Report 2011

Economic and financial developments

NationalBank OF BELGIUM

Eurosystem

Contents

1. Global economy

Global economic growth moderated during 2011 : it is estimated at 3.8 %, compared to 5 % in 2010. Among the factors restraining growth were the new rise in commodity prices, the tightening of fiscal and monetary policy in the emerging countries prone to rising inflation, the persistence of imbalances on the property and labour markets of certain advanced economies, and the sovereign debt crisis in the euro area. Fiscal consolidation measures were taken in most countries, sometimes under pressure from the financial markets. Central banks again resorted to non-conventional measures to safeguard the financing of the economy.

1.1 Economic activity

Summary

The vigour underpinning the revival in international economic activity for two years ebbed away in 2011, in a context of temporary shocks and financial tensions. Thus, by the spring, the global economy experienced a sharp, widespread slowdown in activity and international trade, which was more pronounced than might have been expected from a normalisation at the end of a strong recovery period. The slackening pace of growth was initially due to temporary factors : the rise in commodity prices depressed household purchasing power ; the earthquake, tsunami and nuclear disaster in Japan in March disrupted production, not only in that country but also elsewhere, especially in Asia and the United States. The motor vehicles and electronics sectors felt that impact owing to the disruption of global supply chains. Later, the slowdown was amplified by rising tensions on the financial markets and the erosion of consumer and business confidence.

Indeed, during the summer, doubts emerged about the ability of policy-makers to resolve public debt sustainability problems in a number of countries. The crisis in the private financial sector, which had triggered the great recession of 2008-2009, therefore ultimately led to a sovereign debt crisis. The heated debate over raising the public debt ceiling in the United States, the discussions surrounding the establishment of safeguard mechanisms for euro area countries with financing difficulties, particularly in regard to the involvement of the private sector in a restructuring of Greece's sovereign debt, and the cumulative delays in implementing the Greek adjustment programme added to the general mood of uncertainty. The epicentre of these tensions was on the sovereign bond markets of the euro area Member States, and a growing number of those countries were faced with a new, rapid increase in spreads vis-à-vis the yields on German Bunds. These developments also had a serious impact on financial institutions – especially in the euro area – holding large portfolios of public debt securities. The crisis thus entered a new phase in which concerns about the sustainability of sovereign debt and fears over the soundness of financial institutions became closely intertwined, so that many of those institutions encountered difficulties in raising funds on the interbank markets.

Apart from the impact of these tensions on financing conditions and on confidence among economic agents, plus the disappearance of the positive effect of inventory rebuilding in 2010, the recovery in the advanced economies was hampered by the loss of the impetus provided by the fiscal stimuli, by efforts to consolidate public finances that sometimes had to be speeded up under pressure from the financial markets, as well as by the persistence of imbalances on property and labour markets, especially in the United States.

TABLE 1 GDP IN THE MAIN ECONOMIES

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

	2009	2010	2011	*p.m. 2010, share of world GDP* (1)	*p.m. 2011, contribution to world GDP growth* (1)
United States	–3.5	3.0	1.7	*19.9*	*0.3*
Japan	–6.3	4.1	–0.3	*5.9*	*0.0*
Euro area (2)	–4.2	1.8	1.6	*14.7*	*0.2*
Denmark, United Kingdom and Sweden	–4.6	2.3	1.4	*3.9*	*0.1*
Other EU Member States (3)	–3.6	2.1	3.0	*1.6*	*0.0*
Other advanced OECD countries (4)	–1.1	2.3	1.6	*3.6*	*0.1*
China	9.2	10.4	9.3	*13.7*	*1.3*
India	7.0	9.9	7.7	*5.5*	*0.4*
Other emerging Asian countries (5)	0.2	7.8	4.8	*7.2*	*0.3*
Latin America (6)	–1.8	6.4	4.7	*8.1*	*0.4*
Main oil-exporting countries (7)	–2.2	4.0	4.4	*7.4*	*0.3*
World (1)	–1.2	5.0	3.8	*100.0*	*3.8*
p.m. World trade (8)	*–10.7*	*12.6*	*6.7*		

Sources: EC, IMF, OECD.
(1) Based on purchasing power parities.
(2) Excluding Cyprus and Malta.
(3) Bulgaria, Cyprus, Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland and Romania.
(4) Australia, Canada, Iceland, New Zealand and Switzerland.
(5) Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.
(6) Excluding Venezuela.
(7) Oil-exporting countries recording a current account surplus in excess of $ 40 billion over the period 2008-2010 (Algeria, Iran, Kuwait, Nigeria, Norway, Qatar, Russian Federation, Saudi Arabia, United Arab Emirates and Venezuela).
(8) Average exports and imports of goods and services.

In this context, though the beginning of the year had brought clear signs of more self-sustaining growth, based to a greater extent on domestic components, and of an improvement in the labour market, those signs vanished in some countries. Thus, the recovery stalled in the euro area in the autumn of 2011. Conversely, in Japan, activity was stimulated in the second half of the year by a catch-up in consumption and by reconstruction work.

Although emerging economies continued to exhibit great dynamism, the rate of growth of their GDP was lower than in previous years, partly owing to the weakening of foreign demand and the continuing efforts of the authorities to contain the risks of overheating.

Main economies outside the euro area

The economic recovery in the **United States**, which had begun during 2009, continued but at a much slower pace than in 2010, owing to the less vigorous domestic demand. The growth of that demand was still supported by the very accommodating policy of the US central bank. Conversely, it was no longer bolstered by fiscal policy. GDP growth, which amounted to 1.7 % in real terms over the year as a whole, was mainly driven by household consumption expenditure and business investment, and to a lesser extent by net exports; in contrast, changes in inventories, investment in housing, and public spending made a negative contribution.

Quarterly GDP growth was down from 0.6 % in the second half of 2010 to an average of 0.2 % in the first half of 2011. This slowdown was attributable to the temporary negative impact of the rise in commodity prices and the disaster in Japan, and to public spending cuts. With the disappearance of the first two of these factors, growth accelerated to 0.5 % in the third quarter. This was the first time that GDP exceeded its pre-recession level, more than two years after the recession had ended in the second quarter of 2009.

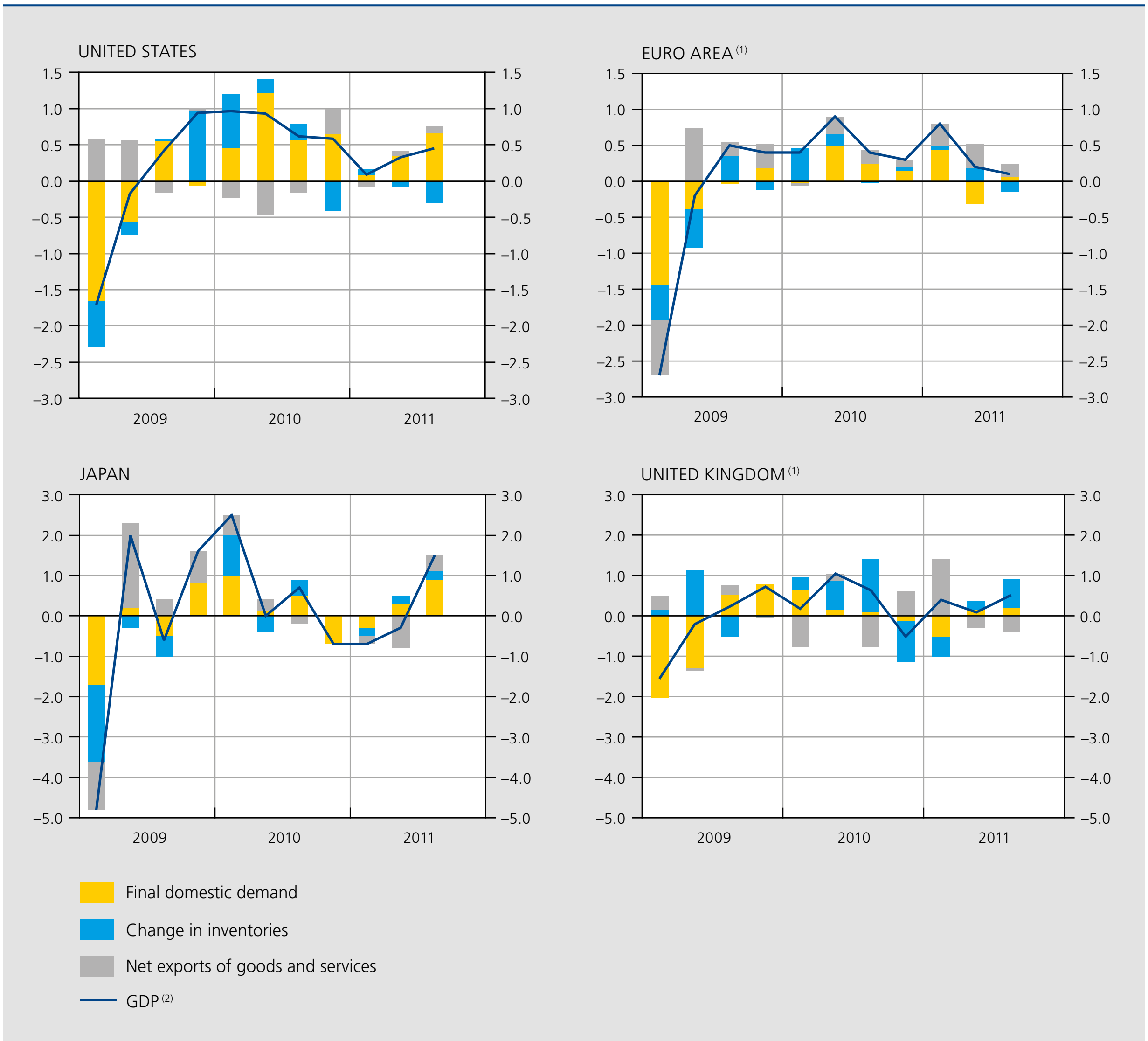
That bears witness to the depth of the recession and the relatively weak recovery. The effect of government policies continued to wane in 2011, and the transition to more autonomous growth was not easy because the traditional drivers of a recovery, namely household consumption expenditure and investment in housing, were still hampered by a number of factors, such as the continuing efforts of households to save in order to rebuild their net assets, the more prudent attitude to lending on the part of financial institutions, and the difficulties in the property sector and the labour market. In particular, long-term unemployment remained at a historically high level.

Private consumption expenditure therefore recorded modest growth of 2.3 %, one reason being the meagre increase in real disposable incomes, which were not supported by any noticeable improvement in employment and were eroded by the rising prices of energy and food. The uncertain economic outlook and the volatility on the financial markets also inhibited the reduction in the household savings ratio, which declined from 5.3 to 4.6 % of disposable income, although remaining well above the pre-crisis levels.

Private residential investment, down for the sixth year running, fell by 2.1 % in 2011. This renewed fall was due

CHART 1 QUARTERLY PROFILE OF GDP AND OF THE MAIN EXPENDITURE CATEGORIES IN THE LEADING ADVANCED ECONOMIES

(seasonally adjusted data ; contribution to the volume change in GDP compared to the previous quarter, percentage points, unless otherwise stated)



Sources : EC, BEA, ESRI, ONS.
(1) Data also adjusted for calendar effects.
(2) Percentage changes compared to the previous quarter.

to the still large stock of housing offered for sale or repossessed, the continuing prudent attitude of many financial institutions in regard to mortgage loans, and the prospect of further reductions in house prices. Conversely, business investment, essentially expenditure on equipment and software, increased by 8.4 % in 2011, thanks to the sound financial position of companies and the favourable financing conditions. Public investment contracted sharply by 6.4 %, while public consumption dipped by 1 %.

Following a significant decline in the first half of 2011, economic activity in Japan began expanding again. However, over the year as a whole, real GDP was down by 0.3 %, whereas it had grown by 4.1 % in 2010. The contraction recorded in the first half of the year was due mainly to the tsunami on 11 March, which devastated part of the Tohoku region and triggered a nuclear crisis and electricity shortages. This caused much disruption in the production chain, especially in the motor vehicles and electronics industries, two sectors which represent 35 % of Japanese exports. In the first half of the year, industrial output thus contracted by 4 %, and exports were down by 3 %. In the first phase of the recovery, it was exports that had been the main driver of growth. Their strong expansion in the third quarter of 2011, once the production chain had been restored, was a decisive factor in the revival of activity.

As a result of the tsunami, household consumption declined in the first quarter. Retail sales collapsed in March owing to voluntary restraint (*jishuku*) on the demand side and supply shortages. Private consumption more or less stagnated in the following quarter, before becoming the second largest contributor to GDP growth in the third quarter, as consumer confidence returned to its pre-tsunami level, reinforced by a gradual improvement in the labour market situation. Nonetheless, as an annual average, this expenditure category recorded a 0.2 % fall in 2011.

Investment in property began rising again in the second half of the year. It was devoted mainly to reconstruction, and surged by 6 % in 2011. Public investment had not yet started to contribute to growth, but some reconstruction budgets were approved. Public consumption expanded by 2.3 %.

In the United Kingdom, growth of economic activity was weak : real GDP growth came to 0.9 % in 2011. Domestic demand contracted while net exports contributed 1.5 % to growth.

Household consumption was down by 0.9 %, owing to the combined effects of flagging confidence and a decline in real disposable incomes. Apart from the impact of the energy price rise, the main factor eroding household purchasing power was the ongoing fiscal consolidation. This implied an increase in direct taxes, a rise in VAT rates, and job cuts in the public sector. During the year, unemployment rose to levels not seen for 15 years. Nor were households still able to count on an increase in the value of their assets, since the improvement seen on the housing market in 2010 came to a halt. That prompted households to continue saving at a historically high level, namely 6.8 % of their disposable income, in order to rebuild their assets and make further reductions in their excessive gross debt burden.

As the housing market remained weak, investment in residential property declined further. There was only a small increase in business investment, which is still well below its pre-crisis level. Companies continued to postpone some of their projects, despite substantial financing capacity and an exceptionally accommodating monetary policy. The reasons lie, in particular, in a low capacity utilisation rate, mediocre demand prospects both on the home market and for exports, and limited access to bank credit for some firms.

Net exports of goods and services were the main factor supporting growth in 2011, partly owing to the stagnation of imports. The rebalancing of the British economy in favour of the sectors exposed to foreign competition is nevertheless relatively slow, despite the 25 % depreciation in the effective sterling exchange rate since the start of the financial crisis in 2007. Though the trade balance has ceased to deteriorate since then, there has not been any major reversal of the trend. The crisis in public finances in the euro area and the worsening global external environment may also be part of the reason, however.

In China, growth remained vigorous, but its deceleration which had begun in 2010 persisted throughout the year under review. As an annual average, the volume growth of GDP dropped from 10.4 % in 2010 to 9.3 % in 2011.

Household consumption continued to grow strongly, owing to the expansion of employment and real wage increases, but as in previous years, gross fixed capital formation was the main driver of the expansion. While the continuing withdrawal of some key measures supporting activity depressed public investment, private investment maintained strong growth, thanks in particular to residential construction. However, the repeated interest rate hikes and the tightening of conditions for mortgage loans ultimately curbed activity and price rises on the housing market.

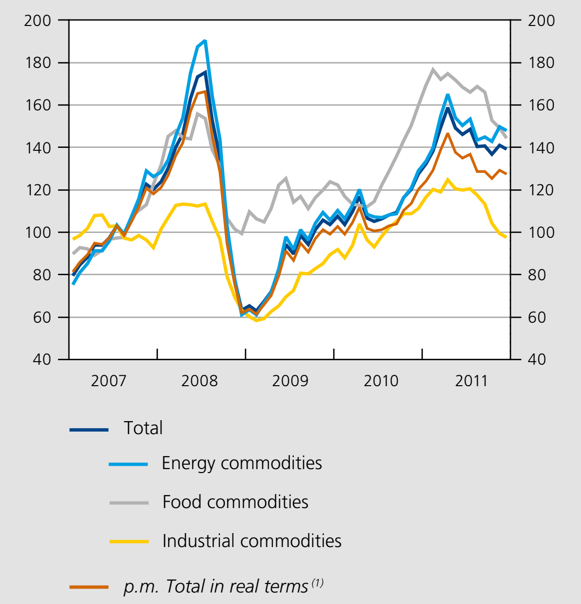
Output also slowed owing to the weakening of foreign demand. While exports to neighbouring countries continued to expand strongly, the marked dip in demand from the advanced economies, especially the EU, practically brought export growth to a halt at the end of the year. Thus, taking an average for the year, exports grew by only 10 % compared to 28 % in 2010.

1.2 Commodities and international trade

Commodities

The movement in commodity prices during 2011 was divided into two distinct periods. During the first four months, the upward trend which had begun at the start of 2009 persisted, driven by the sustained recovery of the global economy, the upheaval in North Africa and the Middle East, and the weakening of the US dollar. Prices of several commodities thus reached new record levels. From May onwards, a decline set in, following the slowdown in economic growth – the slackening pace of the Chinese economy was decisive for the commodity markets – and the deteriorating economic outlook. Moreover, increased risk aversion also depressed prices. However, the decline was limited overall so that, at the end of the year, commodity prices expressed in US dollars according to the HWWI index were still 9.2 % above their year-end 2010 level. The year-on-year rise in the index came to 28.6 % in 2011.

CHART 2 COMMODITY PRICES
(monthly data, US dollars, indices 2007 = 100)



Source: HWWI.
(1) Deflated by the US consumer price index.

Although the rise in commodity prices was fairly general, there were considerable variations between the main product categories.

On average, it was energy commodities that recorded the biggest price rise, at 31.4 %. Brent crude oil prices climbed by 38.3 %. During the first four months of the year, they rocketed, peaking at $ 125.6 per barrel at the beginning of May, owing to sustained demand combined with uncertainty over supplies, particularly on account of the events in North Africa and the Middle East. The deteriorating economic climate, the release of strategic oil reserves by IEA member countries, the increased oil production in Saudi Arabia and, finally, the raising of the production limit set by OPEC led to a fall in prices during the rest of the year; they declined to around $ 108 at the end of December, though that was still 15.1 % above the year-end 2010 level. The prices of other key energy commodities such as natural gas and coal also increased in 2011, though to a lesser extent than oil prices.

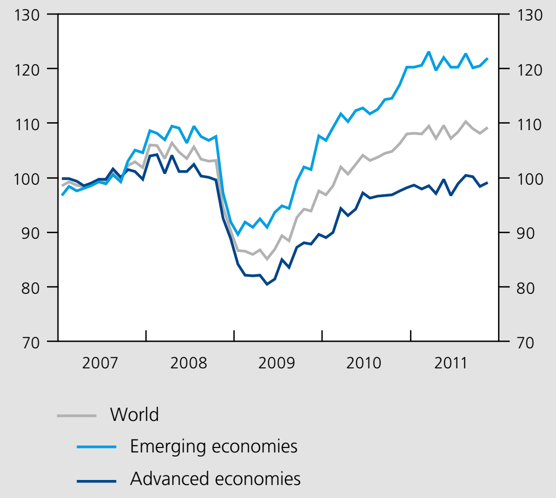
Food commodities recorded an average increase of 29.2 %. During the initial months of the year, they rose strongly, owing to the vigour of demand combined with uncertainty over supplies caused by bad weather in the southern hemisphere. Prices thus reached an all-time high in February. They began declining in March, thanks to the better outlook for the harvest, and by the end of the year they were 9.8 % below the level seen at the end of 2010.

Industrial commodity prices were up by 14.4 % over the year as a whole. At the start of the period under review, they exceeded their 2008 peak before beginning to decline in the spring, falling more sharply than other product categories since they are more sensitive to the business cycle. At the end of the year, prices were 12 % lower than at the end of 2010.

The gold price, which is not included in the HWWI index, increased by an average of 28.2 %. The main factors were the rise in demand for gold as a secure investment in uncertain times, the further weakening of the US dollar in the first half of the year, and the gold purchases made by various central banks. After reaching the unprecedented level of $ 1 898 per ounce at the beginning of September, the gold price declined steeply for the rest of the year.

CHART 3 INTERNATIONAL TRADE IN GOODS

(seasonally adjusted monthly data, average volume of exports and imports, indices 2007 = 100)



Source: CPB.

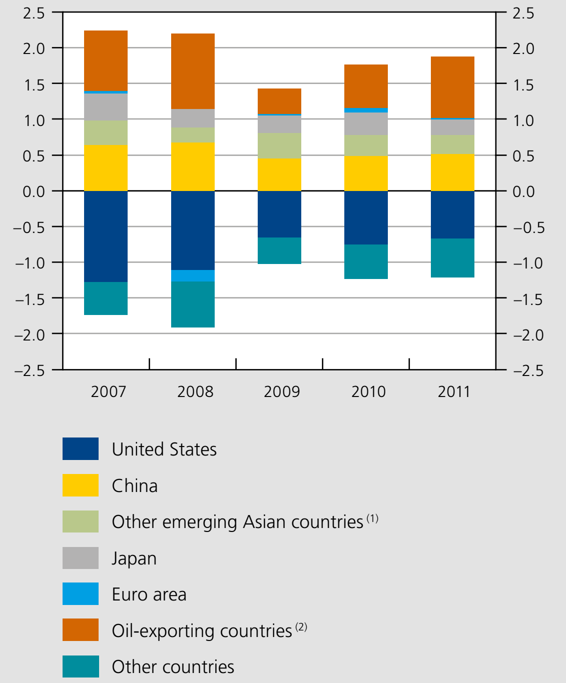
World trade and current account balances

World trade was less dynamic during 2011. Further expansion at the start of the year gave way, in the second quarter, to a contraction attributable largely to the disruption of international trade caused by the Japanese earthquake. That event had a negative impact on Japan's exports and disrupted global production chains. The recovery which emerged in the third quarter was fairly fragile.

Elimination of the imbalances in the global economy remains a cause for concern, as confirmed by the G20 summit in Cannes in November 2011. In fact, the global imbalances on the balance of payments current accounts increased again in 2011, though they were still smaller than during the years preceding the economic and financial crisis. The main reason for this development was the rising price of commodities, which inflated the surplus of the oil-exporting countries. The US trade deficit worsened further, owing to the deterioration in the terms of trade. However, thanks to the rise in income from foreign direct investment by the United States, the US current account deficit declined from 3.2 to 3 % of GDP. In China, despite the brake applied to import growth by weaker economic expansion, the even more marked deceleration in exports cut the current account surplus from 5.2 % of GDP in 2010 to 3.1 % in 2011.

CHART 4 CURRENT ACCOUNT BALANCES IN THE MAIN ECONOMIES

(in % of global GDP)



Source: IMF.
(1) Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand.
(2) Algeria, Angola, Azerbaijan, Bahrain, Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russian Federation, Saudi Arabia, Syria, Turkmenistan, United Arab Emirates, Venezuela and Yemen.

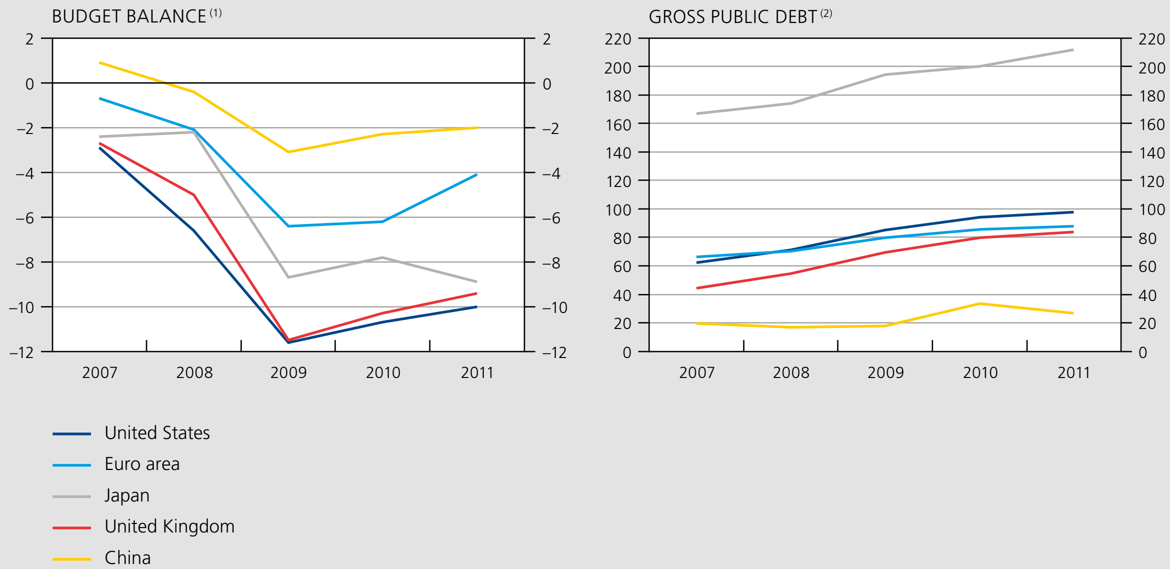
1.3 Fiscal and monetary policy

Fiscal policy

The budget deficits, which had risen sharply in 2009 as a result of the great recession, continued their gradual decline in 2011 in most countries, with the notable exception of Japan, whose government budget felt the repercussions of the March 2011 tsunami. In the euro area, fiscal consolidation was speeded up in view of the mounting tensions on the sovereign debt markets of several Member States (cf. chapter 2).

In the **United States**, the general government deficit recorded a further decline, from 10.7 to 10 % of GDP. In fact, as the economic recovery continued, revenues again grew faster than expenditure, which was curbed by the gradual extinction of the fiscal stimuli. Gross public debt continued to rise from 94.2 to 97.6 % of

CHART 5 GENERAL GOVERNMENT BUDGET BALANCE AND DEBT IN THE MAIN ECONOMIES
(in % of GDP)



Sources: EC, IMF, OECD.
(1) For the euro area and the United Kingdom, under the rules laid down for the excessive deficit procedure (EDP), the figures include net interest gains on certain financial transactions such as swaps.
(2) For the euro area and the United Kingdom, the figures concern the consolidated gross debt, i.e. excluding debts which have as their counterpart assets in the general government sector.

GDP. The sustainability of US public finances remained the focus of intense international attention for much of the year, having regard in particular to the protracted debate over increasing the federal debt ceiling. Agreement was finally reached at the beginning of August, in the form of the Budget Control Act. This provides for raising that ceiling in three stages by a total of $ 2 100 billion (around 16 % of GDP), and cutting the cumulative federal public deficit by a similar amount over the period from 2012 to 2021. That agreement did not stop the ratings agency Standard & Poor's downgrading the rating of the US long-term public debt from AAA to AA+.

Japan remained one of the last OECD economies yet to begin consolidating its public finances. The Japanese government announced that, over a five-year period, it will spend the equivalent of 4 % of 2011 GDP on reconstruction ; that amount will be funded partly by a tax increase. Owing to the expansionary fiscal policy and a slight dip in activity, the public deficit rose by 1.1 percentage points to 8.9 % of GDP. The public debt continued to grow, reaching 211.7 % of GDP.

In the **United Kingdom**, notwithstanding the marked slowdown in the international economy and the anaemic domestic demand, the government kept to the fiscal consolidation schedule established in the spring of 2010. The deficit was cut from 10.3 % of GDP in 2010 to 9.4 % in 2011, while the public debt to GDP ratio increased from 79.9 to 84 %.

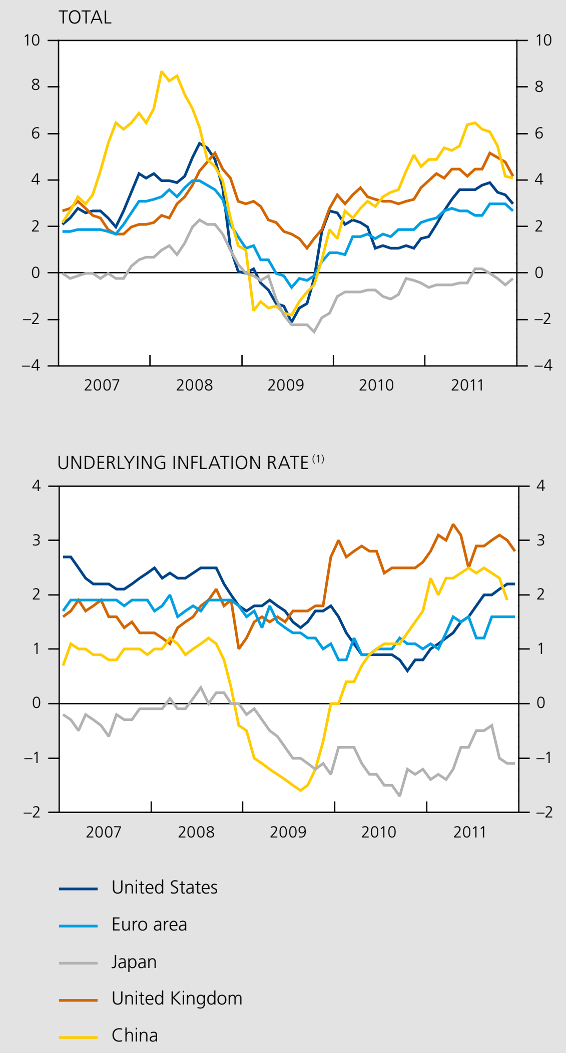
In **China**, the general government deficit dropped from 2.3 % of GDP in 2010 to 2 % in 2011. This largely structural improvement was due mainly to an increase in public revenues as a percentage of GDP. Following the strong rise in public debt in 2010, which had resulted from substantial infrastructure investment by local and quasi-governmental authorities, the ratio of debt to GDP fell by almost 7 percentage points to 26.6 % in 2011, owing to the strong nominal GDP growth.

Monetary policy

The central banks of the advanced countries held their key interest rates at very low levels in 2011. Moreover, while the need for non-conventional measures appeared to be waning at the start of the year, the worsening of the public debt crisis during the summer prompted a number of central banks to take a whole range of measures to

CHART 6 CONSUMER PRICES IN THE MAIN ECONOMIES

(monthly data, changes compared to the corresponding period of the previous year)



Sources: CEIC, Thomson Reuters Datastream, Statistics Bureau of Japan.
(1) Measured by the consumer price index excluding food and energy.

safeguard financial stability. In the emerging economies, signs of overheating caused the central banks to tighten their monetary policy further at the beginning of the year; this tightening was not generally continued in the second half of the year.

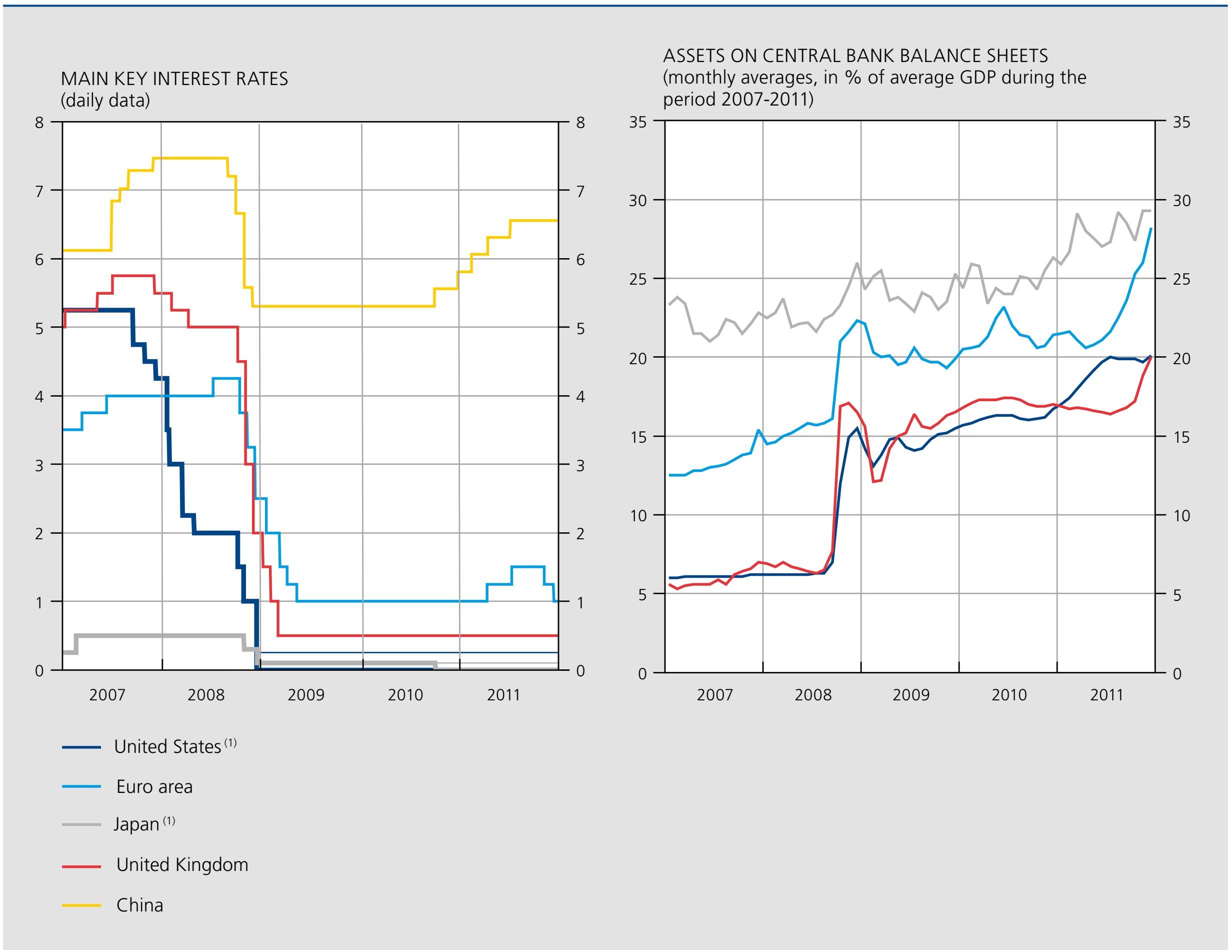
In the **United States**, during the first seven months of the year, the Federal Reserve pursued the policy which it had set the previous year, in particular the programme of additional purchases of sovereign securities announced in November 2010. From August, its policy became still more accommodating in view of the deterioration in the economic situation during the summer and taking account of the moderate outlook for inflation in the medium term. First, following the meeting of the Federal Open Market Committee (FOMC) on 9 August, it was announced that the federal funds target rate might be held at an exceptionally low level, probably until mid-2013. In addition, at its meeting on 20 and 21 September, the FOMC decided to extend the average duration of the Federal Reserve's portfolio of government bonds ("Operation Twist"). This entails selling government bonds with a short maturity (of three years or less) for a sum expected to reach $ 400 billion in June 2012, and spending up to the same amount on the purchase of long-dated government loans (maturing in between six and thirty years). The aim is to drive down long-term interest rates and thus stimulate economic activity. Apart from "Operation Twist", it was decided that the proceeds from redemption of the debt instruments of the US government-sponsored mortgage agencies and of the mortgage-backed securities would be reinvested in the latter securities from October onwards, to support the housing sector.

The Bank of **Japan** held its key interest rate at between 0 and 0.1 %, notably in order to encourage reconstruction and limit deflation. It regularly intervened on the foreign exchange market in an attempt to reverse the yen's tendency to appreciate, by trying to stabilise the exchange rate at around 80 yen to the dollar. After the tsunami, the Bank of Japan also increased the provision of liquidity for commercial banks, and likewise stepped up its securities purchase programme by 15 000 billion yen, or 3.3 % of GDP. The consumer price index excluding energy and food nevertheless declined by 0.8 % in 2011.

In the **United Kingdom**, the Bank of England held its key interest rate unchanged at 0.5 % throughout the year, despite the high inflation, which was considered temporary. That was insufficient to revive lending to non-financial corporations, and the outstanding amount continued to contract. The funding problems encountered by many British banks on the wholesale markets as a result of the tensions in the euro area were the main reason for their reluctance to lend more. Consequently, in October, the Bank of England decided to expand the asset purchase programme by £ 75 billion, to £ 275 billion, or 18 % of GDP.

In **China**, faced with a rapid rise in inflation which far outstripped its 4 % target, the central bank continued the tightening of monetary policy begun in the final quarter of 2010. It raised its key interest rate by 25 basis points three times, increasing the interest rate on one-year bank loans to 6.56 % from July. But the downside to the higher interest rates is that they stimulate the inflow

CHART 7 KEY INTEREST RATES AND ASSETS ON THE BALANCE SHEET OF THE MAIN CENTRAL BANKS



Sources: IMF, Bank of England, Bank of Japan, People's Bank of China, Federal Reserve, ECB.
(1) For the key interest rates, the line is divided if the central bank set itself a target range, the upper limit of the range being indicated by a finer line in the same colour.

of foreign capital. Therefore, to restrain the growth of domestic credit, the central bank also raised the banks' compulsory reserve ratios by around 3 percentage points to 21.5 % for the big banks from June, and allowed the renminbi to continue appreciating against the dollar, a trend which had begun in September 2010. However, on 30 November 2011, for the first time since early 2009, the central bank announced a small cut in the compulsory reserve ratios, since the outlook for growth and inflation had been revised downwards.

1.4 International financial markets

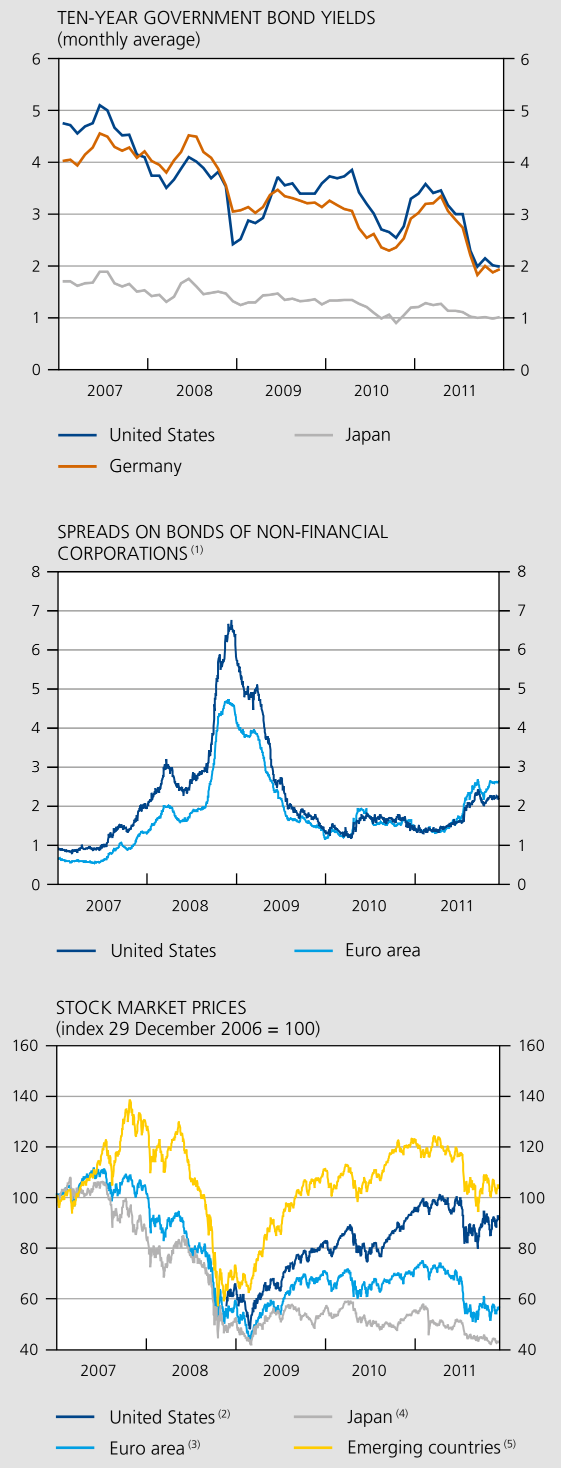
During the year under review, international financial markets were nervous about financial stability, mainly on account of the lack of a speedy and coherent response to the sovereign debt crisis in the euro area, and fears of a sharp deterioration in the economic outlook.

Sovereign bonds

The year 2011 was dominated by the sovereign debt crisis in the euro area. Whereas, during the first decade of European Monetary Union, financial operators had taken little notice of macroeconomic and fiscal developments in the individual countries, from 2009 onwards they reacted increasingly strongly. There was a further sharp increase in heterogeneity on the sovereign bond market in 2011, and spreads in relation to the German Bund widened in varying degrees. Chapter 2 examines in detail all the developments on the government securities markets of the euro area, while this chapter focuses on the benchmark bond with the best rating in the euro area, namely the German Bund.

The rise in long-term yields on sovereign loans in Germany and the United States, which had begun in November 2010, continued at the start of the year under

CHART 8 WORLD MARKETS IN SECURITIES



Sources: BIS, Thomson Reuters Datastream.
(1) Spreads in relation to the German Bund for the euro area and Treasury bills for the United States; bonds with a maturity of five to seven years.
(2) Wilshire 5000 index.
(3) Dow Jones EuroStoxx Large index.
(4) Topix index.
(5) MSCI Emerging Markets index.

review, reflecting the economic dynamism of the United States and the euro area at that time.

The upward trend in long-term benchmark yields in Europe and the United States came to an abrupt end from the second quarter of 2011. This reversal was due to the increasingly gloomy economic outlook on both sides of the Atlantic; the United States was the first to record weaker growth, which explains the slight divergence between the respective interest rate movements. At the same time, the mounting political tension in North Africa and the Middle East together with the tsunami in Japan triggered a flight to quality which also exerted downward pressure on sovereign bond yields, both in Germany and in the United States.

In August, the marked deterioration in the prospects for a global economic recovery accelerated the decline in long-term interest rates on government loans. These developments were also amplified by downward revisions in expectations regarding short-term interest rates, particularly in the United States, and the growing turbulence caused by the sovereign debt crisis in the euro area. These periods of tension were reflected in a significant increase in investors' risk aversion and drove up demand for traditional safe-haven assets. Yields on the most liquid top-rated sovereign bonds – US, German, Japanese and Swiss – therefore declined in the third quarter of 2011, falling to historically low levels. At the beginning of August, the decision by Standard & Poor's to downgrade US long-term debt had hardly any impact on interest rates on US sovereign securities, which remained a safe haven for investors facing extreme uncertainty.

In the final quarter of the year, yields on government loans tended to stabilise in both the United States and Germany. On the one hand, certain data suggested that the economic downturn in the United States might be limited. Also, the sovereign debt crisis in the euro area seemed to have spread to the countries with the best ratings, since a tender for government debt securities in Germany failed to generate the amount expected.

Corporate bonds

During the year, and more particularly in the latter six months, investors' risk aversion and their search for safe-haven assets drove up the risk premiums included in the yields on bonds issued by financial and non-financial corporations, in both Europe and the United States.

The deteriorating solvency of sovereign borrowers thus continued to inflate the funding costs of banks, especially in the euro area (cf. chapter 2). The risk premiums demanded for holding bonds of non-financial corporations in the euro area were less affected; nevertheless, in the second half of 2011, they rose by more than the premiums required for bonds issued by US non-financial corporations.

Shares

During the initial months of the year, the main stock market indices maintained the rise which had begun in mid-2010, thanks to investors' optimism about the trend in activity in the main advanced economies. In contrast, the deteriorating outlook in the emerging economies due to the impact of mounting inflationary pressure in a number of these countries brought a fall in share prices from the beginning of the year.

The tsunami in Japan in early March depressed stock market prices, both in the United States and Europe and in Japan itself. Contrary to expectations, however, these events had little impact and share prices rapidly recovered, at least in the United States and Europe, though in Japan the main stock market index did not regain the level prevailing before the disaster.

From May onwards, stock market prices declined, with a slump in September; compared to the spring 2011 peak, losses averaged 20 %. The fall was particularly steep in the case of shares in the euro area's financial sector, where prices collapsed by around 50 % during this period, as the mounting concern over the public debt depressed the stock market value of European financial institutions holding a large volume of those assets.

In addition, downward revisions to the growth outlook at the beginning of the third quarter, following the publication of disappointing macroeconomic indicators in the main advanced countries, also had an adverse influence on share prices.

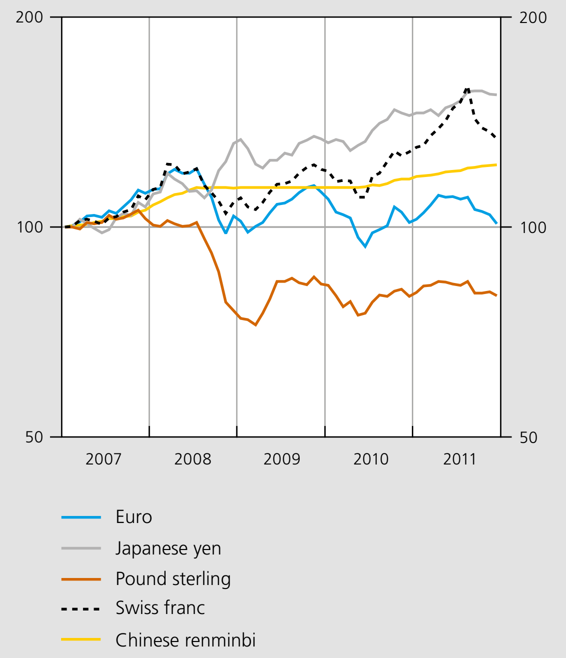
In the fourth quarter, share prices were more stable. However, they rallied slightly in the United States whereas they continued to fall in Japan.

Exchange rates

At the start of the year under review, the faster – than – expected recovery in the euro area – while growth stagnated in the United States – and expectations of ECB interest rate rises caused an appreciation of the euro exchange rate, which reached 1.49 dollar per 1 euro

CHART 9 EXCHANGE RATES OF THE LEADING CURRENCIES AGAINST THE US DOLLAR

(monthly averages, indices January 2007 = 100, semi-logarithmic scale)



Sources: BIS, Thomson Reuters Datastream.

on 4 May, the highest level for the year. The euro then remained more or less steady until August, before depreciating sharply in September with the worsening sovereign debt problems in the euro area. After strengthening temporarily in October, when details of the euro area's safeguard measures emerged, it continued to depreciate until the end of the year. The euro/dollar exchange rate thus ended the year under review slightly below its year-end 2010 level. The reason for this relative stability is that the economies of the United States and the euro area both faced problems relating to debt and economic gloom in 2011.

In line with the past two years, the sterling-dollar exchange rate followed a pattern similar to that of the euro, though it was less volatile.

In contrast, the financial turmoil led to a strong appreciation of the Japanese yen and the Swiss franc, two currencies which investors regard as a safe haven, and which were therefore much in demand when market nervousness prompted a flight to quality.

Thus, during the year under review the yen continued to appreciate against the US dollar, a trend which had begun in April 2010. Following the tsunami on 11 March, the yen climbed steeply owing to expectations that Japanese insurers would repatriate funds in dollars to meet compensation claims in yen. On 18 March, to curb the strengthening of the yen, the Ministry of Finance and the Bank of Japan, acting in concert with the monetary authorities of other G7 countries, intervened jointly on the foreign exchange market ; for a time, this proved successful. The yen later resumed its appreciation, causing the Japanese authorities to conduct non-concerted interventions at the beginning of August and the end of October.

In 2011, the Swiss franc recorded a rapid appreciation against the euro which accelerated strongly from May onwards. At the beginning of August, when the Swiss franc was approaching parity with the euro, the Swiss National Bank considered that the currency was extremely overvalued, representing a serious threat to the national economy and implying a risk of deflation. It initiated steps to restrain the appreciation of the franc, and began by stating that it aimed at a three-month Libor in Swiss franc which was as close as possible to zero. To that end, it augmented the expansion of liquidity in francs on several occasions. Since these measures had only a limited impact, the SNB announced on 6 September that it would no longer tolerate an exchange rate of less than 1.2 Swiss franc per 1 euro on the foreign exchange markets. Following this statement, the exchange rate between the Swiss franc and the euro was effectively held at just above that level.

Since 19 June 2010, when the Chinese central bank announced that it would increase the flexibility of the renminbi exchange rate, that rate has strengthened steadily against the dollar, despite the depreciation of various emerging country currencies. Over the year as a whole, the renminbi gained 5 % against the dollar.

2. Euro area and the monetary policy of the Eurosystem

The sovereign debt crisis in the euro area worsened, triggering negative spillover effects between the state of public finances in various countries, the situation of financial institutions, and the economic climate. After remaining vigorous in the first quarter of 2011, GDP growth slowed considerably. Most of the countries which had been forced by the 2008-2009 crisis to rectify their imbalances continued to record below-average growth rates. Since the financial markets doubted the sustainability of the public debt of some of those countries, they were obliged to undertake rigorous fiscal consolidation. The ECB Governing Council, which had responded to inflationary pressures in the first part of the year, then cut the key interest rates in view of the deteriorating economic outlook and the associated decline in inflation risks. It maintained the non-conventional measures to safeguard the transmission of monetary policy in the first half of the year, and actually reinforced them in the second half.

2.1 The sovereign debt crisis in the euro area

In 2011, the euro area entered a new phase in the sovereign debt crisis. There was a further heightening of financial market tension, especially from the summer. The contagion between Member States spread further, whereas negative feedback effects between fears over the stability of the financial sector and concern for the sustainability of public finances increased. The sovereign debt crisis, which was itself due partly to the financial crisis, had a steadily worsening impact on the financial sector, while the latter's problems in turn weighed on expectations regarding public finances.

At the end of 2009, the interest rate differential between Greek government bonds and the German Bund had begun to widen. The substantial upward revision of the Greek public deficit in October 2009 had fuelled doubts about the reliability of the statistics and concern about the sustainability of Greece's public debt. In the first quarter of 2010, the spread between Greek and German interest rates widened further, and the financial turmoil extended to other vulnerable countries in the euro area which, in varying degrees, combined a large public debt with chronic current account deficits and structural competitiveness problems (this applied to Portugal, Spain and, to a lesser extent, Italy), or whose particularly fragile banking system could endanger the fiscal position (as in the case of Ireland). In 2011, sovereign yield spreads compared to the German Bund widened still further, and contagion worsened in the euro area.

The cross-border extension of the crisis showed that the lack of confidence on the financial markets was not confined to the viability of public finances in a few countries, but that the doubts extended to the smooth functioning of Economic and Monetary Union itself. European economic governance had not in fact managed to prevent the emergence of serious internal and external macroeconomic imbalances in a number of countries, in particular excessive public and private debt levels. The instability of one country infected others owing to the close economic and financial integration of the euro area.

It is true that, in the years preceding the financial crisis which began in mid-2007, macroeconomic divergences had developed in the euro area. Labour costs and domestic demand had risen very strongly in certain countries, such as Ireland, Spain and Greece, and that expansion was accompanied by sustained growth of lending to households and substantial, persistent increases in property prices. These striking disparities in the movement in domestic demand and competitiveness had caused a clear divergence between euro area countries in current account balances. Moreover, the public finances of certain countries, mainly Greece, had long been in a precarious position.

When the financial crisis became a global economic crisis in the autumn of 2008, public finances clearly suffered. Apart from the operation of the automatic stabilisers, recovery plans were adopted to try to stave off the collapse of economic activity. In several countries, the government also had to intervene to support the banks. Countries with a financial sector seriously exposed to risks, such as Ireland, suffered a very severe deterioration in their public finances. More generally, countries whose growth had been based too much on debt had to initiate an adjustment process leading to a contraction of domestic demand, which depressed activity. In this worsening situation, financial operators became more worried about the sustainability of the public debt, and in the end doubted the stability and cohesion of the euro area as a whole.

In response to these events, the European authorities acting in cooperation with the IMF adopted various measures to control the debt crisis. In May 2010, aid for Greece was agreed in the form of bilateral emergency funding of € 110 billion, of which € 30 billion was to come from the IMF. The Council of Ministers also decided to create the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF), with financial resources totalling € 500 billion. The IMF was closely associated with these two mechanisms and contributed an extra € 250 billion.

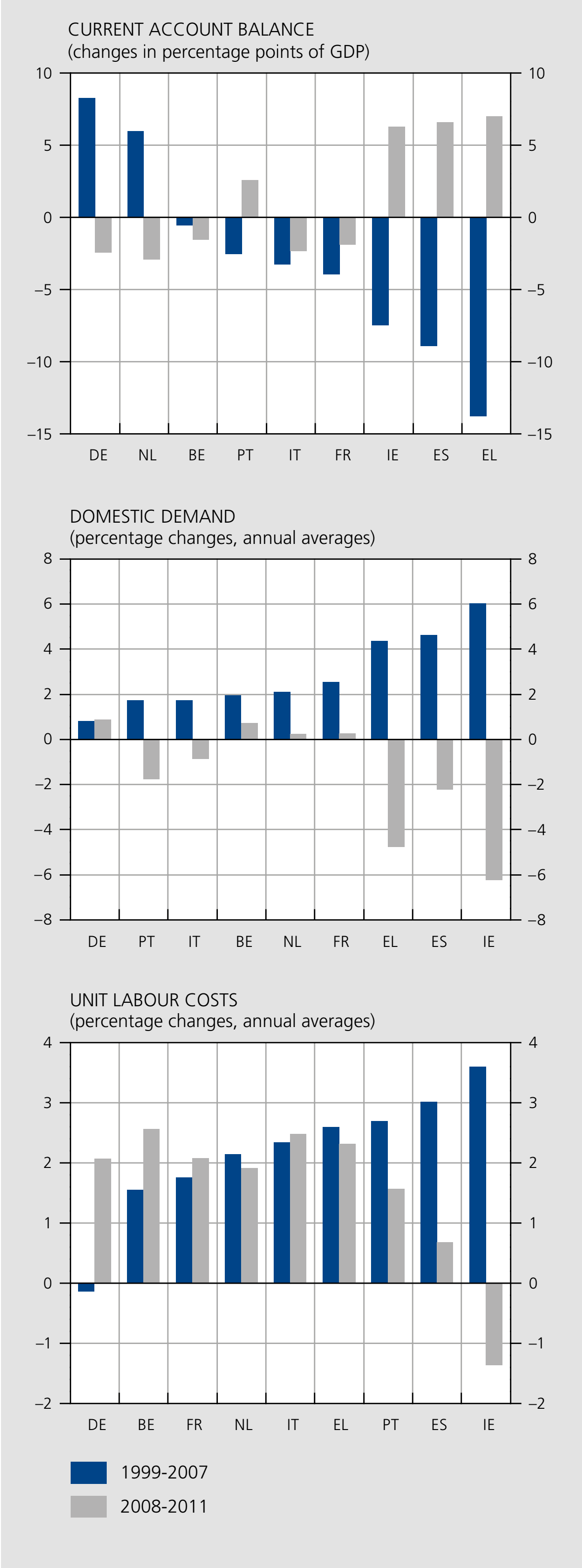
In 2010, the European Council also set up a task force, chaired by Herman Van Rompuy, to draw up proposals, in cooperation with the EC, for strengthening fiscal discipline and the coordination of economic policies. In September 2011, after intense negotiations, the European Parliament adopted the six legislative proposals (the Six Pack) resulting from this work, and the Ecofin Council then gave its approval on 4 October 2011. The new European rules on economic governance imply a radical change to the fiscal rules. Both the preventive and the corrective rules of the Stability and Growth Pact are reinforced, the decision-making procedures are modified and minimum requirements are imposed on the national budgetary frameworks of the Member States. Two of the six texts concern the prevention and correction of macroeconomic imbalances. They also provide for sanctions for euro area Member States. In March 2011, the Heads of State or Government of the euro area and of six other EU countries also concluded a Euro Plus Pact which aims to coordinate economic policies still further, in order to enhance the competitiveness of the national economies and their convergence.

In its final report, the task force on economic governance also expressed the view that the euro area should, in the medium term, set up a credible crisis resolution framework. That recommendation was approved by the European Council in October 2010. In March 2011, the euro area Heads of State or Government adopted the main features of the European Stability Mechanism (ESM), which would take over the role of the EFSF and the EFSM from July 2013 in granting financial aid to euro area Member States. The effective lending capacity of the ESM was to be € 500 billion. It should be able to activate a stability support mechanism in the short or medium term for any euro area Member State in serious financial difficulties, and to purchase that State's bonds on the primary market. It was also planned that, if a Member State received financial assistance, the private sector should be required to make an adequate and proportionate contribution.

Despite these measures, and partly because of the announcement, from October 2010, that the private sector might be involved, tensions continued to mount in 2010 and 2011. The further deterioration in public finances and the growing concerns about the sustainability of the budgets, plus the increasingly intense speculation on the financial markets regarding a possible restructuring of the Greek public debt, added further fuel to the anxiety. In November 2010, the Irish government accepted a financial package worth € 85 billion, comprising a series of loans from the EFSM, the EFSF, the IMF and the United Kingdom, Sweden and Denmark, for a total of € 67.5 billion, the balance being financed by Ireland itself, mainly out of its national pension fund. In May 2011, Portugal received financial assistance totalling € 78 billion, of which € 26 billion came from the IMF and € 52 billion from the European emergency funds. However, all these measures only managed to reassure the financial markets temporarily.

During the summer of 2011, the financial market turbulence further intensified, owing to the uncertainty over the continuation of the consolidation of public finances, the authorities' reaction to the euro area debt crisis – deemed too little, too late – and the deteriorating economic outlook. Spreads between the yields on Greek and German government bonds continued to widen significantly, as the sustainability of the Greek public debt gave ever more

CHART 10 MACROECONOMIC IMBALANCES IN THE EURO AREA (1)



Source: EC.
(1) The chart only shows the six countries with the largest GDP and the three countries which received conditional financial assistance from the EU and the IMF in 2011. The countries are ranked on the basis of the data for the period 1999-2007.

cause for concern, in view of the delay in implementing the adjustment programme to which Greece had committed itself, and steadily worsening growth expectations for that country's economy. At the same time, the contagion on the government bond markets had spread further. Thus, the Italian and Spanish markets for government securities were increasingly affected, also contaminating the Belgian market in government bonds.

Against the backdrop of tension on the Italian and Spanish markets in public debt securities, decisions were passed at the European summit on 21 July 2011 to ensure the sustainability of Greek public finances and to stop the crisis from spreading. Since Greece could not return as a borrower on the financial markets in 2012, the euro area Heads of State or Government planned a second aid programme for that country. It comprised new official funding of around € 109 billion, the loans to Greece – like those to Ireland and Portugal – being granted under more favourable conditions in terms of maturity and interest rates. Moreover, the financial sector was prepared to offer Greece voluntary support. It was also decided to increase the flexibility of the EFSF and the ESM, which will be able to act, for instance, under a precautionary programme, to finance the recapitalisation of financial institutions through loans to governments, and to intervene on the secondary markets. As explained below, the ECB Governing Council also adopted supplementary measures to ensure the transmission of monetary policy in a climate of serious financial tensions.

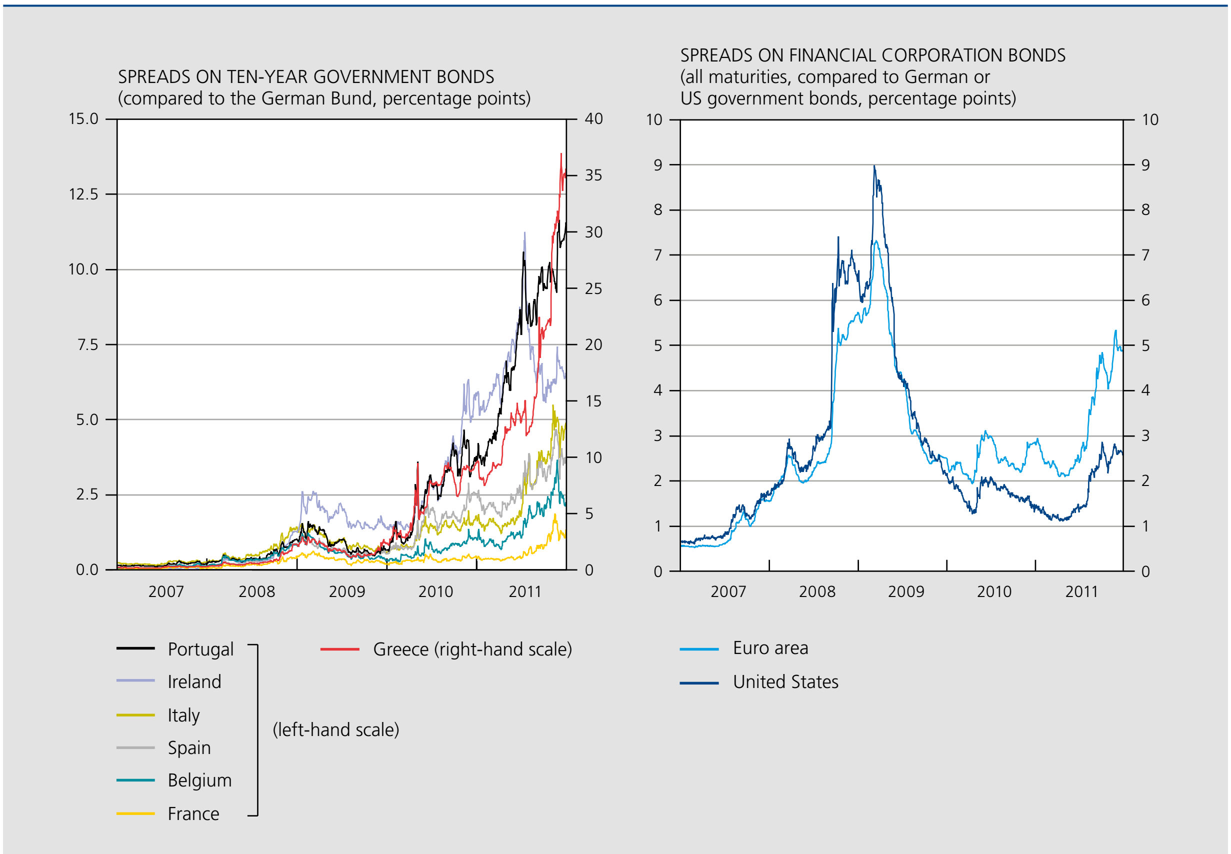
However, these decisions and measures brought only temporary calm to the financial markets, partly because of the time required for the 17 euro area countries to obtain parliamentary approval. In addition, the financial markets were not convinced that the measures would be sufficient to control the crisis. Inadequate communication, and even contradictory statements by the European decision-makers, plus numerous grey areas in the agreement were part of the reason. Moreover, the agreement on the financial sector's voluntary contribution for Greece undermined the belief that government securities of advanced economies are risk-free. The markets also feared that this contribution might create a precedent. In addition, the 21 July agreement failed to eliminate doubts over the sustainability of the Greek public debt. The new official funding was not activated. Greece appeared to be locked in a negative spiral, with a steeper-than-expected decline in economic growth and the need for ever bigger savings and tax increases to achieve the budget targets, so that more substantial sovereign debt relief seemed to be the only solution. In the ensuing months, the debt crisis in the euro area escalated. Spreads in relation to the yield on the German Bund widened dramatically in

Greece and Portugal, but also in Italy, Spain and to a lesser extent Belgium. Conversely, in Ireland, the tension eased significantly for several weeks, thanks to the sufficiently convincing implementation of the economic adjustment programme. Finally, almost the entire euro area was affected, since countries with the highest rating, such as France, recorded a considerable increase in the spreads in relation to the German Bund.

On 26 October 2011, the European authorities agreed on a range of supplementary measures. In the case of Greece, the aim was to reduce the public debt to 120 % of GDP by 2020. To that end, private investors were invited to set up a voluntary bond exchange with a nominal haircut of 50 % on the notional value of the Greek debt which they held. Euro area Member States would contribute € 30 billion to this operation. It was also decided to provide funding of up to € 100 billion under an adjustment programme running until 2014. Moreover, the firepower of the EFSF was to be augmented by leveraging, either by means of an insurance offered by the EFSF to private investors on the issue of new bonds by a Member State, or via special purpose vehicles in which private and public investors would participate. Agreement was likewise reached on a set of measures to restore confidence in the banking sector, notably by raising the banks' core Tier 1 capital – after valuation of the portfolio of government securities at market price at the end of September 2011 – to 9 % of the risk-weighted assets, and doing so before the end of June 2012. Finally, provisions to improve fiscal coordination and surveillance were announced, notably the adoption in national legislation of the Stability and Growth Pact rules on a balanced budget in structural terms. It was agreed to do more to reinforce economic governance and integration within the euro area. The President of the European Council, in collaboration with the Presidents of the EC and the Eurogroup, will present a report on these questions in March 2012.

At the European Council on 8 and 9 December, the Heads of State or Government of the EU Member States, except the United Kingdom, agreed on a new Fiscal Compact. A rule on the general government

CHART 11 THE SOVEREIGN DEBT CRISIS IN THE EURO AREA



Source: Thomson Reuters Datastream.

structural budget balance, offering an automatic correction mechanism in the event of deviation, will have to be introduced into the national legal systems of the Member States at constitutional or equivalent level. Countries undergoing an excessive deficit procedure will have to submit to the EC and the Council an economic partnership programme detailing the necessary structural reforms to ensure fiscal consolidation. The provisions governing this procedure will be reinforced for euro area Member States, in particular by the more automatic application of sanctions. Furthermore, in order to contain the crisis, the entry into force of the treaty establishing the ESM will be accelerated, and the adequacy of the overall ceiling of the EFSF/ESM, set at € 500 billion, will be reassessed in March 2012. The ESM voting rules will be changed to include an emergency procedure. The provision of additional resources for the IMF in the form of bilateral loans is also envisaged. Finally, in regard to the involvement of the private sector, the unique and exceptional character of the decisions taken on 21 July and on 26 October concerning Greece's debt was clearly spelt out.

