

2007-06-14

## PRESS RELEASE

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### **Economic projections for Belgium - Spring 2007**

(Article published in the Economic Review, June 2007)

Coinciding with the publication of the new Eurosysteem projections for the euro area in the ECB Monthly Bulletin, this article gives a succinct presentation of the results for the Belgian economy for the years 2007 and 2008. Since the previous forecasts were published in December 2006, the international environment has remained buoyant, with global economic activity notably bolstered by the emerging economies. The sources of economic growth have, moreover, balanced out on both sides of the Atlantic, in the euro area's favour. In particular, the rise in VAT in Germany scarcely seems to have weighed on growth, contrary to what had been feared six months earlier. The emergence of a positive growth differential between the euro area and the United States contributed to an appreciation in the value of the euro and a slight recovery in long-term interest rates in Europe. At the same time, against a backdrop of less accommodative monetary policies and calmer oil markets, inflation has remained contained in most economic zones.

The Eurosysteem projections are drawn up taking account of trade flows which, without seeing the same exceptional expansion of 2006, are expected to remain dynamic. Oil prices, on the basis of forward market quotations, are forecast to rise slightly again during the course of 2007 before levelling out at an average of 69.9 dollars a barrel in 2008. Interest rates are also projected to rise in line with market expectations. It is assumed that exchange rates will remain constant at their mid-May 2007 level, namely 1.36 dollars to the euro. In this context, after having reached 2.9 p.c. in 2006, GDP growth in the euro area should remain vigorous, settling at between 2.3 and 2.9 p.c. in 2007 and between 1.8 and 2.8 p.c. in 2008. As for inflation, it is expected to benefit from the moderating impact of the energy component on the HICP in 2007, partly offset by the upward influence of indirect taxation and wage costs. It is likely to fall within a range of 1.8 to 2.2 p.c. in 2007 and 1.4 to 2.6 p.c. in 2008, compared with 2.2 p.c. in 2006.

In Belgium, economic activity has been particularly strong since the end of 2005, expanding at a steady pace of 0.7 to 0.8 p.c. per quarter throughout 2006. Available indicators, especially the continued high level of business confidence, show that activity should remain dynamic in the first half of 2007. Thereafter, growth is expected to widen its base and become more sustainable, as is evident from the favourable reaction of the labour market. In 2008, it is likely to return to a rhythm more in line with its potential, particularly as a result of some slackening of foreign demand. Overall, real GDP growth is projected to decline from 3 p.c. in 2006, the highest rate for six years, to 2.5 p.c. in 2007. It is expected to be 2.2 p.c. in 2008.

Over the whole period covered by the projections, growth should turn out to be more balanced than in 2006, boosted both by domestic demand and foreign demand. Net exports of goods and services in particular are once again expected to make a positive contribution in 2007 and 2008, after having posted an increasingly negative contribution to growth over the last three years. On the domestic expenditure front, private consumption should slow down somewhat in comparison to the vigorous expansion recorded in 2006, in line with the development of household purchasing power. As a result, after having risen sharply in 2006, the private savings ratio is barely expected to gain ground, fluctuating around 14 p.c. of disposable income. On the other hand, the rate of growth of investment in private housing should once again exceed that of households' real disposable income, albeit to a lesser extent than in 2006, in line with a slowdown in the rise in property prices on the market in existing housing. In a context of consolidation of demand prospects and advantageous financing conditions, enterprises are also expected to continue to regularly step up their investment, albeit at a slightly slower pace than in previous years but still above the GDP growth rate. Disregarding the impact of the sale of federal buildings, public investment is expected to slow down sharply in 2007, under the influence of the electoral cycle of both the municipalities and the provinces. Having trailed behind the exceptionally vigorous expansion of foreign markets at the beginning of 2006, exports picked up during the course of this same year. They should then post sustained growth in 2007, taking advantage of the strong expansion of euro area markets in particular, and a slightly slower rate in 2008. Lastly, the change in stocks is projected to dampen growth slightly in both years, after having made a major contribution in 2005 and 2006.

While the employment situation generally tends to follow trends in economic activity, albeit with some time lag, the rate of employment growth appears to be more sustained than in previous upturns. Following an increase of 46,000 units in 2006, domestic employment should grow by another 115,000 jobs or so over the period 2007-2008. As a result, productivity growth per person, which had reached 1.9 p.c. in 2006, is forecast to fall back to 1 p.c. on average in 2007 and 2008, compared with an average increase of 1.3 p.c. over the last ten years. Since the number of jobs created is likely to be much higher than the expected growth in the working population, the decline in unemployment which had begun in 2006 should continue. With a cumulative decline of 60,000 jobless, the highest number over a two-year period since 1999-2000, the harmonised unemployment rate is projected to fall from 8.2 p.c. in 2006 to 7.2 p.c. in 2008.

