

2009-06-10

## PRESS RELEASE

---

### **Economic projections for Belgium – Spring 2009**

(Article published in the Economic Review, June 2009)

Coinciding with the publication in the ECB Monthly Bulletin of new Eurosysteem projections for the euro area, this article presents the figures expected for the Belgian economy for 2009 and 2010. Since the previous forecasts were published in February 2009, the downturn in activity and international trade in late 2008 and early 2009 has proved to be even sharper than initially expected. An unprecedentedly deep recession has spread across the various economic regions of the world, requiring resolute action in the monetary and fiscal sphere. There are signs which suggest some stabilisation of both financial market conditions and business and consumer confidence. Nonetheless, the adjustments to be made to employment, investment and the position of financial institutions are likely to hamper the economic recovery.

The Eurosysteem projections are based on assumptions drawn up in mid May 2009. They allow for a very gradual foreign trade revival at the end of 2009 and in 2010, following the recent slump. Having fallen very rapidly from a peak of 145.7 dollars per barrel in July 2008 to around 40 dollars in December, oil prices are expected, on the basis of the forward markets, to average 54.5 dollars per barrel in 2009 and 65.5 dollars in 2010. Interest rates are also assumed to move in line with market expectations. As an annual average, three-month interbank deposit rates in euro are predicted to fall from 4.6 p.c. in 2008 to 1.4 p.c. in 2009 before settling at 1.6 p.c. in 2010. Long-term rates on Belgian government bonds are projected at 4.1 p.c. in 2009 and 4.5 p.c. in 2010. Exchange rates are held constant at 1.34 dollar per euro. In that context, after having reached 0.6 p.c. in 2008, GDP growth in the euro area is forecast at between -5.1 and -4.1 p.c. in 2009 and between -1 and 0.4 p.c. in 2010. Inflation is projected at between 0.1 and 0.5 p.c. in 2009, as a result of falling commodity prices. It is likely to remain low in 2010, at between 0.6 and 1.4 p.c., owing to the weakness of demand and the deterioration of the labour market.

The sharp cyclical downturn in the euro area at the end of 2008 and the beginning of 2009 had a major impact on economic activity in Belgium. In particular, both industrial production and foreign trade in goods plummeted from October 2008. According to the national accounts data, real GDP was down by 1.7 p.c. in the fourth quarter of 2008, falling to a similar extent in the first quarter of 2009, the deepest recession since the Second World War. The decline in activity should decelerate sharply from the second quarter of 2009, and give way to a modest recovery in 2010. Thus, having grown by 1 p.c. in 2008, GDP is set to contract by 3.5 p.c. on average in 2009 and by 0.2 p.c. in 2010.

In the face of the abrupt contraction in activity, firms reacted for example by reducing agency work and greatly increasing their use of temporary lay-offs. A temporary system of suspending the execution of employment contracts was also introduced for white-collar workers. Such systems offer a provisional buffer against the effect on employment of fluctuations in production. However, taking account of the deep and sustained decline in activity, the number of persons employed is likely to decline progressively. As an annual average, net job losses are forecast at 36,000 and 80,000 persons respectively in 2009 and 2010. The unemployment rate is set to rise from 7 p.c. in 2008 to 9.2 p.c. in 2010, reaching 9.7 p.c. by the end of 2010.

In 2009, all the main expenditure categories – domestic demand, change in stocks and net exports – are set to be seriously affected, directly or indirectly, by the recession in global demand and the repercussions of the global financial crisis; in 2010, their contribution to the change in GDP is forecast to be broadly neutral. Exports of goods and services are projected to record a very marked fall in 2009, following the collapse of foreign demand. They are likely to continue falling slightly in 2010. In the absence of support from domestic demand, the profile of imports is expected to mirror that of exports. Following the curb on growth in 2008 resulting from the stagnation of real disposable income in a context of rising inflation, private consumption is set to fall in 2009, mainly owing to the plunge of share prices and the deterioration in economic conditions and the labour market outlook, both these factors contributing to an increase in the savings rate. In the context of the decline in their capacity utilisation rate, gloomy forecasts for demand, the high cost of external financing and the reduction in the financial resources generated by their own activity, businesses are likely to cut their investment in 2009 and 2010, following more than four years of sustained vigour. Investment in housing is also set to fall in 2009 and 2010, continuing the slowdown which began in 2007.