During the year under review, concerns over the sustainability of the public debt afflicted the financial sector of the euro area, owing to the substantial portfolios of government bonds held by numerous banks. The worries applied particularly to banks in countries subject to an economic adjustment programme, and to those of other euro area countries where spreads on government bonds in relation to the German Bund had widened considerably. Other banks with relatively sizeable portfolios of those countries' government bonds also felt the effects of this mounting anxiety. Since the euro area's financial sector is closely intertwined, systemic risk increased significantly. Losses on the value of bond portfolios, combined with a slowdown of economic growth, threatened to damage the solvency of a sector already weakened by the financial crisis. Moreover, the depreciation of these securities reduced the value of the collateral available for loans on the interbank market. As explained in more detail in section 2.4, the tensions on the interbank market increased, hampering the funding of banks on that market.

The vulnerability of the financial sector in turn affected the perception of debt sustainability in some countries, particularly those which had already assumed part of the risks of the banking sector. Moreover, in the opinion of financial operators, the level of public debt restricted the capacity of the authorities to provide more support for the banking sector, thus triggering a negative spiral.

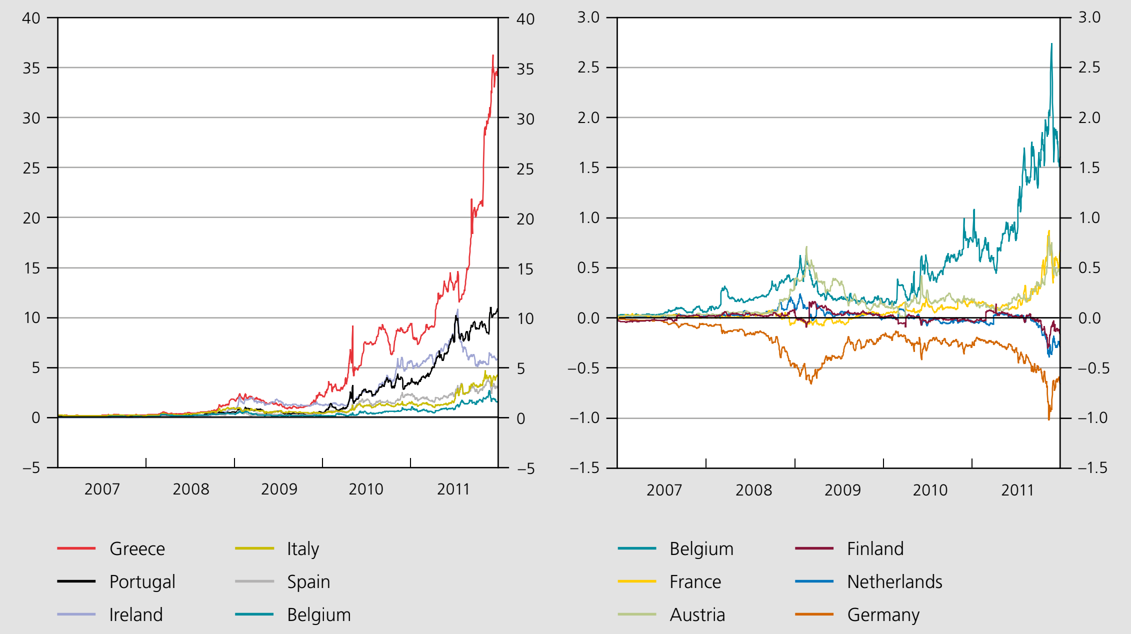
Box 1 – Contagion on the government bond markets in the euro area

The escalating tensions on a number of euro area government bond markets during the year under review raises questions about the danger of contagion. If rising interest rates in countries with fragile economic fundamentals cause turbulence on the bond markets of other countries, the latter will also face higher financing costs. Moreover, the contagion may imply that shocks on small markets generate a systemic risk for the banking sector. If a drop in government bond prices – and hence an increase in interest rates – in a small country leads to lower bond prices of other States, an initially limited shock may have a much greater impact, notably on the government bond portfolios held by the banks.

The yields on ten-year government bonds on the secondary market discussed in this box can be broken down into two components, one common and the other national. The first reflects the interest rate applicable to debtors with the best credit rating in the euro area, and is based on expectations regarding the monetary policy stance and on a term premium to compensate for the uncertainty inherent in long-term investments. This common component can be approximated by the average ten-year interest rate on bonds issued by five euro area countries with an AAA rating during the period in question – namely Germany, France, the Netherlands, Austria and Finland (1). The second is the risk premium specific to each country, which not only compensates for the default risk, but also comprises a liquidity premium which is inversely related to the ease with which the bonds can be traded.

(1) Luxembourg also has an AAA rating, but there is no ten-year benchmark yield available for the bonds of that State.

NATIONAL COMPONENTS OF THE TEN-YEAR YIELD ON GOVERNMENT BONDS (1)
(percentage points)



Sources: Thomson Reuters Datastream and own calculations.
(1) The difference between the ten-year interest rate of the State in question and the average ten-year interest rate of five euro area Member States with an AAA rating.

For most of the euro area countries, this national risk premium is positive and – since the outbreak of the crisis – has become an increasingly important determinant of ten-year interest rates. In Germany, and to a lesser extent in the Netherlands and Finland, this national component has mostly been negative, bearing witness to the safe-haven status of securities issued by these three countries. That is attributable to the sound economic fundamentals of those countries and, in Germany's case, also to an extremely liquid market in government securities.

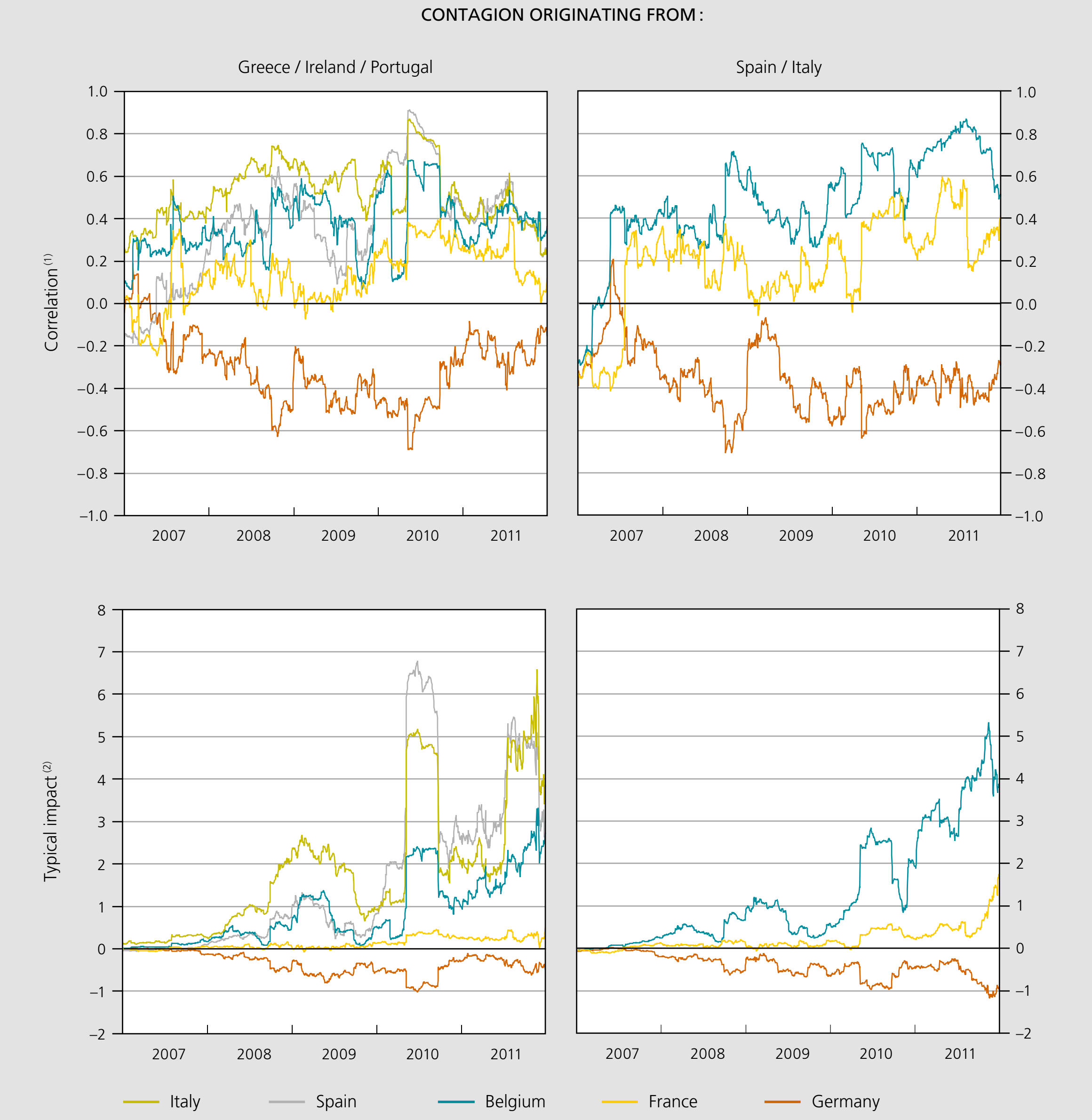
Since Germany hence benefits the most from a flight to quality in times of turbulence, caution is required when measuring the national risk premium by means of a very commonly used variable : the spread between ten-year interest rates and the corresponding yields on the German Bund. That yield differential is in fact influenced both by the risk premium of the country concerned and by that of Germany. For the Netherlands, Finland and, to a lesser extent, France and Austria, the flight to quality is indeed the main reason for the spread in relation to Germany.

The contagion between countries can be analysed by a vector autoregressive model in which the variables are the national risk premiums included in the ten-year interest rates. To examine changes in the dynamics of those variables, the model is estimated over moving windows of 100 trading days. A first measure of the contagion, giving an idea of the degree of interaction between the variables, is the correlation between the shocks affecting the national component of the interest rates of different countries. Since the correlation is a yardstick independent of any scale, it does not give any quantitative indication of the extent of the contagion. It is therefore also worth assessing the impact, in basis points per day, which a typical shock in a given country has on the national component of other countries.

This box assesses the contagion originating from two groups of countries under stress. The first comprises three countries with an official EU and IMF financing programme, namely Greece, Ireland and Portugal. The second comprises Spain and Italy. The two measures mentioned above can be used to examine the impact of shocks in those countries on the risk premium of a number of other countries during the period 2007-2011.

MEASURES OF THE CONTAGION BETWEEN GOVERNMENT BOND MARKETS IN THE EURO AREA

(on the basis of a vector autoregressive model estimated using moving windows of 100 trading days, the date referring to the latest observation in the sample considered)



Sources : Thomson Reuters Datastream and own calculations.

(1) Contemporaneous correlation between shocks affecting the national component of countries under stress and those affecting the national component of other countries. Average correlation with Greece, Ireland and Portugal, and with Spain and Italy.

(2) Contemporaneous impact in basis points per day of a typical shock (measured by the standard deviation of the shocks) affecting the national component of countries under stress on the national component of other countries. Average impact of Greece, Ireland and Portugal, and of Spain and Italy.

According to market participants, German sovereign bonds are safe-haven assets. The estimated correlation between the German risk premium and the risk premiums of countries with an adjustment programme, and those of Spain and Italy, was almost always negative during the period considered, indicating that shocks pushing up the risk premium of those countries led to a more negative premium for Germany. The impact of such shocks was generally limited, even though it nevertheless implied a fall of more than one basis point per day during periods of severe turbulence, as in May 2010 or November 2011.

Conversely, the tensions on the bond markets of the three countries with an adjustment programme led to a rise in interest rates in France, although the correlation seems to have weakened during the year under review. Overall, the contagion affecting France seems to have been rather limited, a conclusion borne out by the modest impact on French interest rates of shocks affecting the countries in difficulty. However, during the last quarter of 2011, France apparently did not escape the heightened tension on the Spanish and – especially – the Italian government bond markets.

Compared to France, Belgium has a higher correlation both with the three countries subject to an adjustment programme and with Spain and Italy. Moreover, the impact of the countries in difficulty on the Belgian risk premium was considerably greater than for France. It actually became particularly substantial during the year under review. With an estimated maximum impact of around 5 basis points per day on the Belgian risk premium, the developments in Spain and Italy during the last quarter of 2011 were a significant source of turmoil on the Belgian market. However, their influence waned in December. Over the year as a whole, the typical impact originating from the three countries receiving official financing was around half that originating from Spain and Italy.

Conversely, in periods of worsening turbulence, shocks in countries which had been obliged to resort to loans from the IMF and European partners were responsible to a much greater extent – up to around 6 basis points per day – for interest rate fluctuations in Spain and Italy.

These findings suggest that financial tensions spread from one country to another. During the year under review, the source of that contagion seemed to come increasingly from Spain and Italy, rather than from the countries receiving official financing. While that contagion had a beneficial effect on the financing costs of countries with the soundest economic fundamentals, such as Germany, the opposite applies in other countries such as Belgium, as they in fact face a rise in interest rates in the event of worsening tensions in the most fragile countries. Both the existence and the magnitude of these contagion effects must be properly taken into account when measuring the systemic risk for the banking sector and when preparing scenarios designed to address the turbulence confronting the euro area in 2011.

2.2 Economic activity and labour market

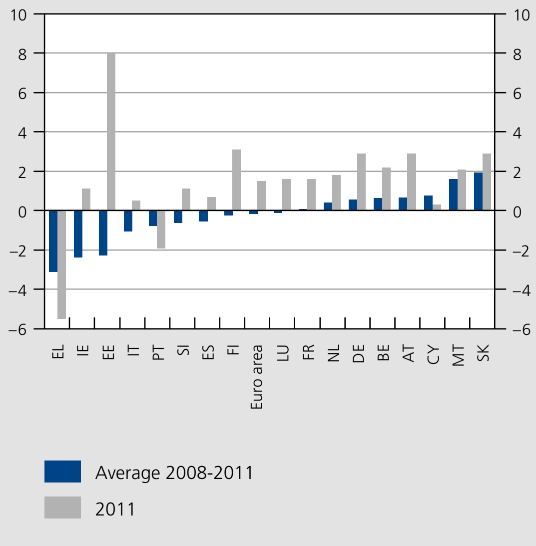
The development of economic activity in the euro area was uneven in 2011. The first quarter was particularly encouraging, confirming the recovery which had begun in 2009. However, economic growth faltered in the second quarter, and then came to a halt. Annual figures as a whole mask that profile: GDP volume growth declined from 1.8 % in 2010 to 1.6 % in 2011. In real terms, GDP has still not regained its 2007 level in the euro area. The stalled return to the pre-crisis level was particularly marked in countries whose growth had previously been based excessively on external borrowing.

The slowdown in the course of 2011 concerned most of the euro area countries. Nonetheless, the year-on-year change in GDP varied widely. Activity contracted in Greece and Portugal, while the strongest growth rates were recorded in Estonia, Finland, Germany, Austria and Slovakia. Broadly speaking, the countries forced by the 2008-2009 crisis to embark on a process of correcting their imbalances continued to record growth rates below the euro area average.

In 2010, the economic recovery had gradually shown signs of broadening across domestic components. At the end of the first quarter of 2011, the vigour of the recovery and this transition process towards self-sustained growth

CHART 12 GDP GROWTH IN THE EURO AREA COUNTRIES (1)

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



Source: EC.
(1) The euro area countries are ranked according to average annualised GDP volume growth during the period 2008-2011.

TABLE 2 GDP AND MAIN EXPENDITURE CATEGORIES IN THE EURO AREA (1)

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

	2009	2010	2011
Final consumption expenditure of households	–1.1	0.8	0.4
Final consumption expenditure of general government	2.6	0.5	0.0
Gross fixed capital formation	–12.1	–0.6	2.1
Housing	–11.6	–2.9	1.0
Enterprises	–15.6	2.3	4.6
General government	3.9	–6.4	–4.9
Final domestic expenditure	–2.8	0.5	0.6
Change in inventories (2)	–0.8	0.6	0.3
Net exports of goods and services (2)	–0.7	0.8	0.7
Exports of goods and services (3)	–12.8	11.3	6.1
Imports of goods and services (3)	–11.7	9.6	4.8
GDP	–4.2	1.8	1.6

Sources: EC, OECD.
(1) Excluding Cyprus and Malta, except for exports and imports.
(2) Contribution to the change in GDP, percentage points.
(3) Non calendar adjusted data.

seemed to come to a halt. A number of factors curbed that process, such as the erosion of consumer and business confidence and the deterioration in borrowing conditions, taking account of the moderation of global demand and mounting tensions on the markets in sovereign debt securities.

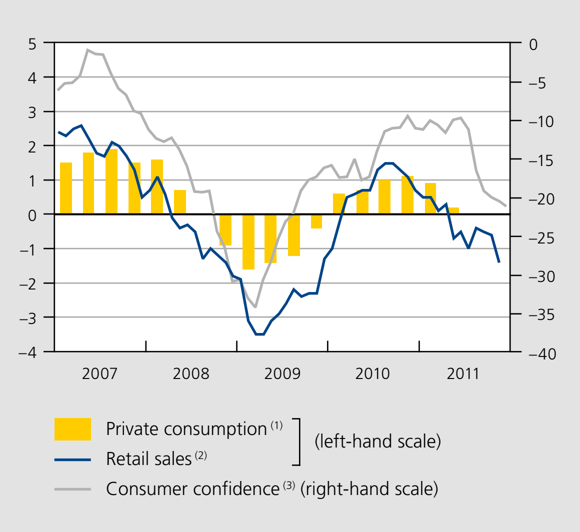
Exports had been the driving force during the initial recovery phase, before domestic demand took over. Export growth weakened from the second quarter of 2011. However, owing to sluggish domestic demand, imports slowed even more, so that net foreign sales took over as the main contributor to growth.

The gradual weakening of the recovery in 2011 was due essentially to dwindling domestic demand. In the first half of the year, inflation surged as a result of higher energy and food prices, outpacing the rise in nominal wages. This depressed consumption from the second quarter. In addition, in the second half of the year, the escalating tensions over the sovereign debt crisis seriously dented consumer confidence. The uncertainty prompted consumers to exercise caution and delay their decisions on the purchase of durable goods. In addition, some specific developments played a role, such as the end of car-scrapping schemes in France, which contributed to the contraction of private consumption in that country during the second quarter.

In addition to this specific context, two more structural factors may also have motivated precautionary savings and may thus have depressed private consumption. First, the considerable debts contracted by households during the years preceding the crisis created a need to restore a better balance between assets and liabilities. Some countries, such as Ireland and Spain, had seen the rapid accumulation of loans to individuals, which had supported domestic demand and fuelled a strong expansion of the housing markets and soaring house prices. Since the 2008 crisis, the need to restore a sound balance sheet forced households to step up their savings. While the debt ratio has already stabilised, or even fallen slightly, in some countries, it seems that debt reduction will be a lengthy process in view of the still high debt levels. A second incentive for individuals to save more was the deterioration in public finances resulting from the crisis.

Gross fixed capital formation had continued to decline during the initial quarters of the recovery which had begun in mid-2009: the revival in business investment had been insufficient to offset the fall in public investment and housing construction. However, the improvement in confidence and higher capacity utilisation encouraged firms to carry out increasing numbers of investment projects, up to the first quarter of 2011, during which gross

CHART 13 PRIVATE CONSUMPTION, CONSUMER CONFIDENCE AND RETAIL SALES IN THE EURO AREA



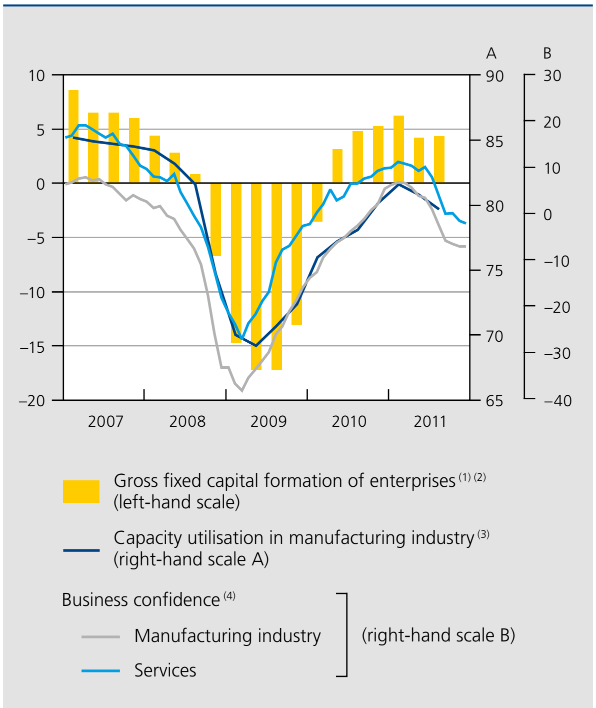
Sources: EC, ECB.
(1) Seasonally and calendar adjusted data, percentage changes compared to the corresponding quarter of the previous year.
(2) Calendar adjusted data, annual percentage changes, three-month moving average.
(3) Seasonally adjusted data, balance of replies to the monthly survey.

fixed capital formation was the main engine of growth. Subsequently, a deceleration occurred in most euro area countries. In some countries, where investment was already declining in 2010, the downward trend continued in 2011, e.g. in Spain, Cyprus, Slovenia, Ireland, Portugal and Greece. Thanks to the strong surge in the first quarter, and starting from a still low level, year-on-year growth of gross fixed capital formation in the euro area came to 2.1 % in 2011. However on the whole, investment remained below its pre-crisis level in real terms.

There are various factors which explain the weakness in business investment growth during 2011. First, in the wake of the slowdown in global trade and the deteriorating economic outlook, firms faced a fall in demand. Capacity utilisation dropped below its long-term average, halting the upward trend. Next, from the summer of 2011, the uncertainty and growing erosion of business confidence contributed to the postponement of investment decisions. As a result, firms' financing needs were reduced, leading to a falling demand for bank loans from the summer. In addition, the escalating sovereign debt crisis led to a tightening of lending conditions, which was particularly pronounced in countries whose fiscal sustainability was most in doubt. Finally, the deleveraging process which many companies have embarked on since the crisis may also have prompted some of them to moderate their investment spending.

The construction sector had been the epicentre of the recession in some countries. In the euro area as a whole, investment in housing began rising again in 2011, after three years of decline. This occurred against the backdrop of a recovery on the property market, as house prices – which had fallen to a low point in mid-2009 – continued to rise slightly in the first half of 2011. In addition, bank lending for house purchase expanded, though less strongly from the spring onwards, partly because of the tighter credit conditions. While remaining at levels which were still relatively low, mortgage interest rates on new contracts gradually rose before easing slightly from September. However, the developments in the construction and property sector of the euro area as a whole mask still very contrasting situations between countries. In 2011, investment in housing declined in Greece, Cyprus, Slovenia, Spain and – above all – Ireland, while it remained relatively dynamic e.g. in Germany, where the construction sector enjoyed a strong boost in the first quarter, the indirect consequence of the exceptional weather conditions at the end of 2010.

CHART 14 BUSINESS INVESTMENT AND BUSINESS CONFIDENCE IN THE EURO AREA
(seasonally adjusted data)



Sources: EC, OECD.
(1) Data also calendar adjusted, percentage volume changes compared to the corresponding quarter of the previous year.
(2) Excluding Cyprus and Malta.
(3) Measured by the quarterly survey, in %.
(4) Balance of replies to the monthly survey.

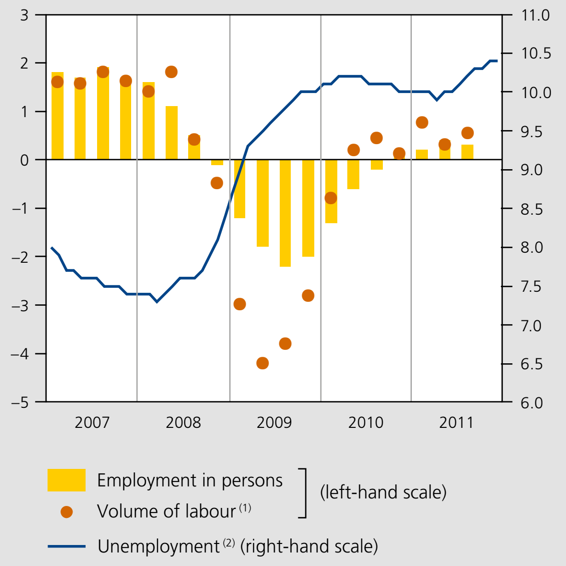
On the labour market, the situation in 2011 was still influenced by the labour-hoarding efforts that businesses had made during the recession, which had been supported by various government measures for reducing working time. Given the relative resilience of the labour market in 2009, its recovery was very moderate up to the beginning of 2011. Firms tended to restore normal working hours per worker rather than create jobs in order to adjust the volume of labour to the pick-up in activity. In the second quarter of 2011, this upward trend in the hours worked began to level out, while employment growth in terms of the number of persons became stronger. In 2011, employment was stimulated *inter alia* by property and rental services, and business services (excluding financial and insurance activities), but also by industry (excluding construction), where the number of jobs increased slightly. The construction sector, still in an adjustment phase, continued to record job losses. From the second half of 2011, the improvement in the labour market faded away as economic activity lost momentum. The unemployment rate had stabilised at around 10 % since 2010. Nonetheless, during the year under review it edged upwards very gradually after the April low point to reach 10.4 % in December.

The disparities between labour markets in the euro area countries remained considerable in 2011. Employment growth was still above average in Estonia, Luxembourg, Slovakia, Austria, Germany, Belgium and Finland. Conversely, Ireland, Portugal, Spain and Slovenia continued to shed jobs, albeit to a lesser extent than in 2010, and job losses worsened in Cyprus and – above all – Greece. This heterogeneity was also evident in the unemployment rates which ranged between 4.1 % in Austria and 22.9 % in Spain at the end of 2011.

The labour market diversity reflects a number of factors. First, the euro area debt crisis had a widely varying impact on the financial sector and fiscal policy scope, depending on the country. Also, the sectoral composition of the job losses caused by the 2008-2009 crisis still had a major influence : a process of restructuring production and rebalancing between sectors of activity continued in 2011 in some countries, such as Spain and Ireland, where the adjustment following the bursting of the property bubble was incomplete. Finally, the institutional settings and regulations specific to each country also played a role. Thus, employment growth was found most dynamic in 2011 in Germany, where the effects of the earlier Hartz reforms fostered employment by getting the jobless back to work. In contrast, in Spain the persistence of a dual employment contract situation perpetuated the lack of flexibility on the labour market.

CHART 15 LABOUR MARKET IN THE EURO AREA

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



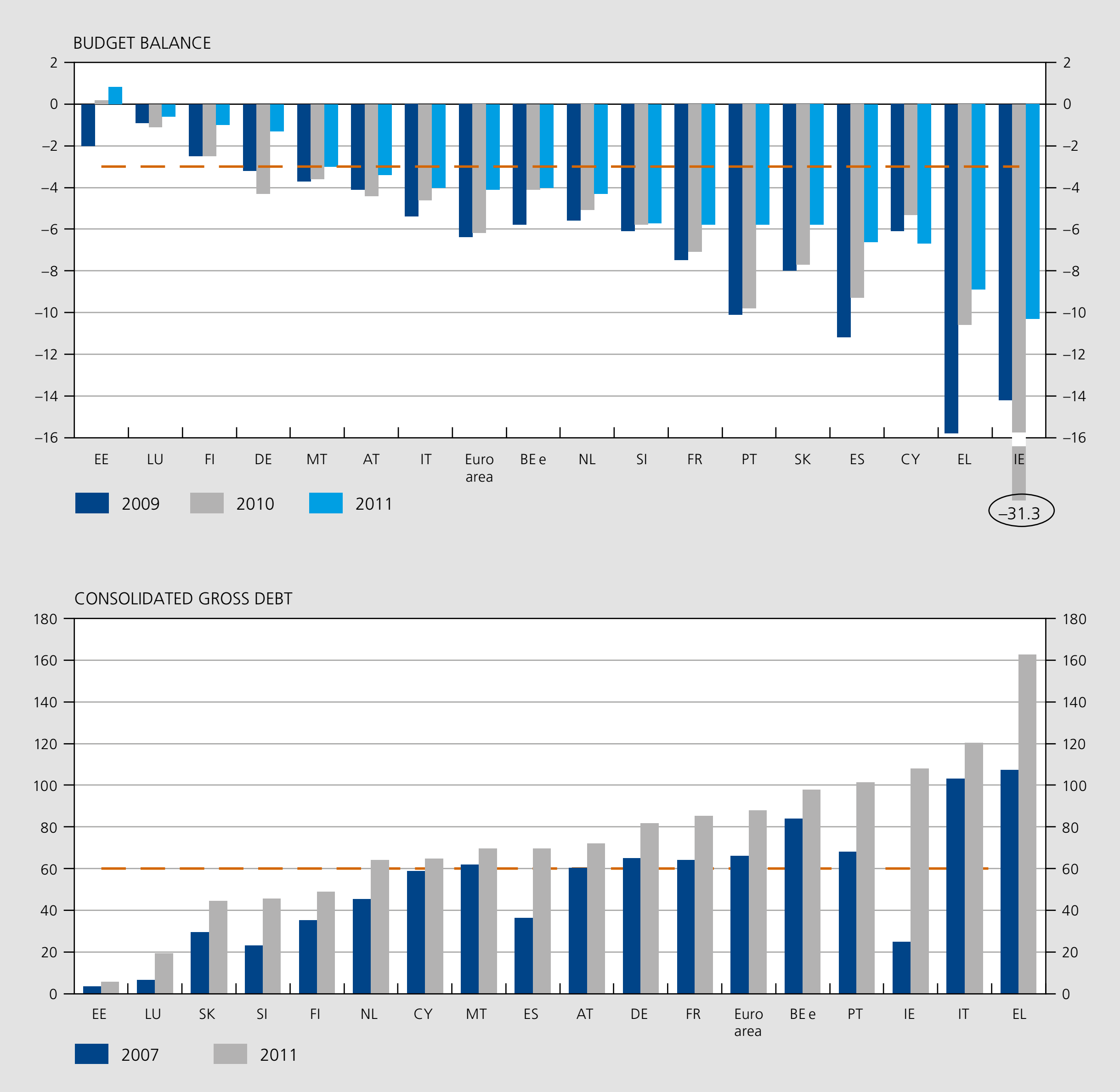
Sources: EC, ECB.
(1) Total hours worked.
(2) Ratio in % between the number of unemployed persons and the labour force.

2.3 Fiscal policy

The economic recovery which persisted in the first half of the year contributed to the cyclical strengthening of the general government budget balance in the euro area, whereas in the second half of the year the deterioration in the general economic situation and mounting tensions on the debt securities markets of several countries made it necessary to speed up the pace of structural fiscal consolidation in most of the euro area countries. The reduction in the deficit which – according to the EC's November 2011 economic forecasts – dropped from 6.2 % of GDP in 2010 to 4.1 % in 2011 is attributable partly to cyclical and temporary factors, but is due mainly to the measures taken to cut the structural deficits. The general government debt ratio continued to rise in 2011, with a cumulative increase of almost 22 percentage points of GDP since 2007. However, its growth pace was slower than in the preceding three years, rising by only 2.4 percentage points to 88 % of GDP. This deceleration is due mainly to the perceptible improvement in the primary budget balance and the disappearance, at aggregate level, of the net interventions supporting the banking sector.

Only four euro area countries recorded a general government deficit of less than 3 % of GDP in 2011 : Estonia,

CHART 16 GENERAL GOVERNMENT BUDGET BALANCE AND DEBT IN THE EURO AREA (1)
(in % of GDP)



Sources: EC, NBB.
(1) The countries are ranked according to 2011 data.

Luxembourg, Finland and Germany. The deficit of the first three already stood below that threshold in 2010. In **Germany**, the budget deficit dropped from 4.3 % of GDP in 2010 to 1.3 % in 2011. That country thus corrected its excessive deficit two years before the end of the specified term. This recovery was due to the favourable cyclical conditions, the phasing-out of the non-recurring measures which had raised the deficit in 2010, and structural consolidation achieved by health care system reforms and the implementation of an austerity plan. This plan entailed in particular the introduction of new taxes on aviation, nuclear energy and banks, and a reduction in family allowances and benefits for the long-term unemployed.

Still according to the EC's November 2011 economic forecasts, all other euro area countries except Cyprus also cut their public deficit in 2011, though it still exceeded or equalled 3 % of GDP. In **France**, the general government deficit declined from 7.1 % of GDP in 2010 to 5.8 % in 2011. Apart from the phasing-out of the cyclical stimulus measures, this improvement is essentially structural and is due mainly to the reduction of "tax niches", i.e. tax exemptions and reductions, and various measures affecting expenditure, such as the freeze on base wages for civil servants and the replacement of only half of retiring civil servants. In **Italy**, despite the rise in interest expenditure of around 0.4 percentage point of GDP in 2011, the growth of the primary surplus allowed for a cut in the budget deficit by 0.6 percentage point to 4 % of GDP. This largely structural improvement is due to the reduction in primary expenditure as a share of GDP, achieved partly by freezing civil servants' wages and by public employment cuts. Public debt continued to rise, from 118.4 % of GDP at the end of 2010 to 120.5 % at the end of 2011. In December, a set of additional measures was announced equivalent to 1.3 % of GDP, aimed at achieving a balanced budget in 2013. In **Spain**, numerous measures were taken from mid-2010 onwards in order to cut expenditure, notably by freezing public sector wages and reducing public investment, and to boost revenues by increasing both direct and indirect taxation and introducing a wealth tax. According to the IMF's January 2012 forecasts, the general government deficit declined by 1.3 percentage points of GDP to 8 % of GDP, nevertheless well above the 6 % target. In December, the new government announced a package of measures amounting to 1.5 % of GDP.

The countries receiving conditional financial assistance from the EU and the IMF made significant efforts to consolidate their public finances. However, in **Greece**, owing mainly to a further worsening of the economic contraction, the public deficit was reduced by only 1.6 percentage points in 2011 to 9 % of GDP, according to the report prepared by the IMF concerning the fifth assessment of the adjustment programme accompanying the EU and IMF emergency aid granted in May 2010. In view of the slump in economic activity, the public debt reached an estimated 162 % of GDP at the end of 2011, an increase of 17 percentage points in one year. Significant measures were taken to restore the viability of public finances, notably in terms of cutting government spending. However, though the Greek authorities had managed to reduce the deficit considerably in 2010, the success of the programme was thwarted by numerous setbacks in 2011. Owing to delays in implementing the reforms and the decline in activity, the fiscal target was again exceeded. In order to achieve the objectives in 2012, supplementary consolidation measures were taken from the summer of the year under review.

In **Ireland**, the general government deficit had risen sharply in 2010, owing to expenditure on the government rescue package for the banks amounting to 20 percentage points of GDP. In the autumn of 2010, the Irish authorities requested financial aid from the EU and the IMF, and embarked on a large-scale economic adjustment programme aimed primarily at cutting the general government deficit below 3 % of GDP by 2015 and restoring a sound banking system. A year later, the quarterly assessment of this programme concluded that it had been implemented satisfactorily. The budget deficit is estimated to have fallen just below the target of 10.6 % of GDP in 2011. In its autumn economic forecasts, the EC estimated the public debt at 108.1 % of GDP at the end of 2011, up by 13.2 percentage points against the end of 2010.

Like Greece and Ireland, though somewhat later, **Portugal** received financial aid from the EU and the IMF in May 2011. The economic adjustment programme adopted as a condition for that aid comprises a major fiscal consolidation component aiming to put the public debt ratio on a downward path in the medium term and cut the deficit below 3 % of GDP in 2013. The government is estimated to have met the target of a deficit amounting to 5.9 % of GDP in 2011, almost 4 percentage points lower than the previous year, by means of substantial structural measures concerning both expenditure and revenue, and a one-off budget operation concerning bank pension funds. According to the autumn review of the Portuguese economic programme, the public debt continued to grow, rising from 93.3 to 107.2 % of GDP in 2011.

2.4 Monetary policy of the Eurosystem

Macroeconomic prospects in the euro area were decidedly contrasted in the year under review, and that was reflected in the decisions of the ECB Governing Council. At the beginning of the year, economic activity continued to pick up, fuelling some optimism about future growth. At the same time, inflationary pressures gradually increased, propelled by the rising cost of energy and other commodities. To tackle the upside risks to price stability against the backdrop of a revival in activity, the Governing Council raised the key interest rates twice. After having been held at the historically low level of 1 % for almost two years, the central key interest rate was thus increased in stages to 1.25 % on 7 April and 1.50 % on 7 July. Conversely, in view of the persistent malfunctioning in certain segments of the euro area's financial markets in the context of the sovereign debt crisis, the Governing Council retained the non-conventional monetary policy measures which were in place at the end of 2010.

During the summer, renewed concern about Greece's financial situation led to escalating tensions on a number of sovereign debt securities markets. To calm the resulting turbulence on the interbank market and rectify the disruption in the monetary policy transmission, the Governing Council took new non-conventional measures.

At the beginning of August, it thus decided to conduct a six-month refinancing operation and to reactivate the Securities Markets Programme (SMP). On 6 October, it announced the conduct of one-year refinancing operations and the launch of a new programme for the purchase of covered bonds, i.e. bonds backed by a range of mortgage loans or claims on the government. In addition, in view of the sharp deterioration in the confidence of economic agents and in financing conditions, growth expectations were downgraded considerably. In these circumstances, the Governing Council cut the ECB's central key rate to 1.25 % on 3 November, and then to 1 % on 8 December. Despite a persistently high level of inflation, it considered that the financial tensions presented a significant risk to growth, and that – in view of the slackening pace of activity – the inflationary pressures would gradually ebb away. Inflation would therefore remain at a level compatible with the objective of medium-term price stability. In December, in order to continue to support bank liquidity and encourage bank lending in the euro area, the Governing Council also adopted a new series of non-conventional measures. It decided to conduct two refinancing operations with a maturity of 36 months, to expand the range of assets eligible as collateral for Eurosystem loans and to cut the minimum reserve ratio from 2 to 1 %.

The monetary policy stance

During the **first half of 2011**, the monetary policy stance was dictated mainly by the mounting inflationary pressures. Maintaining a trend which had begun in mid-2009 and was confirmed during 2010, euro area economic activity gathered pace at the start of the year under review, and the outlook remained favourable. In April, the capacity utilisation rate thus increased to just above its long-term average. In view of the publication of better-than-expected economic data and the particularly strong GDP growth in the first quarter, the growth projections for the year were revised upwards in the macroeconomic projection exercises of the ECB and the Eurosystem in March and June. That was also the case for the forecasts produced by other international institutions and professional forecasters. It was expected that private domestic demand, stimulated by an accommodating monetary policy stance and by measures to support the financial system, would make an increasing contribution to growth, and that exports would continue to benefit from the global economic recovery. However, the revival in economic activity would be curbed to some extent by the ongoing balance sheet adjustment process in various sectors. Despite the persistence of great uncertainty as a result of the sovereign debt crisis and tensions in certain financial market segments, the scenario of a continuing – still modest – recovery prevailed, and the risks to that outlook were generally considered to be balanced.

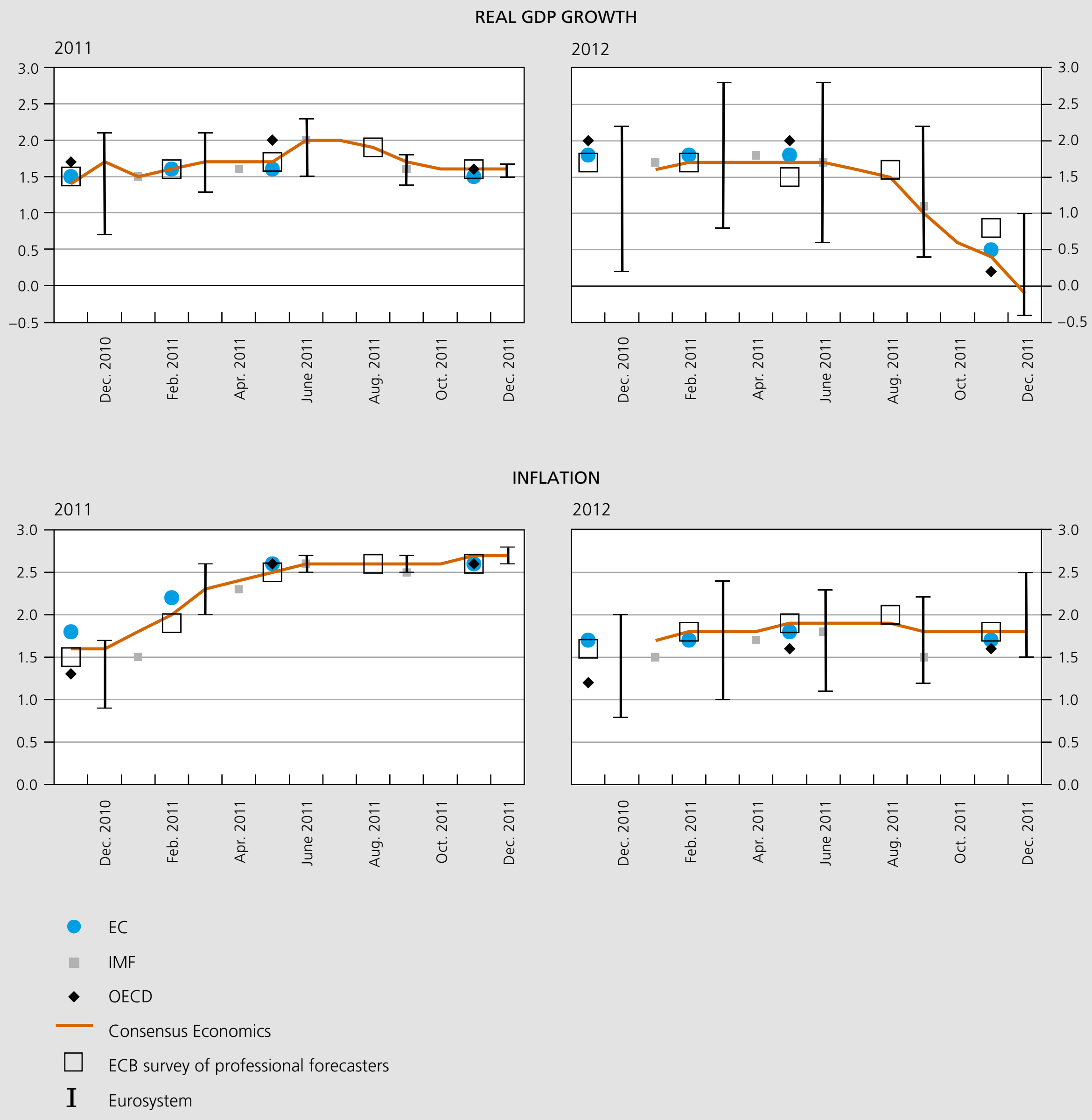
This positive dynamic was accompanied by a rapid rise in inflation measured by the HICP, which had been running at more than 2 % from the start of the year. That acceleration mainly reflected the rising cost of energy and other commodities, due in particular to the strong economic growth in the emerging countries and the political tensions in North Africa and the Middle East. In that context, there were soon upside risks to price stability, and they were amplified as the months went by. Underlying inflation – namely the movement in consumer prices excluding energy and food – also displayed an upward trend, confirming the increase in inflationary pressures in the euro area. Between December 2010 and June 2011, it rose from 1 to 1.6 %.

In line with the encouraging outlook for GDP growth, bank lending to the private sector and money creation continued to expand in the first months of the year. Overall, however, the expansion was modest and there were significant variations between economic agents. Thus, the growth of lending to households remained stable overall, in the region of 3 %, while there was a very marked upward trend in the growth of lending to non-financial corporations. After having returned to positive figures in October 2010, the latter gradually increased to 2.3 % in June 2011. This catch-up effect was largely anticipated. According to the normal profile over the business cycle, the expansion of business lending follows the revival in economic activity after a certain time lag, while the growth of lending to households tends to precede it. This difference of timing is attributable partly to the fact that loans for house purchase enjoy better collateral, while firms generally resort to self-financing in the initial stages of the recovery.

Leaving aside its volatility, due mainly to the impact of specific factors, the monetary dynamism strengthened during the first months of the year while continuing to be restrained to some extent by the steepness of the yield curve, which reduced the attraction of monetary assets as opposed to longer-term instruments offering better returns, which are not included in M3. In addition, the monetary liquidity previously accumulated remained abundant, so that – in a favourable economic climate – there was a risk of growing pressures on prices in the euro area and hence an impact on medium-term price stability. Regarding the components of M3, the year-on-year growth of M1 declined while that of short-term deposits included in M2-M1 increased considerably. This partly reflected the rise in the remuneration of savings deposits and other short-term deposits during

CHART 17 PROJECTIONS OF REAL GDP GROWTH AND INFLATION IN THE EURO AREA

(annual percentage changes according to the projection publication dates)



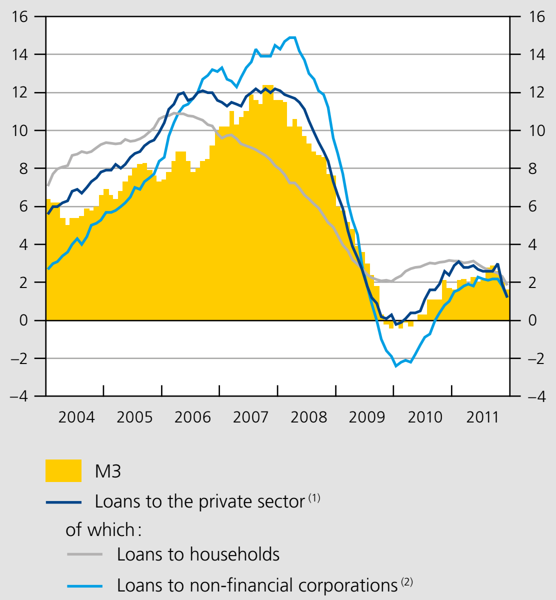
Sources: EC, IMF, OECD, Consensus Economics, ECB.

the initial months of the year. In the case of marketable instruments, namely M3-M2, the year-on-year change was very volatile, largely as a result of the impact of collateralised interbank transactions conducted via central counterparties – which perform the role of intermediaries for the transactions. Since those counterparties belong to the money-holding sector, the transactions they conduct for the banks appear temporarily in the broad monetary aggregate M3, but without representing a real increase in the money supply.

In this context featuring a favourable trend in activity – despite a still high level of uncertainty – and the accentuation of the upside risks to price stability, the Governing Council considered it appropriate, at its meetings on 7 April and 7 July, to raise the key interest rates by 25 basis points, thus bringing the central key rate to 1.50 %. After having held the rates at historically low levels for almost two years, it considered that these adjustments to the highly accommodative monetary policy stance were needed in order to prevent the emergence of

CHART 18 M3 AND LOANS TO THE PRIVATE SECTOR IN THE EURO AREA

(percentage changes compared to the corresponding month of the previous year, seasonally adjusted data)



Source: ECB.
(1) Households, non-financial corporations, insurance companies, pension funds or occupational pension institutions and other non-monetary financial intermediaries. Data adjusted for sales and securitisation, unless otherwise stated.
(2) Data not adjusted for sales and securitisation before February 2010.

second-round inflationary effects threatening the objective of maintaining inflation in the medium term at levels close to but below 2 %.

It should be noted that the macroeconomic outlook described above for the euro area as a whole masks disparities between its constituent countries. Thus, in the first six months, the core countries surrounding Germany generally recorded higher growth rates than the southern euro area economies, leading to differences in inflationary pressures. The Governing Council cannot take account of this heterogeneity in the macroeconomic developments of euro area countries when taking decisions on the key interest rates, as the latter have to reflect the economic outlook and risks to price stability in the euro area as a whole. However, some national developments may influence the implementation of other monetary policy instruments, such as the non-conventional measures discussed at the end of this chapter.

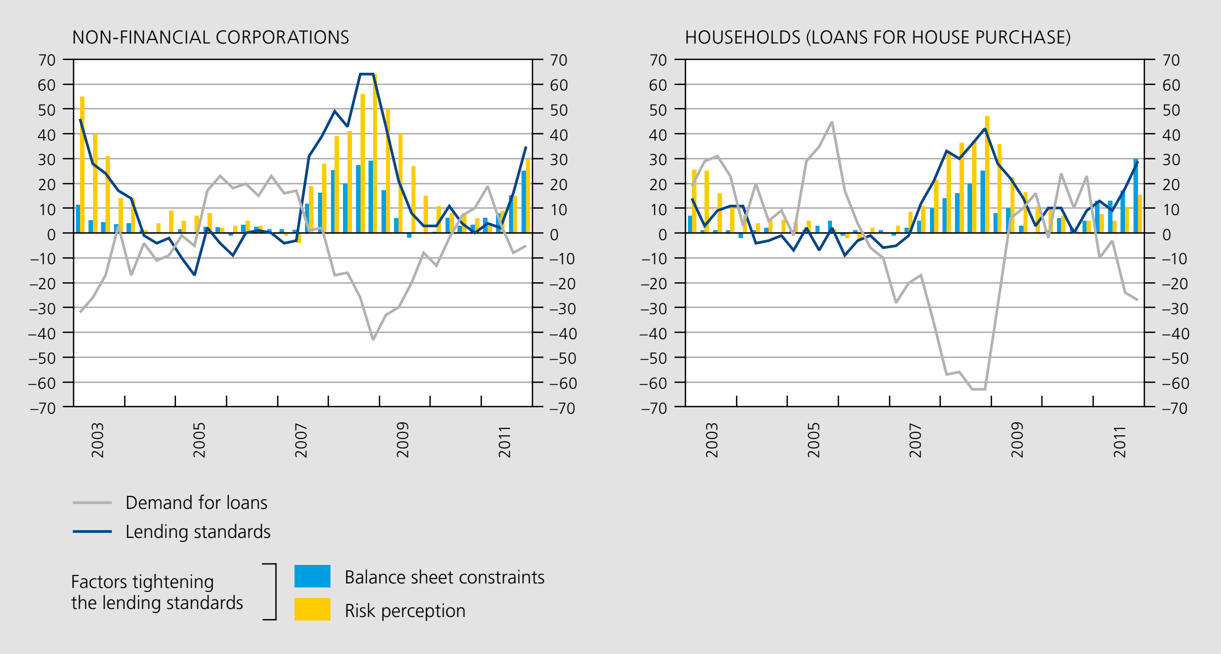
In the **second half of 2011**, the Governing Council adjusted the monetary policy stance following the deterioration in the growth prospects and the easing of inflationary pressures. July was the turning point in the economic and financial situation of the euro area. Although a temporary dip in activity was expected, the figures steadily worsened, casting doubt on the vigour of the recovery. The temporary factors which had stimulated growth at the start of the year, such as the significant upturn in construction activity and certain fiscal stimuli, had in fact disappeared while the negative impact of the delayed effects of the earlier oil price increases and a marked slowing of the expansion of world trade became apparent. The mounting concern over the trend in economic activity was also amplified by the fiscal consolidation measures adopted in various countries, and by the spreading unease caused by the sovereign debt crisis. The focus of the fears shifted from Greece, Ireland and Portugal to Spain and Italy, where sovereign bond yields rocketed during the summer. In this climate of escalating tensions on various financial market segments and particularly high levels of uncertainty, financing conditions were tightened and the confidence of the economic agents, which had remained high up to then from a historical perspective, rapidly diminished. By September, this situation combined with a decline in the global growth rate led to a marked downward revision of the euro area GDP projections for 2011, and especially for 2012. Moreover, the Governing Council considered that there were downside risks to these projections.

Despite a slowdown in activity, inflation measured by the HICP continued to rise at first, reaching 3 % in September. However, it had been widely expected to level out in the autumn, before subsiding and reverting to a level fully compatible with price stability in 2012, following the dissipation of the effects of the previous commodity price increases. Against the backdrop of weakening growth, the risks to price stability seemed more balanced. In addition, the pace of monetary expansion remained modest in the second half of the year, and even slowed significantly at the end of the year. As is evident from the results of the euro area bank lending survey, the lending standards were tightened, reflecting both the tougher balance sheet constraints and the increased risk perception. This tightening combined with falling demand depressed the expansion of bank lending to households and businesses. The growth of the aggregate M3 largely reflected the pattern of interbank transactions conducted via central counterparties. It accelerated during the summer, when banks made more use of the secured market against the backdrop of escalating financial tensions, but slackened at the end of the year, probably owing to the new non-conventional measures adopted by the ECB Governing Council. Finally, the accelerating expansion of the aggregate M1 from August may well have reflected the desire to hold more liquidity in times of growing uncertainty.

In view of the signs of a sharper-than-expected slowdown in economic activity in the euro area, and despite a still

CHART 19 EUROSYSTEM SURVEY OF BANK LENDING IN THE EURO AREA (1)

(quarterly data)



Source: ECB.

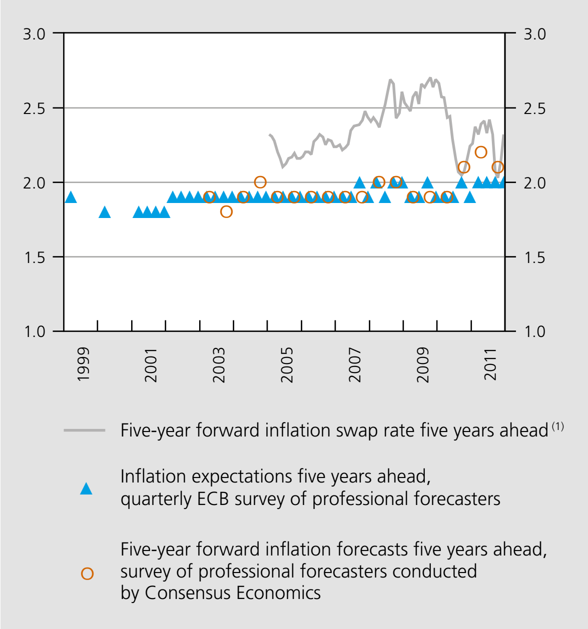
(1) Net percentages of replies from banks to the Eurosystem's bank lending survey indicating the degree of tightening or easing (–) of lending standards and the positive or negative (–) movement in demand for loans.

high level of inflation, at its meetings on 3 November and 8 December the Governing Council deemed it appropriate to cut the key interest rates by 25 basis points on both occasions. It in fact considered that the moderation of global growth and the adverse impact of the financial market tensions on borrowing conditions and confidence represented a threat to economic growth in the euro area. In these circumstances, it considered that the inflationary pressures would wane more rapidly than expected, and that a cut in the key interest rates would help to maintain medium-term price stability.

Despite the relatively high level of inflation throughout the year, long-term inflation expectations based on survey data and financial data remained firmly anchored. The inflation expectations indicated by surveys of professional forecasters conducted by the ECB and by Consensus Economics thus remained stable at around 2 %. The expectations of the financial markets were rising in the first half of the year, but declined in the second half, dropping to a level closer to 2 %. These measures based on inflation swaps are more volatile, and generally exceed those derived from surveys since, in addition to actual inflation forecasts, they include risk premiums which fluctuate over time and blur the signal regarding expectations, especially in a climate of financial tensions.

CHART 20 LONG-TERM INFLATION EXPECTATIONS IN THE EURO AREA

(annual percentage changes)



Sources: Bloomberg, Consensus Economics, ECB, NBB.

(1) Implicit inflation rate derived from swaps covering the inflation risk in the euro area, for a period of five years beginning five years after the conclusion of the contract.

Measures to safeguard the transmission of monetary policy

Despite encouraging economic developments, the uncertainty caused by the sovereign debt crisis remained considerable throughout the **first half of the year**. Therefore, together with its decisions to raise the key interest rates, the Governing Council maintained a number of measures which it had adopted during the period of severe financial market tensions in the autumn of 2008 and the spring of 2010. It judged that those measures remained necessary to safeguard financial stability and the efficient transmission of monetary policy, conditions essential for maintaining price stability. This distinction between conventional measures, namely the steering of the key interest rates, and non-conventional measures for granting liquidity and purchasing securities, conforms to the "principle of separation" between the monetary policy stance and its implementation. That principle, which guides the Governing Council's decision-making process, is a significant feature of the flexible monetary policy framework available to the Eurosystem.

The first of the non-conventional measures maintained is the conduct of Eurosystem refinancing operations in the form of fixed-rate tenders with full allotment. For the main refinancing operations – which take place weekly – and exceptional operations for a term coinciding with the reserve maintenance period – of around one month – the interest rate applied is the central key rate in force at the time of the tender. For longer-term operations, it corresponds to the average rate of the main refinancing operations conducted throughout the duration of the operation in question. Contrary to normal practice, whereby refinancing operations take the form of competitive tenders, this procedure enables the banks to be sure of obtaining all the requested liquidity. It thus reduces their liquidity constraints when there is a loss of confidence on the interbank market, and maintains a supply of credit for households and businesses at affordable interest rates. This measure had been adopted in October 2008, under the "enhanced credit support" policy which had been introduced following the escalating financial tensions caused by the failure of Lehman Brothers. It had been suspended temporarily for regular three-month operations at the start of 2010, but reintroduced in May of that year in the wake of the first wave of tensions caused by the sovereign debt crisis.

The second measure retained is the Securities Markets Programme (SMP), introduced in May 2010 in the context of the sovereign debt crisis. With this programme, the Eurosystem aims primarily – by purchasing public debt securities on the secondary market – to restore the smooth functioning of the securities markets, thereby preserving the monetary policy transmission mechanism. Government securities are traditionally a key element in the transmission process, as their interest rates are used as benchmarks for setting rates on other financial contracts and for remunerating fixed-income securities. Moreover, they are regularly used as collateral for interbank contracts. Consequently, any excessive or abrupt fluctuation in the value or availability of these securities may lead to a deterioration in funding conditions for banks and have negative repercussions on the supply and price of bank lending to households and businesses. The impact of the SMP on banking sector liquidity is systematically sterilised by weekly liquidity-absorbing operations.

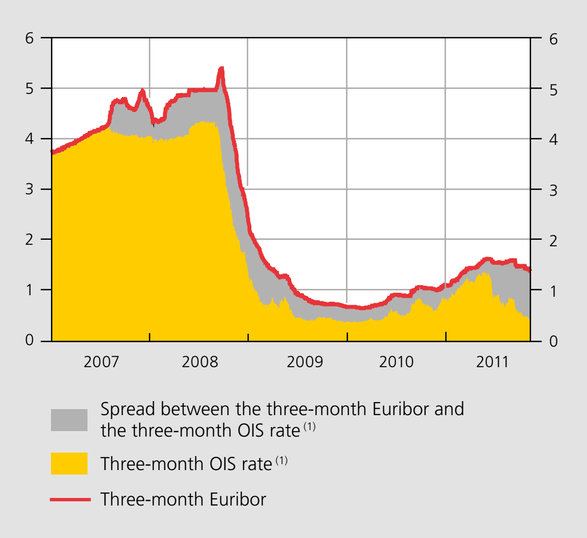
One of the other measures taken previously and still in force in 2011 is the extension of the list of eligible collateral for the refinancing operations. However, the Governing Council had decided, in 2010, to apply a progressive haircut, from 1 January 2011, to the assets with the lowest rating. The swap agreements with the Federal Reserve were also maintained, enabling the Eurosystem to provide liquidity in US dollars against the provision of eligible collateral. Finally, the suspension of the minimum rating requirements for bonds issued or guaranteed by the Greek government was not amended. On the contrary, in order to ensure that banks from other countries in serious difficulties had access to Eurosystem liquidity, the Governing Council adopted similar provisions for securities issued or guaranteed by the Irish government, on 31 March, and the Portuguese government on 7 July.

In the **second half of the year**, as the financial tensions became more acute, the Governing Council adopted new measures. On the basis of the renewed concerns over Greece's ability to repay its debt, mounting tensions became apparent during the summer on a number of public debt markets in the euro area. While spreads in relation to the German Bund widened again for all sovereign bonds, Italy and Spain were particularly affected, marking a further stage in the contagion of the sovereign debt crisis. These events were accompanied by a general increase in aversion to risky assets and a marked deterioration in the situation on the interbank market.

On the money market, risk premiums began rising again. While the difference between the Euribor and the three-month OIS rate remained well below 50 basis points during the first half of the year, it climbed steadily to almost 100 basis points by early December, a level not seen since the beginning of 2009 in the early stages of the financial crisis. However, this increase in the risk premium was more than offset by a decline in

CHART 21 THREE-MONTH INTEREST RATES

(daily data)



Sources: ECB, Thomson Reuters Datastream.

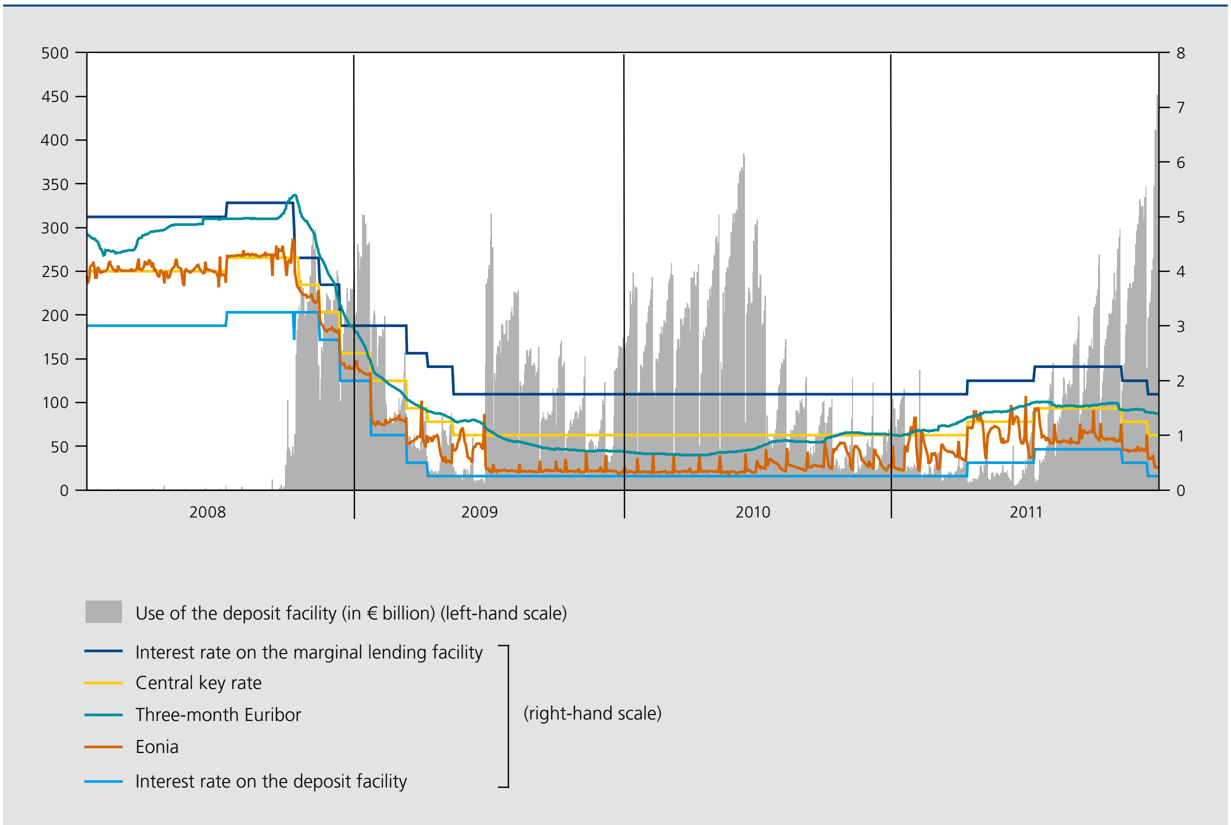
(1) Overnight Index Swap rate: the fixed rate paid by the counterparty of an interest rate swap contract receiving the overnight interest rate (Eonia) for a period of three months.

the OIS rate, reflecting a downward revision to expectations regarding the key interest rates in the context of slackening economic activity. The three-month Euribor, the benchmark for setting rates on private sector loans, thus remained relatively stable, edging downwards in the wake of the November and December cuts in the key interest rates.

Credit institutions' reluctance to lend to one another was also reflected in greater recourse to Eurosystem loans from August onwards. As a result, the liquidity surplus on the money market increased considerably from an average of € 30 billion in the first six months of the year to almost € 150 billion in September, and over € 300 billion in December. In this connection, it is important to note that the greater use of the deposit facility is the almost automatic corollary to wider recourse to Eurosystem refinancing operations. The liquidity injected in this way can only have a very partial and delayed effect in boosting demand for banknotes or increasing reserve requirements, the main potential "leaks" in the closed circuit of central bank money in the banking system. The increase in

CHART 22 USE OF THE DEPOSIT FACILITY AND MONEY MARKET INTEREST RATES IN THE EURO AREA

(daily data)



Sources: Thomson Reuters Datastream, ECB.

deposits placed with the Eurosystem therefore illustrates the tensions on the interbank market but says little about the movement in bank lending and banks' portfolios of securities.

