the Belgian social security under the Limosa programme (cross-border information system for the social security authority). The firms submitting declarations are mainly based in neighbouring Member States (the Netherlands, Germany and France), as well as in Poland and Romania, though that does not necessarily mean that the seconded workers are nationals of those countries. These people, who are not recorded in the Belgian employment figures, are active mainly in the construction, metalworking and metal manufacturing industries.

CHART 27 SELF-EMPLOYED PERSONS FROM THE "NEW" MEMBER STATES SETTLED IN BELGIUM (1)

(annual averages, in thousands of persons)



Source: NISSE.
(1) Including assistants.

Rise in unemployment despite the modest growth of the labour force

In regard to the labour supply, the population of working age increased by 22 000 persons, as it did in 2012, and the activity rate stabilised owing to the dissuasive effect of the contraction in demand for labour and as a result of a gradual decline in the support provided by extending working life for women. The labour force thus increased by around 14 000 individuals, a smaller rise than in previous years. That deceleration tempered the impact of job losses on unemployment. Nonetheless, the latter maintained the rise which had begun in 2012, with an extra 24 000 unemployed job-seekers. On average, the NEO recorded 584 000 persons with that status in the year under review.

The rise in unemployment varies from one Region to another. In both absolute and proportionate terms, Flanders saw the biggest increase in the number of people seeking work, as that Region is more sensitive to cyclical fluctuations in activity. As an average over the year under review, unemployment affected 17 000 more people there than in 2012, compared to 5 000 in Wallonia and 1 600 in Brussels. The number of unemployed job-seekers in Flanders thus grew closer to the figure for Wallonia. In 2013, that number averaged 253 000 in Wallonia, 222 000 in Flanders and 109 000 in Brussels.

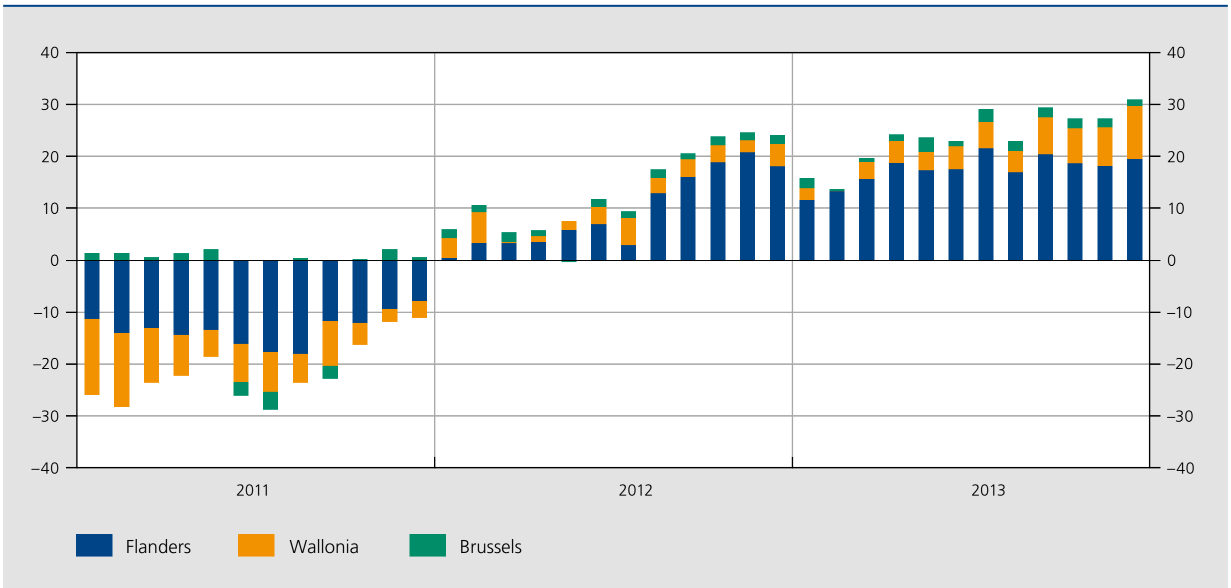
Up to the middle of the year, it was unemployment among young people under the age of 25 that increased most sharply in proportionate terms. In 2013, the number of unemployed job-seekers under 25 years of age averaged 118 000, representing 20 % of the total. Their situation on the labour market may worsen more rapidly during a recession, as happened from the second half of 2008. For one thing, their arrival in cohorts on a shrinking labour market at the end of their education exerts upward pressure on unemployment. Also, more selective recruitment puts them at a disadvantage because they can offer little if any experience and are competing with a reservoir of older workers who have become unemployed. Finally, younger workers are potentially the first to have their contracts terminated because they have less seniority, they have built up less specific human capital in the firm that recruited them, and are more often employed under a fixed-term contract. Conversely, the young are the first to benefit from a growth revival.

Young school-leavers may register with a public employment service and start an "integration period" during which they are supported and monitored in their efforts to find work. To prevent them from getting trapped in long-term unemployment, the "transitional work experience" scheme was introduced on 1 January 2013. This enables young people with low or medium skills to gain initial work experience for three to a maximum of six months in a firm, an NPI or a public service. An annual quota of 10 000 traineeships should thus be made available. However, the number of benefits paid out by the NEO in respect of these traineeships still only averaged 272 in the third quarter of 2013.

In the second half of the year, the situation per age group was reversed. The growth rate of unemployment among persons aged 25 or over increased throughout 2013 and exceeded that for young people in the second half of the year. More particularly, the number of job-seekers aged 50 or over increased steadily compared to the previous year, partly on account of the raising of the age from which people can apply for exemption from registration as job-seekers. That age was increased to 60 years on 1 January 2013. Consequently, many unemployed persons aged 58 or 59 years who could previously apply for that exemption now remain as job-seekers. This recent rise in the number of job-seekers aged 50 or over is in line with the general trend apparent since the beginning of the 2000s. It is due, on the one hand, to a previous

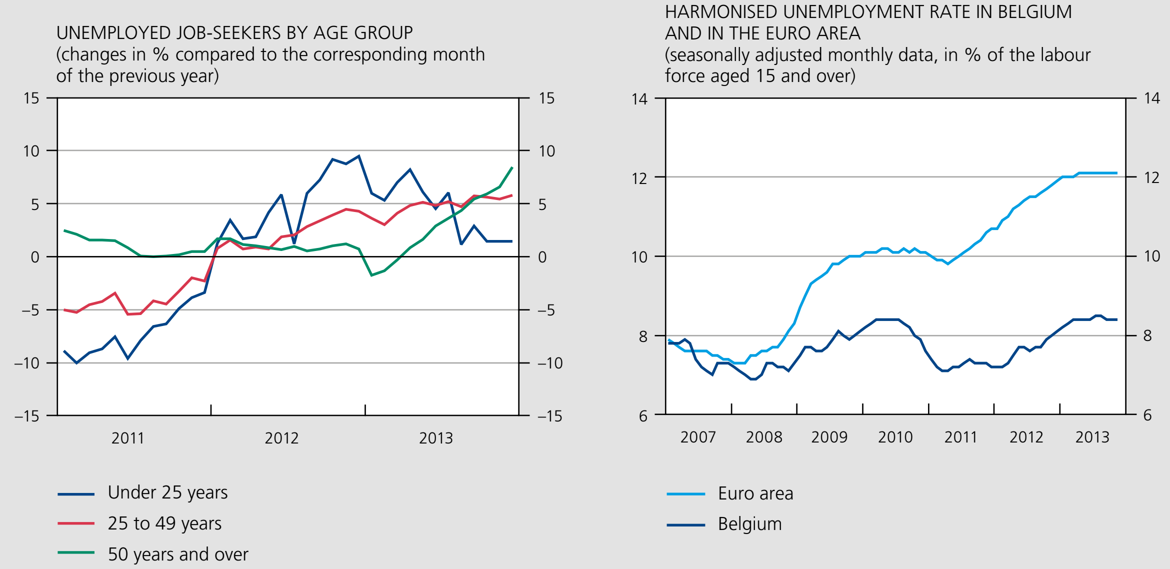
CHART 28 UNEMPLOYED JOB-SEEKERS IN BELGIUM AND IN THE THREE REGIONS [1]

(change in thousands of persons compared to the corresponding month of the previous year)



Source: NEO.
(1) Since January 2012, the VDAB no longer deletes job-seekers accepting a contract for agency work unless they have worked for at least ten days by the end of the month.

CHART 29 UNEMPLOYMENT INDICATORS



Sources: EC, NEO.

adjustment in the age at which exemption may be requested (that age having been raised gradually from 50 to 58 years) and, on the other, to the expansion of the labour force in that age group.

The harmonised unemployment rate for active people aged 15 and over, which is not directly affected by the administrative changes, rose in 2013 to an average of 8.5 %. At the end of the year, the Belgian unemployment rate was 3.7 percentage points below the euro area figure, whereas before the great recession the rates had been much the same.

The harmonised regional unemployment rates vary significantly. Expressed as a percentage of the labour force aged from 15 to 64 years, the average over the first three quarters of 2013 stood at 19.4 % in Brussels, 11.4 % in Wallonia and only 5 % in Flanders.

Box 3 – The impact of corporate restructuring on employment

A firm has to adapt continually to developments in its markets, in competition and in technology. Restructurings are therefore inevitable, though they need not necessarily entail a reduction or cessation of activity. Episodes of economic crisis or weak economic activity tend to increase the speed or scale of restructuring. The restructurings considered here are those leading to collective redundancies.

