

2005-12-05

PRESS RELEASE

Economic projections for Belgium - Autumn 2005

(Article published in the Economic Review, 4th quarter 2005)

www.nbb.be

Coinciding with the publication of new projections for the euro area in the ECB Monthly Bulletin, this article gives a succinct presentation of the results for the Belgian economy for 2005 and 2006. They were compiled by the National Bank of Belgium as part of the six-monthly Eurosysteem exercise in accordance with the same methods and procedures as the forecasts published in the spring in the Economic Review, 2nd quarter 2005. Since then, the price of oil has continued to rise and the US dollar has appreciated against the euro. The growth of activity has remained buoyant in most of the economic regions. In Belgium, after dipping sharply at the beginning of the year, growth produced a modest recovery as predicted in the spring projections. According to the NAI estimates, which go up to the third quarter of 2005, GDP grew by just 0.1 p.c. in real terms in the first quarter, then by 0.2 p.c. and 0.4 p.c. respectively in the following two quarters. The new projections take account of the government budgets available for 2006. The projections were based on the information available as at 21 November 2005.

The Eurosysteem projections take account of the continuing dynamism of the global economy and trade, after the record figures seen in 2004. Oil prices are expected to remain at around 60 dollars per barrel of Brent, while exchange rates are held steady at their mid-November level, namely 1.19 dollars to the euro. In that context, after a temporary slowdown at the end of last year and the start of the current year, GDP growth in the euro area should strengthen in the second half of 2005 and in 2006. It is likely to be driven largely by external demand and investment. Inflation is expected to continue being influenced by the high oil prices.

In Belgium, year-on-year growth – which had reached 2.8 p.c. in the third quarter of 2004, the fastest annual growth for four years – dropped to 1.1 p.c. twelve months later. However, the gradual strengthening of activity seen from the third quarter of 2005 should be maintained. In the short term, the recent business survey results indicate an upturn since the summer. More fundamentally, the sturdier growth is expected to originate from the external sector, after the recent strength of demand from the business sector, both having so far stood up relatively well in the face of the oil shock. Conversely, the contribution of private consumption demand is likely to be curbed at first by the contained evolution of household purchasing power. In all, real GDP growth looks set to fall from 2.4 p.c. in 2004 to 1.4 p.c. in 2005. In 2006, it is predicted to reach 2.2 p.c., a downward revision of 0.2 percentage point compared to the spring, but once again a slightly higher figure than that forecast for the euro area.

Largely cushioned by the movements in productivity, the oscillations in activity between 2004 and 2006 take some time to be reflected, in a mitigated way, in the movement in employment. The number of persons in work in Belgium is estimated to increase by 0.7 p.c. in 2005, then by 0.5 p.c. in 2006, following a rise of 0.6 p.c. in 2004. In all, net job creation is expected to total around 75,000 for the period 2004-2006 as a whole, following a cumulative decline of 10,000 jobs in 2002 and 2003. However, in view of the expansion of the labour force, the number of job seekers is likely to continue to rise; the unemployment rate is forecast to reach 8.4 p.c. in 2005 and expected to remain at that level in 2006.

The quickening pace of inflation is expected to depress the growth of individual purchasing power in 2005 and 2006. However, this factor will be partly offset in the second year by the effects of the implementation of the tax reform. Overall, disposable income is likely to increase in real terms by 0.6 p.c. in 2005 and 1.8 p.c. in 2006. Owing to a further fall in the savings rate in the first year, the volume growth of private consumption is expected to remain stable at 1.3 p.c. in 2005, the same rate as in 2004, and 1.6 p.c. in 2006. After falling sharply for two years, in a context of steady improvement in corporate profitability, recovery in stock market prices and low interest rates, business investment revived in 2005. Investment in housing also surged in 2004. A return to a more balanced picture for private investment, in line with that of activity and income, is expected in the period covered by the forecasts. Public investment should also be buoyant in 2005 and 2006, driven by the traditional electoral cycle of the municipalities. After a temporary

slowdown at the beginning of the current year, the expansion of exports of goods and services should strengthen. It is estimated to average 2.3 p.c. in 2005 and around 5 p.c. in 2006, sustained by foreign demand - including demand from European partners - and by the euro's depreciation by around 12 p.c. against the dollar since the peak at the beginning of the year.

The forecast movements in inflation in 2005 and 2006 and the revisions since the spring mainly reflect the rise in crude oil prices. Overall, inflation, measured by the harmonised index of consumer prices (HICP), is expected to average 2.5 p.c. in 2005 and 2.3 p.c. in 2006, or 0.3 and 0.4 points respectively above the spring projections. Leaving aside the changes in prices of unprocessed food and energy, the underlying trend in inflation should average 1.4 p.c. in 2005. Apart from the indirect effects of higher commodity prices on the selling prices of processed products and certain services, inflationary pressures are expected to remain moderate at first, but will gradually increase during the period covered by the projections, as a result of both higher import prices expressed in euro and a faster rise in labour costs.