In parallel with this increase in liquidity, the overnight interest rate on the interbank market (Eonia), which had been volatile up to mid-July, repeatedly exceeding the central key interest rate, reverted more systematically to a level close to the deposit facility rate. The movement in the Eonia follows a fairly simple logic, linked both to the Eurosystem's policy of granting unlimited liquidity and to the level of confidence on the unsecured interbank market. At times of high tension on the latter, only a handful of banks – the soundest ones – have access to it, and the Eonia tends to approach the deposit facility rate, its natural floor. The other banks which are short of liquidity have to borrow more from the Eurosystem in order to refinance themselves on acceptable terms, while the banks with a liquidity surplus place it with the Eurosystem at the deposit facility interest rate. Conversely, when confidence improves, some banks gradually find their way back into the unsecured market at interest rates lower than that on the ECB's main refinancing operations. The resulting discrimination between borrowers on the interbank market drives the Eonia higher.

The tensions triggered by the sovereign debt crisis on the interbank market prompted the banks to tighten their lending standards, thereby threatening the effective transmission of monetary policy. In that context, and in order to ease the banks' funding constraints, the Governing Council phased in new non-conventional monetary policy measures from August onwards. It first decided to conduct a new six-month liquidity-providing operation at a fixed interest rate and with full allotment, in which the interest rate applied would be equal to the average rate on the main refinancing operations conducted throughout the maturity of the operation. In addition, after the Italian and Spanish governments had announced new structural and fiscal measures, the Governing Council reactivated the SMP. Until that time, purchases had been concentrated in the weeks following the implementation of the programme, in May 2010, and from April to July 2011 the programme had been idle. Between August and December 2011, government paper amounting to € 137.5 billion was purchased, bringing the value of the portfolio of securities bought since entry into force of the programme – valued at the purchase price – to € 211.5 billion, or 7.7 % of the consolidated balance sheet of the Eurosystem.

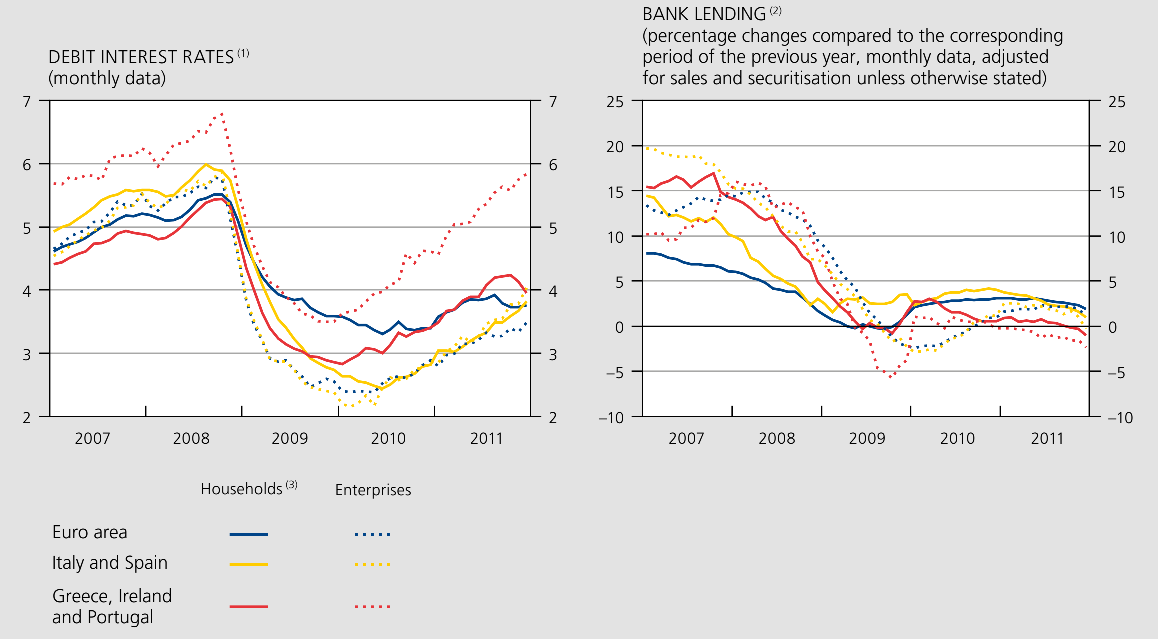
On 15 September, it was decided to conduct three additional liquidity-providing operations at three months in US dollars, in October, November and December 2011 respectively. Such operations already existed on a weekly basis, but in view of the increased difficulty for euro area credit institutions to obtain funding in dollars, it was deemed necessary to offer longer-term loans.

Box 2 – The recent transmission of monetary policy in the euro area

The contagion effects of the sovereign debt crisis had a direct impact on the balance sheets of banks in the euro area and weakened their liquidity and solvency positions. In these circumstances, the banks tended to limit lending and pass on the increase in their own funding costs in the interest rates on loans to households and non-financial corporations. Given the traditional national bias in the holding of sovereign bonds and the role of interest rates on government paper as a benchmark for setting other interest rates in the economy, this behaviour was particularly apparent in the countries at the heart of the sovereign debt crisis.

Thus, from the first wave of intensification of the sovereign debt crisis in the spring of 2010, there were some divergences in the transmission of monetary policy between euro area countries. For example, since that time, the interest rates on bank loans to both households and non-financial corporations have risen more steeply in Greece, Ireland and Portugal than in the rest of the euro area. They have also risen significantly in Italy and Spain since the summer of 2011, following the very marked contagion of the sovereign debt crisis in those two countries. Regarding the volume of loans, the intensification of the sovereign debt crisis seems to have had a greater restrictive impact in the countries most affected by the financial tensions. The average growth rates of lending to households and non-financial corporations in Greece, Ireland and Portugal followed a negative trend throughout 2010, whereas, at the same time, the growth of lending to the private sector in the euro area as a whole was increasing.

BANK FINANCING OF THE PRIVATE SECTOR IN THE EURO AREA



Sources: ECB, NBB.
(1) Rates offered on new loans, weighted by the amounts of the loans and by the GDP of the respective countries, taking all maturities together.
(2) Weighted by the GDP of the respective countries, data not adjusted for sales and securitisation before February 2010.
(3) Only interest rates on loans for house purchase.

The funding problems of credit institutions as a result of the sovereign debt crisis are not the sole cause of these developments, however. The weak growth of loans to the private sector in a number of countries in difficulty also reflects the general lack of confidence among economic agents and the sluggishness of economic activity. Moreover, it often compensates for past excesses which gave rise to a high level of debt in the private sector. As regards interest rates, some developments may also reflect the borrowing practices of the economic agents. For example, a higher propensity on the part of households or non-financial corporations to borrow at variable interest rates amplifies fluctuations in average rates, in both directions. In that respect, the wider variations in interest rates on loans to households in Italy and Spain must be interpreted with caution.

The sovereign debt crisis is a major challenge for the correct transmission of monetary policy in the euro area. In order to safeguard that transmission, the Governing Council set up a Securities Markets Programme in May 2010. It should be noted that while this programme has limited the effects of the sovereign debt crisis on the rest of the economy, it does not remove the causes, which should primarily be addressed by countries themselves.

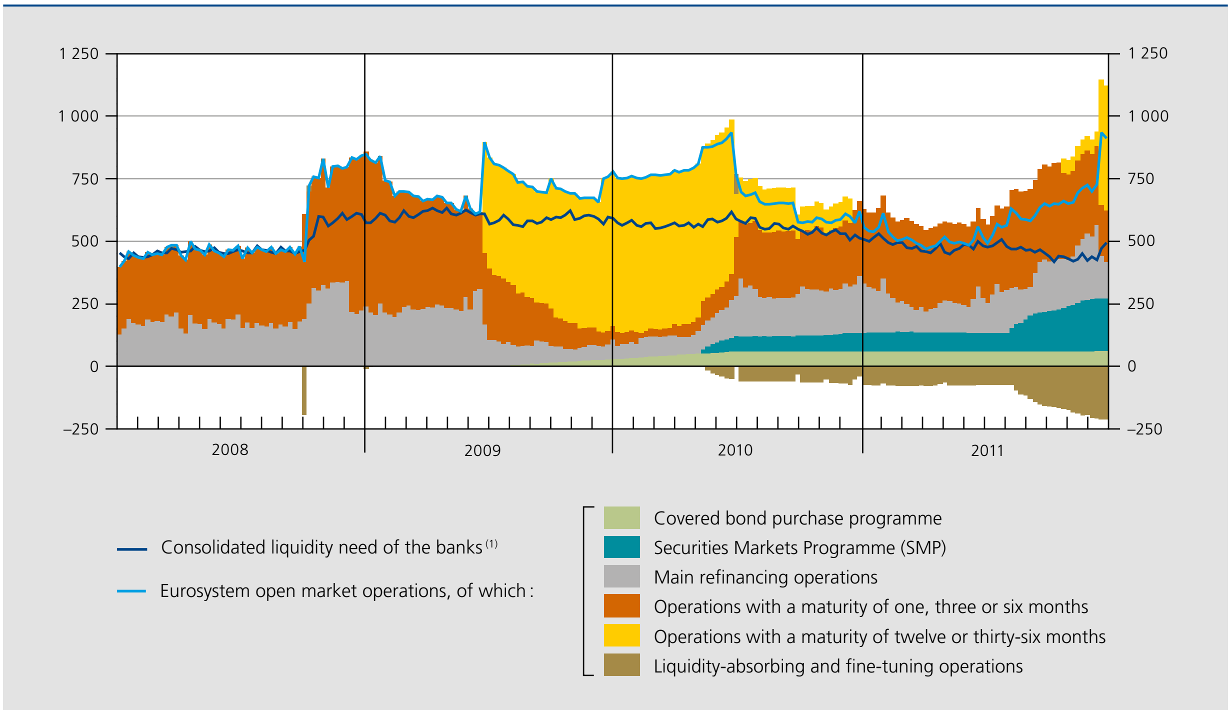
In October, the Governing Council adopted a substantial package of new non-conventional measures. First, it decided to conduct two additional longer-term operations, one in October with a maturity of twelve months, and one in December for thirteen months, according to a procedure granting full allotment of the tenders at the average interest rate applied to the main refinancing operations throughout the term of the operations. The aim of this extension of the term for providing liquidity was to mitigate the banks' uncertainty over funding and thus encourage them not to stop lending to the economy. Next, the Governing Council announced that, until mid-2012, all refinancing operations would continue to be conducted with full allotment of the tenders and at a fixed interest rate. Finally, it was agreed to launch a second programme for the purchase of covered bonds. These securities were targeted because they represent a substantial source of funding for banks in the euro area, and the conditions on that market are thus a vital determinant of the banks' ability to lend to their customers. While the first purchase programme had led to the acquisition of a portfolio of covered bonds totalling € 60 billion between July 2009 and June 2010, the new plan made provision for purchases totalling € 40 billion over a one-year period beginning in November 2011.

On 30 November, the Bank of Canada, the Bank of England, the Bank of Japan, the ECB, the Federal Reserve and the Swiss National Bank announced a coordinated move to ease the tensions on the financial markets and thus moderate their influence on the supply of credit for the private sector. The central banks decided on a 50-basis-point cut in the interest rate applied under the existing temporary mutual currency exchange system (swaps in US dollars) to align it with the rate on overnight swaps (OIS) in dollars plus 50 basis points. The corresponding swap agreements were extended until 1 February 2013. In addition, the ECB and three other central banks will continue to grant three-month loans in dollars. Finally, as a precaution, it was decided to arrange temporary bilateral agreements concerning currency swaps, so that liquidity could be supplied in each territory in each currency if market conditions so required.

At its 8 December meeting, the Governing Council adopted a new series of non-conventional measures, as part of its continuing efforts to support bank liquidity and to facilitate the operation of the euro area's interbank market. First, it decided to conduct two longer-term refinancing operations with a maturity of 36 months, in December 2011 and February 2012, in accordance with the procedure for full allotment of the tenders, at the rate corresponding to the average interest rate on the main refinancing operations conducted during their respective terms. In order to give the banks more flexibility, these operations were also accompanied by an early repayment option after one year. The first operation, conducted in

CHART 23 CONSOLIDATED LIQUIDITY NEED AND EUROSYSTEM OPEN MARKET OPERATIONS (1)

(outstanding amounts at the end of the week, in € billion)



Source : ECB.

(1) Liquidity need due to "autonomous factors" such as demand for banknotes and reserve requirements. The difference between Eurosystem open market operations and this liquidity need is the liquidity surplus or deficit (–) on the money market. That corresponds to the net use of the standing deposit and marginal lending facilities by the banks, plus excess reserves.

December, replaced the 13-month operation announced in October, while banks were offered the option of transferring to this 36-month operation the whole of the amounts allotted under the 12-month operation conducted in October. This resulted in the allotment of € 489.2 billion and generated a net injection of liquidity in the order of € 210 billion. Next, the Governing Council wanted to extend the list of eligible collateral for the Eurosystem loans by lowering the rating threshold required for certain asset-backed securities (ABS) and allowing national central banks to accept as collateral bank loans which met specific eligibility criteria. Thirdly, the reserve ratio was cut from 2 to 1 % from the reserve maintenance period beginning on 18 January 2012, reducing the credit institutions' consolidated liquidity need and freeing up some of the assets that can be used as collateral for Eurosystem loans.

All these non-conventional monetary policy measures are intended to underpin financial intermediation in times of severe market tension. However, they do not offer a permanent solution to the financial problems facing countries or credit institutions. On the contrary, in the long term, they may have perverse effects in that, for the stakeholders concerned (banks and governments), they reduce the incentive to embark on the necessary balance sheet consolidation. Moreover, still in the long term, such measures combined with an accommodating monetary policy stance may fuel excessive risk-taking by economic agents and therefore have adverse effects on growth and price stability. Although these measures deal with some distortions, they are thus liable to create others if they are maintained for too long. In this connection, the Governing Council constantly reiterated that the measures were, by definition, of an exceptional and temporary nature.

3. Activity and the labour market

Up to the start of the year under review, the Belgian economy proved relatively resilient to the global economic and financial crisis. In the first quarter of 2011, growth remained vigorous. It subsequently weakened, and GDP, which increased by an average of 1.9 % year-on-year, was slightly down in the second half of the year compared to the first half. Similarly, employment expanded by an annual average of 56 000 units, but job creation ceased during the year. Unemployment declined from 8.4 to 7.3 % of the labour force. The steepest fall occurred in Flanders, which had recorded the biggest increase in 2009. The household savings ratio rose on account of the uncertainty caused by the sovereign debt crisis in the euro area, depressing consumption expenditure. Business investment remained fairly robust. Conversely, the growth of exports of goods and services slowed by more than the growth of imports. As a result of these developments and the deterioration in the terms of trade, net lending by Belgium to the rest of the world diminished.

3.1 Economic activity and employment

In 2011, the international economic and financial environment again exerted a strong but contrasting influence on the Belgian economy. At the beginning of 2011, activity continued to pick up in line with the recovery which had begun in mid-2009 : year-on-year growth in the volume of GDP, which had averaged 2.3 % in 2010, rose further in the first quarter of the year under review to reach 2.9 %. In the second quarter, growth flagged slightly, as was also the case in most other euro area countries, before weakening considerably in the second half of the year at the time of the marked deterioration in the business climate. Despite a vigorous start, real GDP growth thus averaged 1.9 % in 2011.

After a decline in activity which had been less sharp in Belgium than in Germany or the Netherlands in late 2008 and early 2009, the strong recovery phase propelled GDP from the first quarter of 2011 beyond the level recorded three years previously, before the start of the global recession. Of the three main neighbouring countries, only Germany is at the same stage. France and the Netherlands have yet to make good part of the lost activity, and GDP for the euro area as a whole in the third quarter of 2011 was still 1.7 % below the peak reached in the first quarter of 2008. From that point of view, the Belgian economy therefore proved relatively resilient during the first episode of the financial crisis and the economic recession of 2008-2009.

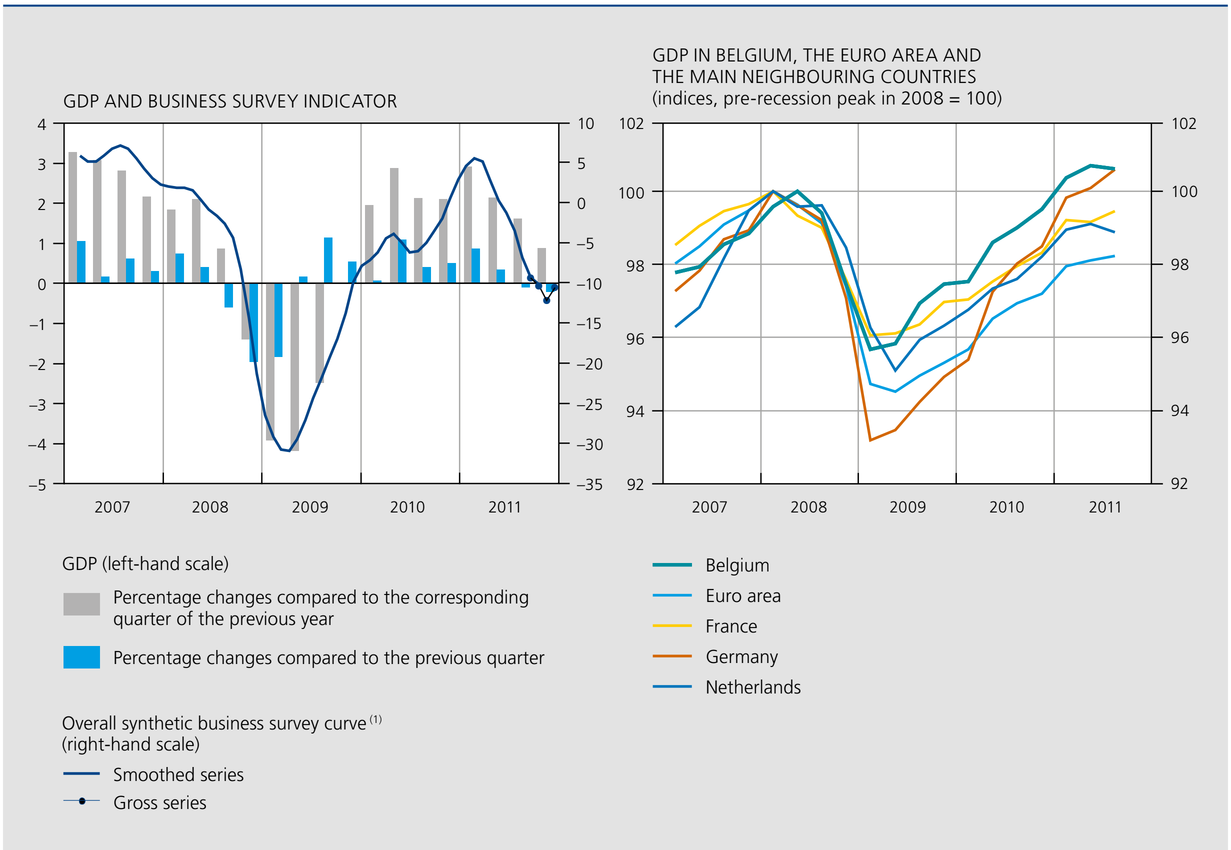
Much the same applies to national employment, since the 1.2 % rise in the number of persons in work in 2011, on top of the previous year's 0.8 % increase, could hardly be compared with the 0.1 % fall in 2009. In particular, thanks to the dynamic activity up to the spring of the year under review, employment expanded by around 32 000 units in the first half of 2011. However, the pace of job creation subsided during the year. It is estimated that more than 4 000 jobs were lost in the second half of the year as a result of weakening activity.

Reasons for the fairly satisfactory performance regarding activity and employment between 2008 and mid-2011 include, among others, the generally sound financial position for households and businesses and the absence, during that period, of any structural adjustments like those which other European countries experienced regarding the property market, public finances or the general competitiveness of the economy. However, that finding needs to be nuanced in various respects.

First, it should be noted that the government continued to provide substantial support for job creation, as it had

CHART 24 GDP IN BELGIUM

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



Sources: EC, NAI, NBB.
(1) Balance of replies to the monthly survey, non calendar adjusted data.

already been doing. In that regard, it acted either directly, by expanding the workforce in government services or in branches heavily dependent on public funding, such as health, or indirectly by means of subsidies for certain types of jobs in the private sector, including under the service voucher system. These measures, described in detail in section 3.2, are a burden on public finances.

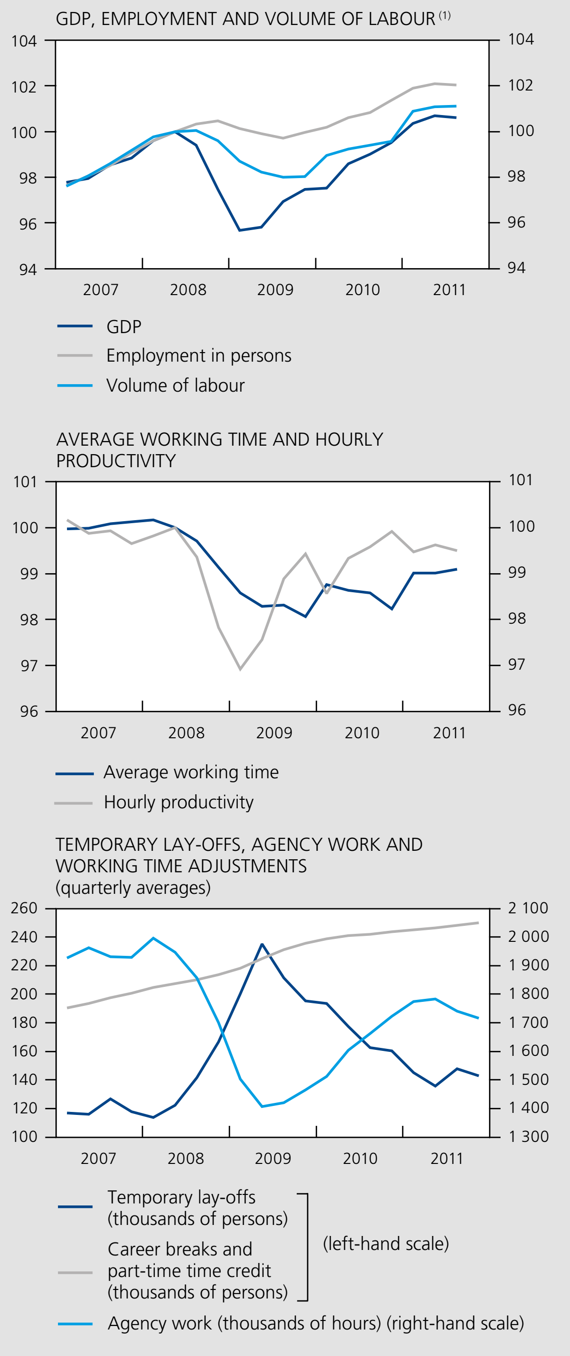
Next, the stronger employment growth in 2011, in line with the previous year, was accompanied by a relative stagnation of the implicit working time per person and apparent labour productivity. By falling sharply in late 2008 and early 2009, these two variables had done much to cushion the impact of the recession on employment. Their subsequent recovery was limited, in the light of the vigorous upturn in economic growth.

In 2010 and 2011, the volume of labour in fact only expanded slightly more strongly than employment, indicating that the increase in working time per person was modest, at 0.2 % in 2010 and 0.4 % on average over the first three quarters of 2011, whereas it had fallen by 1.4 % in 2009. Following a steady decline which had begun in mid-2009, coinciding with the economic recovery, the use of temporary lay-offs reverted to a level close to its long-term average in the first half of 2011. However, it increased again in the third quarter owing to the deterioration in economic conditions. More structural factors also depressed the average working time, such as the increase in the proportion of part-time jobs and the success of the working time adjustment measures.

Part-time time credit is the commonest method of adjusting working time; it is particularly popular with workers over the age of 50. Part-time leave for specific purposes (parental leave, medical assistance and palliative care) also gained in importance, with an increase of 18 % in 2010 and 3 % in 2011, notably because various provisions made parental leave more attractive in both the public and the private sector. Regarding new jobs, the service voucher system continued to contribute to the creation of jobs which correspond, on average, to half-time working.

CHART 25 GDP, EMPLOYMENT, WORKING TIME AND TEMPORARY LAY-OFFS

(data adjusted for seasonal and calendar effects, indices 2nd quarter of 2008 = 100, unless otherwise stated)



Sources: Federgon, NAI, NEO, NBB.

(1) Total hours worked, i.e. the sum of the volume of labour by employees as published by the NAI and the estimated volume of labour by self-employed persons.

Another 12 000 extra jobs were created by this system in 2011, while 14 000 had already been added in 2010. According to the NEO data, more than 88 % of workers employed under this system worked part-time in 2010. Agency workers, who generally carry out short-term assignments involving a smaller volume of work than a full-time job on an annual average, also contribute to this rise in part-time employment. From the second quarter of 2010, there has been a strong year-on-year rise in agency employment. However, that expansion slowed from the second quarter of 2011 because agency work responded faster than other forms of employment to the deteriorating economic climate.

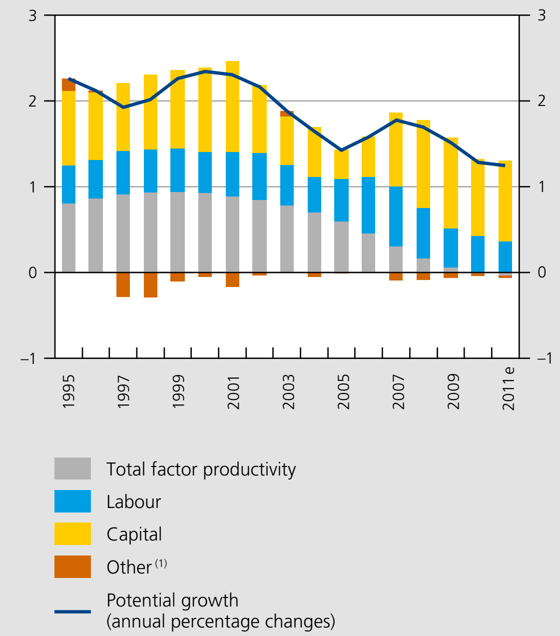
Furthermore, the relative resilience of employment during the crisis was accompanied by substantial falls in apparent productivity in firms. After gaining 1.2 % in 2010, hourly productivity in the economy as a whole increased by only 0.4 % in the first three quarters of the year under review, while it had barely regained its pre-crisis level. Since this variable exhibits an upward trend, its growth was meagre in historical terms. This modest rise in 2011 was due to labour hoarding on the part of employers. In the light of the slowdown in activity which, in the first half of 2011, was seen as less intense and potentially of shorter duration than the 2008-2009 recession, firms again preferred to retain their staff in view of the problems they would probably face in finding skilled workers. In addition, employment support in the form of measures encouraging the recruitment of low-skilled workers and job creation in services with low productivity were contributory factors here.

The rise in apparent labour productivity was already weakening during the boom years which immediately preceded the great recession. In general, that is in line with a downward trend in the potential growth of the economy, largely attributable to the movement in what is known as total factor productivity (TFP). Estimated indirectly, so readings are somewhat uncertain, this variable reflects the efficiency with which labour and capital are deployed in the production process for the economy as a whole.

The financial crisis and the economic recession of 2008-2009 revealed and intensified the decline in TFP – partly because the abrupt restructuring of certain activities creates adjustment problems – and there is as yet no sign of any improvement. Consequently, potential growth declined further in 2009 and 2010, stabilising at a level which the Bank estimated at 1.3 % in 2011, a figure similar to the estimates of other institutions. Boosting the economy's growth potential entails increasing the employment rate and stimulating innovation in terms of products and production processes, notably by encouraging entrepreneurship and facilitating the entry of new players.

CHART 26 ESTIMATE OF POTENTIAL GROWTH IN BELGIUM

(contributions to potential growth, percentage points, unless otherwise stated)



Source: NBB.

(1) Public sector value added, approximated by wages and pensions in this sector.

The strengthening of domestic demand, driven in particular by investment, and the gradual weakening of international trade led to a shift in the growth of activity during the first half of the year under review, from the branches most dependent on global demand to those focusing more on the domestic market. While the growth of value added had been stronger in industry than in the other branches in 2010, as is usual in an economic recovery driven mainly by foreign demand, the expansion of domestic demand subsequently led to a revival in activity in services. Against that backdrop, the contribution of market services to year-on-year growth of value added increased from 25 % in the second half of 2010 to 43 % in the first half of 2011. At the same time, industry's contribution to growth dropped from 48 to 28 %.

This shift in the sources of growth during the revival of activity was accompanied by specific developments in employment and productivity in the various branches.

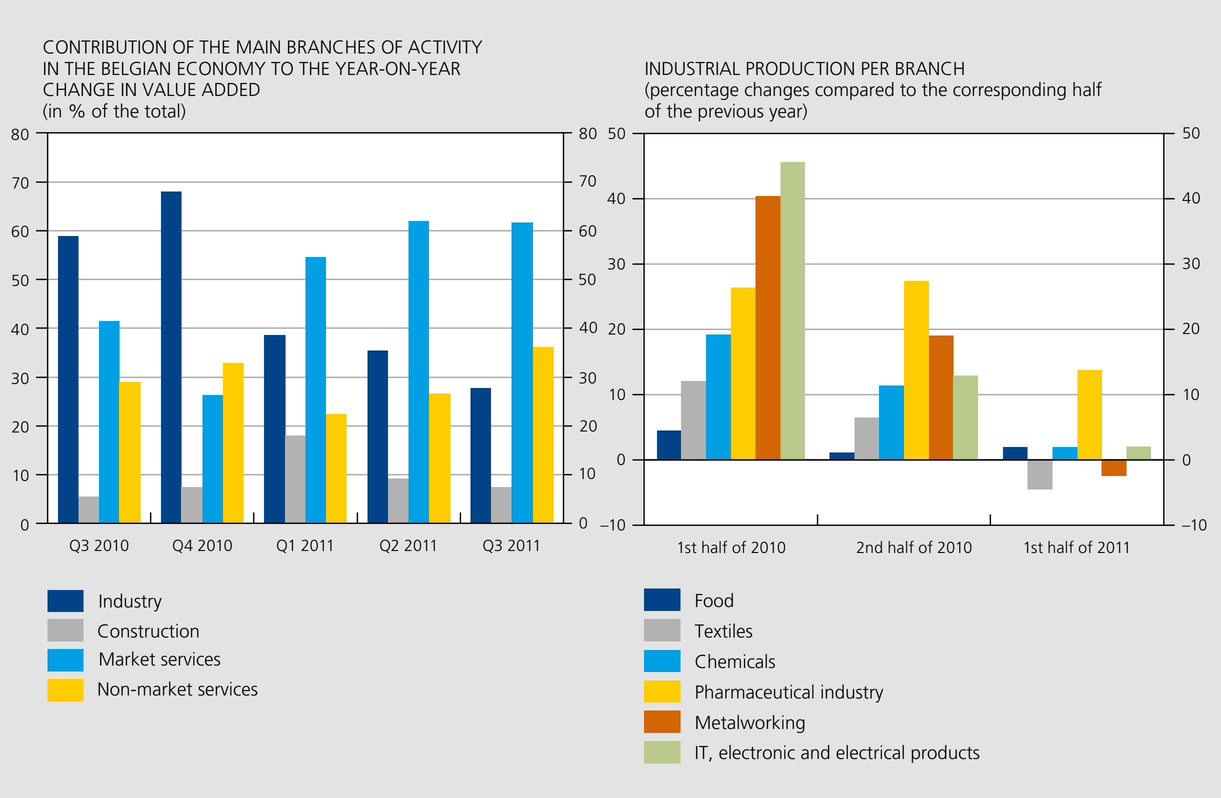
In market services, year-on-year growth of value added during the first two quarters of the year under review came to 2.2 %, thus exceeding the average figure of 1.6 % recorded in 2010. From the first quarter of 2011, this consolidation restored activity to a level comparable to that prevailing before the recession. Paid employment displayed a similar acceleration, growing by an average of 2.4 % over the first two quarters of 2011, against 1.5 % in 2010. Conversely, the hours worked per person – which had not risen in 2010 – declined again in the first half of 2011, indicating the expansion in part-time jobs in this sector, where accommodation and food service activities and agency work are strongly represented. There was no significant change in hourly productivity during this period.

Following a strong revival in 2010, trade in the advanced economies lost momentum, and that depressed the dynamism of industrial activity from the first half of 2011. Year-on-year growth of value added dropped from 6.3 % in the final quarter of 2010 to 3.8 % in the second quarter of 2011. This weakening of growth occurred in all branches of industry. However, the impact was less acute in the pharmaceutical industry, which has a stronger research and development focus. According to the industrial production statistics, the annual growth rate in the first half of the year under review was lower compared to the previous year in the pharmaceutical industry, but at 13.7 % it compares favourably to the 4.5 % drop in output in the textile industry and the 2.4 % decline in metalworking. Value added of industry in the second quarter of 2011 – i.e. nine quarters after the low point in 2009 – was still 4.9 % below the peak attained before the great recession. To a greater extent than in other branches, the recovery led to a strong rise in productivity, with annual growth of 5.1 % in 2010 and 3.1 % in the first half of 2011, bringing it to a level well in excess of that prevailing before the recession. The fierce competition in this branch, which is internationally very open, explains this rapid restoration of productivity to its trend path following the shock in 2009. At the same time, the average working time per person returned to normal as the strengthening of activity permitted reductions in temporary lay-offs. However, the use of temporary lay-offs did increase again somewhat during 2011. Taking account of the developments concerning productivity and implicit working time, paid employment continued to shrink: after a 3.2 % decline in 2010, it contracted by a further 0.2 % over the first three quarters of the year under review.

In construction, following a difficult start to the year in 2010 owing to a severe winter, activity continued to pick up at a modest pace for the rest of that year. This revival gathered strength in the first quarter of 2011, as value added was then up by 1.7 % against the previous quarter. This phase of strengthening activity was supported by temporary measures under the economic recovery plan, which triggered a sharp rise in applications for building

CHART 27 VALUE ADDED OF THE MAIN BRANCHES OF ACTIVITY

(data adjusted for seasonal and calendar effects)



Sources: DGSEI, NAI.

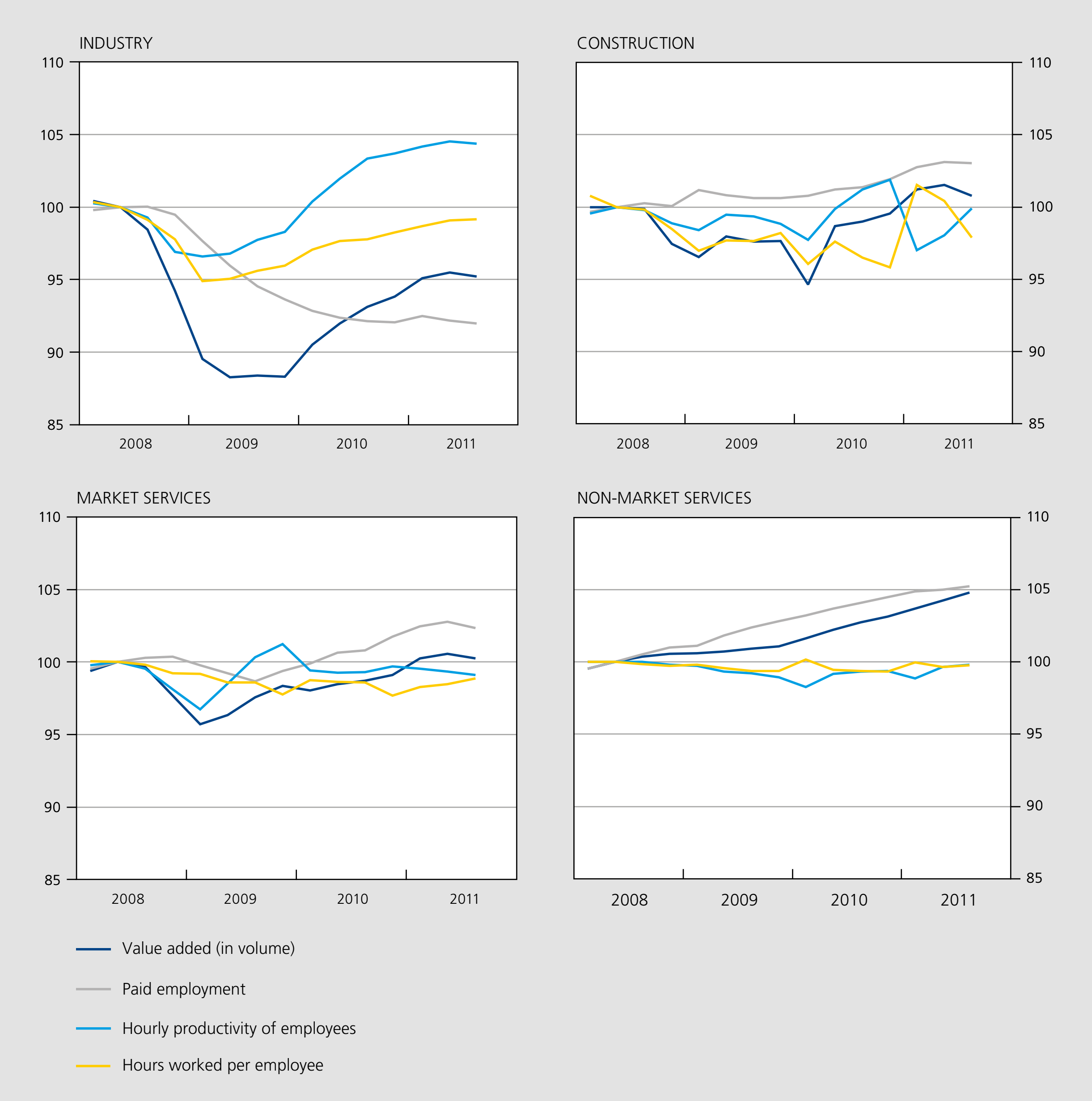
permits in the initial months of 2010, followed by a corresponding increase in housing starts. These measures included a temporary reduction – up to the end of 2010 – in the VAT rate applied to a € 50 000 tranche on new building, provided the building permit application was submitted before 1 April and the work was invoiced before the end of the year. However, in view of the weather during the winter of 2010-2011, the tax authorities agreed that invoicing could be postponed until the beginning of 2011, which helped to support activity in the first quarter. In these circumstances, the sector regained its pre-crisis level of activity from then on. Paid employment in construction increased steadily in 2010 and in 2011, resulting in annual growth reaching 1.8 % in the first three quarters of the year under review. Given the nature of construction activities, the use of temporary lay-offs is crucial to the organisation of the work. It increased significantly during the last two quarters of 2010, then declined sharply in the first quarter of the year under review. These fluctuations, due to weather conditions, account for the high quarterly volatility of productivity and working time in this sector.

Finally, non-market services – defined here in the broad sense since they include general government, education, health care, social work and other services, thus representing almost a quarter of the value added of the economy as a whole – are much less influenced by the business cycle. Activity continued to grow at an annual rate similar to that in the previous year, averaging around 2 % in the first half of 2011. This growth was not accompanied by significant changes in individual working time, and productivity made only a meagre gain in 2011, so that the main impact was on employment, which expanded by an average of 1.8 % in 2010 and 1.3 % over the first three quarters of 2011.

By mid-2011, after a recovery phase lasting two years, the main apparent effects of the recession on activity and employment had therefore faded away. Nonetheless, the effects had not yet been entirely absorbed when the economic climate suddenly deteriorated. It had begun to weaken gradually during the spring, against the backdrop of the global slowdown; it then deteriorated more sharply from the summer, owing to the escalating tension on the

CHART 28 VALUE ADDED, PAID EMPLOYMENT, HOURLY PRODUCTIVITY AND HOURS WORKED PER EMPLOYEE IN THE MAIN BRANCHES OF ACTIVITY

(data adjusted for seasonal and calendar effects, indices 2nd quarter of 2008 = 100)

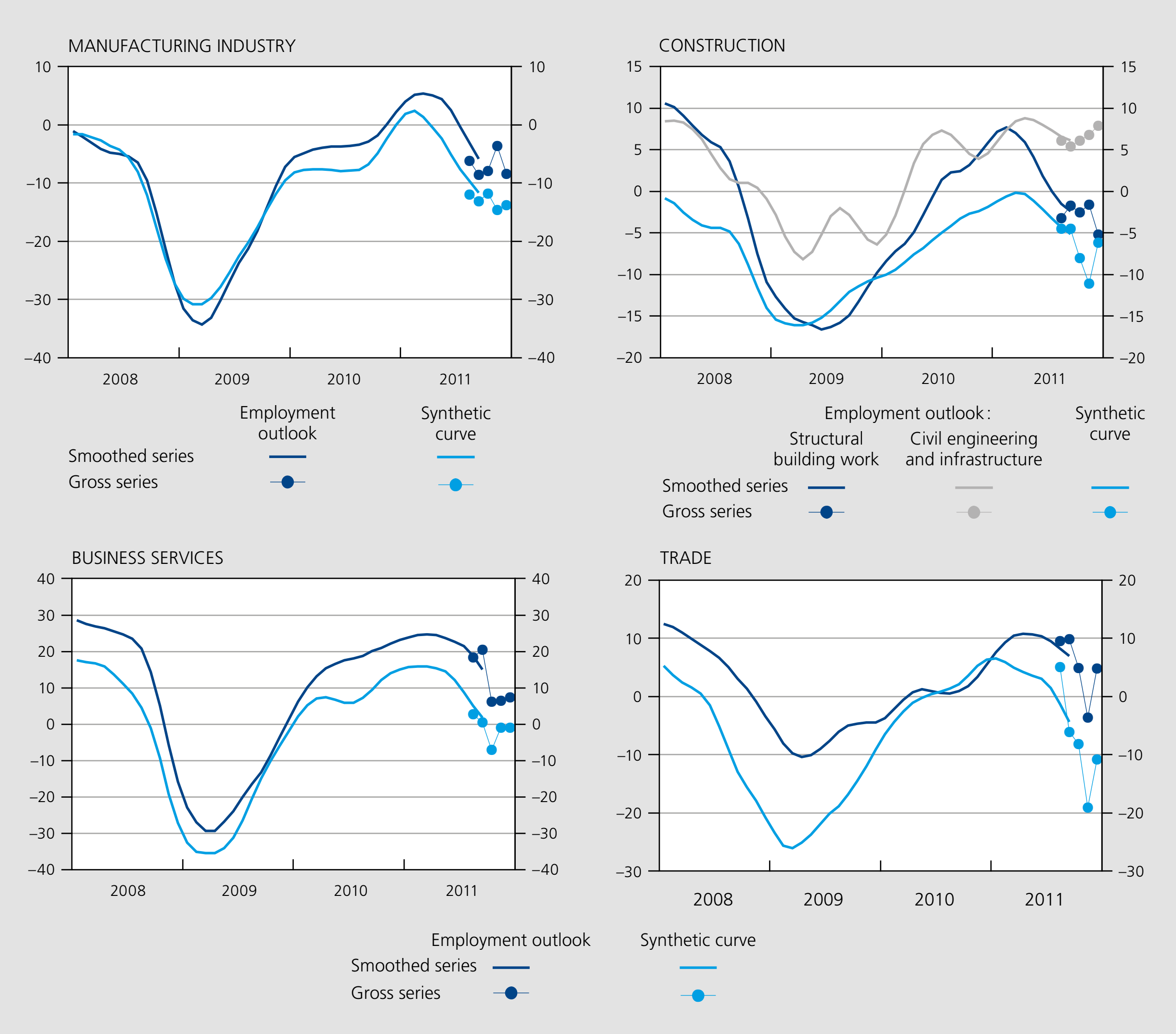


Source : NAI.

markets in government debt securities in the euro area, and political uncertainty in Belgium. Within a few months, the Bank's synthetic business survey indicator thus recorded a steep fall, dropping rapidly below its long-term average. This fall gradually became evident in all branches of activity.

In manufacturing industry, the general business climate weakened from the early spring. Between March and August 2011, the synthetic curve declined from a figure well above its long-term average to a lower level, though without dropping to the low points of the last recession. This deterioration is due partly to the less optimistic view of foreign orders, in a context of an increasingly sharp slowdown in trade. Also, the renewed uncertainty during the summer had a serious impact on the outlook for demand during the second half of the year, accentuating the decline in the synthetic indicator and causing employment forecasts to be downgraded.

CHART 29 BUSINESS SURVEY INDICATORS FOR THE MAIN BRANCHES OF ACTIVITY
(seasonally adjusted data)



Source : NBB.

The deterioration in the economic situation also became apparent, but far more gradually, in the sectors focusing more on the domestic market. In trade, the reversal of confidence occurred in two stages. The synthetic curve recorded an initial decline in the spring : it seems that traders, taken by surprise at the beginning of the year by private consumption figures well below expectations, felt obliged to downgrade the outlook for sales in the second quarter. At the end of the summer, the curve declined more steeply owing to a slump in demand prospects, a sign of the seriousness of the shock caused by the sovereign debt crisis and its contagion affecting the real sphere of the Belgian economy. In the last quarter of the year under review, there was a downturn in the outlook for employment in trade.

Business services, where activity depends both on expansion in industry and on the dynamism of the domestic market, did not escape the deterioration in the general business climate. Although the indicators initially declined more moderately and more slowly than in industry, that fall became much more marked during the summer in parallel with the steeper decline in the indicators for trade. The prospects for employment in business services, which include agency work, likewise deteriorated during the second half of the year.

In the construction sector, there were two specific factors which had an adverse effect on output in the second half of the year. First, after having benefited from the

Box 3 – The deterioration in the business climate in 2011 in a historical perspective

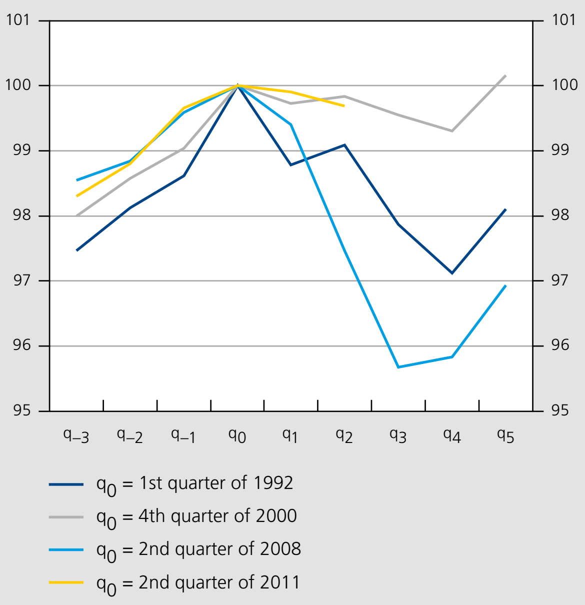
The business indicators obtained from the Bank's monthly surveys showed a marked fall in 2011, reflecting a sudden deterioration in the economic situation. To assess its intensity, this box compares the movements in the indicators to those seen during phases of weak activity in the past two decades. The analysis concerns the movement in the monthly synthetic indicator of the four main branches of activity – namely manufacturing industry, trade, business services and construction – during the period around the time when GDP peaked before the onset of the recession. In the past twenty years, such peaks have occurred in the first quarter of 1992, the fourth quarter of 2000 and the second quarter of 2008. In 2011, a peak was reached in the second quarter.

Such a comparison makes it possible to assess the current downturn from a historical perspective and to draw certain conclusions about the state of the economy at the end of 2011. The first point to be made is that each phase of weakening activity has specific characteristics, both in terms of duration and intensity, and as regards the causes. Judging by the scale of the fall in GDP, the great recession of 2008-2009 was obviously the most severe, and the 1992-1993 recession was more marked than that of 2001. In 2011, estimates indicate that the fall in GDP moderated in the second half of the year. To some extent, the monthly business survey indicators available up to January 2012 permit an assessment of how this movement will develop, but it must be remembered that they can only offer very short-term predictions.

The weakening of the synthetic curves in 2011 followed a profile similar to that seen in the first phase of the recession in 2008, especially in industry and business services. In those two branches, during the second and third quarters of 2011, the synthetic indicator declined just as steeply as during the corresponding period of

GDP DURING RECESSIONS

(volume indices, quarter preceding the contraction of GDP = 100 ; data adjusted for seasonal and calendar effects)

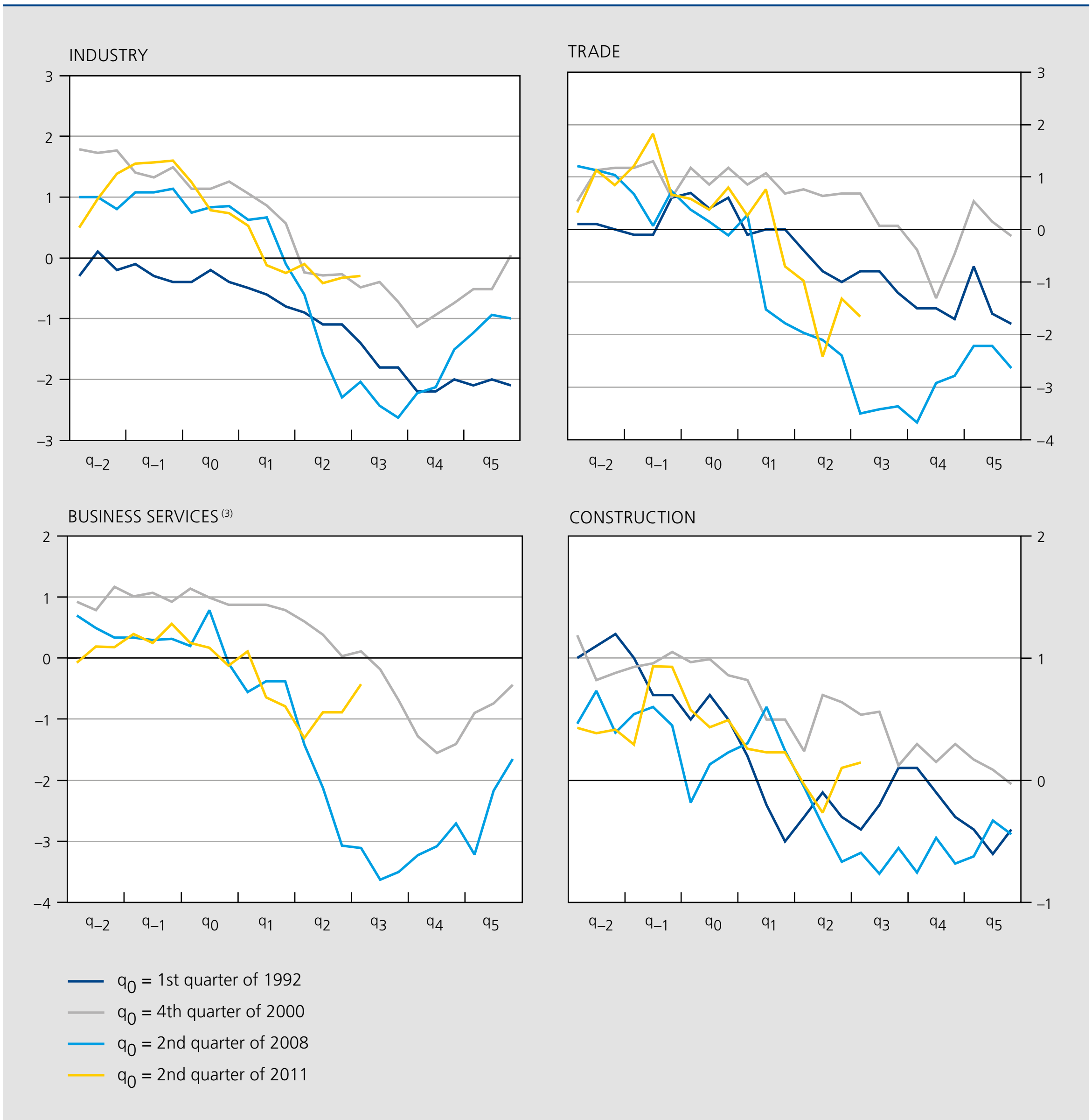


Source : NAI.

2008. However, during that episode, the indicators fell very sharply in the fourth quarter, owing to the partial paralysis of international trade and to firms' efforts to cut their costs during the recession – including the costs of subcontracting. There was no such fall during the fourth quarter of 2011.

In contrast, the deterioration in business activity in the final quarter of 2011 seems to have been as marked as at the end of 2008 in the branches more directly concerned with households, namely construction and, above all,

SYNTHETIC CURVES OF THE FOUR MAIN BRANCHES OF ACTIVITY OF THE BELGIAN ECONOMY (1)
(standardised monthly data (2))



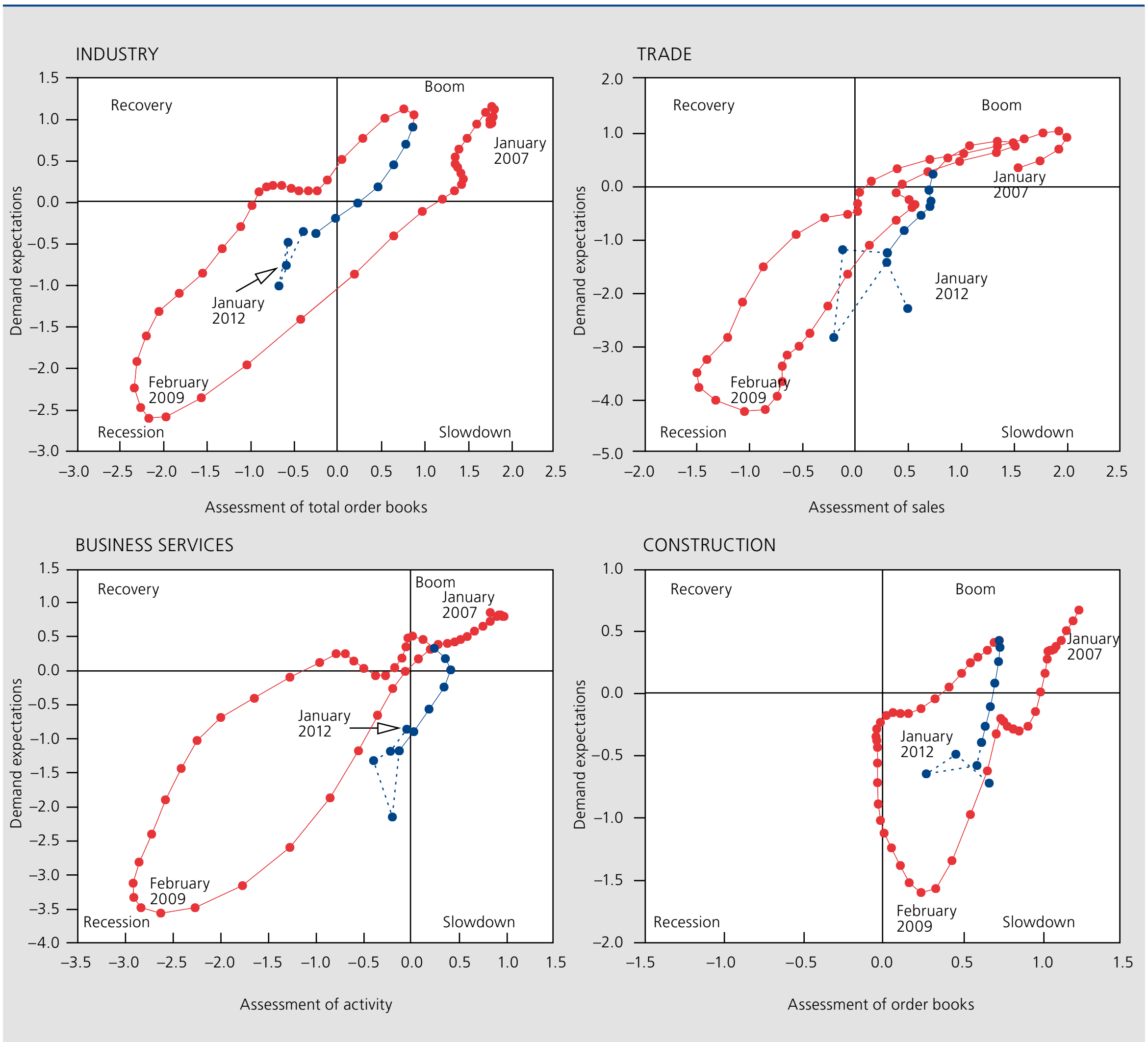
Source: NBB.
(1) The charts begin six months before the peak (q_0) of GDP preceding the recession, namely in July 1991, April 2000 and October 2007 respectively. For the current period, the series begins in October 2010.
(2) Original gross series, reduced by their average and divided by their standard deviation.
(3) Indicators for business services are only available from 1995 onwards.

trade. This difference between the sectors illustrates the more internal character of the causes of the economic downturn, namely the mounting uncertainty caused by the sovereign debt crisis and the anticipated impact of fiscal consolidation.

The "business cycle clock", which can identify the current phase of the economic cycle by distinguishing between recessions and booms, or between a slowdown and a recovery, partly confirms the seriousness of the deterioration in the business climate in 2011. Comparison of the qualitative data on the three-month outlook for demand with the data on the assessment of order books reveals that industry, business services and trade entered a phase of weak activity at the end of the summer of 2011.

BUSINESS CYCLE CLOCK FOR INDUSTRY, TRADE, CONSTRUCTION AND BUSINESS SERVICES

(standardised (1) and seasonally adjusted monthly data)



Source: NBB.

(1) Original series reduced by their average and divided by their standard deviation. The data points are based on the smoothed series relating to the questions on "demand expectations" and "assessment of the total order book and/or sales". From October 2011, the data points were obtained from the gross series (dotted line in the chart).

Although this transition is unmistakeably depicted by the business cycle clock, the decline in the indicators up to the end of 2011 did not equal that in 2008-2009. In fact, the deterioration in the assessment of order books or sales was more moderate, as was the downgrading of the outlook for demand. However, even though the indicators did not fall to historically low levels, the speed and scale of their decline was remarkable.

favourable effects of the temporary measures under the recovery plan, which had made a strong contribution to the expansion of activity in 2010 and at the beginning of 2011, construction firms then felt the repercussions of the abolition of those measures. Second, the construction sector – in common with all other branches of the economy – had to contend with the general deterioration in the business climate and the economic prospects. Under these conditions, the situation in construction deteriorated sharply from the summer. This trend mainly concerned structural building work, particularly housing. Conversely, the civil engineering and road building sector was relatively unscathed, notably as a result of the support provided by local authority investment. This dichotomy is also borne out by the forecasts for employment for the final quarters of 2011, which indicate a steep fall for the structural building work sector, in contrast to activities concerning civil engineering and road infrastructure.

From the third quarter, the cyclical downturn as perceived by business leaders was actually reflected in a weakening of activity, though it was fairly limited according to the statistics which directly measure output. Thus, GDP contracted by 0.1 % quarter-on-quarter, ending nine consecutive quarters of expansion. The decline was actually more marked in industry and construction, since valued added was down by 0.3 and 0.8 % respectively in those sectors. In services, activity stabilised, as the 0.3 % dip in the value added of market services was offset by the continuing expansion of activity in the non-market services sector, which came to 0.5 %.

According to the estimate for the fourth quarter, activity declined by a further 0.2 %, thus taking the Belgian economy into recession.

3.2 Labour supply and demand

On average over the year, domestic employment expanded by 56 000 units in 2011, or almost one and a half times the net job creation recorded in 2010, whereas in 2009, during the great recession, job losses had totalled 8 000. The number of employees increased by 46 000 units, and the number of self-employed workers was up by almost 10 000.

However, it must be stressed that a large proportion of these new paid jobs benefited in one way or another from government financial support, *inter alia* under the policies in favour of various population groups who are not employed under normal remuneration conditions. For instance, there is the steady expansion in the number of workers – in this case mainly low-skilled female workers – employed under the service voucher scheme, and the increase in the number of new employment contracts supported by activation of the Win-Win plan. This measure, introduced in June 2010, specifically targets young unemployed people with low skills, jobless persons over the age of 50 years, and the long-term unemployed. It has two components : first, the unemployment benefit for job-seekers continues for a maximum of twelve months, the employer being able to cut the new employee's remuneration by a corresponding amount ; the second component is a reduction in the employer's social security contributions. At the end of 2010, around 30 000 contracts had been concluded under the Win-Win scheme. By December 2011, that number had risen to 54 000. Firms in the health and social work branches, where activity is largely supported by government funding, also made a major contribution to the expansion of employment. In 2011, their workforce had grown by 19 000 persons, thus continuing a trend which still persisted at the height of the recession. Conversely, employment in general government and in education was down slightly in 2011, by 2 000 persons, for the first time since 1997.

The renewed growth in the number of self-employed persons, following the significant slowdown in 2009, was confirmed in 2011. As has already been seen in the past, this trend was probably supported by the entry in the trade registers of residents from the new EU Member States. In this instance, it was Bulgarian and Romanian nationals – whose countries joined the EU in 2007 – who were thus able to circumvent the obligation to hold a work permit in order to be employed in Belgium. This transitional rule, which derogates from common European law, is intended to avoid disrupting the balance

TABLE 3 LABOUR SUPPLY AND DEMAND

(annual averages; changes, unless otherwise stated; in thousands of persons)

	2007	2008	2009	2010	2011 e	*p.m. 2011 e, level* (1)
Population of working age (1)	70	62	50	46	39	*7 210*
Labour force	20	54	44	51	36	*5 171*
National employment	73	80	–6	38	56	*4 626*
Frontier workers	2	1	1	1	0	*79*
Domestic employment	71	79	–8	37	56	*4 547*
Self-employed	7	10	4	6	10	*736*
Employees	65	69	–12	31	46	*3 811*
Branches sensitive to the business cycle (2)	50	46	–36	6	29	*2 385*
General government	7	10	12	7	–2	*799*
Other services (3)	7	13	12	18	19	*627*
Unemployment (4)	–53	–26	51	14	–20	*545*

Sources: FPB, NAI, NEO, NBB.
(1) Population aged from 15 to 64 years.
(2) Agriculture, industry, construction, production and distribution of electricity, steam and air conditioning, water supply, sewerage, waste management and remediation activities, trade, motor vehicle and motorcycle repairs, transportation and storage, accommodation and food service activities, information and communication, financial and insurance activities, real estate activities, specialist, scientific and technical activities, and administrative and support service activities.
(3) Human health and social work and other service activities.
(4) Unemployed job-seekers, comprising totally unemployed persons claiming benefits (except older unemployed persons not seeking work), and other job-seekers registered on a compulsory or voluntary basis. Employees of the local employment agencies who are already included in employment are excluded from this total.

on the labour market of the old Member States. Initially applicable until the end of 2011, it was extended to the end of 2013. The same phenomenon had been seen up to May 2009 in the case of Polish nationals and nationals of the other Member States which had joined the EU in 2004. In the year preceding that accession, there were thus 1 400 Polish self-employed workers in Belgium; in 2009, when the transitional measure applicable to them expired, the number was 7 500. Since then the number has remained stable overall. In 2010, almost 12 000 self-employed workers came from Bulgaria or Romania, compared to just under 2 700 in 2006. Like the self-employed Poles before them, they work mainly in the construction sector. Overall, while their numbers grew rapidly, they were few in proportionate terms since only 2.7 % of self-employed workers came from one of the twelve new EU Member States in 2010. In comparison, nationals of the other EU countries excluding Belgium accounted for 5.6 % of self-employed workers in 2010.

Over the first three quarters of 2011, the employment rate averaged 67.2 % of the 20-64 age group, or slightly below the pre-crisis level and well short of the 73.2 % target to which Belgium committed itself for this age group under the Europe 2020 strategy. Attaining this overall target entails a significant increase in the participation of several population groups currently under-represented on the labour market. Thus, the employment rate of women needs to increase by 8 percentage points to 69.1 % between now and 2020, and that of persons aged from 55 to 64 years should be 50 %, against an average of 38.6 % over the first three quarters of 2011. Furthermore, the gap between the employment rate of non-EU citizens and Belgians needs to fall below 16.5 percentage points, whereas it averaged 28.6 points over the first nine months of 2011. Only 39.9 % of residents who are not nationals of an EU country have a job, putting Belgium at the bottom of the European ranking. This problem particularly concerns the large towns where most of these foreign nationals live.

Although the Belgian labour market proved resilient, the crisis had a more adverse impact on some population groups than on others. There were also considerable variations during the recovery phase, particularly between the sexes. Men, who are more often employed in branches of activity more sensitive to the business cycle, such as industry and construction, suffered a steeper decline in their employment rate during the crisis, with a further 0.5 percentage point fall in 2011, bringing it to 72.8 %. For comparison, the employment rate of women who are strongly represented in the service sectors

TABLE 4 EMPLOYMENT RATE BY CATEGORY

(in % of the population aged from 20 to 64 years, averages for the period)

	2000	2008	2009	2010	First three quarters 2010	First three quarters 2011	Europe 2020 targets
Total	65.8	68.0	67.1	67.6	67.3	67.2	73.2
By sex							
Women	56.0	61.3	61.0	61.6	61.3	61.5	69.1
Men	75.5	74.7	73.2	73.5	73.4	72.8	–
By age							
From 20 to 29 years	66.0	64.5	61.8	61.0	60.7	60.2	–
From 30 to 54 years	76.7	80.5	79.9	80.5	80.2	79.8	–
From 55 to 64 years	26.3	34.5	35.3	37.3	37.2	38.6	50.0
By nationality							
Belgians	67.2	69.1	68.4	68.8	68.6	68.5	–
Nationals of other EU countries	–	65.4	62.4	65.0	64.2	64.7	–
Other	–	42.1	40.9	40.4	41.2	39.9	< 16.5 (1)
By Region							
Brussels	59.7	60.2	59.5	59.2	58.8	58.6	–
Flanders	69.4	72.3	71.5	72.1	71.9	71.6	76.0 (2)
Wallonia	61.1	62.8	61.7	62.2	61.9	62.0	–

Source: DGSEI.
(1) Difference in percentage points between the employment rate of Belgians and that of resident non-EU nationals.
(2) Voluntary target under the "Pact 2020 – Vlaanderen in actie".

dipped only slightly during the great recession and has been rising again since 2010, reverting to its long-term trend. A cohort effect underpins that trend: the youngest groups in the female population are increasingly skilled, and those women are participating in working life to a greater extent and for longer periods. Over the first three quarters of 2011, the female employment rate stood at 61.5 %, or 5.4 percentage points higher than in the corresponding period of 2000. However, it is still around 11 points lower than the male rate.

