

2011-06-15

PRESS RELEASE

Economic projections for Belgium – Spring 2011

(Article for the June 2011 Economic Review)

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 2011 and 2012. At the beginning of 2011, the recovery phase seen in the global economy over the past two years reached a degree of maturity. Driven by the emerging economies, international trade which had been severely affected by the financial crisis and the economic recession regained its pre-crisis level. Given the easing of the financial tensions and the accommodating character of the monetary and fiscal policies pursued thus far, activity in the various economic regions should gradually progress from being export-led to become more broadly based, particularly thanks to increasing investment. This improvement in the economic situation triggered a rapid rise in commodity prices and subsequently consumer price inflation.

Nevertheless, serious factors of uncertainty still linger. The legacy of the 2008-2009 crisis, the seriously degraded public finances in most advanced economies on both sides of the Atlantic require consolidation measures. Similarly, financial institutions in general will have to continue their restructuring. These factors which could hold back the economy are compounded by the risks resulting from the natural disasters in Japan and political and social tensions in the Middle East and North Africa. In the euro area, there are significant internal divergences, witness the unexpected vigour of the recovery in Germany – especially in the first quarter of 2011 – and, conversely, the decline in activity in the economies facing serious structural problems.

Against this backdrop, the main line of the Eurosystem staff projections is that the recovery is continuing, but less vigorously than at the beginning of 2011. The projections are based on assumptions adopted in mid-May 2011. They expect international trade to continue expanding in 2011 and 2012, although more slowly than in 2010. On the basis of the forward markets, oil prices are projected to rise from an average of \$79.6 in 2010 to \$111.1 in 2011, easing to \$108 in 2012. Interest rates are also assumed to follow the pattern forecast by the market. As an annual average, rates on three-month euro-denominated interbank deposits are projected at 1.6 % in 2011 and 2.3 % in 2012, with rates on Belgian government bonds reaching 4.3 % in 2011 and 4.7 % in 2012. Exchange rates are held constant at \$1.43. In this context, after reaching 1.7 % in 2010, GDP growth in the euro area should be between 1.5 and 2.3 % in 2011 and between 0.6 and 2.8 % in 2012. Inflation, which was running at 1.6 % in 2010, is put at between 2.5 and 2.7 % in 2011 and between 1.1 and 2.3 % in 2012.

In Belgium, recent developments in activity have been better than predicted by the previous projection exercises, including the one presented in December 2010. The Belgian economy, in Germany's wake, has succeeded in taking advantage of the revival in global demand, while private consumption has rapidly picked up thanks to the unexpected resilience of the labour market. Business and household investment should gradually recover too. Thus, GDP should be bolstered by several factors. Overall, that growth came to 2.1 % in 2010; it is projected to reach 2.6 % in 2011 before subsiding to 2.2 % in 2012, thus outpacing growth in the euro area.

The continuing expansion of activity is likely to be supported by consolidation of the labour market. Job creation should be maintained at very slightly above the rates recorded in 2010, at 0.9 and 0.8 % respectively. Thus, in net terms, around 77,000 additional jobs will be created between the end of 2010 and the end of 2011, after a rise of 54,200 units during 2010. Taking account of the expected movement in the labour force, the decline in unemployment which had begun in early 2010 is expected to continue steadily, reducing the average unemployment rate from 8.4 % in 2010 to 7.3 % in 2012.

As activity continues to expand in 2011 and 2012, it should become more broadly based. The economic recovery which began in Belgium at the end of 2009 was in fact driven by the strong rebound in exports resulting from the marked strengthening of world trade, while the growth of domestic demand lagged behind. Exports of goods and services, which had grown strongly in 2010 in parallel with the revival in foreign demand, are forecast to show more modest growth this year and next, at 7 and 5.4 % respectively in real

terms. For one thing, the expansion of the foreign markets is likely to slacken pace, while the Belgian firms' loss of market share – which had been trivial during the past three years – is also expected to increase over the projection horizon. As a result of the consolidation of economic activity, firms are seeing a recovery in demand and an improvement in their profitability, which should enable them to finance investment projects out of their own resources. In this context, business investment is expected to begin growing again from 2011, after two consecutive years of contraction. The gross fixed capital formation of firms should thus exhibit 3.7 % volume growth in 2011 and 2012. Household consumption had recovered fairly quickly after the crisis: having slumped in 2009, it increased by 1.6 % in real terms in 2010. This growth should continue at much the same rate in 2011 and 2012, at around 1.7 %, despite a slight increase in the volatility of household disposable income. Following a substantial increase recorded at the height of the crisis, in 2011 the savings ratio is projected to maintain the decline which began in 2010. In 2012 it could edge upwards by 0.6 pp. to 17.2 %, close to its long-term level.

