Economic projections for Belgium – Spring 2011

Introduction

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.

Today, the general expectation is therefore that this dynamism will permit the continuation of self-sustained growth, despite the presence of several risk factors. Some of those factors are the legacy of the 2008-2009 crisis. That is true, in particular, of the seriously degraded public finances in most advanced economies on both sides of the Atlantic, placing them in a position which is untenable in the long term in the absence of consolidation measures. In addition, financial institutions in general will have to continue their restructuring in order to bring their operating model into line with the new environment confronting them. Other risk factors are due to the steady improvement in the economic situation over the past two years, and strengthening demand in the emerging economies. They are reflected in the rapid rise in commodity prices, for instance, followed by consumer price inflation. These endogenous factors are compounded by the risks resulting from the natural disasters in Japan and the political and social tensions in the Middle East and North Africa.

Despite the high degree of uncertainty, the economic outlook therefore seems positive, including for the euro area as a whole. However, significant divergences exist within the euro area, witness the unexpected vigour of the recovery in Germany – including the latest statistics for GDP growth in the first quarter of 2011 – and, conversely, the decline in activity in the economies facing serious structural problems, such as Greece, Ireland and Portugal. That is the backdrop to the projections, drawn up in the twice-yearly Eurosystem exercise ; the results for the euro area are published in the June 2011 ECB Bulletin.

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, there are several factors likely to bolster GDP growth. At the same time, the increase in consumer prices has accelerated sharply, driving inflation in Belgium to a level significantly above that in the euro area. That constitutes a risk for the economy, particularly in view of the widespread application of indexation mechanisms. For its part, prudent fiscal management has helped to keep the economy in a relatively sound position over the past three years. Widening of the spreads on government bonds in relation to German Bunds – to over 100 basis points at the cut-off date for the projections – indicates that structural measures are needed to maintain that situation in the medium term.

Overall, the present projections for this year and next put Belgium's GDP growth above the figure expected for the euro area, especially in 2011, but inflation is also higher. The improvement in the labour market is set to continue, while the public sector deficit is forecast at 3.5 to 4 % of GDP. This article sets out these findings in detail. The first section outlines recent developments and the outlook for the international environment, together with the results for the euro area of the projections produced by the Eurosystem central banks. A box explains the technical assumptions made for the purpose of this joint exercise. Section 2 details the results for activity, employment and demand components in Belgium, while section 3 deals with prices and labour costs, paying particular attention to the possible reasons why Belgian inflation currently exceeds the euro area figure. Section 4 covers the government accounts. In that regard, it should be noted that the projections for public finances only take account of policy measures which have been formally approved by the government, or specified in sufficient detail. Finally, the last section looks at the risks surrounding these projections, and compares them with the main other forecasts available for Belgium.

The Bank's projections were based on the information available up to 24 May 2011.

1. International environment

1.1 The global economy

With GDP growth estimated at 4.9 %, the global economy began expanding strongly again in 2010. This revival was fostered by the easing of financial tensions and the absence of new adverse shocks of the type which had caused a sharp recession in the advanced economies in the previous year, notably the shocks affecting international trade or the property markets in certain countries. In a context of still very accommodating monetary policies and flexible fiscal policies, the revival in activity was very largely underpinned by the dynamism of the emerging economies, particularly those of South-East Asia. By supporting demand not only for commodities and intermediate goods, but also for capital goods and consumption goods, these economies revitalised trade so that, by the end of the year, the volume of trade was restored to its pre-crisis level.

On the basis of that recovery, the expansion phase should continue. That prospect is borne out by the high level of business confidence worldwide. Even if the activity growth were to subside to just below the level seen last year, it should be consolidated in 2011 and 2012, becoming more broadly based in the various economic regions. It should cease to be driven mainly by foreign demand, and be increasingly supported by consumer demand and business investment. This strengthening of the activity base should enable growth to be sustained despite the presence of various risk factors.

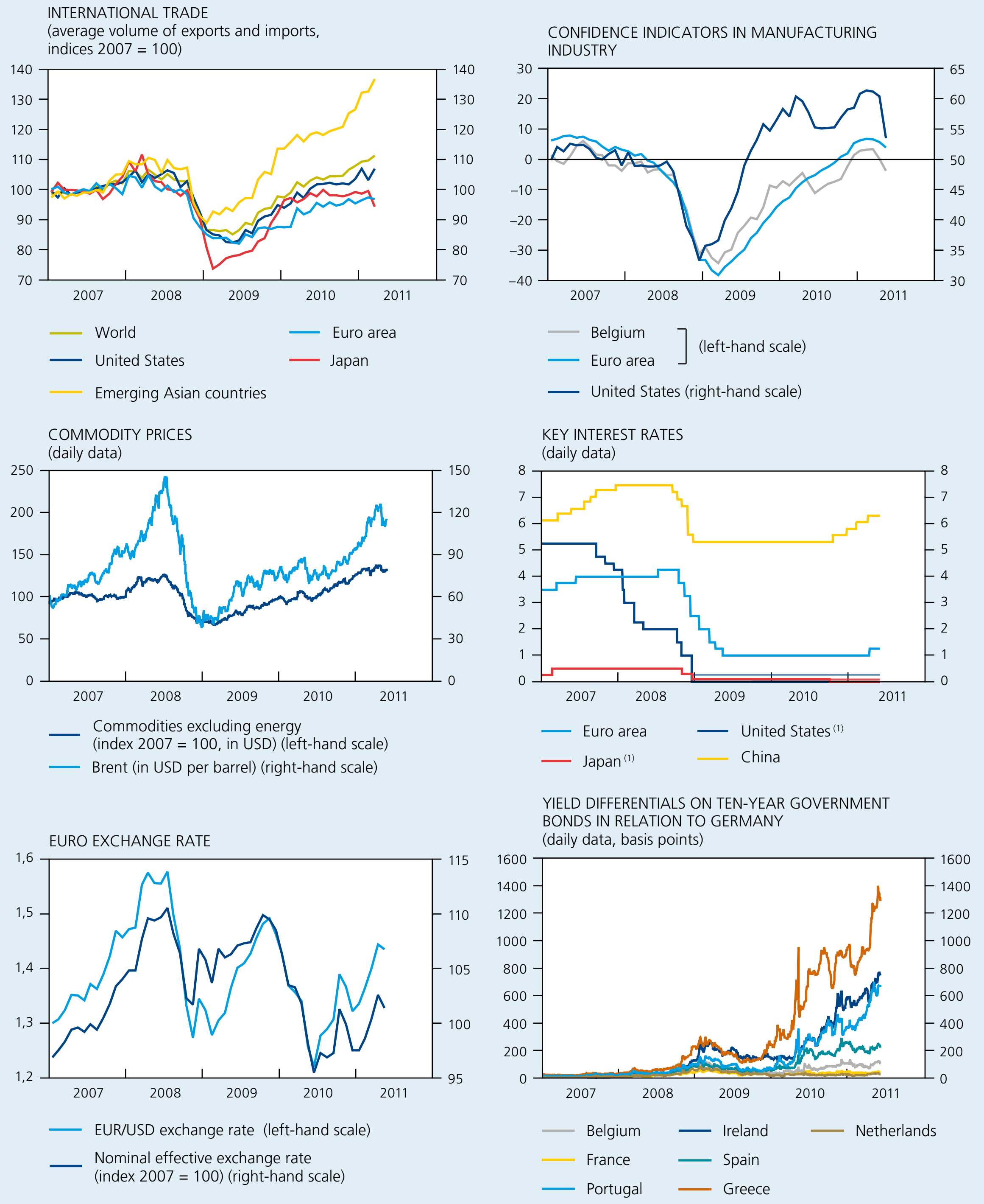
In the short term, the natural disasters which hit Japan on 11 March 2011 – the earthquake and the tsunami which followed it – not only led to a terrible loss of human life but also destroyed much of the local infrastructure, necessitating a major reconstruction effort. Suspension of the operation of the nuclear power stations and electronic component factories in the disaster region could have repercussions on the country's energy market and on some production chains across the world – especially in the car manufacturing sector and the electronic equipment industry. On the basis of experience of other disasters, it is generally considered that the economic impact of these events will be temporary.

More generally, the strong demand for commodities, particularly from the emerging economies, fuelled a sharp rise in international market prices. That trend was reinforced by disappointing harvests and restrictions on exports of agricultural products, particularly cereals. In addition, political tensions in the Middle East and North Africa led to fears of oil supply problems. In all, continuing a trend apparent since the beginning of 2009, the rise in the crude oil price gathered pace during the first few months of the current year. The price per barrel of Brent peaked at USD 125 in the first few days of May 2011, compared to an average of USD 79.6 in 2010. Subsequently, the reversal of the position of oil market operators brought the price down to around USD 110 per barrel at the cut-off date for the projections.

