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PRESS RELEASE

Economic projections for Belgium - spring 2005

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Coinciding with the publication in the ECB Monthly Bulletin of new projections for the euro area, this article outlines the results for the Belgian economy. They were compiled by the National Bank of Belgium within the scope of the half-yearly forecast exercise of the Eurosystem; they cover the years 2005 and 2006. A forecast for 2005 has previously been published in the Economic Review of the fourth quarter of 2004. Since then, the rise in oil prices has continued and, according to the quotations on the futures market, the Brent crude oil price per barrel should remain close to 50 dollars over the next two years. Foreign demand, in particular from the euro area partners, also proved to be less buoyant than expected. In Belgium, GDP growth slowed down considerably at the end of 2004 after having shown a buoyant growth for five quarters and was estimated to have been zero in the first quarter of 2005. The initial situation of the projections has therefore deteriorated as compared with the situation which prevailed a few months ago, and the general economic context of Belgium - and more generally the euro area - is uncertain. The projections are based on the information available up to 20 May 2005.

The Eurosystem projections were compiled taking into account a slight slowdown in the global economy, following the record growth observed in 2004, and trade remaining buoyant outside the euro area, while exchange rates were maintained at the mid-May level, namely 1.29 dollars per euro. In this context, following a temporary slowdown at the end of 2004, GDP growth in the euro area should gradually pick up in 2005 and 2006. Sustained by exports, GDP growth is expected to be more broadly supported by domestic demand. Inflation should be influenced in the short term by the high level of oil prices, while domestic pressures should remain restrained. Inflation should decelerate during 2005 and 2006.

In Belgium, the stagnation of GDP during the first quarter of 2005 - as is evident from the data published by the ICN - is mainly the result, on the one hand, of a temporary major fall in activity in the construction industry due to weather reasons and, on the other hand, of a decline in the manufacturing industry. In this sector, a gradual recovery is expected to take place in the course of the year as, in accordance with the assumptions underlying the projections, export markets are expected to strengthen again, while exchange rates should remain stable and oil prices should not increase. All in all, GDP growth should slow down from 2.7% in 2004 to 1.4% in 2005. Partly due to an increase in consumption and investment, GDP should increase by 2.4% in 2006.

Still buoyant at the beginning of the year and in the wake of the dynamic activity during most of 2004, the rate of job creation is expected to slow down temporarily during 2005, in particular in the sectors which are most sensitive to cyclical movements. All in all, the estimated increase in domestic employment should be 0.8% and 0.7% in 2005 and 2006 respectively, in other words, a total net creation of around 62,000 jobs at the end of these two years. In view, however, of the increase in the working population, the harmonised unemployment rate is expected to increase slightly to an average of 7.9% in 2005 and 8% in 2006, compared with 7.8% in 2004.

Whereas it had been relatively robust during the two preceding years, increasing by over 2% per annum in real terms, household consumption barely increased during the fourth quarter of 2004 and is expected to have remained weak at the beginning of 2005, due, on the one hand, to increased uncertainty among consumers as to the overall economic situation and, on the other hand, to the effect of the increase in oil prices on purchasing power. For the year as a whole, the increase in consumption is expected to attain 1%, before picking up to reach 1.9% in 2006. During these two years, consumption growth is expected to remain below that of disposable income, in particular in 2006 when the latter should benefit from the implementation of the tax reform. Thus, after a fall of 2.5 points during the two previous years, the savings rate is expected to increase from 14.1% in 2004 to 15% in 2005 and to 15.7% in 2006. A cautious recovery in corporate investment became apparent in 2004 and is expected to strengthen in the course of 2005 and 2006 in the context of companies' operating surpluses being expected to be maintained at a high level and of external financing conditions to continue to be favourable. Disregarding purchases of public buildings, companies are expected to increase their gross fixed capital formation by 5.4% in 2005 and by 3.4% in 2006. In view of these purchases, the growth rates should be 5.2% and 2.1% respectively. According to the assumptions of the Eurosystem, external demand of Belgium, after having been very buoyant for most of 2004 is expected to slow down temporarily in 2005, mainly because of a weakening in the euro area. The increase, in real terms, of exports should therefore drop from 5.4% in 2004 to 3.6% in 2005. It should again reach 5.6% in 2006.

