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PRESS RELEASE

Economic projections for Belgium - Autumn 2011

(Article for the December 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. These projections were produced in a context which has deteriorated seriously in recent months. On the one hand, activity and international trade have slowed more sharply than expected at global level. Also, the dramatic worsening of the sovereign debt crisis in the euro area is a serious concern for financial institutions which hold large portfolios of government securities. More generally, the confidence of business leaders and consumers has shown a marked decline.

Against this backdrop, the projections for the euro area show that the average GDP growth predicted for 2012 has undergone substantial downward revision. In particular, a period of stagnating activity or even mild recession is expected at the end of 2011 and in early 2012, while the recovery is subsequently expected to be modest. All the main demand categories are set to contribute to the weakness of activity, including public expenditure on consumption and investment in the countries implementing fiscal consolidation measures. In this context, after having reached 1.8% in 2010, GDP growth in the euro area is forecast at between 1.5 and 1.7 % in 2011 and between -0.4 and 1.0 % in 2012. Inflation, which was running at 1.6 % in 2010 is estimated at between 2.6 and 2.8 % in 2011 and between 1.5 % and 2.5 % in 2012.

For both the euro area and Belgium, these projections are based on assumptions dating from mid-November 2011. They predict a slowdown in the rate of expansion of international trade in 2011 and 2012. Oil prices are forecast to rise from an average of \$ 79.6 a barrel in 2010 to \$ 111.5 in 2011, easing to \$ 109.4 in 2012. Interest rates are also assumed to follow the pattern expected by the market. As an annual average, interest rates on three-month euro-denominated interbank deposits are projected at 1.4 % in 2011 and 1.2 % in 2012, with rates on Belgian government bonds rising to 4.3 % in 2011 and 5.1 % in 2012. Exchange rates are held constant, notably at \$ 1.36 to the euro. The cut-off date for the projections for Belgium was 25 November 2011. It was therefore not possible to take account of the 2012 budget measures announced later under the government agreement. In order to avoid presenting outdated figures, the estimates for general government therefore do not go beyond 2011.

In Belgium, during the summer of 2011, the deterioration in the external environment, rising financial tensions and the accompanying heightened uncertainty halted the recovery apparent since mid-2009. According to the NAI's flash estimates, GDP stagnated in the third quarter and – particularly in view of the adverse trend in the economic indicators – growth is expected to remain close to zero at the end of the year and in early 2012. Activity is expected to pick up thereafter, supported in particular by foreign demand. However, the revival is likely to be restrained by the continuing uncertain outlook, in a context of essential retrenchment of public finances and strengthening of the financial institutions. GDP growth is estimated at 2% in 2011 and 0.5% in 2012. These figures have been revised downwards by 0.6 and 1.8 percentage points respectively since the projections published in June.

After having proved unexpectedly resilient at the height of the 2008-2009 recession, job creation picked up from the beginning of 2010. As an annual average, the number of persons in work increased by 0.8 % in 2010 and 1.5 % in 2011; the expansion is expected to slow to 0.4 % in 2012. Most net job creation was concentrated between the beginning of 2010 and the second quarter of 2011, namely around 63 000 additional jobs during 2010, followed by a further 38 000 in the first half of 2011. Subsequently, the expansion of employment is expected to slow considerably, though it should remain slightly positive. Between mid-2011 and the end of 2012, domestic employment is forecast to expand by around 23 000 units. This growth is expected to come from the continuing rise in the number of persons employed under the service voucher system and in the health sector and other non-market services. Taking account of the combined effects of the slackening pace of net job creation and the steady rise in the number of persons entering the labour market, the declining trend in unemployment seen in recent months, down from 8.5 % in the spring of 2010 to 6.6 % in October 2011, is expected to be reversed in 2012, with the unemployment rate averaging 7 % then.

While the recovery of GDP gradually spread to all factors of demand up to the second quarter of 2011, the resurgence of financial tensions and the widespread deterioration in the business climate and the outlook cast a dark shadow over this picture. After having benefited up to the first quarter of 2011 from the renewed vigour of external demand, the growth of the export markets is projected to fall from 10.1 % in 2010 to 5.8 % in 2011 and 3.7 % in 2012. Overall, the volume of Belgium's exports is likely to exhibit a similar profile, with growth expected to fall from 9.9 to 5.5 % in 2011. The figure forecast for 2012 is just 1.7 %. Household consumption had recovered fairly quickly following the crisis, with savings ratios declining as households became more optimistic about the economic prospects. That effect did not persist in 2011, while the high inflation eroded household purchasing power. Moreover, the generally uncertain climate and protracted debate over the budget prospects in Belgium have depressed their consumption expenditure. Overall, the growth of consumption is forecast to decline from 2.3 % in 2010 to 1 % in 2011 and 0.2 % in 2012. The savings ratio is set to rise from 16.2 % in 2011 to 17 % in 2012. Household investment in housing is likely to drop back in 2011 and in 2012, by around 1.5 % per annum. After having recorded a cumulative decline of 11 % in 2009 and 2010, the volume of business investment is expected to pick up by 7.8 % in 2011, in a context of a marked increase in capacity utilisation rates and restoration of corporate profitability at the beginning of the year. In parallel with the weakening of demand, a sharp slowdown in business investment is expected in 2012, with an increase of only 1.7 %.