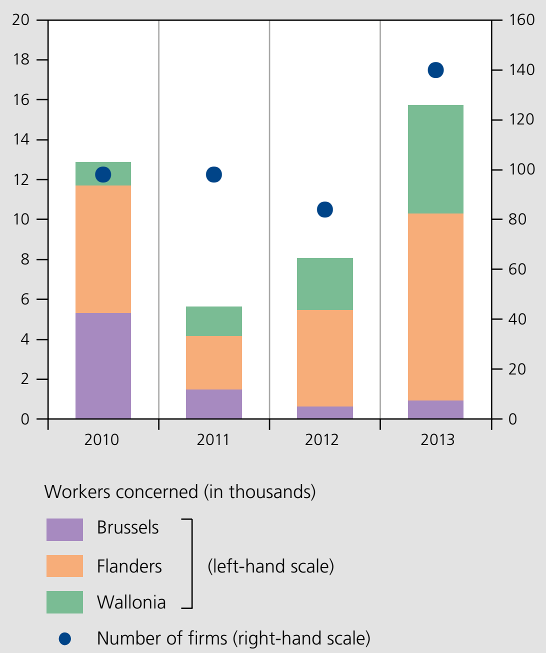
Under Belgian social law, collective redundancy applies where the reasons for terminating the employment contract are unconnected with the employee, and the redundancy affects a set number of workers, varying according to the firm's size. It follows a specific information and consultation procedure involving the workers' representatives, public employment services, and the Federal Public Service Employment, Labour and Social Dialogue (FPS ELSD). A certain time may elapse between the announcement of collective redundancy, which initiates the process, and its notification, which ends the process. Going by the procedures notified to the FPS ELSD in 2013, the median duration came to 57 days. By way of comparison, between 2010 and 2012 it fluctuated between 42 and 72 days. However, the procedure can quite commonly take much longer: in 2013, a quarter of the procedures took more than 90 days. The employer can then dismiss the workers concerned 30 days after the notification.

While the number of firms completing their information and consultation procedure remained relatively stable at less than 100 between 2010 and 2012, it surged to 140 in 2013. However, the number of workers involved varies significantly, owing to the influence of a few large firms. In 2010, the first year for which full data are available from the FPS ELSD, almost 13 000 workers underwent a collective redundancy procedure; that declined by 7 000 in the following year. In 2012, around 8 000 employees were concerned, and in 2013 notifications involved 15 711 workers, 942 of whom were employed in Brussels, 9 372 in Flanders (mainly in the province of Limburg) and 5 397 in Wallonia (principally in the Hainaut).

The metalworking and metal processing branch was the most affected, accounting for three-quarters of the employees concerned in 2013. The five biggest plans notified during that period related to Duferco Belgium, NLMK La Louvière and Arcelor Belgium (in the steel sector) and Ford Genk and Caterpillar Belgium (metal processing). These activities had also represented the largest proportion of all notifications in previous years except in 2010, when a major retailer (Carrefour) had closed a number of stores, thus accounting for more than a third of all workers covered by a notification.

It should be noted that these statistics give an indication of the job destructions that result from these procedures, not the resulting net job losses for the economy as a whole. In the case of skilled workers, there are opportunities for redeployment in other firms, though not necessarily in the same functions, the same type of activity or the

TOTAL NUMBER OF FIRMS NOTIFYING A COLLECTIVE REDUNDANCY PLAN AND NUMBER OF WORKERS CONCERNED PER REGION



Source: FPS ELSD.

BREAKDOWN OF THE NUMBER OF WORKERS CONCERNED BY A COLLECTIVE REDUNDANCY PLAN NOTIFICATION BY BRANCH OF ACTIVITY (1)

(in % of the total number of workers)

	2010	2011	2012	2013
Metalworking and metal processing	28.5	28.2	59.0	74.1
Petrochemicals	12.2	15.9	8.4	4.7
Agri-food	2.3	15.6	2.6	3.0
Distribution	37.0	4.3	0.4	2.5
Stone industry	3.0	7.0	2.8	2.4
Textiles	0.4	6.1	8.7	1.1
Transport	5.3	4.8	3.1	1.7
Other (2)	11.3	18.1	15.0	10.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: FPS ELSD.
(1) The sub-division by branch is based on the joint committees.
(2) Auxiliary joint committees; paper and wood; printing, graphic design and media; financial sector; hotels and restaurants; medical, teaching and social organisations; business and personal services.

same geographical area. Encouraging this return to employment ("outplacement") is precisely the aim of the final phase of a collective redundancy procedure, namely the creation of an employment unit. This obligation, introduced in 2006 under the Generation Pact, was originally targeted mainly at workers over the age of 45 employed in firms undergoing restructuring who wanted to take early retirement. In 2009, this scheme was extended to all employees and all firms undergoing restructuring, the aim being to speed up the reintegration of workers made redundant because of the economic crisis.

Very often, workers made redundant under a restructuring programme who meet the age criteria negotiate access to the scheme for unemployment benefit with employer top-up (previously known as "full-time pre-pensions"). That makes them eligible for not only unemployment benefit but also an additional allowance payable by the employer (or by a fund acting on the employer's behalf), until they reach retirement age. Under the general scheme, that status can be obtained in the event of redundancy occurring after the age of 60 years. However, "pre-pension" may still be taken earlier, on the one hand if the firm has been recognised by the federal Minister of Employment as being in difficulty or undergoing restructuring, and on the other hand according to the specific characteristics of certain sectors, trades, or workers, or the length of working life. Nevertheless, the minimum age at which workers can qualify as unemployed with an employer top-up is 52 years.

The status of unemployed with employer top-up implies certain obligations; for instance, the worker must be registered as a job-seeker with the competent public employment service, must be available for the labour market and must accept any suitable job or any vocational training. These constraints no longer apply after the age of 60. They may also be waived before that age on the basis of the length of working life.

Despite the steady rise in the total number of persons unemployed with an employer top-up (averaging 112 000 over the first eleven months of 2013, most of them aged 60 or more), the gradual tightening of access to this scheme has reduced the size of this group within the population aged from 50 to 64 years. That proportion declined from 5.7 % in 2007 to 5.1 % in 2013. The great majority of the beneficiaries are exempt from seeking work: on average, over the first eleven months of 2013, only 4 400 of them were still registered as job-seekers.

2.3 Inflation and labour costs

Consumer price trends

Sharp fall in inflation in 2013 …

During the year under review, inflation measured by the year-on-year change in the harmonised index of consumer prices (HICP) averaged 1.2 %, compared to 2.6 % in 2012. Maintaining a trend that had begun in the closing months of 2011, this decline is due mainly to the fall in energy prices. Underlying inflation was also down against the high level seen in 2012, though that had been caused partly by a rise in indirect taxes.

The slowdown in overall inflation was sharper in Belgium than in the euro area as a whole, and exceeded the average for the three main neighbouring countries. In those two comparison regions, overall inflation was running at 1.4 % in 2013, reversing the positive gap between Belgium and those regions prevailing in the three previous years; the differentials therefore became slightly negative in 2013, at around –0.2 percentage point. That situation is also due to the movement in prices of energy, and more particularly gas and electricity.

… as a result of moderating pressure of underlying inflation …

Against the backdrop of subdued economic activity and more controlled wage increases, underlying inflation – which is generally measured by the movement in prices of non-energy industrial goods and services – was running at 1.4 % in 2013, down sharply against the previous year. However, the 1.9 % rate recorded in 2012 was due partly to the increase in indirect taxes on certain services, which had contributed 0.3 percentage point to the rise in services prices in 2012. That base effect therefore accounts for half of the fall in services inflation in 2013, which subsided from 2.5 % in 2012 to 1.9 % in 2013.

Services were the main factor in the decline in underlying inflation since the rise in prices of non-energy industrial goods only dipped slightly, from 0.9 % in 2012 to 0.8 % in 2013.

However, despite this fall, underlying inflation – which largely reflects the transmission to consumer prices of the costs generated within the economy – was again higher in Belgium than in the neighbouring countries, where it averaged only 1.1 % in 2013, despite the upward effect of an increase in the standard VAT rate in the Netherlands. That persistence of underlying inflation

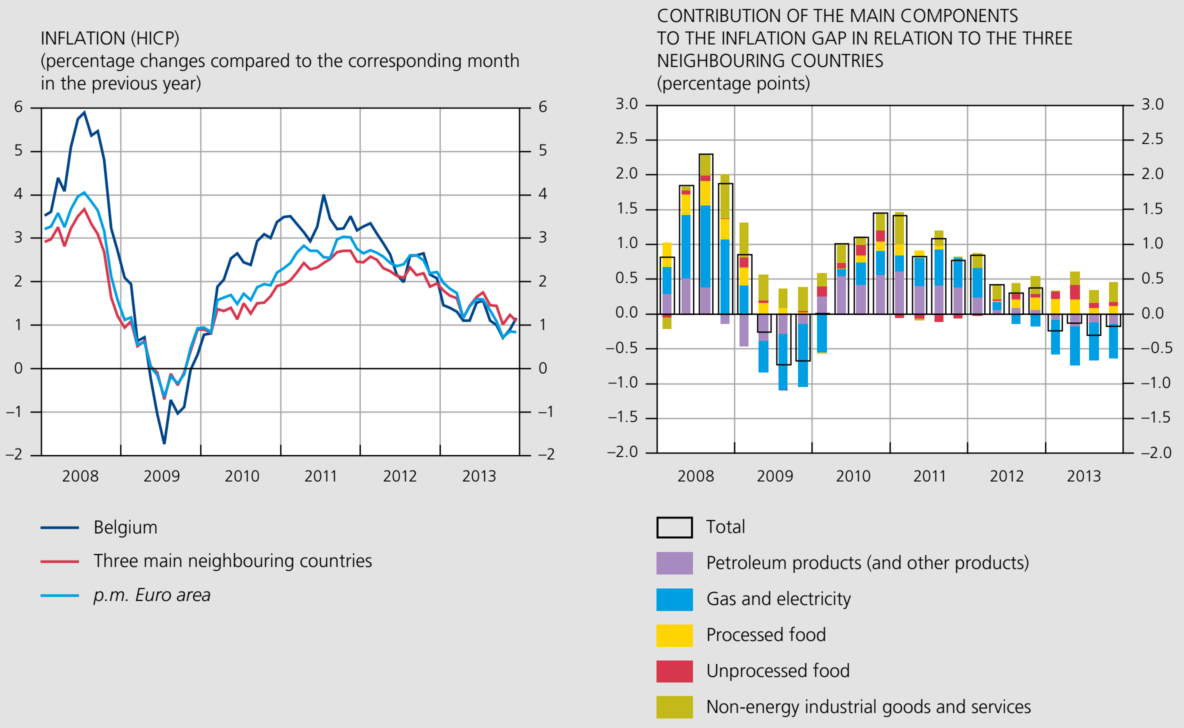
TABLE 6 HARMONISED INDEX OF CONSUMER PRICES AND LABOUR COSTS

(percentage changes compared to the previous year)

	2009	2010	2011	2012	2013	*p.m. Three main neighbouring countries* [1] *2013*
HICP	0.0	2.3	3.4	2.6	1.2	*1.4*
Energy	–14.0	10.0	17.0	6.0	–4.6	*1.4*
Unprocessed food [2]	0.4	3.5	0.2	3.4	4.4	*3.8*
Processed food	1.7	1.0	3.1	3.1	3.2	*2.2*
Underlying inflation [3]	2.1	1.1	1.5	1.9	1.4	*1.1*
Non-energy industrial goods	1.4	0.8	1.0	0.9	0.8	*0.6*
Services	2.6	1.4	1.9	2.5	1.9	*1.5*
p.m. Health index [4]	*0.6*	*1.7*	*3.1*	*2.7*	*1.2*	–
p.m. National index	*–0.1*	*2.2*	*3.5*	*2.8*	*1.1*	–
Labour costs in the private sector						
Per unit of output	4.3	–0.4	2.6	4.4	1.8 e	*2.0* [5]
Per hour worked	2.7	0.9	2.4	3.7	2.2 e	*2.1* [6]

Sources: EC, OECD, CEC, DGSEI, NAI, NBB.
(1) As in the other tables and charts in this chapter: HICP, weighted average based on household consumption; labour costs, weighted average based on GDP.
(2) Fruit, vegetables, meat and fish.
(3) Measured by the HICP, excluding food and energy.
(4) National consumer price index excluding products deemed harmful to health, namely tobacco, alcohol, petrol and diesel.
(5) Average of the first three quarters; business sector (NACE branches of activity B to N); source: EC.
(6) Estimate on an annual basis by the CEC.