During the first quarter of 2005, inflation - as measured by the harmonised consumer price index (IPCH) - accelerated considerably and reached 2.8% in March, compared with an average of 1.9% in 2004. In April, inflation slowed down to 2.2% and this is expected to continue during the rest of the year and in 2006. All in all, inflation should reach an average of 2.2% in 2005 and 1.9% in 2006. The rise in inflation in 2005 is mainly due to factors of a temporary nature, including sharp increases in petroleum product prices. Disregarding changes in mainly administrative or volatile price components, the underlying inflation trend should reach an average of 1.3% in 2005 and 1.6% in 2006, against 1.5% in 2004. Inflationary pressures are expected to remain moderate, both as regards imports - due to the gradual downward effect from the recent appreciation of the euro on consumer prices - and as to domestic costs, in view of the expected relatively moderate increase of hourly wage costs.

In the absence of complete information regarding the negotiations conducted in the various joint sectoral industrial committees for the period 2005-2006, the projections were drawn up on the basis of a cumulative increase of 4.5% in hourly wage costs in the private sector over 2005 and 2006. This technical assumption meets the indicative norm of the draft central agreement of January 2005 which was endorsed by the government. Due to the slowdown in activity in 2005 and to the rather pronounced slowdown in productivity accompanying it, unit labour costs, which remained almost stable in 2004, are expected to increase by 1.7% in 2005. The increase should slow down to 0.5% in 2006.

In accordance with the ESCB methodology, the projections as to public finances only take account of the measures which have been announced and sufficiently outlined within the scope of the 2005 budgets. On the other hand, they do not anticipate additional measures which might still be taken. The budgetary balance is expected to revert from a balance in 2004 to a deficit of 0.5% of GDP in 2005 and to a deficit of 1.4% in 2006, according to the ESA95-methodology. This deterioration in the budgetary balance is mainly in 2005 the result of an unfavourable economic situation. Moreover, the impact of one-off factors should become less marked in 2005 and, on the basis of the decisions already taken, will disappear in 2006. In 2004, the total contribution of these factors to the budgetary balance of the public authorities still amounted to 0.8% of GDP. Finally, the projections indicate a further fiscal loosening in 2006, mainly due to measures intended to alleviate the fiscal and parafiscal pressure on labour. On the other hand, the interest charges of the public authorities are expected to continue to fall in 2005 and 2006.

The difference with the budget balance for 2005, announced by the government following the budgetary control, can be attributed mainly to a slightly less favourable macroeconomic environment within the scope of the Bank's projection exercise.

The consolidated gross debt of general government is expected to fall from 100% of GDP in 2003 to 93.8% in 2006. The debt reduction, which began in 1994, will be temporarily interrupted in 2005, due to the take-over of 7.4 billion euro Belgian Railways debt by the Railway Infrastructure Fund, which is part of the general government sector.

Projections for the Belgian economy: main results

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

	2002	2003	2004	2005 e	2006 e
GROWTH (calendar adjusted data)					
GDP at 2000 prices	0.9	1.3	2.7	1.4	2.4
Contributions to growth:					
Domestic expenditure, excluding change in stocks	-0.1	1.6	1.9	1.8	2.1
Net exports of goods and services	0.3	-0.3	-0.2	-0.7	0.8
Change in stocks	0.7	-0.1	1.0	0.4	-0.5
PRICES AND COSTS					
Harmonised consumer price index	1.6	1.5	1.9	2.2	1.9
Health index	1.8	1.5	1.6	2.1	1.8
GDP deflator	1.8	2.0	2.3	2.0	1.7
Terms of trade	1.0	-0.1	-0.9	-0.5	-0.1
Unit labour costs in the private sector	1.9	0.8	0.1	1.7	0.5
Hourly wage costs in the private sector	4.2	2.7	2.5	2.2 ¹	2.3 ¹
Hourly productivity in the private sector	2.3	1.9	2.4	0.5	1.8
LABOUR MARKET (calendar adjusted data)					
Domestic employment (average annual variation, thousands of units)	-12.4	2.3	28.2	34.3	27.6
Harmonised unemployment rate (percentage of working population)	7.4	7.9	7.8	7.9	8.0
INCOMES					
Real disposable income of private individuals	0.1	1.1	0.5	1.8	2.6
Private savings ratio (percentage of disposable income)	16.6	15.5	14.1	15.0	15.7
PUBLIC FINANCES					
Primary balance (percentage of GDP)	6.1	5.7	4.9	4.1	2.9
Balance of the public finances (percentage of GDP)	0.1	0.3	0.0	-0.5	-1.4
Public debt (percentage of GDP)	105.4	100.0	95.5	95.9	93.8
CURRENT ACCOUNT (percentage of GDP according to balance of payments)					
	5.7	4.5	3.4	2.0	2.8

Sources: EC, NAI, NIS, NBB.

¹ Assumption based on the indicative wage norm of 4.5% for the period 2005-2006 of the draft central agreement of January 2005, which has been endorsed by the government.