Since the end of 2010, consumer price inflation in Belgium has been significantly above 3 %. According to the current projections, it is expected to exceed that figure until the initial months of 2012 before gradually dropping to around 2 % by the end of the year. Inflation is forecast to average 3.5 % in 2011 and 2.4 % in 2012. Both the high level of inflation in 2011 and the decline in 2012 are due largely to the movement in energy prices. Underlying inflation is expected to remain at slightly above 1.7 %. After having remained stable in 2010, unit labour costs in the private sector increased sharply in 2011 and 2012, by an estimated 2.2 and 2.9 % respectively, owing to the combined effect of weak productivity gains and a faster rise in hourly labour costs. That increase significantly outpaced the figure generally predicted for the main trading partners, thus impairing the competitiveness of Belgian firms. The increase in hourly labour costs is projected to rise from 0.9 % in 2010 to 2.5 % in 2011 and 3.3 % in 2012. This strong acceleration is very largely due to the automatic wage indexation. Apart from indexation, the assumption made regarding the movement in hourly labour costs in the private sector in 2011 and 2012 essentially takes account of the maximum 0.3 % wage increase specified for the second year under the draft central agreement imposed by the government.

The projections for public finances presented in this article do not go beyond 2011, since the budgetary agreement concluded on 26 November 2011 in connection with the formation of the federal government came after the cut-off date for the projections. On the basis of the latest information, public finances are expected to record a deficit of 4.2 % of GDP at the end of 2011, that is 0.1 percentage point of GDP more than the previous year. Apart from the impact on revenues caused by the sharp slowdown in economic activity, the figure is 0.2% of GDP higher as a result of the measures taken following the difficulties encountered by Holding Communal, a major shareholder in Dexia, whose share price collapsed¹. The government debt ratio has increased as a result of the loans contracted by the Belgian State to finance the purchase of Dexia Bank Belgium and by the loans granted to Greece, Ireland and Portugal. It is set to rise from 96.2 % of GDP in 2010 to 97.7 % in 2011.

¹ The projections take no account of the potential effect of the guarantee of 0.4% of GDP granted to private cooperative partners from the Arco Group, owing to the uncertainty in this matter.

Projections for the Belgian economy: summary of the main results

(in % change compared to the previous year, unless otherwise stated)

	2008	2009	2010	2011 e	2012 e
GROWTH (calendar adjusted data)					
GDP by volume	0.9	-2.7	2.3	2.0	0.5
Contributions to growth:					
Domestic expenditure, excluding change in inventories	2.0	-1.2	1.1	1.8	1.1
Net exports of goods and services	-0.8	-0.7	1.2	-0.2	-0.3
Change in inventories	-0.3	-0.7	0.0	0.5	-0.3
PRICES AND COSTS					
Harmonised index of consumer prices	4.5	0.0	2.3	3.5	2.4
Health index	4.2	0.6	1.7	3.1	2.4
GDP deflator	2.2	1.2	1.8	2.5	2.3
Terms of trade	-2.4	3.4	-1.5	-1.1	0.0
Unit labour costs in the private sector	3.5	4.0	0.0	2.2	2.9
Hourly labour costs in the private sector	3.6	2.8	0.9	2.5	3.3
Hourly productivity in the private sector	0.1	-1.2	0.9	0.3	0.4
LABOUR MARKET					
Domestic employment (annual average change in thousands of persons)	79.1	-7.6	37.0	68.3	18.3
<i>p.m.: Change during the year¹, in thousands of persons</i>	63.1	-23.2	63.4	55.7	4.8
Total volume of labour ²	1.5	-1.6	1.1	1.8	0.2
Harmonised unemployment rate ³ (in % of the labour force)	7.0	8.0	8.4	6.9	7.0
INCOMES					
Real disposable income of individuals	2.2	2.9	-0.5	0.9	1.2
Savings ratio of individuals (in % of disposable income)	16.8	18.4	16.2	16.2	17.0
PUBLIC FINANCES⁴					
Overall balance (in % of GDP)	-1.3	-5.8	-4.1	-4.2	n.
Primary balance (in % of GDP)	2.5	-2.2	-0.7	-0.9	n.
Public debt (in % of GDP)	89.3	95.9	96.2	97.7	n.
CURRENT ACCOUNT (in % of GDP according to the balance of payments)					
	-1.6	-1.7	1.5	0.9	0.3

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

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