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PRESS RELEASE

Economic projections for Belgium - Autumn 2007

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Coinciding with the publication in the ECB Monthly Bulletin of new Eurosysteem projections for the euro area, this article offers a brief presentation of the results for the Belgian economy for 2007 and 2008. Since the publication of the previous forecasts in June 2007, the growth of activity and employment has proved robust in the euro area and in Belgium in the first half of 2007. Since the summer, the external environment has become more uncertain, owing to the financial market turmoil, the appreciation of the euro and the rising cost of energy and agricultural raw materials.

The Eurosysteem projections take account of solid expansion of international trade, driven by demand from the emerging economies and from the oil-producing countries. On the basis of forward market quotations, oil prices look set to remain at a high level, averaging 88.6 dollars per barrel in 2008. Interest rates are also assumed to move in line with market expectations. Exchange rates are kept constant at their mid-November level, namely 1.46 dollars per euro. In that context, having reached 2.9 p.c. in 2006, GDP growth in the euro area should be between 2.4 and 2.8 p.c. in 2007 and between 1.5 and 2.5 p.c. in 2008. Inflation in the euro area is projected to accelerate in 2008, propelled by the rise in energy and food prices. It is likely to range between 2 and 2.2 p.c. in 2007 and 2 and 3 p.c. in 2008, compared to 2.2 p.c. in 2006.

Maintaining its 2006 momentum, economic activity in Belgium remained buoyant during the first half of 2007, expanding at a rate of 0.7 p.c. per quarter. According to the NAI's initial estimate, growth dropped to 0.4 p.c. in the third quarter, confirming the hitherto moderate fall in the synthetic indicator of business confidence. The slower rate of expansion looks set to continue in the fourth quarter and in the first part of 2008. Overall, real GDP growth is projected to decelerate from 2.9 p.c. in 2006 to 2.6 p.c. in 2007 and 1.9 p.c. in 2008.

The vigour of the Belgian economy at the beginning of 2007 was due mainly to the boost from domestic demand. In particular, firms and households were still heavily increasing their fixed capital investment at the time, as they had in the preceding years, while private consumption was expanding significantly, boosted by the growth in purchasing power. These two factors are expected to weaken at the end of the year and in 2008. Exports are set to expand for the year 2007 as a whole at a rate comparable to the growth in foreign export markets. However, the appreciation of the euro is likely to curb that momentum during the period covered by the projections.

As the period of robust activity expansion continued, net job creations increased in the first half of 2007; they were also bolstered by the success of the service vouchers, which finance jobs providing domestic help. Overall, following annual expansion of 1.2 p.c. in the two previous years, employment is projected to grow by 1.6 p.c. in 2007 and 1 p.c. in 2008, representing net cumulative growth of around 115,000 jobs in the two years, 17,000 of which resulting from the anticipated development of the service voucher scheme. Thus, taking account of the expected movement in the labour force, the decline in the unemployment rate which began in April 2006 should continue, bringing that rate down from an average of 8.3 p.c. in 2006 to 7.7 p.c. in 2007 and 7.3 p.c. in 2008.

Estimated on the basis of the HICP, overall inflation should display a V shape, falling from 2.3 p.c. in 2006 to 1.8 p.c. in 2007, then rising to 2.9 p.c. in 2008. This profile mainly reflects the movements in energy prices. Both the rise in oil prices on the international markets and factors specific to Belgium – particularly

the liberalisation of the gas and electricity markets in Wallonia and Brussels and the change in the method of recording those prices in the index – helped to restrain the increases in consumer prices of energy in the early months of 2007. In contrast, changes in the rates charged by the leading utility and the expected rise in distribution costs are likely to drive up inflation in 2008. The underlying inflation rate is projected to increase slightly in 2007, rising from 1.6 p.c. in the previous year to 1.9 p.c.; it should remain stable at that level in 2008. The rise in 2007 is due solely to the movement in prices of processed food. Conversely, inflation is expected to remain subdued in the case of non-energy industrial products and services, being held down by the appreciation of the euro, global competition and the generally moderate movement in wages over the recent years.

