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PRESS RELEASE

Economic projections for Belgium - Autumn 2009

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Coinciding with the publication in the ECB Monthly Bulletin of new Eurosystem projections for the euro area, this article presents the figures expected for the Belgian economy for 2009 and 2010. Since our previous forecasts, which were published in June 2009, there have been increasing signs of recovery, in the wake of the most severe recession suffered by the global economy in the last sixty years. Business and consumer confidence has returned since the spring, against a backdrop of easing financial tension, while industrial production and trade have both increased slightly. Doubts still remain, however, as to the sustainability of the recovery. This recovery has, in fact, largely been driven by budgetary and monetary policy stimulus, along with movements in inventories, the effects of which are temporary. In contrast, unemployment is likely to increase further in most of the advanced economies, with investment remaining low, and this will restrict growth in 2010.

The Eurosystem projections are based on assumptions drawn up in mid-November 2009. They allow for a continuing foreign trade revival at the end of 2009 and in 2010, although growth is likely to remain limited. 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 62.2 dollars per barrel in 2009 and 81.4 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 1.2 p.c. in 2009 and 2010. Long-term rates on Belgian government bonds are projected at 3.9 p.c. in 2009 and 4 p.c. in 2010. Exchange rates are held constant at 1.49 dollars to the euro. In this context, after having reached 0.5 p.c. in 2008, GDP growth in the euro area is forecast at between -4.1 and -3.9 p.c. in 2009 and between 0.1 and 1.5 p.c. in 2010. Inflation is projected at around 0.3 p.c. in 2009, as a result of falling commodity prices. It is likely to remain low in 2010, at between 0.9 and 1.7 p.c., owing to the weakness of demand and the deterioration of the labour market.

In Belgium, too, the full scale of the decline in GDP at the end of 2008 and the start of 2009 was historic. According to the NAI flash estimate, however, GDP did rise by 0.5 p.c. in the third quarter, and a revival in business cycle indicators suggests that the economy should continue to grow at the end of the year and in 2010. The growth rate will remain low, however, given the absence of any vigorous recovery in foreign demand and the anticipated weakness of investment and private consumption, against the backdrop of a deteriorating labour market. GDP is thus set to contract by 3.1 p.c. on average in 2009, before growing by 1 p.c. in 2010.

The labour market initially showed a certain level of resilience in the face of the severe contraction in activity. Job losses and increasing unemployment were contained by the massive use of temporary lay-offs and other methods of reducing working hours. They were also cushioned by a significant drop in company productivity. Nevertheless, given the decline in activity in 2009, and the modest nature of the recovery in 2010, the number of people in work is likely to continue to fall throughout 2010. As an annual average, net job losses are forecast at 27,000 and 64,000 persons respectively in 2009 and 2010. The unemployment rate is set to rise from 7 p.c. in 2008 to 9 p.c. in 2010.

The combination of a severe financial crisis and a generalised decline in activity significantly affected both consumers and businesses in 2009. With the exception of public sector consumption and investment, all the main expenditure categories affected GDP negatively. Businesses had to face the synchronized collapse of most foreign markets, with exports of goods and services contracting by more than 12 p.c. In addition, inventories were reduced significantly. Finally, given the extremely gloomy economic environment, businesses are likely to cut their investments, due to the unprecedented decline in their capacity utilisation rate in particular, along with modest demand prospects. Consumers are also likely to reign in their expenditure significantly in 2009, both in terms of consumption and investment in housing. This behaviour is largely an expression of great restraint in the face of uncertain prospects for jobs or future incomes.

In 2010, the modest recovery in growth is likely to be based on a slight increase in private consumption and exports, and on a turnaround in inventory movements. Private investment adjustment is, however, likely to continue.

As in the euro area, inflation in Belgium eased rapidly over the course of 2009, even turning negative from May to November. This period of disinflation should be short-lived, however, as it is due almost exclusively to the significant fall in energy prices in comparison with the previous year. The negative base effects that were behind the change in energy prices over a large part of 2009 will, however, be rapidly reversed, due to the recent increase in international oil quotations. Inflation is therefore 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 be 0 p.c. in 2009 and 1.6 p.c. in 2010, having stood at 4.5 p.c. in 2008. The health index is projected to rise by 0.6 p.c. in 2009 and 1.1 p.c. in 2010.

Reflecting both the fall in labour productivity, following the cyclical weakness, and the sustained rise in hourly labour costs, unit labour costs in the private sector rose by 4 p.c. in 2008 and are likely to rise by a further 4.4 p.c. in 2009, largely as a result of continuing high indexation which follows from the surge in inflation in 2008. In 2010, unit labour costs should decline by 1.1 p.c. This deceleration between 2009 and 2010 is due partly to the cyclical recovery in labour productivity. The growth in hourly labour costs is also set to fall from 3.3 p.c. in 2008 to 2.8 p.c. in 2009 and 0.5 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 figures published by the NAI, 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 the budgetary context, this deficit is expected to reach 6.1 p.c. of GDP in 2009 and 5.4 p.c. in 2010, if policy remains unchanged.

Having declined continuously since 1993 to 84.2 p.c. in 2007, the ratio of public debt to GDP began rising again in 2008, mainly as a result of capital injections in 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 89.8 p.c. of GDP in 2008 to 98.1 p.c. in 2009 and 102 p.c. in 2010.

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
GROWTH (calendar adjusted data)					
GDP in volume	2.8	2.8	0.8	-3.1	1.0
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.7	2.6	2.1	-1.2	0.4
Net exports of goods and services	0.4	0.2	-1.0	-0.6	0.2
Change in inventories	0.6	0.1	-0.2	-1.3	0.4
PRICES AND COSTS					
Harmonised index of consumer prices	2.3	1.8	4.5	0.0	1.6
Health index	1.8	1.8	4.2	0.6	1.1
GDP deflator	2.2	2.3	1.8	1.1	0.9
Terms of trade	-0.7	0.3	-2.2	2.4	0.5
Unit labour costs in the private sector	1.7	2.2	4.0	4.4	-1.1
Hourly labour costs in the private sector	3.2	3.4	3.3	2.8	0.5
Hourly productivity in the private sector	1.6	1.2	-0.6	-1.5	1.6
LABOUR MARKET					
Domestic employment (annual average change in thousands of persons)	50.5	70.3	82.1	-27.3	-64.4
Total volume of labour ¹	1.3	1.9	1.3	-1.6	-0.3
Harmonised unemployment rate ² (p.c. of the labour force)	8.3	7.5	7.0	7.9	9.0
INCOMES					
Real disposable income of individuals	2.8	2.0	1.3	2.1	-1.0
Savings ratio of individuals (p.c. of disposable income)	15.8	16.2	16.6	19.7	18.4
PUBLIC FINANCES ³					
Overall balance (p.c. of GDP)	0.3	-0.2	-1.2	-6.1	-5.4
Primary balance (p.c. of GDP)	4.2	3.6	2.6	-2.4	-1.7
Public debt (p.c. of GDP)	88.1	84.2	89.8	98.1	102.0
CURRENT ACCOUNT (according to the balance of payments, p.c. of GDP)					
	2.0	2.2	-2.5	-0.9	-0.4

Sources: EC, DGSIE, NAI, NBB.

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