This led to higher consumer price inflation worldwide. The increase was particularly marked in the emerging economies which are operating at close to full production capacity, having been little affected by the economic recession. The advanced economies also saw inflation gather pace, mainly as a direct result of energy prices. In that context, some central banks began to raise their key interest rates in order to contain the overheating of the economy and prevent energy price rises from infecting wages and prices in general. The People's Bank of China increased its interest rates in stages from 5.3 to 6.3 % from the end of 2010, and similar decisions were taken in Brazil. On 4 April 2011, the European Central Bank raised interest rates for the first time since 2008. However, at 1.25 %, the rate on the main refinancing operations remains low, and measures to ensure the provision of ample liquidity are still in place.

CHART 1 DEVELOPMENTS CONCERNING THE FINANCIAL MARKETS, KEY INTEREST RATES, BUSINESS CONFIDENCE AND INTERNATIONAL TRADE

(monthly data, unless otherwise stated)



Sources : Bank of Japan, CPB, ECB, Federal Reserve, HWWI, People's Bank of China, Thomson Reuters Datastream.

(1) In the case of the key interest rates, the line is divided if the central bank has set a target range, the upper limit being indicated by a narrower line in the same colour.

If consolidation of the cyclical upswing is maintained, monetary policies should continue to become less accommodating in the coming months. At the same time, fiscal consolidation should be implemented in order to counteract the deterioration in public finances which followed the economic crisis, and thus bring down the public debt to a level which is sustainable in the long term. That process should be accompanied by continuing debt reduction in the private sector, in the case of financial institutions and households. These various adjustments should curb the growth of demand during the period covered by the forecasts.

The recent forecasts therefore point to expanding activity in 2011 and 2012 ; though growth is predicted to be fairly modest as is generally the case following a financial crisis, it should be sufficient to reduce the unemployment rate in the main economic regions. According to the EC, GDP should grow by around 4 % per annum at global level, with the emerging economies achieving twice that figure. For the European Union as a whole, growth is projected at around 1.8 %.

The consolidation of the cyclical upswing expected for the European Union and for the euro area continues to mask significant divergences between countries. On the one hand, thanks to its restored competitiveness and sound public finances, Germany has benefited greatly from the foreign trade revival, taking neighbouring countries including Belgium in its wake. Conversely, other more peripheral countries still face the need to embark on major restructuring in order to restore sound fundamentals, permitting balanced and sustainable economic growth. Depending on the case, they have to strengthen the general competitiveness of the economy, reduce excessive private sector debt – due in particular to the bursting of the property bubble – or more specifically, remedy the seriously compromised position of the banking sector. The threat which these situations pose for the sustainability of the public sector's budgetary and financial position has led to a substantial widening of the spreads on the government bonds of those countries. Following the Greek crisis in April and May 2010, mechanisms were set up by the European Union, the ECB and the IMF to offer emergency solutions ; Ireland and Portugal also resorted to those mechanisms. Nonetheless, the essential adjustments needed to bring about a fundamental improvement in these situations depressed demand and activity in the economies in question in 2010, and will continue to do so in the medium term ; that will mean bigger variations in performance between the euro area partners.

TABLE 1 PROJECTIONS FOR THE MAIN ECONOMIC REGIONS

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

	2010	2011	2012
	Actual	Projections	
GDP in volume			
World	4.9	4.0	4.1
of which :			
United States	2.9	2.6	2.7
Japan	3.9	0.5	1.6
European Union	1.8	1.8	1.9
China	10.3	9.3	9.0
India	10.4	8.0	8.2
Russia	4.0	4.5	4.2
Brazil	7.5	4.4	4.3
p.m. World imports	*12.2*	*7.3*	*7.4*
Inflation (1)			
United States	1.6	2.5	1.5
Japan	–0.7	0.2	0.3
European Union	2.1	3.0	2.0
China	3.3	5.0	2.5
Unemployment (2)			
United States	9.6	8.7	8.1
Japan	5.1	4.9	4.8
European Union	9.6	9.5	9.1

Sources : EC, IMF.
(1) Consumer price index.
(2) In % of the labour force.

1.2 Eurosystem projections for the euro area

Underpinned by foreign demand and a revival in business investment, activity in the euro area was surprisingly vigorous in the first quarter of 2011. Boosted by the dynamism of Germany and the neighbouring economies, including Belgium, quarterly GDP growth came to 0.8 %, the highest figure seen since the start of the recovery in mid-2009.

According to the Eurosystem projections, the expansion of activity is set to continue for the rest of this year and in 2012, albeit at a slightly slower pace than in the first quarter. Thus, after a 1.7 % increase in 2010, GDP growth is likely to range between 1.5 and 2.3 % in 2011 and between 0.6 and 2.8 % in 2012.

While continuing to benefit from sustained foreign demand – though exports may be held back slightly by the recent appreciation of the euro – activity will increasingly be based on domestic demand. The expected improvement in the labour market is a key factor here, as is the likely recovery of business investment. This endogenous strengthening of the economy should be enough to sustain growth despite the short-term constraining effect of the fiscal consolidation efforts adopted in various countries. That will be accompanied by the effect of the necessary absorption of the imbalances in the private sector debt and competitiveness of countries where the financial crisis revealed serious structural problems.

The increase in inflation seen in 2010 has continued and gained momentum at the beginning of 2011. In April, consumer price inflation reached 2.8 %, compared to an average of 1.6 % in 2010. That is due mainly to the direct effects of higher commodity prices, principally the oil price. In so far as the assumptions made are based on stabilisation of the level of commodity prices, overall inflation should ease slightly in 2012. The weaker contribution of energy prices to the general rise in consumer prices should more than offset the slight acceleration in underlying inflation due to the gradual absorption of excess production capacity. In all, inflation is expected to average between 2.5 and 2.7 % in 2011, and between 1.1 and 2.3 % in 2012.

TABLE 2 EUROSYSTEM PROJECTIONS
(percentage changes compared to the previous year)

	Euro area			*p.m. Belgium*		
	2010	2011	2012	*2010*	*2011*	*2012*
Inflation (HICP)	1.6	2.5 / 2.7	1.1 / 2.3	*2.3*	*3.4*	*2.2*
GDP in volume	1.7	1.5 / 2.3	0.6 / 2.8	*2.1*	*2.6*	*2.2*
of which:						
Private consumption	0.8	0.6 / 1.2	0.4 / 2.2	*1.6*	*1.7*	*1.7*
Public consumption	0.6	–0.4 / 0.6	–0.5 / 0.9	*1.1*	*0.9*	*2.1*
Investment	–0.9	2.0 / 4.2	1.1 / 5.9	*–1.5*	*3.5*	*2.9*
Exports	11.1	5.8 / 9.6	2.6 / 10.6	*10.6*	*7.0*	*5.4*
Imports	9.3	4.3 / 7.9	2.6 / 10.0	*8.4*	*6.7*	*5.3*

Sources: ECB, NBB.

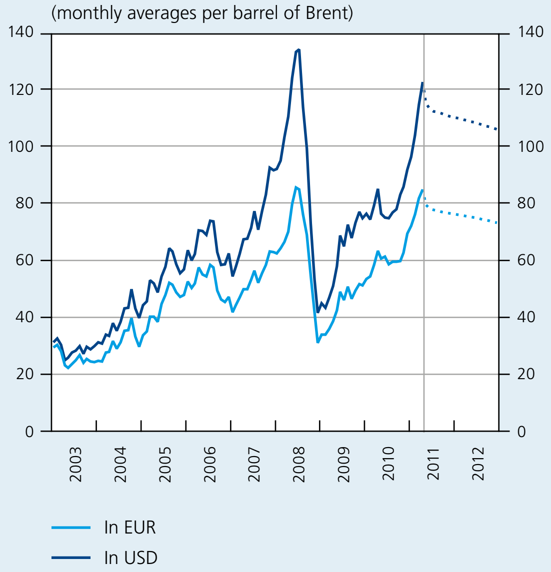
Box 1 – Assumptions adopted for the projections

Produced as part of a joint exercise, the Eurosystem's economic projections for the euro area, and the Bank's projections for Belgium, are based on a set of technical assumptions and forecasts for the international environment drawn up jointly by the ECB and the national central banks of the Eurosystem.