The breakdown by age shows that the proportion of young people – defined here as persons aged between 20 and 29 years – in employment recorded a further slight fall, averaging 60.2 % over the first three quarters of 2011. While the decline is smaller than during the two preceding years, the employment rate of this age group was nevertheless down by 4.2 percentage points against 2008. Young people thus appear to be the main victims of the crisis. There are various contributory factors which explain this. First, at the start of their working life, they are more likely to be employed under a temporary contract. That applies to a quarter of persons aged from 20 to 24 years, compared to 7 % for the 20-64 age group. Moreover, they have accumulated less specific human capital with their employer, and – if they have a permanent employment contract – the seniority rules taken into account in calculating redundancy pay make the young less expensive to dismiss than their older colleagues. Finally, in a recovery phase, these young people who have become unemployed face competition from newly qualified entrants on the labour market without necessarily being able to claim significant experience. There is therefore a serious risk that the great recession will create a "lost generation". Moreover, the fact that an increasing proportion of young people, especially women, pursue higher education and do not have a job during that period also depresses the employment rate for this age group. To take account of this phenomenon, which makes a positive contribution to future labour market participation and economic growth, the benchmark employment rate defined in the new Europe 2020 strategy applies to people in the 20-64 age group, and not those aged from 15 to 64 as was formerly the case.

On the other hand, the employment rate among the 55-64 age group continued to rise in 2011. Over the first three quarters, the increase averaged 1.5 percentage points compared to the corresponding period of the previous year. That constant growth, including during the recession, is due to various factors, such as the increasing labour market participation of women in this age group, measures to limit the early retirement options and greater use of schemes permitting a gradual reduction in working time for people approaching the end of their career, which encourages them to stay in the labour market to a more advanced age. The employment rate of this age group thus came to 38.6 %, up by more than 12 percentage points compared to the 2000 figure. However, it remained well below the EU average of almost 48 %, and Belgium's target for 2020, which is 50 %.

At regional level, the employment rate of persons in the 20-64 age group remained stable in Wallonia, at 62 %, declined slightly in Brussels to 58.6 %, and also dipped slightly in Flanders to 71.6 %. Flanders is the only Region where the authorities have adopted an employment target in line with the European strategy which aims to see at least three in four Europeans in work by 2020. For Flanders, the target to be achieved by that date is 76 %.

Following the peak in the mid-2000s, the growth in the population of working age, measured by the traditional definition as the 15-64 age group, slowed again in 2011, amounting to 39 000 units, or 8 000 down against 2010. The reduction is due mainly to the dynamics specific to the two extremities of the age pyramid for this population. There is in fact a reduction in the number of persons aged from 15 to 19 years joining the group of working age, and an increase in the numbers leaving that group after the age of 64. Despite a small rise in the participation rate, the growth of the labour force was down slightly against 2010, at only 36 000 persons. The labour force comprises people in work and those looking for a job. The strong expansion of employment brought a fall in unemployment. This was the first year-on-year decline since 2008. According to the NEO statistics, the number of unemployed job-seekers was about 20 000 lower than in 2010. Nevertheless, taking an average over the

TABLE 5 UNEMPLOYMENT BY CATEGORY

(in % of the labour force aged from 15 to 64 years, average for the period)

					First three quarters	
	2000	2008	2009	2010	2010	2011
Total	7.0	7.0	8.0	8.4	8.5	7.2
By sex						
Women	8.7	7.6	8.1	8.6	8.7	7.2
Men	5.8	6.5	7.8	8.2	8.3	7.2
By age						
From 15 to 24 years	17.5	18.0	21.9	22.4	22.8	19.5
From 25 to 54 years	6.1	6.1	6.8	7.3	7.5	6.3
From 55 to 64 years	3.0	4.4	5.1	4.6	4.7	4.3
By educational level						
Lower secondary education or less	11.1	12.5	13.7	15.4	15.2	14.3
Upper secondary education or less	6.8	7.0	8.1	8.2	8.5	6.8
Higher education	3.3	3.6	4.5	4.5	4.5	3.8
By nationality						
Belgians	6.2	6.3	7.1	7.5	7.6	6.3
Other EU nationals	–	9.1	11.0	11.0	11.1	10.6
Other	–	27.4	29.5	30.6	30.8	27.4
By Region						
Brussels	14.0	16.0	15.9	17.4	17.4	16.5
Flanders	4.3	3.9	5.0	5.2	5.5	4.5
Wallonia	10.3	10.1	11.2	11.5	11.4	9.4

Source: DGSEI.

year, around 545 000 persons were looking for a job in Belgium.

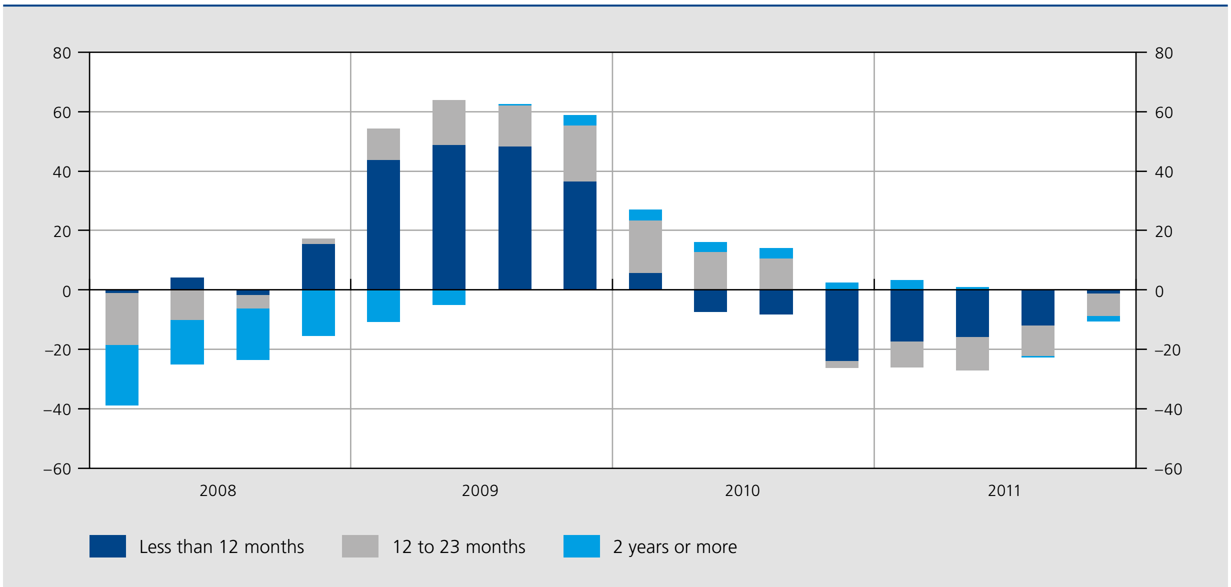
The harmonised unemployment rate obtained from the labour force surveys relates the number of unemployed job-seekers, as defined by the ILO – i.e. unemployed persons actively seeking work and available for the labour market – to the labour force. It stood at 7.3 % of the labour force in 2011, a significant fall compared to the 2010 figure of 8.4 %, and thus reverted to a level close to that prevailing before the crisis. All categories of job-seekers benefited in varying degrees from this improvement, particularly women, whose unemployment rate became similar to that of men. For certain population groups, the situation nevertheless remained worrying. Thus, in the first three quarters of 2011, more than one in every four non-EU nationals in the labour force were seeking work. For young people under the age of 25 years, the figure was one in five. Finally, 14.3 % of active persons with no more than a certificate of lower secondary education were looking for a job, or almost four times as many as those with higher education qualifications. The unemployment rate declined in all three Regions, but there were large divergences between them: on average, over the first three quarters of the year under review, the proportion of job-seekers amounted to 16.5 % in Brussels, 9.4 % in Wallonia and 4.5 % in Flanders.

The fall in unemployment did not apply only to the short-term unemployed – even though this group benefited the most, owing partly to the slower inflow of new job-seekers entering the market and partly to the increase in the numbers leaving. The number of persons unemployed for more than a year also declined. The persistent impact of the great recession on the Belgian labour market seems to have been limited, notably as a result of the measures to help the "at risk" groups get back to work, and the monitoring of active job-seeking behaviour. The considerable increase in the number of short-term unemployed in 2009 did not result, a year later, in a proportionate rise in the number of persons unemployed for between one and two years. The number of long-term unemployed – i.e. those looking for a job for more than two years – had fallen further during 2009, while the other groups were already displaying an upward trend, and began to expand year-on-year from the third quarter of 2009, mainly as a result of the growing group of people aged from 55 to 60 years who, unlike other job-seekers, do not receive any assistance geared to their particular profile. The number of people unemployed for more than two years continued to decline in the other age groups. In the second half of 2011, however, the weakening growth in the number of long-term unemployed aged from 55 to 60 years led to a small decline for this whole category of job-seekers, who are in principle the hardest to reintegrate.

Growth in the number of unemployed job-seekers – expressed in year-on-year changes in order to eliminate

CHART 30 UNEMPLOYMENT BY DURATION IN BELGIUM

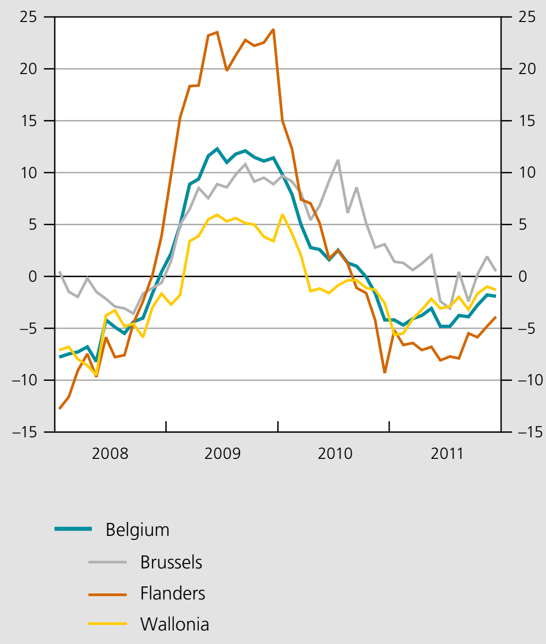
(changes in thousands of persons compared to the corresponding period of the previous year, data for March, June, September and December)



Source: NEO.

CHART 31 UNEMPLOYMENT IN BELGIUM AND IN THE REGIONS

(percentage changes in the number of unemployed job-seekers compared to the corresponding month of the previous year)



Source : NEO.

seasonal influences – had slowed more significantly from the start of 2010, and it was during the closing months of the year that unemployment had fallen below the previous year's level. The decline continued in 2011. The commencement, profile and scale of that movement varied between the three Regions of the country. Wallonia was the first to record a fall in unemployment year-on-year in 2010 and this decline persisted in 2011, though it became less pronounced in the second half of the year. In Flanders, where employment is much more sensitive to the business cycle, the number of unemployed job-seekers did not fall below the previous year's level until September 2010. While it had risen much more steeply than in the other Regions in 2009, it recorded a sharper fall in 2011. In Brussels, the number of job-seekers was down year-on-year in June 2011 for the first time since the crisis erupted, though that contraction was weaker and of shorter duration than in the other Regions since unemployment began rising again, year-on-year, from October.

The regional employment service statistics indicate that the decline in unemployment generally slowed in the fourth quarter, in line with the trend in business activity apparent since the summer. The latest available data relating to December 2011 in fact show that the number of unemployed job-seekers fell by only 10 000 units year-on-year for the country as a whole, which was much less than in the preceding months.

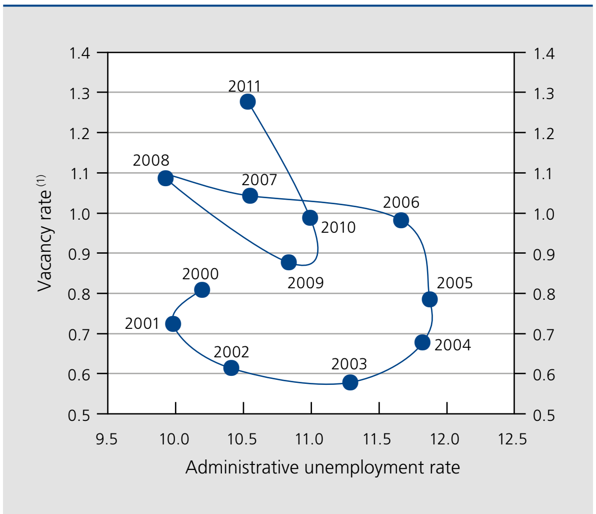
Box 4 – Mismatches on the labour market

The labour supply and demand matching process can be visualised with the aid of the Beveridge curve. The latter establishes a negative link between the vacancy rate and the unemployment rate, expressed as a percentage of the labour force. The underlying reasoning is intuitive : if the number of vacancies rises, it becomes easier for job-seekers to find a job, and unemployment falls. While cyclical factors determine the possible combinations of vacancy and unemployment rates, i.e. the points on the Beveridge curve, structural and frictional factors explain the shifts in the curve. For example, if the labour supply becomes less well matched to the demand, the curve shifts to the right, indicating that the unemployment rate will be higher for the same percentage of vacancies.

In Belgium's case, the relationship between the unemployment rate and the vacancy rate is only examined according to the vacancy statistics obtained from the regional employment services (i.e. job openings at the end of each month which have been neither filled nor cancelled) which represent only part of the jobs available in the economy. The degree to which employers use these services may fluctuate over time, and varies notably according to the size of firm and the type of profile sought. In order to link the concepts of the supply of work and demand for work, the unemployment rate is measured on the basis of the administrative data, i.e. the percentage of the labour force represented by wholly unemployed persons receiving benefits and other job-seekers registered either

BEVERIDGE CURVE IN BELGIUM

(in % of the labour force, annual averages)



Sources: Actiris, FOREM, NAI, NEO, VDAB, NBB calculations.

(1) Vacancies recorded by the regional public employment services, excluding job offers passed on by temporary work agencies and those under subsidised programmes. In the absence of available data before April 2009, the number of vacancies at FOREM was estimated on the basis of the flows for the period 2000-2009.

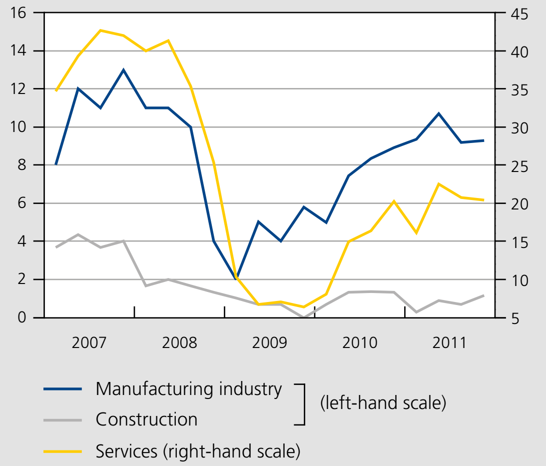
compulsorily or voluntarily with the regional employment services. These registration and eligibility criteria are not among the characteristics of job-seekers as recorded in the harmonised labour force surveys at European level: the harmonised unemployment rate includes only persons who have no job during the reference week, are available for work and have either actively looked for a job in the past four weeks or have already found a job which will start within the next three months.

When economic activity slowed in the early 2000s, the decline in the vacancy rate was accompanied by a rise in the unemployment rate. As expected, the recovery brought a reverse movement in these variables. Between 2008 and 2009, at the time of the great recession, a period ensued in which the vacancy rate declined while the percentage of job-seekers increased. However, taking an average over 2011, the recovery featuring a steep rise in the vacancy rate to 1.3 jobs per 100 active persons brought only a modest reduction in the administrative unemployment rate, which thus remains above its pre-crisis level. It can be said that the Beveridge curve has moved outwards. This deterioration in the matching process may be due notably to a lack of geographical mobility among job-seekers, or a lack of appropriate skills. This reinforces the image of a Belgian labour market with a high unemployment rate and a substantial level of long-term unemployment – amounting to 36 % of the total in 2011 – contrasting with serious labour shortages in certain branches of activity. According to the Bank's business surveys, the proportion of firms facing skilled labour shortages has increased rapidly since the beginning of 2010 in manufacturing and services, even though the figure declined in the third quarter of 2011.

The structural problems confronting firms which want to take on skilled staff become more acute when business picks up, and that tends to reinforce the labour-hoarding behaviour of some employers during periods when economic activity is slowing down.

IMPEDIMENTS TO ACTIVITY DUE TO A SHORTAGE OF SKILLED LABOUR

(proportion of firms facing a shortage according to the business surveys)



Source: NBB.

3.3 Demand and incomes

Main components of demand

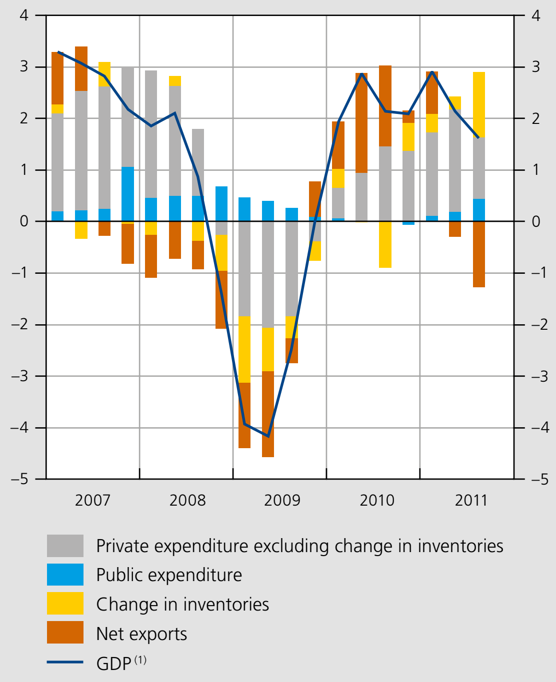
The general economic slowdown which became apparent during 2011, and particularly the sudden rise in uncertainty from the summer, wrought profound changes in the demand exhibited by economic agents. As usually occurs when a recovery has been in progress for several quarters, final demand from the private sector made a gradually increasing contribution to GDP growth during 2010 and in the first half of 2011. Private consumption picked up from 2010 onwards, and business investment staged a vigorous recovery at the beginning of 2011. Conversely, the contribution of net exports gradually waned, both because the export revival lost momentum and because the strengthening domestic demand bolstered imports. In the third quarter of 2011, the contribution of net exports to annual GDP growth became decidedly negative, while that of final domestic demand in the private sector dwindled rapidly. In view of the further deterioration in the economic and financial environment, the latter movement is likely to have persisted to the end of the year under review.

Just as their revival had led the recovery two years previously, exports of goods and services were the first demand components to record a cyclical downturn in 2011. While foreign demand remained buoyant in the first quarter of the year under review, it weakened steadily as the months went by. The economic indicator based on business leaders' opinions regarding future export order books declined throughout the year. The slowdown was due partly to the sluggishness of exports to neighbouring countries, but was also evident on markets outside Europe by the second quarter, causing a fall in exports in the following quarter. The volume growth of exports of goods and services was estimated at 5.1 % in 2011, compared to 9.9 % in 2010.

The slower export growth affected demand for imported goods and services, since production chains – being fragmented – use units located in different countries. However, gross investment by businesses continued to support imports, particularly in the first half of the year. In all, the annual growth of imports declined from 8.7 % in 2010 to 5.5 % in 2011. The overall contribution of net exports of goods and services to GDP growth was negative, at minus 0.1 percentage point.

CHART 32 CONTRIBUTION OF DEMAND COMPONENTS TO GDP GROWTH

(volume data adjusted for seasonal and calendar effects, contributions in percentage points to GDP growth compared to the corresponding quarter of the previous year, unless otherwise stated)



Sources: NAI, NBB.
(1) Percentage changes.

Clearly, firms did not fully anticipate the weakening of foreign demand, so that they involuntarily accumulated unsold products and unused intermediate goods, a finding borne out by the large number of business leaders in manufacturing industry reporting above-normal inventory levels. The contribution of the change in inventories to GDP growth was therefore relatively large in 2011, at 0.4 percentage point.

In view of the flagging trade with the rest of the world, GDP growth was supported mainly by domestic demand, especially gross fixed capital formation. Business investment, in particular, recorded its strongest growth since 2007, up by 8.8 % over the year as a whole following a cumulative decline of 10.8 % in 2009 and 2010. Public investment also recorded a substantial 6.5 % increase, as is usual in the years preceding the local elections. Final consumption expenditure of general government expanded by 1.1 %.

By contrast, household demand slowed further in 2011. After a 2.3 % rise in 2010 attributable to the revival of activity, private consumption expenditure grew by only 0.8 %, well below the growth rates recorded in the years preceding the crisis. Investment in housing, which had risen again in 2010, contracted by 3.8 %.

TABLE 6 GDP AND MAIN EXPENDITURE CATEGORIES

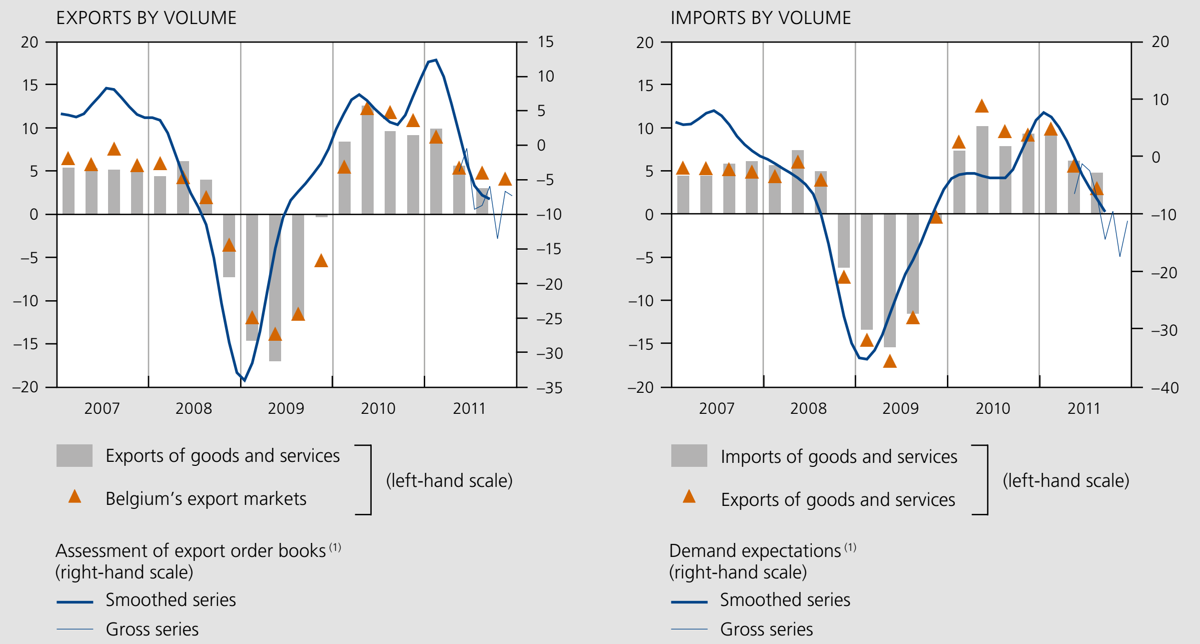
(calendar adjusted volume data; percentage changes compared to the previous year, unless otherwise stated)

	2007	2008	2009	2010	2011 e
Final consumption of individuals	1.7	1.9	0.8	2.3	0.8
Final consumption of general government	2.0	2.4	0.8	0.2	1.1
Gross fixed capital formation	6.1	2.2	–8.1	–0.9	4.9
Housing	3.3	–2.7	–9.2	1.6	–3.8
Enterprises	8.2	4.2	–9.3	–1.6	8.8
General government	–1.1	0.9	7.2	–1.8	6.5
p.m. Final domestic expenditure (1)	*2.6*	*2.0*	*–1.2*	*1.1*	*1.7*
Change in inventories (1)	0.1	–0.3	–0.7	0.0	0.4
Net exports of goods and services (1)	0.2	–0.8	–0.7	1.2	–0.1
Exports of goods and services	5.2	1.8	–11.3	9.9	5.1
Imports of goods and services	5.2	2.9	–10.6	8.7	5.5
GDP	2.8	0.9	–2.7	2.3	1.9

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

CHART 33 EXPORTS AND IMPORTS OF GOODS AND SERVICES

(data adjusted for seasonal and calendar effects, percentage changes compared to the corresponding quarter of the previous year, unless otherwise stated)



Sources: ECB, NAI, NBB.
(1) Balance of replies to the monthly survey in manufacturing industry, non calendar adjusted data.

Individuals

Two factors significantly restrained the expenditure of individuals in 2011 : first, the relatively high inflation eroded the growth of their disposable income in real terms, although it remained substantial in nominal terms ; also in the second half of the year, the climate of uncertainty due to the sovereign debt crisis in the euro area encouraged them to save more.

Expressed in current prices, the rise in disposable income was greater in 2011 than in the preceding two years, owing to the combined effects of the consolidation of activity and employment, as well as wage indexation. Thus, the wage bill increased by 4.8 %, compared to 2.3 % in 2010 and just 0.9 % in 2009, owing to the 1.2 % rise in the number of employees, a 0.5 % increase in implicit working time and a 2.9 % rise in hourly wages.

The other components of disposable income also recorded significant increases in 2011. Viewed overall, the gross operating surplus – which includes imputed rents and those received – and the gross mixed income of self-employed workers recorded a 3.3 % increase following a decline of 2.2 % in 2009 and a weak 1.4 % rise in 2010. Net property incomes – i.e. the sum of dividends and interest received less interest paid – rose by 6.9 %, after falling by 6.3 % in 2009 and rising again by 1.4 % in 2010, the main reason being the increase in both short- and long-term interest rates compared to the previous year's low levels. However, this increase was smaller than those recorded in 2007 and 2008 as a result of higher dividends.

Viewed overall, these developments led to a 4.8 % increase in the primary household income. Transfers paid by individuals – mainly social security contributions and taxes – rose a little faster than transfers received, very slightly moderating the growth of disposable income.

Overall, the gross disposable income of individuals at current prices increased by 4.7 % in 2011, following more modest rises in the two preceding years. However, in real terms, inflation reduced that growth to 1.3 %. Despite the weak expansion of their real disposable income, individuals did not reduce their savings ratio as consumption smoothing behaviour might imply, which explains why consumption lost momentum. In contrast, the sharp fall in the savings ratio in 2010, at a time when the anxiety

TABLE 7 DETERMINANTS OF THE GROSS DISPOSABLE INCOME OF INDIVIDUALS, AT CURRENT PRICES

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

	2007	2008	2009	2010	2011 e	*p.m. 2011 e, in € billion*
Compensation of employees	5.3	5.5	0.9	2.3	4.8	*196.7*
Volume of labour of employees	2.0	1.6	−1.9	1.1	1.8	
Compensation per hour worked	3.1	3.8	2.7	1.2	2.9	
Gross operating surplus and gross mixed income	4.8	2.2	−2.2	1.4	3.3	*47.4*
of which income from self-employed activity	2.5	1.8	−0.3	2.3	4.3	
Property income	8.2	10.8	−6.3	1.4	6.9	*32.6*
Gross primary income	5.6	5.5	−0.6	2.0	4.8	*276.7*
Net current transfers	6.9	5.3	−12.1	6.2	4.9	*−45.9*
Current transfers received	2.4	5.9	7.4	2.9	3.9	*84.0*
Current transfers paid	4.1	5.7	−0.2	4.0	4.3	*129.9*
Gross disposable income	5.3	5.6	2.0	1.3	4.7	*230.8*
p.m. In real terms (1)	*2.3*	*2.2*	*2.9*	*−0.5*	*1.3*	
Savings ratio (2)	16.4	16.8	18.4	16.2	16.7	

Sources: NAI, NBB.
(1) Data deflated by the household final consumption expenditure deflator.
(2) In % of gross disposable income in the broad sense, i.e. including the change in households' entitlements to additional pensions accruing in the context of an occupational activity.

which the recession had caused among households was waning, had resulted in a considerable expansion in the volume of consumption amounting to 2.3 %, whereas disposable income had fallen by 0.5 % in real terms.

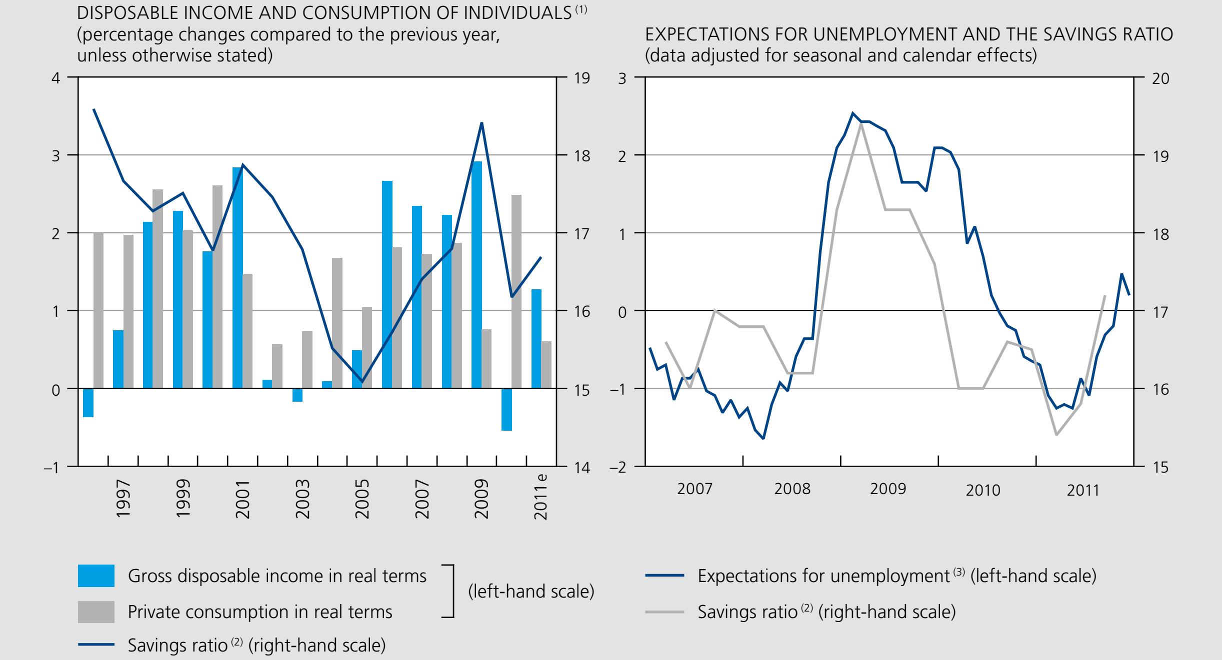
The successive events related to the sovereign debt crisis from the middle of the summer indeed prompted individuals to rein in their consumption expenditure. According to the results of the consumer surveys, the heightened tension on the financial markets was followed by a loss of confidence about the future economic situation and the employment market. This climate of uncertainty drove households to start stepping up their precautionary savings again. The depreciation of their financial assets may also have caused them to be more restrained in their spending. The savings ratio thus increased from 15.4 % of disposable income in the first quarter of 2011 to 17.2 % in the third quarter.

The support for activity originating from private consumption diminished overall in 2011. This source of demand had made a major contribution to the resilience of the Belgian economy in the preceding years, despite a temporary rise in precautionary savings at the height of the recession. Apart from the good performance of the labour market and the absence of significant fiscal consolidation measures, the fairly low debt levels of individuals and the relative stability of the property market may well have played a favourable role.

On the property market, it is true that the long period of booming house prices since 2003 came to a temporary halt during the recession, but without any sudden or drastic correction like that experienced in Ireland, Spain or even France. Moreover, household debt remained moderate, obviating the need for rapid debt retrenchment, and enabling households to cut their savings ratio in 2010 and maintain their consumption. Property market prices resumed their upward trend in mid-2009. They stabilised in the first half of 2011 before rising again in the third quarter.

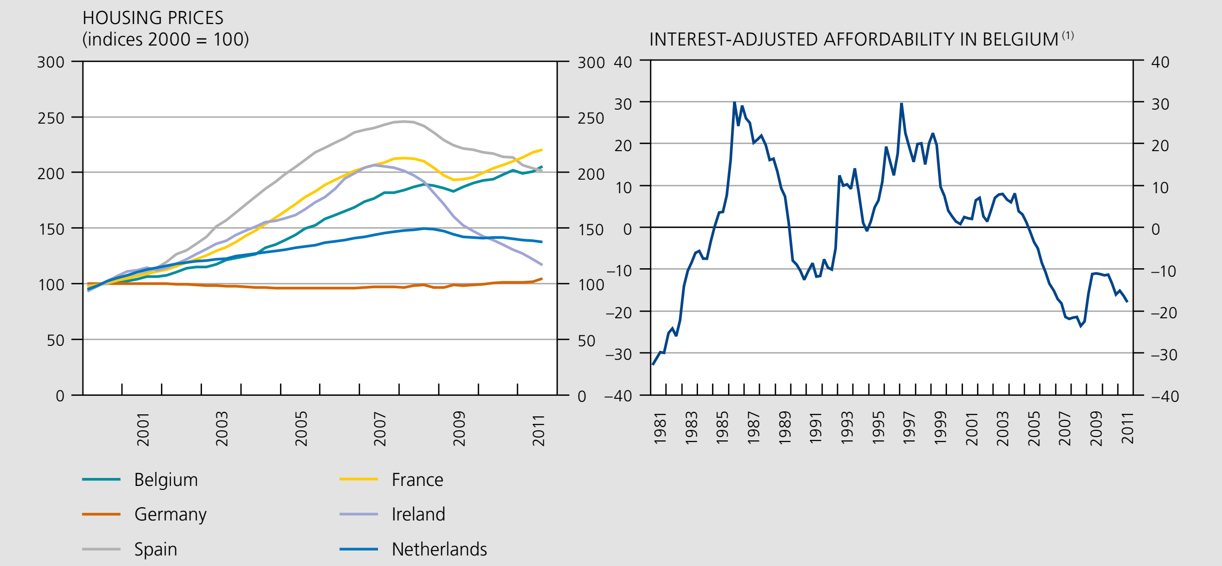
While the crisis had triggered a correction of the overvaluation of property prices, in the first half of 2010 prices were still estimated to be overvalued by a little more than 10 %. Though that estimate is, of course, subject

CHART 34 DISPOSABLE INCOME, CONSUMPTION AND SAVINGS OF INDIVIDUALS



Sources: NAI, NBB.
(1) Non calendar adjusted data deflated by the private consumption deflator.
(2) In % of gross disposable income in the broad sense, i.e. including the change in households' entitlements to additional pensions accruing in the context of an occupational activity.
(3) Balance of replies to the monthly consumer survey; original series reduced by the average over the period from 1985 to 2011 and divided by its standard deviation.

CHART 35 HOUSING PRICES



Sources: OECD, NBB.
(1) Ratio between the disposable income of individuals and the average mortgage loan repayment, which itself depends on house prices and interest rates; percentage deviation from the average of the period since the first quarter of 1981. A negative sign indicates overvaluation of property prices.

to considerable uncertainty, it is based on an interest-adjusted affordability indicator which considers the ratio between household disposable income and house prices adjusted for the movement in mortgage interest rates and compared to its long-term average. This measure deteriorated again from mid-2010 to around 18 % in the third quarter of 2011, not just because of the rising house prices this time, but also on account of the adverse movement in the other determinants, namely the new rise in interest rates and the meagre growth of disposable income.

While the weak growth of real income and the uncertainty tended to restrain household consumption expenditure, these factors had an even greater impact on house purchase decisions. The 3.8 % decline in investment in new construction was also due in part to the abolition of one of the anti-crisis measures adopted by the federal government, granting individuals a reduced VAT rate of 6 % on the first tranche of € 50 000 paid for residential building work. This measure applied to projects beginning before 2011, for which a building permit application had been submitted before 1 April 2010.

Companies

In 2010, the revival in demand put Belgian companies back in profit with a 10 % increase in their gross operating surplus, after a negative trend in 2009. That movement continued in 2011, though it was a little less vigorous than in the previous year, with growth of 5 %. The loss of momentum is due largely to the slackening of foreign demand which was not offset by the expansion of sales on the Belgian market, up from 1.3 % in 2010 to 2.4 % in 2011. Moreover, the growth of corporate margins was eroded somewhat by the rising prices of the inputs which they import for their business purposes, especially commodities, and by the 2.8 % increase in unit labour costs. However, taking an average over the year, companies were able to pass on most of these cost increases in their selling prices.

The rise in their gross operating surplus over two consecutive years enabled companies to consolidate their financial position, which had weakened during the recession of 2008-2009. Moreover, the high level of profitability achieved from 2010, comparable to pre-2008 levels, likewise enabled them to release resources to finance new investment. During the first half of the year, investment was particularly substantial in a context in which firms were still very optimistic about the outlook for demand, and the utilisation rate for existing production capacity was relatively high. In the first quarter, it stood at 81.2 %, yet that was still below the utilisation rates recorded before the start of the 2008 recession.

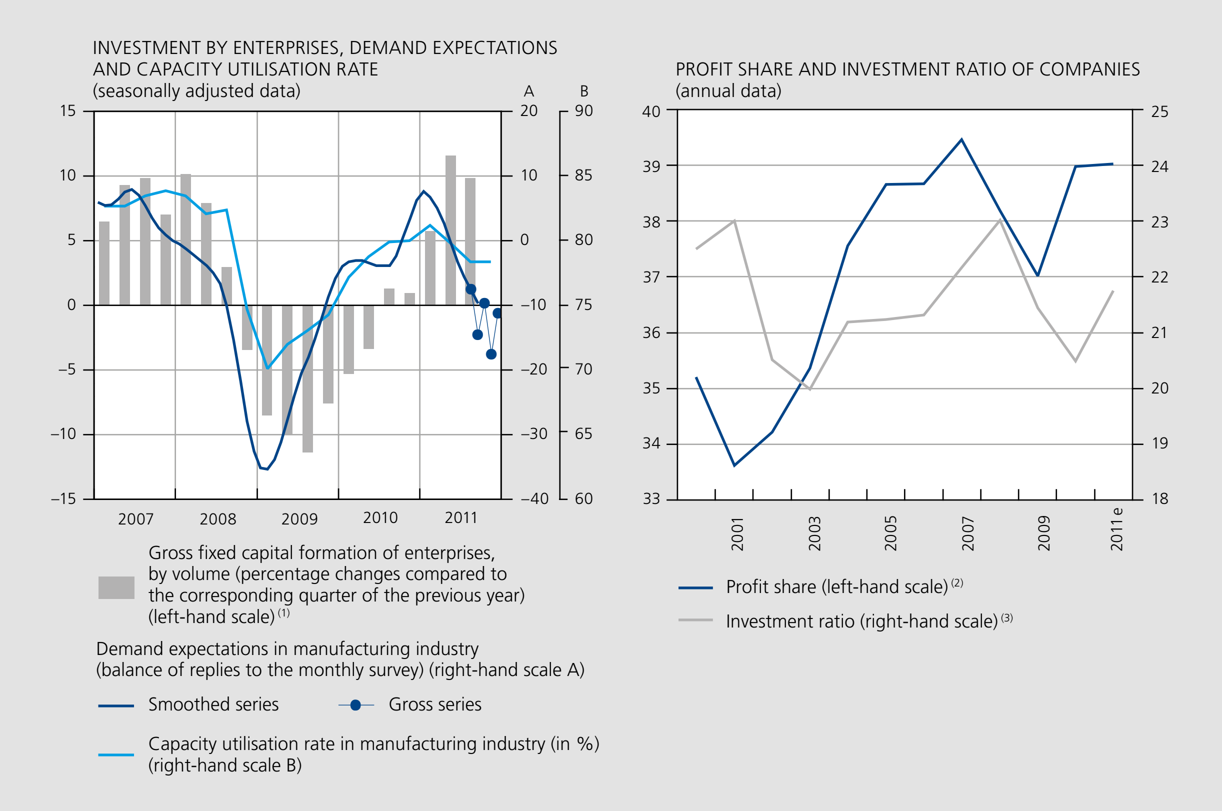
An investment revival therefore seemed appropriate at the beginning of the year. However, as in the case of the accumulation of inventories, the new investment proved less useful following the slowdown in demand from the second quarter. It is true that investment remained

TABLE 8 DETERMINANTS OF THE GROSS OPERATING SURPLUS OF COMPANIES, AT CURRENT PRICES
(percentage changes compared to the previous year)

	2007	2008	2009	2010	2011 e
Gross operating margin per unit of sales (1)	3.5	–1.9	1.6	4.2	1.1
Unit selling price	2.1	4.2	–3.7	4.0	4.5
On the domestic market (1)	1.7	4.5	–2.0	3.3	3.7
Exports	2.4	3.8	–5.2	4.7	5.2
Costs per unit of sales (1)	1.8	5.2	–4.6	4.0	5.1
Imported goods and services	2.1	6.4	–8.4	6.4	6.7
Costs of domestic origin per unit of output (1)(2)	1.0	3.0	2.4	–0.2	2.0
of which unit labour costs	2.3	4.6	3.1	–0.7	2.8
Final sales at constant prices	4.4	1.9	–7.1	5.5	3.8
On the domestic market (1)	3.5	2.2	–2.7	1.3	2.4
Exports	5.2	1.7	–11.2	9.9	5.2
Gross operating surplus of companies	8.0	0.0	–5.6	10.0	5.0

Sources: NAI, NBB.
(1) Including the change in inventories.
(2) Apart from compensation of employees, this item covers indirect taxes net of subsidies, and gross mixed income of self-employed persons.

CHART 36 INVESTMENT BY ENTERPRISES



Sources: NAI, NBB.
(1) Data also adjusted for calendar effects.
(2) Ratio between the gross operating surplus and gross value added.
(3) Ratio between gross fixed capital formation and gross value added.

substantial during that period, probably because much of it had been decided on when sales forecasts were still high, and it took some time to implement. After the second quarter, the demand addressed to firms continued to weaken, failing to fulfil the predictions made at the beginning of the year, which were then revised downwards. This naturally discouraged firms from further expanding their production capacity which, in manufacturing industry, had a much lower utilisation rate at the end of 2011.

3.4 Current transactions with the rest of the world

As usual, the disposable income of households exceeded their total expenditure on consumption and investment in housing in 2011. Their net financing capacity increased slightly to around 4.1 % of GDP. Despite the increase in their capital formation, companies also recorded a positive financial balance in 2011, though it was smaller than in the previous year: their net financing capacity came to 1.7 % of GDP. The deficit of general government, whose operations are described in detail in chapter 6, remained close to 4 % of GDP. In total, on the basis of the national accounts, the positive financial balance of the domestic sectors as a whole fell from 3.1 % of GDP in 2010 to 1.7 % in 2011, the decline being attributable mainly to the shrinking of the financing surplus of companies.

The financing balance of the domestic sectors as a whole corresponds to the balance of Belgium's current transactions with the rest of the world, excluding capital transfers. According to the national accounts, Belgium's current account balance contracted steadily to 1.9 % in 2011, after having fluctuated between 4 and 5 % of GDP from 1995 to 2001, and peaking at 6 % in 2002.

The main reason for the downward trend in Belgium's current account balance with the rest of the world lies in the contraction of net exports of goods and services. This continued in 2011: the weakening of foreign demand led to a fall in the volume coverage ratio of imports by exports, while the terms of trade deteriorated owing to the increased commodity prices. In all, the value coverage ratio – i.e. the ratio between the amount of exports and imports – was down by 1.7 %.

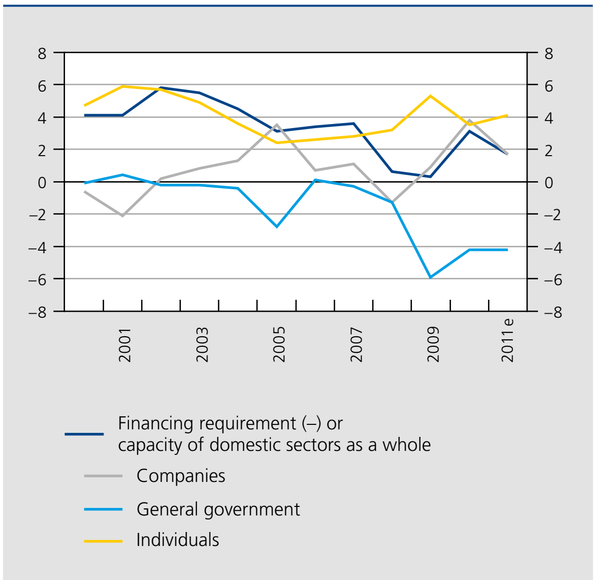
Over the period 2003-2011 as a whole, the value coverage ratio of goods and services declined by 5.9 %. The volume and price effects were compounded, as the volume coverage ratio fell by 2 %, while the terms of trade worsened by 4 %. It is therefore important to examine the causes of these developments, and more specifically, the extent to which this concerns a structural reduction or a succession of temporary, benign factors.

The decline in the trade balance by volume seems to be due largely to a weakening of exports. A comparison with the other euro area countries, particularly the neighbouring countries, shows that in Belgium imports grew less strongly in view of the movement in final demand. On that basis, it therefore does not look as if import penetration is the reason for the deterioration in the trade balance.

The sluggishness of exports is expressed in the discrepancy between the import growth of partner countries and Belgium's export growth, a gap which has persisted for the past ten years. These losses of market share averaged 1.6 percentage points per annum over the period 2003-2011, both on euro area markets and elsewhere. However, they have diminished since 2009, especially on markets outside the euro area. Since those markets have been more dynamic in the past decade, exports destined for them have grown more strongly.

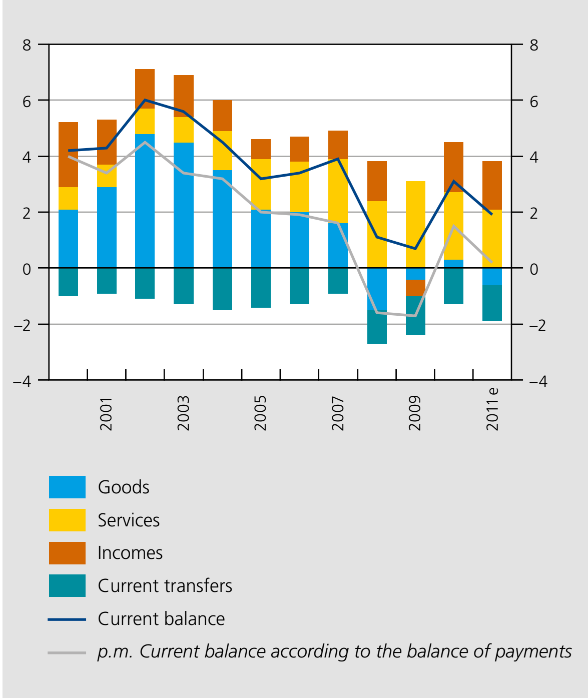
One reason for the loss of export market shares is that Belgium specialises too much in products facing the strongest competition from the new economic growth centres. As these emerging economies have not only abundant labour but also ever-increasing access to sophisticated equipment and technology, labour- and capital-intensive products are subject to constantly growing competitive pressure. Countries which are relatively specialised in that type of goods, such as Belgium, are therefore gradually losing their comparative advantages. On the basis of microeconomic data, however, it appears that – despite specialising in this type of product – some firms have managed to withstand the growing competition from the emerging countries, mainly by improving the quality of their products to distinguish them from those of their rivals, or by extending their range in order to tap new markets. Moreover, during the period 1996-2008, Belgium gained market shares in the sale of research-intensive products – such as electrical and electronic equipment, pharmaceutical products, and plastics in primary forms. However, the share of these products in total Belgian exports of goods remained small, averaging 36 %

CHART 37 FINANCING BALANCE OF DOMESTIC SECTORS AS A WHOLE
(in % of GDP)



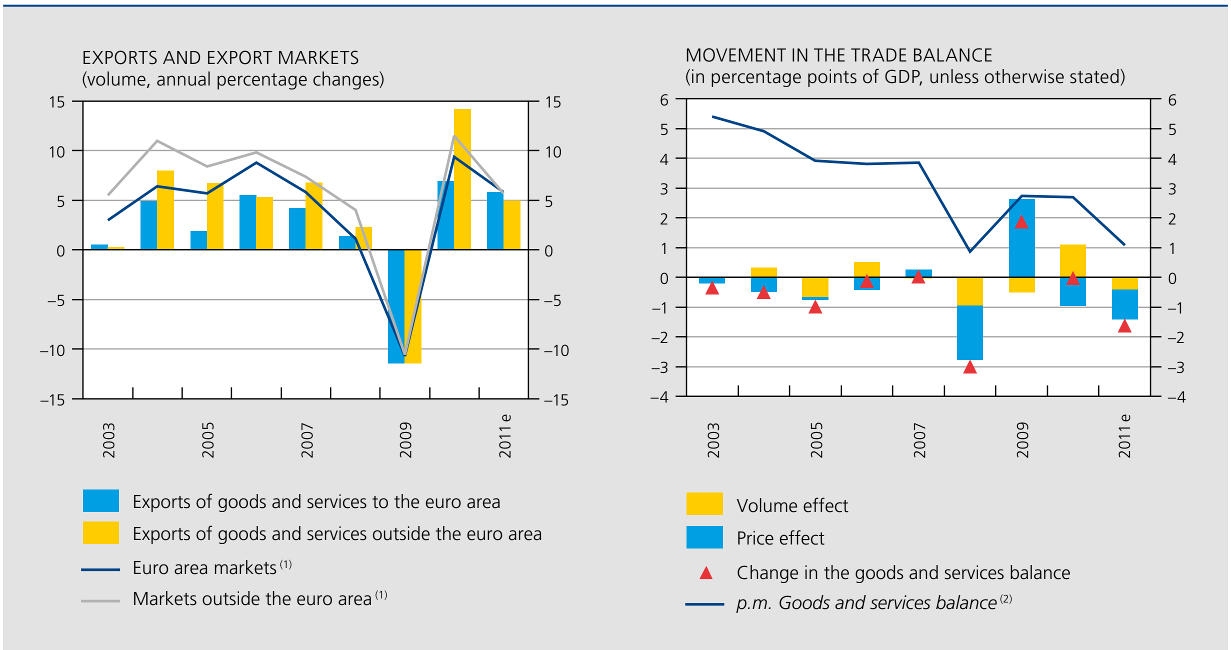
Sources : NAI, NBB.

CHART 38 CURRENT BALANCE
(in % of GDP)



Sources : EC, NAI, NBB.

CHART 39 BELGIUM'S FOREIGN TRADE IN GOODS AND SERVICES



Sources: ECB, NAI.
(1) Average growth rates of imports from trading partners, weighted by their share of Belgium's exports.
(2) In % of GDP.

during that period, compared to 43 % in the Netherlands, 46 % in France and 47 % in Germany. Belgium lags even farther behind the three main neighbouring countries if the analysis is confined to highly knowledge-intensive products which are hard to copy.

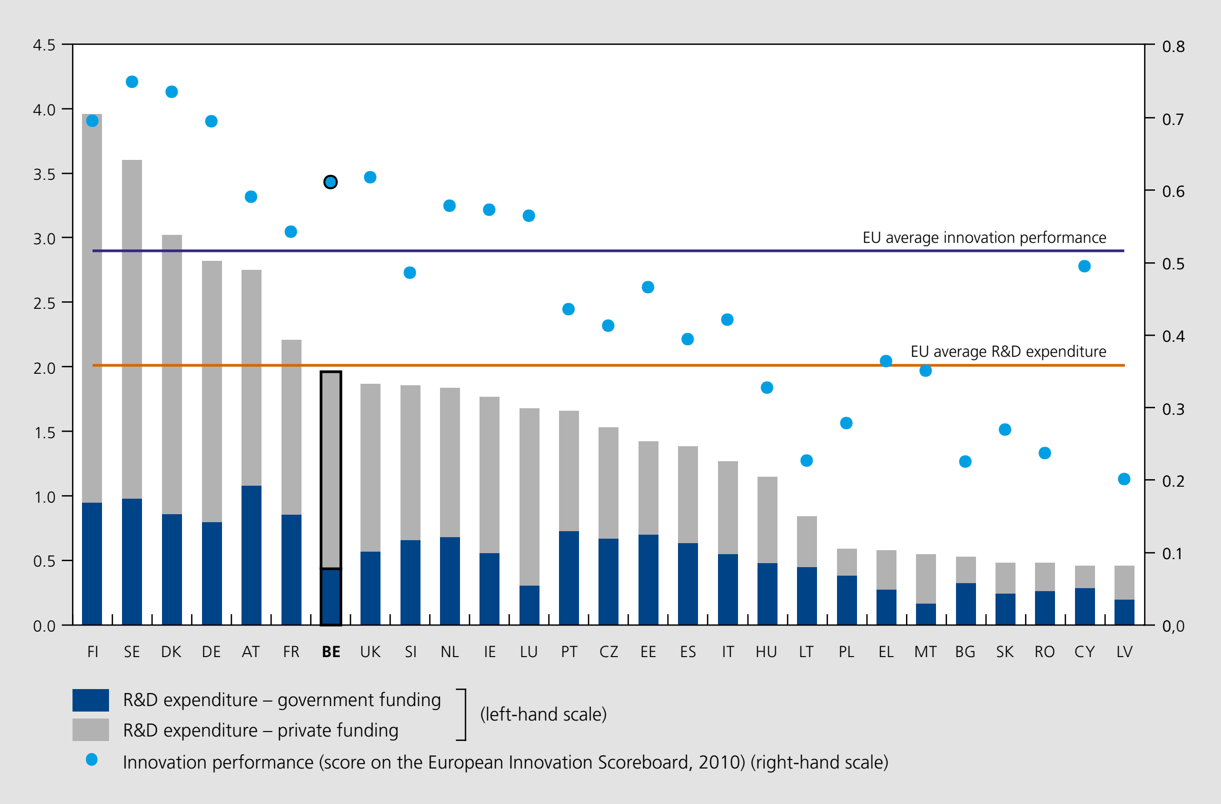
The modest share of research-intensive products in total Belgian exports of goods may be linked to the weak performance in terms of R&D expenditure, which has been stagnating for some years as a percentage of GDP. In 2009, that expenditure was in the region of 2 % of GDP in Belgium, roughly equal to the EU average but well below the figure for the Nordic countries, or for Germany and France, and far short of the 3 % target set by the Europe 2020 strategy. Belgium has a notably low share of public R&D funding. Looking at innovation performance in the broader sense as measured by the European barometer, Belgium is in sixth place in the EU with a score of 0.6, the European average being 0.5. Although Belgium's performance has improved by more than the average in the EU over the past five years, there is still progress to be made in order to achieve the standard of excellence of the Nordic countries or Germany. The main challenge is to convert the innovation efforts into tangible results: the weaknesses of innovation in Belgium in fact lie in the lack of exports of services with a high knowledge content, the inadequate number of patent and licence applications, and the difficulty of launching radically new products or processes on the market.

As in 2008 and 2010, the terms of trade deteriorated again in 2011, by 1.4 %. Prices of commodities, particularly oil, have increased considerably in recent years, notably owing to the constantly growing pressure of global demand on limited natural resources. Since Belgian producers also face relatively high costs for domestic production factors, the sometimes significant fluctuations in the cost of imported inputs cannot always be passed on in their selling prices, especially when foreign demand for their manufactured products is anaemic. In that regard, activity in Belgium features a relatively high energy intensity, due in part to its structure in terms of industrial specialisation.

Since the negative impact of the price fluctuations was combined with the adverse effect of volume changes, the amount of imports of goods and services grew faster than that of exports. According to the balance of payments figures, these developments led to a trade deficit of € 0.7 billion in 2011, against a surplus of € 3 billion in 2010.

Despite an improvement in the balance of travel, the surplus in service transactions declined slightly in 2011,

CHART 40 R&D EXPENDITURE AND INNOVATION PERFORMANCE
(in % of GDP, 2009, unless otherwise stated)



Source: EC.

mainly on account of the developments relating to transport services, construction services and licensing fees and royalties. However, the deterioration in the trade balance is due mainly to transactions in goods, where the deficit actually increased by € 3 billion in 2011. According to the foreign trade figures, that downturn was seen in all the main categories of exported goods, such as chemicals, iron and steel products, machinery and transport equipment.

Over the past ten years, there have been considerable divergences between the pattern of trade in goods and that in services. Since flows of goods account for almost 80 % of Belgium's foreign trade, they are the main factor behind movements in the trade balance. However, the trade surplus in services has been rising consistently since 1995. As explained in detail in Box 5, net exports of services have gradually become the main source of the current account surplus.

The positive balance of factor incomes expanded slightly in 2011, mainly owing to the rise in investment income. Expressed in euro, the average return on interest-bearing investment or loans thus recovered faster in the case of assets in other countries than for liabilities towards the rest of the world. Moreover, the structural earned income surplus, consisting mainly of the salaries which the EU institutions pay to their staff resident in the country, increased very slightly.

The deficit on current transfers by the government widened. In particular, Belgium's contributions to the European Union budget increased – particularly those paid by way of customs duties and the GNI contribution – while the subsidies received remained practically constant.

Finally, despite the debt reduction which Belgium granted to Congo, there was a small decrease in the deficit on the capital transactions account. Altogether, Belgium's net lending to the rest of the world according to the balance of payments, which had amounted to € 4.6 billion in 2010, dropped to € 0.4 billion last year. As a percentage of GDP, that corresponds to a 1.2 percentage point fall, with the financing surplus of the economy amounting to 0.1 % of GDP in 2011.

TABLE 9 NET LENDING TO THE REST OF THE WORLD

(balances ; in € billion, unless otherwise stated)

	2008	2009	2010	2011 e
1. Current account				
Goods and services	–7.7	1.0	3.0	–0.7
Goods	–11.1	–4.8	–3.4	–6.4
Services	3.4	5.8	6.4	5.7
Income	8.0	–0.1	8.5	8.7
Earned income	4.6	4.8	5.0	5.1
Investment income	3.4	–5.0	3.5	3.6
Current transfers	–6.1	–6.5	–6.3	–7.1
Transfers of general government	–5.0	–5.0	–5.3	–5.8
Transfers of other sectors	–1.0	–1.5	–1.0	–1.3
Total	–5.7	–5.7	5.2	0.9
p.m. Idem, in % of GDP	*–1.6*	*–1.7*	*1.5*	*0.2*
2. Capital account	–1.8	–1.2	–0.6	–0.5
3. Net lending to the rest of the world (1 + 2)	–7.4	–6.9	4.6	0.4
p.m. Idem, in % of GDP	*–2.2*	*–2.0*	*1.3*	*0.1*
Financing requirement (–) or capacity of the domestic sectors, according to the national accounts, in % of GDP	*0.6*	*0.3*	*3.1*	*1.7*

Sources : NAI, NBB.

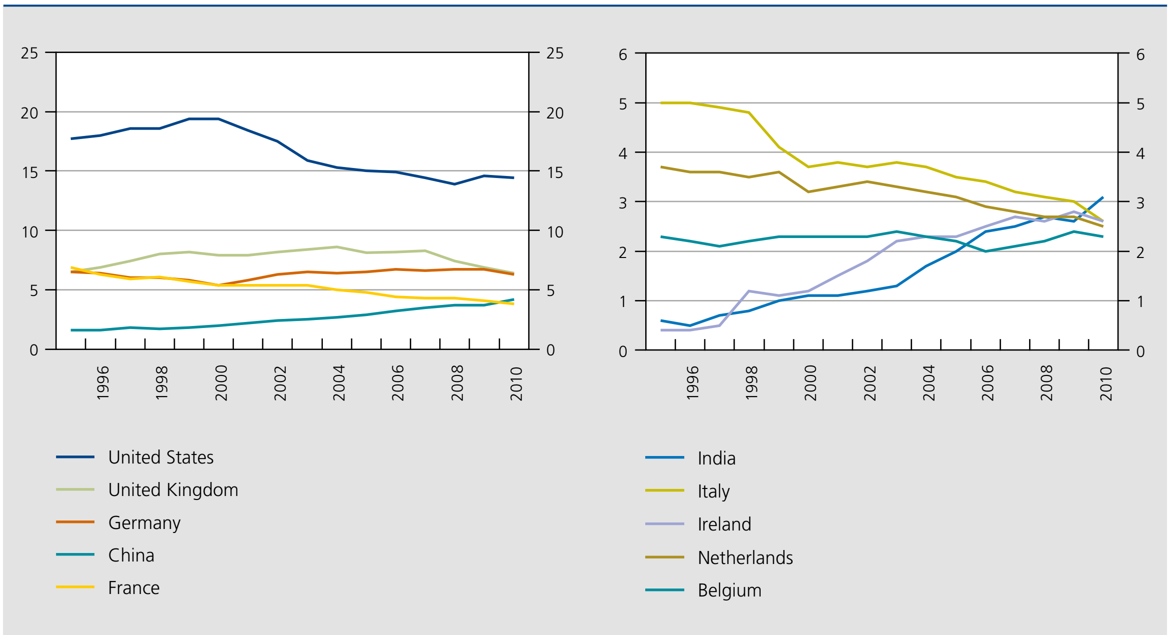
Box 5 – The growing contribution of trade in services to the current account surplus

Although service activities represent a dominant share of GDP and employment, amounting to around 70 % in the industrialised countries, they have only a minor position in international trade, as the share of services in total trade according to the national accounts data is in the order of 15 %, both in Belgium and in a number of other European countries. The need for service providers to be geographically close to consumers and speedily accessible, the existence of substitutes for service exports, including sales via foreign subsidiaries, and more stringent regulations than on the goods market are all factors which hamper and limit cross-border trade in services.

Yet even though the gross amounts are small, the surplus in international trade in services has expanded in Belgium over the past fifteen years, rising from 0.1 % of GDP in 1995 to 2.1 % in 2011. Compensating in part for the deterioration in the balance of transactions in goods, net exports of services have gradually become the main source of the current surplus, which came to 1.9 % of GDP in 2011. At macroeconomic level, they therefore help to safeguard the economy's external position.

Belgium's good performance is due to the dynamism of service exports rather than the weakness of imports. A comparison of Belgium with the other euro area countries reveals that the share of service flows in GDP is one of the highest in the euro area, and the growth of exports is among the most vigorous. Thus, the average annual growth rate of service exports by value was 1.3 percentage points higher than that of the service imports of the partner countries, which are the main foreign markets for Belgium's service providers. While Belgium's share of

SHARE OF SERVICE EXPORTS IN WORLD TRADE IN SERVICES
(in %)



Source: UNCTAD.

exports of goods in world trade dropped by more than a third during the period 1995-2010, the corresponding share of services remained constant, hovering around 2.3 %.

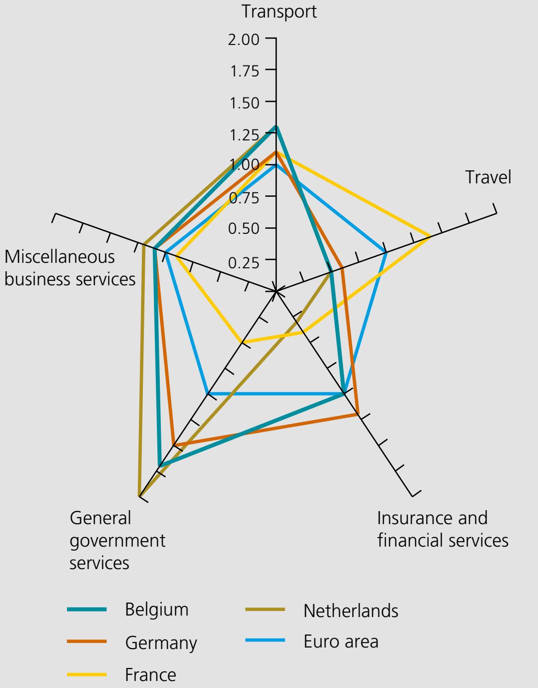
A more detailed analysis by category, based on the balance of payments statistics, shows that the shares of general government services, transport services and miscellaneous business services in total exports are relatively large in Belgium. Conversely, Belgium is under-specialised in travel and is not particularly specialised in financial and insurance services.

The country's central position in the European economic structure is one of the main factors contributing to Belgium's good performance. This position at the heart of Europe has favoured a geographical intermediation role which has been reflected in the development of services geared to the internationalisation of trade. Transport and logistics services have thus been able to expand, particularly thanks to the importance of the port of Antwerp in maritime flows. Moreover, the balance of international triangular trade, included in miscellaneous business services and defined as the difference between the sale value and the acquisition value of goods bought and resold abroad by residents, also increased and holds a predominant position in Belgium.