CHART 30 INFLATION IN BELGIUM AND IN THE THREE NEIGHBOURING COUNTRIES



Sources: EC, NBB.

in Belgium is due in particular to the large number of services, such as rent, which are linked to the price index or the health index, so that the steep rise in those indices in recent years tends to be passed on after a time in the underlying inflation rate.

... and a reduction in energy prices

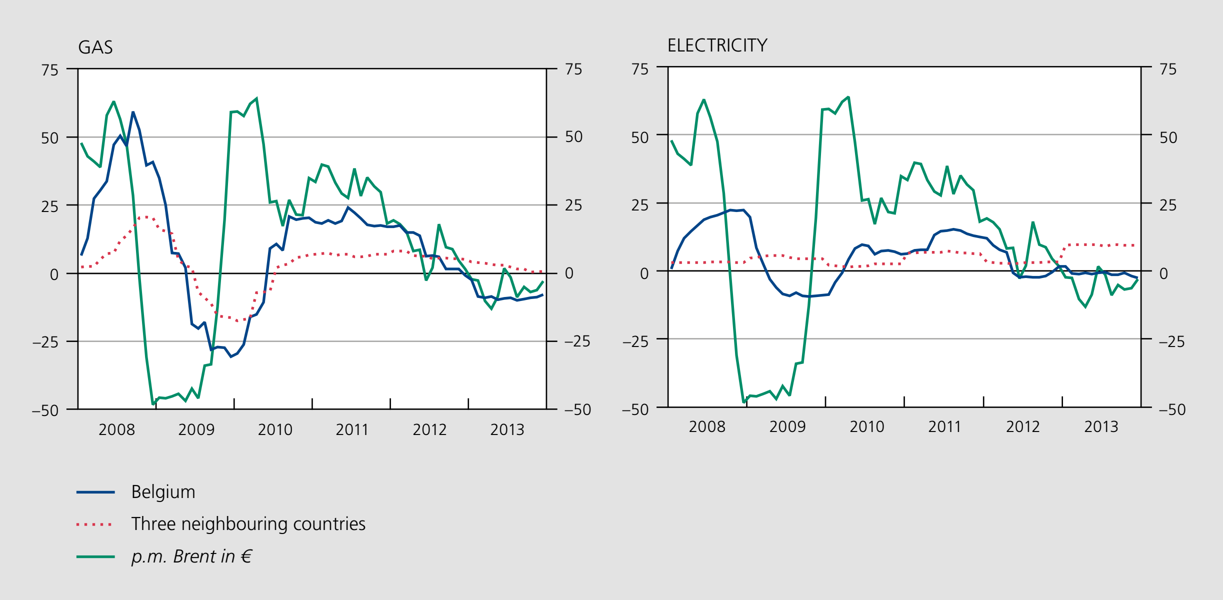
In Belgium, consumer prices of petroleum products are more sensitive to fluctuations in international oil prices, as the level of excise duty is lower on average than in the neighbouring countries. After rising for three consecutive years, the price of Brent crude oil in euros was down by an average of 5.7 % in 2013, owing to the combined effects of a fall in dollar prices and an appreciation of the European currency. The year-on-year change in prices of petroleum-based energy products, namely heating oil and motor fuels, was negative throughout the year under review, thus contributing to the favourable inflation gap in relation to the neighbouring countries. For these two categories, inflation in Belgium averaged –5.9 and –4.6 % in 2013, compared to –5 and –2.8 % in the three neighbouring countries.

Previously, on the retail markets, the application to variable-price contracts of a monthly mechanism for index-linking gas and electricity prices, based mainly on international oil prices, also contributed to the greater sensitivity of inflation to those prices. In April 2013, a new system came into force under the reform of those markets; from now on, prices can only be index-linked quarterly, and solely on the basis of market prices for gas and electricity.

Competition has also stiffened on these markets, notably as a result of the various government initiatives encouraging consumers to check price differences between suppliers (information and awareness campaign “Gas and electricity: dare to compare!”, promoting the use of price comparison tools) and to cut the cost of switching suppliers, with the abolition of contract termination penalties. This has brought significant changes in suppliers’ respective market shares, causing some of them to make sharp reductions in tariffs from January 2013. That was a major factor in the steep fall in consumer prices of gas and electricity, not only in relation to 2012 but also compared to the neighbouring countries. Thus, the price of gas dropped by 8.5 % in 2013, whereas it had risen by

CHART 31 CONSUMER PRICES OF GAS AND ELECTRICITY

(percentage changes compared to the corresponding period in the previous year)



Sources: EC, Thomson Reuters Datastream.

8 % in 2012, while electricity prices declined by 0.9 %, as increases in the electricity transmission tariffs offset much of the fall in the energy component. This picture compares favourably with the average in the neighbouring countries, where electricity prices went up by 9.5 % in 2013 and gas prices rose by 2.3 %.

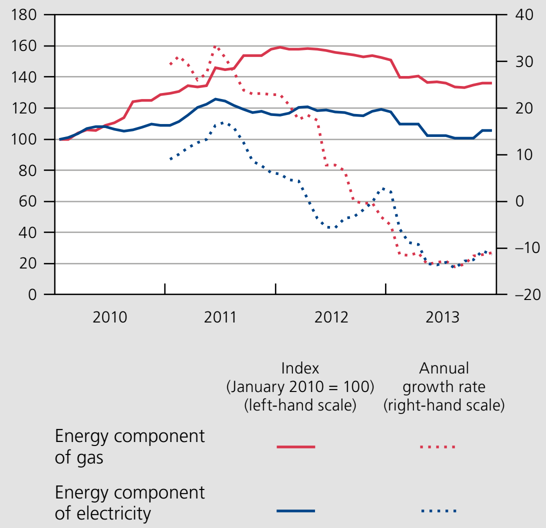
Box 4 – Impact on inflation of the revision of the mechanism for index-linking gas and electricity tariffs

In the previous edition of the Annual Report, Box 8 presented the principles and details of the reforms to the method of setting retail gas and electricity prices. Those reforms were prompted in particular by the desire to make those prices less volatile and to break the link with movements in international oil prices. In particular, the regulator advocated ending this reference to oil prices and index-linking tariffs solely on the basis of gas and electricity prices. The indicators relating to the average consumer's bill for gas and electricity developed by the Price Observatory (NAI) make it possible to assess the effect of those changes.

In January 2013, the main suppliers decided to apply the new indexation parameters immediately after the price freeze which ran from April to December 2012, without waiting for the official date for their entry into force on 1 April 2013. On that occasion, in an environment of keener competition, they also made substantial cuts in tariffs, moving closer into line with the formulas of suppliers already basing their indexation on market prices, whereas a catch-up would have been observed if the old parameters had been maintained.

The data underlying the Price Observatory indicators make it possible to identify the energy component of the other constituents of the consumer price for energy products, namely the distribution tariffs and miscellaneous surcharges. Against the backdrop of the tariff reduction implemented in January 2013 and the introduction of new indexation parameters, the energy components of the average gas and electricity bill in the case of variable-price

COST TRENDS OF THE ENERGY COMPONENT OF GAS AND ELECTRICITY FOR VARIABLE-PRICE CONTRACTS (1)



Source: NAI (Price Observatory).
(1) Lagged by one month in accordance with the price index methodology.

contracts came down by an average of 12 and 10 % respectively over the whole of the year under review, whereas they had risen by 27 and 12 % in 2011. In 2012, their level had essentially stagnated as a result of the tariff freeze, and they had even edged downwards from the second quarter, mainly as a result of the substitution effect in favour of suppliers offering the cheapest tariffs.

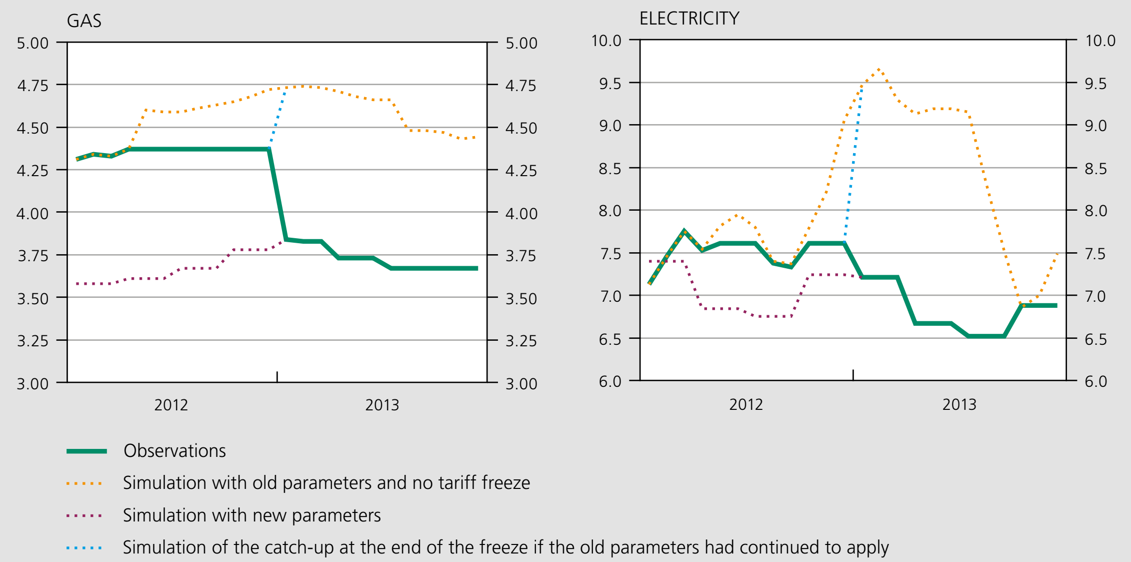
It is also possible to estimate how the energy component of the historical supplier's main variable tariff would have moved in 2013 if the old parameters had still applied. As is evident from the chart, the result would have been a marked rise in tariffs after the 2012 price freeze, particularly in the case of electricity, given the upward movement in the old parameters during the freeze. Tariffs would then have fallen steeply in the second half of the year, to reach a level close to that under the new parameters in the case of electricity, though at the cost of much greater volatility during the year. For gas, the price per kWh according to the old parameters would have remained well above its actual level under the new parameters, even though that supplier decided to continue index-linking its variable tariffs partly on the basis of the oil price for the first three quarters, as allowed by law during the transitional period.