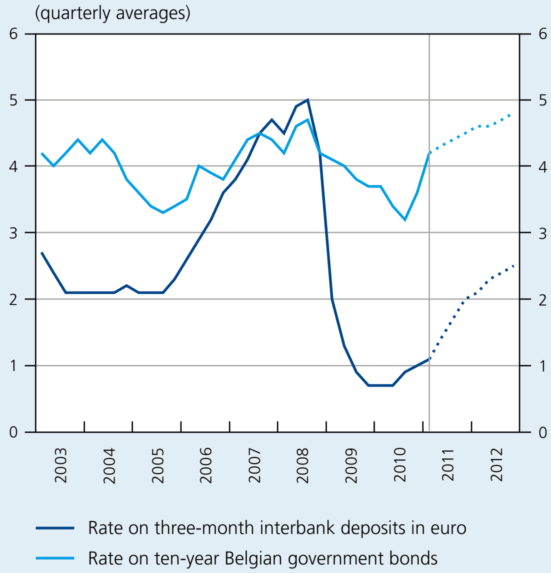
The interest rate assumptions are based on market expectations as at mid-May 2011. As an annual average, rates on three-month interbank deposits in euro are expected to increase from 0.8 % in 2010 to 2.3 % in 2012. That rise in 2011 and 2012 mainly reflects the market expectation of an increase in the ECB's key rates. The yield on ten-year Belgian government bonds is projected to rise from 3.5 % in 2010 to 4.3 % in 2011 and 4.7 % in 2012. The increase in the level of long-term interest rates in Belgium is due both to the widespread upward trend evident from the fourth quarter of 2010 and a widening of the spread in relation to the rate on the German Bund to just over 100 basis points. That spread remains constant up to the end of the projection horizon. These movements in the benchmark rates are incorporated in the interest rates which banks apply to their private customers.

ASSUMPTIONS CONCERNING THE MOVEMENT IN OIL PRICES AND INTEREST RATES

CRUDE OIL PRICES [1]
(monthly averages per barrel of Brent)



INTEREST RATES [2]
(quarterly averages)



Source: ECB.
(1) Actual figures up to April 2011, assumptions from May 2011.
(2) Actual figures up to the first quarter of 2011, assumptions from the second quarter of 2011.

Bilateral exchange rates are assumed to remain unchanged at their value in mid-May 2011, namely USD 1.43 to the euro. In 2010, the average rate was EUR/USD 1.33.

On the basis of the implicit prices in forward contracts, the price per barrel of Brent is assumed to rise from the 2010 level of USD 79.6 to USD 111.1 dollars in 2011 and USD 108.0 in 2012.

PROJECTION ASSUMPTIONS

	2010	2011	2012
		(annual averages)	
Interest rate on three-month interbank deposits in euro	0.8	1.6	2.3
Yield on ten-year Belgian government bonds	3.5	4.3	4.7
EUR/USD exchange rate	1.33	1.42	1.43
Oil price (USD per barrel)	79.6	111.1	108.0
		(percentage changes)	
Export markets relevant to Belgium	10.2	7.0	7.1
Competitors' export prices	6.1	3.5	1.4

Source: ECB.

Following a vigorous resurgence in 2010, with a volume increase of around 10 % against the previous year, the expansion of demand from Belgium's export markets is expected to consolidate in 2011 and 2012, with the growth rate stabilising at around 7 %.

Compared to the projections produced at the end of 2010, the main revisions concern the oil price and the euro exchange rate. In both cases, the trend is upwards. The interest rates taken into account are also revised upwards, as is export markets growth.

Regarding public finances, the projections are based – in accordance with the Eurosystem conventions – on the macroeconomic environment and policy measures that have already been announced and specified in sufficient detail by governments, and which have been or are likely to be passed by national parliaments.

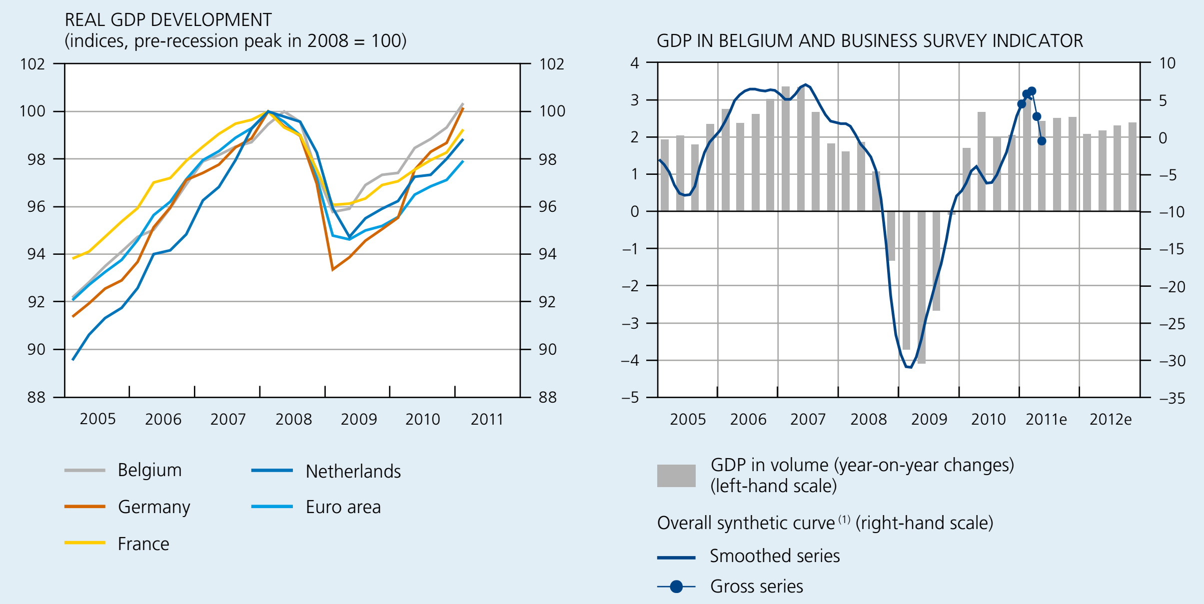
2. Activity, employment and demand

In Belgium, a robust recovery has been in progress for almost two years. The quarterly increase in the volume of GDP averaged 0.6 % between mid-2009 and the end of 2010, or 2.4 % at an annualised rate. According to the NAI's flash estimate, quarterly growth came to 1 % in the first three months of 2011. Thus, after eleven quarters, GDP has exceeded the figure for the second quarter of 2008, before the start of the recession.

It therefore seems that the Belgian economy has got through the recession better than the euro area as whole, including France and the Netherlands among the main neighbouring countries. The downturn in activity had been sharper in Germany and the Netherlands, and so far the recovery has been less vigorous in France. Only Germany has also regained the pre-crisis level of activity, thanks to a strong recovery in the last two years based largely on demand from the emerging economies. Belgium benefited indirectly via its close links with the German economy.

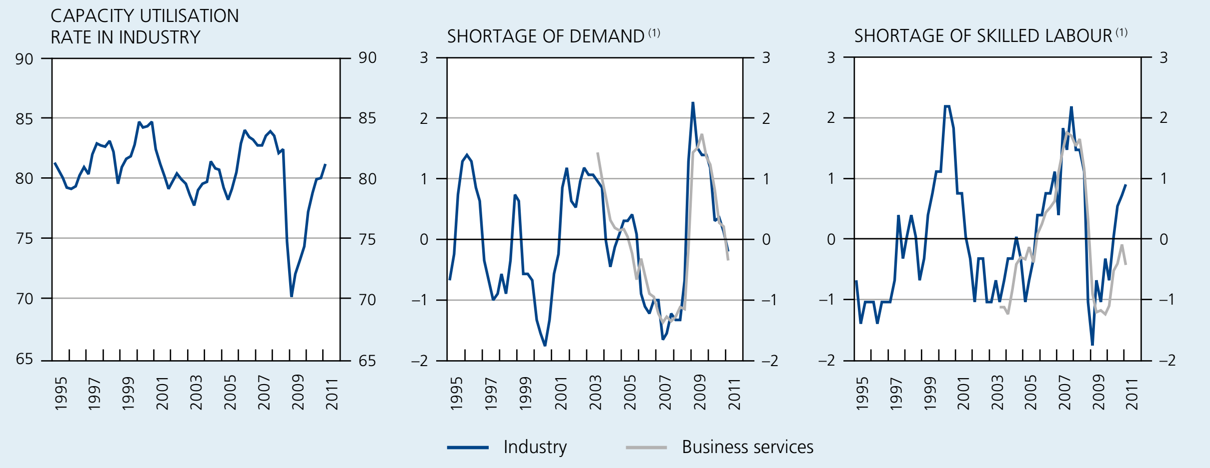
CHART 2 GDP AND THE BUSINESS SURVEY INDICATOR

(data adjusted for seasonal and calendar effects, unless otherwise stated)



Sources: EC, NAI, NBB.
(1) Seasonally adjusted data.