Estimated on the basis of the HICP, overall inflation is forecast to fall markedly, from 2.3 p.c. in 2006 to 1.6 p.c. in 2007 and 1.8 p.c. in 2008. This drop can be explained by the moderating influence exerted by the energy component of the index, unlike in the two previous years. On the one hand, having fallen back from their peak in the summer of 2006, oil prices in 2007 should on average be comparable with the mean level recorded in 2006. On the other hand, the liberalisation of the gas and electricity markets in Brussels and Wallonia, as well as a new method of recording these energy prices in the consumer price index, could contribute to bringing down overall inflation by 0.4 of a percentage point in 2007. As for the underlying trend in inflation, this is expected to rise moderately, from 1.6 p.c. in 2006 to 1.9 p.c. in 2007, before falling back to 1.7 p.c. in 2008. This slight acceleration in 2007 is almost exclusively due to increases in excise duties on tobacco and in the environmental taxation.

Reflecting the slowdown in labour productivity alone, as a result of the strong rise in employment, unit labour costs in the private sector are projected to increase somewhat, rising from 1.1 p.c. in 2006 to 1.6 p.c. in 2007 and 2008. Moreover, the growth in hourly labour costs is expected to dip slightly from the 2006 level, coming down from 2.7 p.c. to 2.4 p.c. in 2007 and 2.6 p.c. in 2008. For both of these years, the cumulative increase corresponds to the 5 p.c. target set in the central wage-bargaining agreement, in the absence of information on the outcome of the wage negotiations being conducted in the various joint committees at sectoral level.

The projections for public finances take account of the recent evolution of tax revenues, the endogenous effect of the macroeconomic environment, trends in expenditure based on historical developments and measures that have already been decided. Any new action that might be taken by the government over the next few months has not been anticipated in the forecasting exercise. In this context, after showing a surplus of 0.2 p.c. of GDP in 2006, general government accounts are likely to show a slight deficit, of 0.1 p.c. of GDP this year and 0.2 p.c. in 2008. Interest charges should continue to drop and tax revenues are expected to benefit from the promising economic outlook, but in the projections these elements are more than entirely offset by the disappearance of the impact of non-recurrent revenues or reductions of expenditure, as well as by a deterioration of the structural primary balance in 2007.

The public debt ratio will continue to fall gradually, coming down by some 6 percentage points of GDP over the two years of the forecasting period; it would reach 82.7 p.c. of GDP at the end of 2008.

### Projections for the Belgian economy: summary of the main results

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

	2004	2005	2006	2007 e	2008 e
<b>GROWTH</b> (calendar adjusted data)					
GDP in volume	2.8	1.4	3.0	2.5	2.2
Contributions to growth:					
Domestic spending, excluding change in stocks	2.8	1.3	2.8	2.3	2.3
Net exports of goods and services	-0.1	-0.4	-0.8	0.4	0.1
Change in stocks	0.1	0.5	1.0	-0.2	-0.2
<b>PRICES AND COSTS</b>					
Harmonised index of consumer prices	1.9	2.5	2.3	1.6	1.8
Health index	1.6	2.2	1.8	1.6	1.7
GDP deflator	2.4	2.0	2.0	2.0	2.1
Terms of trade	-0.3	-0.7	0.4	0.7	0.2
Unit labour costs in the private sector	-0.4	1.5	1.1	1.6	1.6
Hourly labour costs in the private sector	2.4	2.2	2.7	2.4	2.6
Hourly productivity in the private sector	2.9	0.6	1.6	0.8	0.9
<b>LABOUR MARKET</b>					
Domestic employment (average annual variation, in thousands of units)	26.5	40.8	46.4	60.1	55.1
Harmonised unemployment rate <sup>1</sup> (p.c. of the labour force)	8.4	8.4	8.2	7.6	7.2
<b>INCOME</b>					
Real household disposable income	-0.1	0.9	3.2	2.4	1.8
Household savings ratio (p.c. of disposable income)	13.2	13.2	13.8	14.1	14.0
<b>PUBLIC FINANCES</b> <sup>2</sup>					
Financing balance (p.c. of GDP)	0.0	-2.3	0.2	-0.1	-0.2
Primary balance (p.c. of GDP)	4.7	2.0	4.3	3.8	3.7
Public debt (p.c. of GDP)	94.3	93.2	88.8	85.6	82.7
<b>CURRENT ACCOUNT</b> (p.c. of GDP according to balance of payments)					
	3.5	2.6	2.0	2.7	3.0

Sources: EC, NAI, NSI, NBB.

<sup>1</sup> Adjusted series (Eurostat).

<sup>2</sup> According to the methodology used for the excessive deficit procedure (EDP) and the view taken by Eurostat. In the latter's view, the Railway Infrastructure Fund, set up in the context of the BNRC restructuring on 1 January 2005, comes under the general government sector and its assumption of the BNRC debt should be recorded as a capital transfer from that sector to the non-financial corporations sector. According to the view taken by the NAI, this Fund belongs to the non-financial corporations sector.