The tariff-setting mechanism reforms, like the measures boosting competition on these retail markets, have *ex-ante* positive effects on household purchasing power and (potentially) on the cost competitiveness of small business users to whom the same tariffs apply. On the one hand, in 2013, a temporary benefit was seen as the price level fell both for consumers switching to a more competitive supplier and for those whose tariffs declined without a change of supplier. There is also a more structural benefit in that an oil shock will no longer have a direct impact on consumer prices of gas and electricity in Belgium, and those prices should no longer contribute to an adverse inflation gap as they used to do. However, they will remain relatively sensitive to fluctuations in commodity prices, and hence volatile, since they are index-linked to market prices of gas and electricity. Via the automatic wage indexation mechanisms, these effects are also transmitted to the movement in labour costs for all firms.

The revision of these mechanisms helped to reduce retail gas and electricity prices in Belgium in the first half of 2013, compared to their average level in 2012, whereas those prices rose in each of the three neighbouring countries. Thus, on average over the first half of 2013, the price that Belgian consumers paid for gas was similar to the price in Germany, and 3 to 19 % lower than prices in France and the Netherlands respectively. In the latter country, gas is heavily taxed to encourage energy saving, in contrast to electricity. In the specific case of electricity, prices in Belgium were still around 11 % higher than in the Netherlands and almost 50 % higher than in France, as prices there reflect the low production costs owing to the substantial nuclear capacity. They were 25 % below prices in Germany, where consumers pay surcharges in support of renewable energy.

ENERGY COMPONENT TRENDS OF THE HISTORICAL SUPPLIER'S MAIN VARIABLE TARIFF ACCORDING TO THE OLD AND NEW PARAMETERS

(in € per kWh)



Source: NAI (Price Observatory).

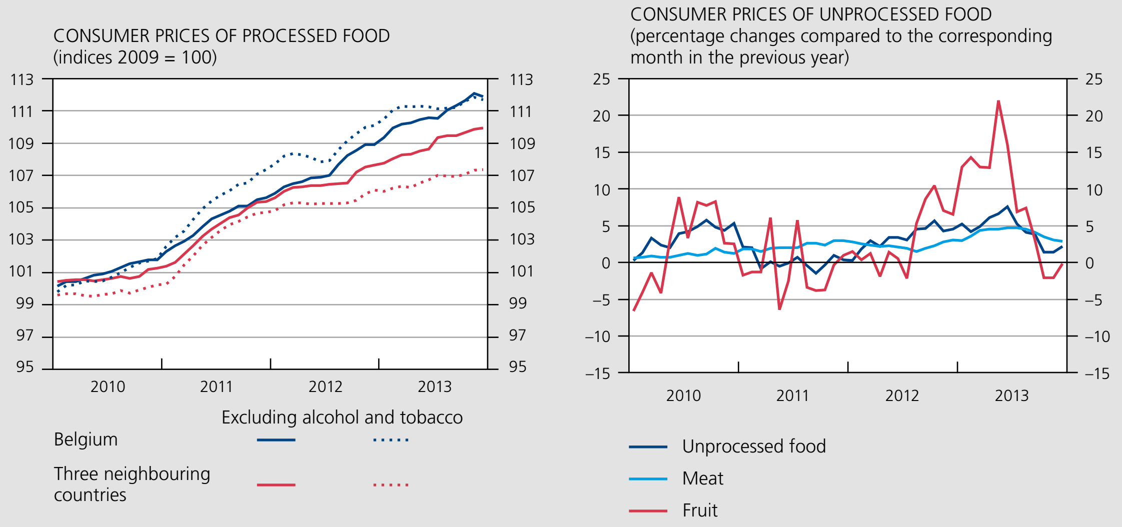
Continuing sustained rise in food prices

Processed food prices continued to rise strongly in 2013, climbing by an average of 3.2 %, a figure comparable to that for the two previous years. This reflects both the gradual transmission of the sharp rise in food commodity prices during the summer of 2012 and the increase in excise duty on alcohol and tobacco.

The pricing of processed foods in Belgium is asymmetrical. While the steeper increase in those prices compared to neighbouring countries resulting from a rise in international market prices tends to widen the inflation gap, the opposite does not apply if commodity prices fall. In 2013, the gap increased further, reaching 0.9 percentage point, and – if alcohol and tobacco are excluded – it was actually 1.1 percentage points, compared to gaps of 0.2 and 0.9 point respectively in 2012.

The rate of increase in unprocessed food prices accelerated particularly sharply in the first half of 2013, rising by 4.4 % over the year as a whole, following a 3.4 % increase in 2012. This rise, outpacing the 3.8 % increase in the neighbouring countries, attenuated the fall in overall inflation, though only moderately in view of the low weight of this group of products in the price index. Meat prices in particular went up by 4 % on average which, taking account of their relatively high weighting, had the

CHART 32 CONSUMER PRICES OF FOOD



Source : EC.

same impact on this category as fruit, which represents a much smaller part of the consumption basket but recorded an 8.5 % surge in prices in 2013. That is due to local supply conditions following two periods of bad weather, one in the summer of 2012 and the other in the spring of 2013, which both affected the harvest of fruit sold in 2013.

Methodological changes have moderated the rise in the health index, apart from the effect of slower inflation

The rise in the health index, derived from the national consumer price index (NCPI), also slowed sharply in 2013 at 1.2 %, down from 2.7 % in 2012. Against the backdrop of lower energy prices, that decline was due mainly to the strong sensitivity of the health index – which is used for the automatic indexation of not just wages and social benefits but also the prices of a number of services – to fluctuations in energy prices. Even though the health index basket excludes alcohol, tobacco, petrol and diesel, in order to limit the second-round effects of increases in excise duty and, above all, oil shocks, it does include other energy products such as heating oil and gas, which recorded a sharp fall in prices in 2013.

In January 2013, the government also introduced two methodological changes concerning the national index which likewise affected the health index. Those changes, decided in anticipation of the major reform of the national index in January 2014, were made in the context of measures to support employment and competitiveness and wage moderation. On the one hand, the effect of the seasonal sales is now included in the NCPI ; also, the "payment" approach based on the moving average of prices over the past twelve months rather than on prices in the month in question is now used to take account of the price of heating oil. The combined effect of these changes on the movement in the health index is estimated at –0.17 percentage point in 2013, which should make a one-off contribution to narrowing the wage gap between Belgium and the neighbouring countries. These methodological changes, like those made to the HICP in January 2013 and the ones planned under the major reform in 2014, are described in detail, together with their potential impact, in an article in the Bank's Economic Review in December 2013[1].

(1) Langohr J. (2013), "Measuring inflation : the stakes and the state of play", NBB, *Economic Review*, December, 47-66.

Labour costs

Nominal growth of labour costs slows as a result of indexation

The deceleration of inflation was largely reflected in the movement in labour costs in 2013. Thus, in the private sector, the rise in hourly labour costs dropped from 3.7 % in 2012 to 2.2 %. Given the still rather weak business climate, despite the fragile recovery seen during the year, and concerns about competitiveness, the determinants of wage-setting other than indexation had a very limited impact during the year under review, as did employers' social contributions.

Hourly wages were up by 3.1 % in the public sector, following a rise of 3.8 % in the previous year. Apart from indexation, which led to a 2.3 % increase in pay, the higher public sector labour costs resulted in particular from the rise in social security contributions (due to the new system of funding pensions for local officials) and the wage drift (attributable to the rise in the average level of qualifications among civil servants). For the economy as a whole, the increase in labour costs declined from 3.7 % in 2012 to 2.4 % in 2013.

In the private sector as a whole, the impact of automatic indexation on the rise in wages was 0.9 percentage point lower than in 2012 at 1.9 %. That effect still exceeded the 1.2 % inflation measured on the basis of the health index. The time lags relating to the indexation mechanisms applied in the various sectors in fact delayed the full transmission of the significant weakening of inflationary pressure on wages, so that the full effect of that decline has yet to be felt. The delays were even greater in the public sector since the impact of indexation on the rise in labour costs was only slightly lower than in 2012, dropping from 2.5 to 2.3 %. In this sector, where pay is index-linked in practice once the rise in the reference index reaches 2 %, the adjustments took place in January 2013.

The real agreed adjustments in the private sector are governed by a Royal Decree freezing real wage increases for 2013-2014. As had already been the case for the previous two-year period, the government made compulsory the draft interprofessional agreement that some unions had refused to approve. While a margin of 0.3 % had been available in 2012 for agreed adjustments in excess of indexation, that margin was set at 0 % in 2013 (and in 2014), the aim being to reduce the wage gap in relation to the three main neighbouring countries(1). In practice, agreed adjustments led to a very limited rise in wages of 0.1 % in 2013. This concerned increases granted at the end of the previous year in accordance with the margin allowed by the government for 2011-2012, but the effects in a full year are also evident in 2013.

The "wage drift and other factors" item covers increases and bonuses granted by firms in excess of the interprofessional and sectoral collective agreements (including pay-scale increases), the effects resulting from changes in the employment structure, and measurement errors. In 2013, those factors had a marginal impact. The weakness of demand for labour owing to the unfavourable economic climate and the acceleration of unemployment contributed to a reduction in tensions on certain labour market segments and eased the pressure on the wage drift. These factors largely compensated for the generally positive wage drift caused by changes in the structure of employment.