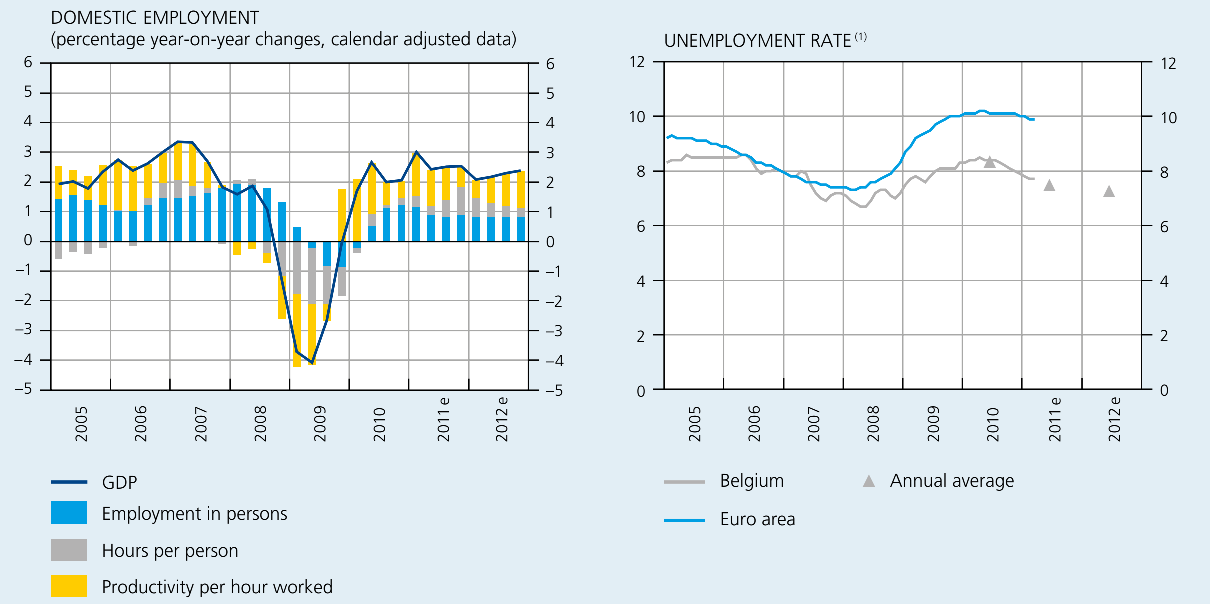
CHART 3 CYCLICAL TENSION INDICATORS



Source: NBB.
(1) Proportion of firms citing the factor as a factor impeding production. Centred, normalised series.

According to the projections, following the robust growth in the first quarter of 2011, activity for the rest of the year and in 2012 is likely to revert to a growth rate comparable to that seen previously. Overall, average annual GDP growth is expected to increase from 2.1 % in 2010 to 2.6 % in 2011, before subsiding to 2.2 % in 2012. According to the typical pattern of a cyclical consolidation period, it is likely to be based increasingly on domestic demand.

CHART 4 EMPLOYMENT AND UNEMPLOYMENT



Sources: EC, NAI, NEO, NBB.
(1) Harmonised unemployment rate, as a percentage of the labour force.

Thanks to the vigour of the current recovery, the under-utilisation of the production factors – labour and capital – which had resulted from the severe recession of 2008-2009 has been largely eliminated. True, GDP is probably not yet back to the potential level of full employment in the economy, but a number of tension indicators are rapidly returning to their long-term value. That applies to the level of capacity utilisation in manufacturing industry, which has risen by 11 percentage points since the lowest point in the crisis, to reach 81.2 % in April 2011. Similarly, a diminishing proportion of firms report a lack of demand, while the percentage complaining of a shortage of skilled labour is growing. These indicators, based on surveys seeking the opinions of business leaders, cannot measure the reserve capacity available in the economy – which may have been temporarily or permanently affected by the 2008-2009 economic crisis. Nonetheless, the consistent results for those indicators display the characteristics of a cyclical recovery which is maturing.

In any case, as economic activity picked up, the labour market rapidly improved, while the decline in employment had been noticeably modest at the midst of the crisis. Initially, that improvement took the form of a revival in hourly productivity at the end of 2009 and a very gradual normalisation of the implicit working time per person, whereas these two variables had fallen sharply during the recession. By the beginning of 2010, these two movements were already accompanied by net job creation at a time when productivity, and especially the average working time per person, had still only partly recovered. Recourse to temporary lay-off schemes, in particular, lessened only gradually during the year.

Overall, for the economy as a whole, employment in persons increased by 0.7 % on average between 2009 and 2010, while the number of hours worked per person hardly increased at all, and productivity per hour worked increased by 1.3 %. According to the projections, 2011 and 2012 should see continuing consolidation of the labour market. Job creations are expected to persist at a rate very slightly higher than in 2010, at 0.9 and 0.8 % respectively. At the same time, the normalisation of actual working time which had begun in the previous year should continue in 2011 and, to a lesser extent, in

TABLE 3 LABOUR SUPPLY AND DEMAND
(calendar adjusted data, annual averages, unless otherwise stated)

	2008	2009	2010	2011 e	2012 e
			(percentage changes)		
GDP	0.8	–2.7	2.1	2.6	2.2
Volume of labour	1.4	–1.8	0.8	1.5	1.3
Domestic employment in persons	1.7	–0.4	0.7	0.9	0.8
			(changes in thousands of persons)		
Domestic employment	75.9	–15.9	29.5	41.9	37.4
p.m. Change during the year (1)	*57.4*	*–38.4*	*54.2*	*40.2*	*37.3*
Employees	65.9	–21.4	25.2	37.7	36.1
of which branches sensitive to the business cycle	44.7	–45.1	0.8	18.4	15.7
Self-employed persons	10.0	5.6	4.3	4.2	1.2
Frontier workers	0.5	1.0	0.2	0.0	0.0
National employment	76.4	–14.9	29.6	41.9	37.4
Unemployed job-seekers	–25.7	50.5	13.7	–24.5	–13.5
p.m. Change during the year (1)	*–5.1*	*59.7*	*–10.2*	*–23.8*	*–9.1*
Labour force	50.7	35.7	43.3	17.4	23.9
p.m. Harmonised activity rate (2)	*67.1*	*66.9*	*67.7*	*67.9*	*68.0*
Harmonised employment rate (3)	*68.0*	*67.1*	*67.6*	*68.2*	*68.5*
Harmonised unemployment rate (2)	*7.0*	*8.0*	*8.4*	*7.5*	*7.3*

Sources: EC, NAI, NEO, NBB.
(1) Difference between the fourth quarter of the year concerned and the fourth quarter of the previous year.
(2) In % of the population of working age (15-64 years), non calendar adjusted data.
(3) In % of the labour force (20-64 years), non calendar adjusted data.

2012. Productivity gains are expected to drop to around 1 % per annum, a rate comparable to that seen before the crisis.

In net terms, around 77 000 extra jobs should be created between the end of 2010 and the end of 2012, following an increase of 54 200 units during 2010. Thus, 68.5 % of the population aged from 20 to 64 years should be working in 2012, putting the employment rate 1.4 percentage point above the low point recorded in 2009. Taking account of the expected movement in the labour force, the downward trend in unemployment which had begun in early 2010 should continue steadily, reducing the unemployment rate from an average of 8.4 % in 2010 to 7.3 % in 2012.

As growth continues in 2011 and 2012, it should become more broadly based. The economic recovery which began in Belgium in mid-2009 was in fact driven by the vigorous export revival resulting from the marked strengthening of world trade, while the growth of domestic demand lagged behind. Although household consumption was already recovering in 2010, investment should reinforce the expansion of domestic demand in 2011. Imports are also expected to continue increasing as a result of strengthening domestic demand. Overall, the contribution of net exports to GDP growth is likely to fall to 0.4 percentage points in 2011 and 0.3 percentage points in 2012, while the contribution of domestic demand excluding the change in inventories should increase to 1.8 and 2 percentage points respectively over those two years.

Exports of goods and services, which had exhibited vigorous growth in excess of 10 % in 2010, in parallel with the upturn in foreign demand, are likely to show more modest growth this year and next, amounting respectively to 7 and 5.4 % in real terms. For one thing, the expansion of foreign markets is likely to slow down to around 7 % in 2011 and 2012. Also, the loss of market shares incurred by Belgian firms, which had been very limited in the past three years, is expected to increase over the projection horizon. That loss is thus set to revert to the previous trend, owing to adverse cost developments for Belgian firms compared to their competitors, due both to the movement in labour costs in Belgium and the delayed impact of the recent appreciation of the euro.