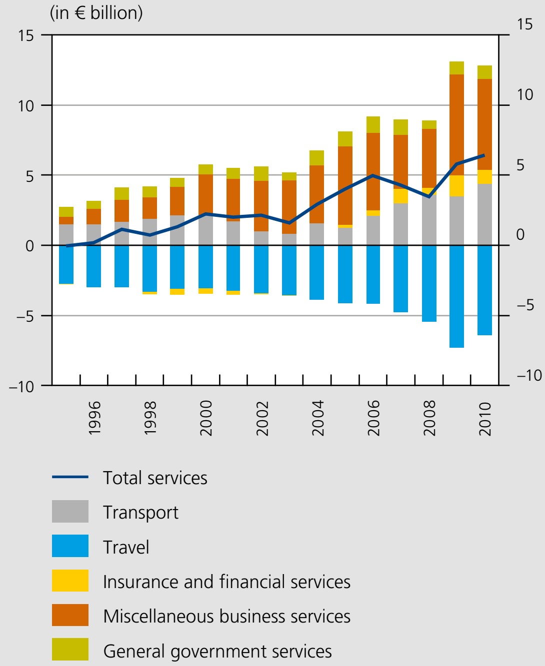
However, Belgium's role as a crossroads is not confined to services broadly linked to trade in goods. Combined with the country's central location, the calibre of the human capital is another decisive factor in the expansion of service exports by Belgium. It has increased the attraction of Belgium for large institutions, both public and private. As the location for the headquarters of European institutions and of several multinationals, Belgium has secured a place in an economy which has become global over the past two decades. Altogether, the EU institutions contributed € 2.1 billion to the service transactions surplus on the balance of payments, while the balance of services between associate firms, comprising the general management and operating costs of parent companies, subsidiaries, branches and agencies, came to € 1.7 billion in 2009.

ANALYSIS BY TYPE OF SERVICES

INDICES OF REVEALED COMPARATIVE ADVANTAGES (1)



BELGIUM'S NET EXPORTS OF SERVICES
(in € billion)



Sources: NBB, Eurostat.

(1) The index of revealed comparative advantages compares the share of exports of a category of services in a country's total exports of services with the corresponding share for a reference region, in this case the euro area. An index higher than 1 indicates specialisation in relation to the reference region, as the weight of exports of that category in the total is higher than in the reference region, and vice versa for an index of less than 1.

Analysis of the degree of concentration of service exports sheds additional light on these figures. Thus, in 2010, the share of the amounts exported by the top three and top ten export firms in Belgium came to 46 and 64 % respectively for maritime freight, 54 and 81 % for financial services, 39 and 52 % for IT services, 76 and 90 % for telecommunications, 79 and 85 % for advertising services, 38 and 69 % for research and development services, and 24 and 43 % for services between enterprises. In view of these high percentages, service transactions therefore have a relatively narrow base.

Belgium's good general performance in trade in services is not reflected, however, in all service categories. Some of them, such as construction or civil engineering, are generally offered to foreign partners in other ways rather than by cross-border trade, mainly via foreign direct investment. According to the available figures, the amounts are significant in Belgium's case.

Exports of other services also recorded weaker growth. In particular, exports of services relating to information and communication technologies did not achieve any notable success. Moreover, the share of services centred on excellence and creativity, such as research and development or patents, is still meagre. Yet all these services are a growth catalyst which could benefit the entire economy, and Belgium has the human capital required.

4. Prices and costs

During the year under review, inflation accelerated further since the annual rise in the HICP increased from 2.3 % in 2010 to 3.5 % in 2011, levelling out in July. The principal reason for the rise was the steep increase in the cost of energy products and, to a lesser extent, processed food following the surge in commodity prices. The inflation gap in relation to the three main neighbouring countries averaged more than 1 percentage point, mainly reflecting the greater sensitivity of the HICP to commodity prices in Belgium, but also a higher underlying inflation rate. This was fuelled by a marked resumption of the rise in unit labour costs owing to the stagnation of productivity and the application of the automatic indexation mechanisms specific to Belgium. In the private sector, hourly labour costs thus rose by 2.7 % in 2011, compared to 0.9 % in the previous year. However, as these costs increased faster in the three main neighbouring countries than in Belgium in 2011, according to the estimates of the CEC Secretariat, the wage handicap accumulated since 1996 for Belgian firms diminished slightly to 3.9 %. Yet, in terms of unit labour costs, it continued to rise, reaching 12.6 %, owing to a less favourable movement in labour productivity in Belgium.

4.1 Consumer prices

Inflation measured by the annual change in the harmonised index of consumer prices (HICP), which had risen from –1.7 % in July 2009 to 3.4 % in December 2010, fluctuated around the latter level in 2011, peaking at 4 % in July. As an annual average, it rose from 2.3 % in 2010 to 3.5 % in 2011. This acceleration was due mainly to the movement in energy product prices and, to a lesser extent, processed food prices, but the underlying trend in inflation was also up from 1.1 to 1.7 %.

Inflation gap between Belgium and the three main neighbouring countries

Since 2007, inflation in Belgium has been much more volatile than in the euro area and in the three main neighbouring countries, on average. In 2011, it was again higher than in these two groups of countries, where the respective figures were 2.7 and 2.4 %.

The inflation gap in relation to the three main neighbouring countries reached its maximum in January before moderating somewhat thereafter, the annual average remaining around 1 percentage point. It is largely attributable to energy products, which continued to record a large annual change in prices throughout the year, supported by the rise in international prices. Whereas the movement in gas and electricity prices had still contributed towards a reduction in the gap at the beginning of 2010, that was no longer the case in 2011.

The contribution of processed food products to this same gap gradually declined. It was even slightly negative in October. In the case of tobacco and alcoholic beverages, the price rises were even smaller than in neighbouring countries, while the increase in the cost of other processed foods still exceeded that recorded in those countries, though to a lesser extent. Unprocessed foods also contributed to the reduction in the inflation gap, and their contribution was actually negative for much of the year under review. The EU Directive on the statistical methods to be used for seasonal products, implemented in Belgium in 2010, no longer had an impact on the measurement of unprocessed food prices in 2011. Conversely, other European countries, including France and Germany, did not make the required adjustments until 2011. That therefore affected the inflation profile there during the year under review, in regard to

TABLE 10 HARMONISED INDEX OF CONSUMER PRICES AND LABOUR COSTS

(percentage changes compared to the previous year)

	2007	2008	2009	2010	2011	*p.m. 2011, three main neighbouring countries* [1]
HICP	1.8	4.5	0.0	2.3	3.5	*2.4*
Energy	0.2	19.8	–14.0	10.0	17.0	*10.4*
Unprocessed food [2]	3.0	2.8	0.4	3.5	0.2	*1.5*
Processed food	4.7	7.8	1.7	1.0	3.1	*2.9*
Underlying inflation [3]	1.4	1.8	2.1	1.1	1.7	*1.2*
Non-energy industrial goods	0.9	1.3	1.4	0.8	1.0	*0.7*
Services	1.9	2.3	2.6	1.4	2.2	*1.5*
p.m. Health index [4]	*1.8*	*4.2*	*0.6*	*1.7*	*3.1*	–
p.m. National index	*1.8*	*4.5*	*–0.1*	*2.2*	*3.5*	–
Labour costs in the private sector						
per unit of output	2.0	3.5	4.0	0.0	2.5 e	*1.2* [5]
per hour worked	3.1	3.6	2.8	0.9	2.7 e	*3.1* [6]

Sources: EC, OECD, CEC, DGSEI, NAI, NBB.
(1) As in the other tables and charts in this chapter: HICP, weighted average based on household consumption; labour costs, weighted average based on GDP.
(2) Fruit, vegetables, meat and fish.
(3) Measured by the HICP, excluding food and energy.
(4) National consumer price index excluding products deemed harmful to health, namely tobacco, alcohol, petrol and diesel.
(5) First three quarters; business sector (NACE branches of activity B to N); source EC.
(6) Estimate on an annual basis by the CEC.

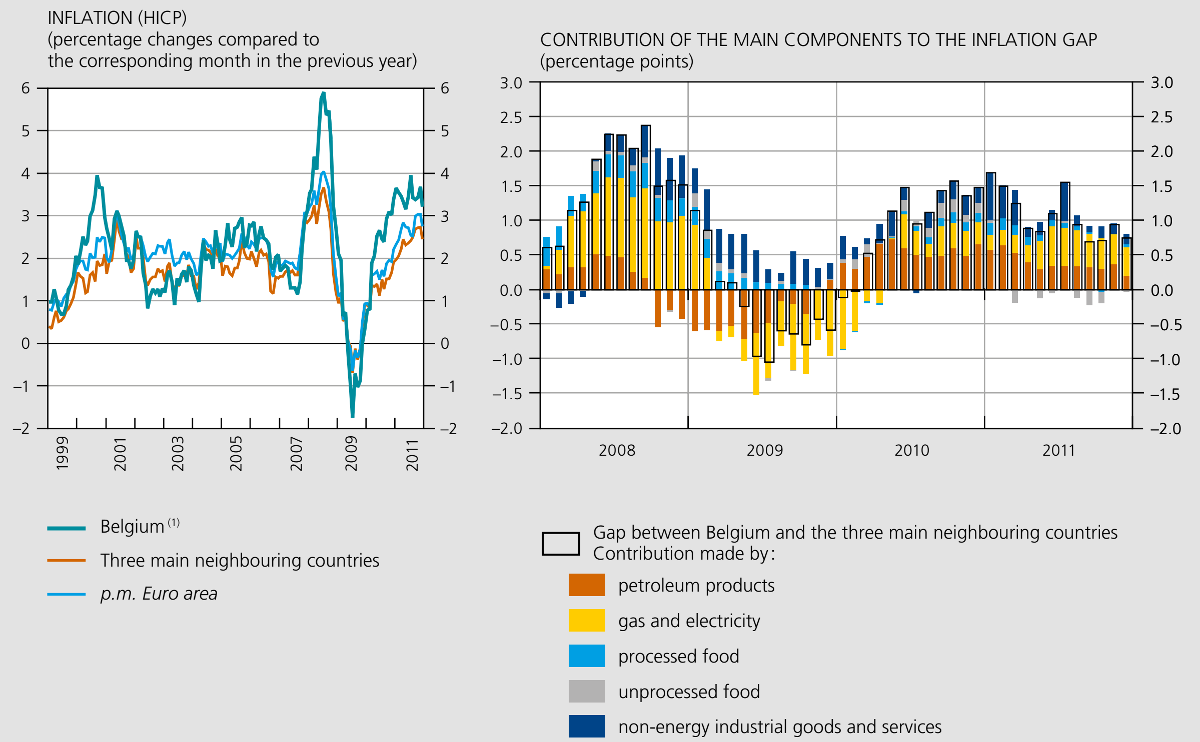
both the unprocessed food component and non-energy industrial products. Overall, however, this had little influence on the inflation measures in the three neighbouring countries. For the euro area as a whole, the Directive is thought to have reduced the 2011 inflation figure by 0.1 percentage point.

The continuing excess inflation in relation to the neighbouring countries in 2011 is therefore essentially a direct consequence of the increase in commodity prices. These first-round effects were greater in Belgium, as had already been the case in 2008. At the time, they had triggered second-round effects – i.e. price rises resulting from increases in wages and other incomes, intended to compensate for the loss of purchasing power caused by the first-round effects – which had led to larger price increases for non-energy industrial goods and services than in neighbouring countries. In 2011, underlying inflation continued the acceleration which had begun at the end of 2010, and remained stronger than in those countries. However, it was only in the first quarter that the gap grew larger. Incidentally, in January and July 2011, the gap widened temporarily because the price reductions in the sales in Belgium were smaller than in the previous year. The existence of a system of automatic wage indexation heightens the risk of second-round effects re-emerging. Their repercussions on the competitiveness of the Belgian economy would be all the more apparent since the rather gloomy economic climate undoubtedly inhibits second-round effects in economies which do not apply automatic indexation.

Energy prices

As usual, it was crude oil prices on the international markets that determined the movement in energy product prices in 2011. Continuing the trend which had begun in the second half of 2010, the average price of Brent increased further until April, rising from less than $ 80 per barrel in mid-2010 to over $ 120. Despite the cyclical downturn, the price dropped only slightly during the rest of the year. Prices were 40 % higher, on average, than in 2010, a year in which they had already risen by 29 %. Since the euro appreciated against the dollar during the year under review, the price increase expressed in the European currency was slightly smaller, at around 33 %, which was fairly similar to the 2010 figure.

CHART 41 INFLATION GAP BETWEEN BELGIUM AND THE THREE MAIN NEIGHBOURING COUNTRIES



Sources: EC, NBB.
(1) Excluding the estimated effect, in January and July 2000, of the fact that prices discounted in the sales have been taken into account in the HICP since 2000.

Energy price fluctuations have a relatively greater impact on inflation in Belgium than in the neighbouring countries, as is evident from the contribution of these products to the inflation gap. In 2011, the energy component of the HICP increased by 17 % in Belgium, compared to an average of 10 % in the neighbouring countries. Various factors account for this situation: a larger share of the energy products most sensitive to international oil prices in the household consumption basket, a level of excise duties on these products below the average in the other countries, and finally, certain characteristics of the pricing of energy products excluding taxes, which lead in particular to a quicker and more pronounced transmission of commodity prices to consumer prices of gas and electricity (see Box 5 in the Bank's 2010 Report).

Among the petroleum products, it was heating oil prices that increased the most – by 28 % in Belgium, compared to 24 % in the neighbouring countries. Motor fuel prices, for which the percentage changes are moderated by the presence of much higher excise duties, increased by 16 %, compared to 12 % in the reference countries. The price of Brent very quickly influences consumer prices of petroleum products: it has an almost instant effect on international prices of refined products and, in accordance with the programme contract, the latter determine the level of prices paid by households, taking account of the excise duties, VAT and distribution costs, less any discounts granted by distributors. In 2011, as in the previous year, excise duties on diesel were increased following implementation of the ratchet system. The overall effect of the excise duty changes on inflation is estimated at 0.1 % (see Box 6).

Although the transmission of energy commodity prices to gas and electricity prices is slower, it is noticeably faster in Belgium than in the neighbouring countries, owing to the system of automatic monthly adjustments to the tariffs. This type of indexation generated positive gaps in relation to the neighbouring countries during the periods of rising commodity prices (2008 and 2010-2011) and negative gaps in periods of falling prices (2007 and 2009).

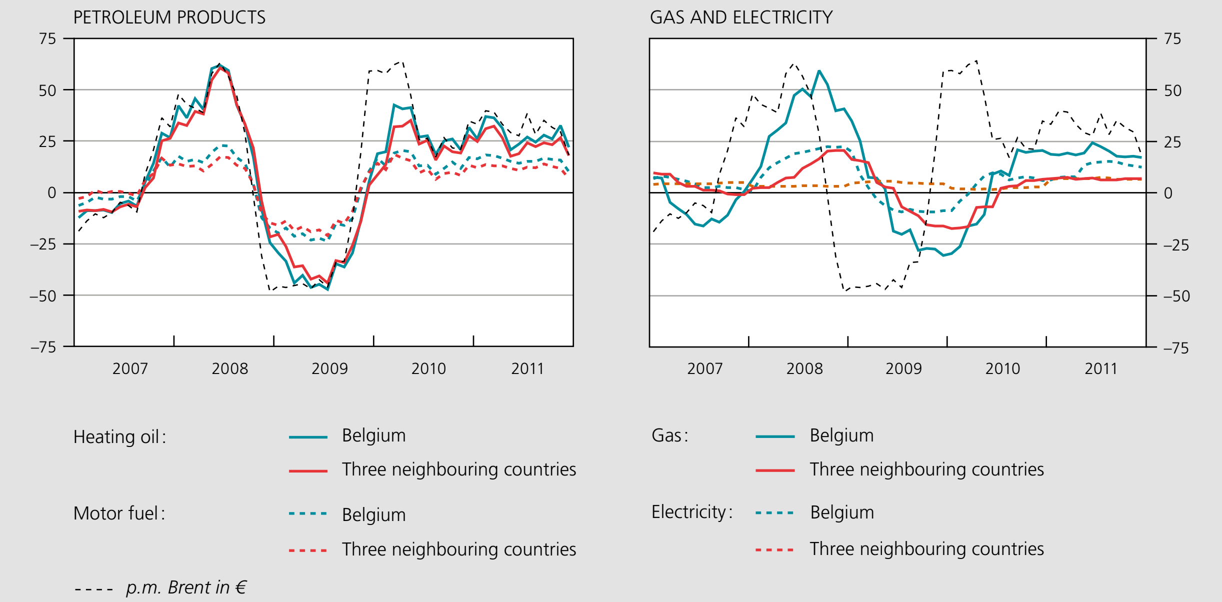
In 2011, the gas price went up by 19 % in Belgium, compared to an average of 7 % in the neighbouring countries. In the longer term, however, the rise in consumer prices of gas in Belgium does not seem to have systematically exceeded that recorded in those countries.

Electricity prices, which are less sensitive than gas prices to fluctuations in international prices, increased by 12 % in Belgium, against an average of 7 % in the neighbouring countries. Electricity suppliers are still using parameters which the CREG considers non-representative for the indexation of their tariffs. Also, the surge in prices in April 2011 was due mainly to an increase in the "public service obligations" component of the distribution tariffs in Flanders, justified by the funding of the subsidies introduced to encourage the installation of solar panels. The success of this initiative was such that the budgetary cost of the measure had to be revised upwards, and it was decided to spread that cost over all Flemish customers. During 2008-2011, increases in distribution and transport charges levied by the intermunicipal associations had a cumulative effect of 21 % on electricity prices, 0.6 % on the consumer price index and 0.7 % on the health index. In principle, the setting of these tariffs is largely regulated by the authorities since this concerns the non-liberalised segment of the market. However, in 2007, following judicial proceedings, the CREG had lost some of the powers which had enabled it to impose tariff reductions in previous years. In the future, the Regions will play a greater supervisory role, as laid down by the December 2011 government agreement. In order to safeguard consumers' purchasing power and business competitiveness, the federal State and the Regions will endeavour to maintain control of all the energy cost components. In particular, they will have to find ways of reducing distribution tariffs, limiting the impact of the federal contribution on prices, improving competition on the electricity market by making available to the market part of the output of the amortised nuclear power stations, and making it easier for households to switch suppliers. Furthermore, if prices in Belgium were to diverge from the average in neighbouring countries without any objective reason, a maximum price could be temporarily imposed.

In addition, the Law of 8 January 2012 transposing the EU Third Energy Package Directives into Belgian law includes a provision restricting the number of price indexations for electricity and gas to a maximum of four per year, at the start of each quarter, and introducing checks on the calculation of the indexations for variable tariffs and *ex-ante* checks for other increases. This legislation does not tackle the problem of the mechanical, automatic link to international prices. Moreover, it does not cover the

CHART 42 CONSUMER PRICES OF ENERGY

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



Source : EC.

fixed tariffs or the reductions in variable tariffs, so that in practice a considerable part of the market avoids control. In all, the impact of these provisions on price volatility is likely to be limited. Though based on the Dutch system, the law differs from it in various respects so that it will not lead to a similar smoothing of price fluctuations. In the Netherlands, it appears that suppliers adjust their prices, on average, only twice a year, and that these adjustments are not simultaneous.

Food prices

Unprocessed food prices increased by 0.2 % in 2011, whereas they had risen by 3.5 % in 2010, owing to rather unfavourable supply conditions and, to a lesser extent, a change in methodology concerning seasonal products. However, this small average increase conceals significant divergences. Fish and seafood prices and the prices of meat rose respectively by 1.6 and 2.2 %, while prices of fruit and vegetables fell by 1 and 4.6 %. These movements represent a return to normal for the latter, which had risen steeply in 2010, while in the case of meat and, above all, fish, the price increases are again due to somewhat unfavourable supply conditions.

The rise in processed food prices, which had gathered pace in the second half of 2010, accelerated further in 2011. Altogether, it came to 3.1 %, compared to 1 % in 2010. This sharper rise follows the increase in commodity prices from the end of 2009. The price index calculated by the IMF, which concerns a selection of food products such as cereals, oils, meat, cocoa and coffee, peaked in February 2011 at a level well above that recorded when world prices surged in 2007-2008. However, that index is not the most relevant for analysing the transmission of international price fluctuations to consumer prices. In fact, the weighting of the various products included in the consumption basket of Belgian households differs substantially from their weights in

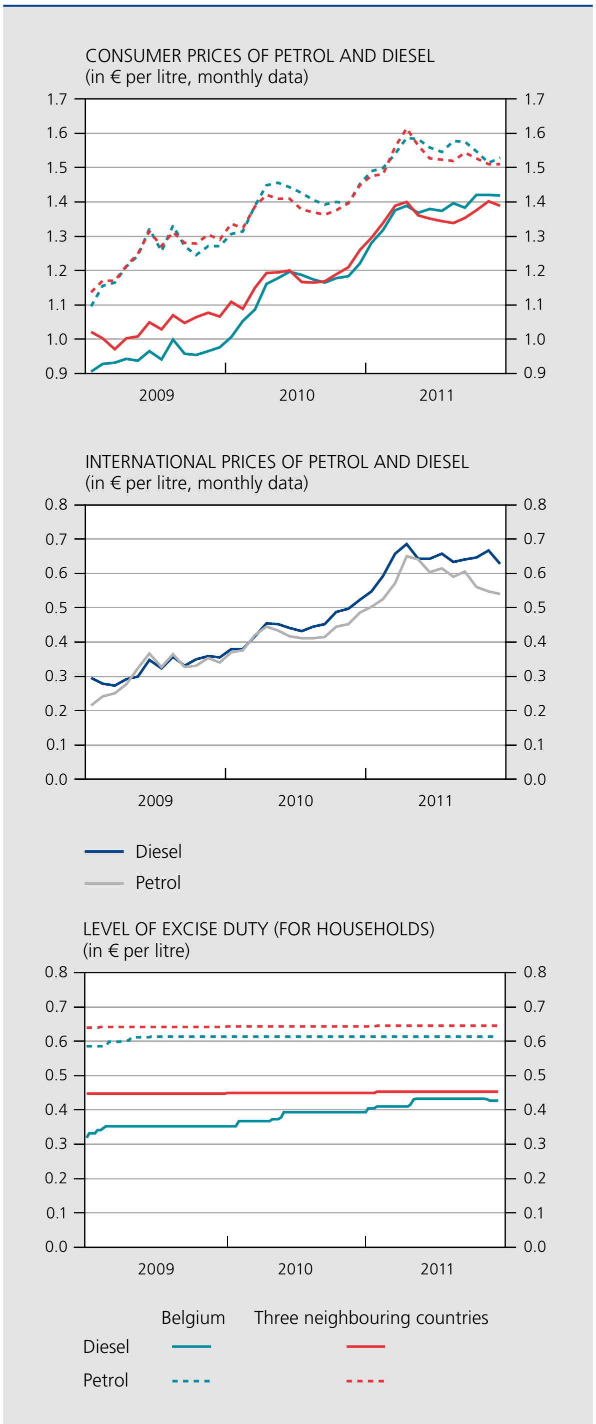
Box 6 – Diesel price movements in 2011

Up to 2009, the price of diesel per litre in Belgium had been below the average in the three main neighbouring countries. The gap had disappeared from the end of the first half of 2010. In 2011, the diesel price exceeded that in neighbouring countries. The reason is the increase in indirect taxation. Since the end of 2008, the excise duty on diesel has risen each year by around 4 cents per litre in Belgium, while remaining practically unchanged – though higher – in the reference countries. These increases are due to the implementation of the ratchet system, whereby half of each reduction in the maximum price of diesel under the programme contract resulting from fluctuations on the international oil markets is offset by a permanent increase in excise duty, up to an annual maximum of 4 cents per litre. In 2011, that ceiling was reached in May. In November, the price rise for refined products combined with the increase in excise duty propelled the maximum price of diesel beyond € 1.5 per litre for the first time; at that level, a price rise attenuation mechanism was triggered. Under that mechanism, introduced in 2005 and called the reverse ratchet, each increase in VAT revenues generated by a price increase under the programme contract is fully offset by a reduction in excise duty so long as the official prices exceed a certain threshold, set at € 1.5 per litre for diesel in 2011. There is a similar mechanism for petrol, but here the threshold of € 1.7 per litre was not exceeded in 2011. The reverse ratchet mechanism was activated twice for diesel, in November 2011. Surprisingly, the reductions in excise duty thus granted are not neutralised when the price falls below the intervention thresholds, as it did in December 2011. It should be noted that the excise duty increases imposed since 2004 do not affect professional carriers, who can in fact reclaim the amounts in question.

In the future, further increases in the tax on diesel cannot be ruled out. The proposal for an Energy Taxation Directive presented by the EC in April 2011 aims to avoid distortions between products. For that purpose, it is based partly on the energy content of products and partly on their greenhouse gas emission rate; in practice, this only concerns CO_2. According to these principles, diesel should be taxed more heavily than petrol. In fact, the energy content of diesel is 10 % higher than that of petrol, and a litre of diesel produces 13 % more CO_2 than a litre of petrol, apart from any other greenhouse gas emissions such as nitrogen oxide (NOx) and the production of fine particles, which add to its detrimental ecological impact. That is why some countries ban vehicles using this type of fuel.

The adjustment of the relative level of excise duty ought to restore the balance of supply and demand for refined products. Consumption of diesel has in fact risen sharply in recent years, partly as a result of the growing market share of diesel cars fostered by the distortion in terms of excise duty. Consequently, since the end of 2009,

PETROL AND DIESEL PRICES



Source: EC.

ex-refinery diesel prices have exceeded petrol prices. Combined with the increase in excise duty, that reinforced the narrowing of the price gap between these types of fuel at the pumps.

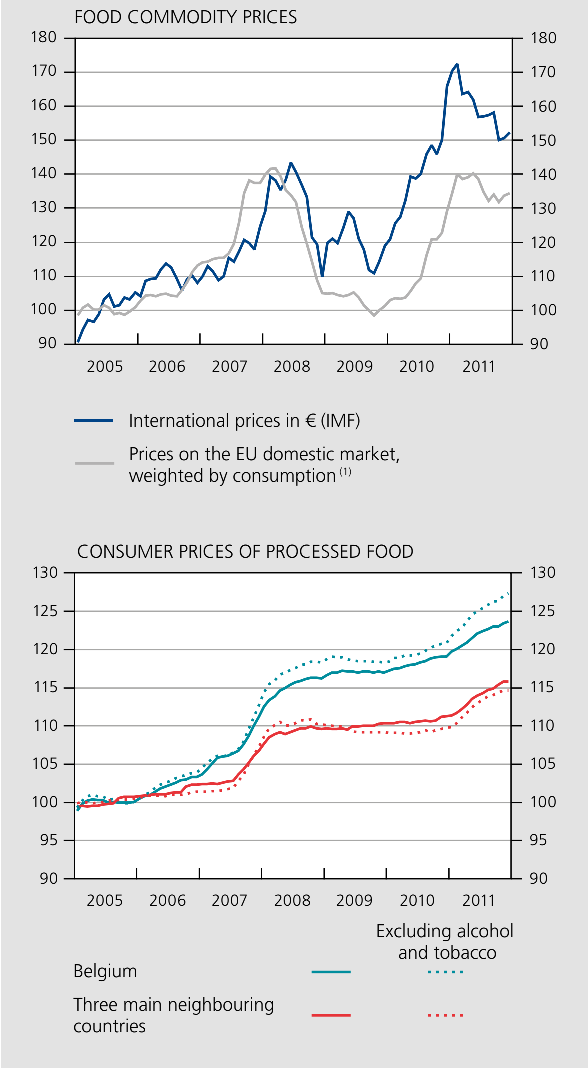
During the year under review, the increase in the excise duty on diesel accentuated the positive contribution of the energy component to inflation by 0.1 %. In the medium term, however, the higher level of these taxes should make inflation less sensitive to commodity price fluctuations.

world trade. Furthermore, the IMF index does not cover a product such as milk. Reference to an indicator based on prices on the internal EU market and weighted according to the consumption profile of Belgian households indicates a less marked rise in commodity prices, more comparable to that in 2007-2008. Symmetrically, while the IMF index has fallen considerably since February, the decline is smaller in the case of the index based on prices on the internal EU market; that index only reached its maximum in May 2011 and remained at a relatively high level for longer.

The surge in prices in 2007-2008 had triggered an increase in processed food products which was much more pronounced in Belgium than in the three main neighbouring countries, contributing to the adverse inflation gap recorded at that time. This effect had not been offset in 2009 when commodity prices declined; this indicates a high degree of asymmetry in the pricing of these products, as had also been shown in the 2010 Annual Report of the Price Observatory. Once again, processed food prices increased faster in Belgium than in the reference countries, but to a lesser extent than during the previous episode: the difference in relation to those countries was 0.3 percentage point in 2010 and 0.2 percentage point in 2011, compared to 2.4 percentage points in 2007 and 2008. The gap was reduced by steeper increases in prices of alcohol and tobacco in the neighbouring countries: if these products are excluded, it expands from 0.2 to 1.2 percentage points in 2011.

Are the fluctuations in processed food prices – which are quicker to rise and slower to fall in Belgium – attributable to a lack of competition in the distribution sector? The Belgian competition authority recently pinpointed the relatively narrow market and the low profitability of some major groups in this sector as possible reasons for the differences between Belgian and Dutch prices for identical products. However, a recent Eurosystem report (ECB (2011), *Structural features of distributive trades and their impact on prices in the euro area)* shows that the concentration is relatively low at both national and

CHART 43 FOOD PRICES
(indices 2005 = 100)



Sources: EC, IMF, NBB.
(1) Average of prices prevailing on the EU market in cases where there is production in the EU, and international prices where that is not the case (cocoa, coffee), weighted by consumption in Belgium (HICP weightings).

local level, and that profit margins are rather small in the Belgian retail sector. Other possible reasons for these differences might be found in labour costs, the lack of entrepreneurship, or the rules on setting up stores, price controls and opening times. Simplification of the plethora of regulations would be progress in itself, since the factor inhibiting the development of trade in Belgium is probably the complexity of the rules rather than the restrictions that they impose. In any case, structural reforms are needed to strengthen competition and gain more from the European Single Market.

Three phenomena have contributed towards changing the structure of trade in the past few years: the success of hard and soft discounters, the emergence of private labels, and the expansion of online retailing. All three tend to drive down prices, and the first two – which mainly concern food products – are particularly prominent in Belgium. Moreover, these developments also have an impact on the inflation measurement. How can they be taken into account in defining the consumption basket used to calculate the price index? The reform of the national consumer price index (base 2012 = 100), which is in preparation and is to apply from 2014 onwards, should be taken as an opportunity to ensure that the index is representative by specifying an appropriate method of updating the sample of products and outlets. It also offers the chance to align the methodology of the national index with that of the HICP, which has a more frequently updated weighting scheme.

Health index and underlying inflation trend

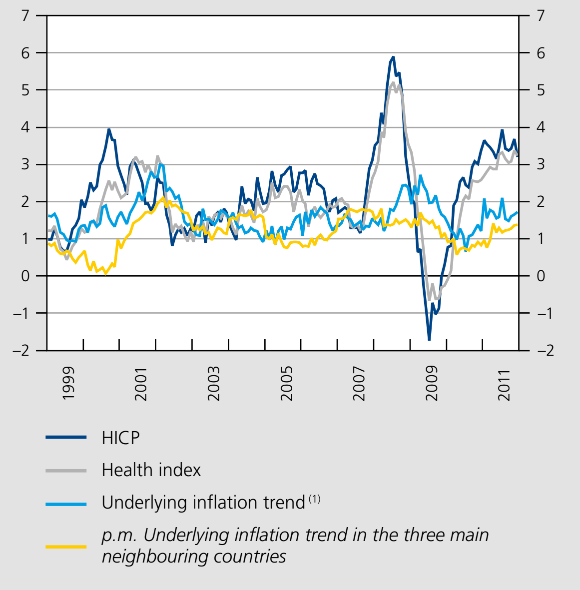
The strong increases in processed food prices and, to an even greater extent, energy prices had a major impact on the health index, which was up by 3.1 % in 2011, compared to 1.7 % in 2010. It is this index, and not the overall index, that forms the basis for wage indexation, the aim being to limit the second-round effects of increases in excise duty and, above all, oil shocks, and thus preserve the competitiveness of firms. Apart from alcohol and tobacco, petrol and diesel are indeed also excluded from the health index basket. Conversely, the other energy products, namely heating oil, gas and electricity, are included. The steep rise in their prices contributed 1.3 percentage points to the rise in the health index in 2011.

The sensitivity of the health index to energy prices is all the greater since heating oil, gas and electricity have a high weight in the Belgian consumption basket – notably because of the large number of individual houses with relatively low energy efficiency – and since the low level of excise duty on heating oil causes the price of that product to respond more sharply to oil price fluctuations, and because gas and electricity prices are particularly sensitive to international energy commodity prices taking account of the indexation methods used by suppliers. Moreover, since January 2007, gas and electricity prices have no longer been recorded on the basis of annual bills, but on the basis of monthly tariffs in accordance with the European rules on the subject. Additionally, the correlation between energy prices and food prices, which have both fluctuated widely in recent years, has become highly positive, whereas it was negative up to 2007, attenuating to some extent the overall volatility of the health index.

The health index is used for the indexation of wages, rents and prices of a number of services, so that its rise fuels after a time lag the underlying inflation trend as generally measured by the movement in prices of non-energy industrial goods and services, which are less volatile and less directly affected by fluctuations in commodity prices. Thus, around the end of 2001 and the end of 2008, the rise in the health index, due notably to higher commodity prices, led to a 2 % increase in the underlying inflation trend, well in excess of the levels in the main neighbouring countries. During the

CHART 44 HICP, HEALTH INDEX AND UNDERLYING INFLATION TREND

(percentage changes compared to the corresponding month of the previous year)



Sources: EC, DGSEI.
(1) HICP, excluding energy and food.

CHART 45 UNDERLYING INFLATION TREND AND LABOUR COSTS IN THE BUSINESS SECTOR (1) IN BELGIUM AND IN THE THREE MAIN NEIGHBOURING COUNTRIES

(percentage changes compared to the corresponding quarter of the previous year)

Source: EC.

(1) The business sector comprises the NACE branches of activity B to N inclusive, and therefore includes industry, construction and market services. It can be taken as an approximation of the private sector.

(2) The data on the underlying trend in inflation, i.e. inflation measured by the HICP excluding food and energy, relate to the total economy.

year under review, that trend came to 1.7 %, and has remained higher than in the neighbouring countries. The acceleration compared to the moderate figure of 1.1 % recorded in 2010 is due primarily to an increase in inflation in the service sector, where it has risen from 1.4 to 2.2 %, while prices of non-energy industrial goods have increased by only 1 %, a rise comparable to that in the previous year.

The movement in labour costs has influenced the profile of the underlying inflation trend in recent years. After a strong accentuation due to the decline in labour productivity caused by the contraction of activity during the great recession, the rise in unit labour costs in firms slowed from the spring of 2009, owing to both the restoration of productivity and the moderation of the rise in hourly costs. In late 2009 and during the first half of 2010, the combination of these two factors led to a fall in unit labour costs. But from mid-2010, the dwindling apparent labour productivity gains and the steeper rise in hourly labour costs caused a surge in unit labour costs.

A comparable pattern was evident, on average, in the three neighbouring countries, where the cyclical movement in productivity – and hence in unit labour costs – though more pronounced, was less reflected in fluctuations in underlying inflation. Apart from short-term variations, the gap between the underlying inflation trend in Belgium and in the three main neighbouring countries is due partly to a differential in the same direction between the respective changes in unit labour costs.

4.2 Hourly labour costs and wage handicap in the private sector

Hourly labour costs

During the year under review, the rise in hourly labour costs in the private sector, which had come to just 0.9 % in 2010, accelerated considerably to an average of 2.7 %. In the absence of real agreed increases in 2011, that acceleration was due solely to a more pronounced impact of indexation. On balance, the wage drift had only a minor influence on labour costs and, in contrast to previous years, employers' social contributions exerted slight downward pressure.

The marked acceleration from the second quarter of 2010 in the rate of increase of the health index – the four-month moving average of which is used as the reference indicator in the indexation mechanisms – was not fully reflected in wages until 2011, in view of the time lags due to the various mechanisms applied. The effect of these indexations averaged 2.7 %, compared to 0.5 % in the previous year. The wage increases thus resulting from past inflation significantly heighten the risk of second-round effects which may trigger an inflationary spiral, as they are subsequently passed on to selling prices, at least in the branches of activity where competition conditions permit that. This creates further inflationary pressure which itself causes an additional wage increase via automatic indexation, and it does so in all firms regardless of whether they are subject to strong competition. In the context of an international cyclical slowdown, the impact on the competitive position of Belgian firms may be all the greater, in that their counterparts based in countries which do not apply automatic indexation will be less inclined to grant pay increases.

At the start of the year under review, as some unions did not ultimately accept the draft central agreement for 2011-2012, the Federal Parliament adopted a law implementing the government compromise which, in regard to wage increases, reiterated the provisions of the original draft. In particular, it was decided that, above indexation, there was no margin available for agreed adjustments in 2011. Not until 2012 can any real increase be granted, and it must not exceed 0.3 %.

In practice, as had been the case in 2009 and 2010, a number of joint committees granted wage benefits in the form of payment instruments – generally eco-vouchers – which are exempt from tax and personal and employers' social contributions. From a statistical viewpoint, these fixed benefits which are not included in the pay scales are part of the wage drift. They made a negative contribution during the year under review, since – contrary to what happened in 2010 when the maximum of € 250 was generally granted – the amount involved was often smaller and they were only issued in fewer sectors.

Other factors, too, affected the impact of the wage drift on the rise in hourly labour costs. As pointed out in chapter 3, a large proportion of the jobs created in 2011 received government support in one form or another. These were usually low-skilled jobs remunerated at less

TABLE 11 HOURLY LABOUR COSTS IN THE PRIVATE SECTOR

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

	2007	2008	2009	2010	2011 e
Gross hourly wages	**2.4**	**3.4**	**2.2**	**0.7**	**2.8**
Collectively agreed wages (1)	1.9	3.5	2.6	0.6	2.7
Real agreed adjustments	0.2	0.5	0.2	0.1	0.0
Indexations	1.6	2.9	2.5	0.5	2.7
Wage drift (2)	0.5	–0.1	–0.4	0.1	0.1
Employers' social contributions (3)	**0.7**	**0.2**	**0.6**	**0.2**	**–0.1**
Social security	0.3	0.0	0.3	0.1	0.0
Other contributions (4)	0.4	0.2	0.3	0.1	–0.1
Hourly labour costs	**3.1**	**3.6**	**2.8**	**0.9**	**2.7**
p.m. Including the effects of the payroll tax reductions (5)	*2.8*	*3.3*	*2.4*	*0.5*	*2.7*

Sources: FPS Employment, Labour and Social Dialogue; General notes on the budget; NAI; NSSO; NBB.
(1) Wage increases fixed by joint committees.
(2) Increases and bonuses granted by enterprises over and above those under central and sectoral collective agreements, wage drift resulting from changes in the structure of employment and errors and omissions; contribution to the change in labour costs, percentage points.
(3) Contribution to the change in labour costs resulting from changes in the implicit contribution rates, percentage points.
(4) Actual social contributions which are not paid to the government, including premiums for group insurance, pension funds or occupational pension institutions, and imputed contributions, including redundancy pay.
(5) This concerns the part of the reductions in payroll tax granted to private sector firms. According to the national accounts methodology, the ESA 95, these should be recorded as a subsidy and not as a direct reduction in charges. They therefore cannot be taken into account in calculating labour costs.

than the private sector average. If the unemployment benefit is activated, the new worker's wage can be reduced by the amount of the benefit for a maximum of 30 months, cutting the employer's labour cost by a corresponding amount. That reduces the wage drift. Finally, the cyclical slowdown and the less favourable outlook which emerged in the second half of 2011 tended to restrain demand for labour and thus to lower the tension on certain labour market segments, relieving the pressure on the wage drift. In all, these various factors more or less offset the positive wage drift generally observed, notably owing to structural changes in the employed population, so that the contribution of the wage drift to the change in hourly costs did not exceed 0.1 percentage point in the year under review.

The redundancy payments made by employers, classified under employers' other contributions, had continued to exert slight upward pressure on hourly labour costs in 2010, notably because of the closure of the Opel car assembly plant in Antwerp. There were no redundancies on that scale in the year under review, in a context of still continuing robust employment expansion, so that redundancy pay made a negative contribution to labour cost developments. Employers' social security contributions also exerted slight downward pressure on hourly costs, owing to the larger structural reductions in contributions, which represent around three-quarters of the amount of the reductions in social security contributions granted to employers. In 2011, these totalled around € 5.5 billion, or 3.6 % of the total wage bill of the private sector before those reductions.

The reductions in payroll tax which – according to the national accounts methodology (ESA 95) – are recorded as subsidies and are not deducted directly from labour costs, did not have any significant influence on the change in hourly costs during the year under review. Apart from a general component, these reductions are intended, amongst other things, to support research and development activities and certain specific forms of employment, such as shift work, night work and overtime. They came to € 2.5 billion in 2011, or 1.7 % of the private sector wage bill.

Wage handicap

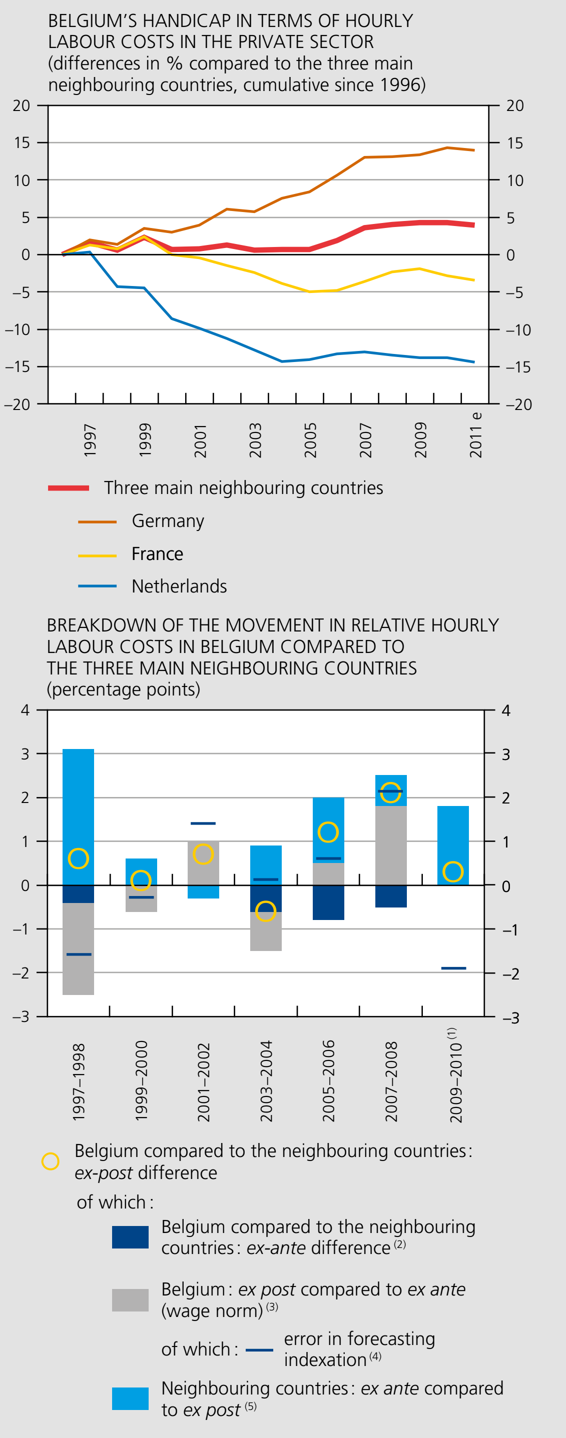
As provided for by the 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness, the CEC Secretariat compares the Belgian movement in hourly labour costs in the private sector to that seen in Germany, France and the Netherlands, the three largest neighbouring countries which are also Belgium's main trading partners. The technical report published in November 2011 estimated the wage handicap accumulated since 1996 in comparison with firms in those three countries at 3.9 % for the year under review, which was slightly lower than in 2010. In fact, hourly labour costs in Belgium increased more slowly than in each of the partner countries in 2011. The competitive advantage in relation to French and Dutch firms therefore widened slightly, while the wage handicap in relation to the German private sector diminished somewhat. According to the CEC, that improvement is only temporary and the handicap would increase again in 2012.

According to these estimates, over the collective agreement period 2011-2012 as a whole, the rise in labour costs in Belgium will exceed the figure in neighbouring countries. That situation is far from unusual, because – since the 1996 Law was implemented – the handicap has only diminished slightly in one period, namely 2003-2004.

Between 1996 and 2008 – until which year a wage norm was fixed under each central agreement – the difference between the increases in hourly labour costs in Belgium and in the three neighbouring countries can be broken down into three terms. The first term indicates how the wage norm fixed by the negotiations between the social partners compares to the increase in labour costs expected at that same time in the neighbouring countries. The second only concerns Belgium, and indicates whether the wage norm was respected by comparing it with the *ex-post* rise in labour costs. Finally, the third term measures the errors in forecasting the movement in labour costs in the neighbouring countries by comparing the *ex-post* rise in labour costs with the initial estimate.

This breakdown shows that when the norms for the maximum wage increase were fixed, they were always less than or equal to the expected movement in hourly labour costs in the neighbouring countries. In practice, however, the actual increases exceeded the centrally agreed norm, sometimes considerably, for the periods 2001-2002, 2005-2006 and 2007-2008, owing to higher-than-expected indexations. In fact, whether or not the wage norm is respected depends largely on the degree to which the actual wage indexation was higher or lower than expected: since indexation is automatic, any increase in the health index is reflected in full – more or less promptly depending on the linking methods used – in the rise in labour costs. Moreover, it has emerged that the correction mechanisms, notably the all-in clauses (i.e. the provisions which compensate for the impact of faster-than-expected indexation by granting smaller real

CHART 46 WAGE NORM AND WAGE HANDICAP IN THE PRIVATE SECTOR, ACCORDING TO THE CEC



Source: CEC.
(1) No wage norm was fixed under the central agreement for 2009-2010.
(2) Wage norm less the expected movement in hourly labour costs in neighbouring countries. A negative (positive) figure therefore implies that the wage norm was set at a level below (above) the expected movement in neighbouring countries.
(3) Actual increase in labour costs in Belgium, less the wage norm. A positive (negative) figure therefore implies that the wage norm was exceeded (respected).
(4) A positive (negative) figure indicates that actual indexation was greater (less) than the expected indexation.
(5) Expected increase in labour costs in the three neighbouring countries, less their actual increase. A positive (negative) figure therefore implies that the rise in labour costs in the neighbouring countries was overestimated (underestimated).

increases, either in the period for which the increases were agreed or during the ensuing period) introduced by some joint committees seem in most cases to provide only very partial protection for wages in the event of unforeseen inflation shocks, if only because the real increases were low compared to the scale of the unexpected indexations to be offset.

Yet, ultimately, it seems that the stronger wage growth recorded in Belgium is due – in most cases – to an overestimate of the hourly labour cost increases expected in the three neighbouring countries when the norm was fixed. In fact, overestimates occurred in all the central agreements concluded since 1997 with the exception of the 2001-2002 agreement. They led to excessive real agreed increases owing to overvaluation of the maximum margin available for the rise in labour costs in Belgium, after taking account of any adjustments for previous slippages, expected indexation and the wage drift.

Does a stronger rise in hourly labour costs in Belgium, as identified by the CEC, reflect a more favourable movement in labour productivity than in the neighbouring countries? If not, there is a direct impact on the competitive position of Belgian firms, via a relatively steeper rise in unit labour costs. Comparable international statistics for this concept are only available for the business sector, which is regarded as an approximation of the private sector.

Since the adoption of the 1996 Law, unit labour costs have risen faster in Belgium than in the three main neighbouring countries every year except in 2003, 2004 and 2009. During the year under review, the resulting handicap increased further. It is estimated at a cumulative figure of 12.6 % since 1996, which is much higher than the difference measured for hourly labour costs alone. In fact, in all three neighbouring countries, labour productivity has followed a more favourable trend than in Belgium.

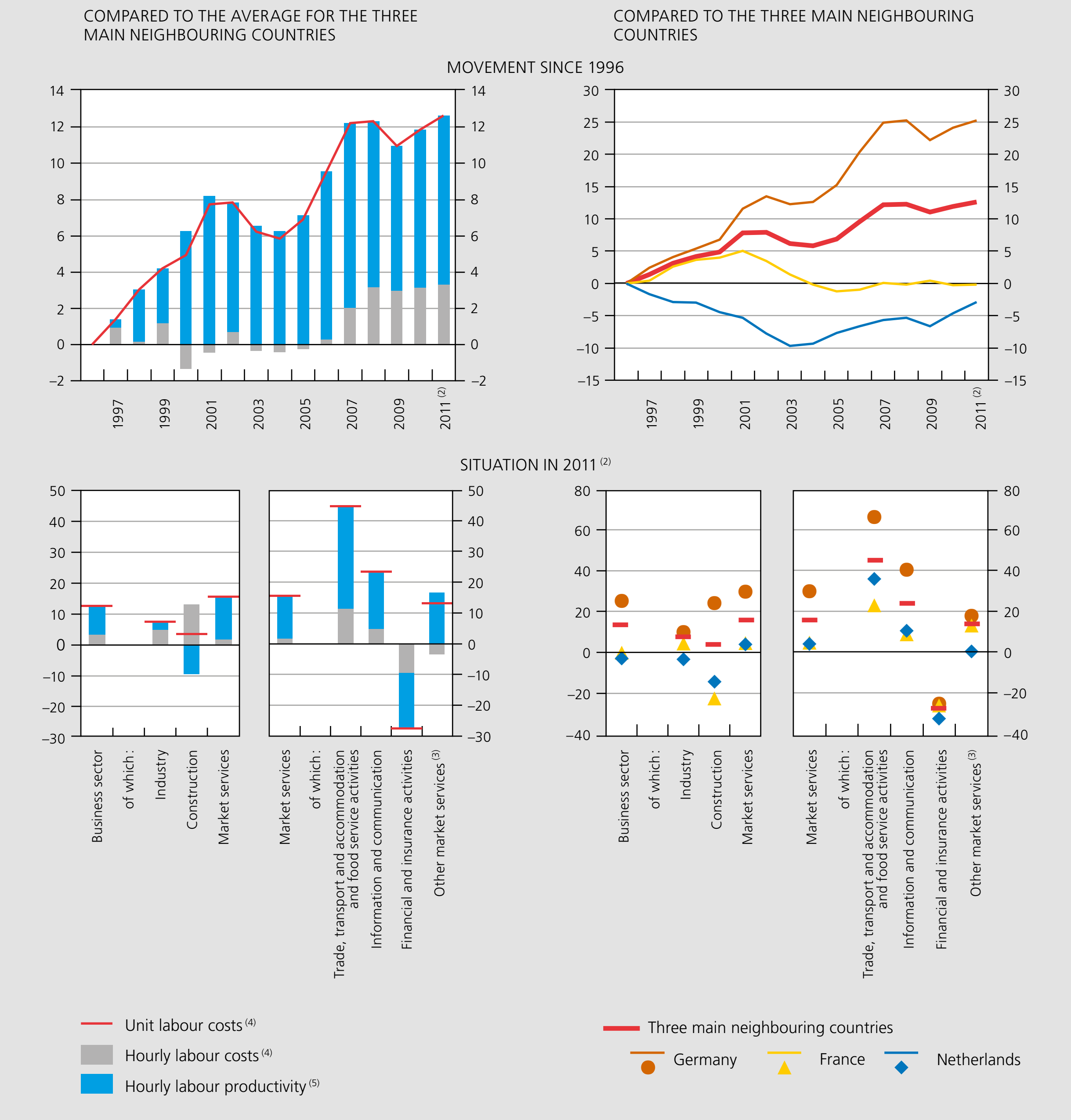
The gap recorded in 2011 for the business sector as a whole is attributable mainly to market services, and particularly the "trade, transport, accommodation and food service activities" branch where the cumulative handicap since 1996 for unit labour costs amounted to around 45 %. Even though hourly labour costs in firms in this branch have risen much faster than the average for their counterparts in neighbouring countries, the discrepancy is due primarily to the much less favourable trend in productivity. Since such discrepancies are often reflected in the prices of the services provided, they may lead to significant second-round effects on consumer prices. Conversely, a competitive advantage of almost

28 % was apparent in "financial and insurance activities", due both to a more moderate rise in labour costs and to stronger productivity growth than in the neighbouring countries.

In industry – the branch of activity most directly exposed to foreign competition – productivity has more closely mirrored the developments in neighbouring countries since 1996; the 7.4 % handicap recorded for this branch

CHART 47 **UNIT LABOUR COSTS IN THE BUSINESS SECTOR (1) IN BELGIUM**

(differences in % in relation to the three main neighbouring countries, cumulative since 1996)



Source: EC.
(1) The business sector comprises the NACE branches of activity B to N inclusive, and therefore includes industry, construction and market services. It can be taken as an approximation of the private sector.
(1) Average of the first three quarters.
(2) Real estate activities, specialist, scientific and technical activities and administrative and support service activities.
(3) A positive sign implies that unit labour costs and hourly labour costs are rising faster in Belgium than the average for the three main neighbouring countries.
(4) A positive sign implies that labour productivity is rising more slowly in Belgium than the average for the three main neighbouring countries.

is due mainly to a faster rise in hourly labour costs. Finally, the competitive position of construction has deteriorated less than that of industry since 1996 : the increase in hourly labour costs, which was faster than in neighbouring countries, was partly offset by relative productivity gains.

Examination of the situation compared to each of the three neighbouring countries taken individually shows that, since 1996, Belgian firms have accumulated a unit labour cost handicap of around 25 % in relation to Germany. In regard to that country, a competitive disadvantage is evident for all branches of activity except "financial and insurance activities". In relation to France and the Netherlands, the cumulative competitive advantage of Belgian firms amounts to 0.2 and 2.9 % respectively. While Belgian industry has a handicap in relation to France, it has improved its competitive position since 1996 in relation to Dutch manufactures. The construction sector has a competitive advantage in relation to both these countries, whereas the opposite applies in the case of market services.

5. Financial situation of the private sector

Belgium is one of a small number of European countries whose economy traditionally generates a positive financial position. Despite the financial turbulence, the net assets of the non-financial private sector continued to grow in 2011, expanding the overall net asset position in relation to the rest of the world. That movement was due to the formation of financial assets by households and companies, and not a reduction in their debt level, which – incidentally – is relatively modest in comparison with the euro area average. In particular, lending by the banking sector to Belgian households and businesses did not dry up, and there was only a small increase in firms' borrowing costs.

5.1 Households

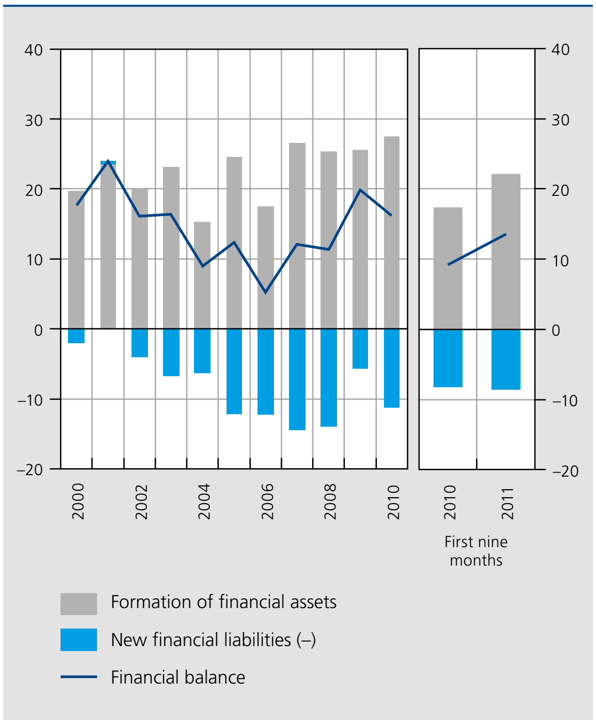
The financial turbulence had only a minor impact on the financial activity of households. During the first nine months of 2011, the losses which households incurred were slightly less than their new asset acquisitions. They continued to take out mortgage loans.

In the first nine months of the year under review, households formed financial assets totalling € 22.1 billion, outstripping the € 17.4 billion acquired during the corresponding period of 2010. At the same time, the financial liabilities of households increased by € 8.6 billion, an amount similar to the net flow of lending during the first nine months of the previous year (€ 8.2 billion).

These developments resulted in a financial surplus of € 13.6 billion, surpassing the already high figure of € 9.2 billion for the same period in 2010. Over 2011 as a whole, the financial balance of households may have been close to the 2001 record.

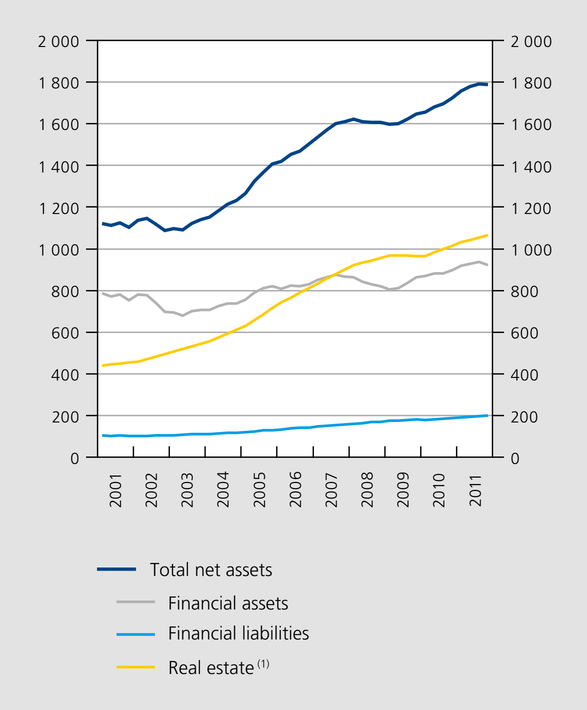
Apart from transactions, fluctuations in the prices of assets held by households also affect the outstanding amount of their financial portfolio. In the first nine months of 2010, households had thus benefited from a positive valuation effect amounting to € 12 billion. In contrast, in the first nine months of 2011, they suffered a loss of € 19.1 billion, due mainly to the movement in

CHART 48 FINANCIAL TRANSACTIONS OF HOUSEHOLDS
(in € billion)



Source : NBB.

CHART 49 HOUSEHOLD ASSETS
(in € billion, end-of-quarter outstanding amount)



Source: NBB.
(1) From 2005 to 2010, the year-end data are obtained from a new register which combines the volume data from FPS Finance (General Property Records Agency) and the data on the selling prices of property obtained from FPS Economy. The pre-2005 data were retropolated on the basis of the estimates published in the 2010 Report. The figures as at the end of March, June and September in each year are intrapolations (and estimates for 2011).

stock market prices. Over the year as a whole, this negative effect is estimated to have been much smaller than in 2008, the year which marked the peak of the subprime crisis: the more modest fall in stock market prices and the smaller share of risky assets in the household portfolio probably attenuated the scale of the losses. In the end, the amount of the financial assets of households totalled € 921 billion on 30 September 2011, against € 918 billion at the end of the previous year.

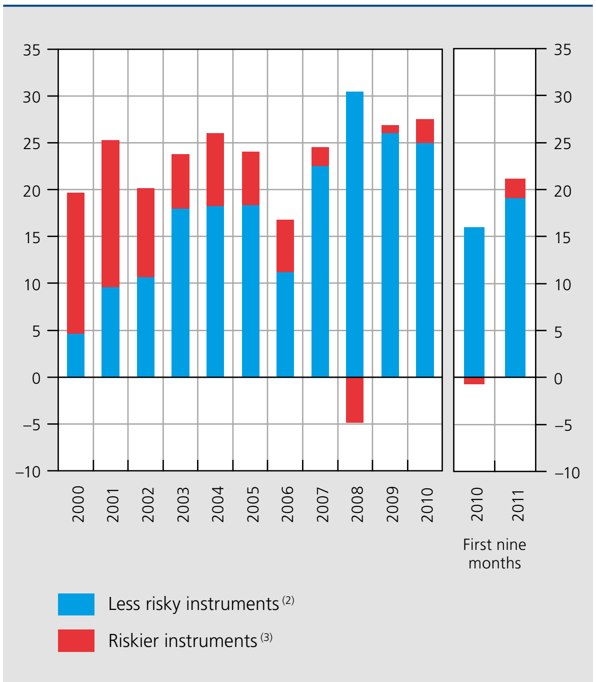
The value of the property owned by households fluctuates in line with the movement in house prices and, to a lesser extent, according to the change in the housing stock owned by households. Altogether, the value of their property was estimated at € 1 066 billion as at 30 September 2011, compared to € 1 031 billion at the end of the previous year.

Finally, the financial liabilities of households, consisting mainly of mortgage loans, continued to expand, totalling € 201 billion at the end of September 2011, against € 192 billion at the end of 2010. Taking account of these developments, the total net assets of households continued to rise in 2011, maintaining a trend which had begun in early 2009. They were up from € 1 757 billion at the end of 2010 to € 1 786 billion on 30 September in the year under review.

Formation of financial assets

The composition of the household portfolio results from the choices which households make between the various financial assets available to them, primarily according to the returns offered and their risk aversion. It may be useful to divide investment flows into two main categories of financial instruments: low-risk assets (cash and deposits, fixed-income securities and insurance products offering a guaranteed return) and riskier assets (shares and other equity, investment fund units and class 23 insurance products).

CHART 50 FORMATION OF FINANCIAL ASSETS ACCORDING TO THE RISK INCURRED (1)
(in € billion)



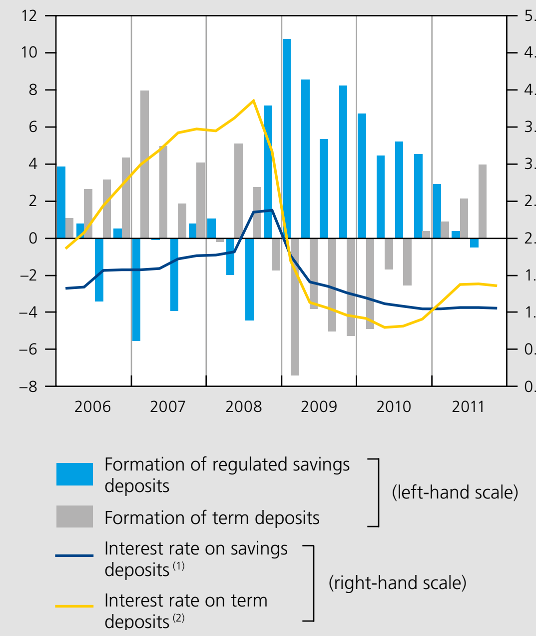
Source: NBB.
(1) Excluding the assets under the "Other" item in chart 52.
(2) This category covers banknotes, coins and deposits, fixed-income securities and insurance technical reserves other than class 23. These are therefore all the instruments which, provided they are held to maturity and the debtor honours his commitments, guarantee a positive or zero nominal return in their reference currency. This distinction is therefore arbitrary in that, owing to the absence of information, it disregards the risk inherent in the currency or counterparty of the investment.
(3) This category comprises financial instruments which do not offer the guarantee described above, namely shares and other equity, UCI units and class 23 technical insurance provisions.

Deterred by the slump in share prices during 2008, individual investors had in that year shunned investment products regarded as risky. However, by 2009, this asset category was back in favour as they hoped for a possible stock market rally, which did indeed occur, before being halted and then reversed in the year under review. In these circumstances, households significantly reduced their positions in risky instruments during the first nine months of 2011, as their modest acquisitions were much smaller than the capital losses.

Individuals' mistrust of the stock market led to a shift towards less risky assets regarded as a safe haven. Once again, households put large amounts of savings into bank deposits. Savings deposits were less popular than in the previous year, though new deposits still amounted to € 2.8 billion in the first nine months of the year under review. This slowdown was due to uncertainty over the future tax status of these deposits, and to the extremely low real interest rates offered on regulated savings. At the same time, term deposits benefited from a slight rise in interest rates, restoring positive net flows totalling € 7 billion. These funds were invested chiefly in long-term deposits, probably reflecting the efforts made by the banks to obtain more stable funding. However, in the fourth quarter, the successful issue of State notes led to a fall in the outstanding amount of deposits. The monthly balance sheet data of Belgian banks confirm the sluggishness of savings deposits, which recorded an outstanding total of € 201.4 billion at the end of 2011, compared to € 197.2 billion a year earlier.

CHART 51 SAVINGS DEPOSITS AND TERM DEPOSITS OF HOUSEHOLDS

(quarterly data; in € billion, unless otherwise stated)



Source: NBB.
(1) Excluding loyalty bonuses.
(2) Less 15 % withholding tax. Average of the rates applied to the main term deposit categories, weighted by the amounts of the new deposits in each of these categories.