Having peaked at 5.9 p.c. in July 2008, inflation in Belgium eased rapidly, dropping to 0.7 p.c. in April 2009. It had thus reverted more or less to the level recorded for the euro area as a whole, whereas in mid 2008 it had still exceeded that figure by 1.9 percentage points. According to the projections, inflation should continue to fall in the short term, thus becoming negative for a time. This situation, likely to last only a few months, is due mainly to base effects connected with the record prices of petroleum products during the summer of 2008. Once these base effects have faded away, inflation is expected to return to positive figures at the end of 2009, though remaining low up to the end of the projection period, owing to the rapid attenuation of pressure from import prices and wages. In all, as an annual average, inflation is expected to reach 0.1 p.c. in 2009 and 1.3 p.c. in 2010, having stood at 4.5 p.c. in 2008. The health index is projected to rise by 0.8 p.c. in 2009 and 1.1 p.c. in 2010.

Reflecting both the fall in labour productivity, following the cyclical weakness, and the still sustained rise in hourly labour costs, unit labour costs in the private sector rose by 3.9 p.c. in 2008 and are likely to rise by a further 2.9 p.c. in 2009, as a result of high indexation which follows from the surge in inflation in 2008. In 2010, they should remain more or less steady. This deceleration between 2009 and 2010 is due partly to the cyclical recovery in labour productivity. Also, the growth of hourly labour costs is set to fall from 3.5 p.c. in 2008 to 2.3 p.c. in 2009 and 0.4 p.c. in 2010. In accordance with the provisions of the central agreement for 2009-2010 concluded in December 2008, this forecast takes account of indexation and the possibility of granting, in the context of negotiations at joint committee level, non-recurring bonuses of 250 euros when the scheme is in full operation, of which 125 euros can be paid in 2009. The deterioration in labour market conditions is expected to result in wage growth moderation.

According to the provisional figures published by the NAI in March 2009, Belgium's public finances recorded a deficit of 1.2 p.c. of GDP in 2008. In the macroeconomic context depicted above and in the light of the measures approved by the federal government and the regional governments, e.g. in connection with the recovery plans, that deficit is expected to reach 5.5 p.c. of GDP in 2009 and 6 p.c. in 2010, if policy remains unchanged.

After having declined continuously since 1993, to reach 84 p.c. in 2007, the ratio of public debt to GDP began rising again in 2008, mainly as a result of the capital injections and loans granted to financial institutions. In 2009 and 2010, the general government debt is expected to record a further sharp rise, though the increase should be slightly lower than the average for the euro area. The debt ratio is projected to rise from 89.7 p.c. in 2008 to 97.4 p.c. in 2009 and 103 p.c. in 2010.

## ANNEX

**Projections for the Belgian economy: summary of the main results**

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

	2006	2007	2008	2009 e	2010 e
<b>GROWTH</b> (calendar adjusted data)					
GDP in volume	3.0	2.6	1.0	-3.5	-0.2
Contributions to growth:					
Domestic expenditure, excluding change in stocks	2.1	2.8	2.0	-1.4	0.0
Net exports of goods and services	0.1	-0.3	-1.0	-1.0	-0.3
Change in stocks	0.9	0.1	0.0	-1.1	0.1
<b>PRICES AND COSTS</b>					
Harmonised index of consumer prices	2.3	1.8	4.5	0.1	1.3
Health index	1.8	1.8	4.2	0.8	1.1
GDP deflator	2.3	2.4	1.7	1.1	1.1
Terms of trade	-0.7	0.5	-2.8	1.0	0.1
Unit labour costs in the private sector	1.5	3.1	3.9	2.9	-0.1
Hourly labour costs in the private sector	3.1	3.7	3.5	2.3	0.4
Hourly productivity in the private sector	1.6	0.6	-0.4	-0.5	0.5
<b>LABOUR MARKET</b>					
Domestic employment (annual average change in thousands of persons)	58.1	77.4	71.2	-36.5	-79.6
Total volume of labour <sup>1</sup>	1.5	2.0	1.2	-3.0	-0.8
Harmonised unemployment rate <sup>2</sup> (p.c. of the labour force)	8.3	7.5	7.0	7.7	9.2
<b>INCOMES</b>					
Real disposable income of individuals	2.5	2.8	-0.1	1.0	0.0
Savings ratio of individuals (p.c. of disposable income)	12.9	13.7	12.7	14.6	14.5
<b>PUBLIC FINANCES</b> <sup>3</sup>					
Overall balance (p.c. of GDP)	0.3	-0.2	-1.2	-5.5	-6.0
Primary balance (p.c. of GDP)	4.2	3.6	2.5	-1.6	-2.1
Public debt (p.c. of GDP)	87.9	84.0	89.7	97.4	103.0
<b>CURRENT ACCOUNT</b> (according to the balance of payments, p.c. of GDP)					
	2.0	1.7	-2.5	-2.4	-2.5

Sources: EC, DGSEI, NAI, NBB.

<sup>1</sup> Total number of hours worked in the economy.<sup>2</sup> Adjusted series (Eurostat).<sup>3</sup> According to the methodology used in the excessive deficit procedure (EDP).