The consolidation of economic activity is seen in a recovery in the demand addressed to firms, expressed in particular in the considerable increase in capacity utilisation in manufacturing industry and an improvement in corporate profitability which may facilitate the internal financing of investment projects. In that context, business investment is expected to begin expanding again from 2011, after two consecutive years of contraction. The gross fixed capital formation of firms is thus projected to increase by 3.7 % in volume in 2011 and 2012.

TABLE 4 GDP AND MAIN EXPENDITURE CATEGORIES

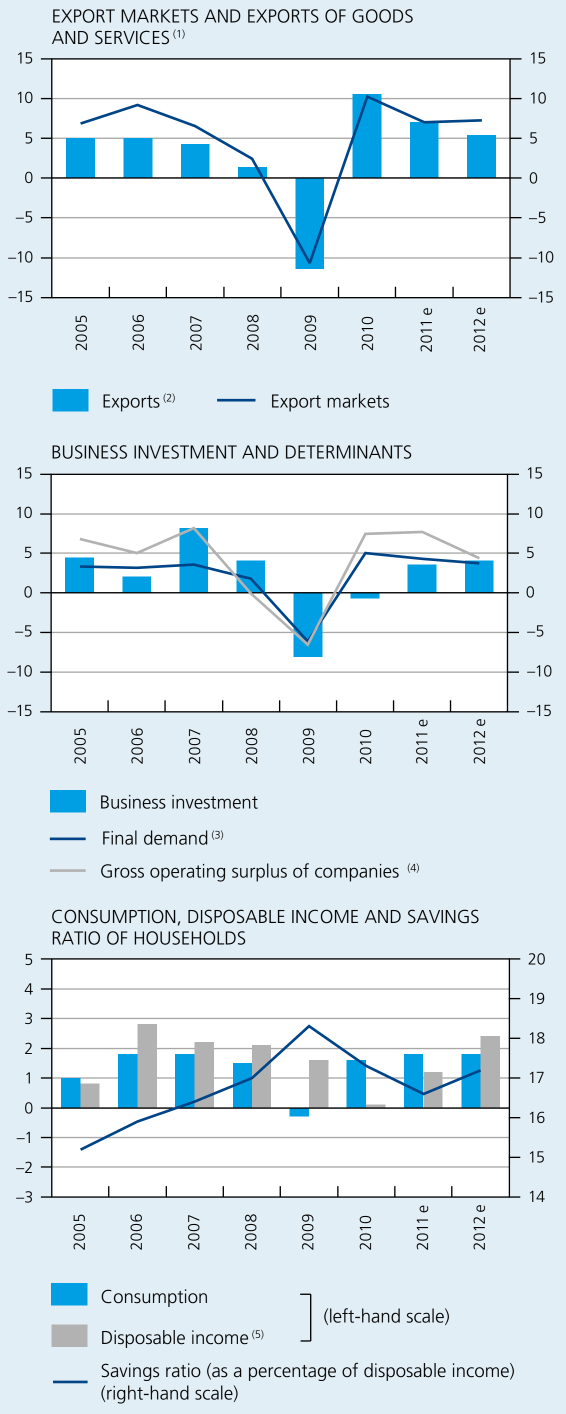
(calendar adjusted volume data; percentage changes compared to the previous year, unless otherwise stated)

	2008	2009	2010	2011 e	2012 e
Private consumption expenditure	1.4	–0.2	1.6	1.7	1.7
General government consumption expenditure	2.5	0.4	1.1	0.9	2.1
Gross fixed capital formation	2.2	–5.0	–1.5	3.5	2.9
Housing	–0.6	–3.0	–2.5	1.6	0.4
General government	1.9	9.0	–2.8	8.4	5.5
Enterprises	3.4	–7.5	–0.9	3.7	3.7
p.m. Total final domestic expenditure (1)	*1.7*	*–1.1*	*0.8*	*1.8*	*2.0*
Change in inventories (1)	0.1	–1.0	–0.5	0.4	0.0
Net exports of goods and services (1)	–1.0	–0.5	1.8	0.4	0.3
Exports of goods and services	1.4	–11.4	10.6	7.0	5.4
Imports of goods and services	2.8	–10.9	8.4	6.7	5.3
GDP	0.8	–2.7	2.1	2.6	2.2

Sources: NAI, NBB.
(1) Contribution to the change in GDP.

CHART 5 MAIN EXPENDITURE CATEGORIES

(non calendar adjusted volume data, percentage changes compared to the previous year, unless otherwise stated)



Sources: ECB, NAI, NBB.
(1) Seasonally adjusted data.
(2) Calendar adjusted data.
(3) Excluding change in inventories.
(4) Value data.
(5) Data deflated by the household consumption expenditure deflator.

In comparison with the other components of domestic demand, household consumption had picked up fairly quickly following the crisis : after a sharp fall in 2009, it grew by 1.6 % in real terms in 2010. This growth is set to continue at much the same pace in 2011 and 2012, at around 1.7 %, despite the slightly increased volatility of household disposable income. In nominal terms, that income should continue to increase steadily in 2011 and 2012, against the backdrop of strengthening activity and high inflation, leading to a sustained increase both in the earnings of employees and self-employed workers, and in investment incomes and social benefits. Conversely, disposable incomes will display a contrasting pattern in real terms between 2011 and 2012. As happened in 2010, the rise in real disposable income is likely to be curbed in 2011 by the fact that the current surge in inflation will be reflected only partially, and after some delay, in indexed incomes. That is because the health index which is used as the reference for index-linking incomes excludes certain products featuring particularly volatile prices, and because there is a time lag before the indexation mechanisms are triggered. Similarly, the tax scales applicable to payroll tax are only indexed after a certain time, and the adjustment is only made at the time of the final assessments, temporarily swelling the tax paid in a period of accelerating inflation. In 2012, these effects should be reversed, and that should bolster household purchasing power. These temporary movements in real disposable income are largely offset by the movement in the savings ratio, thus smoothing the consumption profile. Following a strong rise at the height of the crisis, in 2011 the savings ratio is expected to continue the decline which began in 2010. In 2012, it is projected to rise by 0.6 percentage points to 17.2 %, which is close to its long-term level. Household investment in housing is expected to increase again in 2011, with growth of 1.6 % ; in 2012, curbed somewhat by the rise in interest rates, growth is projected at just 0.4 %.

Finally, the increase in general government consumption expenditure is put at 0.9 % in 2011, rising to 2.1 % in 2012. Public investment, which fluctuates in line with the electoral calendar, is likely to be particularly dynamic in 2011, with growth forecast at 8.4 %, remaining strong in 2012 with a further 5.5 % increase.

3. Prices and costs

In parallel with the strong revival in activity and demand at global level, there was a considerable increase in inflationary pressures of external origin in Belgium during 2010 and in early 2011. Those pressures should lessen during the projection period, whereas – in contrast – domestic pressures will gradually strengthen.

Measured by the HICP, inflation increased from 0.8 % in January 2010 to 3.7 % in January 2011. It is expected to hover at well above 3 % throughout the year with a fluctuating profile in 2011 – reaching almost 4 % during the summer – mainly on account of oil price volatility. Overall, as an annual average, the rise in consumer prices is expected to increase from 2.3 % in 2010 to 3.4 % in 2011, before easing to 2.2 % in 2012, when – according to the assumptions adopted – the increases in consumer prices of energy are set to slow down.

