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PRESS RELEASE

Economic projections for Belgium – Autumn 2012

(Article for the December 2012 Economic Review)

Coinciding with the publication by the ECB of new Eurosysteem macroeconomic projections for the euro area, this article presents the results for the Belgian economy for 2012 and 2013. These projections were produced in a context which has deteriorated seriously in recent months, the main reason being the worsening and spreading of the crisis in the euro area. On the one hand, the economic situation has deteriorated further in the countries undergoing the most significant fiscal adjustments and/or a radical restructuring of their economy. In addition, the countries which had hitherto been least affected by the euro crisis – known as the ‘core’ countries, which include Belgium – have also experienced a very marked loss of momentum in economic activity, and some of them have actually fallen into recession. There has also been a sharper than expected slowdown in economic activity outside the euro area - including in the emerging countries - and in international trade. Uncertainty remains high, regarding, for instance, the fiscal cliff – that is the automatic fiscal tightening that will affect the American economy at unchanged policies – and the absence of a permanent solution to the institutional crisis in the euro area. This uncertainty continued to sap the morale of the economic agents, as is evident from the steady deterioration in business and consumer confidence indicators since the summer, against the backdrop of a marked rise in unemployment.

In this context, the projections for the euro area record a substantial downward revision of growth in 2012 and 2013. Following a sharp decline in economic activity in 2012 – of between 0.4 and 0.6 % - growth is expected to remain very modest in 2013, ranging between -0.9 and 0.3 %. The recovery is likely to become apparent in the course of 2013 only; it will be gradual, and driven mainly by net exports, as domestic demand will continue to be curbed by the deleveraging in progress in most countries. Inflation in the euro area is projected at 2.5 % on average in 2012, before subsiding to between 1.1 and 2.1%, mainly as a result of the fall in energy and food prices. Domestic cost pressure – particularly that originating from labour costs – is forecast to remain under control.

For both the euro area and Belgium, these projections were finalised on 23 November on the basis of common assumptions adopted in mid-November. According to those assumptions, the external demand addressed to Belgian firms will continue to slacken in late 2012 and early 2013, only strengthening gradually from mid-2013. The oil price is set to record a moderate decline over the projection horizon, the price of a barrel of Brent crude dropping from USD 109.6 in the last quarter of 2012 to USD 103.2 at the end of 2013. The euro exchange rate is projected to remain steady at the average level recorded during the ten working days preceding the assumption cut-off date, namely USD 1.28. In a less buoyant economic environment, both short- and long-term interest rates are forecast to decline further, on average, in 2013, after a significant fall in 2012. As regards the budgetary environment, it was not possible to take account of fiscal and other measures decided under the political agreement of 20 November 2012, in the absence of specific, detailed information at the cut-off date for these projections. In order to avoid presenting outdated figures, the general government account estimates therefore do not go beyond 2012.

The projections for growth have also been revised downwards sharply for Belgium, in relation to the June 2012 figures. In particular, activity growth is expected to be zero in 2013, after having contracted by 0.2 % in 2012. The weak annual growth forecast for 2013 is due to a very low starting point at the beginning of 2013 and a slow recovery from the spring of that year. In particular, GDP is predicted to continue contracting slightly in the final quarter of 2012 and the first quarter of 2013, following negative or zero growth in the preceding two quarters. However, from the second quarter of 2013 the economy should gradually begin to pick up, bolstered initially by the external demand and then by a hesitant revival in domestic demand.

The relatively gloomy assessment of activity in the short term goes hand in hand with the steady deterioration in confidence indicators for both businesses and consumers since the summer. For businesses, demand from euro area partners is set to remain particularly anaemic in the short term. For households, rising unemployment and the rapidly worsening outlook for jobs, in a context of numerous recent announcements concerning business restructuring and closures, could further slack confidence and restrain private consumption.

While GDP growth in 2011 had seen a positive contribution from domestic demand, including changes in inventories, and a slightly negative external contribution, that situation is likely to be reversed in 2012 and 2013. During those two years, the only support for GDP will come from net exports, as domestic demand – except for public spending – will record a marked fall. The weak economic environment is also likely to prompt firms to cut back on their stock building.

The positive contribution from net exports in 2012 and 2013 is due more to the low level of imports – on account of sluggish domestic demand – rather than the dynamism of exports. The growth rate of the export markets is in fact expected to subside from 5 % in 2011 to 1.4 % in 2012, with only a very modest recovery to 2.2 % in 2013. Consequently, there will be only weak growth of exports over the projection horizon, reflecting the anaemic demand from euro area countries – which take almost 60 % of Belgian exports – and structural losses of market share. Starting in 2011, the weak trend in household consumption is forecast to persist in 2012 and 2013. In 2012, consumption expenditure is estimated to contract by 0.7 %, and will stagnate in 2013. Anxiety over their income prospects in the short and medium term – whether labour incomes or property incomes, the latter depleted by the low level of interest rates and meagre financial yields –, prompts households to put a brake on their expenses. The savings ratio is set to rise from 14.4 % of disposable income in 2011 to 14.9 % in 2012 and 15.7 % in 2013. This increase in the savings ratio, despite a very meagre rise in households' disposable income over the projection horizon, suggests that households would again step up their precautionary savings. Investment in housing is also projected to decline further in 2012 and 2013. After having surged by almost 9 % in 2011, the volume of business investment will hardly expand at all in 2012, with growth predicted at 0.3 %, and will even contract slightly in 2013 against the backdrop of firms' steadily declining capacity utilisation rates and deteriorating profitability since mid-2011. Finally, despite the fiscal consolidation, public expenditure is likely to contribute positively to activity growth..