Employers' contributions had a neutral impact on labour costs in 2013. The amount of the reductions in social security contributions increased by around € 200 million to € 5.6 billion, or 3.7 % of the total private sector wage bill, following measures to cut labour costs passed by the government in November 2012. Nonetheless, the downward effect of these measures on the rise in labour costs – amounting to around –0.1 % – was offset by an increase in the other contributions, probably owing to the growth of redundancy payments, notably in connection with collective redundancy procedures, and in particular the one concerning a large car assembly plant.

Despite larger cuts for low-wage earners and researchers, the measures to reduce the payroll tax had no visible impact on the change in overall labour costs in 2013. Representing € 2.6 billion or 1.7 % of the total private sector wage bill, they comprise a general reduction together with subsidies designed to support R&D activities and certain specific forms of employment, such as shift work, night work and overtime. According to the national accounts methodology (ESA 95), these reductions are recorded as subsidies and are not deducted directly from labour costs.

Overall, the deceleration of hourly labour costs due to these various factors was reflected in the movement in unit labour costs in 2013. That effect was combined with the impact of the small rise in labour productivity of around 0.4 %, after two years of decline. The rise in unit labour costs in the private sector thus subsided from 4.4 % in 2012 to 1.8 % in 2013. That deceleration was more marked in Belgium than in the three main

(1) In section 3 of chapter 5, the passage on labour costs describes in more detail how the wage handicap has moved in relation to those countries.

TABLE 7 LABOUR COSTS

(calendar adjusted data; percentage changes compared to the previous year, unless otherwise stated)

	2009	2010	2011	2012	2013 e
Labour costs in the private sector					
Gross hourly wages	**2.2**	**0.9**	**2.7**	**3.8**	**2.2**
Collectively agreed wages [(1)]	2.6	0.6	2.7	3.0	2.0
Real agreed adjustments	0.2	0.1	0.0	0.2	0.1
Indexations	2.5	0.5	2.7	2.8	1.9
Wage drift and other factors [(2)]	–0.4	0.3	0.0	0.8	0.2
Employers' social contributions [(3)]	**0.5**	**0.0**	**–0.3**	**–0.1**	**0.0**
Social security	0.3	0.0	0.1	–0.1	–0.1
Other contributions [(4)]	0.2	0.0	–0.4	0.0	0.1
Hourly labour costs in the private sector	**2.7**	**0.9**	**2.4**	**3.7**	**2.2**
Unit labour costs in the private sector	**4.3**	**–0.4**	**2.6**	**4.4**	**1.8**
Hourly labour costs in the public sector	**2.6**	**1.8**	**3.9**	**3.8**	**3.1**
of which: Indexations	2.5	0.5	2.7	2.5	2.3
Hourly labour costs in the economy as a whole	**2.8**	**1.1**	**2.7**	**3.7**	**2.4**

Sources: FPS Employment, Labour and Social Dialogue; General notes on the budget; NAI; NSSO; NBB.
(1) Wage increases fixed by joint committees.
(2) Increases and bonuses granted by enterprises over and above those under interprofessional and sectoral collective agreements, wage drift resulting from changes in the structure of employment and errors and omissions; contribution to the change in labour costs, percentage points.
(3) Contribution to the change in labour costs resulting from changes in the implicit social contribution rates, percentage points.
(4) Actual social contributions which are not paid to the government, including premiums for group insurance, pension funds or occupational pension institutions, and imputed contributions, including redundancy pay.

neighbouring countries, on average, so that the cumulative gap since 1996 in relation to those countries narrowed by 0.8 percentage point during the year under review.

2.4 Demand and income

Domestic demand remained anaemic overall …

The protracted period of stagnating activity up to the first quarter of the year under review, followed by an albeit modest recovery from the second quarter, was both the outcome and the determinant of the movement in the various demand components. Overall, the low average GDP growth recorded in 2013 was supported by private consumption, which strengthened considerably throughout the year after two years of stagnation, and by government consumption expenditure, although the latter slowed on account of fiscal consolidation. The growth of business investment was slightly negative as an annual average. In addition, households cut their investment in housing even more sharply than in 2012, and public investment dropped substantially, as is usual in the year following the local and provincial elections.

During the year under review, net exports drove up GDP growth by around 0.6 percentage point. Imports recorded a modest rise, as their movement was determined by the opposing effects of the weakness of domestic demand and the renewed dynamism of export demand. Volume growth of exports picked up during the year under review, essentially owing to the strengthening of economic activity in Belgium's main partner countries in the euro area.

As in 2012, the contribution of net exports was nevertheless largely wiped out by changes in inventories. It is likely that firms once again accelerated the pace of their stock reduction, presumably because it took time to adjust production to the cyclical downturn that occurred during the year. Changes in inventories shaved 0.5 percentage point off GDP growth in 2013.

TABLE 8 GDP AND MAIN EXPENDITURE CATEGORIES

(calendar adjusted volume data; percentage changes compared to the previous year, unless otherwise stated)

	2009	2010	2011	2012	2013 e
Household final consumption expenditure	0.6	2.8	0.2	–0.3	0.6
General government final consumption expenditure	1.9	0.6	0.7	1.4	0.7
Gross fixed capital formation	–8.4	–1.1	4.1	–2.0	–2.4
Housing	–8.6	3.6	–3.2	–3.2	–4.0
Enterprises	–10.2	–3.1	7.3	–2.1	–0.5
General government	9.8	–2.1	7.1	2.4	–11.4
p.m. Final domestic expenditure (1)	*–1.1*	*1.4*	*1.1*	*–0.2*	*0.0*
Change in inventories (2)	–1.1	0.3	0.9	–0.4	–0.5
Net exports of goods and services (2)	–0.6	0.6	–0.3	0.5	0.6
Exports of goods and services	–9.4	8.1	6.4	1.8	2.0
Imports of goods and services	–8.8	7.5	6.9	1.3	1.3
GDP	**–2.8**	**2.3**	**1.8**	**–0.1**	**0.2**
p.m. Final demand	*–5.5*	*4.5*	*4.0*	*0.5*	*0.7*

Sources: NAI, NBB.
(1) Excluding the change in inventories; contributions to the change in GDP compared to the previous year, percentage points.
(2) Contributions to the change in GDP compared to the previous year, percentage points.

... even though confidence and household consumption revived during the year

In 2013, the volume of private consumption expenditure was 0.6 % up against the previous year. That growth was curbed by the negative spillover effect of its decline in 2012. Conversely, during the year under review, private consumption expanded by an average of 0.4 % in each quarter. Retail sales, which are highly volatile on a monthly basis, were stable overall in 2013.

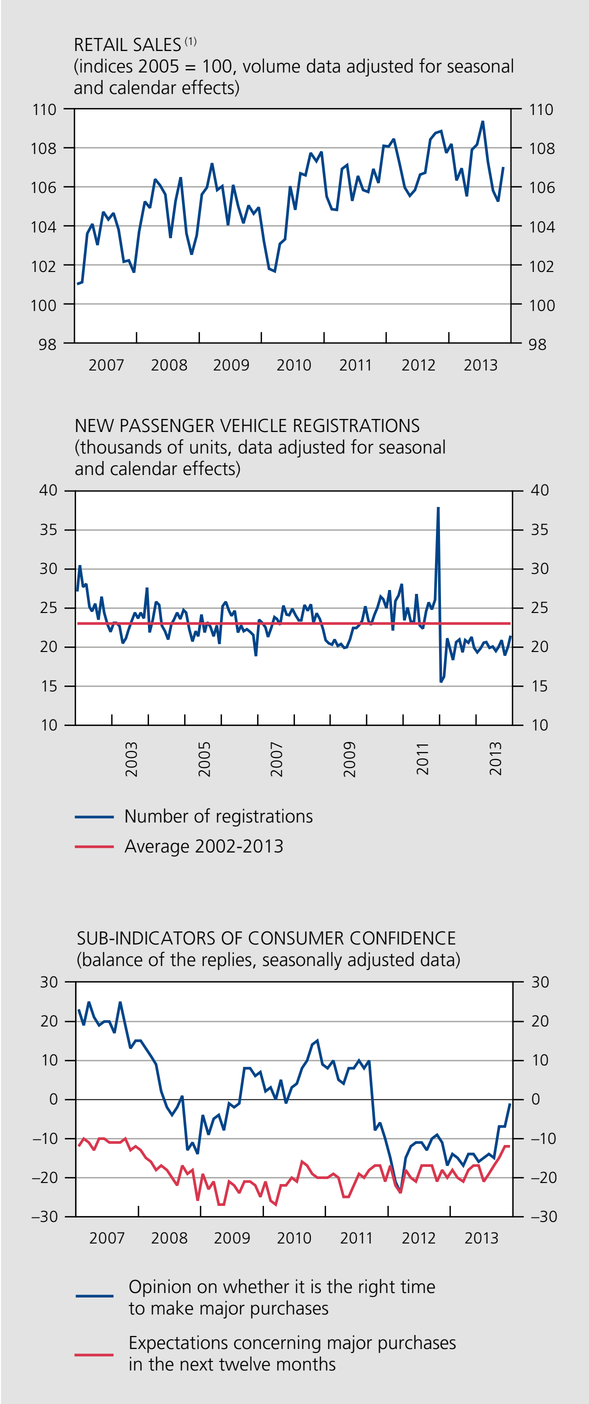
The revival in private consumption during the year under review follows a period of eight consecutive quarters in which households cut their expenditure or held it steady. Such a persistently negative pattern is very exceptional: even at the height of the great recession, in 2008-2009, the volume of consumption only declined for two quarters, and that temporary dip had very soon been entirely made good. The flagging consumption in the two preceding years was in line with the sharp fall in the gross disposable income of individuals in real terms in both 2010 and 2011. It is also due partly to the fact that households postponed some purchases of consumer durables, notably in view of the uncertain outlook for employment and income. That delay is reflected, *inter alia*, in declining sales of passenger cars. There was a particularly steep fall in registrations in 2012, though that followed a peak at the end of 2011 resulting from anticipation of the 2012 abolition of certain government subsidies for the purchase of environmentally friendly vehicles and the vehicle licensing reforms due to be implemented at the time. However, the number of new passenger car registrations continued to hover at a relatively low level during the year under review, perhaps indicating that households were still postponing some purchases of durable goods despite a revival in confidence and the upturn in consumption. Nevertheless, at the end of the year, the results of the Bank's consumer survey showed that respondents considered the situation increasingly appropriate for making major purchases. The proportion of them stating that they would make large purchases in the coming twelve months also began rising from August.