Having remained more or less steady in the preceding two years, unit labour costs in the private sector are expected to increase by 1.7 p.c. in 2005 and 0.9 p.c. in 2006. The reason for this acceleration lies in the slower growth of productivity, especially in 2005. It is also due to the rise in the health index, which is used as the reference for wage indexation, and which rose faster than had been expected during the sectoral wage negotiations. Overall, hourly labour costs in the private sector are expected to rise by an annual average of around 2.6 p.c. in 2005 and 2006, against an average increase of 1.9 p.c. in 2003 and 2004. This forecast is similar to the one presented in November 2005 by the Secretariat of the Central Council for the Economy. The Secretariat states that the expected cumulative development for 2005 and 2006 exceeds the reference norm of 4.5 p.c. agreed upon in the draft multi-sectoral agreement, and that, over these two years, the position of Belgian firms is likely to deteriorate by around 2 p.c. with regard to the three neighbouring countries, partly because the expected rise in hourly labour costs for these countries is considerably lower than the figure adopted at the time of the negotiation of the multi-sectoral agreement at the end of 2004.

The projections for public finances take account of the measures which were announced and were sufficiently well-defined in the budgets for 2006. Conversely, they do not anticipate any additional measures which might yet be adopted. Taking account of the latest information, it seems that public finances should be in balance once again at the end of 2005, as the decline in the primary balance will be offset by the fall in interest charges. Taking account of the partly structural and partly non-recurring consolidation measures introduced in connection with the budget, the projections for 2006 now point to a deficit of just 0.4 p.c. of GDP against 1,3 p.c. of GDP in the spring projections. The deterioration in comparison with 2005 is likely to be due to a further fall in the primary balance following the decline in revenue attributable to the effects of the personal income tax reform on the tax assessments, and to the reduction in social security contributions.

The reduction in the consolidated gross debt of general government, which began in 1994, is expected to continue, although at a slower pace in 2005. Indeed, the Rail Infrastructure Fund, set up with the break-up of the BNRC on 1 January 2005, which retains the infrastructure as it stood on 31 December 2004 plus the associated debt – amounting to some 2,5 p.c. of GDP –, should come under general government in the statistical definition. Thus, the debt, which still came to 103.2 p.c. of GDP in 2002, dropped to 94.7 p.c. in 2004 and 94.2 p.c. in 2005. In 2006, the debt ratio should resume a quicker decrease pace and should reach 90.9 p.c. of GDP by the end of the year.

Projections for the Belgian economy: summary of the 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	1.5	0.9	2.4	1.4	2.2
Contributions to growth:					
Domestic spending, excluding change in stocks	0.6	1.0	2.0	2.8	1.4
Net exports of goods and services	0.7	0.0	-0.3	-0.9	0.7
Change in stocks	0.1	-0.1	0.7	-0.4	0.1
PRICES AND COSTS					
Harmonised index of consumer prices	1.6	1.5	1.9	2.5	2.3
Health index	1.8	1.5	1.6	2.1	2.1
GDP deflator	1.8	1.7	2.3	2.3	2.4
Terms of trade	0.7	-0.1	-0.5	-0.2	0.2
Unit labour costs in the private sector	1.4	0.2	0.0	1.7	0.9
Hourly labour costs in the private sector	4.4	1.6	2.1	2.3	2.8
Hourly productivity in the private sector	3.0	1.4	2.1	0.6	1.9
LABOUR MARKET					
Domestic employment (average annual variation, in thousands of units)	-6.3	-3.3	23.5	30.4	20.5
Harmonised unemployment rate ¹ (p.c. of the labour force)	7.3	8.0	7.9	8.4	8.4
INCOMES					
Real disposable income of individuals	0.2	-1.0	-0.2	0.6	1.8
Household savings ratio (p.c. of disposable income)	15.8	14.3	12.8	12.3	12.5
PUBLIC FINANCES					
Primary balance (p.c. of GDP)	5.7	5.4	4.8	4.4	3.7
Government financing requirement (-) or capacity (p.c. of GDP) ^{2,3}	0.0	0.1	0.0	0.0	-0.4
Public debt (p.c. of GDP)	103.2	98.5	94.7	94.2	90.9
CURRENT ACCOUNT (p.c. of GDP according to balance of payments)					
	4.6	4.1	3.3	1.8	3.2

Sources: EC, NAI, NSI, NBB.

¹ Adjusted series (Eurostat).

² According to the methodology used for the excessive deficit procedure (EDP).

³ Eurostat is currently examining the statistical treatment of various operations, among which the BNRC restructuring which is assumed to have as only incidence an increase of the general government debt in 2005, without any effect on the borrowing requirement.