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PRESS RELEASE

Economic projections for Belgium - Autumn 2006

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Coinciding with the publication of new Eurosysteem projections for the euro area in the ECB Monthly Bulletin, this article gives a succinct presentation of the results for the Belgian economy for 2006 and 2007. The growth of activity in the euro area in the first half of 2006 has proved to be stronger than previously predicted and oil prices, after rising further during the summer, have fallen to a level hovering around 60 dollars since October 2006. The projections were based on the information available as at 24 November 2006.

The Eurosysteem projections take account of an international environment which, having been highly dynamic at the beginning of 2006, is expected to slow down slightly in 2007. However, the volume of trade is projected to continue growing at a sustained pace of around 6 p.c. According to market predictions, prices per barrel of Brent are likely to average 64.6 dollars in 2007. Interest rates are also assumed to move in line with market predictions: short-term rates in euro look set to average 4 p.c. in 2007, against 3.1 p.c. in 2006, while long-term rates for Belgium remain more or less steady at 3.7 p.c. Exchange rates are held constant at their mid-November level, namely 1.28 dollar per euro. In that context, GDP growth in the euro area will remain sturdy during the rest of the year and in 2007 at between 2.5 and 2.9 p.c. in 2006 and between 1.7 and 2.7 p.c. in 2007. However, there could be a temporary slowdown in the first quarter of that year as a result of the entry into force of the increased rate of VAT in Germany. For the same reason, inflation in the euro area will probably remain at between 2.1 and 2.3 p.c. in 2006 and between 1.5 and 2.5 p.c. in 2007, despite a smaller contribution from energy prices.

In Belgium, economic activity recorded a considerable increase in vitality in late 2005 and early 2006, with quarterly GDP growth reaching 0.9 p.c. in the first quarter and 0.7 p.c. in the second quarter. The rate of GDP growth may have dipped slightly in the second half of the year, maintaining a sound course more in line with the potential growth in the medium-term. In all, real GDP growth is expected to increase from 1.5 p.c. in 2005 to 3 p.c. in 2006. The projected figure for 2007 is 2.1 p.c.

Apart from the robust support of foreign demand, the improvement in 2006 had its origins largely within the economy, in household expenditure on consumption and housing and in business investment. The favourable trend in activity and employment and the effects – which were substantial in 2006 - of the implementation of the last step of the tax reform initiated in 2001 will produce a faster increase in household purchasing power than in preceding years. Following an increase of just 0.9 p.c. in 2005 and a cumulative decline of similar size in the two preceding years, their disposable income should increase by 2.7 p.c. in the current year and 2.1 p.c. in 2007. Private consumption, which had participated fully in the cyclical upswing at the start of the year, is expected to grow at an average rate of 2.4 p.c. in 2006, then 2 p.c. in 2007. Household savings are projected to remain stable during the forecast period at around 13.5 p.c. of disposable income. Maintaining the momentum recorded in the past two years, investment expenditure on housing in the form of new construction or renovation is predicted to rise by almost 5 p.c. in real terms in 2006 and 2007. In a favourable context in terms of operating profitability and financing conditions, and taking account of the outlook for demand, which seems to be soundly based, while the capacity utilisation rate increased with the acceleration in activity, business investment is expected to rise by a further 5.8 p.c. in 2006 and 4.8 p.c. in 2007. However, these annual averages mask a gradual slowdown during the second year, as the cyclical accelerator effects ebb away. Public investment is likely to fall during the two years covered by the forecasts. Boosted by the enlargement of the euro area, foreign markets will again be a key factor underpinning exports of goods and services. Those exports responded progressively during 2006 in a context of relatively stable exchange rates over the past two years. Export growth is forecast to rise from 3.3 p.c. in 2005 to 3.9 p.c. in 2006 and 5.3 p.c. in 2007. Import growth is likely to be similar to the increase in exports in 2006 and 2007, at 3.9 p.c. and 5.1 p.c. respectively. In contrast to the two preceding years, the contribution of net exports to GDP growth is thus likely to become slightly positive once again, at 0.1 percentage point in the first year and 0.3 point in 2007.

Since the cyclical movements in activity are largely absorbed by productivity, the 1 p.c. rate of net job creation achieved in 2005 will probably be maintained for the ensuing two years. Altogether, around 43,000 net additional jobs will be created each year from 2005 to 2007. However, taking account of the rapid growth of the labour force since 2005, the harmonised unemployment rate will only fall slightly during the period covered by the forecasts, to average 8.3 p.c. in 2007 against 8.4 p.c. in 2005 and 8.5 p.c. in 2006.

Estimated on the basis of the HICP, total inflation – which had averaged 2.5 p.c. in 2005 – is predicted to fall to 2.3 p.c. in 2006 and 1.9 p.c. in 2007. This easing, like the acceleration which had preceded it, reflects the expected movement in energy prices. In contrast, the underlying trend in inflation is expected to maintain the gradual rise which began in mid 2005, increasing from 1.5 p.c. in 2005 to an average of 1.9 p.c. in 2007. For that year, the introduction on 1 July 2007 of the general packaging levy and the increase in excise duty on tobacco, included in the 2007 budget, will push inflation up by 0.2 point.