Slight rise in purchasing power

Household purchasing power is the main determinant of the movement in private consumption. In real terms, disposable income was up by 0.3 % during the year under review, a smaller rise than in 2012, though still in line with activity growth.

Various factors held back remuneration in 2013. First, there was a fall in the volume of work by employees, still

CHART 33 PRIVATE CONSUMPTION INDICATORS



Sources: EC, FEBIAC, NBB.
(1) Except motor vehicles.

affected by the weakness of activity up to the beginning of the year. Also, wage rises excluding indexation were moderate, particularly in the private sector. Conversely, as already explained, the contribution of automatic indexation exceeded inflation, which was down sharply.

That effect, which is due to the time lags inherent in the way the indexation mechanisms operate, supported the purchasing power of employees, and indeed that of social benefit recipients.

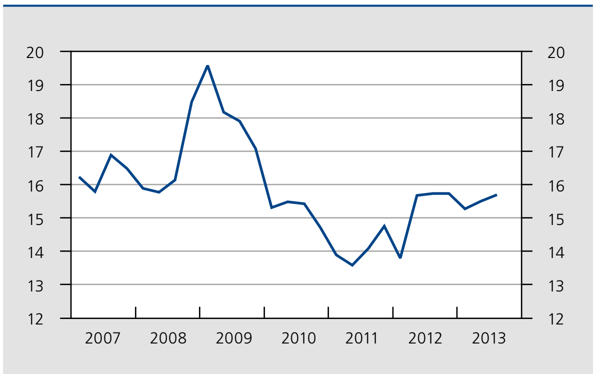
That being the case, real disposable income was bolstered by the rise in net property incomes. However, those incomes still fell short of the 2008 figure owing to the steep decline in real interest rates since the outbreak of the crisis. On the other hand, disposable income was hit by the rise in net transfers to the government in 2013, owing to the sustained increase in current taxes on income and assets. The latter were boosted by payments relating to the tax regularisation, which accelerated sharply in the final quarter of the year before the conditions became much more stringent.

Apart from the movement in income, savings behaviour also determines the fluctuations in private consumption. The household savings ratio had risen sharply in 2009, the annual average peaking at 18.2 % of disposable income. At the time, this increase was clearly due to a surge in precautionary savings: the outlook was highly uncertain and households were worried about the possibility of job losses and a decline in income. Those fears gradually waned. The savings ratio declined to a historic low for Belgium, at 14.1 % of disposable income as an annual average in 2011, partly as a result of the above-mentioned sharp drop in real savings yields. The savings ratio subsequently stood at around 15 %.

Thus, the savings ratio remained relatively stable despite the increase in the proportion of household disposable income represented by property income; usually, that type of income is allocated relatively more to savings than

CHART 34 SAVINGS RATIO

(in % of gross disposable income in the broad sense, quarterly data adjusted for seasonal and calendar effects)



Source: NAI.

TABLE 9 DETERMINANTS OF THE GROSS DISPOSABLE INCOME OF INDIVIDUALS, AT CURRENT PRICES

(percentage changes compared to the previous year, unless otherwise stated)

	2009	2010	2011	2012	2013 e	*p.m. In € billion 2013 e*
Gross primary income	–0.5	1.8	2.5	3.2	1.8	*284.0*
Compensation of employees	0.9	2.1	4.4	3.7	1.7	*206.5*
Volume of labour of employees	–1.9	0.9	1.8	0.0	–0.7	
Labour costs per hour worked	2.8	1.1	2.7	3.7	2.4	
Gross operating surplus and gross mixed income	–2.6	1.1	0.6	1.2	1.7	*47.2*
Property income [1]	–5.8	1.6	–6.6	3.8	2.5	*30.3*
of which:						
Interest (net)	–20.7	–9.2	–5.7	–0.7	3.0	*7.0*
Dividends received	5.2	4.2	–12.3	8.1	3.4	*14.6*
Net current transfers [1]	–11.5	7.4	4.2	1.3	3.1	*–48.8*
Current transfers received	7.3	2.0	4.0	4.6	3.3	*90.1*
Current transfers paid	–0.1	3.9	4.0	3.4	3.2	*138.9*
Gross disposable income	1.9	0.8	2.2	3.7	1.5	*235.2*
p.m. In real terms [2]	*2.7*	*–1.2*	*–0.9*	*1.2*	*0.3*	
Savings ratio [3]	18.2	15.2	14.1	15.2	15.0	

Sources: NAI, NBB.
(1) These are net amounts, i.e. the difference between income or transfers received from other sectors and those paid to other sectors.
(2) Data deflated by the household final consumption expenditure deflator.
(3) In % of gross disposable income in the broad sense, i.e. including the change in households' entitlements to additional pensions accruing in the context of an occupational activity.

labour income. That relative stability was accompanied by the marked improvement in consumer confidence, which reached its highest level for two years in September. Box 5 looks more closely at the link between the savings ratio and consumer confidence, and in particular the impact of uncertainty over the future economic situation.

Box 5 – Uncertainty and savings patterns

The 2008 financial crisis significantly heightened macroeconomic uncertainty. That stimulates precautionary savings, thus curbing consumption and, consequently, economic growth. This effect is generally reinforced by a fall in investment, as the additional savings accumulated are usually invested in liquid assets regarded as secure, because, at times of acute uncertainty, economic agents choose to delay their decisions on major expenditure.

However, it is not easy to determine the degree of uncertainty in the economy with accuracy. A new method has been devised, based on the replies to the Bank's consumer survey [1]. The basic assumption is that wider divergence of the individual responses indicates greater uncertainty.

(1) See EC, *Quarterly Report on the Euro Area*, Vol. 12 (2013), June, Issue 2.

In practice, uncertainty measurements are based on the replies to two relevant questions in the Bank's consumer survey which specifically ask about consumer expectations:

- Q2: How do you think your household's financial situation will change in the next twelve months?

- Q7: How do you think unemployment in Belgium will change in the next twelve months?

There are six possible responses: PP strong improvement, P slight improvement, = no change, M slight deterioration, MM strong deterioration and N don't know. Every month, the Bank publishes the balance of the replies to these questions, using the following formula:

$$Q_{ts} = \left(PP + \frac{1}{2}P\right) - \left(MM + \frac{1}{2}M\right)$$

where t refers to question 2 or question 7, while s refers to calculation of the balance.

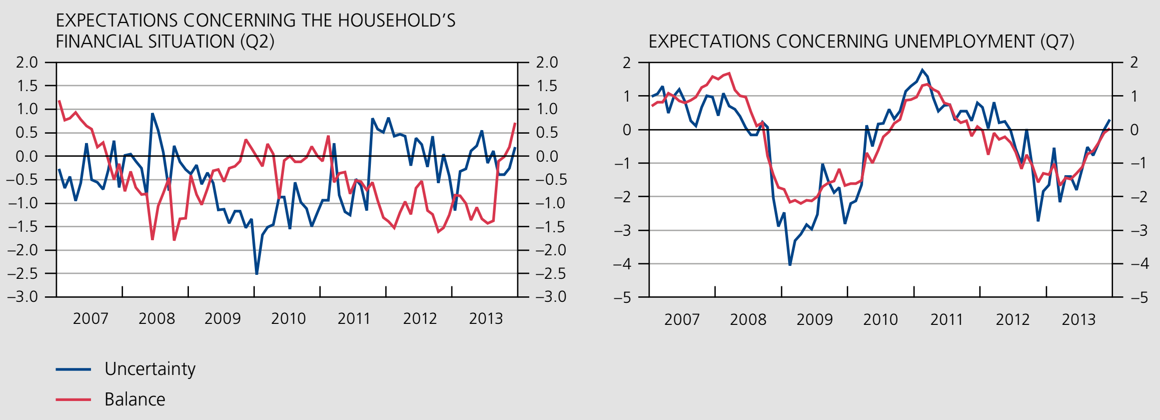
Consumer uncertainty can be estimated on the basis of the size of the divergences in the individual responses of the 1 200 people on the survey panel:

$$Q_{tu} = -\frac{1}{6}\cdot\sum_{i=1}^{6}\alpha_i.\log(\alpha_i)$$

where α_i is equal to the proportion of individuals giving one of the six possible responses and u represents the uncertainty.

The indicator is equal to zero if all those questioned choose the same response, reflecting the absence of uncertainty. Conversely, the indicator reaches its maximum if the responses are divided proportionately among the various options; in that case, the uncertainty is greatest. In the chart, the uncertainty indicator, represented by the blue line, is standardised, i.e. it was reduced by its average long-term value and divided by its standard deviation. Its value therefore fluctuates around zero. When the indicator is above (below) zero, the uncertainty is relatively higher (lower) than on average over the observation period.

UNCERTAINTY INDICATOR AND BALANCE OF RESPONSES TO THE CONSUMER SURVEY QUESTIONS (1)



Source: NBB.

(1) All variables were standardised over the period beginning in 1990. A Q2 or Q7 balance higher than zero means that the assessment of the future is positive; an uncertainty reading higher than zero indicates that uncertainty has increased.

The chart reproduces this uncertainty indicator for the two questions, together with the corresponding balance of the replies. It shows that the picture varies slightly according to the question concerned. It is also notable that its correlation with the balance of the responses varies depending on the question: in the case of financial expectations, the uncertainty is relatively higher in periods of weak economic activity whereas the opposite is true of the outlook for unemployment.

To estimate the effect of uncertainty on households' savings behaviour, an error correction model (ECM) is used which aims to explain the variations in the savings ratio on the basis of long-term and short-term determinants. The savings ratio is determined in the long term by structural factors, such as the share of labour income in total disposable income, the financial assets of households, house prices and the ratio between loans to households and house prices. However, the results set out in the table below only include the explanatory variables which have a significant coefficient.

DEPENDENT VARIABLE: CHANGE IN THE SAVINGS RATIO (1)

	Coefficient
Constant	25.0230
Share of labour income in disposable income	–3.5364
Net financial assets of households	–0.4806

(1) Quarterly data from 1999Q1 to 2013Q3.