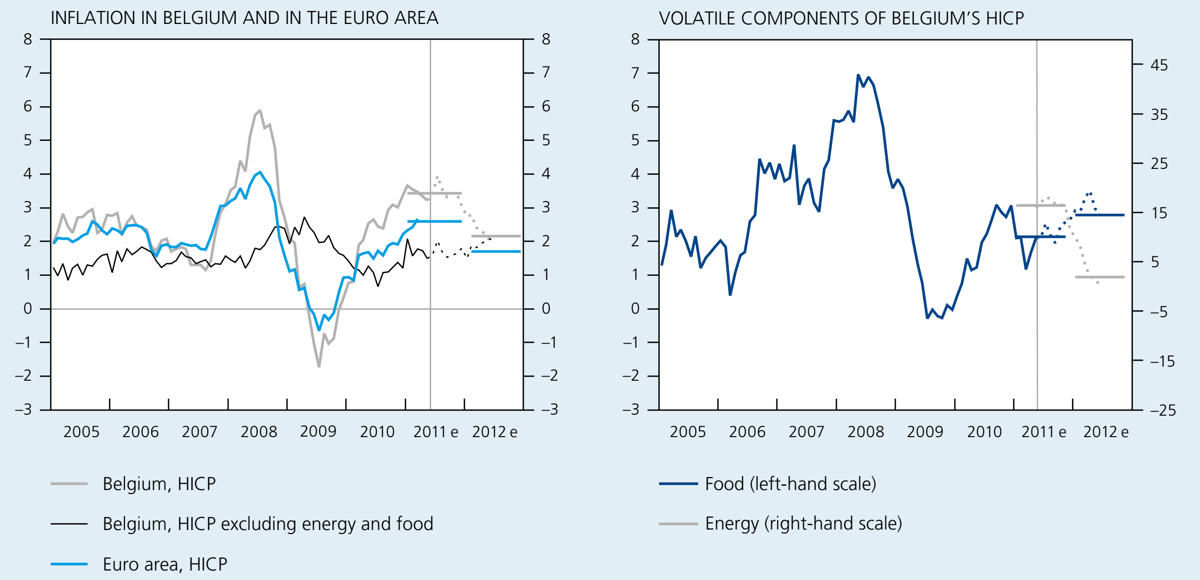
The energy component is in fact largely responsible for the recent and the predicted pattern of inflation. After the price per barrel of Brent had risen from an average of USD 62 in 2009 to almost USD 80 the following year, the increase accelerated strongly at the end of 2010 and the beginning of 2011, with prices reaching an average of USD 123 per barrel in April, an additional rise of 54 % against 2010. Owing to the recent appreciation of the euro, that increase is cut to 41 % when prices are expressed in that currency, although that is still a substantial rise. In mid-May, prices dropped to around USD 110 per barrel, though that was still well above the previous year's figure. Thus, inflation reached 10 % in 2010 for the energy component – which represents around 11 % of the consumer price basket – and is projected at over 16 % in 2011. The increase in consumer prices of energy is expected to fall to less than 2 % in 2012, largely on account of the time lag before the recent increase in energy commodity prices is passed on in gas and electricity prices. According to the assumption adopted, oil prices are in fact expected to remain stable in 2012. The projections also take account of the substantial rise in electricity distribution tariffs in large areas of Flanders, which is estimated to have an impact on the energy component of inflation of around 1 percentage point in 2011 and 2012. That rise is due to the high cost of the regional subsidies for the installation of solar panels.

Food prices also gathered pace in the second half of 2010, and price rises are likely to be sustained in 2011. As in the case of energy, the strength of global demand combined with supply problems affecting certain products led to a steep rise in food commodity prices on the international markets. Although these movements are partly attenuated by the pricing method used in the European common agricultural policy, they still led to a food price rise which is set to continue in 2011.

While a gradual deceleration is expected in 2012 for the energy and food components, the increase in underlying inflation is likely to be sustained. It accelerated at the end of 2010 and in early 2011, rising from an average of 1.1 % in 2010 to 1.7 % in April 2011 – fuelled mainly

CHART 6 INFLATION

(HICP, percentage changes compared to the corresponding period of the previous year)



Sources: EC, NBB.

by services; it is expected to average 2 % in 2012. The acceleration is due in part to the allowance for increases in prices of fuel or food in the prices of plane tickets or restaurant services, for example. It is also driven by the price adjustments directly linked to inflation or other reference indices for a range of services. Finally, in a favourable economic climate, it will be propelled by the strong rise in labour costs – itself largely fuelled by indexation to prices – and by expanding profit margins.

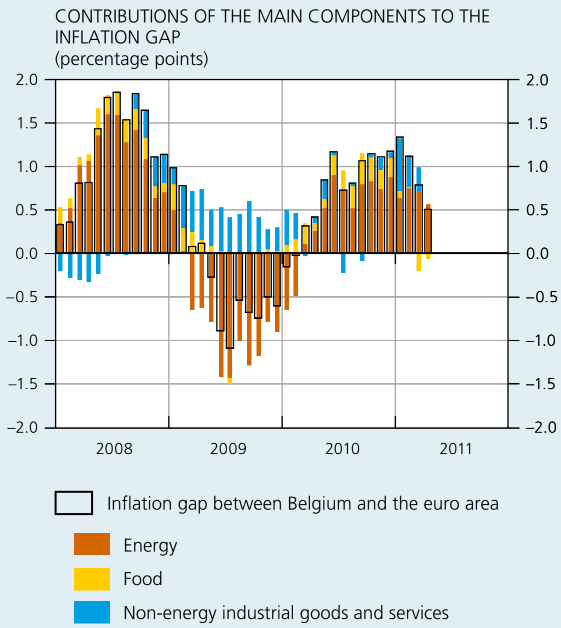
Overall, the increase in inflation during 2010 outpaced the average for the euro area and, according to the projections produced by the Bank and the Eurosystem, inflation in Belgium is likely to remain significantly higher in 2011 and 2012, even though convergence is expected in the long term. Box 2 examines this gap in more detail.

Although, in a context of rising oil prices, the positive inflation gap between Belgium and the euro area is due largely to the energy component of the price index, according to the data available for the euro area, it will also be accompanied by a bigger rise in labour costs in 2011 and 2012. That applies equally in relation to the three main neighbouring countries, and will impair the cost competitiveness of firms.

Box 2 – Why is inflation in Belgium currently higher than in the euro area?

After having been negative in 2009, the inflation gap between Belgium and the euro area became positive again in 2010 and at the beginning of 2011; that is very similar to the situation prevailing in 2008. Just as in that year, it was principally the direct effects of rising commodity prices – mainly concerning the energy component – that were greater in Belgium. The large contribution of energy to the inflation gap is due to three factors: greater consumption of energy by households, a lower average level of excise duty on energy, and certain characteristics

INFLATION GAP BETWEEN BELGIUM AND THE EURO AREA



Sources: EC, NBB.

of the setting of energy prices excluding tax, notably the more marked and swifter transmission of energy commodity prices to consumer prices of gas and electricity (see also the Bank's Report 2010, box 5, page 76). In 2011, the contribution of the energy component was also augmented by an increase in electricity distribution tariffs – a situation which again mirrored that prevailing in 2008.

Subsequently, these first-round effects – which are more prominent in Belgium – may put up the price of products whose cost is largely determined by the cost of energy or food, such as plane tickets or restaurant services, and thus widen the inflation gap. Other price rises are due to the common practice in Belgium of more or less explicitly indexing the price of certain services to recent inflation. That applies to rents, for example, but also to services such as some types of insurance or public transport. In all, leaving aside energy prices set according to specific formulas, it can be said that around 10 % of the components of the price index basket are subject to an indexation mechanism based on the general inflation figures or on a similar benchmark such as the health index.

Finally, the wage increases granted in order to compensate for the loss of purchasing power caused by the first-round effects may ultimately fuel the inflation gap if they lead to earlier or bigger price increases than in other countries. The automatic indexation of wages in Belgium facilitates that type of wage increase. Such second-round effects were observed during 2008-2009 and could widen the inflation gap attributable to underlying inflation.

It should be noted that the interpretation of the movement in the gap in 2011 is hampered by the introduction of methodological changes concerning the way in which seasonal product prices are taken into account in most other euro area countries in 2011 (Belgium had already started applying the new Directive on the subject in 2010); these changes affect the price profile of processed foods and non-energy industrial goods. In addition, the substantial narrowing of the gap in March and April 2011 – due in particular to the energy contribution – must be considered temporary. In the coming months, the gap is expected to widen, taking account of the movement in the energy component and, in particular, the rise in the distribution tariffs, but also the movement in labour costs and second-round effects.

In Belgium, unit labour costs in the private sector dropped by 0.7 % in 2010, owing to the combined effects of the recovery of productivity and a very small rise in labour costs per hour worked. They are estimated to increase strongly in 2011 and 2012, by 1.6 and 2.5 % respectively.

The result for 2010 was due mainly to the effects of the incipient recovery, and largely represents a catching-up process following the very considerable increase in the two preceding years, at the time of the economic recession. At the start of the recovery phase, apparent labour productivity per hour picks up again as a result of the absorption of the under-used labour reserves in firms. In addition, in 2010, the increase in wages was slowed by the delayed effects of the very weak inflation in the previous year. These factors will no longer be so decisive in 2011 and 2012, and could even contribute to a strong increase in labour costs, in a context of consolidation of the recovery phase and high inflation.

Thus, following a 1.3 % increase in 2010, hourly productivity in the private sector is expected to return gradually to an annual growth rate of around 1 %, comparable to that seen immediately before the economic recession.