Unit labour costs are projected to increase by 0.7 p.c. in 2006 and 1.2 p.c. in 2007, following an average annual increase of 0.5 p.c. in the two preceding years, these fluctuations reflecting the cyclical movements in productivity. Hourly labour costs should maintain their annual rate of increase of 2¼ p.c. in 2006 and 2007, comparable to that of the two preceding years. The 2.2 p.c. rise in hourly costs assumed for 2007 corresponds to a technical assumption based on the average expected rise in the three main neighbouring countries, and therefore does not in any way anticipate the conclusions of the current negotiations between the social partners.

Taking account of the latest information, public finances should end the year 2006 more or less in balance. For 2007, given the macroeconomic outlook described above and in the absence of additional measures – in accordance with the ESCB rules whereby only measures which have already been announced and are sufficiently detailed may be taken into account – the forecasts indicate a deficit of 0.4 p.c. of GDP. However, public finances will benefit from a further decline in interest charges, although admittedly the fall is not as steep as in previous years, and from the reduction in local authority investment expenditure which is normal in the year following the local elections. The adverse movement in the budget balance is due largely to the non-recurring measures taken into account in the estimate, the impact of which will be less than in 2006. In addition, public revenues are also expected to contract in relation to GDP, since labour incomes – which are taxed relatively heavily – are growing more slowly than GDP.

In 2006 and 2007 the public debt will continue to diminish, falling by around 6 percentage point of GDP during those two years.

Projections for the Belgian economy: summary of the main results
(percentage changes compared to the previous year, unless otherwise stated)

	2003	2004	2005	2006 e	2007 e
GROWTH (calendar adjusted data)					
GDP in volume	1.0	2.7	1.5	3.0	2.1
Contributions to growth:					
Domestic spending, excluding change in stocks	0.9	2.7	1.3	2.6	2.3
Net exports of goods and services	0.2	-0.1	-0.4	0.1	0.3
Change in stocks	0.0	0.1	0.6	0.3	-0.6
PRICES AND COSTS					
Harmonised index of consumer prices	1.5	1.9	2.5	2.3	1.9
Health index	1.5	1.6	2.2	1.7	1.9
GDP deflator	1.6	2.4	2.1	1.7	1.8
Terms of trade	-0.3	-0.2	-1.0	-0.3	-0.2
Unit labour costs in the private sector	0.0	-0.4	1.5	0.7	1.2
Hourly labour costs in the private sector	1.5	2.4	2.2	2.3	2.2
Hourly productivity in the private sector	1.5	2.8	0.7	1.6	1.0
LABOUR MARKET					
Domestic employment (average annual variation, in thousands of units)	0.6	26.5	40.8	44.0	45.0
Harmonised unemployment rate ¹ (p.c. of the labour force)	8.2	8.4	8.4	8.5	8.3
INCOMES					
Real disposable income of individuals	-0.8	-0.1	0.9	2.7	2.1
Household savings ratio (p.c. of disposable income)	14.4	13.2	13.2	13.4	13.5
PUBLIC FINANCES ²					
Government financing requirement (-) or capacity (p.c. of GDP)					
According to the view taken by the NAI	0.0	0.0	0.1	-0.1	-0.4
According to the view taken by Eurostat	0.0	0.0	-2.3	0.0	-0.4
Public debt (p.c. of GDP)					
According to the view taken by the NAI	98.6	94.3	91.5	87.9	85.7
According to the view taken by Eurostat	98.6	94.3	93.2	89.6	87.2
CURRENT ACCOUNT (p.c. of GDP according to balance of payments)	4.1	3.5	2.5	1.9	1.9

Sources: EC, NAI, NSI, NBB.

¹ Adjusted series (Eurostat).

² According to the methodology used for the excessive deficit procedure (EDP). The data on Belgium's public finances which the NAI notified to the European authorities on 29 September 2006 were based on the principle that the Rail Infrastructure Fund (RIF) is not part of the general government sector. Eurostat decided to adjust these figures in its publication dated 23 October 2006, considering that the RIF should be included in the general government sector. Eurostat also took the view that the imputation of the debt to the general government sector should not be regarded as an "other change in volume" following a change in sector classification and structure, but that it constituted an assumption of debt which should be recorded as a general government capital transfer to the non-financial corporations sector. The view taken by Eurostat is reflected in a negative impact of 2.4 p.c. of GDP in 2005, but a positive – though admittedly modest – impact of 0.05 p.c. of GDP in 2006 and 2007. No account is taken of the potential effect on the general government accounts if the RIF were to be reclassified in the non-financial corporations sector in 2006.