Apart from the long-term variables, the ECM also comprises some variables explaining the short-term dynamics, such as the real interest rate, uncertainty readings and the balances of the confidence indicators. The underlying idea is that economic shocks may cause the savings ratio to deviate temporarily from its long-term pattern as defined by its long-term determinants. Column 1 in the table below shows, for example, the statistical significance

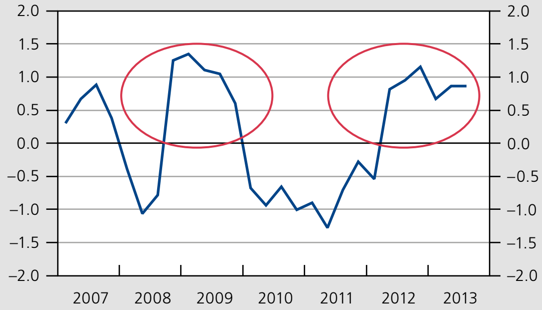
DEPENDENT VARIABLE: CHANGE IN THE SAVINGS RATIO (1)

	Q2: Future financial situation	Q7: Movement in unemployment
Constant	–0.0054	–0.0002
Residues (–1)	–0.5199***	–0.2665**
Change in the share of labour income in disposable income	–3.9853***	–4.2338***
Change in net financial assets	–0.2315	–0.0896
Real long-term interest rate	0.0076*	0.0011
Q2u (–2)	0.0379***	
Q2s (–1)	–0.0109*	
Q7u (–2)		0.0088
Q7s (–1)		–0.0045
Adjusted R^2	0.7181	0.6051

(1) The letter "u" after each question stands for uncertainty. The letter "s" stands for the balance. Statistical significance is indicated by the symbols *, ** or *** for levels of 10, 5 or 1 % respectively. The variables based on the consumer survey replies were standardised. The figures in brackets refer to the number of lags.

DIFFERENCE BETWEEN THE ACTUAL AND ESTIMATED SAVINGS RATIOS IN THE LONG TERM

(in percentage points)



Source: NBB.

of the uncertainty measure on the basis of the question concerning expectations for the household's financial situation, together with the positive sign expected for the coefficient: consumers tend to save more in periods of greater uncertainty. The balance for question Q2 is also significant, and is accompanied by the expected sign: optimism regarding the household's future financial situation logically reduces the propensity to save. Column 2 presents the corresponding results for the question on the unemployment outlook. Greater uncertainty over future unemployment encourages precautionary savings by consumers, but that effect is not significant. Expectations regarding the level of unemployment appear to be less closely correlated in themselves with the short-term changes in savings behaviour.

If the actual savings ratio is compared with the ratio estimated on the basis of the movement in its long-term determinants, it is evident that the savings ratio recorded in 2008-2009 was well above the estimated level. That could be due, *inter alia*, to caution motivated by highly uncertain future prospects (as shown by the indicator Q2u). During the first three quarters of the year under review, savings again exceeded the level expected on the basis of the long-term fundamental determinants. The main reason lies in the respondents' expectations regarding their future financial situation (Q2s), which remained very gloomy throughout 2012 and up to the second quarter of 2013, despite the rise in the consumer confidence indicator. That is also reflected in the said hesitancy of the revival in relation to consumer durables.

This box therefore suggests that the savings behaviour of households and the effect of uncertainty on economic activity can be better understood if account is taken both of the uncertainty readings, which relate to the distribution of the balances of replies to the surveys, and of the specific sub-components of the traditional consumer confidence indicator.

Further marked fall in household investment in housing

Investment in housing has already been falling for three consecutive years, and in 2013 the decline was even steeper than in previous years. Despite the marked revival in consumer confidence regarding the immediate outlook, households remained dubious about the economic situation and their income prospects in the longer term, making them reluctant to proceed with any major investment and, above all, to enter into a long-term commitment to repay a mortgage loan.

Interest rates on mortgages still remained exceptionally low, despite a recent small rise. It is possible that the uncertainty surrounding the (frequently changing) fiscal environment is also a factor here, as a number of measures were abolished or modified in recent years. For instance, during the crisis, the construction industry was granted a reduction in the VAT rate, though only for 2009 and 2010. Similarly, in the case of green energy certificates, apart from the 2012 abolition of tax allowances for this type of investment, the uncertainty may have reduced the number of energy-saving renovation projects. Moreover, from 2014 onwards, mortgage deductions will be the responsibility of the Regions, which have yet to decide on the arrangements and amounts for replacing the housing bonus system.

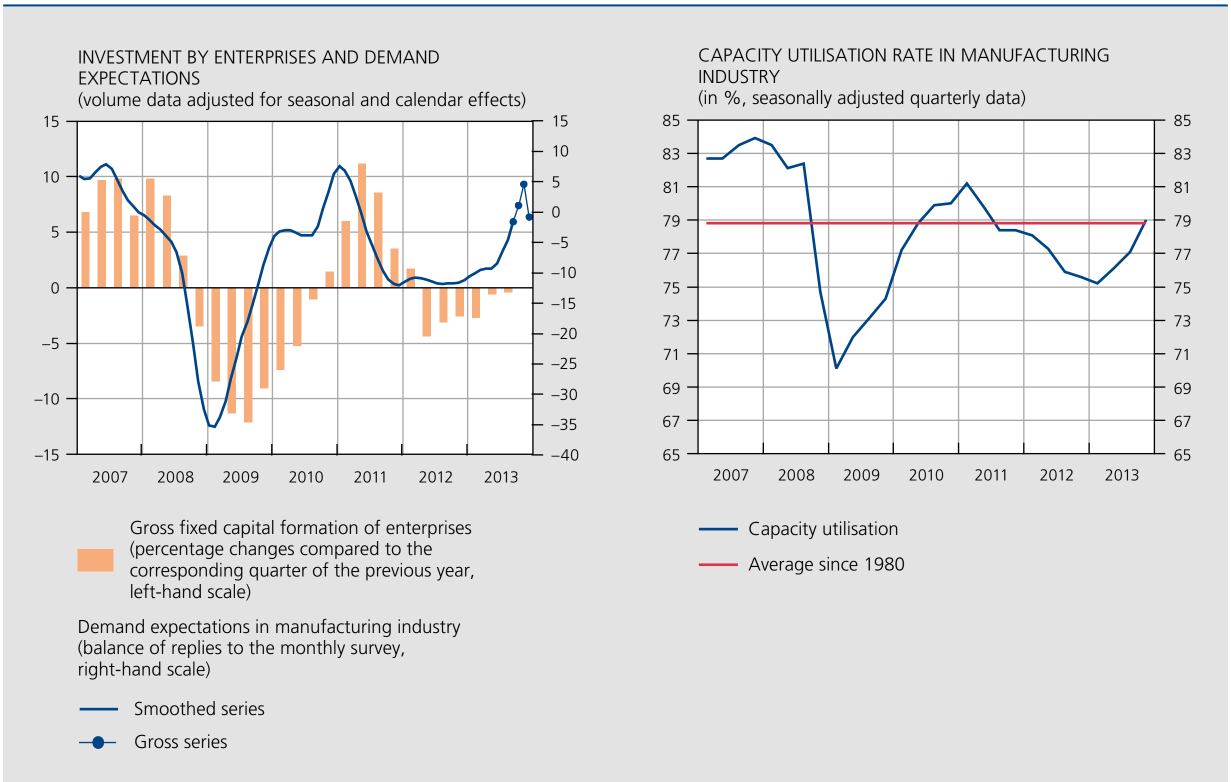
Business investment remained weak but the climate gradually improved

From mid-2011, investment by enterprises declined as a result of the slump in demand and the deterioration in business prospects. However, as final consumption and exports gradually picked up, helping to strengthen the demand addressed to businesses, and capacity utilisation in manufacturing industry recovered during 2013, finally regaining the average level prevailing in the 1980-2013 period, investment stopped falling from the beginning of the year. Nevertheless, year-on-year growth was slightly negative (–0.5 %), owing to a low starting point at the beginning of the year.

In 2013, the operating profitability of companies also improved slightly. That recovery followed the sharp fall in 2012 when the gross operating surplus had declined by 3.7 %, mainly because of a reduction in the gross operating margin per unit of sales, while the volume of sales had only risen slightly.

In contrast, the gross operating margin per unit of sales expanded a little during the year under review, despite the more modest rise in unit selling prices, as a result of a much smaller increase in production costs. It was mainly labour costs per unit of sales that went up, though considerably more slowly thanks to higher productivity plus the moderate increase in hourly labour costs. As a result, for the first time since 2010, the remuneration that companies paid to their employees did not rise in proportion to GDP, standing at 38.2 %. The increase in the margin per unit of sales was only very slightly reinforced by a weak rise in sales volume, attributable solely to exports.

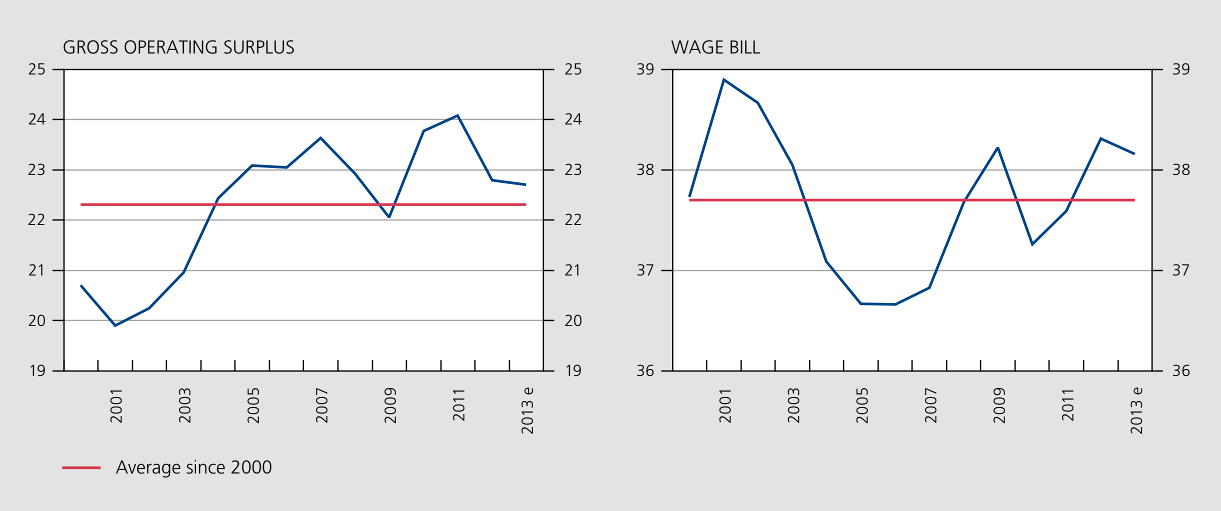
CHART 35 BUSINESS INVESTMENT



Sources: NAI, NBB.