The growth of hourly labour costs is expected to increase from 0.6 % in 2010 to 2.9 % in 2011 and 3.4 % in 2012. This marked acceleration – admittedly, from a low rate of increase in the first year – is very largely due to the automatic indexation of wages. According to the projections, the health index of consumer prices, which is used as the reference for indexation, will rise by 3 % in 2011 – or 0.4 percentage points less than overall inflation – and 2.3 % in 2012, giving a cumulative increase of 5.4 %. Ultimately, that increase will be fully integrated into the movement in wages, but the effect of indexation will still be more marked in the second year owing to the time lags caused by the varying indexation arrangements applicable in the joint committees. Apart

TABLE 5 PRICE AND COST INDICATORS
(percentage changes compared to the previous year, unless otherwise stated)

	2008	2009	2010	2011 e	2012 e
HICP	4.5	0.0	2.3	3.4	2.2
Health index	4.2	0.6	1.7	3.0	2.3
Underlying inflation (1)	1.8	2.1	1.1	1.7	2.0
GDP deflator	1.9	1.1	1.8	2.7	2.5
Labour costs in the private sector:					
Labour costs per hour worked	3.6	3.9	0.6	2.9	3.4
of which indexation	2.9	2.5	0.5	2.7	2.7
Labour productivity (2)	–0.2	–0.8	1.3	1.2	0.9
Unit labour costs	3.8	4.7	–0.7	1.6	2.5

Sources: EC; FPS Employment, Labour and Social Dialogue; NAI; NBB.
(1) Measured by the HICP excluding food and energy.
(2) Value added in volume per hour worked by employees and self-employed persons.

from the indexation, the assumption 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 under the draft central agreement endorsed by the government, and an additional increase due in particular to the tensions emerging on certain segments of the labour market.

4. Public finances

4.1 Overall balance

According to the figures published by the NAI at the end of March 2011, Belgium's public finances recorded a deficit of 4.1 % of GDP in 2010. That is a considerable improvement on the previous year, when the economic and financial crisis had driven the deficit up to 5.9 % of GDP. In the macroeconomic context described above, the deficit is expected to fall to 3.5 % of GDP in 2011. However, in 2012 it is likely to increase again to 4.1 % of GDP.

It should be noted that the projections take account only of budgetary measures which have already been announced and specified in sufficient detail. They disregard the effect of any measures yet to be taken, particularly when the 2012 budgets are drawn up.

The April 2011 stability programme assumes a deficit of 3.6 % of GDP in 2011, falling to 2.8 % of GDP in 2012 before being systematically cut and converted to a small surplus in 2015. According to the present projections, the target for 2011 will be met. Conversely, the targets defined for 2012 and the subsequent years will require a very substantial consolidation effort.

The economic situation is expected to have a favourable impact on the budget balance. In both 2011 and 2012, the expansion of activity is likely to be sustained and to exceed the trend growth rate. Overall, the economic situation is predicted to improve the financing balance by 0.6 % of GDP during the period considered.

Interest charges will probably continue to exert a positive effect on the budget balance in 2011. While the interest rates on treasury certificates should gradually increase, the impact of that rise should be less than that of the new reduction in the implicit interest rate on the long-term debt. Despite the increase in market interest rates, loans maturing or repaid in advance could in fact be refinanced at a lower rate. Conversely, in 2012, the expected continuation of the increase in market interest rates is likely to raise the implicit interest rate on the short- and long-term debt, pushing up the interest charges.

Non-recurring factors are expected to have a positive impact on the financing balance in 2011. The main factor here is a temporary rise in revenues: owing to the accelerating inflation, the personal income tax collected in the form of payroll tax is increasing faster than labour incomes. The annual indexation of the scales used to calculate the payroll tax is in fact based on the previous year's inflation figure. The impact of non-recurring factors is likely to be very limited in 2012.

TABLE 6 GENERAL GOVERNMENT ACCOUNTS (1)

(in % of GDP)

	2008	2009	2010	2011 e	2012 e
Revenues	48.8	48.1	48.8	49.1	48.8
Fiscal and parafiscal revenue	43.7	42.9	43.3	43.4	43.1
Other	5.1	5.3	5.5	5.7	5.6
Primary expenditure	46.3	50.4	49.5	49.3	49.2
Primary balance	2.5	–2.3	–0.7	–0.2	–0.5
Interest charges	3.8	3.6	3.4	3.3	3.6
Financing requirement (–) or capacity	–1.3	–5.9	–4.1	–3.5	–4.1
p.m. Effect of non-recurrent factors	*0.0*	*–1.0*	*0.0*	*0.2*	*0.0*

Sources: NAI, NBB.
(1) According to the methodology used in the excessive deficit procedure.

4.2 Revenue

Revenues of general government are expected to grow by 0.3 % of GDP in 2011, before contracting by a similar percentage in 2012.

The increase in the revenue ratio in 2011 is due partly to the temporary effect that the acceleration in inflation exerts on personal income tax revenues. However, it is attributable mainly to structural measures. Thus, the abolition of the remaining portion of the flat-rate reduction granted to residents of the Flemish Region increases personal income tax, while the allowance for energy-saving investment and the system of deducting mortgage costs on own homes will probably restrain the rise in these revenue categories. The levies on goods and services are projected to increase as a result of the rise in excise duty on tobacco and diesel and the new rules whereby VAT will be payable in full on the sale of a new building with an associated plot of land. Corporate tax revenues should then also increase as a result of the application of the exit tax on real estate investment funds with fixed capital, and a fall in the net cost of the risk capital allowance. The average yield on a ten-year linear bond, used as the benchmark rate for the risk capital allowance, in fact declined to 3.4 % in 2010. As that rate applies to the year 2012, the assumption is that companies will already take that into account in 2011 in their advance corporate tax payments.

Non-fiscal and non-parafiscal revenues are also set to rise strongly in 2011, owing partly to the increase in the new levy under the deposit protection system, and partly to the substantial rise in payments to the government in respect of the support given during the financial crisis, notably following the first payment made by a financial institution in remuneration for the financial resources injected by the government.

TABLE 7 STRUCTURAL MEASURES CONCERNING PUBLIC REVENUES

(in € million, unless otherwise stated; changes compared to the previous year)

	2011 e	2012 e
Taxes	644	–614
of which:		
Tax reduction granted by the Flemish Region	104	56
Tax reduction for energy-saving investment	–61	0
Deduction of mortgage charges for own homes	–95	0
Excise duty on tobacco	59	0
Excise duty on diesel	188	0
VAT on certain building land	97	0
Risk capital allowance: change in the reference interest rate	280	–670
Tax on real estate investment funds with fixed capital	50	0
Social security contributions	8	–185
Non-fiscal and non-parafiscal revenues	1 273	–220
of which:		
Remuneration on guarantee systems	452	–199
Interest and dividends	821	–21
Total	**1 924**	**–1 019**
p.m. In % of GDP	*0,5*	*–0,3*

Sources: Budget documents, FPS Finance, NSSO, NBB.

It should be noted that the increase in the revenue ratio fell short of the impact of the measures in 2011. The reason is that labour incomes – which are subject to relatively high fiscal pressure – are rising less quickly than GDP, and that is depressing the revenue ratio.

The decline in the revenue ratio in 2012 will be due almost exclusively to structural factors. The main point here is the reduction in corporate tax revenues which will result from the expected rise in the average yield on ten-year linear bonds: that yield is projected to rise to 4.3 % in 2011, leading to a corresponding increase in the benchmark interest rate for the risk capital allowance. The provisional scheme whereby that benchmark rate was limited to 3.8 % will in fact cease to apply.

4.3 Primary expenditure

Primary expenditure expressed as a percentage of GDP should fall by 0.2 percentage point in 2011 and 0.1 points in 2012, while still remaining at what can be considered a very high level in historical terms. In volume terms, primary expenditure is expected to expand by 1.5 % and 2.3 % over those two years. For 2011, the real increase in this expenditure will be limited, since the rise in wages and social benefits linked to indexation is less than the increase in the consumer price index, and on account of the reduction in unemployment expenditure. Adjusted for non-recurring and cyclical factors and the effects of indexation, primary expenditure is expected to grow by 2.2 % and 1.8 % respectively in 2011 and 2012.