Reflecting modest growth in labour productivity, which stems from the marked expansion of employment in 2007 and the cyclical slowdown in activity in 2008, the rise in unit labour costs in the private sector is forecast to accelerate, from 1.4 p.c. in 2006 to 2.2 p.c. in 2007 and 2.1 p.c. in 2008. Hourly labour costs are projected to rise by 2.8 p.c. in 2007 and 3 p.c. in 2008, an increase comparable to the 2006 figure, but above the indicative norm of 5 p.c. specified in the central agreement for 2007-2008, as indexation is likely to exceed the figure taken into account in the negotiations. However, in a growing number of sectoral joint committees, "all-in" clauses should limit the impact of such an overrun on the movement in labour costs. Although Belgium's neighbours do not have any automatic mechanism linking prices and wages, it cannot be ruled out that the acceleration of inflation in these countries could also lead to higher growth in labour costs than had been expected at the end of 2006, when the wage norm was set.

According to the commitments made in the stability programme submitted in December 2006, Belgium's public finances should have shown a surplus of 0.3 p.c. of GDP in 2007 and of 0.5 p.c. in 2008. The latest data suggest that public finances should end the year 2007 with a deficit of 0.1 p.c. of GDP. In 2008, within the macroeconomic context described above, that deficit is expected to rise to 0.3 p.c. of GDP. These projections disregard the impact of the measures proposed in connection with the formation of the federal administration since – under the ESCB rules – measures which have been announced can only be taken into account if they are sufficiently precisely defined and, in all probability, will actually be implemented.

With the – albeit very small – budget deficit in 2007, the government's budget balance has deteriorated since 2006, when a surplus was recorded. Nonetheless, public finances are benefiting from the favourable economic conditions and the further decline in interest charges. However, the positive impact of these factors is likely to be considerably outweighed by a decline in the structural primary balance of 0.3 p.c. of GDP, and in particular the disappearance of non-recurring factors. In 2006, these had boosted the government's budget balance by 0.7 p.c. of GDP, but in 2007 their effect on that balance is expected to be slightly negative.

In 2008, the budget deficit will grow, despite a further fall in interest charges. The impact of the non-recurring factors is projected to remain slightly negative and cyclical developments are likely to be somewhat unfavourable for the government's budget balance. A further decline in the structural primary surplus is also forecast.

In 2008 as in 2007, the public debt will nevertheless maintain its downward trend, falling by around 3 p.c. of GDP per annum. By the end of 2008, the debt ratio is forecast to reach 82.1 p.c.

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

	2004	2005	2006	2007 e	2008 e
GROWTH (calendar adjusted data)					
GDP in volume	2.8	2.0	2.9	2.6	1.9
Contributions to growth:					
Domestic expenditure, excluding change in stocks	2.6	2.0	2.0	3.0	2.0
Net exports of goods and services	0.2	-0.4	0.2	-0.3	0.2
Change in stocks	0.1	0.4	0.8	-0.1	-0.3
PRICES AND COSTS					
Harmonised index of consumer prices	1.9	2.5	2.3	1.8	2.9
Health index	1.6	2.2	1.8	1.7	2.6
GDP deflator	2.4	2.5	2.0	2.0	2.6
Terms of trade	-0.4	-0.3	-0.5	1.1	-0.2
Unit labour costs in the private sector	-0.5	0.8	1.4	2.2	2.1
Hourly labour costs in the private sector	2.1	2.3	2.9	2.8	3.0
Hourly productivity in the private sector	2.6	1.5	1.5	0.7	0.9
LABOUR MARKET					
Domestic employment (average annual change, in thousands of units)	28.1	51.1	52.7	69.5	44.8
Harmonised unemployment rate ¹ (p.c. of the labour force)	8.4	8.4	8.3	7.7	7.3
INCOMES					
Real disposable income of households	-0.2	-0.1	2.6	2.4	1.5
Household savings ratio (p.c. of disposable income)	13.3	12.2	12.5	12.7	12.2
PUBLIC FINANCES²					
Overall balance (p.c. of GDP)	0.0	-2.3	0.4	-0.1	-0.3
Primary balance (p.c. of GDP)	4.7	1.9	4.3	3.7	3.3
Public debt (p.c. of GDP)	94.2	92.2	88.2	85.0	82.1
CURRENT ACCOUNT (p.c. of GDP according to the balance of payments)					
	3.5	2.6	2.7	2.9	2.9

Sources: EC, NAI, NSI, NBB.

¹ Adjusted series (Eurostat).

² According to the methodology used in the excessive deficit procedure (EDP) and according to the Eurostat approach. Eurostat takes the view that the Railway Infrastructure Fund, created in the context of the BNRC restructuring on 1 January 2005, comes under the general government sector, and the assumption of the BNRC's debt should be recorded as a capital transfer from that sector to the non-financial corporations sector. According to the NAI's view, this Fund is classified in the non-financial corporations sector.