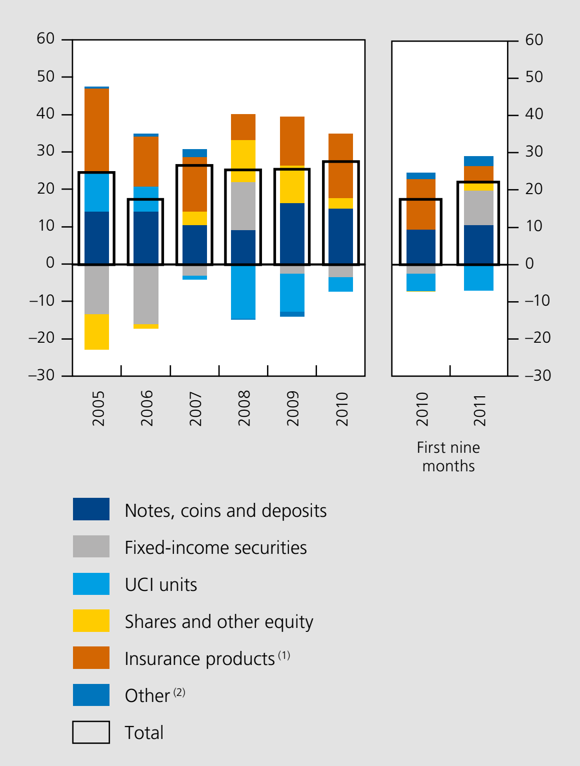
Fixed-income securities also attracted a substantial proportion of household savings. In the case of these securities, purchases and subscriptions were thus € 9.2 billion higher than the amount of sales and redemptions, whereas net sales had totalled € 2.5 billion in the first nine months of 2010. Owing to the relatively generous interest rates and the likelihood that the withholding tax would be held at 15 %, issues of State notes by the Belgian Treasury enjoyed unprecedented success at the end of the year, taking the total subscriptions in 2011 to over € 6 billion, compared to € 0.2 billion in 2010. OLO acquisitions on the secondary market by Belgian households also reached a record level, with a net total of € 0.6 billion. It therefore seems that households continued to have confidence in Belgian public debt securities, despite the volatility on the sovereign bond market. Bonds issued by Belgian firms also benefited from positive investment flows originating from households, amounting to € 0.6 billion in the first nine months of 2011, compared to € 0.1 billion in the corresponding period of 2010.

Owing to the low long-term interest rates, both the yields guaranteed by insurers on class 21 insurance products and the associated profit-sharing have tended to diminish in recent years. Yields on class 23 products suffered again from the lacklustre stock market performance during the year under review. The banks probably encouraged some of their customers to abandon these insurance products and UCI units in favour of long-term deposits and securities, in order to improve their liquidity position. Overall, household investments in these insurance instruments came to just € 4.6 billion in the first nine months, whereas they had totalled € 13.6 billion in the corresponding period of 2010.

The fall in stock market prices did not trigger a panic reaction among households owning listed shares. Overall, the net flow of investments in shares and other equity remained positive at € 2 billion in the first nine months of 2011. People who own shares, most of whom have a good grasp of financial matters, are probably aware of the risks incurred and seem to take market volatility in their stride.

Transactions in UCI units are very sensitive to fluctuations in the prices of the underlying assets. Once again,

CHART 52 FORMATION OF FINANCIAL ASSETS BY HOUSEHOLDS
(in € billion)



Source: NBB.
(1) This item essentially comprises the net claims of households on life insurance technical reserves and pension funds or occupational pension institutions.
(2) This item comprises, so far as they could be recorded, trade credit and miscellaneous assets on general government and financial institutions.

UCI unit redemptions exceeded subscriptions, the difference amounting to € 6.9 billion over the first nine months of 2011, against € 4.6 billion a year earlier.

New financial liabilities

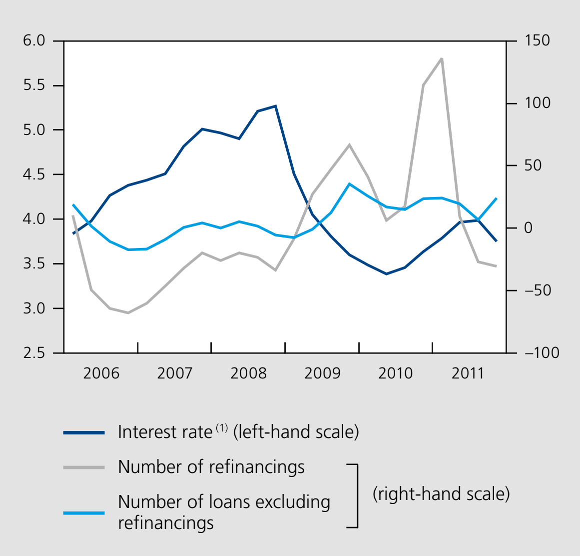
The statistics on gross flows of lending to households, supplied by the Bank's Central Credit Register, indicate buoyant activity in 2011. The amounts granted in the form of consumer loans came to € 14.8 billion in the year under review, 24 % more than in 2010. That growth is due, in particular, to the increasing success of instalment loans which enjoyed the tax advantage applicable to "green loans" contracted to fund projects which generate energy savings. Mortgage lending was stable at € 33.6 billion.

The generally low level of interest rates continued to underpin mortgage lending. However, a slight increase in the rates since mid-2010 significantly curbed the refinancing of existing loans during the year under review. Leaving aside these renegotiated borrowings, the rise in the number of loans is still considerable: a total of 306 000 housing loans were granted in 2011, or 19 % more than in the previous year.

There are various reasons for granting a mortgage loan: the construction of a new house, purchase of a building plot, or the purchase or alteration of an existing house. In the year under review, 35 000 loans were granted to fund a new building, a 2 % decline compared to 2010. Loans contracted for other purposes relating to property (mainly the purchase of a building plot) came to 14 000, or 3 % down against 2010. The growth of lending is due largely to loans contracted for purchase or renovation purposes: taken together, 257 000 such loans were granted in 2011, a 24 % rise. The abolition of certain tax concessions at the end of 2010 – including the temporary cut in the VAT rate to 6 % – does not seem to have affected demand for loans in the year under review.

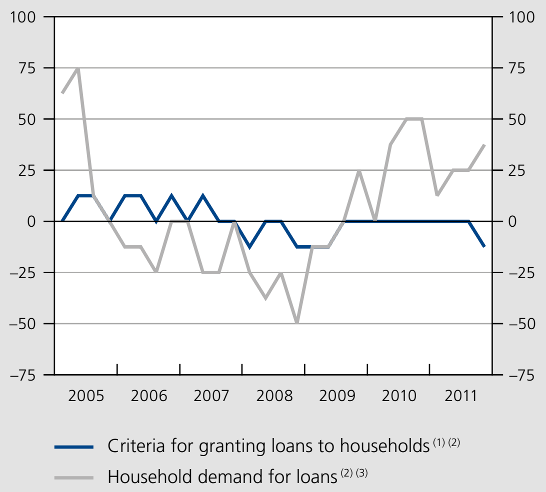
The growth of loans for renovation is due mainly to government support. Launched in 2009, the "green loan" scheme which ended on 31 December 2011 comprised a 1.5 percentage point reduction in the interest rate on

CHART 53 NEW MORTGAGE LOANS TO HOUSEHOLDS AND INTEREST RATES
(percentage changes compared to the number of loans granted in the corresponding quarter of the previous year, unless otherwise stated)



Sources: PLU, NBB.
(1) Average interest rates applied to the main mortgage loan categories, weighted by the amounts of the new loans contracted in each of those categories.

CHART 54 HOUSING LOAN SUPPLY AND DEMAND
(quarterly data)



Source : NBB.
(1) Weighted net percentages of responses by the four main credit institutions to the Eurosystem's bank lending survey, indicating the degree to which lending criteria were eased or tightened (–).
(2) The responses are weighted according to the distance from a "neutral" response: mention of a "considerable" change in the lending criteria or demand for loans is accorded double the weighting of the mention of a "slight" change.
(3) Weighted net percentages of responses by the four main credit institutions to the Eurosystem's bank lending survey indicating the degree of increase or decrease (–) in demand for credit.

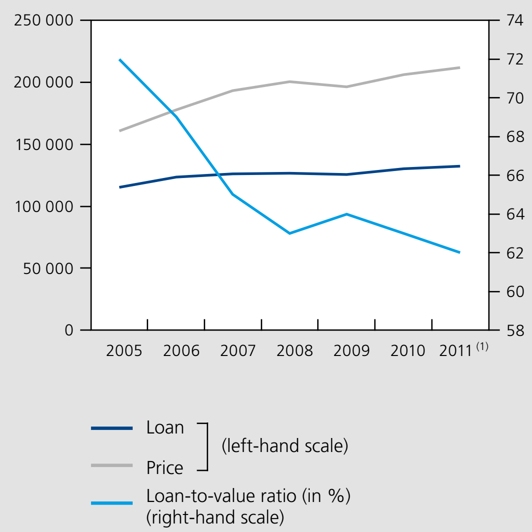
loans for the financing of investments generating energy savings in the home. The federal subsidy was granted for both mortgage loans and instalment loans contracted for that purpose. In addition, up to 40 % of the interest actually paid could be offset against tax. The PLU estimates that 79 000 mortgage loans benefited from this scheme in the year under review, for a total of € 1.4 billion.

According to the Eurosystem's bank lending survey, banks slightly tightened their lending criteria for housing loans in the fourth quarter. Nonetheless, there was no question of any scarcity of mortgage loans : interest rates continued to favour the purchase of a property, and the available volume of credit seemed to match the level of demand.

The average loan contracted for the purpose of buying a house amounted to € 132 000 in 2011. At the same time, the average price of the homes purchased by households was estimated at € 212 000. The loan-to-value ratio for the purchase of a house – i.e. the ratio between the amount of the loan and the price of the property – was thus estimated at an average of 62 %, comparable to the ratios recorded since 2008. The continuing rise in property prices since then has therefore forced households to use more of their own money to fund their investment, in order to avoid excessive debt.

It seems that, in 2011, the banks applied considerably higher margins to variable-rate loans than to fixed-rate formulas. Margins on the latter were virtually zero throughout the year under review, as banks only passed on part of the rise in long-term interest rates resulting from the sovereign debt crisis. This reduced margin on fixed-rate loans may reflect keener competition on this market segment, where product standardisation makes it easier to compare offers. The banks in fact consider the mortgage loan to be an introductory offer which can then enable them to secure deposits. The more comfortable margin initially applied to variable-rate loans may be justified on the grounds that the banks cannot pass on the whole of the subsequent increases in market rates owing to legal constraints protecting the borrower. This strategy adopted by the banks greatly reduced the differential between fixed and variable rates, which explains why households showed a marked preference for fixed-rate formulas in 2011. Loans on which the rate is fixed for more than ten years in fact accounted for 62 % of mortgage loans.

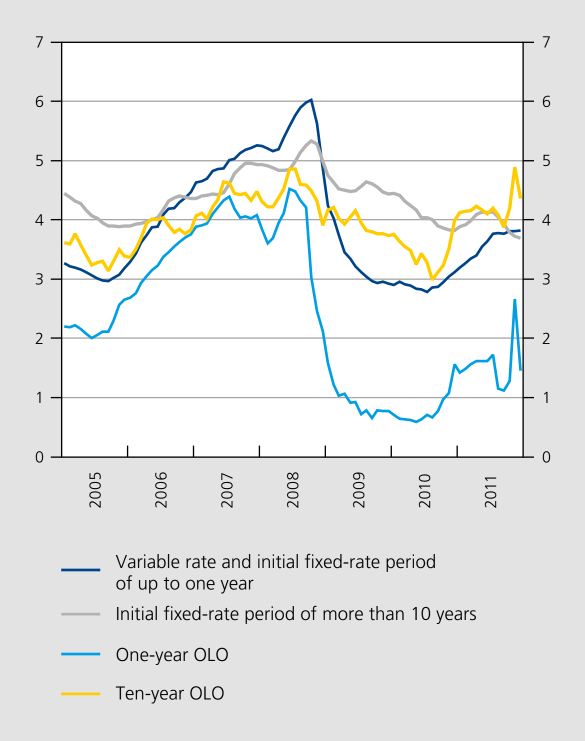
CHART 55 LOAN-TO-VALUE RATIO ON PROPERTY PURCHASES
(annual averages ; in €, unless otherwise stated)



Sources : PLU, NBB.
(1) Estimate.

CHART 56 INTEREST RATES ON MORTGAGE LOANS AND CORRESPONDING REFERENCE RATES

(monthly data)



Source : NBB.

5.2 Non-financial corporations

During the year under review, firms continued to call on the financial markets, and particularly bank credit. However, the latter was affected by the slowdown in economic activity in the second half of the year. Nonetheless, the surveys – especially those conducted among businesses – reveal some deterioration in lending conditions towards the end of the year.

Financial transactions

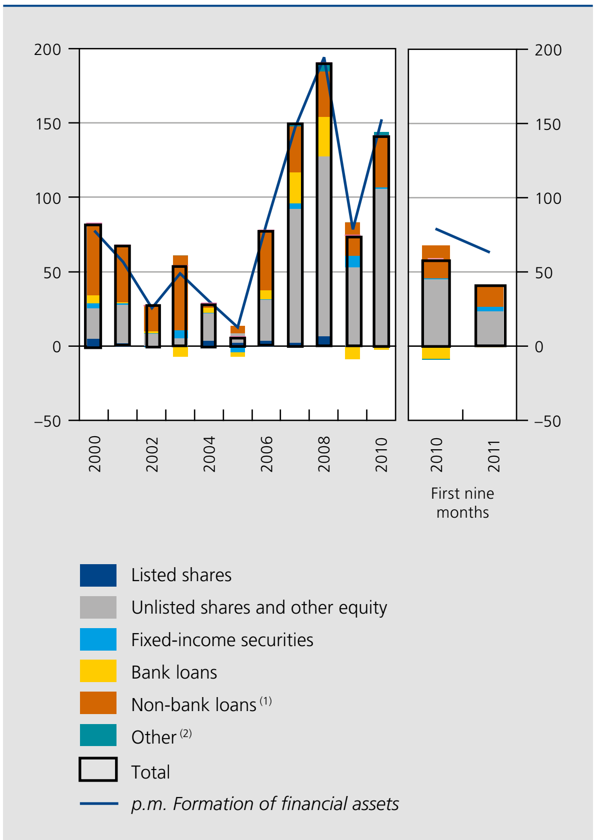
In the first nine months of 2011, non-financial corporations recorded a positive financial balance, as in the previous year, implying that their internal finance covered the whole of their fixed capital investments and the change in their inventories. Their financial asset formation exceeded their new liabilities by € 22.1 billion.

Firms formed new financial assets amounting to € 63.2 billion, down against the 2010 figure of € 79.4 billion. Liquid assets expanded by € 1.2 billion, while assets in the form of shares and other equity were up by € 16.5 billion. Loans – mainly to other firms – and the portfolio of fixed-income securities grew by € 16.7 and € 6 billion respectively.

The new financial liabilities contracted by firms in the first nine months of the year totalled € 41.1 billion, down by a third against the corresponding period in 2010, when they had reached € 58.9 billion. Share issues and other capital instruments represent the main source of finance for firms, notably on account of the activities of non-financial holding companies and the fact that multinationals centralise their treasury management in Belgium. In the first three quarters of 2011, these issues came to € 23.4 billion, half the figure of € 45.3 billion for the corresponding period of 2010. However, net issues of fixed-income securities – more modest as always – quadrupled in relation to the previous year; they totalled € 3.2 billion from January to September, compared to € 0.8 billion

CHART 57 NEW FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS

(in € billion)



Source : NBB.

(1) Mainly loans granted by Belgian and foreign non-financial corporations, also referred to as inter-company loans.

(2) Includes technical reserves of non-autonomous occupational pension institutions and transitory items.

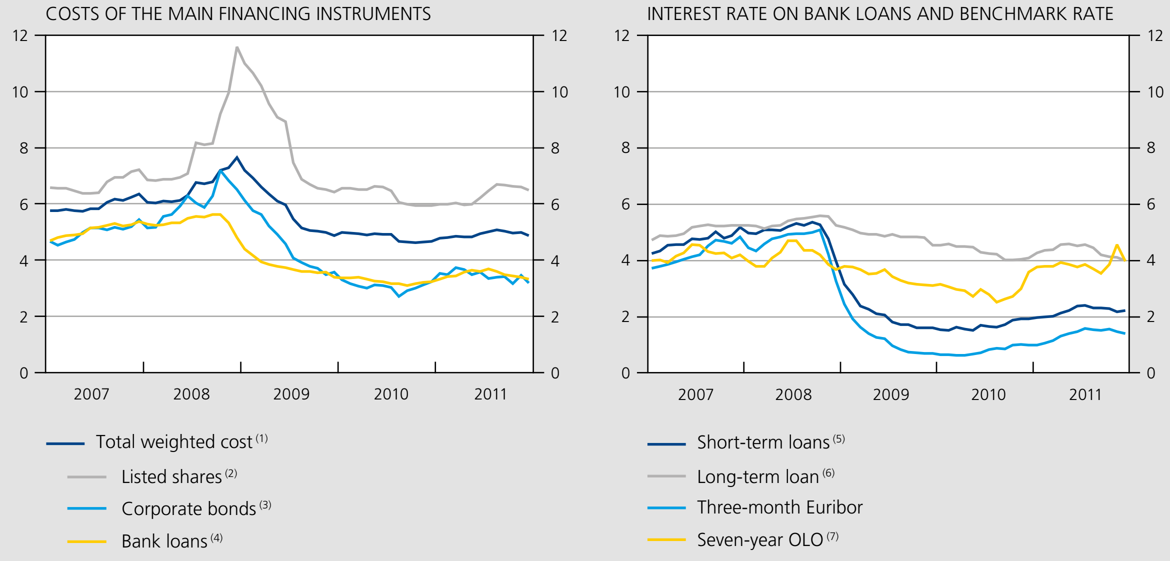
in 2010. Firms' use of credit increased by € 13.3 billion, against € 13.6 billion in the corresponding period of 2010. Lending to businesses comprises both bank loans and other loans – mainly inter-company loans. The expansion recorded in the first three quarters of the year 2011 is due entirely to inter-company loans. The net flow of non-bank lending came to € 13.9 billion, though that was considerably less than in the same period of 2010 (€ 22 billion). Net bank lending to firms was sluggish, while net repayments of € 8.3 billion had been recorded in the corresponding period of 2010. This situation is due mainly to transactions with foreign banks which, as in the previous year, gave rise to net repayments.

Financing conditions

After having declined steeply in 2009, then more slowly in 2010, the total financing costs of non-financial corporations – calculated by weighting the nominal cost of the various funding sources according to their respective shares in the total outstanding amount of the financial liabilities – increased slightly in 2011, to 4.8 % in December compared to 4.6 % a year earlier. That rise is due mainly to the movement in the cost of recourse to the equity markets.

The interest rate applicable to new bank loans – the average rate weighted on the basis of the outstanding amounts of the various categories of lending by Belgian banks to firms – edged upwards between January and July 2011, from 3.2 to 3.6 %. This was a continuation of the rise which had begun in September 2010, when a historical low point of 3 % had been recorded. In the second part of the year, the cost of loans subsided, dropping to 3.3 % in December. On the one hand, the average interest rate on short-term loans, defined here as loans for an amount of over € 1 million on which the interest rate is initially fixed for a maximum period of one year, hovered around 2 % in the first quarter of the year before rising to 2.4 % in June 2011. The movement in this interest rate was influenced by the tightening of monetary policy; the spread in relation to the three-month Euribor remained fairly stable at a level higher than that prevailing before the crisis. In the second part of the year, the interest rate on short-term loans dipped slightly to 2.2 % in December.

CHART 58 FINANCING COSTS OF NON-FINANCIAL CORPORATIONS
(monthly data, in %)



Sources: Thomson Reuters Datastream, NBB.
(1) Obtained by weighting the cost of financing by listed share issues, bond issues and bank loans according to their respective shares in the total outstanding amount of these financial liabilities. At the end of September 2011, the proportions were 49.1 % for shares, 10.9 % for bonds and 40 % for loans.
(2) Estimated on the basis of a dividend discount model (cf. box 19 in the 2005 Report). According to that model, the cost of financing by share issues declines (increases) following a rise (fall) in stock market prices and increases (contracts) in response to an increase (reduction) in dividends (not only those actually paid but also those expected).
(3) Yield on an index of euro-denominated bonds issued by non-financial corporations in the euro area, taking all maturities of more than one year together; the index is weighted according to the outstanding amounts.
(4) Weighted average rate applied by Belgian banks to business loans. The weighting is based on the respective outstanding amounts of the various types of credit.
(5) Interest rate on loans of more than € 1 million at variable rates, initially fixed for up to one year.
(6) Interest rate on loans of less than € 1 million, with a rate fixed for more than five years.
(7) Average yield on loans with seven years left to run.

On the other hand, the interest rates on long-term loans exhibited an upward trend in the first half of the year under review, before dropping from August onwards. They may have been influenced by the sovereign debt crisis, as the rates on sovereign bonds regularly serve as the benchmark for other interest rates in the economy. Moreover, the financial crisis and the contagion effects of the sovereign debt crisis on the banking sector affected the balance sheets of credit institutions and depressed their liquidity and solvency positions, potentially causing them to restrict the supply of credit or to increase their interest margins. However, the rise in OLO yields since August 2010 has so far only been passed on to a very limited extent in long-term bank lending rates, though the influence may yet be felt later. In December 2011, the interest rate on loans of under € 1 million with a fixed-rate period of more than five years stood at 4 %, close to the figure at the beginning of the year.

Enterprises – and especially the largest ones – can also raise funds directly on the financial markets by issuing listed shares or debt instruments.

In nominal terms, after rising in the first quarter of 2011, the cost of raising funds by issuing debt instruments contracted during the rest of the year. The yield on a basket of euro-denominated bonds issued by non-financial corporations in the euro area, taking all maturities together, grew from 3.2 % at the end of December 2010 to 3.7 % at the end of March 2011, before dropping to 3.1 % at the end of the year. Despite this decline, the risk premiums demanded for holding bonds of non-financial corporations, reflected in interest rate spreads in relation to the German Bund, were driven up by investors' risk aversion and their preference for safe-haven assets owing to the sovereign debt crisis in Europe. However, the levels reached by these spreads were still well below those seen at the outbreak of the financial crisis in 2008.

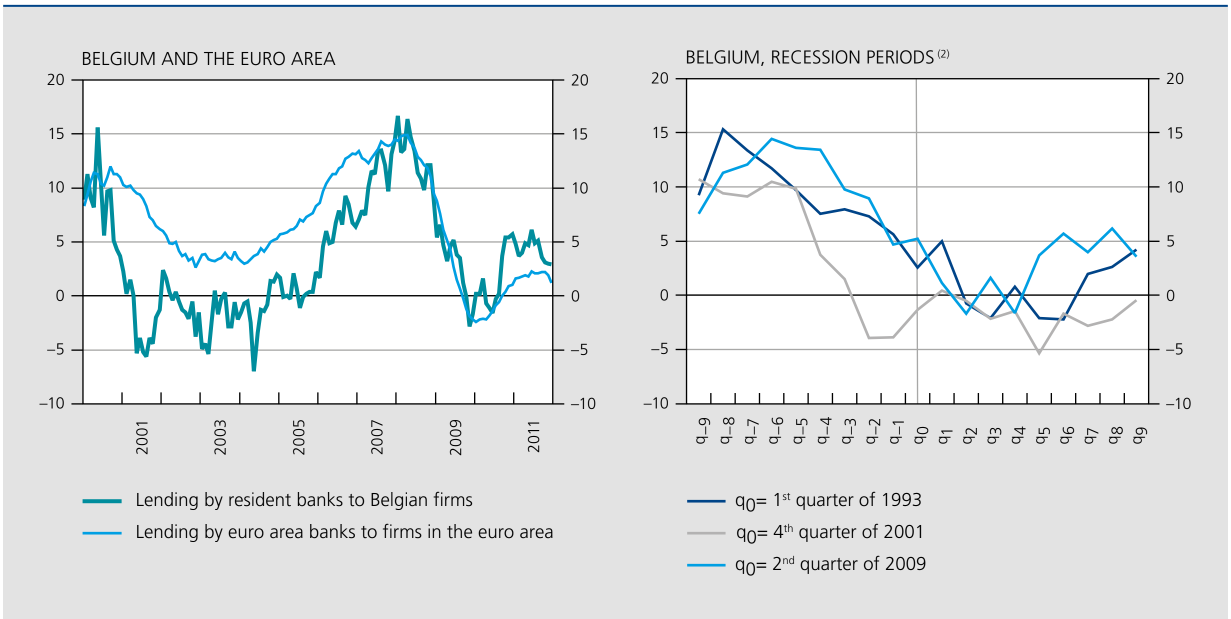
The cost of financing by listed shares, which was fairly stable in the first five months of the year under review, gradually increased from June onwards owing to the adverse movement in stock market prices. Estimated at 5.9 % in December 2010, it climbed during the second half of the year to reach 6.4 % in December 2011, thus approaching the 1996-2010 average of 6.9 %.

Bank lending

The growth of the outstanding amount of lending by resident banks to Belgian non-financial corporations remained positive throughout the year. In 2011, that amount increased by € 3.5 billion, with short- and

CHART 59 **BANK LENDING TO NON-FINANCIAL CORPORATIONS** (1)

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



Sources: ECB, NBB.
(1) Including securitised loans (only from January 2010 for the euro area).
(2) The period q_0 corresponds to the quarter in which year-on-year growth of real GDP reached a low point.

long-term loans recording similar expansion. Conversely, as in 2010, net lending to Belgian non-financial corporations by foreign banks remained negative during the first three quarters of the year under review : altogether, the outstanding amount of loans of foreign origin declined by € 2.8 billion.

The financial turbulence and the necessary structural adjustments regularly give rise to the question whether, in such a climate, the banks are lending enough to businesses. An international and historical comparison shows that, up to the end of 2011, there have been no clear signs of any restriction of the credit supply in Belgium.

A comparison with the euro area reveals that lending has made a fairly strong recovery in Belgium. Since the low point reached at the end of 2009, credit expansion in Belgium has almost constantly exceeded that in the euro area, partly thanks to a better business climate. In the fourth quarter of 2011, the outstanding amount of loans in Belgium was up by 3% year-on-year, while the rise came to only 1.8 % in the euro area. The euro area average masks very significant heterogeneity, with a substantial correction taking place in some countries after generally sustained credit expansion in the past decade, as in Ireland and Spain. These developments explain why Belgium exceeds the euro area average, whereas before the financial crisis it generally recorded a weaker credit expansion.

In view of the divergent outcomes in the euro area, it may also be useful to compare the pattern of lending with that of economic activity in Belgium. Examination of the recession periods reveals that lending to non-financial corporations generally recovers later than the economy. One of the reasons for that time lag is that companies exhibit a degree of caution when the economy picks up, and initially make use of internal resources before resorting to credit. Banks are probably also hesitant in the initial phase of a recovery, owing to the continuing uncertainty over the collateral. A comparison with the recovery phases which followed the 1993 and 2001 recessions shows the recovery following a classic pattern in which lending revives several quarters later than economic activity. This comparison also shows that, in the final phase of the downturn, the decline in lending was comparable to that seen in previous recessions, despite the much larger recent contraction of GDP. Moreover, lending rebounded relatively strongly. After the 2001 recession, the revival was far more hesitant.

Thus, it seems that lending to non-financial corporations in Belgium followed a fairly favourable trend up to the year under review : a comparison with the euro area and a historical comparison with economic activity reveals few signs of any impediments or a creditless recovery. However, that does not exclude the risk of renewed weakening, which should probably be regarded as a consequence, rather than a cause, of the slowdown in economic activity.

The quantitative pattern of bank lending needs to be considered in the light of the findings of the qualitative surveys of both banks and business managers. The former survey obtains qualitative information from the banks on changes in lending conditions and demand for bank loans, and on the determinants to be taken into account to explain these developments. During 2011, the four large Belgian banks polled stated that they had kept their corporate lending conditions broadly unchanged, as has been the case since the second quarter of 2009, following the substantial tightening in the months after the eruption of the financial crisis.

In particular, owing to the tension on the sovereign debt security markets and the ensuing difficulties for the banks, their financing costs and balance sheet constraints had a negative impact on corporate lending conditions, primarily in the first and third quarters of the year, whereas those factors had tended to encourage banks to ease their lending conditions slightly in the first nine months of 2010. However, pressure of competition had the opposite effect, encouraging banks instead to ease their conditions in the first half of the year, whereas they reported that their assessment of the risks relating to the business climate had exerted hardly any influence on their decision.

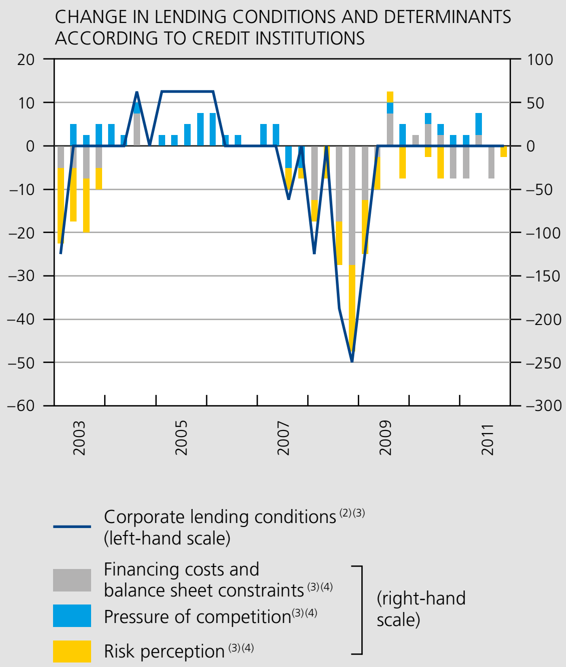
The demand for loans encountered by Belgian banks seems to have been sustained, at least in the first half of the year. A number of factors, more particularly mergers, acquisitions and corporate restructuring, as well as gross fixed capital formation, contributed towards the maintenance of demand for funding. Nevertheless, demand stabilised in the third quarter.

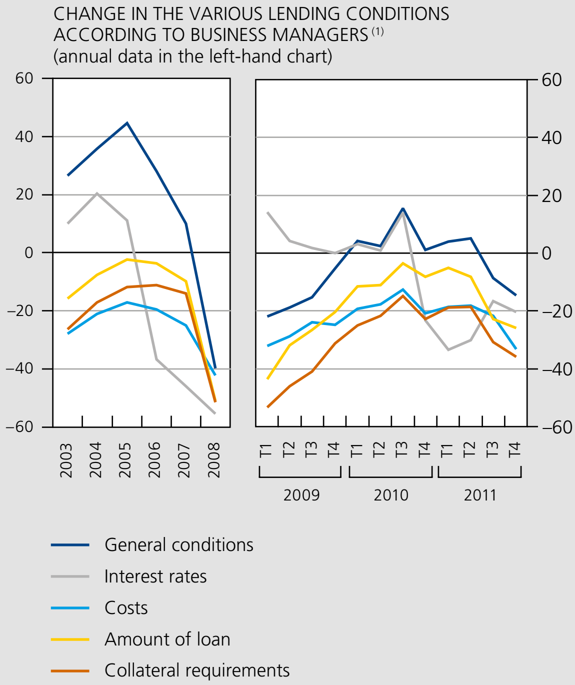
The statistics collected by the Central Corporate Credit Register reveal that the credit utilisation rate, which shows the degree to which firms draw on their credit lines, remained at a relatively high level in historical terms during the year under review in the case of small firms (at an average of 87 %), while increasing fairly strongly for large firms, from 54.1 % at the end of 2010 to 60.3 % at the end of 2011.

The second qualitative survey is conducted by the Bank among business managers. It aims to ascertain their opinion on the lending conditions which the banks apply to them. Firms' assessment of general lending conditions

CHART 60 RESULTS OF BANK LENDING SURVEYS AMONG BANKS AND FIRMS

(quarterly data, unless otherwise stated)





Source: NBB (Eurosystem bank lending survey and NBB survey of corporate credit conditions).

(1) Balance, in %, of the responses by the business managers polled, indicating their favourable or unfavourable (–) assessment of bank credit conditions. Available on an annual basis from 2002 to 2008 inclusive, and on a quarterly basis from 2009.

(2) Weighted net percentages of responses by credit institutions to the Eurosystem's bank lending survey indicating the degree to which lending criteria were eased or tightened (–).

(3) The responses are weighted according to the distance from a "neutral" response: mention of a "considerable" change in the lending criteria or demand for loans is accorded double the weighting of the mention of a "slight" change.

(4) Weighted net percentages of responses by the credit institutions questioned about lending criteria. A negative (positive) percentage corresponds to a criterion reflecting tightening (easing). The responses to the various sub-questions were cumulated.

remained positive overall in the first half of the year, before deteriorating from the third quarter. From then on, a larger percentage of business managers considered that lending conditions had become unfavourable. It was the limits which banks imposed on the amounts of loans and the collateral which they required that prompted this more negative assessment by business managers, whereas their opinion on the level of interest rates improved slightly.

Fixed-income securities

In Belgium, firms traditionally make little use of the bond market for their external financing. Thus, at the end of September, this form of funding accounted for only 4.8 % of the total outstanding amount of capital borrowed by Belgian non-financial corporations, a figure similar to that prevailing a year previously (4.6 %). In the first nine months of 2011, non-financial corporations raised a total of € 3.2 billion on the fixed-income securities market, whereas they had obtained € 0.8 billion by that form of funding during the corresponding period of 2010. Issuance of long-term securities was slightly more dynamic than that of short-term securities, essentially commercial paper: during the first nine months of 2011, non-financial corporations issued long-term securities totalling € 1.9 billion, compared to € 1.4 billion for short-term securities. In the second and third quarters, net issuance of fixed-income securities by firms enjoyed considerable success (€ 5.3 billion in new subscriptions) whereas in the first quarter investors had disposed of this type of instrument to the value of € 2.1 billion. The administrative simplifications introduced by the CBFA at the end of 2010 regarding issuance of debt securities for good-quality borrowers and the easier access to this type of instrument for households may have had a positive impact on bond issues by Belgian firms.

Shares

During the first nine months of 2011, net issues of unlisted shares and other equity totalled € 22.7 billion, whereas in the first three quarters of 2010 they had reached € 45 billion. As in previous years, most of the shares issued in this period were subscribed by associated non-financial corporations located abroad.

Recourse to the stock market via the issuance of listed shares was much less significant. In the first nine months of the year, an amount of € 0.7 billion was issued, though that was higher than the € 0.3 billion in the corresponding period of the previous year. This expansion is attributable to the stabilisation of the cost of financing by issuance of listed shares in the first five months of the year, facilitating a substantial capital increase by a company in the non-ferrous metals sector. Belgian investors subscribed to listed shares totalling € 2 billion, while foreign investors disposed of shares amounting to € 1.3 billion. The proportion of foreign investors in the outstanding total of listed shares was steady at 52.5 % at the end of September 2011.

5.3 Total financial assets and liabilities of the Belgian economy

Despite the turbulence, the Belgian non-financial private sector succeeded in increasing its net financial assets. Belgium was thus able to strengthen its net asset position and retained its favourable international ranking in that respect.

A country's overall financial situation is determined by the total outstanding amount of the financial assets and liabilities of the various domestic sectors, namely the household sector, the financial and non-financial corporations sector, and the general government sector. Those positions vary from one year to the next owing to the impact of new financial transactions and fluctuations in the prices at which assets and liabilities are valued.

During the first nine months of 2011, the domestic sectors increased both their financial assets and their financial liabilities. The formation of financial assets exceeded the formation of financial liabilities by € 4.5 billion. It was mainly non-financial corporations and households that acquired new net assets, totalling € 22.1 and € 13.6 billion respectively. Conversely, general government concluded new net financial liabilities amounting to € 14.4 billion.

Apart from actual financial transactions, valuation effects must also be taken into account to explain the changes in the outstanding amount of assets and liabilities. Thus, the movement in financial instrument prices exerted a negative influence of € 19.1 billion on the valuation of the outstanding net financial assets of households – due mainly to the fall in stock market prices in the third quarter – which ultimately reduced their net financial assets

TABLE 12 **FINANCIAL ASSETS AND LIABILITIES BY SECTOR** (1)

(data at the end of September 2011, in € billion, unless otherwise stated)

	Outstanding amount				Change in net financial assets (3)		
	Assets	Liabilities	Net financial assets		Total	Financial transactions	Valuation (4)
			December 2010	September 2011			
Individuals	921	201	726	721	–5.5	13.6	–19.1
Non-financial corporations	1 615	1 936	–382	–321	61.1	22.1	39.0
General government	114	414	–284	–300	–15.4	–14.4	–0.9
Financial corporations (2)	1 810	1 813	8	–2	–10.7	–16.7	5.9
p.m. Total of domestic sectors	*4 460*	*4 362*	*68*	*98*	*29.5*	*4.5*	*24.9*
Idem, in % of GDP	*1 203*	*1 177*	*19.3*	*26.4*	*7.9*	*1.2*	*6.7*

Source: NBB.
(1) Excluding monetary gold and special drawing rights.
(2) Financial corporations consist mainly of monetary financial institutions (the NBB, credit institutions and monetary UCIs) and institutional investors (non-monetary UCIs, insurance companies and occupational pension institutions).
(3) Change in the net financial assets between December 2010 and September 2011.
(4) Changes due mainly to price and exchange rate fluctuations. These affect both assets and liabilities. Shares are the source of many of these changes since they form part of the assets of all the sectors and also part of the corporate liabilities.

by € 5.5 billion. In contrast, this decline made a large contribution to the revaluation – amounting to € 39 billion – of the net financial assets of non-financial corporations, since shares represent a bigger proportion of their liabilities than of their assets.

The net financial assets of all domestic sectors together ultimately increased by € 29.5 billion, which corresponds to € 4.5 billion in new net assets plus a positive valuation effect of € 24.9 billion.

The net financial assets of households, which make up the only net creditor sector of the Belgian economy, contracted to € 721 billion. In comparison with the size of their assets (€ 921 billion), the financial liabilities of households are nonetheless relatively modest (€ 201 billion). At the end of September, non-financial corporations had the highest net liabilities, at € 321 billion. Both their assets (€ 1 615 billion) and their liabilities (€ 1 936 billion) were considerable. However, it should be noted that, from the point of view of financial stability, for the purpose of assessing the risk profile of non-financial corporations, the scale of their debts is more important than their total liabilities, which also include shares. At the end of September 2011, that debt level was only € 653 billion, since they obtain a major part of their financial resources from issuing listed or unlisted shares. When assessing their debt level, it is also appropriate to take account of the fact that part of this external funding comes from other resident non-financial corporations which record it as an asset, so that the consolidated debt is even lower for the sector as a whole. At the end of September 2011, it amounted to € 281 billion, or 76.5 % of GDP (see box 7). Finally, the net liabilities of general government came to € 300 billion at the end of September, while the total liabilities stood at € 414 billion.

Box 7 – Debt level of the non-financial private sector

As part of the Six-Pack laws – a set of measures designed to reinforce and improve the coordination of economic policy in the EU – the EC devised a procedure for identifying and controlling macroeconomic imbalances. For the purposes of this Excessive Imbalance Procedure (EIP), a scoreboard was developed on the basis of around ten indicators drawing attention to the risk of both internal and external imbalances.

One of these indicators concerns the (non-consolidated) gross debt level of the non-financial private sector as a percentage of GDP. However, this indicator needs to be interpreted with caution. First, in contrast to the 60 % target applicable to the public debt under the Maastricht Treaty, there is no exact benchmark in this sphere. Moreover, the method of calculating the private sector debt ratio is much less harmonised, so that the data are highly variable, depending on the concept used. Finally, debt sustainability depends not only on the debt level but also on the ability to repay – determined in particular by interest charges, income prospects and the assets formed – plus a number of structural characteristics such as the proportion of the outstanding debts held abroad.

This box analyses the method of calculating the debt of the non-financial private sector, and concentrates on the distinction between the consolidated and the non-consolidated debt ratio. Not all EU Member States publish consolidated data, so that the EC scoreboard currently only indicates the non-consolidated debt ratio. However, in its general assessment of the imbalances the Commission will also take account of the consolidated data if they are available, and of the general macroeconomic context. This box also assesses the level and pattern of the Belgian non-financial private sector debt ratio in comparison with those of the euro area.

At macroeconomic level, the non-financial private sector debt ratio is calculated on the basis of the national financial accounts. These offer a picture of the total financial assets and liabilities of each institutional sector. The gross debt generally includes funding obtained by means of loans and securities other than shares.

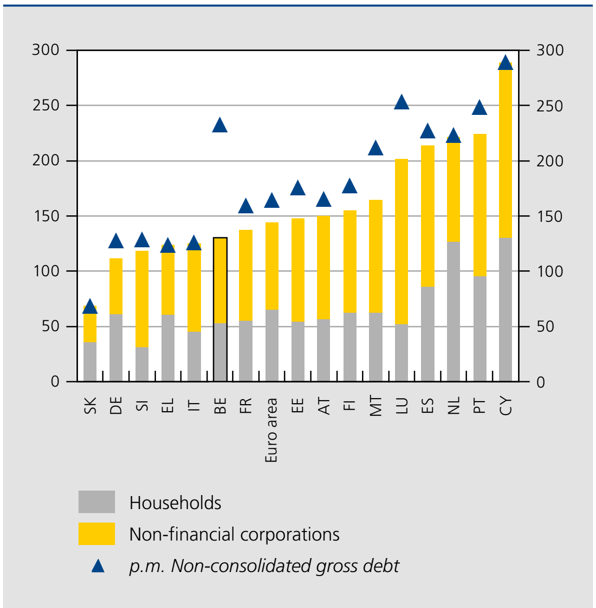
The financial accounts drawn up in accordance with the ESA 95 also record transactions carried out within a single sector. A loan concluded between non-financial corporations is thus recorded under both the assets and the liabilities of the non-financial corporations sector, so that the accounts are not consolidated. However, on the basis of the detail of the financial accounts – which supply information on the counterparties of all financial transactions – it is possible to produce consolidated accounts for Belgium and for most of the other EU Member States by deducting financial transactions made within each resident sector.

While non-consolidated data are used primarily to provide, for example, a picture of the sectoral financing structure, the consolidated data seem more appropriate for assessing the sector's financial health. In that regard, lending between firms – particularly between members of the same group – is generally more stable than bank lending and may therefore be regarded as less risky. Moreover, it is difficult to make an international comparison of the estimate of lending between non-financial corporations, notably because certain finance companies are sometimes classified in the non-financial corporations sector, and sometimes outside it. Finally, it should be noted that, in regard to the general government debt, the Maastricht Treaty also refers to a consolidated debt concept.

The size of the difference between the consolidated and non-consolidated data depends on a country's financial structure. It is generally small for most sectors; the national financial accounts are even drawn up on the assumption that there are no financial transactions between households, so that – by definition – the non-consolidated data are the same as the consolidated data for that sector. The biggest differences are generally recorded for non-financial corporations, since these may include finance companies from outside the financial sector, such as the treasury management companies of multinationals.

CONSOLIDATED GROSS DEBT OF THE NON-FINANCIAL PRIVATE SECTOR IN THE EURO AREA COUNTRIES (1)

(data at the end of 2010, in % of GDP)



Sources: EC, NBB.

(1) Households and non-financial corporations, total loans and securities excluding shares.

In view of the substantial activities of the latter in Belgium, the non-consolidated debt ratio of non-financial corporations is very high. At the end of 2010, it stood at 179.7 % of GDP, against a figure of 99.3 % in the euro area. Combined with the household debt ratio, the non-consolidated debt ratio of the non-financial private sector came to 232.8 % of GDP, compared to 164.6 % in the euro area, putting Belgium at the top of the euro area countries in this ranking. The debt level is also clearly higher than the threshold of 160 % of GDP which the EC uses, on the basis of data collected between 1994 and 2007, to identify a potential imbalance situation.

However, Belgium's situation is almost totally different on the basis of the consolidated data, as the debt ratio drops to 77.5 % of GDP for non-financial corporations at the end of 2010, against 75.9 % for the euro area. As for the non-financial private sector, which also includes households, it came to 130.7 % of GDP against 142.4 % in the euro area ; in this case, Belgium is among the countries with the lowest debt levels.

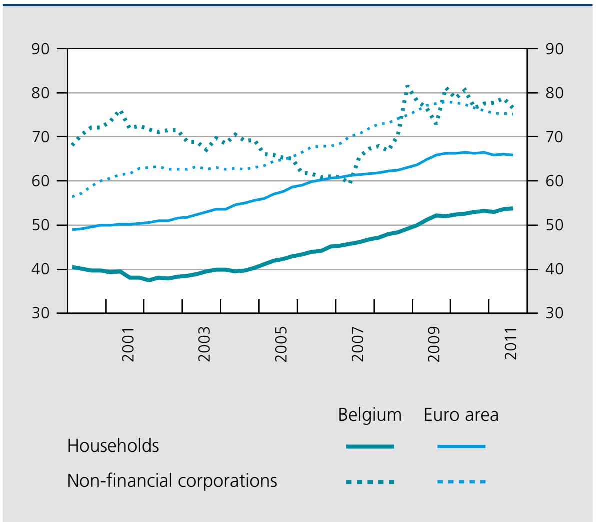
The relatively low consolidated debt ratio of the Belgian private sector is therefore mainly due to households, which have a structurally lower debt ratio than their counterparts in the euro area. Conversely, the situation of non-financial corporations is close to the euro area average.

As in the euro area, however, the debt level of Belgian households has risen steadily in the past decade, from 39.7 % of GDP at the end of 2000 to 53.7 % at the end of September 2011. That increase coincided with accelerating price rises on the property market, and was also supported by favourable tax rules applicable to mortgage loans contracted since 2005. In the euro area, after expanding continuously to reach a peak of 66.5 % of GDP in mid-2010, household debt stabilised, on account of fairly moderate mortgage lending.

The consolidated debt of Belgian non-financial corporations has hovered around 78 % of GDP since the end of 2008, while the euro area has recorded a slight debt reduction since the end of 2009, from 77.7 % to 75.1 % of GDP in September 2011. As in the case of households, these developments are due to more dynamic lending in Belgium than in the euro area.

CONSOLIDATED GROSS DEBT OF THE NON-FINANCIAL PRIVATE SECTOR (1)

(end-of-quarter data, in % of GDP)



Sources : EC, NBB.

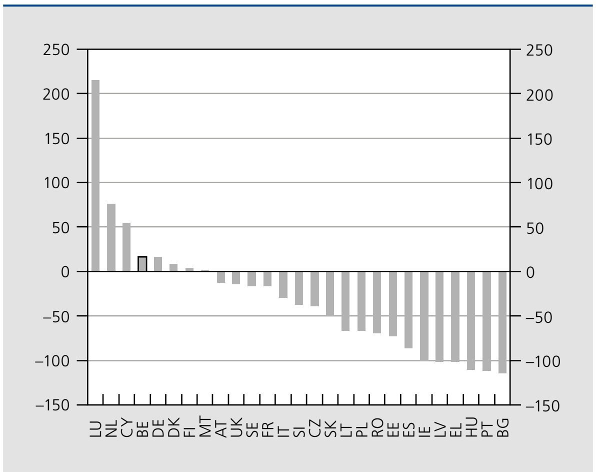
(1) Consolidated data, households and non-financial corporations. Total loans and securities excluding shares.

Overall, Belgium thus holds more financial assets than liabilities. This positive net external position, due to the accumulation of current account surpluses on the balance of payments over the years, was estimated at € 98 billion, or 26.4 % of GDP, at the end of September 2011.

In the current circumstances in which debt levels are attracting greater attention, the statistics on the net external position are among the indicators which can identify countries in a fragile financial situation. Unlike the gross debt, this concept in fact also takes account of financial assets whose proceeds and resale value can be used to finance at least part of the liabilities.

An international comparison reveals that Belgium is rather different from most of the other EU Member States: at the end of 2010, in common with Luxembourg, the Netherlands and Germany, Belgium was among the minority of European countries which were net lenders to the rest of the world. This favourable ranking is due essentially to households, which have the highest net financial assets in the EU as a percentage of GDP. Moreover, in a number of euro area countries such as Portugal, Greece, Ireland and Spain, the net financial assets of the private sector are much smaller than the net debt of general government. This illustrates the diversity of the euro area countries. Some of them have accumulated considerable claims on the rest of the world over time, by systematically recording current account surpluses. Others have a deficit: their overall funding has become structurally dependent on the rest of the world owing to the accumulation of current account deficits.

CHART 61 NET ASSET POSITION OF THE EU COUNTRIES (1)
(year-end 2010 data, in % of GDP)



Source: EC.
(1) Difference between the outstanding amount of financial assets and liabilities.

6. Public finances

Belgium's general government deficit came to 4 % of GDP in 2011, thus remaining virtually unchanged against the previous year. The inadequate reduction in the structural deficit was the main reason for exceeding the target of 3.6 % set by the April 2011 stability programme. The structural growth of primary expenditure continued to outstrip GDP growth, particularly in the social security and local authority sectors. The public debt ratio increased by 2.4 percentage points to 98.6 % of GDP, mainly due to the State's purchase of Dexia Bank Belgium and the loans to the Greek, Irish and Portuguese States.

6.1 General government budget balance and debt

During the year under review, Belgium remained in an excessive deficit situation as defined by the European rules. Owing to the severe recession, the budget deficit had risen well above the threshold of 3 % of GDP in 2009. In December of that year, the Ecofin Council therefore recommended Belgium to cut its public deficit below that threshold by 2012, so long as economic growth did not fall short of the figure expected by the EC in its 2009 autumn forecasts. To achieve that, Belgium had to make

TABLE 13 TARGETS FOR THE OVERALL BALANCE OF BELGIAN GENERAL GOVERNMENT (1)

(in % of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Stability programme									
April 2008	–0.2	**0.0**	0.3	0.7	1.0				
April 2009		–1.2	**–3.4**	–4.0	–3.4	–2.6	–1.5	–0.7	0.0
September 2009 (complement)			–5.9	–6.0	–5.5	–4.4	–2.8	–1.3	0.0
January 2010			–5.9	**–4.8**	–4.1	–3.0	–2.0	–1.0	0.0
April 2011				–4.1	**–3.6**	–2.8	–1.8	–0.8	0.2 (2)
Actual figures	–0.3	–1.3	–5.8	–4.1	–4.0 e (3)				
p.m. Structural financing balance									
According to the EC's method	*–1.6*	*–2.2*	*–3.8*	*–3.3*	*–3.0*				
According to the ESCB's method (4)	*–0.7*	*–1.6*	*–4.5*	*–4.2*	*–3.9*				

Sources: NAI, FPS Finance, NBB.

(1) As in the other tables and charts in this chapter, including – in accordance with the rules laid down for the excessive deficit procedure (EDP) – net interest gains on financial transactions such as swaps.

(2) In structural terms.

(3) The figures take no account of the possible impact of the guarantee amounting to 0.4 % of GDP granted to the private partners in the Arco group, owing to the uncertainty on the subject.

(4) According to the methodology described in Bouthevillain C., Ph. Cour-Thimann, G. van den Dool, P. Hernández de Cos, G. Langenus, M. Mohr, S. Momigliano and M. Tujula (2001), *Cyclically adjusted budget balances: An alternative approach*, ECB, Working Paper 77.

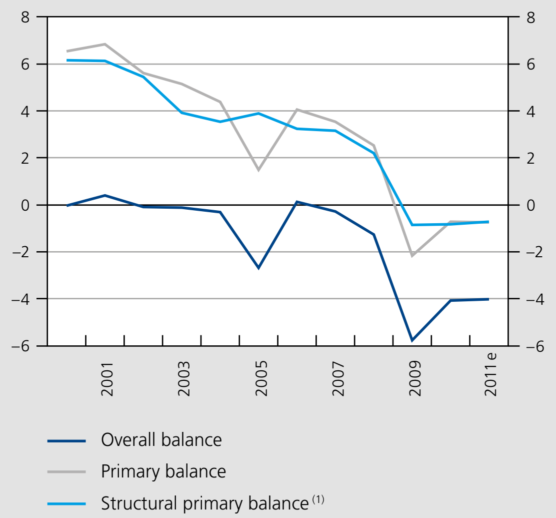
a structural budget effort averaging 0.75 % of GDP per annum from 2010 to 2012.

Under the stability programme submitted in April 2011, the budget deficit – which was down sharply in 2010 – was to be cut to 3.6 % of GDP in 2011. That target was tougher than the one under the previous stability programme, but the revision was smaller than the improvement seen in the 2010 accounts between these two programmes. However, during the year under review, the deficit remained virtually stable at around 4 % of GDP, or 0.4 percentage point above the target set in the stability programme. That cannot be attributed to lower-than-expected economic growth, as the economy grew by around 2 %, in line with the stability programme figure, despite the slowdown in activity during the second half of the year. The measures adopted in favour of Holding Communal which went into liquidation in December 2011, on account of the financial problems at Dexia, are only part of the reason. The deficit overrun therefore occurred primarily because of an insufficient reduction in the structural deficit.

According to the EC's autumn forecasts, the structural deficit was expected to decline by 0.3 percentage point of GDP. However, those forecasts presumed that the budget target would be respected. The estimates which take account of more recent data on the movement in the budget balance, based on the harmonised method of adjustment for cyclical variations used by the ESCB

CHART 62 GENERAL GOVERNMENT BUDGET BALANCES

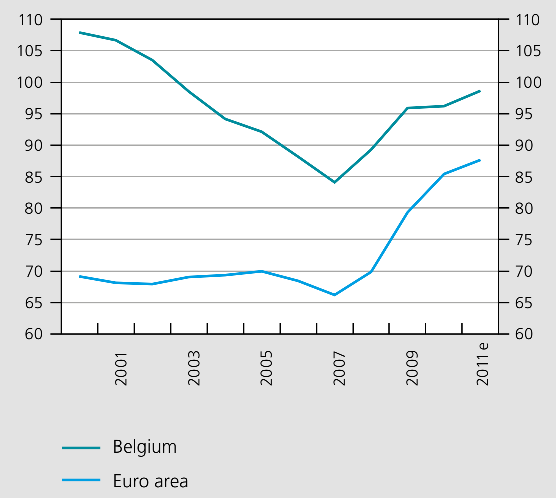
(in % of GDP)



Sources: NAI, NBB.
(1) According to the ESCB methodology.

CHART 63 CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT IN BELGIUM AND IN THE EURO AREA

(in % of GDP)



Sources: EC, NAI, NBB.

– which also makes adjustments to take account of cyclical shifts in the composition of GDP – show a comparable reduction. The change in the structural balance measured in 2010 and 2011 falls well short of the average annual budget effort required to correct the excessive deficit in accordance with the Ecofin Council recommendations. According to the ESCB methodology, the structural primary balance continued to record a deficit of 0.7 % of GDP in 2011. The deterioration in this balance – totalling around 7 % of GDP since 2000 – indicates a very marked easing of fiscal policy in the past decade.

The new federal government's coalition agreement confirms the fiscal targets set under the latest stability programme. On 26 November 2011, a large number of consolidation measures concerning both revenue and expenditure were announced in that connection for the period 2012-2014.

Between 1993 and 2007, the consolidated gross debt of general government had fallen continuously, dropping from 133.9 to 84.1 % of GDP. Owing to the public intervention in favour of a number of financial institutions at the end of 2008, it then climbed back to 89.3 % of GDP. The rise became steeper in 2009, owing to the increase in the deficit and the fall in GDP. The debt continued to grow in 2010, though less rapidly than in the previous year. In 2011, the expansion of the debt gathered pace again, taking it to 98.6 % of GDP at the end of the year.

In 2011, the debt was driven up by 2.4 % of GDP as a result of exogenous factors, which influence the debt but not the fiscal balance (for more details, see table 19 in the statistical annex). In October, the federal State bought Dexia Bank Belgium from the Dexia holding company for € 4 billion (1.1 % of GDP). During the year under review, the federal government debt also felt the direct effects of the sovereign debt crisis in the euro area. Thus, loan tranches were granted to Greece under bilateral agreements in the first rescue plan, and to Ireland and Portugal via the EFSF for a total of around 0.5 % of GDP. Another factor which contributed – temporarily – to the rise in debt in the year under review, amounting to 0.4 % of GDP, was the surplus cash resulting from the unexpected success of an issue of State notes which ended in December. Finally, taxes on company profits assessed in November and December 2011, amounting to around 0.2 % of GDP, will not be collected by the tax authority until 2012.

Box 8 – The Belgian budgetary framework in the light of the European requirements

In the context of the worsening sovereign debt crisis in the EU, national budgetary frameworks attract increasing attention. There is a growing conviction that strong and coherent national institutions are necessary to support the supranational regulations. Thus, an essential component of EU governance, reinforced in particular by the six legal texts dubbed the Six Pack, specifically concerns the improvement of the national budgetary frameworks. Council Directive 2011/85/EU, adopted in November 2011, lays down a series of minimum requirements on the subject, which all EU Member States must respect by the end of 2013 at the latest. Euro area countries have undertaken to meet these requirements by no later than the end of 2012.

The requirements defined in the Directive cover various aspects relating to the national budgetary frameworks, ranging from the method of drawing up the budget, and the statistics permitting monitoring of its execution, to numerical fiscal rules, and including medium-term budgetary planning and aspects concerning fiscal policy coordination, notably between levels of government. However, these are minimum requirements which, in many cases, are still relatively vague. Numerous European countries have already done much more to tighten up their budgetary framework, or have announced their intention to do so. Belgium has not yet followed suit, and still needs to take measures in certain areas to meet the EU's minimum requirements.

In regard to preparation of the budget, the Directive stipulates that the macroeconomic and budgetary forecasts used for the purpose must be realistic or prudent. The methodology used must be transparent and form the subject of a regular technical dialogue with the EC. Reasons must be duly given for any significant deviations in relation to the EC's forecasts. In October 2011, the Heads of State and Government of the euro area countries also said that budgets should be based on independent macroeconomic forecasts. In Belgium, the NAI's economic budget, based in practice on the transparent and independent macroeconomic forecasts of the Federal Planning Bureau, plays a key role in that respect. Although there may be doubt over whether this is a statutory obligation, these forecasts traditionally form the basis for drawing up the budgets of the federal government, social security, and the Regions and Communities. In general, any lack of prudence could only be due to delays in making up the budget, possibly causing some macroeconomic assumptions to be out of date. On the other hand, there is considerable room for improvement in the transparency and prudence surrounding the production of the public revenue forecasts, particularly in regard to the estimate of the budgetary impact of new measures. The High Council of Finance has already stressed the importance of an in-depth assessment of the methods used here. It is also important for the medium-term forecasts used in the stability programme to be based on the same principles of prudence and independence, and for the measures permitting attainment of the budget targets in that programme to be sufficiently specific.

More generally, it also seems appropriate to check whether the procedures for drawing up the various expenditure budgets, in which formal and informal indexation mechanisms often still play a major role in Belgium, are sufficiently geared to the need to improve the efficiency of the expenditure.

The Directive likewise lays down specific requirements on the availability of sufficiently reliable statistics, so that the implementation of the budget can be monitored in due course. Particularly in a country like Belgium, where the government is highly decentralised, it is vital to take the necessary measures to ensure that all government sub-sectors respect the new reporting obligation, and more generally, to see that the monitoring of public finances is based on reliable, timely data covering the entire public sector.

In addition, the Directive provides that EU regulations on the budget deficit and debt must be reflected in the national fiscal rules. In that connection, the Heads of State and Government of the euro area countries explicitly stipulated that the obligation to present a balanced budget in structural terms should preferably be anchored in the constitution. Several countries have already included fiscal limits or specific debt ceilings in their constitution, or will do so in the near future. In that connection, it is most usual to provide for specific, partly automatic correction mechanisms in the event of any breach of the rules, as is the case in Germany, Austria, Poland and Slovakia. Belgium has to align its legislative framework with the Directive, and it seems desirable to follow the best practices of other countries in that regard.

Another major aspect of the budgetary framework concerns the existence of an independent budget council, with advisory and supervisory powers. Although the Directive makes only an indirect reference to this, a number of European countries have recently set up such an institution or strengthened existing institutions. In Belgium, the High Council of Finance has significant powers via the Public Sector Borrowing Requirements section. However, there are some indications suggesting that the Council's influence over fiscal policy has weakened since the introduction of the euro[1]. In this context, there is a need to examine what measures might enhance the effectiveness of the budgetary recommendations and surveillance by the High Council of Finance. Once again, Belgium could draw inspiration from the approach of other countries, for instance as regards the operating resources and procedures of such councils, the guarantees concerning the members' independence, the reporting obligations and the involvement of parliament and the academic world.

Finally, in the case of countries which have a degree of decentralised government, the Directive imposes obligations relating to the establishment of budgetary coordination mechanisms. The latter must concern all relevant aspects of fiscal policy, ranging from budgetary planning to compliance by all government sub-sectors with the said budgetary rules. To fulfil this obligation, there appears to be a need for new formal cooperation procedures between the federal government and the governments of the Communities and Regions, leading to transparent commitments. In that connection, it could be desirable to introduce automatic correction mechanisms for cases where a particular entity does not respect its budget targets. Moreover, effective policy coordination between the federated entities and the federal government is not only important at the level of fiscal policy, but is likewise necessary to carry out the macroeconomic recommendations under the European Semester and, more especially, to prevent or correct imbalances via the new excessive imbalance procedure (EIP).

(1) Cf. for example Coene L. and G. Langenus (2011), *Promoting fiscal discipline in a federal country: the mixed track record of Belgium's High Council of Finance*, Wirtschaftspolitische Blätter, Volume 58, n° 1.

6.2 Revenue

During the year under review, the fiscal and parafiscal revenues of general government nudged upwards from 43.2 to 43.4 % of GDP. This rise was due to a 0.3 percentage point increase in taxes on company profits and a 0.2 percentage point rise in levies on other incomes and on assets, partly offset by a decline in tax revenues on goods and services due *inter alia* to the gradual weakening of economic activity. Non-fiscal and non-parafiscal revenues were up by 0.3 percentage point, mainly as a result of the payments made by financial institutions.

The virtual stabilisation of levies on earned income resulted from a fall in personal income tax revenues and a slight increase in social contributions.

TABLE 14 REVENUE OF GENERAL GOVERNMENT [1]
(in % of GDP)

	2007	2008	2009	2010	2011 e
Fiscal and parafiscal revenue	43.2	43.5	42.7	43.2	43.4
Levies weighing chiefly on earned income	25.0	25.7	25.9	25.8	25.8
Personal income tax [2]	11.2	11.5	11.2	11.4	11.2
Social contributions [3]	13.9	14.2	14.7	14.5	14.5
Taxes on company profits [4]	3.5	3.4	2.5	2.7	3.0
Levies on other incomes and on assets [5]	3.7	3.7	3.5	3.7	3.9
Taxes on goods and services	10.9	10.7	10.8	11.1	10.8
of which:					
VAT	7.0	6.8	6.8	7.0	7.0
Excise duties	2.2	2.0	2.1	2.2	2.0
Non-fiscal and non-parafiscal revenue [6]	4.8	5.1	5.2	5.5	5.8
Total revenue	48.0	48.6	48.0	48.8	49.2

Sources: NAI, NBB.
(1) In accordance with the ESA 95, total revenue of general government does not include the proceeds of fiscal revenue which the government transfers to the EU.
(2) Mainly withholding tax on earned income, advance payments, assessments and the proceeds of additional percentages on personal income tax.
(3) Including the special social security contribution and the contributions of persons not in work.
(4) Mainly advance payments, assessments and withholding tax on movable property income of companies.
(5) Mainly withholding tax on income from movable property of individuals, withholding tax on income from immovable property (including the proceeds of additional percentages), inheritance taxes and registration fees.
(6) Income from property, imputed social contributions, current transfers and capital transfers from other sectors, plus sales of goods and services produced, including the remuneration on the guarantees granted by the State on individuals' deposits and interbank loans.

Personal income tax revenues were down by 0.2 percentage point of GDP. This decline was due mainly to the acceleration of the tax assessments at the end of the year, one factor being the success of Tax-on-web. That acceleration generated substantial refunds to individuals, which were only partly offset by the simultaneous increase in the additional percentages. The withholding tax on earned income should have gained from the surge in inflation, which normally causes it to expand by more than the tax base. The annual indexation of the scales used to calculate the withholding tax is based on the average increase in consumer prices during the previous year. In combination with the progressive structure of the tax scales, the surge in inflation therefore exerted upward pressure on withholding tax revenues amounting to around € 140 million. However, that increase was not reflected in an improvement in these revenues as a percentage of GDP.

The structural measures had a practically neutral influence on personal income tax. Thus, the phasing out of the fixed reduction in personal income tax in the Flemish Region and the increase in the withholding tax on temporary unemployment benefits boosted revenues by € 111 and 44 million respectively. Conversely, the other measures – such as the system of deductions for mortgage costs on owner-occupied homes and deductions for energy-saving investments – had a negative impact on these revenues in 2011.

Despite the small rise in the share of wages in the value added of the Belgian economy, social contributions remained practically stable as a percentage of GDP because a series of measures continued to reduce these contributions. Thus, the fixed structural reduction in employers' contributions was up by another € 128 million, one factor being the maintenance of the income threshold taken into account for the deductions on high wages, in a context of pay increases. In addition, the social contributions paid by self-employed workers, calculated on their income in the third year preceding the payments, declined as a percentage of GDP, because the year 2008 felt the first effects of the economic and financial crisis.