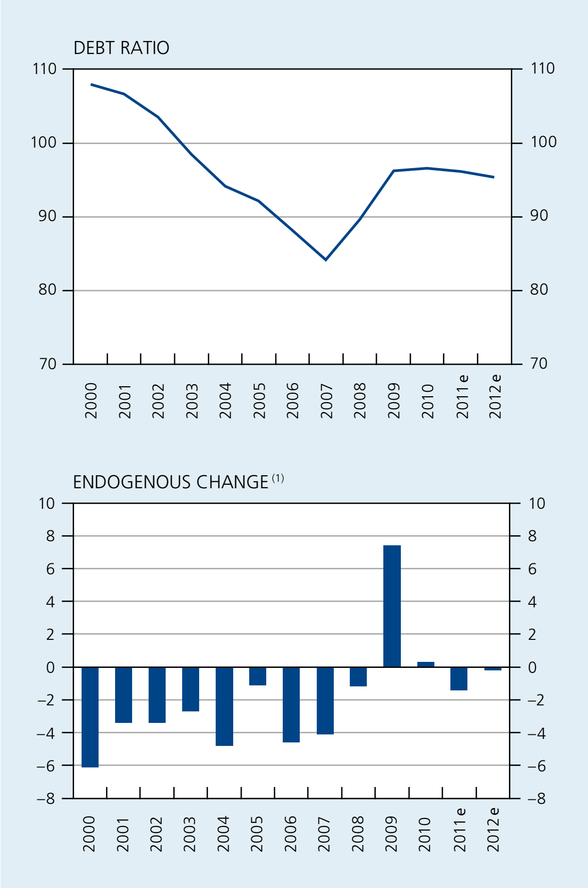
The expected increase in primary expenditure in 2011 is the outcome of divergent movements within the government sub-sectors. At federal government level, there is likely to be a relatively moderate increase in expenditure, notably on account of the expected fall in employment in that sub-sector. Similarly, the expenditure of the Communities and Regions will only increase slightly. At the same time, the strong growth of social security spending will persist, particularly owing to the expected developments in health care and pensions. A further increase in expenditure on service vouchers and measures concerning adjustment in line with prosperity will probably also boost expenditure. Local authorities will likewise record a relatively large increase, influenced as usual by a strong rise in their investment in the run-up to the local elections.

The growth of primary expenditure in 2012 is obviously hard to estimate since no budget is available as yet. The estimates for that year were therefore produced in accordance with the principle of a relatively neutral spending policy, the rise in primary expenditure after adjustment for cyclical and non-recurring factors being more or less equivalent to the trend growth of activity. The impact of the relatively large increase in local authority investment and health care is expected to be offset by a small increase in other expenditure categories, such as subsidies granted to enterprises.

4.4 Debt

Between 1993 – when the public debt had peaked at 134.1 % of GDP – and 2007, the general government debt ratio had declined continuously. In 2008, that decline came to an abrupt end: in that year, the debt ratio increased sharply as a result of the capital injections for financial institutions during the crisis which battered

CHART 7 **PUBLIC DEBT** [1]
(percentages of GDP)



Sources: NAI, NBB.
(1) Consolidated gross debt of general government.
(2) The endogenous change in the public debt reflects the debt dynamics, leaving aside the impact of operations which influence the debt without affecting the overall balance.

the sector. In 2009, the debt ratio continued to rise significantly owing to the decline in GDP and the substantial increase in the deficit. In 2010, the upward trend in the debt continued, but at a much more modest rate than in the previous year. At the end of 2010, the debt ratio still stood at 96.6 % of GDP.

According to the projections, 2011 should bring a turnaround in the situation: the debt ratio should decline again, if only slightly. As a result of a relatively strong rise in nominal GDP – due both to the strengthening of economic activity and accelerating inflation – the debt ratio should in fact record an endogenous decline, exceeding the rise in the public debt due to exogenous factors such as the impact of the loans to Greece, Ireland and Portugal. Thus, the debt ratio should drop to 96.1 % of GDP in 2011.

In 2012, the endogenous downward trend in the public debt should be reinforced by the partial repayment – taken into account in the budget forecasts – of the capital aid to the financial sector. During that year, the debt ratio should continue falling to 95.4 % of GDP.

5. Risk factor assessment

In Belgium as in other European countries, the economic consolidation has continued at a sustained pace in the past six months. Thus, two years after reaching the lowest point in a major crisis, the activity and employment situation is more favourable than feared. In particular, thanks to stronger than expected foreign demand, but also the strong GDP growth in the first quarter of 2011, the Bank's projection for the year as a whole has undergone significant upward revision: it is now 2.6 % whereas it was 1.8 % in the December 2010 exercise. This projection is higher than the figure presented in April 2011 by the IMF, and even those published recently by the Federal Planning Bureau, the EC or the OECD. Owing to the combined effect of the increase in energy costs and a faster rise in underlying inflation, the inflation forecast is also considerably higher than six months ago, both for 2011 – when it is put at no less than 3.4 % – and for 2012. In regard to the general government budget balance, the Bank predicts a deficit of 3.5 % of GDP in 2011, comparable to the figure announced by the government in the budget, and 4.1 % in 2012, which is close to most other forecasts. In that connection, it should be noted that the OECD forecasts assume a public deficit figure similar to that in the stability programme submitted to the European Union by the Belgian government. In contrast to the other institutions, which base their projections on an unchanged policy, the OECD forecasts take account of fiscal consolidation measures which are yet to be adopted.

The scenario of a continuation of the favourable cyclical phase is retained, but depends on the assumptions adopted for the purpose of this exercise and, more generally, on the absence of new major shocks. A number of risk factors may be mentioned here.

Regarding the international environment, in the short term, the natural disasters in Japan could affect some production chains far beyond the Japanese economy, owing to its role in supplying specific components for certain industries. It is generally thought that these effects will be short-lived and limited in scale, but there is considerable uncertainty here. More fundamentally, overheating of the emerging economies could hold back global activity and world trade, whereas those economies had made a substantial contribution in recent years.

In general, while the advanced economies are indeed in a growth phase, they will no longer be able to count on new economic policy stimuli in order to maintain that growth. On the contrary, the essential debt reduction efforts could apply the brakes in the short term. In particular, the euro area has to contend with a sovereign debt crisis. Despite the support mechanisms set up for countries in difficulty, the situation remains very tense on the government bond markets, and a deterioration here could have serious repercussions and impede continued growth.

The Belgian economy is still particularly sensitive to international economic and financial developments, be they favourable or adverse. While it has benefited from the general improvement in economic conditions over the past two years, that is due largely to the sound financial position of households and firms, and a limited deterioration in public finances during the crisis. Maintenance of a stable and sound macroeconomic environment is essential in order to continue performing well in line with these projections. Various risks apply here.

First, the development of a widespread upward trend in prices and costs would be detrimental to the profitability and competitiveness of firms, and hence to the outlook for employment and household incomes. In that regard, limited transmission of the increased cost of commodities in energy prices – currently the main reason why inflation in Belgium exceeds the average for the euro area – and food prices, and moderate increases in other prices and wages are vital to maintain a stable macroeconomic framework.

TABLE 8 COMPARISON OF THE FORECASTS FOR BELGIUM

(percentage changes compared to the previous year)

	GDP in volume		Inflation[1]		Budget balance[2]		Publication date
	2011	2012	2011	2012	2011	2012	
NBB – Spring 2011	2.6	2.2	3.4	2.2	–3.5	–4.1	June 2011
p.m. Autumn 2010	*1.8*	–	*2.1*	–	*–4.7*	–	*December 2010*
Federal Planning Bureau (FPB)	2.2	2.2	3.5	2.0	–3.8	–4.4	May 2011
IMF	1.7	1.9	2.9	2.3	–3.9	–4.0	April 2011
EC	2.4	2.2	3.6	2.2	–3.7	–4.2	May 2011
OECD	2.4	2.0	3.6	2.4	–3.6[3]	–2.8[3]	May 2011
p.m. Actual figures 2010	*2.1*		*2.3*		*–4.1*		

(1) HICP, except FPB: final private consumption deflator.
(2) In % of GDP.
(3) Trajectory of the stability programme in April 2011.

Next, financial institutions must continue their efforts to strengthen their balance sheets. After all, they have a key role to play in financing the economy and preserving savings.

Finally, concrete, credible measures are essential to consolidate public finances and thus bring down the debt level sufficiently to find a path which is sustainable in the long term. It is not only a question of reassuring the financial markets and rating agencies, but also reducing exposure to an increase in interest rates and making preparations for the budgetary consequences of population ageing.

Boosting productivity in the economy, mobilising a higher proportion of the population in employment, and improving competitiveness are other factors which are crucial in order to face the challenges of ageing and globalisation.

Annex

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

	2008	2009	2010	2011 e	2012 e
Growth (calendar adjusted data)					
GDP in 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
p.m. Change during the year, in thousands of persons (1)	*57.4*	*–38.4*	*54.2*	*40.2*	*37.3*
Total volume of labour (2)	1.4	–1.8	0.8	1.5	1.3
Harmonised unemployment rate (3) (in % 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 (in % of disposable income)	17.0	18.3	17.3	16.6	17.2
Public finances (4)					
Overall balance (in % of GDP)	–1.3	–5.9	–4.1	–3.5	–4.1
Primary balance (in % of GDP)	2.5	–2.3	–0.7	–0.2	–0.5
Public debt (in % of GDP)	89.6	96.2	96.6	96.1	95.4
Current account (according to the balance of payments, in % 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) In % of the labour force (15-64 years), non calendar adjusted data.
(4) According to the methodology used in the excessive deficit procedure (EDP).