In parallel with the clear recovery of activity and demand at global level, external inflationary pressures strengthened considerably in Belgium during 2010 and at the beginning of 2011. Inflation measured by the HICP increased from 0.8 % in January 2010 to 3.7 % in January 2011. It is projected to hover at well above 3 % throughout the year. Overall, as an annual average, the rise in consumer prices is projected to increase from 2.3 % in 2010 to 3.4 % in 2011, before dropping back to 2.2 % in 2012 when – according to the assumptions adopted – the increase in consumer prices of energy is set to slow down. Conversely, underlying inflation gathered pace at the end of 2010 and in early 2011, rising from an average of 1.1 % in 2010 to 1.7 % in April 2011 – with services as the main driving force – ; it would reach 2 % on average in 2012.

In Belgium, unit labour costs in the private sector declined by 0.7 % in 2010, owing to the improvement in productivity combined with a very small indexation effect. These two factors will cease to be so decisive in 2011 and 2012, in a context of consolidation of the recovery phase and high inflation. Unit labour costs are thus expected to increase by 1.6 and 2.5 % respectively. The increase in hourly labour costs is forecast to surge from 0.6 % in 2010 to 2.9 % in 2011 and 3.4 % in 2012. This strong acceleration – admittedly from a low rate of increase in the first year – is very largely due to the automatic wage indexation. According to the projections, the health index of consumer prices used as the reference for indexation is to rise by 3 % in 2011 and 2.3 % in 2012. Apart from indexation, the assumption made for the movement in hourly labour costs in the private sector in 2011 and 2012 takes account of the 0.3 % increase planned for the second year in the draft central agreement imposed by the government, and an additional rise due, in particular, to the tensions apparent on some labour market segments.

According to the latest data, public finances ended the year 2010 with a deficit of 4.1 % of GDP. That is a significant improvement on the previous year's outcome, when the economic and financial crisis had taken the deficit to 5.9 % of GDP. In the macroeconomic context described above, the deficit is projected at 3.5 % of GDP in 2011. However, it is likely to increase again in 2012 to 4.1 % of GDP.

The upward trend in the government debt ratio recorded since 2008, owing to the capital injections granted to financial institutions and the consequences of the economic recession, slowed considerably in 2010. It should give way to a still modest reduction in 2011, then a bigger decline in 2012. The debt ratio is expected to fall from 96.6 % of GDP in 2010 to 95.4 % in 2012.

Projections for the Belgian economy: summary of the main results

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

	2008	2009	2010	2011 e	2012 e
GROWTH (calendar adjusted data)					
GDP by volume	0.8	-2.7	2.1	2.6	2.2
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.7	-1.1	0.8	1.8	2.0
Net exports of goods and services	-1.0	-0.5	1.8	0.4	0.3
Change in inventories	0.1	-1.0	-0.5	0.4	0.0
PRICES AND COSTS					
Harmonised index of consumer prices	4.5	0.0	2.3	3.4	2.2
Health index	4.2	0.6	1.7	3.0	2.3
GDP deflator	1.9	1.1	1.8	2.7	2.5
Terms of trade	-2.4	3.5	-1.8	-0.4	0.2
Unit labour costs in the private sector	3.8	4.7	-0.7	1.6	2.5
Hourly labour costs in the private sector	3.6	3.9	0.6	2.9	3.4
Hourly productivity in the private sector	-0.2	-0.8	1.3	1.2	0.9
LABOUR MARKET					
Domestic employment (annual average change in thousands of units)	75.9	-15.9	29.5	41.9	37.4
<i>p.m.: Change during the year¹, in thousands of units</i>	<i>57.4</i>	<i>-38.4</i>	<i>54.2</i>	<i>40.2</i>	<i>37.3</i>
Total volume of labour ²	1.4	-1.8	0.8	1.5	1.3
Harmonised unemployment rate ³ (% of the labour force)	7.0	8.0	8.4	7.5	7.3
INCOMES					
Real disposable income of individuals	2.1	1.6	0.1	1.2	2.4
Savings ratio of individuals (% of disposable income)	17.0	18.3	17.3	16.6	17.2
PUBLIC FINANCES⁴					
Overall balance (% of GDP)	-1.3	-5.9	-4.1	-3.5	-4.1
Primary balance (% of GDP)	2.5	-2.3	-0.7	-0.2	-0.5
Public debt (% of GDP)	89.6	96.2	96.6	96.1	95.4
CURRENT ACCOUNT (according to the balance of payments, % of GDP)					
	-1.8	0.5	1.4	1.4	1.7

Sources: EC, DGSEI, NAI, NBB.

¹ Difference between the fourth quarter of the year concerned and the fourth quarter of the previous year.

² Total number of hours worked in the economy.

³ Percentages of the labour force (15-64 years), non calendar adjusted data.

⁴ According to the methodology used in the excessive deficit procedure (EDP).