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PRESS RELEASE

Economic projections for Belgium - Autumn 2010

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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 2010 and 2011. Since the previous forecasts were published in June 2010, the global economic recovery which had begun in mid 2009 has continued, though its strength has varied from one region to another. The emerging economies have been the driving force, propelling the revival of international trade. The upturn is more gradual in the advanced economies, as is generally the case after an economic recession accompanied by a financial crisis. Moreover, there has been some loss of momentum in the past few months owing to the difficult transition to a self-sustaining recovery, while the fiscal stimuli introduced at the height of the crisis are giving way to a general move towards the consolidation of public finances.

In the euro area, significant divergences have become apparent between the performance of the economies which have been able to take advantage of the strengthening foreign demand, including Germany and Belgium, and that of countries facing major structural adjustments. Depending on the case, it is a question of correcting serious imbalances in public finances, reforming the banking sector, or restoring the competitiveness of the economy.

In that context, the projections indicate that the recovery will be maintained, but will be weaker for a time than at the beginning of 2010. The projections are based on assumptions drawn up at mid November 2010. They take account of the continuing foreign trade revival in 2010 and 2011. On the basis of the forward markets, oil prices are expected to rise from an average of \$61.9 per barrel in 2009 to \$79.5 in 2010 and \$88.6 in 2011. Interest rates are also projected to follow the trend predicted by the market. As an annual average, interest rates on three-month euro-denominated interbank deposits are projected at 0.8 % in 2010 and 1.4 % in 2011, with rates on Belgian government bonds reaching 3.4 % in 2010 and 3.8 % in 2011. Exchange rates are held constant at \$1.39. In that context, following a 4.1 % decline in 2009, GDP growth in the euro area is projected at between 1.6 and 1.8 % in 2010 and between 0.7 and 2.1 % in 2011. Inflation which had been running at 0.3 % in 2009 is projected at between 1.5 and 1.7 % in 2010 and between 1.3 and 2.3 % in 2011.

In Belgium, too, the hesitant revival in activity which had begun in the second quarter of 2009 was consolidated and has since been maintained. So far it has been slightly stronger than expected. Overall, following a contraction of 2.7 % in 2009, GDP growth is forecast at 2.1 % in 2010 and 1.8 % in 2011, slightly outpacing growth in the euro area.

In view of the 4.2 % slump in GDP at the beginning of 2009, the peak of recession, the resilience of the labour market was a welcome surprise. The decline in employment was both limited and short-lived: altogether, job losses totalled 38,400 units between the end of 2008 and the end of 2009. According to the NAI data, these losses were already more or less offset by jobs created during the first two quarters of 2010, whereas the general expectation was that the downward adjustment of the labour market would persist throughout this year. According to the new projections, job creations are likely to exceed 56,000 units during 2010, with a further 15,000 units in 2011. The resilience of employment is due to the use of flexible arrangements during the period of the economic slowdown and to a decline in the hourly productivity. In that context, the unemployment rate increased from 7 % in 2008 to 7.9 % in 2009 and 8.5 % in 2010. It is projected at 8.6 % in 2011.

The recovery was initiated in 2009 by the end of the movement towards stock reduction and by the export revival triggered by the marked strengthening of international trade, which in 2010 meant that changes in stocks and net exports made a significant contribution to GDP growth. Domestic demand excluding the change in stocks is also likely to gain momentum, boosted by private consumption. Following a decline in consumption at the beginning of 2009 against the backdrop of great uncertainty over the outlook for employment and significant losses on financial assets, the stock market rally during 2009 and the resilience of the labour market nevertheless prompted consumers to ease the restraint on their expenditure. Overall, following a decline of 0.2 % in real terms in 2009, private consumption is projected to rise by 1.4 % in 2010.

That increase is likely to be due solely to the 1.5 percentage point cut in the savings ratio, restoring it to its 2008 level. The disposable income of households is forecast to fall by 0.5 % in real terms in 2010, the main factors being wage moderation and subdued interest income, and the decision by the Flemish government to limit the tax cuts which had been granted in the previous year. In 2011, private consumption looks set to grow by 1.4 % in line with the growth of disposable income. It is expected that investment in housing and business investment would also resume growth in that year.

In line with a trend which had begun in the middle of the previous year, when the inflation rate had been negative for a time, inflation measured by the HICP began rising rapidly during 2010 to reach 3.1 % in October. However, it is forecast to dip slightly during the coming year, so that – as an annual average – it will increase from the rate of 0 % recorded in 2009 to 2.3 % this year before subsiding to 2.1 % in 2011. These fluctuations are largely determined by the movements in energy prices. Having slowed down until mid 2010, inflation excluding energy is expected to continue gradually gathering pace in the context of the cyclical upturn.

Reflecting both the dip in labour productivity, following the weakness of economic activity, and the still sustained rise in hourly labour costs, unit labour costs in the private sector went up by 4.7 % in 2009. They are projected to decline by 0.2 % in 2010 and to increase by 2 % in 2011. The increase in hourly labour costs is set to fall from 3.9 % in 2009 to 0.5 % in 2010. In accordance with the provisions of the central agreement for the period 2009-2010 concluded in December 2008, that forecast is based on the allowance for indexation and the possibility, in the negotiations at joint committee level, of granting one-off bonuses of 125 euro in 2009 and 250 euro in 2010. In accordance with the technical assumption made for these projections, hourly labour costs are likely to increase by 2.4 % in 2011 owing to the forecast effect of indexation.

According to the latest data, Belgium's public finances will end the year 2010 with a deficit of 4.8 % of GDP, which is a 1.2 percentage point improvement on 2009. In the absence of a budget for the federal government and social security, the forecasts for 2011 are highly uncertain. If there is no change of policy in those two sectors, and given the continuing consolidation of economic conditions, the deficit is forecast at 4.7 %.

The government debt ratio is projected to continue rising in 2010 and 2011, but at a much more modest pace than in the two previous years. In 2010, the debt ratio is estimated at 97.6 % of GDP. In 2011 it will probably rise further, to 99.8 % of GDP.