In the wake of the sharp deterioration in the business cycle, employment is already forecast to stagnate in 2012, with hardly any rise in the number of persons in work (0.1 %), but will be weaker in 2013 with a decline of 0.3 %. Contrary to what happened in 2008 and 2009, average working time would only absorb the cyclical fluctuations to a limited extent; the further slowdown in activity will therefore be reflected more quickly in job losses. The cumulated net job losses in the private sector on 2012 and 2013 would amount to 20 000 units. The unemployment rate which had fallen to 7.2 % of the work force in 2011 is projected to rise to 7.4 % in 2012 and 8.1 % in 2013.

Following the 4 % peak recorded in July 2011, inflation has fallen in Belgium, dropping to 2.6 % in October 2012, the latest figure available at the projection cut-off date. Annual average inflation is predicted to ease over the projection horizon, to 2.6 % in 2012 and 1.6 % in 2013, mainly as a result of the expected fall in oil prices. Conversely, underlying inflation will remain high in 2012, reaching 1.8 % as an annual average compared to 1.7 % in 2011, before dropping to 1.5 % in 2013. The expected rise in 2012 broadly corresponds to the effect of the increases in indirect taxes on notary's fees and on digital television subscriptions, and of the excise duty on tobacco. Unit labour costs are expected to accelerate to 3.7 % in 2012 before easing back to 1.8 % in 2013. The increase in 2012 significantly exceeds the figure expected for Belgium's three main partners, Germany, France and the Netherlands, and that is denting the competitiveness of Belgian producers. Apart from the indexation, the assumption concerning hourly labour costs in the private sector in 2012 also takes account of a limited 0.2 % rise in negotiated wages, in line with the draft central agreement imposed by the government for the period 2011-2012, and a very limited movement in the other wage-setting factors. For 2013, the assumption is based mainly on the expected effect of indexation, as real increases are assumed to be minimal.

Turning to public finances, the public sector borrowing requirement would reach 2.8¹ % in 2012 and the consolidated gross public debt will rise to 100.6 % of GDP, partly due to exogenous elements related to the financial support measures for other euro area countries.

¹ This estimate is based on the assumption that the capital increase of Dexia planned by the government is to be considered as a purely financial transaction. The preliminary advice given by Eurostat – after the cut-off date of the projections – indicates, however, that this transaction is to be recorded as a capital transfer.

Projections for the Belgian economy: summary of the main results
(in % change compared to the previous year, unless otherwise stated)

	2009	2010	2011	2012 e	2013 e
GROWTH (calendar adjusted data)					
Real GDP	-2.7	2.4	1.8	-0.2	0.0
Contributions to growth:					
Domestic expenditure, excluding change in inventories	-1.1	1.3	1.1	-0.4	0.1
Net exports of goods and services	-0.6	0.7	-0.1	0.4	0.2
Change in inventories	-1.0	0.3	0.7	-0.2	-0.2
PRICES AND COSTS					
Harmonised index of consumer prices	0.0	2.3	3.5	2.6	1.6
Health index	0.6	1.7	3.1	2.6	1.7
GDP deflator	1.2	2.0	2.0	2.1	1.9
Terms of trade	3.4	-1.6	-1.3	-0.1	0.1
Unit labour costs in the private sector	3.8	-0.6	2.2	3.7	1.8
Hourly labour costs in the private sector	2.7	0.9	2.3	3.2	2.0
Hourly productivity in the private sector	-1.1	1.5	0.0	-0.5	0.3
LABOUR MARKET					
Domestic employment (annual average change in thousands of persons)	-8.8	30.8	61.6	4.6	-14.9
<i>p.m.: Change during the year¹, in thousands of persons</i>	-24.3	58.9	53.1	-23.1	-3.3
Total volume of labour ²	-1.6	0.9	1.9	0.1	-0.4
Harmonised unemployment rate ³ (in % of the labour force)	7.9	8.3	7.2	7.4	8.1
INCOMES					
Real disposable income of individuals	2.8	-1.2	-0.8	-0.2	1.0
Savings ratio of individuals (in % of disposable income)	18.3	15.4	14.4	14.9	15.7
PUBLIC FINANCES⁴					
Overall balance (in % of GDP)	-5.5	-3.8	-3.7	-2.8	n.
Primary balance (in % of GDP)	-1.9	-0.4	-0.4	0.6	n.
Public debt (in % of GDP)	95.7	95.5	97.8	100.6	n.
CURRENT ACCOUNT (in % of GDP according to the balance of payments)					
	-1.4	1.9	-1.4	-0.9	-0.9

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 aged 15 years and over, non calendar adjusted data.

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