CHART 36 GROSS OPERATING SURPLUS AND WAGE BILL OF COMPANIES

(in % of GDP)



Sources: NAI, NBB.

Non-financial corporations had ample scope for using internal financial resources to cover their investment in 2013, not only because of the 1.4 % rise in the gross operating surplus, keeping it at 22.7 % of GDP, close to the average since 2000, but also – as stated in chapter 3 – because since 2009 non-financial corporations have had

TABLE 10 DETERMINANTS OF THE GROSS OPERATING SURPLUS OF COMPANIES [1], AT CURRENT PRICES

(percentage changes compared to the previous year, unless otherwise stated)

	2009	2010	2011	2012	2013 e
Gross operating margin per unit of sales [2]	0.7	7.1	0.8	–4.2	0.6
Unit selling price	–3.8	4.1	3.6	1.6	0.5
On the domestic market [1]	–2.3	3.6	3.2	2.0	1.5
Exports	–5.3	4.7	3.9	1.3	–0.5
Costs per unit of sales [1]	–4.6	3.6	4.1	2.7	0.4
Imported goods and services	–8.4	6.3	5.3	1.5	–0.3
Costs of domestic origin per unit of output [2] [3]	2.5	–1.1	0.2	4.1	1.7
of which:					
Unit labour costs [4]	3.4	–1.3	1.6	4.1	1.5
Unit net indirect taxes	–0.5	0.4	–2.6	6.0	2.2
Final sales at constant prices	–6.0	5.1	4.4	0.5	0.7
On the domestic market [2]	–2.5	2.1	2.3	–1.0	–0.8
Exports	–9.4	8.1	6.4	1.8	2.1
Gross operating surplus of companies	–5.3	12.5	5.2	–3.7	1.4
p.m. Operating surplus, in % of GDP	*22.1*	*23.8*	*24.1*	*22.8*	*22.7*

Sources: NAI, NBB.
(1) Private and public companies.
(2) Including the change in inventories.
(3) Apart from compensation of employees, this item covers indirect taxes minus subsidies, and gross mixed income of self-employed persons.
(4) Unit labour costs are expressed here in units of value added of the business sector and are not calendar adjusted. They therefore differ slightly from those in table 7, which are expressed in units of value added of the private sector and are adjusted for calendar effects.

liquid reserves which, at 33.9 % of GDP, significantly exceed the long-term average (27.9 %). In regard to external financing, too, the bank lending survey shows that loan criteria for non-financial corporations were eased again from the second quarter of 2013, after having been tightened during the preceding year.

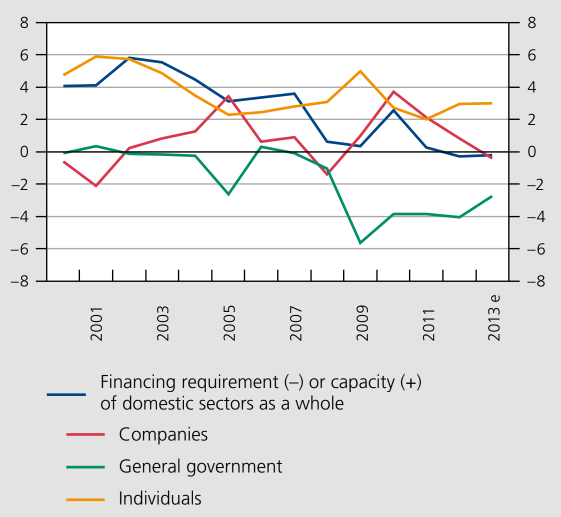
The current account balance remained weak

On the basis of the national accounts, the financing balance of all economic sectors in 2013 improved marginally against the 2012 figure of –0.3 % of GDP, while remaining negative at –0.2 % of GDP. That improvement is due partly to the net financing capacity of individuals which is traditionally positive and increased slightly to around 3 % of GDP, owing to the further fall in investment in housing. Similarly, the public sector borrowing requirement fell steeply from 4 % of GDP in 2012 to less than 3 %. Details of the government's transactions are described in chapter 4 on public finances. The financing balance of companies deteriorated, as in the previous two years, turning into a deficit of 0.4 % of GDP. That situation was due to a fall in gross corporate savings, because the stabilisation of the operating surplus as a percentage of GDP was accompanied by a sharper deterioration in net financial charges. Moreover, while the fall in gross capital formation exerted a slightly upward effect on the financing balance, that movement was dwarfed by the decline in net capital transfers which reverted to their normal level, after the capital injection for Dexia had boosted them by 0.8 percentage point of GDP in 2012.

In regard to external transactions, the value of the balance of trade in goods and services increased again in 2013.

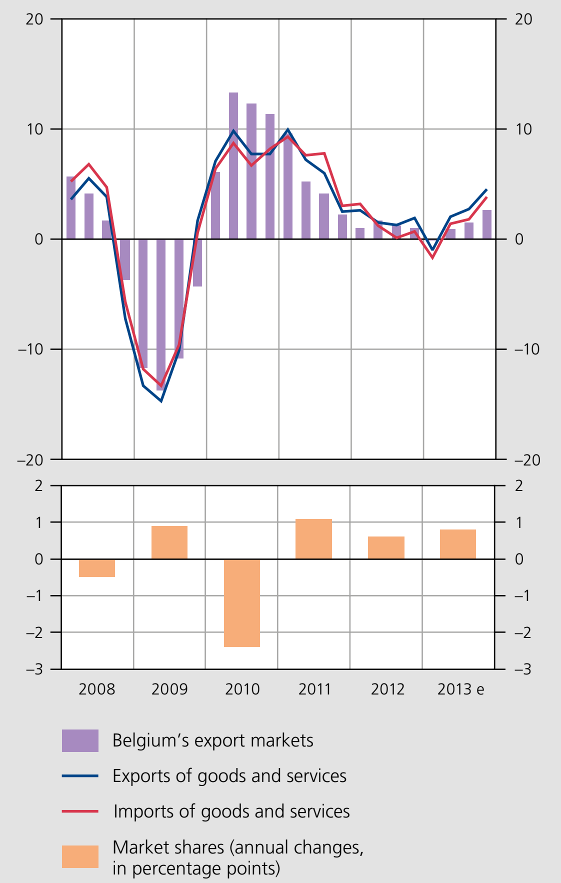
According to the national accounts, the annual growth in the volume of exports of goods and services (2 %) exceeded that of imports (1.3 %). In volume terms, the contribution of net exports of goods and services to GDP growth was therefore positive for the year under review, at 0.6 percentage point. The beneficial effect of net exports was, however, partly cancelled out by a further deterioration in the terms of trade amounting to 0.2 % in 2013, comparable to the 2012 figure.

CHART 37 FINANCING BALANCE OF DOMESTIC SECTORS AS A WHOLE
(in % of GDP)



Sources: NAI, NBB.

CHART 38 EXPORTS AND IMPORTS OF GOODS AND SERVICES, BY VOLUME
(data adjusted for seasonal and calendar effects, percentage changes compared to the corresponding quarter of the previous year, unless otherwise stated)



Sources: NAI, ECB, NBB.

TABLE 11 NET LENDING TO THE REST OF THE WORLD
(balances; in € billion, unless otherwise stated)

	2009	2010	2011	2012	2013 e
1. Current account					
Goods and services	4.3	4.3	–3.7	–2.9	–1.5
Goods	–4.5	–3.8	–10.4	–10.7	n.
Services	8.8	8.1	6.7	7.8	n.
Income	–0.2	8.5	6.2	3.1	1.3
Earned income	4.8	5.0	5.0	5.0	5.0
Investment income	–5.0	3.5	1.2	–1.8	–3.8
Current transfers	–6.3	–6.0	–6.6	–7.8	–8.3
Transfers of general government	–4.8	–5.0	–5.1	–5.1	–5.4
Transfers of other sectors	–1.5	–1.0	–1.6	–2.7	–2.9
Total	–2.2	6.8	–4.1	–7.6	–8.5
p.m. Idem, in % of GDP	*–0.6*	*1.9*	*–1.1*	*–2.0*	*–2.2*
2. Capital account	–1.4	–1.0	–0.7	–0.4	–0.5
3. Net lending to the rest of the world (1 + 2)	–3.6	5.8	–4.8	–8.0	–9.0
p.m. Idem, in % of GDP	*–1.1*	*1.6*	*–1.3*	*–2.1*	*–2.4*

Sources: NAI, NBB.

As in the two preceding years, volume growth of exports implies gains in market shares. Taking account of the estimates available when the Report went to press, the gains are put at around 0.8 % in 2013, since imports by Belgium's main trading partners, weighted according to the country's export structure, are estimated to have grown by 1.2 %. The cumulative gains over the past three years have made up for the loss of over 2 % recorded in 2010, but they do not yet imply a lasting and significant reversal of the trend apparent in recent decades. During the year under review, the gains were achieved mainly on markets within the euro area, whereas the appreciation of the euro was to some extent a handicap for Belgian exports to markets outside the euro area. Thus, in 2013, Belgian exports were affected by selling prices which declined by less than the export prices of competing countries outside the euro area.

Overall, according to the balance of payments figures, the improvement seen in the balance of goods and services reflects an increase in the goods balance which occurred mainly in the second half of 2013. In the case of services, the balance deteriorated, notably on account of the restructuring of a company active in maritime transport.

As in the previous year, the balance of factor incomes worsened during the year under review, owing to the various components of investment income, both profits from direct investment and income from portfolio or other investment. In that respect, the appreciation of the euro depresses the net result, since incomes paid to other countries are proportionately more often expressed in that currency than incomes received from abroad. The fact that the balance of incomes from portfolio and direct investment has been negative since 2012, despite the Belgian economy's decidedly positive external position, is probably due to the generally poor yields on financial assets. That would have more influence on income than on expenditure, as the incomes paid relate more to dividends, including those paid by the cash management and financing centres of multinationals established in Belgium.

The balance of current transfers, which had already deteriorated in 2012, continued to fall, partly as a result of the increase in expenditure on EU financing.

In all, according to the balance of payments, the current balance worsened again in 2013, with the deficit rising from € 7.6 billion in 2012 to € 8.5 billion, or around 2.2 % of GDP.