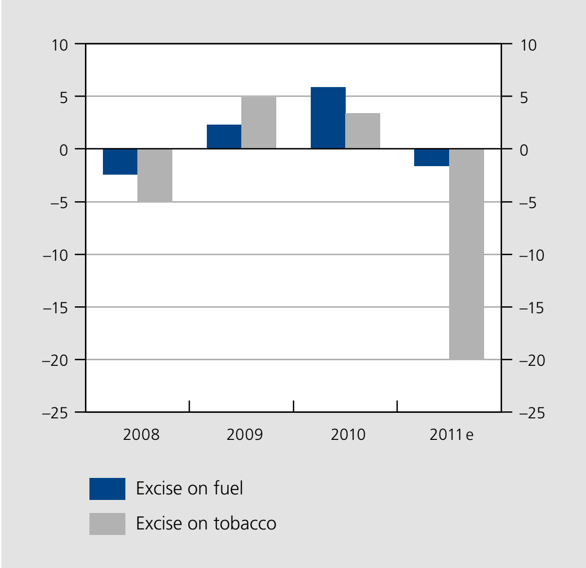
Taxes on company profits were up again, at 3 % of GDP, thus gradually regaining the average level recorded in the period 1997-2008. During the year under review, this revenue category benefited from the decline in the interest rate used as the reference for calculating the risk capital allowance, so that the negative impact of that system on public finances declined by € 280 million. In addition, the assessments increased sharply, largely as a result of the relatively low level of early payments since 2009.

Levies on other incomes and on assets expanded by 0.2 percentage point of GDP during the year under review, notably as a result of the 18.1 % rise in revenues from withholding tax on movable property. This jump almost wiped out the fall in this type of revenue observed in 2009. In particular, it reflects the renewed growth of dividends paid by companies and the rise in interest rates. The withholding tax on income from immovable property, paid by both individuals and companies, also grew strongly by a total of more than 10 %, as did registration fees.

Taxes on goods and services were down by 0.3 percentage point, mainly because of the decline in nominal excise revenues. The rise in excise duty per unit on fuel and tobacco should have boosted revenues, but the fall in the consumption of these products led to the opposite result. VAT revenues, which continued to benefit from the vigorous growth of final demand at the beginning of the year, were also supported by various measures. On the one hand, the reduced VAT rate of 6 % for the construction or purchase of new housing, which had caused a further reduction in revenues of around € 150 million in 2010, was abolished. Also, since 2011, as a result of a decision by the EU Court of Justice, the sale of a plot of land in conjunction with a new house has given rise to a VAT payment instead of registration fees, and that has driven up VAT revenues by around € 100 million. These revenues have therefore remained practically stable as a percentage of GDP. Finally, the € 250 million collected each year from the nuclear power supply company between 2008 and 2010 was not collected in 2011.

Non-fiscal and non-parafiscal revenues grew strongly, partly because of the increase in the new levy under the deposit protection scheme for households, and partly because of the substantial rise in dividend payments to the government in return for its support during the financial crisis, including the first such payment by KBC.

CHART 64 EXCISE REVENUES ON FUEL AND TOBACCO
(percentage changes compared to the previous year)



Sources: NAI, NBB.

The federal government has extensive fiscal powers in relation to total Belgian public revenues, as it is in charge of VAT and the largest part of personal income tax. During the year under review, its revenues amounted to 26.6 % of GDP. However, following adjustment for transfers to other levels of government, the resources available to the federal government came to only 8.5 % of GDP, down by a further 0.5 percentage point compared to 2010. Thus, since the year 2000, the resources which the federal government has at its disposal for its own policies have declined sharply, by a total of 5.5 percentage points of GDP. That drop is attributable partly to the reduction in revenues which fall within its own fiscal powers, but more

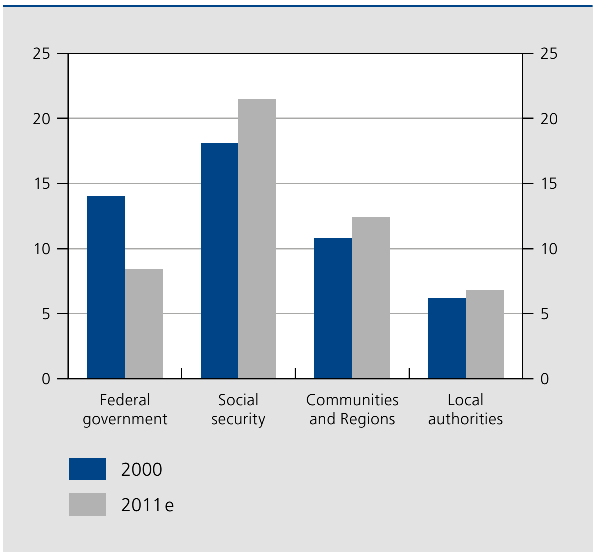
TABLE 15 NON-FISCAL AND NON-PARAFISCAL REVENUES
(in € billion)

	2008	2009	2010	2011 e
Total non-fiscal and non-parafiscal revenues	17.4	17.9	19.5	21.5
of which:				
Remuneration for guarantees on interbank loans	0.0	0.5	0.7	0.7
Remuneration for deposit guarantees	0.0	0.1	0.3	0.8
Commercial bank dividends	0.0	0.1	0.2	1.0

Sources: NAI, NBB.

CHART 65 REVENUES PER GOVERNMENT SUB-SECTOR

(after transfers between sub-sectors, in % of GDP)



Sources: NAI, NBB.

so to the increased transfers to the other government sub-sectors. In that regard, it is mainly social security that has received extra resources, both in relation to 2000 and in relation to 2010. This sub-sector's own revenues have remained practically stable, year on year, whereas it benefited from a further increase in transfers received from the federal government amounting to 0.3 percentage point of GDP. At the same time, the resources of the Communities and Regions recorded a strong 0.6 percentage point expansion, largely as a result of transfers received from the federal government, but also thanks to the growth of their own resources. Finally, local authority revenues were the most stable, being practically the same as last year and only slightly up over the past decade.

6.3 Primary expenditure

General government primary expenditure, i.e. spending excluding interest charges, was up by 0.4 percentage point of GDP against 2010. It thus came to 49.9 % of GDP, remaining at a very high level in historical terms. Primary expenditure had represented just 42.5 % of GDP in 2000. During the past decade, it has therefore risen by more than 7 percentage points of GDP, the reason being an average real increase of 2.8 % per annum, or 1.2 percentage points more than real GDP growth.

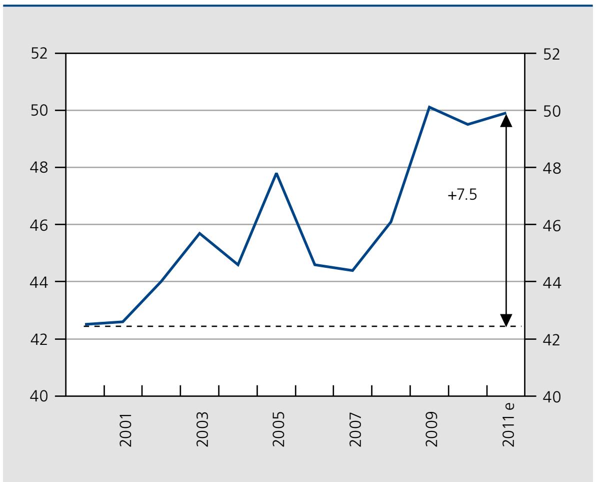
The volume of primary expenditure grew by 1.7 % in 2011. However, to obtain an accurate picture of the underlying trend in government spending policy, it is necessary to eliminate a range of non-structural components. These essentially include temporary factors, the impact of the business cycle on expenditure, and finally, the effect of the difference between the movement in the HICP, which is used to deflate primary expenditure, and the movement in public sector wages and social services resulting from the automatic indexation mechanism.

Non-recurring factors augmented the growth of expenditure by 0.4 percentage point. That was largely due to the impact of government measures in favour of Holding Communal which, as a major Dexia shareholder, felt the full brunt of the collapse of Dexia's share price. The liquidation of Holding Communal led to a capital transfer of 0.2 % of GDP following the assumption of guaranteed debts and non-repayment of short-term loans by Holding Communal. The bulk of this capital transfer was at the expense of the Regions, but the federal government also bore part of the cost of the operation.

In addition, the growth rate of primary expenditure is subject to cyclical fluctuations via the pattern of unemployment benefits. The buoyant economic activity in 2010 and in the first half of 2011 brought down the number of persons totally unemployed and drawing benefits, which tracks the economic cycle with a certain time lag. There was an even steeper decline in the number of persons temporarily laid off, a yardstick which responds faster to cyclical movements. Altogether, the cyclical component thus restrained the rise in expenditure by 0.3 percentage point.

CHART 66 GENERAL GOVERNMENT PRIMARY EXPENDITURE

(in % of GDP)



Sources: NAI, NBB.

TABLE 16 GENERAL GOVERNMENT PRIMARY EXPENDITURE

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

	2007	2008	2009	2010	2011 e	Average 2000-2011 e
Level recorded (1)	44.4	46.1	50.1	49.5	49.9	46.0
Real growth recorded	3.1	2.3	7.0	0.4	1.7	2.6
Influence of non-recurrent or fiscally neutral factors (2)	1.7	–0.2	0.9	–1.3	0.4	0.2
Influence of cyclical factors (2)	–0.4	–0.2	0.7	0.0	–0.3	0.0
Indexation effect (2) (3)	–0.2	–0.4	1.5	–1.2	–0.5	–0.2
Real growth adjusted for cyclical non-recurrent or fiscally neutral factors and for indexation effects	2.0	3.1	4.0	2.9	2.2	2.8
p.m. Volume growth of GDP (4)	2.8	0.9	–2.7	2.3	1.9	1.6

Sources: DGSEI, NAI, NBB.
(1) In % of GDP.
(2) Contribution to real recorded growth of primary expenditure.
(3) Effect caused by the difference between the actual indexation of public sector wages and social security benefits and the rise in the HICP. The other effects due to differences between inflation measured by the HICP and the movement in price factors influencing other expenditure categories, whether they are attributable to the indexation mechanisms or to a divergent pattern in the prices of certain expenditure categories, are not adjusted owing to the absence of sufficient information or the complexity of the method to be used.
(4) Calendar adjusted data.

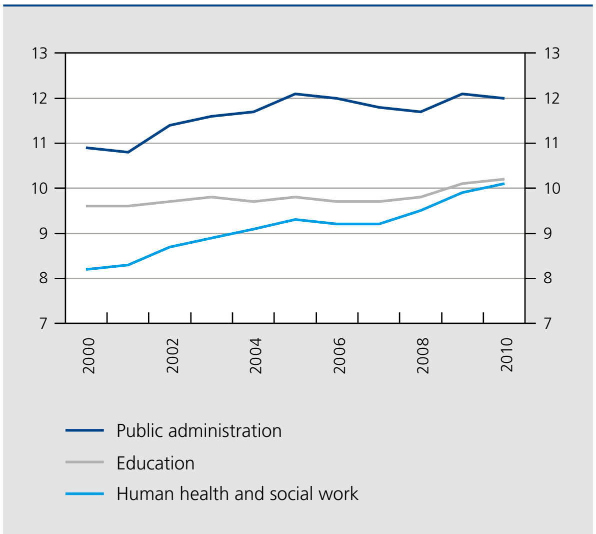
The automatic indexation mechanisms for civil service wages and social benefits are a third external factor which influences the real movement in primary expenditure. Via that mechanism, these wages and benefits, which account for over 60 % of primary expenditure, are linked to the movement in the health index of consumer prices, while the real movement in primary expenditure is measured by deflating the nominal movement by the change in the HICP. In 2011, the health index rose by 0.4 percentage point less than the HICP. In addition, any acceleration in inflation, such as that which occurred in 2010 and up to mid-2011, takes time to be reflected in the indexation of wages and social benefits. In 2011, they were not index-linked until May and June respectively, after the health index had exceeded the trigger index number in April. Overall, this difference depressed the volume growth of primary expenditure, measured against the HICP, by 0.5 percentage point.

After adjustment for these various factors, the real growth of primary expenditure came to 2.2 %. Though that is 0.6 percentage point lower than the average growth since 2000, it is still well above the trend GDP growth.

One of the structural factors which has contributed to the rise in primary expenditure in recent years is the remuneration of public sector workers and staff employed in areas of activity which are largely subsidised by the government, such as public administration, education, health and social work. That remuneration increased from 28.7 % of the total wage bill for all sectors in 2000 to 32.4 % in 2010. The rise was particularly marked in the health and social work branch, where remuneration increased from 8.2 to 10.1 % of the total over the same period. Public

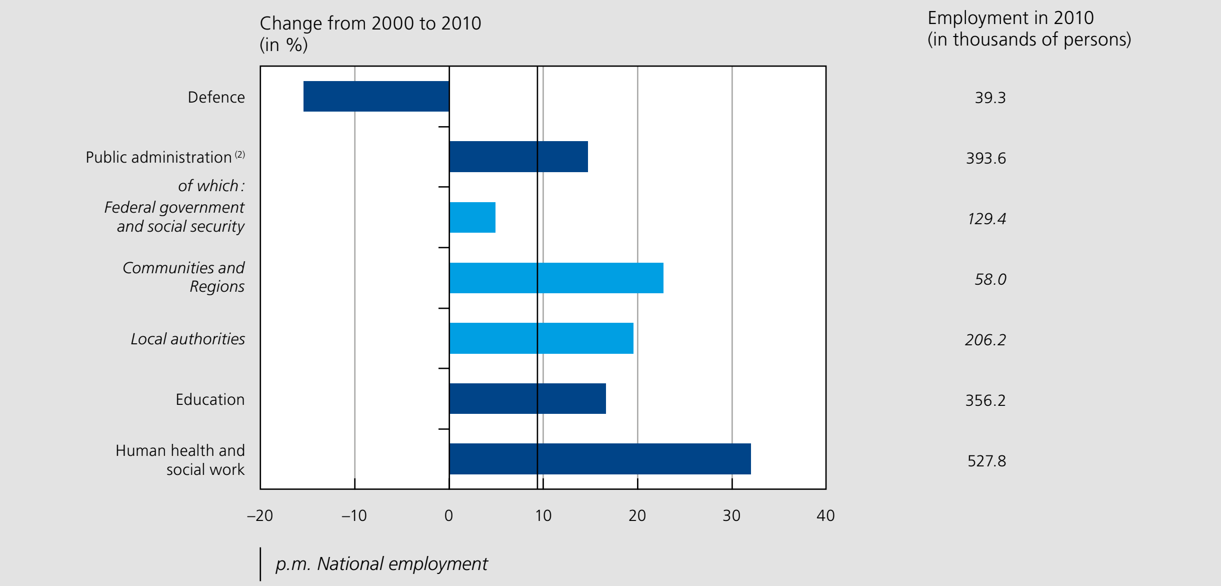
CHART 67 REMUNERATION OF EMPLOYEES IN PUBLIC ADMINISTRATION, EDUCATION, AND HUMAN HEALTH AND SOCIAL WORK

(in % of the wage bill of the Belgian economy)



Sources: NAI, NBB.

CHART 68 EMPLOYMENT IN PUBLIC ADMINISTRATION, EDUCATION, AND HUMAN HEALTH AND SOCIAL WORK [1]



Sources: NAI, NBB.
(1) Excluding the public broadcasting corporations, Aquafin, and the transfer, in 2002, of 8 500 federal police to the local police forces.
(2) Public administration excluding Defence.

administration also recorded strong growth, from 10.9 to 12 %, while the rise was smaller in the education branch, where the wage bill expanded from 9.6 to 10.2 % of the total.

Changes in employment are a key determinant of the rise in the remuneration of employees in these branches of activity. During the period 2000-2010, the number of jobs in these sectors grew by more than 20 %, far outpacing the growth of total national employment, which came to 9.4 %.

Between 2000 and 2010, employment in the public administration branch expanded by 11.1 %. Without the reduction of more than 7 000 units in the number of Ministry of Defence staff, the growth came to 14.7 %. Leaving aside the Ministry of Defence, employment in the federal government and social security was up by 4.9 %.

TABLE 17 ADJUSTED PRIMARY EXPENDITURE [1] BY GENERAL GOVERNMENT SUB-SECTOR [2]

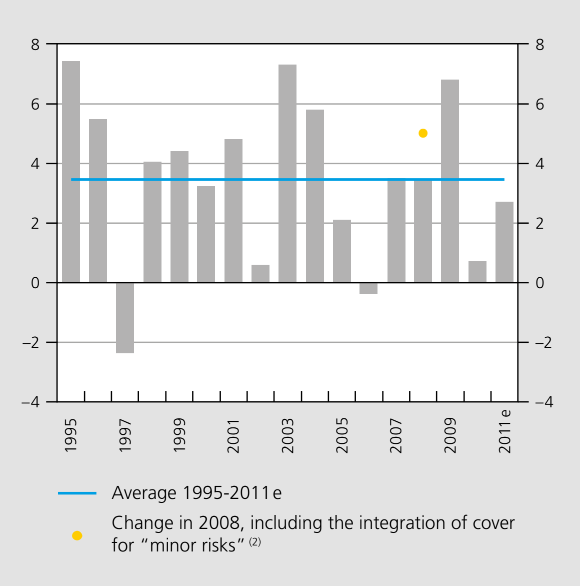
(deflated by the HICP, percentage changes compared to the previous year, unless otherwise stated)

	2007	2008	2009	2010	2011 e	Average 2000-2011 e
Entity I	2.9	3.9	4.5	3.2	2.3	2.9
Federal government	2.2	4.5	4.3	3.8	0.2	2.7
Social security	3.2	3.6	4.6	2.9	3.3	2.9
Entity II	0.3	1.8	3.1	2.3	2.0	2.6
Communities and Regions	1.3	2.5	3.3	2.2	1.7	2.6
Local authorities	–1.2	0.9	2.9	2.5	2.4	2.6

Sources: DGSEI, NAI, NBB.
(1) Real growth adjusted for the influence of cyclical, non-recurrent or fiscally neutral factors, and for indexation effects.
(2) The expenditure of the general government sub-sectors does not include mutual transfers.

CHART 69 PUBLIC HEALTH CARE EXPENDITURE (1)

(deflated by the HICP, percentage changes compared to the previous year)



Sources: NAI, NBB.

(1) Excluding sickness and invalidity benefits, benefits for the disabled, transfers to institutions caring for the disabled, and spending on long-term care insurance.

(2) Insurance against "minor risks" concerning health care became compulsory for self-employed persons in 2008, and increased both social security contributions collected and social security expenditure.

In the Communities and Regions, the number of workers employed in the public administration branch increased by 22.7 %, and in the local authorities the increase came to 19.5 %. In the education branch, the number of workers was up by 16.6 %. The moderate rise in the share of this sector's wages in the total wage bill is due to the large and growing proportion of part-time staff in education, at around 40 % in 2010. Finally, in the health and social work branch, employment grew by no less than 32 % in the period considered.

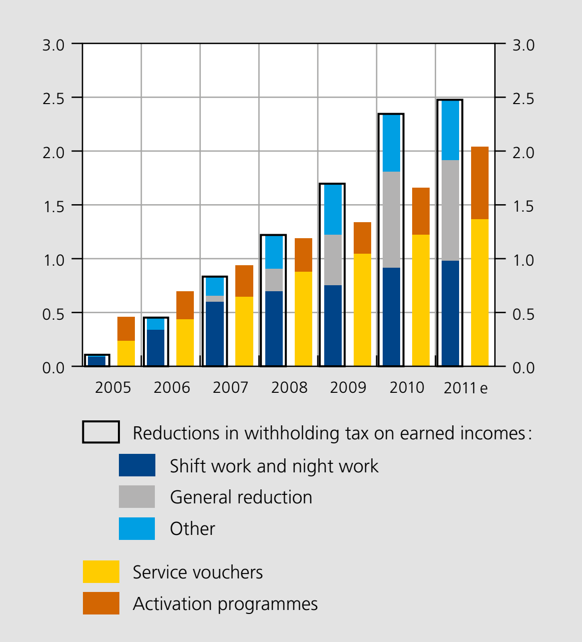
In 2011, the adjusted primary expenditure of federal government increased by 0.2 % in volume, representing a marked deceleration compared to the growth rate in the three preceding years. This very moderate growth is attributable mainly to a decline in staff remuneration in real terms and a sharp fall in intermediate consumption. Other federal primary expenditure rose strongly, notably the investment grants to the BNRC and the investment subsidies resulting from the reductions in withholding tax on earned incomes, both the general reduction and that for shift work and night work.

The volume growth of adjusted social security expenditure speeded up slightly in 2011, to 3.3 %. Expenditure on health care, which represents around one-third of social security spending, was up by 2.7 % in volume. Real expenditure on pensions increased at roughly the same rate as last year. The government measures to raise minimum pensions and the pensions of older retired persons had an impact of around € 90 million. Finally, sickness and invalidity benefits, unemployment benefits and family allowances were adjusted in line with prosperity at a total cost of € 230 million. As a result of these measures, but also the increase in the number of persons concerned, sickness and invalidity benefits recorded very strong growth again in 2011. The trend in this item, apparent for several years, therefore continued in 2011.

Finally, as in previous years, the subsidies paid by social security to enterprises increased strongly. Apart from expenditure relating to service vouchers, expenditure on activation measures for getting people back to work also merits a mention. Activation subsidies were up by € 140 and € 245 million respectively in 2010 and 2011, principally as a result of the Win-Win recruitment plan. The Win-Win plan targets workers in certain risk groups taken on during the period 2010-2011. They qualified for a higher working allowance of up to € 1 100 per month. The service voucher budget increased again

CHART 70 SUBSIDIES GRANTED TO COMPANIES: SERVICE VOUCHERS, REDUCTIONS IN WITHHOLDING TAX ON EARNED INCOMES AND ACTIVATION PROGRAMMES

(in € billion)



Sources: budget documents, NAI, NBB.

– by € 140 million – to almost € 1.4 billion. That figure takes no account of the tax deductions available in addition to users of these vouchers at the time of the personal income tax assessments.

The Communities and Regions kept the growth of their adjusted primary expenditure down to 1.7 %. This slowdown is attributable to various expenditure categories, such as investment and purchases of goods and services.

The volume growth of the adjusted primary expenditure of local authorities was almost stable at 2.4 %. Although the volume growth of local authority investment gathered momentum on account of the electoral cycle, wage increases were fairly modest. However, the effect of the electoral cycle on investment was less marked in 2011 than in other comparable years, because the financial position of local authorities was less favourable than in the past.

6.4 Interest charges and debt management

Interest charges

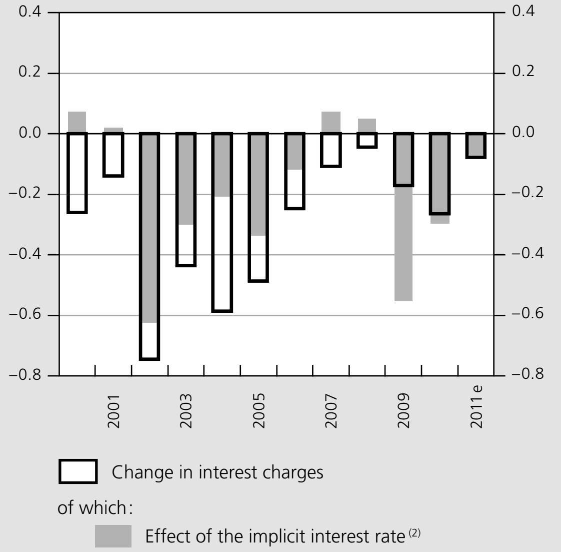
After having peaked at 11.6 % of GDP in 1990, interest charges declined constantly for two decades. That sharp contraction is due mainly to the marked fall in the implicit interest rate on the public debt and, up to 2007, the decline in the debt ratio. However, since 2008 that ratio has been rising again, restraining the fall in interest charges.

In 2011, interest charges were virtually unchanged at 3.3 % of GDP, as the limited rise in the debt ratio was offset by a new, small reduction in the implicit interest rate on the public debt. That is due essentially to the further decline in the implicit interest rate on the Treasury's long-term debt, which is by far the chief component of the total debt of general government. Despite the relatively strong rise in market interest rates in this segment in 2011, the long-term debts which matured or were bought back could still be refinanced more cheaply. However, in the second half of 2011, the market interest rate on Belgian government bonds clearly overtook the implicit interest rate. The decline in the long-term implicit interest rate recorded in 2011 was largely offset by the strong rise in the interest rate on the short-term public debt.

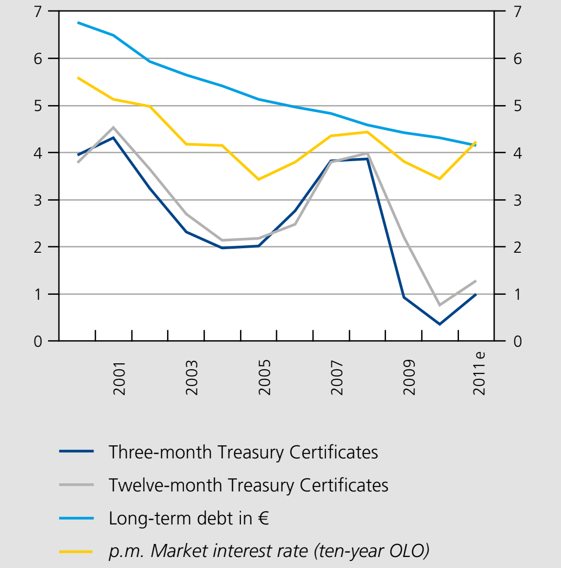
CHART 71 BREAKDOWN OF THE CHANGE IN INTEREST CHARGES

(in %, unless otherwise stated)

CHANGE IN INTEREST CHARGES AND EFFECT OF THE IMPLICIT INTEREST RATE (1)
(in % of GDP)



IMPLICIT INTEREST RATE ON TREASURY CERTIFICATES (3) AND ON LONG-TERM TREASURY DEBT



Sources: NAI, FPS Finance, NBB.
(1) For general government as a whole.
(2) Ratio between interest charges in the current year and debt at the end of the preceding year.
(3) Ratio between interest charges (including issue premiums for the long-term debt in euro) and the average outstanding debt.

Management of the Treasury debt

In 2011, the Treasury's gross financing requirements came to more than € 50 billion, well in excess of the 2010 figure. The amount of medium- and long-term loans maturing was smaller than in the previous year, but the net borrowing requirement grew significantly, key factors being the increase in the federal government budget deficit and the purchase of Dexia Bank Belgium. The amount of bonds bought back before maturity likewise exceeded the 2010 figure.

The Treasury financed this balance mainly by medium- and long-term issues in euro. The Treasury's short-term debts in foreign currencies remained practically unchanged, while the outstanding amount of Treasury Certificates was down sharply.

Long-term issues mainly concerned OLOs. Nevertheless, in the year under review, the Treasury issued a much larger number of State notes than in the previous year. That growth essentially concerns State notes for which the subscription period ran from 24 November to 2 December 2011, and the volume issued totalled € 5.7 billion. State notes maturing on 4 December 2016 were particularly popular.

TABLE 18 FINANCING REQUIREMENTS AND RESOURCES OF THE FEDERAL STATE
(in € billion)

	2009	2010	2011
Gross financing requirements	28.8	43.5	50.4
Gross balance to be financed	25.7	37.0	42.9
Budget deficit or surplus (–)(1)	7.8	11.2	18.9
Medium- and long-term debt maturing during the year	17.9	25.9	24.1
In euro	17.9	25.3	24.1
In foreign currencies	0.0	0.6	0.0
Buy-backs (securities maturing the next year or later)	3.1	6.5	7.1
Other financing requirements	0.0	0.0	0.4
Funding resources			
Medium- and long-term funding	38.3	45.3	49.5
Linear bonds (OLOs)	35.0	40.9	40.9
State notes and others	3.3	4.4	8.6
Net change in the short-term debt in foreign currencies	–4.0	0.0	–0.1
Change in the outstanding amount of Treasury Certificates	–1.4	0.3	–5.3
Net change in other short-term debts in € and in financial assets	–4.1	–2.1	6.4

Source: FPS Finance.
(1) The budget balance is calculated on a cash basis and, among other things, takes account of financial transactions which are not included in the overall balance of general government which, in accordance with the ESA 95, is calculated on a transaction basis.

Guarantees granted to financial institutions

Against the backdrop of the financial crisis, the Belgian government, principally the federal State, granted guarantees. In principle, these have no influence on the budget balance and the debt unless they are called on. Leaving aside the guarantees on deposits, amounting to € 100 000 per customer and per financial institution, the maximum uncalled guarantees can be estimated at € 61.1 billion, or 16.5 % of GDP, at the end of 2011. Most of these guarantees concern interbank funding for Dexia, which is guaranteed up to a maximum assessed at € 41.9 billion, comprising both the residual guarantees under the old system dating from 2008 and Belgium's 60.5 % share in the new temporary guarantees granted to the Dexia holding company.

6.5 Overall balance of the general government sub-sectors

The accounts of the general government sub-sectors exhibited a divergent pattern following the developments described above and the movement in their mutual transfers. The deficit of Entity I, comprising the federal government and social security, began growing again in 2011. The deterioration in the balance is attributable solely to the federal government. The deficit of Entity II diminished, due to a marked fall in that of the Communities and Regions, while the local authority deficit remained stable. The deficit of Entity II thus remains significantly lower than that of Entity I.

In 2011, the federal government deficit was up from 3 to 3.4 % of GDP. The deterioration in the overall balance of this level of government is due solely to a further strong increase in transfers of tax revenues to the other entities.

These additional tax revenue transfers from the federal government are destined primarily for social security. That explains how the small deficit recorded for this sub-sector last year was maintained, despite higher expenditure on health care, other social benefits and expenditure on service vouchers and activation programmes, and despite the slight reduction in other forms of transfer from the federal government.

TABLE 19 OVERALL BALANCE OF GENERAL GOVERNMENT, AND PER SUB-SECTOR

(in % of GDP)

	2007	2008	2009	2010	2011 e
Primary balance	3.5	2.5	–2.2	–0.7	–0.7
Entity I	3.0	2.3	–1.6	–0.1	–0.5
Federal government	2.6	1.9	–0.8	0.1	–0.4
Social security	0.5	0.5	–0.7	–0.1	–0.1
Entity II	0.6	0.2	–0.6	–0.6	–0.2
Communities and Regions	0.5	0.1	–0.6	–0.5	–0.1
Local authorities	0.1	0.1	0.0	–0.1	–0.2
Interest charges	3.8	3.8	3.6	3.3	3.3
Overall balance	–0.3	–1.3	–5.8	–4.1	–4.0
Entity I	–0.6	–1.2	–4.9	–3.1	–3.5
Federal government	–1.1	–1.6	–4.2	–3.0	–3.4
Social security	0.5	0.5	–0.7	–0.1	–0.1
Entity II	0.3	–0.1	–0.9	–0.9	–0.6
Communities and Regions	0.4	–0.0	–0.7	–0.7	–0.3
Local authorities	–0.1	–0.1	–0.1	–0.3	–0.3

Sources : NAI, NBB.

The overall balance of the Communities and Regions improved significantly in 2011, from –0.7 % of GDP in 2010 to –0.3 % of GDP, as there was an increase in transfers of tax revenues from the federal government under the Special Finance Act. In addition, the Communities and Regions also recorded an increase in their own fiscal and non-fiscal revenues. Primary expenditure was up slightly owing to the non-recurring factor represented by capital transfers from the Regions in favour of Holding Communal. For the future, the revision of the Special Finance Act mechanisms for the Communities and Regions was one of the key aspects of the October agreement on the sixth State reform. The main features of that revision are presented in Box 9.

The local authority deficit remained at the previous year's level of 0.3 % of GDP. Revenue and expenditure increased slightly. Public investment was dynamic in the run-up to the 2012 local and provincial elections.

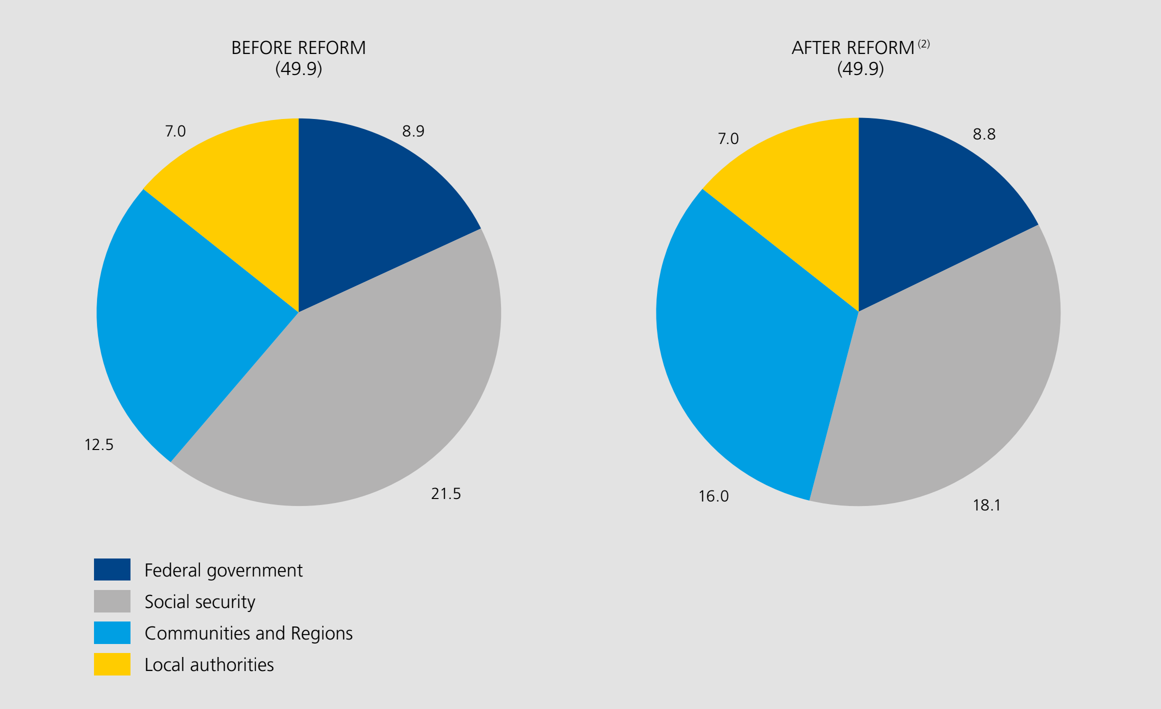
Box 9 – Sixth phase of the State reform and revision of the Special Finance Act

On 10 October 2011, eight political parties with a special majority in the federal parliament concluded an agreement on the sixth State reform which should largely enter into force in 2014.

Apart from more political and institutional aspects, this reform implies an additional transfer of powers from Entity I, comprising the federal government and social security, to the Communities and Regions. On the basis of 2011 data, that transfer would amount to around 4.4 % of GDP. The biggest transfers from a budgetary angle – roughly 2.8 % of GDP – are destined for the Communities : about 1.6 % of GDP for family allowances and 1.1 % of GDP for health care for the elderly (retirement homes, etc.), and for a range of other health care spending. The Regions gain new powers to which the federal government devoted resources equivalent to 1.6 % of GDP : 1 % of GDP on employment (of which 0.3 % of GDP in the form of reductions in revenues, and more specifically,

GENERAL GOVERNMENT SUB-SECTORS' PRIMARY EXPENDITURE (1)

(in % of GDP, estimate based on 2011 figures)



Sources: general policy statement, NAI, NBB.

(1) The expenditure does not include transfers between general government sub-sectors.

(2) Not including the powers transferred on the revenue side (fiscal expenditure, reductions in social security contributions).

reductions in social security contributions), 0.5 % of GDP on miscellaneous tax expenditure concerning mortgage loans, energy-saving investments and use of the service vouchers, and the balance on other areas of responsibility.

This transfer of powers is accompanied by a transfer of resources, requiring adjustments to the Special Finance Act for the Communities and Regions of 16 January 1989, which last underwent substantial revision in 2001 following the Lambermont agreements.

For the Regions, one of the main changes made by the draft new Finance Act concerns the greater tax autonomy which they will enjoy. They can thus levy 'expanded' additional percentages for an amount corresponding to around a quarter of the personal income tax revenues. The tax base is still determined by the federal government, which continues to collect the tax, but the Regions themselves can determine their own tax rates and their tax scales. Adjustments may, to a limited extent, affect the progressive character of the tax.

Apart from these revenues, the Regions receive additional resources for their new responsibilities, transferred on the basis of a fiscal key. These resources do not always cover the expected expenditure, and their growth rate is not fully tied to economic growth. Conversely, within the limits of their fiscal autonomy, the Regions will from now on benefit from a growth in the personal income tax proceeds which exceeds the trend growth of GDP. This results from two factors: the progressive character of the tax and population ageing, as the – rising – amount of the pensions paid forms an integral part of the tax base but not of GDP.

A solidarity mechanism in favour of the Regions whose per capita yield from personal income tax is below the national average is retained, but the detailed arrangements are modified. The reform rectifies 80 % of the discrepancy between the Region's share in the population and its share in the proceeds from personal income tax.

The Communities also receive additional resources for their new powers, but they are allocated on the basis of demographic keys. The resources available to them for their old powers are restructured and comprise an allocation according to the number of pupils in French- and Dutch-speaking schools plus an allocation based on a fiscal key.

Taking account of all the changes made to the method of funding the Communities and Regions, of which only the main ones are mentioned here, some entities would receive less resources under the new system than under the old one. A transitional mechanism in the form of an equalisation factor has been provided in order to ensure that no entity loses resources at the time of the switch from the old law to the new one. The amounts of this factor are fixed in nominal terms for ten years, then phased out over the ensuing ten years.

Apart from that, the Brussels entities – i.e. the Brussels Capital Region, the Community Commissions and the municipalities – receive additional resources totalling around 0.1 % of GDP. These resources come from various mechanisms. Thus, taking account of the net inflow of commuters to the Brussels Capital Region, an adjustment incorporates part of the incomes of commuters from the other two Regions. Another mechanism compensates the Brussels Capital Region for the revenues which it does not collect on the wages of officials of international institutions located in Brussels. Other resources are also earmarked for specific expenditure, such as security, bilingualism premiums and mobility.

Finally, as a contribution to the consolidation of public finances, the Communities and Regions will pay a contribution to the federal State for the pensions of their officials. In practice, it used to be the federal State that bore the whole cost of those pensions. This contribution is proportionately larger for the Communities since they employ more workers, especially teachers.

TABLE 1 GDP AND MAIN CATEGORIES OF EXPENDITURE, BY VOLUME

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Household final consumption expenditure	0.5	0.8	1.6	1.0	2.0	1.7	1.9	0.8	2.3	0.8
Final consumption expenditure of general government	3.1	1.4	1.8	1.2	0.6	2.0	2.4	0.8	0.2	1.1
Gross fixed capital formation	–5.0	0.6	8.0	6.4	2.3	6.1	2.2	–8.1	–0.9	4.9
Housing	–5.2	3.1	8.0	10.7	6.5	3.3	–2.7	–9.2	1.6	–3.8
Enterprises	–4.7	–1.2	8.9	4.5	2.0	8.2	4.2	–9.3	–1.6	8.8
General government	0.5	1.1	–0.2	9.2	–3.6	–1.1	0.9	7.2	–1.8	6.5
p.m. Final domestic expenditure (1) (2)	*–0.1*	*0.8*	*2.8*	*2.1*	*1.6*	*2.6*	*2.0*	*–1.2*	*1.1*	*1.7*
Change in inventories (1)	0.0	0.0	–0.2	1.0	0.5	0.1	–0.3	–0.7	0.0	0.4
Net exports of goods and services (1)	1.4	0.0	0.5	–1.1	0.6	0.2	–0.8	–0.7	1.2	–0.1
Exports of goods and services	2.5	0.5	6.2	3.8	5.5	5.2	1.8	–11.3	9.9	5.1
Imports of goods and services	0.7	0.5	6.0	5.6	5.0	5.2	2.9	–10.6	8.7	5.5
GDP	1.4	0.8	3.1	1.9	2.7	2.8	0.9	–2.7	2.3	1.9
Trade surplus or deficit (–) due to the change in the terms of trade (3)	0.9	–0.1	–0.7	–0.3	–0.6	0.2	–2.0	2.5	–1.2	–1.2
Net primary incomes received from the rest of the world (3)	–0.2	0.2	–0.4	–0.4	0.2	0.2	0.4	–2.0	2.4	0.1
GNI	2.0	0.8	2.0	1.2	2.4	3.2	–0.7	–2.1	3.5	0.8
p.m. Total domestic expenditure (4)	*–0.1*	*0.8*	*2.9*	*3.1*	*2.2*	*2.7*	*1.7*	*–2.0*	*1.1*	*2.1*
Final expenditure (5)	*1.1*	*0.7*	*4.3*	*3.4*	*3.7*	*3.8*	*1.7*	*–6.3*	*4.9*	*3.5*
General government expenditure (6)	*3.0*	*1.4*	*1.8*	*1.4*	*0.3*	*2.0*	*2.4*	*1.1*	*0.1*	*1.4*

Sources: NAI, NBB.
(1) Contribution to the change in GDP.
(2) Final consumption expenditure of households and of general government, and gross fixed capital formation.
(3) Contribution to the change in GNI.
(4) Final domestic expenditure and change in inventories.
(5) Total domestic expenditure and exports of goods and services.
(6) Final consumption expenditure and gross fixed capital formation of general government.

TABLE 2 GDP AND MAIN CATEGORIES OF EXPENDITURE, BY VOLUME

(data adjusted for seasonal and calendar effects ; percentage changes compared to the corresponding quarter of the previous year, unless otherwise stated)

	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household final consumption expenditure	–0.1	0.1	0.9	2.2	3.0	2.5	1.8	1.9	1.4	1.2	0.6	n.
Final consumption expenditure of general government	1.6	1.2	0.6	0.0	0.2	0.2	0.1	0.1	0.2	0.4	1.1	n.
Gross fixed capital formation	–7.4	–8.7	–9.8	–6.6	–4.6	–2.1	2.1	1.4	4.5	7.2	5.0	n.
Housing	–8.7	–10.3	–10.2	–7.4	–4.1	1.1	5.3	4.5	2.4	–1.9	–6.8	n.
Enterprises	–8.5	–10.0	–11.4	–7.5	–5.3	–3.3	1.3	1.0	5.8	11.6	9.9	n.
General government	6.8	9.7	7.4	5.2	1.0	–2.3	–1.1	–4.5	3.3	5.5	10.1	n.
p.m. Final domestic expenditure [1][2]	*–1.4*	*–1.6*	*–1.6*	*–0.3*	*0.6*	*0.9*	*1.4*	*1.3*	*1.7*	*2.2*	*1.6*	*n.*
Change in inventories [1]	–1.3	–0.8	–0.4	–0.4	0.4	0.0	–0.9	0.6	0.9	0.3	1.3	n.
Net exports of goods and services [1]	–1.3	–1.7	–0.5	0.7	0.9	1.9	1.6	0.2	0.8	–0.3	–1.3	n.
Exports of goods and services	–14.6	–17.0	–12.0	–0.3	8.4	12.6	9.6	9.2	9.9	5.6	3.0	n.
Imports of goods and services	–13.4	–15.4	–11.6	–1.0	7.3	10.2	7.8	9.3	9.1	6.2	4.8	n.
GDP	–3.9	–4.2	–2.5	0.0	1.9	2.9	2.1	2.1	2.9	2.1	1.6	0.9
p.m. GDP, percentage changes compared to the previous quarter	*–1.8*	*0.2*	*1.1*	*0.6*	*0.1*	*1.1*	*0.4*	*0.5*	*0.9*	*0.3*	*–0.1*	*–0.2*
p.m. Total domestic expenditure [3]	*–2.7*	*–2.6*	*–2.1*	*–0.7*	*1.0*	*1.0*	*0.6*	*2.0*	*2.1*	*2.5*	*3.0*	*n.*
Final expenditure [4]	*–8.2*	*–9.3*	*–6.7*	*–0.6*	*4.1*	*5.9*	*4.5*	*5.1*	*5.5*	*3.9*	*3.0*	*n.*
General government expenditure [5]	*1.8*	*1.5*	*0.9*	*0.2*	*0.2*	*0.1*	*0.1*	*–0.2*	*0.5*	*0.8*	*1.7*	*n.*

Sources : NAI, NBB.
(1) Contribution to the change in GDP.
(2) Final consumption expenditure of households and of general government, and gross fixed capital formation.
(3) Final domestic expenditure and change in inventories.
(4) Total domestic expenditure and exports of goods and services.
(5) Final consumption expenditure and gross fixed capital formation of general government.

TABLE 3 DEFLATORS OF GDP AND THE MAIN CATEGORIES OF EXPENDITURE

(data not adjusted for calendar effects, percentage changes compared to the previous year)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Household final consumption expenditure	1.2	1.4	2.3	2.7	3.0	2.9	3.3	–0.9	1.8	3.4
Final consumption expenditure of general government	3.7	3.3	2.5	3.4	3.0	2.6	4.5	3.7	2.3	2.9
Gross fixed capital formation	–0.9	1.5	2.8	1.8	3.8	2.8	4.0	0.1	1.3	2.3
Housing	2.2	2.6	5.2	4.8	5.7	4.5	7.7	1.3	1.0	2.2
Enterprises	–2.1	1.2	2.0	0.7	2.7	2.1	2.6	–0.1	1.2	2.4
General government	0.5	1.2	2.2	1.1	5.6	3.0	2.8	–2.6	3.3	2.0
p.m. Final domestic expenditure[1]	*1.3*	*1.9*	*2.4*	*2.7*	*3.2*	*2.8*	*3.7*	*0.4*	*1.8*	*3.0*
Terms of trade	1.2	–0.2	–0.9	–0.4	–0.7	0.2	–2.4	3.4	–1.5	–1.4
Exports of goods and services	–0.6	–1.4	2.1	4.0	2.3	2.4	3.8	–5.2	4.7	5.2
Imports of goods and services	–1.8	–1.2	3.0	4.4	3.0	2.1	6.4	–8.4	6.4	6.7
GNI	2.0	2.0	2.1	2.4	2.3	2.3	2.2	1.2	1.8	2.3
GDP	1.2	2.3	2.8	2.6	2.9	2.1	4.2	–1.2	2.9	3.5
p.m. Total domestic expenditure[2]	*1.2*	*2.3*	*2.8*	*2.6*	*2.9*	*2.1*	*4.2*	*–1.2*	*2.9*	*3.5*
Final expenditure[3]	*0.4*	*0.7*	*2.5*	*3.2*	*2.6*	*2.2*	*4.0*	*–3.0*	*3.7*	*4.3*
General government expenditure[4]	*3.4*	*3.2*	*2.5*	*3.3*	*3.2*	*2.6*	*4.4*	*3.3*	*2.3*	*2.8*

Sources: NAI, NBB.
(1) Final consumption expenditure of households and of general government, and gross fixed capital formation.
(2) Final domestic expenditure and change in inventories.
(3) Total domestic expenditure and exports of goods and services.
(4) Final consumption expenditure and gross fixed capital formation of general government.

TABLE 4 GDP AND THE MAIN CATEGORIES OF EXPENDITURE, AT CURRENT PRICES

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Household final consumption expenditure	1.7	2.2	3.9	3.7	5.0	4.6	5.3	–0.2	4.1	4.2
Final consumption expenditure of general government	6.9	4.8	4.5	4.3	3.6	4.9	7.2	4.4	2.4	4.0
Gross fixed capital formation	–5.8	2.1	11.0	8.4	6.2	9.1	6.3	–8.1	0.4	7.4
Housing	–3.4	6.1	13.6	16.0	12.5	8.0	4.8	–8.0	2.6	–1.7
Enterprises	–7.4	0.6	11.3	5.2	4.1	10.5	7.3	–9.5	–0.6	11.5
General government	1.1	2.3	1.9	10.4	1.8	1.8	3.7	4.6	1.5	8.7
p.m. Final domestic expenditure (1)(2)	*1.2*	*2.6*	*5.2*	*4.6*	*4.7*	*5.3*	*5.6*	*–0.9*	*2.9*	*4.7*
Change in inventories (1)	–0.1	0.4	0.3	1.0	0.3	–0.6	0.1	–2.3	1.1	0.9
Net exports of goods and services (1)	2.3	–0.2	–0.1	–1.2	0.1	0.5	–2.8	1.6	0.1	–1.2
Exports of goods and services	1.9	–0.9	8.4	7.9	7.9	7.7	5.7	–15.9	15.1	10.6
Imports of goods and services	–1.1	–0.7	9.2	10.2	8.2	7.4	9.5	–18.1	15.6	12.6
GDP	3.4	2.8	5.4	4.3	5.1	5.2	3.0	–1.5	4.1	4.3
Net primary incomes received from the rest of the world (3)	–0.2	0.2	–0.4	–0.4	0.2	0.2	0.5	–2.0	2.5	0.1
GNI	3.1	3.0	5.0	3.8	5.3	5.4	3.4	–3.5	6.6	4.3
p.m. Total domestic expenditure (4)	*1.2*	*3.2*	*5.8*	*5.8*	*5.2*	*4.9*	*6.0*	*–3.2*	*4.1*	*5.7*
Final expenditure (5)	*1.5*	*1.4*	*6.9*	*6.7*	*6.4*	*6.2*	*5.9*	*–9.0*	*8.8*	*7.9*
General government expenditure (6)	*6.5*	*4.6*	*4.4*	*4.7*	*3.5*	*4.7*	*6.9*	*4.4*	*2.4*	*4.3*

Sources: NAI, NBB.
(1) Contribution to GDP growth.
(2) Final consumption expenditure of households and of general government, and gross fixed capital formation.
(3) Contribution to GNI growth.
(4) Final domestic expenditure and change in inventories.
(5) Total domestic expenditure and exports of goods and services.
(6) Final consumption expenditure and gross fixed capital formation of general government.

TABLE 5 GDP AND THE MAIN CATEGORIES OF EXPENDITURE, AT CURRENT PRICES

(data not adjusted for calendar effects, in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Household final consumption expenditure	141 426	144 490	150 256	155 935	163 512	171 088	179 987	179 697	187 476	195 029
Final consumption expenditure of general government	60 306	63 179	65 941	69 024	71 505	74 838	80 088	83 741	85 767	89 192
Gross fixed capital formation	51 368	52 185	57 880	62 738	66 923	72 956	77 395	71 173	71 588	76 820
Housing	12 358	13 107	14 892	17 277	19 439	20 986	22 000	20 243	20 771	20 410
Enterprises	34 564	34 529	38 350	40 340	42 269	46 659	49 886	45 173	44 977	50 059
General government	4 446	4 549	4 638	5 121	5 215	5 312	5 510	5 756	5 840	6 351
p.m. Final domestic expenditure[1]	*253 099*	*259 854*	*274 076*	*287 697*	*301 940*	*318 881*	*337 471*	*334 610*	*344 831*	*361 041*
Change in inventories	97	1 378	2 903	3 725	4 605	3 824	5 697	–3 504	–26	3 099
Net exports of goods and services	15 423	14 925	14 313	11 935	12 152	12 905	2 963	9 291	9 572	5 435
Exports of goods and services	206 015	204 173	221 194	238 737	257 498	277 203	292 766	246 335	283 533	313 658
Imports of goods and services	190 592	189 248	206 881	226 802	245 346	264 298	289 803	237 043	273 961	308 223
GDP	268 620	276 157	291 292	303 357	318 697	335 610	346 130	340 398	354 378	369 574
Net primary incomes received from the rest of the world	3 638	4 203	3 218	1 988	2 724	3 366	4 966	–2 101	6 243	6 463
GNI	272 257	280 360	294 510	305 345	321 421	338 976	351 097	338 296	360 621	376 037
p.m. Total domestic expenditure[2]	*253 196*	*261 231*	*276 979*	*291 422*	*306 545*	*322 706*	*343 167*	*331 106*	*344 806*	*364 139*
Final expenditure[3]	*459 211*	*465 405*	*498 173*	*530 159*	*564 043*	*599 909*	*635 933*	*577 441*	*628 339*	*677 797*
General government expenditure[4]	*64 752*	*67 727*	*70 578*	*74 145*	*76 720*	*80 150*	*85 598*	*89 497*	*91 607*	*95 543*

Sources: NAI, NBB.
(1) Final consumption expenditure of households and of general government, and gross fixed capital formation.
(2) Final domestic expenditure and change in inventories.
(3) Total domestic expenditure and exports of goods and services.
(4) Final consumption expenditure and gross fixed capital formation of general government.

TABLE 6 VALUE ADDED OF THE VARIOUS BRANCHES OF ACTIVITY, BY VOLUME

(data not adjusted for calendar effects, percentage changes compared to the previous year)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	*p.m. In % of the 2010 GDP*
Agriculture, forestry and fishing	4.0	–7.3	5.3	–12.2	10.4	–1.2	3.9	–0.4	–0.8	*0.6*
Industry, energy and water	–0.6	–0.9	3.2	0.4	1.4	3.3	–0.1	–9.9	4.2	*15.0*
Mining and quarrying	–5.1	1.7	4.2	7.9	8.7	4.7	22.5	–5.8	–4.4	*0.1*
Manufacturing industry	–0.6	–1.2	3.8	1.1	0.7	3.5	–0.2	–15.0	4.8	*12.3*
of which:										
Food, beverages, tobacco	1.8	1.4	3.4	0.5	2.0	6.8	5.6	–2.6	–0.3	*2.0*
Textiles, wood, paper and printing	–1.4	–2.1	4.0	–3.2	4.6	5.8	–2.8	–12.3	1.2	*1.3*
Chemicals and rubber (1)	2.0	–0.6	5.9	5.5	0.9	1.3	3.3	–17.7	7.6	*4.2*
Metallurgy and metal-working industry	0.3	–2.2	4.6	–8.1	2.3	9.4	–6.1	–12.7	3.5	*1.8*
IT products and electrical equipment	–8.3	–3.5	0.5	–4.7	1.1	–7.8	–3.2	–17.8	8.0	*0.8*
Machinery and equipment, transport equipment	–2.6	–1.0	2.4	11.0	–4.4	4.1	–3.2	–28.8	4.5	*1.7*
Other manufacturing industries	–8.8	–5.9	–3.8	–7.7	–4.5	–3.4	1.3	2.5	12.7	*0.6*
Electricity and gas	–1.4	–0.8	–2.5	–2.0	10.0	2.0	1.3	23.8	1.0	*1.9*
Water	3.2	6.6	4.0	–9.5	–4.2	1.2	–4.5	0.3	3.3	*0.7*
Construction	–0.5	1.0	5.8	4.5	9.0	1.6	0.9	–1.9	0.5	*5.1*
Services										
Trade and repairs	4.2	5.0	3.6	–3.3	0.3	6.7	0.2	–2.5	4.6	*11.4*
Transportation and storage	–4.0	1.6	–3.7	6.4	0.3	2.2	3.1	–5.3	–3.0	*5.2*
Accommodation and food service activities	–1.2	1.8	0.0	1.0	2.1	1.1	0.6	–10.1	3.2	*1.5*
Information and communication	3.0	2.1	4.7	0.1	3.0	3.3	3.4	2.7	–0.2	*3.8*
Financial services	8.6	–6.5	9.7	3.4	9.7	–1.8	0.5	–0.4	0.7	*5.4*
Real estate activities	1.0	1.7	0.0	–0.4	1.2	0.6	2.2	–1.0	1.7	*8.3*
Legal and administrative services, R&D	0.8	3.7	3.2	9.8	5.7	6.2	4.5	–2.7	1.7	*11.5*
Public administration and education	1.7	1.3	1.2	1.4	0.8	0.6	0.9	–0.4	0.9	*12.9*
Human health and social work	0.6	0.3	1.7	0.7	0.2	2.7	2.0	4.0	2.8	*6.8*
Other services	0.8	0.2	5.3	2.2	2.6	1.0	3.5	–4.9	1.9	*1.8*
Value added of branches, at basic prices	1.2	1.0	2.7	1.7	2.6	2.8	1.6	–2.9	2.0	*89.2*
Taxes less subsidies on products (2)	0.3	–0.1	0.8	0.2	0.4	0.4	–0.4	–0.2	0.5	*10.8*
GDP	1.4	0.8	3.3	1.7	2.7	2.9	1.0	–2.8	2.3	*100.0*

Source: NAI.
(1) This heading also includes manufacture of coke and the pharmaceutical industry.
(2) Contribution to the change in GDP.

TABLE 7 LABOUR MARKET

(annual averages, thousands of units)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Population of working age (1)	6 774	6 805	6 835	6 879	6 942	7 012	7 074	7 124	7 171	7 210
Labour force	4 722	4 768	4 849	4 922	4 966	4 986	5 040	5 084	5 135	5 171
National employment	4 231	4 230	4 275	4 337	4 387	4 460	4 539	4 533	4 571	4 626
Frontier workers (balance)	67	70	72	73	75	77	78	79	79	79
Domestic employment	4 164	4 160	4 204	4 264	4 311	4 383	4 462	4 454	4 491	4 547
Self-employed	689	689	692	695	699	706	716	720	726	736
Employees	3 475	3 471	3 512	3 569	3 612	3 677	3 746	3 734	3 765	3 811
Branches sensitive to the business cycle (2)	2 246	2 222	2 231	2 260	2 291	2 341	2 387	2 351	2 357	2 385
Public administration and education	721	729	745	759	764	771	782	794	801	799
Other services (3)	507	520	537	550	557	565	578	590	608	627
Unemployment (4)	492	538	573	585	579	526	500	551	564	545

Sources: DGSEI, FPB, NAI, NEO, NBB.

(1) Persons aged 15 to 64.

(2) The branches agriculture; industry; construction; production and supply of electricity, gas, steam and air conditioning; water supply; sewerage, waste management and remediation activities; trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; specialist, scientific and technical activities and administrative and support service activities.

(3) The branches human health and social work; culture, entertainment and recreational activities; other service activities and activities of households as employers.

(4) Unemployed job-seekers, consisting of wholly unemployed persons receiving benefits (excluding older unemployed persons not seeking work), and other compulsorily or voluntarily registered job-seekers. Job-seekers working via the local employment agencies were excluded since they are already included in employment.

TABLE 8 **EMPLOYMENT RATE**

(in % of the corresponding labour force aged 15 to 64 (1), annual averages)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (2)
Total	59.9	59.6	60.3	61.1	61.0	62.0	62.4	61.6	62.0	61.8
p.m. Total (from 20 to 64 years)	*65.0*	*64.7*	*65.6*	*66.5*	*66.5*	*67.7*	*68.0*	*67.1*	*67.6*	*67.2*
According to sex										
Women	51.4	51.8	52.6	53.8	54.0	55.3	56.2	56.0	56.5	56.7
Men	68.3	67.3	67.9	68.3	67.9	68.7	68.6	67.2	67.4	66.9
According to age										
15 to 24	29.4	27.4	27.8	27.3	27.6	27.5	27.4	25.3	25.2	25.4
25 to 54	76.5	76.5	77.3	78.3	78.4	79.7	80.5	79.8	80.0	79.4
55 to 64	26.6	28.1	30.0	31.9	32.0	34.4	34.5	35.3	37.3	38.6
According to Region										
Brussels	54.5	53.2	54.1	54.8	53.4	54.8	55.6	55.1	54.8	54.2
Flanders	63.5	62.9	64.3	64.9	65.0	66.1	66.5	65.8	66.3	66.0
Wallonia	54.9	55.4	55.1	56.1	56.1	57.0	57.2	56.2	56.7	56.8
According to educational level										
Lower secondary education or less	41.7	41.2	40.5	40.4	40.1	40.5	39.7	38.6	39.1	38.2
Upper secondary education	64.9	63.9	64.7	65.5	65.1	65.9	67.0	65.4	65.7	65.5
Higher education	82.5	82.2	82.5	82.8	82.4	83.7	83.0	81.9	81.9	81.8

Source: DGSEI.
(1) These employment rates are calculated on the basis of the harmonised data taken from the labour force survey.
(2) Averages of the first three quarters.

TABLE 9 UNEMPLOYMENT RATE

(in % of the corresponding labour force aged 15 to 64 [1], annual averages)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [2]
Total	7.6	8.2	8.5	8.5	8.3	7.5	7.0	8.0	8.4	7.2
According to sex										
Women	8.7	8.9	9.6	9.6	9.4	8.5	7.6	8.1	8.6	7.2
Men	6.7	7.7	7.6	7.7	7.5	6.7	6.5	7.8	8.2	7.2
According to age										
15 to 24	17.7	21.8	21.2	21.5	20.5	18.8	18.0	21.9	22.4	19.5
25 to 54	6.6	7.1	7.4	7.4	7.2	6.6	6.1	6.8	7.3	6.3
55 to 64	4.1	3.0	3.9	4.4	4.8	4.2	4.4	5.1	4.6	4.3
According to Region										
Brussels	14.7	15.8	15.9	16.5	17.7	17.2	16.0	15.9	17.4	16.5
Flanders	4.9	5.7	5.4	5.5	5.0	4.4	3.9	5.0	5.2	4.5
Wallonia	10.6	10.9	12.1	11.9	11.8	10.5	10.1	11.2	11.5	9.4
According to educational level										
Lower secondary education or less	11.7	12.5	13.3	14.1	14.0	13.0	12.5	13.7	15.4	14.3
Upper secondary education	7.4	8.4	8.5	8.5	8.2	7.6	7.0	8.1	8.2	6.8
Higher education	4.1	4.4	4.7	4.5	4.5	3.8	3.6	4.5	4.5	3.8

Source: DGSEI.
(1) These unemployment rates are calculated on the basis of the harmonised data taken from the labour force survey.
(2) Averages of the first three quarters.

TABLE 10 EMPLOYMENT RATE: BREAKDOWN BY REGION

(in % of the corresponding labour force aged 15 to 64 [1], annual averages)

	Brussels				Flanders				Wallonia			
	2008	2009	2010	2011 [2]	2008	2009	2010	2011 [2]	2008	2009	2010	2011 [2]
Total	55.6	55.1	54.8	54.2	66.5	65.8	66.3	66.0	57.2	56.2	56.7	56.8
p.m. Total (from 20 to 64 years)	*60.2*	*59.5*	*59.2*	*58.6*	*72.3*	*71.5*	*72.1*	*71.6*	*62.8*	*61.7*	*62.2*	*62.0*
According to sex												
Women	48.4	49.3	48.7	49.2	60.8	60.5	61.3	61.1	50.4	50.2	50.6	51.2
Men	62.9	61.0	61.0	59.3	72.0	70.9	71.1	70.8	64.0	62.3	62.9	62.4
According to age												
15 to 24	21.0	19.1	16.6	18.1	31.7	28.6	28.8	28.9	22.3	21.8	22.0	22.0
25 to 54	68.4	67.5	68.0	65.7	85.6	85.1	85.4	85.0	75.1	74.2	74.4	74.0
55 to 64	39.7	42.3	40.6	45.4	34.3	35.8	38.2	38.6	33.6	32.7	35.1	37.0
According to educational level												
Lower secondary education or less	36.1	35.1	34.6	33.4	42.9	42.4	42.7	41.7	36.1	34.0	35.3	34.6
Upper secondary education	53.3	53.0	52.3	50.6	71.4	69.6	70.4	70.3	61.8	60.7	59.9	59.8
Higher education	78.3	75.5	76.7	76.9	85.0	84.2	84.0	83.4	81.1	80.1	79.8	80.8

Source: DGSEI.

(1) These employment rates are calculated on the basis of the harmonised data taken from the labour force survey.

(2) Averages of the first three quarters.

TABLE 11 UNEMPLOYMENT RATE: BREAKDOWN BY REGION

(in % of the corresponding labour force aged 15 to 64 [1], annual averages)

	Brussels				Flanders				Wallonia			
	2008	2009	2010	2011 [2]	2008	2009	2010	2011 [2]	2008	2009	2010	2011 [2]
Total	16.0	15.9	17.4	16.5	3.9	5.0	5.2	4.5	10.1	11.2	11.5	9.4
According to sex												
Women	16.7	15.8	18.0	15.1	4.2	5.0	5.1	4.6	11.5	11.9	12.2	9.8
Men	15.5	15.9	16.9	17.7	3.7	5.0	5.2	4.4	8.9	10.7	10.9	9.0
According to age												
15 to 24	33.2	31.7	39.7	33.6	10.5	15.7	15.6	14.3	27.5	30.5	30.0	25.3
25 to 54	15.2	15.2	16.3	16.3	3.3	3.9	4.2	3.6	8.7	9.7	10.3	8.3
55 to 64	8.0	9.2	9.2	6.8	3.6	4.3	4.0	3.7	4.7	5.4	4.6	4.6
According to educational level												
Lower secondary education or less	26.9	26.3	30.0	29.7	7.0	8.1	9.6	9.2	16.2	18.6	19.6	16.8
Upper secondary education	18.3	18.4	19.1	18.7	3.9	5.1	5.1	4.0	10.7	11.8	12.1	10.2
Higher education	7.9	8.6	9.0	8.1	2.3	3.1	3.0	2.7	4.7	5.6	5.5	4.0

Source: DGSEI.

(1) These unemployment rates are calculated on the basis of the harmonised data taken from the labour force survey.

(2) Averages of the first three quarters.

TABLE 12 HARMONISED INDEX OF CONSUMER PRICES

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

	Total	Energy	Unprocessed food (1)	Processed food	Underlying trend in inflation (2)	Non-energy industrial goods	Services	*p.m. National consumer price index*	*p.m. Health index (3)*
2003	1.5	0.2	1.7	2.8	1.5	1.0	1.9	*1.6*	*1.5*
2004	1.9	6.6	0.9	2.2	1.3	0.3	2.1	*2.1*	*1.6*
2005	2.5	12.7	1.7	2.0	1.3	0.3	2.1	*2.8*	*2.2*
2006	2.3	7.3	3.3	2.1	1.5	0.9	2.1	*1.8*	*1.8*
2007	1.8	0.2	3.0	4.7	1.4	0.9	1.9	*1.8*	*1.8*
2008	4.5	19.8	2.8	7.8	1.8	1.3	2.3	*4.5*	*4.2*
2009	0.0	–14.0	0.4	1.7	2.1	1.4	2.6	*–0.1*	*0.6*
2010	2.3	10.0	3.5	1.0	1.1	0.8	1.4	*2.2*	*1.7*
2011	3.5	17.0	0.2	3.1	1.7	1.0	2.2	*3.5*	*3.1*
2011 January	3.7	15.7	2.1	2.1	2.1	1.3	2.5	*3.2*	*2.7*
February	3.5	18.3	2.0	2.2	1.6	0.7	2.3	*3.4*	*2.8*
March	3.5	18.1	–0.9	2.5	1.8	0.6	2.7	*3.5*	*2.9*
April	3.3	16.3	0.1	2.7	1.7	0.6	2.6	*3.4*	*2.9*
May	3.1	15.8	–0.5	3.0	1.5	0.6	2.2	*3.3*	*2.9*
June	3.4	17.3	–0.1	3.4	1.6	0.8	2.1	*3.7*	*3.3*
July	4.0	18.0	0.7	3.4	2.1	1.9	2.0	*3.8*	*3.3*
August	3.4	17.6	–0.4	3.5	1.5	0.9	2.0	*3.6*	*3.1*
September	3.4	18.4	–1.5	3.5	1.5	0.9	1.9	*3.6*	*3.0*
October	3.4	17.4	–0.3	3.4	1.6	1.0	2.0	*3.6*	*3.1*
November	3.7	17.9	1.0	3.6	1.7	1.0	2.1	*3.8*	*3.4*
December	3.2	13.5	0.4	3.8	1.7	1.1	2.2	*3.5*	*3.2*

Sources: EC, DGSEI.
(1) Fruit, vegetables, meat and fish.
(2) Measured by the HICP excluding food and energy.
(3) National CPI excluding the prices of products considered harmful to health, namely tobacco, alcoholic beverages, petrol and diesel.

TABLE 13 SUMMARY ACCOUNT OF HOUSEHOLDS, AT CURRENT PRICES [1]

(data not adjusted for calendar effects, in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
1. Gross primary income	209 536	210 762	216 103	222 902	233 680	246 656	260 285	258 850	264 129	276 682
Wages and salaries [2]	144 203	147 171	151 331	156 417	163 783	172 465	181 944	183 546	187 764	196 693
Property incomes [3]	27 795	25 240	25 540	25 771	26 730	28 931	32 068	30 056	30 464	32 565
Gross mixed income	19 793	20 375	21 206	21 350	22 474	23 031	23 455	23 389	23 920	24 946
Gross operating surplus	17 745	17 975	18 027	19 364	20 693	22 229	22 818	21 859	21 981	22 479
2. Current transfers [3]	–39 741	–38 841	–40 115	–41 256	–41 604	–44 476	–46 834	–41 189	–43 740	–45 898
Transfers received	58 440	60 898	63 157	65 805	67 431	69 076	73 164	78 586	80 878	84 038
Transfers paid	98 180	99 739	103 272	107 061	109 036	113 552	119 998	119 775	124 618	129 936
3. Gross disposable income (1 + 2)	169 795	171 921	175 989	181 647	192 076	202 180	213 451	217 662	220 390	230 784
p.m. In real terms [4]	*196 089*	*195 761*	*195 944*	*196 908*	*202 154*	*206 887*	*211 500*	*217 662*	*216 489*	*219 247*
(percentage changes compared to the previous year)	*(0.0)*	*(–0.2)*	*(0.1)*	*(0.5)*	*(2.7)*	*(2.3)*	*(2.2)*	*(2.9)*	*(–0.5)*	*(1.3)*
4. Change in households' entitlements to additional pensions accruing in the context of an occupational activity	1 541	1 716	1 857	2 009	1 959	2 467	2 858	2 601	3 248	3 313
5. Final consumption expenditure	141 426	144 490	150 256	155 935	163 512	171 088	179 987	179 697	187 476	195 029
6. Gross savings (3 + 4 – 5)	29 911	29 147	27 590	27 721	30 522	33 560	36 322	40 566	36 162	39 068
p.m. In % of gross disposable income [5]	*17.5*	*16.8*	*15.5*	*15.1*	*15.7*	*16.4*	*16.8*	*18.4*	*16.2*	*16.7*
7. Capital transfers [6]	–296	–763	–850	–1 254	–1 239	–1 107	–1 267	–666	–1 480	–1 678
8. Gross capital formation	14 219	14 822	16 290	19 048	21 036	22 890	23 900	21 913	22 306	22 121
9. Overall balance (6 + 7 – 8)	15 396	13 562	10 450	7 419	8 247	9 562	11 155	17 987	12 376	15 270

Sources: NAI, NBB.
(1) The data in this table are calculated in gross terms, i.e. before deduction of consumption of fixed capital.
(2) Remuneration (excluding that of owner entrepreneurs), including social security contributions and civil service pensions.
(3) These are net amounts, i.e. the difference between incomes or transfers received from other sectors and those paid to other sectors, excluding transfers in kind.
(4) Data deflated by means of the household final consumption expenditure deflator.
(5) In % of gross disposable income in the broad sense, i.e. including the change in households' entitlements to additional pensions accruing in the context of an occupational activity.
(6) These are net amounts, i.e. the difference between transfers received from other sectors and those paid to other sectors, including net acquisitions of non-financial non-produced assets and net acquisitions of valuables.

TABLE 14 SUMMARY ACCOUNT OF CORPORATIONS, AT CURRENT PRICES (1)

(data not adjusted for calendar effects, in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
1. Gross primary income	40 663	46 305	51 956	54 066	57 025	61 256	59 435	48 886	63 268	64 979
Gross operating surplus	54 395	57 881	65 319	70 034	73 584	79 478	79 447	74 999	82 483	86 576
Property incomes (2)	–13 732	–11 576	–13 364	–15 968	–16 559	–18 222	–20 012	–26 113	–19 214	–21 596
2. Current transfers (2)	–6 562	–6 318	–7 409	–8 189	–9 447	–8 264	–8 564	–6 067	–6 008	–7 307
Transfers received	16 877	16 949	16 863	17 491	18 269	20 279	21 219	22 003	23 742	25 526
Transfers paid	23 439	23 267	24 272	25 680	27 716	28 543	29 783	28 070	29 750	32 833
3. Gross disposable income (1 + 2)	34 101	39 987	44 546	45 877	47 579	52 992	50 871	42 819	57 261	57 672
4. Change in households' entitlements to additional pensions accruing in the context of an occupational activity	–1 540	–1 721	–1 853	–2 008	–1 956	–2 469	–2 854	–2 607	–3 254	–3 315
5. Gross savings (3 + 4)	32 562	38 267	42 693	43 869	45 623	50 523	48 017	40 212	54 006	54 357
6. Capital transfers (3)	817	–1 888	917	8 941	1 946	1 681	1 175	2 789	2 778	3 420
7. Gross fixed capital formation	32 601	32 715	36 851	38 471	40 572	44 649	47 881	43 435	43 367	48 266
8. Change in inventories	196	1 473	3 008	3 820	4 702	3 924	5 789	–3 439	47	3 181
9. Overall balance (5 + 6 – 7 – 8)	582	2 191	3 751	10 519	2 295	3 631	–4 478	3 005	13 370	6 330

Sources: NAI, NBB.
(1) The data in this table are calculated in gross terms, i.e. before deduction of consumption of fixed capital.
(2) These are net amounts, i.e. the difference between incomes or transfers received from other sectors and those paid to other sectors, excluding transfers in kind.
(3) These are net amounts, i.e. the difference between transfers received from other sectors and those paid to other sectors, including net acquisitions of non-financial non-produced assets and net acquisitions of valuables.

TABLE 15 SUMMARY ACCOUNT OF THE REST OF THE WORLD, AT CURRENT PRICES [1]

(data not adjusted for calendar effects, in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
1. Gross primary income	–3 638	–4 203	–3 218	–1 988	–2 724	–3 366	–4 966	2 101	–6 243	–6 463
Compensation of employees [2]	–3 386	–3 763	–4 001	–4 088	–4 365	–4 721	–4 884	–5 137	–5 347	–5 616
Taxes on production and imports [2]	890	834	704	796	954	1 233	1 409	961	1 037	1 219
Property incomes [2]	–1 142	–1 274	79	1 305	687	122	–1 492	6 277	–1 933	–2 066
2. Current transfers [2]	3 033	3 694	4 350	4 182	4 120	3 060	4 211	4 910	4 663	4 926
Transfers received	6 610	7 549	7 937	8 482	8 380	8 217	9 382	10 236	10 753	11 047
Transfers paid	3 577	3 855	3 587	4 301	4 260	5 157	5 171	5 327	6 090	6 121
3. Transactions in goods and services	–15 423	–14 925	–14 313	–11 935	–12 152	–12 905	–2 963	–9 292	–9 572	–5 435
Imports by Belgium	190 592	189 248	206 881	226 802	245 346	264 298	289 803	237 043	273 961	308 223
Exports by Belgium	206 015	204 173	221 194	238 737	257 498	277 203	292 766	246 335	283 533	313 658
4. Net current transactions (1 + 2 + 3)	–16 028	–15 434	–13 181	–9 741	–10 757	–13 211	–3 719	–2 281	–11 152	–6 972
5. Capital transfers [3]	459	183	157	316	9	1 094	1 538	1 205	245	779
6. Overall balance (4 + 5)	–15 569	–15 252	–13 024	–9 425	–10 747	–12 116	–2 181	–1 076	–10 907	–6 192

Sources: NAI, NBB.

(1) In accordance with the national accounts conventions, transactions are recorded from the point of view of the rest of the world. A positive (negative) figure for the balances of the various items therefore corresponds to net expenditure (revenue) for Belgium in relation to the rest of the world. In particular, a positive (negative) overall balance corresponds to net borrowing (lending) by Belgium in relation to the rest of the world.

(2) These are net amounts, i.e. the difference between transfers received from other sectors and those paid to other sectors, excluding transfers in kind.

(3) These are net amounts, i.e. the difference between transfers received from other sectors and those paid to other sectors, including net acquisitions of non-financial non-produced assets and net acquisitions of valuables.

TABLE 16 REVENUE, EXPENDITURE AND OVERALL BALANCE OF GENERAL GOVERNMENT

(in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Revenue [1]	133 295	140 452	142 568	149 464	155 102	161 090	168 222	163 314	172 777	181 775
Fiscal and parafiscal revenue	119 384	121 325	128 577	133 824	139 348	144 911	150 502	145 450	153 267	160 278
Levies weighing chiefly on earned income	72 568	73 670	76 267	78 380	80 096	84 044	88 868	88 194	91 534	95 175
Personal income tax [2]	33 440	33 677	35 014	36 189	36 258	37 548	39 816	38 059	40 290	41 485
Social security contributions [3]	39 128	39 993	41 254	42 191	43 837	46 496	49 052	50 134	51 244	53 690
Taxes on profits of companies [4]	8 142	7 912	8 991	9 816	11 368	11 758	11 599	8 528	9 598	10 971
Levies on other income and in respect of property [5]	9 038	9 504	10 631	11 544	11 968	12 485	12 897	11 955	12 962	14 325
Taxes on goods and services	29 637	30 239	32 688	34 084	35 918	36 624	37 138	36 773	39 173	39 806
Non-fiscal and non-parafiscal revenue [6]	13 911	19 127	13 990	15 640	15 753	16 179	17 721	17 864	19 510	21 497
Expenditure excluding interest charges	118 250	126 240	129 829	144 893	142 142	149 178	159 461	170 664	175 308	184 540
Social insurance benefits	59 791	63 276	66 741	69 446	71 382	74 890	80 495	86 334	89 090	93 478
Replacement incomes	34 291	35 813	37 308	38 846	40 093	42 151	44 963	48 409	50 239	52 327
Pensions	22 942	23 812	24 777	25 921	26 892	28 724	30 816	32 625	33 832	35 498
Private sector pensions	15 722	16 253	16 664	17 321	17 823	18 441	19 809	20 901	21 566	22 671
General government pensions	7 220	7 559	8 113	8 601	9 069	10 283	11 007	11 724	12 267	12 827
Old persons' guaranteed income	258	264	283	276	269	340	430	390	436	447
Early retirement pensions	1 144	1 184	1 239	1 257	1 301	1 359	1 443	1 502	1 565	1 593
Unemployment benefits	5 356	5 747	6 024	6 121	6 097	5 746	5 774	6 903	6 879	6 706
Career breaks and time credit	352	432	488	556	590	647	700	750	782	813
Sickness and disability insurance benefits	3 208	3 366	3 485	3 636	3 839	4 144	4 554	4 922	5 341	5 832
Industrial accidents and occupational diseases	495	494	495	503	503	508	531	518	524	515
Integration allowance	536	514	517	575	604	683	717	800	880	924
Other social insurance benefits [7]	25 501	27 464	29 432	30 600	31 289	32 739	35 532	37 925	38 851	41 150
of which:										
Health care	15 372	16 745	18 053	18 896	19 256	20 286	22 262	23 782	24 495	26 030
Family allowances	4 564	4 637	4 731	4 850	5 023	5 154	5 421	5 663	5 749	5 981
Other primary expenditure	58 459	62 964	63 088	75 447	70 760	74 288	78 966	84 330	86 219	91 062
Compensation of employees	32 532	33 833	34 661	36 422	37 859	39 324	41 640	43 256	44 512	46 230
Current purchases of goods and services	10 235	10 430	10 755	11 058	11 603	12 069	12 792	13 429	13 676	13 950
Subsidies to enterprises	3 209	3 680	3 397	4 809	5 469	6 461	7 235	7 466	8 875	9 705
Current transfers to the rest of the world	2 427	2 787	3 099	3 249	3 307	3 303	3 610	4 065	4 057	4 046
Other current transfers	3 177	3 484	3 773	4 029	4 170	3 766	4 185	4 608	5 041	5 395
Gross fixed capital formation	4 446	4 549	4 638	5 121	5 215	5 312	5 510	5 756	5 840	6 351
Other capital expenditure	2 435	4 202	2 767	10 760	3 137	4 054	3 995	5 750	4 218	5 386
Net amount excluding interest charges	15 045	14 212	12 739	4 571	12 960	11 913	8 761	–7 350	–2 531	–2 764
Interest charges	15 454	14 713	13 916	13 083	12 755	12 990	13 257	12 565	12 307	12 679
Overall balance according to the ESA 95	–409	–501	–1 177	–8 513	205	–1 077	–4 496	–19 915	–14 838	–15 443
p.m. Overall balance according to the EDP [8]	*–232*	*–291*	*–855*	*–8 109*	*428*	*–926*	*–4 328*	*–19 637*	*–14 390*	*–14 864*

Sources: NAI, NBB.

(1) In accordance with the ESA 95, general government revenues do not include the tax revenues transferred to the EU.
(2) Mainly withholding tax on earned income, advance payments, assessments and proceeds of additional percentages on personal income tax.
(3) Total social contributions, including the special social security contribution and the contributions of non-active persons.
(4) Mainly advance payments, assessments and the withholding tax on income from movable property payable by companies.
(5) Mainly the withholding tax on income from movable property payable by households, the withholding tax on income from immovable property (including proceeds of additional percentages), inheritance taxes and registration fees.
(6) Property incomes, imputed social security contributions, current and capital transfers from other sectors and sales of produced goods and services.
(7) Apart from the two main sub-categories mentioned in the table, this item also includes mainly allowances to handicapped persons and transfers to the institutions accommodating them, payments by subsistence funds and pensions to war victims.
(8) The ESA 95 methodology was adapted in 2001 to exclude from the calculation of the overall balance the net interest gains on certain financial transactions, such as swaps and forward rate agreements (FRAs). However, this adjustment is not taken into account for the purpose of the excessive deficit procedure (EDP) or for the EC's assessment of the stability programmes.

TABLE 17 OVERALL BALANCE OF GENERAL GOVERNMENT, BY SUB-SECTORS

(in € million)

	Entity I			Entity II			General government	
	Federal government	Social security	Total	Communities and Regions	Local authorities	Total	According to the ESA 95	*p.m. According to the EDP*[1]
2002	–691	1 258	567	–382	–594	–976	–409	*–232*
2003	767	–870	–103	26	–424	–398	–501	*–291*
2004	–706	35	–671	–52	–455	–507	–1 177	*–855*
2005	–8 033	–306	–8 339	340	–514	–174	–8 513	*–8 109*
2006	–213	840	627	494	–916	–422	205	*428*
2007	–3 828	1 689	–2 139	1 260	–198	1 062	–1 077	*–926*
2008	–5 796	1 583	–4 213	–95	–188	–282	–4 496	*–4 328*
2009	–14 509	–2 414	–16 923	–2 526	–466	–2 993	–19 915	*–19 637*
2010	–11 221	–380	–11 600	–2 337	–901	–3 238	–14 838	*–14 390*
2011 e	–13 083	–302	–13 385	–941	–1 117	–2 058	–15 443	*–14 864*

Sources: NAI, NBB.

(1) The ESA 95 methodology was adapted in 2001 to exclude from the calculation of the overall balance the net interest gains on certain financial transactions, such as swaps and forward rate agreements (FRAs). However, this adjustment is not taken into account for the purpose of the excessive deficit procedure (EDP) or for the EC's assessment of the stability programmes.

TABLE 18 **CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT** [1]

(end-of-period outstanding amounts, in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Official debt of the Treasury	262 752	263 018	265 518	269 160	270 601	285 226	310 215	321 389	341 193	363 462
In euro	257 288	259 295	263 074	267 420	269 145	284 288	305 700	320 826	341 075	363 462
At up to one year	31 115	30 222	30 355	31 036	32 243	37 891	54 162	47 232	49 797	52 758
At over one year	226 173	229 073	232 719	236 384	236 902	246 397	251 539	273 593	291 278	310 704
In foreign currencies	5 464	3 724	2 444	1 740	1 456	937	4 515	563	118	0
2. Components of the official debt of the Treasury not included in the consolidated gross debt [2]	3 996	3 459	0	0	0	0	0	0	0	0
3. Valuation difference [3]	712	489	561	525	786	1 072	1 012	283	252	411
4. Other federal government liabilities [4]	14 286	8 886	8 039	12 781	12 086	9 495	9 230	4 832	4 825	5 650 e
5. Consolidation between federal government units [5]	13 084	17 416	21 291	22 687	21 454	30 814	29 749	27 269	35 466	38 043 e
of which Ageing Fund assets [6]	1 087	4 266	12 492	13 504	14 661	15 494	16 183	16 901	17 628	18 388
6. Consolidated gross debt of federal government (1 – 2 + 3 + 4 – 5)	260 669	251 519	252 827	259 779	262 018	264 978	290 708	299 235	310 803	331 480 e
7. Consolidated gross debt of Communities and Regions	16 776	15 305	15 080	13 259	12 842	12 346	13 728	20 939	22 937	n.
8. Consolidated gross debt of local authorities	14 446	14 860	15 677	15 747	16 410	16 861	16 445	16 355	17 810	n.
9. Consolidated gross debt of social security	103	90	52	428	0	0	0	1 047	1 579	n.
10. Consolidation between the general government sub-sectors [7]	14 280	10 138	9 754	10 199	10 858	12 080	11 690	11 256	12 391	n.
11. Consolidated gross debt of general government [1] (6 + 7 + 8 + 9 – 10)	277 716	271 637	273 881	279 014	280 413	282 106	309 191	326 319	340 738	364 338 e

Sources: FPS Finance, NBB.

(1) Concept of debt as defined in Council Regulation (EC) No. 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

(2) Mainly treasury certificates presented to the IMF.

(3) Adjustment to the valuation of treasury certificates and treasury bills to convert the discounted value to the face value.

(4) Mainly the debudgeted Treasury debt, the debts of the "Caisse des dépôts et Consignations – Deposito- en consignatiekas", SHLAF (up to 2006), CREDIBE (until 2002), and the RIF (from 2005 to 2008), coins in circulation and the imputed debt resulting from Belgium's participation in the mutual support mechanism of the European Financial Stability Facility (EFSF) (from 2011).

(5) Federal government debt, the counterpart of which is an asset of a federal government unit.

(6) Including the capitalised interest on "Ageing Fund Treasury Bonds".

(7) Debt of a general government sub-sector, the counterpart of which is an asset of another general government sub-sector.

TABLE 19 DETERMINANTS OF THE CHANGE IN THE CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT [1]

(in % of GDP, unless otherwise stated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 e
Debt level (at end of period)	103.4	98.4	94.0	92.0	88.0	84.1	89.3	95.9	96.2	98.6
Change in the debt	–3.1	–5.0	–4.3	–2.0	–4.0	–3.9	5.3	6.5	0.3	2.4
Endogenous change [2]	–3.4	–2.7	–4.8	–1.1	–4.6	–4.2	–1.3	7.3	0.3	0.1
Primary balance required to stabilise the debt	2.2	2.4	–0.4	0.4	–0.5	–0.6	1.2	5.1	–0.4	–0.7
Implicit interest rate on the debt	5.5	5.2	5.0	4.6	4.5	4.6	4.6	4.0	3.6	3.6
Nominal GDP growth [3]	3.4	2.8	5.5	4.1	5.1	5.3	3.1	–1.7	4.1	4.3
Actual primary balance	5.6	5.1	4.4	1.5	4.1	3.5	2.5	–2.2	–0.7	–0.7
Change resulting from other factors [4]	0.3	–2.3	0.5	–1.0	0.6	0.2	6.6	–0.7	0.0	2.4
Net acquisition of financial assets										
Cash and deposits	–0.2	0.2	0.1	0.1	0.0	0.4	1.9	–1.0	0.4	0.4
Shares and other equity	–0.2	0.0	–0.3	–0.1	0.0	0.3	4.5	1.0	0.0	1.0
Securities other than shares [5]	0.0	0.1	0.1	–0.2	0.0	0.0	0.0	0.1	0.0	0.0
Loans	0.0	–2.2	–0.1	–0.1	0.0	0.0	0.0	0.1	0.2	0.5
Valuation effects										
Impact of exchange rate differences	0.0	–0.2	0.0	0.0	0.0	0.0	–0.1	0.0	0.1	0.0
Impact of issue and redemption premiums	–0.2	0.1	0.0	–0.2	0.1	0.1	0.2	–0.1	–0.1	0.1
Difference between interest on accrual basis and cash interest	0.2	0.4	0.2	0.0	0.0	0.0	–0.1	0.0	–0.1	0.0
Volume effects										
Changes in sectoral classification and other volume changes	0.1	0.0	0.0	–0.4	0.0	0.0	0.0	0.0	0.0	0.0
Other effects										
Net change in other accounts payable and receivable	–0.3	–0.6	0.5	–0.1	0.6	–0.4	0.4	–0.7	0.1	0.3
Financial derivatives [6]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–0.6	0.1
Statistical adjustment	0.7	0.0	–0.1	–0.1	0.0	–0.1	–0.3	–0.1	0.0	n.

Sources: NAI, NBB.

(1) Concept of debt as defined in Council Regulation (EC) No. 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

(2) The endogenous change in the public debt is indicated by the difference between the primary balance required to stabilise the debt in % of GDP – i.e. the balance equal to the difference between the implicit interest rate on the debt and the nominal GDP growth rate, multiplied by the ratio between the debt at the end of the previous year and the GDP in the period considered – and the actual primary balance.

(3) Percentage changes compared to the previous year.

(4) A positive (negative) value means a factor increasing (reducing) the debt.

(5) Excluding financial derivatives.

(6) In 2010, the Treasury conducted two exceptional swap position liquidation operations.

TABLE 20 CURRENT AND CAPITAL TRANSACTIONS ACCORDING TO THE BALANCE OF PAYMENTS

(in € million)

	2009			2010			First nine months 2011		
	Credits	Debits	Balances	Credits	Debits	Balances	Credits	Debits	Balances
1. Current account	300,176	305,863	–5,689	337,701	332,528	5,173	276,299	276,164	137
Goods and services	239 527	238 581	945	276 804	273 806	2 995	227 991	229 110	–1 121
Goods	179 045	183 898	–4 850	211 070	214 489	–3 421	179 759	184 716	–4 959
General merchandise	168 072	176 555	–8 479	198 892	206 187	–7 296	170 375	178 103	–7 727
Goods for processing	8 477	6 045	2 430	9 542	6 598	2 944	6 534	4 990	1 543
Repairs to goods	450	105	343	441	162	276	293	209	86
Purchases of goods in ports	1 488	769	718	1 535	895	642	1 507	770	737
Non-monetary gold	565	424	138	661	648	12	1 045	644	402
Services	60 478	54 683	5 793	65 733	59 317	6 415	48 232	44 393	3 837
Transport	15 607	12 097	3 512	19 167	14 819	4 352	13 881	10 893	2 992
Travel	7 304	14 589	–7 282	7 744	14 148	–6 407	6 121	11 035	–4 915
Communication	2 872	2 262	611	3 053	2 407	648	2 431	1 926	503
Construction	1 084	902	181	1 166	941	224	858	989	–136
Insurance	898	793	105	836	878	–43	667	728	–63
Financial services	2 808	1 428	1 380	2 505	1 424	1 080	1 746	1 156	590
Data-processing and information services	3 011	2 183	828	3 021	2 158	864	2 536	1 839	695
Royalties and licence fees	1 735	1 451	285	1 616	1 432	185	1 188	1 190	–2
Other services to enterprises	22 578	17 249	5 329	23 521	18 871	4 651	16 225	12 695	3 533
of which merchanting (net)	3 966	–	3 966	2 898	–	2 898	1 680	–	1 680
Personal, cultural and recreational services	425	507	–82	463	575	–113	370	439	–69
Services provided or received by general government, not included elsewhere	1 363	165	1 198	1 367	176	1 193	1 163	158	1 007
Services not allocated	789	1 061	–272	1 276	1 491	–214	1 040	1 339	–300
Income	52 992	53 115	–124	52 390	43 861	8 531	42 240	34 941	7 300
Earned income	7 384	2 539	4 847	7 649	2 612	5 036	5 550	1 826	3 724
Income from direct and portfolio investment	45 607	50 576	–4 969	44 745	41 249	3 496	36 690	33 116	3 572
Current transfers	7 659	14 168	–6 506	8 507	14 861	–6 354	6 075	12 114	–6 041
General government	1 671	6 715	–5 045	1 597	6 933	–5 337	977	5 907	–4 930
Other sectors	5 986	7 450	–1 464	6 911	7 926	–1 015	5 097	6 208	–1 110
2. Capital account	614	1 867	–1 253	581	1 228	–647	148	561	–413
Capital transfers	383	634	–251	257	937	–680	89	421	–332
Acquisitions and sales of non-produced non-financial assets	231	1 233	–1 002	324	291	33	59	140	–81
3. Net lending to the rest of the world (1 + 2)	300 790	307 730	–6 942	338 282	333 756	4 526	276 447	276 725	–278

Source: NBB.

TABLE 21 FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES OF HOUSEHOLDS

(in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	First nine months 2010	First nine months 2011	*p.m. Outstanding amount at the end of September 2011*
Formation of financial assets	20 130	23 177	15 289	24 537	17 442	26 529	25 319	25 505	27 462	17 413	22 135	*921 289*
At up to one year	10 674	16 616	20 722	14 991	13 528	10 421	8 516	6 639	13 272	8 986	10 545	*288 754*
Notes, coins and sight deposits	4 734	4 547	5 792	6 150	1 108	342	1 405	5 005	2 733	2 126	802	*63 968*
Savings deposits	11 543	17 934	14 180	8 335	1 740	–8 774	1 792	32 856	20 894	16 362	2 810	*200 002*
Time deposits	–5 299	–4 908	92	294	11 241	17 494	2 511	–25 903	–9 864	–9 300	4 239	*21 798*
Fixed-income securities	–1 258	–357	–244	–113	238	739	1 364	–1 969	–463	–438	56	*281*
Units of monetary UCIs	954	–599	902	326	–798	620	1 445	–3 350	–28	235	2 638	*2 705*
At over one year	9 459	7 158	5 304	9 071	3 295	14 043	17 088	20 198	14 263	6 747	8 868	*618 424*
Time deposits	–503	–627	–371	–637	35	1 329	3 431	4 362	1 147	204	2 723	*16 048*
Fixed-income securities	–6 055	–12 307	–17 410	–13 216	–16 273	–3 798	11 375	–521	–2 912	–2 032	9 095	*91 704*
Shares and other equity	1 470	–5 466	–1 254	–9 660	–1 327	3 714	11 374	10 137	2 801	–220	1 986	*176 974*
Units of non-monetary UCIs	4 185	10 045	6 732	10 105	7 490	–1 784	–16 032	–6 800	–3 917	–4 812	–9 576	*92 897*
Insurance products [(1)]	10 363	15 513	17 607	22 479	13 370	14 582	6 941	13 020	17 145	13 606	4 640	*240 801*
Other assets [(2)]	–3	–597	–10 736	475	619	2 065	–285	–1 332	–74	1 681	2 722	*14 111*
New financial liabilities	4 028	6 753	6 282	12 134	12 247	14 422	13 963	5 650	11 226	8 201	8 571	*200 517*
Loans at up to one year	280	–998	–167	811	–54	154	425	–220	–62	175	123	*6 292*
Loans at over one year	4 426	7 999	6 009	11 650	11 862	13 253	13 574	6 628	11 471	8 176	8 765	*190 820*
Mortgage loans	5 042	7 659	6 478	10 268	10 757	11 942	11 780	7 467	11 427	7 971	8 176	*161 383*
Instalment loans	325	–208	–481	648	278	1 388	1 259	646	18	329	598	*17 073*
Other	–941	548	12	735	827	–77	535	–1 485	25	–124	–10	*12 364*
Other liabilities [(3)]	–678	–247	440	–327	439	1 015	–36	–759	–183	–150	–317	*3 405*
Financial balance [(4)]	16 102	16 423	9 008	12 403	5 195	12 107	11 356	19 856	16 236	9 212	13 565	*720 772*

Source: NBB.

(1) Essentially net claims of households on life insurance reserves and on institutions for occupational retirement provision.

(2) This item comprises other accounts receivable within the meaning of the ESA 95, namely trade credit and miscellaneous assets on general government and financial institutions, including in particular interest accrued and not due.

(3) This item comprises other accounts payable within the meaning of the ESA 95, such as taxes or contributions due but not yet paid, or interest accrued and not due.

(4) The balances of the financial accounts of the domestic sectors do not correspond to the net financing capacities or requirements as recorded in the real accounts, owing to the differences between the dates of recording of the transactions in these two accounts, statistical adjustments or errors and omissions. Thus, for example, the financial accounts cannot, for lack of data, record most of the trade credits and advances.

TABLE 22 FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS

(in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	First nine months 2010	First nine months 2011	*p.m. Outstanding amount at the end of September 2011*
Formation of financial assets	25 786	49 114	30 533	12 798	82 676	147 239	194 336	78 728	152 553	79 359	63 193	*1 614 888*
At up to one year	–3 644	36 068	–9 040	11 127	37 548	32 611	70 222	50 854	50 795	45 233	5 527	*527 805*
Notes, coins and sight deposits	805	1 797	1 261	2 099	4 976	2 734	–3 818	8 216	1 664	3 879	–6 272	*38 324*
Other deposits	327	–3 784	1 533	–4 283	16 449	14 046	–1 455	19 479	–5 234	–2 117	6 683	*75 983*
Other (1)	–4 776	38 055	–11 834	13 311	16 124	15 831	75 495	23 158	54 365	43 471	5 115	*413 499*
At over one year	19 998	27 186	37 286	9 142	33 861	82 879	120 179	27 475	65 409	13 554	34 854	*990 459*
Shares and other equity (2)	–2 895	2 451	18 757	10 333	–950	57 755	51 299	32 136	40 836	127	16 452	*661 823*
Fixed-income securities	2 166	–1 753	–1 086	1 454	–3 620	3 057	2 998	6 359	–2 981	–1 710	2 739	*15 967*
Other (1)	20 727	26 488	19 615	–2 646	38 431	22 067	65 882	–11 020	27 554	15 137	15 662	*312 668*
Other assets and statistical adjustments (3)	9 432	–14 141	2 287	–7 471	11 267	31 749	3 935	399	36 350	20 573	22 813	*96 623*
New financial liabilities	27 223	54 343	29 084	6 367	77 952	149 859	190 623	74 853	141 570	58 883	41 120	*1 935 617*
At up to one year	–4 761	21 091	–10 191	1 511	20 516	28 757	13 681	26 012	16 312	6 185	5 813	*315 092*
Loans granted by credit institutions	–454	–2 199	1 972	–5 861	3 014	12 467	3 325	–5 656	–6 484	–11 781	1 386	*52 099*
Other loans (1)	–5 035	23 495	–11 970	9 716	18 356	12 314	9 683	31 023	24 081	19 131	3 073	*254 172*
Fixed-income securities	728	–205	–192	–2 344	–854	3 977	672	645	–1 285	–1 165	1 353	*8 821*
At over one year	32 679	33 178	38 526	4 957	55 790	119 067	171 075	48 708	123 216	53 547	34 110	*1 602 049*
Loans granted by credit institutions	1 820	–4 599	1 661	2 772	2 760	8 202	23 310	–2 938	4 245	3 444	–2 030	*93 851*
Other loans (1)	22 540	26 831	14 177	–5 333	20 295	18 416	20 940	–8 891	10 803	2 849	10 870	*221 285*
Shares and other equity (2)	8 657	5 323	22 485	9 103	31 337	92 318	127 586	53 321	105 891	45 312	23 400	*1 264 249*
Fixed-income securities	–338	5 623	202	–1 585	1 398	131	–760	7 216	2 278	1 942	1 870	*22 664*
Other liabilities (4)	–695	75	749	–102	1 646	2 036	5 867	133	2 042	–848	1 197	*18 476*
Financial balance (5)	–1 437	–5 229	1 449	6 432	4 724	–2 620	3 712	3 875	10 983	20 476	22 074	*–320 730*

Source: NBB.

(1) Including intrasectoral loans of non-financial corporations.

(2) Including reinvested profits made on foreign direct investments.

(3) This item comprises miscellaneous assets, including interest accrued and not due. In addition, it covers errors and omissions on Belgium's financial account vis-à-vis the rest of the world which, for consistency between the accounts, are regarded as unrecorded capital movements.

(4) This item comprises the technical reserves of non-autonomous institutions for occupational retirement provision and other accounts payable within the meaning of the ESA 95, such as taxes or contributions due but not yet paid, or interest accrued and not due.

(5) See note 4 to table 21.

TABLE 23 FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES OF GENERAL GOVERNMENT

(in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	First nine months 2010	First nine months 2011	*p.m. Outstanding amount at the end of September 2011*
Formation of financial assets	3 835	–4 496	3 413	453	896	12 777	22 272	–4 130	9 093	793	–5 652	*113 867*
Deposits, loans and securities other than shares	5 280	–3 871	4 060	1 366	–841	11 681	5 080	–5 822	11 257	3 045	–3 914	*57 893*
With general government	5 608	1 623	3 615	1 820	–532	10 587	–1 452	–2 790	9 162	–238	–8 060	*40 041*
With other sectors	–328	–5 495	445	–455	–310	1 095	6 532	–3 032	2 096	3 283	4 147	*17 852*
Other assets [1]	–1 445	–625	–647	–912	1 738	1 095	17 192	1 692	–2 164	–2 252	–1 739	*55 974*
New financial liabilities	6 173	–4 116	4 444	8 728	601	13 424	25 688	15 440	23 909	15 803	8 796	*413 639*
In euro	7 463	–2 835	5 744	9 479	729	13 917	21 952	19 397	24 537	15 446	7 770	*412 462*
At up to one year	10	–518	–1 822	1 004	1 154	7 633	17 915	–4 754	2 911	–1 075	–2 331	*70 743*
of which:												
Treasury certificates	–296	–1 063	–133	869	334	3 738	11 132	–2 167	236	–733	–1 268	*39 385*
Other securities	175	472	–457	–184	107	1 013	3 554	–3 835	1 807	824	1 734	*6 466*
At over one year	7 454	–2 317	7 566	8 475	–425	6 284	4 036	24 150	21 625	16 521	10 101	*341 719*
of which:												
Linear bonds	11 628	7 790	4 968	4 125	–14	6 679	4 512	16 228	16 161	11 078	8 674	*266 477*
Other securities	–5 490	–8 901	–5 323	656	–1 452	–1 128	–560	7 526	2 737	2 951	209	*24 559*
In foreign currencies	–1 291	–1 281	–1 300	–751	–128	–492	3 736	–3 957	–628	357	1 026	*1 177*
At up to one year	–240	–761	11	–381	–55	–492	4 228	–3 957	–17	967	1 026	*1 177*
At over one year	–1 050	–520	–1 310	–370	–73	0	–492	0	–611	–611	0	*0*
Financial balance [2]	–2 337	–380	–1 031	–8 275	296	–647	–3 415	–19 570	–14 815	–15 011	–14 449	*–299 772*

Source: NBB.

(1) Shares and other equity, UCI units, financial derivatives and other accounts receivable within the meaning of the ESA 95.

(2) See note 4 to table 21.

TABLE 24 FORMATION OF FINANCIAL ASSETS AND NEW FINANCIAL LIABILITIES OF MONETARY FINANCIAL INSTITUTIONS (1)

(data on a territorial basis, in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	First nine months 2010	First nine months 2011	*p.m. Outstanding amount at the end of September 2011*
Formation of financial assets												
Interbank claims	20 471	65 477	54 147	61 608	49 673	131 413	–53 598	–95 797	–41 307	–41 518	24 433	*394 839*
Belgian MFIs	–6 903	8 112	7 093	15 998	2 901	32 006	27 669	–32 846	–35 695	–37 325	8 692	*68 775*
Foreign MFIs	27 374	57 365	47 054	45 611	46 772	99 407	–81 267	–62 951	–5 612	–4 193	15 741	*326 064*
Loans (2)	21 091	14 943	19 465	51 718	31 170	40 886	–11 298	–30 227	–13 306	–13 730	–927	*361 021*
of which:												
Households	3 284	5 625	6 734	13 367	12 129	7 634	–23 835	–9 982	5 403	5 833	8 180	*112 853*
Non-financial corporations	–1 749	–7 474	–2 256	1 307	199	14 741	4 656	–4 608	–40	–6 467	1 605	*92 419*
Fixed-income securities	–16 159	–2 537	14 917	10 479	–5 836	3 511	44 344	12 798	–3 244	–2 797	–328	*269 721*
of which:												
General government	–9 934	–8 880	–2 830	–45	–4 124	–15 201	3 285	7 693	5 672	7 341	9 203	*69 508*
Rest of the world	–5 098	6 113	17 389	11 288	–2 048	16 978	5 205	–19 678	–13 016	–11 751	–8 629	*129 400*
Other assets	–3 995	7 049	25 724	10 288	20 608	47 733	39 290	–56 447	–1 657	33 795	50 498	*250 489*
Total	21 407	84 932	114 253	134 093	95 615	223 543	18 738	–169 674	–59 515	–24 250	73 676	*1 276 070*
Households	3 011	5 578	6 723	13 372	12 396	8 201	–23 656	–11 024	5 093	5 506	8 264	*115 144*
Non-financial corporations	–3 642	–7 154	–2 603	1 402	1 958	15 187	9 386	–10 283	–1 807	–8 485	1 981	*100 989*
General government	–10 945	–8 847	–3 571	–503	–3 764	–15 601	4 328	2 944	7 035	10 948	10 572	*95 303*
Financial institutions	–8 146	22 473	27 224	15 064	33 871	72 728	114 076	–38 378	–38 636	–8 207	26 935	*333 017*
Rest of the world	41 129	72 881	86 480	104 758	51 154	143 028	–85 394	–112 931	–31 199	–24 013	25 924	*631 618*
New financial liabilities												
Interbank liabilities	786	57 646	48 231	89 244	74 571	110 732	–98 296	–130 690	–60 550	–66 607	–4 128	*300 605*
Belgian MFIs	–6 903	8 112	7 093	15 998	2 901	32 006	27 669	–32 846	–35 695	–37 325	8 692	*68 775*
Foreign MFIs	7 689	49 534	41 138	73 246	71 670	78 726	–125 966	–97 844	–24 855	–29 282	–12 820	*231 831*
Cash and deposits (2)	26 782	27 997	44 542	49 826	9 145	50 652	35 714	–2 358	18 772	14 660	37 881	*613 736*
of which:												
Households	11 324	16 804	19 171	15 359	11 610	8 941	9 223	17 526	18 304	12 241	9 820	*290 023*
Non-financial corporations	4 023	1 305	197	1 977	9 144	9 126	–3 648	4 169	7 422	7 400	1 733	*84 597*
Fixed-income securities	–4 119	–8 900	–5 499	–9 558	–418	13 959	6 822	23 135	–19 600	–8 335	–8 509	*73 927*
Savings notes	–4 033	–6 976	–7 357	–7 280	–2 863	1 358	2 405	7 661	–4 100	–2 945	642	*36 144*
Other fixed-income securities	–86	–1 924	1 858	–2 279	2 445	12 601	4 417	15 474	–15 500	–5 390	–9 150	*37 783*
Other liabilities and statistical adjustments	–3 888	2 742	24 072	5 967	11 322	48 383	80 227	–56 631	–1 045	39 245	60 049	*268 013*
Total	19 561	79 486	111 347	135 479	94 618	223 726	24 467	–166 544	–62 423	–21 037	85 293	*1 256 281*
Households	7 998	8 473	12 836	7 635	7 925	13 821	12 991	21 085	13 587	13 429	16 679	*346 236*
Non-financial corporations	3 834	–226	–214	1 714	9 022	9 556	–3 717	2 742	7 158	7 009	2 472	*86 405*
General government	–1 180	55	13	25	–447	1 191	16 082	–10 927	–1 246	985	520	*26 544*
Financial institutions	–9 106	21 121	35 033	20 463	10 918	66 626	88 492	–70 270	–41 313	–10 793	24 878	*247 742*
Rest of the world	18 014	50 063	63 679	105 641	67 200	132 533	–89 382	–109 175	–40 610	–31 667	40 744	*549 355*
Financial balance (3)	1 846	5 446	2 906	–1 386	996	–183	–5 728	–3 130	2 908	–3 213	–11 617	*19 789*

Source: NBB.

(1) Credit institutions, monetary UCIs and monetary authorities.

(2) Other than those included in interbank transactions.

(3) See note 4 to table 21.

TABLE 25 FORMATION OF ASSETS AND NEW LIABILITIES OF FINANCIAL INTERMEDIARIES OTHER THAN MONETARY INSTITUTIONS

(in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	First nine months 2010	First nine months 2011	*p.m. Outstanding amount at the end of September 2011*
Non-monetary UCIs												
Formation of financial assets	3 586	4 029	6 240	6 492	7 935	–1 851	–13 982	263	–4 337	–3 702	–9 252	*79 396*
Deposits	2 957	2 390	1 994	1 861	–655	–6 996	–2 990	–3 331	–4 123	–2 999	–1 340	*10 097*
Fixed-income securities	103	–489	4 728	–1 123	3 130	7 450	–1 192	1	–323	–579	–2 743	*26 908*
Shares and other equity (1)	1 553	338	–2 465	414	–1 222	–4 250	–798	4 017	–1 731	–2 172	–4 939	*19 336*
UCI units	–2 653	205	–5	5 855	5 058	–141	–5 350	1 296	2 405	1 790	11	*18 166*
Other assets	1 627	1 583	1 988	–515	1 624	2 086	–3 652	–1 720	–565	258	–240	*4 889*
New financial liabilities	3 586	4 029	6 240	6 492	7 935	–1 851	–13 982	263	–4 337	–3 702	–9 252	*79 396*
UCI units held by Belgian households	4 698	5 335	4 222	1 471	5 092	–3 633	–6 663	–5 036	–4 030	–4 152	–5 461	*53 045*
UCI units held by other investors	–1 111	–1 307	2 019	5 021	2 843	364	–5 205	4 595	232	16	–3 568	*24 718*
Other assets	0	0	0	0	0	1 419	–2 114	704	–539	435	–222	*1 633*
Financial balance (2)	0	0	0	0	0	0	0	0	0	0	0	*0*
Insurance companies and institutions for occupational retirement provision												
Formation of financial assets	10 547	16 405	20 422	22 471	15 522	17 704	8 505	14 946	12 151	11 322	4 815	*262 439*
Deposits	1 784	3 320	2 587	75	–896	–885	3 215	–2 154	–268	1 123	3 249	*14 719*
Fixed-income securities	1 733	11 737	14 847	15 964	14 977	12 187	1 423	21 196	10 552	6 179	–1 520	*158 833*
Loans	343	–104	–107	–672	241	126	1 433	1 080	281	141	361	*13 902*
Shares and other equity	3 498	–1 258	97	2 158	–1 394	4 340	6 125	–6 374	2 686	3 985	3 459	*30 248*
UCI units	2 978	2 206	2 538	4 250	2 330	1 906	–5 594	703	–2 012	–1 198	–1 342	*31 735*
Other assets	212	503	461	697	264	30	1 903	495	913	1 092	608	*13 001*
New financial liabilities	10 758	16 390	20 380	23 916	16 709	15 563	10 455	12 276	12 158	10 524	6 582	*263 336*
Net claims of households on life insurance reserves and institutions for occupational retirement provision	8 569	13 035	15 104	20 170	11 403	13 776	6 616	9 409	10 255	8 277	5 479	*196 653*
Other insurance technical reserves	1 069	1 580	2 197	1 838	1 757	341	730	1 070	1 897	1 885	190	*30 304*
Other liabilities	1 119	1 775	3 078	1 908	3 549	1 447	3 110	1 796	6	362	913	*36 379*
Financial balance	–211	15	42	–1 445	–1 187	2 141	–1 951	2 670	–6	798	–1 767	*–897*
Other (3)												
Formation of financial assets	7 704	7 277	–3 569	8 189	30 716	51 473	58 799	30 799	4 635	3 844	–3 359	*208 489*
Deposits	–298	3 592	148	1 778	290	10	8 023	–2 585	–346	425	–1 802	*9 438*
Loans	3 295	3 089	688	1 204	14 945	11 045	43 967	18 734	10 921	5 819	–1 244	*129 596*
Shares and other equity	3 671	–1 619	–2 461	4 913	4 145	29 375	5 808	4 124	–13	–26	182	*35 347*
Other assets	1 036	2 215	–1 945	293	11 336	11 043	1 001	10 526	–5 927	–2 374	–495	*34 107*
New financial liabilities	6 099	8 300	–4 219	6 493	29 994	50 154	60 592	33 424	9 033	7 333	–821	*213 606*
Loans	804	8 461	–2 888	1 417	9 502	13 148	10 470	4 142	–3 935	–518	–369	*57 318*
Shares and other equity	2 901	–68	–63	4 165	19 014	32 288	9 202	6 350	1 597	164	412	*63 451*
Other liabilities	2 394	–93	–1 268	911	1 478	4 718	40 920	22 931	11 371	7 687	–864	*92 838*
Financial balance	1 605	–1 023	650	1 696	722	1 320	–1 793	–2 625	–4 398	–3 489	–2 538	*–5 117*

Sources: BEAMA, Belgian Association of Pension Institutions, FSMA, NBB.

(1) Including real estate certificates.

(2) Non-monetary UCIs are treated as pure financial intermediaries, with no financial balance.

(3) Financial holding companies, real estate investment funds with fixed capital (Sicafi), private closed-end equity funds (Pricaf), undertakings for investment in claims, mortgage companies, regional social housing companies, finance companies, investment firms and UCI management companies.

TABLE 26 NET ISSUES OF SECURITIES [1] BY FINANCIAL [2] AND NON-FINANCIAL CORPORATIONS AND GENERAL GOVERNMENT

(in € million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	First nine months		*p.m. Outstanding amount at the end of September 2011*
										2010	2011	
Fixed-income securities	3 129	–6 243	–7 579	–7 844	876	31 320	67 159	71 054	12 365	13 283	4 227	*532 823*
Financial and non-financial corporations	–1 598	–3 257	–5 339	–12 558	2 029	21 510	44 785	57 262	–7 949	–1 193	–6 144	*194 759*
Securities at up to one year	1 061	–301	694	–3 186	–1 490	4 265	2 075	9 625	–6 638	–1 629	–4 932	*18 297*
Securities at over one year	–2 659	–2 956	–6 033	–9 372	3 518	17 245	42 710	47 638	–1 311	436	–1 212	*176 462*
General government	4 727	–2 986	–2 240	4 714	–1 153	9 810	22 374	13 792	20 314	14 476	10 371	*338 064*
Securities at up to one year	–361	–1 355	–574	304	385	4 258	18 914	–9 962	2 027	1 058	1 488	*47 027*
Securities at over one year	5 088	–1 630	–1 666	4 411	–1 539	5 551	3 460	23 754	18 287	13 418	8 883	*291 037*
Shares	12 132	4 022	22 699	13 262	53 507	144 571	149 656	64 921	108 071	45 694	24 478	*1 373 393*
Listed shares	1 048	818	4 182	5 407	5 646	11 371	13 925	936	891	470	1 135	*158 103*
Unlisted shares and other equity [3]	11 084	3 205	18 518	7 855	47 861	133 200	135 731	63 985	107 180	45 224	23 343	*1 215 290*
p.m. Recourse by financial and non-financial corporations to the securities market	*10 534*	*765*	*17 360*	*704*	*55 536*	*166 081*	*194 442*	*122 183*	*100 122*	*44 501*	*18 334*	*1 568 152*

Sources: Euronext Brussels, FSMA, NBB.
(1) Excluding derivatives and units of UCIs.
(2) Excluding the Eurosystem.
(3) Including reinvested profits on direct investments effected in Belgium by foreign companies.

TABLE 27 **INTEREST RATES**

(end of quarter, in % per year)

		Yield on the interbank market		Yield on the Belgian secondary market in securities issued by Belgian general government				
		Overnight [1]	Three-month [2]	Three-month Treasury certificates	Linear bonds (OLO)			Ten-year benchmark OLO
					At one year	At two years	At five years	
2007	Q1	3.90	3.92	3.78	4.01	4.02	4.02	4.11
	Q2	4.14	4.18	4.01	4.35	4.50	4.54	4.63
	Q3	4.16	4.79	3.93	4.04	4.18	4.26	4.49
	Q4	3.92	4.68	3.79	4.13	4.11	4.22	4.47
2008	Q1	4.16	4.73	3.81	3.82	3.78	3.92	4.31
	Q2	4.27	4.95	4.22	4.64	4.79	4.87	4.87
	Q3	4.17	5.28	3.78	3.71	3.82	4.22	4.61
	Q4	2.35	2.89	1.76	1.99	2.51	3.32	3.77
2009	Q1	1.64	1.51	0.77	1.01	1.70	3.21	3.94
	Q2	0.40	1.10	0.56	0.84	1.52	2.96	3.95
	Q3	0.53	0.75	0.38	0.70	1.40	2.68	3.65
	Q4	0.41	0.70	0.33	0.84	1.43	2.74	3.72
2010	Q1	0.40	0.63	0.31	0.62	1.05	2.34	3.55
	Q2	0.54	0.77	0.35	0.69	1.06	2.38	3.46
	Q3	0.88	0.89	0.42	0.89	1.18	2.21	3.09
	Q4	0.82	1.01	0.63	1.57	2.04	3.24	3.97
2011	Q1	0.90	1.24	0.96	1.57	2.17	3.54	4.24
	Q2	1.72	1.55	1.35	1.63	2.22	3.47	4.13
	Q3	1.46	1.55	0.83	0.84	1.62	3.08	3.70
	Q4	0.63	1.36	0.05	0.58	1.89	3.36	4.06

Sources: ECB, NBB.
(1) The weighted average interest rate on the interbank market of the euro area for unsecured overnight transactions (i.e. transactions not backed by securities) in euro (Eonia).
(2) Average interest rate offered on the interbank market of the euro area for unsecured three-month transactions in euro (Euribor).

TABLE 28 MAIN INTEREST RATES OF THE EUROSYSTEM

(in % per year)

	Dates of announcement of changes	Rate on the main refinancing operations [1]	Rate on the marginal lending facility	Rate on the deposit facility
2002	5 December	2.75	3.75	1.75
2003	6 March	2.50	3.50	1.50
	5 June	2.00	3.00	1.00
2004	–			
2005	1 December	2.25	3.25	1.25
2006	2 March	2.50	3.50	1.50
	8 June	2.75	3.75	1.75
	3 August	3.00	4.00	2.00
	5 October	3.25	4.25	2.25
	7 December	3.50	4.50	2.50
2007	8 March	3.75	4.75	2.75
	6 June	4.00	5.00	3.00
2008	3 July	4.25	5.25	3.25
	8 October	3.75	4.25	3.25
	6 November	3.25	3.75	2.75
	4 December	2.50	3.00	2.00
2009	15 January	2.00	3.00	1.00
	5 March	1.50	2.50	0.50
	2 April	1.25	2.25	0.25
	7 May	1.00	1.75	0.25
2010	–			
2011	7 April	1.25	2.00	0.50
	7 July	1.50	2.25	0.75
	3 November	1.25	2.00	0.50
	8 December	1.00	1.75	0.25

Source: ECB.
(1) For the transactions settled from 28 June 2000 to 14 October 2008, minimum bid rate at the tenders for the credit allotments. For transactions settled from 15 October 2008, fixed rate of the weekly one-week credit allotments.

TABLE 29 EXCHANGE RATES

(national monetary units per euro, annual averages)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
US dollar	0.946	1.131	1.244	1.244	1.256	1.370	1.471	1.395	1.326	1.392
Japanese yen	118.1	131.0	134.4	136.9	146.0	161.3	152.5	130.3	116.2	111.0
Swiss franc	1.467	1.521	1.544	1.548	1.573	1.643	1.587	1.510	1.380	1.233
Chinese yuan renminbi	7.827	9.363	10.297	10.196	10.010	10.418	10.224	9.528	8.971	8.996
Korean won	1 175.5	1 346.9	1 422.6	1 273.6	1 198.6	1 273.0	1 606.1	1 772.9	1 531.8	1 541.2
Hong Kong dollar	7.375	8.808	9.688	9.677	9.755	10.691	11.454	10.811	10.299	10.836
Singapore dollar	1.691	1.970	2.102	2.070	1.994	2.064	2.076	2.024	1.806	1.749
Canadian dollar	1.484	1.582	1.617	1.509	1.424	1.468	1.559	1.585	1.365	1.376
Norwegian krone	7.509	8.003	8.370	8.009	8.047	8.017	8.224	8.728	8.004	7.793
Australian dollar	1.738	1.738	1.691	1.632	1.667	1.635	1.742	1.773	1.442	1.348
Pound sterling	0.629	0.692	0.679	0.684	0.682	0.684	0.796	0.891	0.858	0.868
Swedish krona	9.161	9.124	9.124	9.282	9.254	9.250	9.615	10.619	9.537	9.030
Danish krone	7.431	7.431	7.440	7.452	7.459	7.451	7.456	7.446	7.447	7.451
Czech koruna	30.80	31.85	31.89	29.78	28.34	27.77	24.95	26.44	25.28	24.59
Hungarian forint	243.0	253.6	251.7	248.1	264.3	251.4	251.5	280.3	275.5	279.4
Bulgarian lev	1.949	1.949	1.953	1.956	1.956	1.956	1.956	1.956	1.956	1.956
Romanian leu (1)	31 270	37 551	40 510	3.621	3.526	3.335	3.683	4.240	4.212	4.239
Lithuanian litas	3.459	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453	3.453
Latvian lats	0.581	0.641	0.665	0.696	0.696	0.700	0.703	0.706	0.709	0.706
Polish zloty	3.857	4.400	4.527	4.023	3.896	3.784	3.512	4.328	3.995	4.121
p.m. Effective euro exchange rate (2) (index 1st quarter 1999 = 100)	*90.0*	*100.6*	*104.4*	*102.9*	*102.8*	*106.4*	*110.4*	*111.7*	*104.6*	*104.4*

Source: ECB.

(1) From 2005, new Romanian leu.

(2) Data compiled on the basis of the weighted averages of the bilateral euro exchange rates. The weightings are calculated from the trade in manufactured products during 2001-2003 and 2004-2006 with the trading partners whose currencies appear in the table, and take account of the effects of third markets.

Methodological note

Unless otherwise indicated, when data are compared from year to year, they all relate to the same period of the years in question. In the tables, the totals shown may differ from the sum of the items owing to rounding.

In order to provide an update on various key economic data relating to Belgium in the year 2011 as a whole, it was necessary to make estimates, as the statistical material for that year is sometimes still very fragmentary. In the tables and charts, these estimates, which were finalised at the end of January 2012, are marked "e". They represent mere orders of magnitude intended to demonstrate the trends which already seem to be emerging. For the periods for which data are published, the Belgian sources used are mainly the NAI, the DGSEI and the Bank. The comments on the international environment and the comparisons between economies are usually based on the latest data or estimates originating from institutions such as the EC, the IMF, the OECD and the ECB.

The monetary unit used in the Report for the data concerning the euro area member countries is the euro. Amounts relating to periods before the introduction of the euro, on 1 January 1999 for Belgium and for most of the member countries, are converted at the irrevocable euro conversion rates. Except in the chapters on monetary policy and prices, where the definition coincides with the historical reality, the euro area is defined wherever possible as consisting of all the EU countries which adopted the single currency during the period 1999-2011. Apart from Belgium, the area therefore consists of Austria, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Spain, Slovenia, and Slovakia. For convenience, the term "euro area" is also used to designate this group of countries for periods prior to the start of Stage 3 of EMU. For some analyses, the preferred source was the OECD which includes in the euro area only the countries which are members of this international institution, i.e. excluding Cyprus and Malta. In view of the small size of those economies, the OECD data present a picture which is quite representative of the euro area as a whole.

Since 1999, the NAI, in accordance with the obligation imposed by Eurostat, has applied the ESA 95 methodology for compiling the national accounts (1). As far as possible, the Report incorporates the definitions and methods resulting from ESA 95. However, it still expresses the data in gross terms although this new system presents the main aggregates derived from the national accounts in the form of net results for consumption of fixed capital. Gross data have the advantage of reducing the problem connected with the valuation of depreciation, which is based on the assumption of perfect knowledge of the stock of fixed capital. Furthermore, gross data make it easier to interpret certain

(1) For fuller information concerning the ESA 95, see the NAI publication entitled *Comptes nationaux 1998 – Partie 1 : Estimation des agrégats annuels.* The changes caused by the switch to ESA 95 for the account of general government are specified in more detail in another publication from the same source, entitled *Comptes nationaux 1998 – Partie 3 : Comptes des administrations publiques*.

movements such as those of the gross operating surplus. For simplicity, the sectoral breakdown groups together, under the heading "individuals", households and non-profit institutions serving households, which constitute separate sectors according to the ESA 95 methodology. Nevertheless, the terms "individuals" and "households" are used as synonyms. The terms "corporations" and "enterprises" are also frequently used as synonyms. However, from the GDP expenditure angle, the term "enterprises" also covers self-employed persons, while the latter are included under households in the real and financial sectoral accounts.

The Belgian national accounts, like those of other European countries, have undergone a series of important methodological revisions in recent years, affecting in particular the breakdown of price and volume effects. The changes thus made were explained by the NAI in the publication of the detailed national accounts in December 2005, November 2006 and October 2009. Thus, since 2006, the volume series have been expressed in prices of the year preceding the one for which they were first published, while according to the previous practice they were expressed at prices of a fixed base year (2000, in the 2005 edition of the national accounts). This modification makes it possible to "chain" the volume change in the aggregates or sub-aggregates. According to this method, their volume growth between two consecutive periods is calculated systematically by reference to the previous year's prices and weights. The changes between consecutive periods are linked together (cumulated) to give a chained index. When the chained index of an aggregate or sub-aggregate is applied to the amount (level) of a reference year, such as 2009, as in the official national accounts published in October 2011, that provides a measure of the volume change in "chained euros (reference year 2009)". The use of chaining leads to a loss of additivity in regard to the volume levels (except for the figures relating to the reference year and the year immediately following it). This implies, for example, that in the case of chained level series, GDP is not equal to the sum of its components.

In the section devoted to the international environment, the presentation is also consistent with the ESA 95 or its equivalent, the System of National Accounts (SNA 1993) published jointly by the United Nations, the World Bank, the EC, the IMF and the OECD. Nevertheless, the statistics from the sources to which reference is made in the Report, principally the EC and the OECD, are not always uniform, because the period for which the methodological revision or the conversions from one system to the other have been carried out still varies greatly from one country to another.

The breakdown of the financial accounts between individuals and corporations is largely based on data from Belgian financial institutions. The information making it possible to break down the financial transactions between the private sector and the other sectors, especially transactions with foreign countries or those effected within the non-financial corporations sector itself, is much more fragmentary. The main statistics which can be used for this purpose, namely the globalisation of the annual accounts of enterprises compiled by the Bank's Central Balance Sheet Office, are in fact partial, are produced only annually and are available only after a time lag of several months. It has therefore been necessary to introduce some assumptions and make various estimates.

Conventional signs

–	the datum does not exist or is meaningless
n.	not available
p.m.	pro memoria
e	estimate by the Bank
€	euro
$	US dollar
£	British pound

List of abbreviations

EU countries

BE	Belgium
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
IT	Italy
CY	Cyprus
LU	Luxembourg
MT	Malta
NL	Netherlands
AT	Austria
PT	Portugal
SI	Slovenia
SK	Slovakia
FI	Finland

BG	Bulgaria
CZ	Czech Republic
DK	Denmark
LV	Latvia
LT	Lithuania
HU	Hungary
PL	Poland
RO	Romania
SE	Sweden
UK	United Kingdom

Other abbreviations

ABS	Asset-backed security
Actiris	Brussels regional employment office
BEA	Bureau of Economic Analysis (United States)
BEAMA	Belgian Asset Managers Association
BIS	Bank for International Settlements
CBFA	Banking, Finance and Insurance Commission
CEC	Central Economic Council
CEIC	CEIC Macroeconomic Databases for Emerging and Developed Markets
CO_2	Carbon dioxide
CPB	Centraal Planbureau (Netherlands)
CREDIBE	former Central Office for Mortgage Loans
CREG	Commission for Electricity and Gas Regulation
DGSEI	Directorate General of Statistics and Economic Information (FPS Economy, SMEs, Self-employed and Energy)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
Ecofin	European Council of Ministers of Economic Affairs and Finance
EDP	Excessive deficit procedure
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EIP	Excessive imbalance procedure
EMS	European Stability Mechanism
EMU	Economic and Monetary Union
Eonia	Euro overnight index average
ESA	European Supervisory Authorities
ESA	European System of Accounts
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
ESRI	Economic and Social Research Institute (Japan)
EU	European Union
Euribor	Euro interbank offered rate
Federgon	Federation of HR Partners
FOMC	Federal Open Market Committee (United States)
FOREM	Walloon agency for employment and vocational training
FPB	Federal Planning Bureau
FRA	Forward rate agreement
FSMA	Financial Services and Markets Authority
FPS	Federal Public Service
G20	Group of Twenty
GDP	Gross domestic product
GNI	Gross national income
HICP	Harmonised index of consumer prices
HWWI	Hamburgisches Welt-Wirtschafts-Institut

IEA	International Energy Agency
IMF	International Monetary Fund
LEA	Local employment agency
Libor	London interbank offered rate
MFI	Monetary financial institution
NACE	Nomenclature of economic activities of the European Community
NAI	National Accounts Institute
NBB	National Bank of Belgium
NCPI	National consumer price index
NEO	National Employment Office
NOx	Nitrogen oxides
NSSO	National Social Security Office
OECD	Organisation for Economic Cooperation and Development
OIS	Overnight index swap
OLO	Linear bond
ONS	Office for National Statistics (United Kingdom)
OPEC	Organisation of the Petroleum Exporting Countries
PLU	Professional Lenders' Union
Pricaf	Private equity sicaf (private closed-end equity fund)
R&D	Research and development
RIF	Railway Infrastructure Fund
SHLAF	Social Housing Loan Amortisation Fund
SICAF	Société d'investissement à capital fixe (investment fund with fixed capital)
SICAFI	Société d'investissement à capital fixe immobilier (real estate investment fund with fixed capital)
SMP	Securities Markets Programme
SNA	System of National Accounts
SNB	Swiss National Bank
TFP	Total factor productivity
UCI	Undertaking for collective investment
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
VDAB	Flemish employment and vocational training agency

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