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## **PRESS RELEASE**

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### **Economic projections for Belgium - Spring 2008**

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Coinciding with the publication in the ECB monthly bulletin of new Eurosystem projections for the euro area, this article presents the results for the Belgian economy for 2008 and 2009. Since the previous forecasts were published in December 2007, the deterioration in the external factors has become more acute, owing to the deepening financial tensions, the sharp downturn in the property cycle and, more generally, the marked slowdown in activity in the United States, as well as soaring commodity prices. In the euro area, the appreciation of the euro has partly cushioned this price increase, but is detrimental to export opportunities.

The Eurosystem projections take account of weakening trade in 2008, reflecting the slower global growth. On the basis of the forward markets, oil prices are expected to persist at a very high level, averaging 113.3 dollars per barrel in 2008 and 117.7 dollars in 2009. Interest rates are also assumed to move in line with market expectations. As an annual average, three-month interbank deposit rates in euro are projected to reach 4.9 p.c. in 2008 and 4.3 p.c. in 2009. Longer term rates are forecast at 4.5 p.c. in 2008 and 4.7 p.c. in 2009. Exchange rates are kept constant at their mid May level, namely 1.54 dollars to the euro. In that context, having reached 2.7 p.c. in 2007, GDP growth in the euro area should be between 1.5 and 2.1 p.c. in 2008 and between 1.0 and 2.0 p.c. in 2009. Under the impetus of the rising prices of energy and food, inflation looks set to increase to between 3.2 and 3.6 p.c. in 2008. Inflation is expected to subside to between 1.8 and 3.0 p.c. in 2009.

As in the euro area, activity remained buoyant in Belgium in 2007. The slowdown during the second half of the year was limited, in the light of the various shocks originating from the external environment. However, the slowdown is likely to be more marked towards mid 2008. Overall, real GDP growth is projected to fall from 2.8 p.c. in 2007 to 1.6 p.c. in 2008 and 1.5 p.c. in 2009.

Most expenditure categories are expected to contribute to the slackening pace of growth in 2008. Following a gradual recovery in the two preceding years, a downturn in exports of goods and services is expected, in line with flagging foreign demand. The recovery forecast to begin in 2009 is likely to be curbed by the delayed effects of the recent appreciation of the euro. On the domestic spending front, the growth of business investment – which had been highly dynamic up to 2007 – is likely to falter owing to the less favourable demand outlook and the tightening of external financing conditions. However, that tightening will probably be manifested mainly in a widening of the spreads. Housing investment is likely to maintain the decelerating trend which began in 2007, in a context of cooling property prices. Private consumption is also expected to weaken significantly, mainly as a result of the meagre increase in household purchasing power. However, that weakening – due mainly to higher inflation in 2008 and diminished job creation – is expected to be partly offset by a reduction in the savings ratio.

Following a year-on-year rise of 1.7 p.c. in 2007, sustained partly by the success of the service vouchers, the rate of expansion in employment is expected to drop to 1.3 p.c. in 2008 and 0.7 p.c. in 2009. This decline reflects the slowdown in activity after a time lag of several months. Nevertheless, job creation is likely to outpace the growth of the labour force, so that the unemployment rate should fall from 7.5 p.c. in 2007 to 6.9 p.c. in 2008 and 6.8 p.c. in 2009.

Having remained almost constantly below 2 p.c. in the preceding twelve months, inflation measured by the HICP accelerated sharply in the fourth quarter of 2007. According to the projections, the unusually large contribution made by food and energy price increases is set to continue during 2008. It should unwind at the beginning of 2009, in line with the assumption of persistently high commodity prices. Overall inflation is therefore predicted to rise from 1.8 p.c. in 2007 to 4.1 p.c. in 2008, before subsiding to 2.3 p.c. in 2009. However, higher inflation is expected in the case of industrial goods and in services, mainly on account of the indirect effect of the commodity price shocks and the progressive incorporation of the increase in labour costs.

Reflecting a muted rise in labour productivity following the strong expansion of employment in 2007 and the cyclical downturn in activity in 2008, the rise in unit labour costs in the private sector is expected to gain momentum, accelerating from an average of 0.6 p.c. per annum between 2002 and 2006 to 2.9 p.c. in 2007 and 3.4 p.c. in 2008, before easing to 2.4 p.c. in 2009. The accelerating rise in labour costs in 2007 and 2008 takes place against the background of the pressure exerted on some segments of the labour market in the wake of the economic boom. In addition, temporary factors reinforced the increase in 2007, and indexation has a considerable impact in 2008. Thus, hourly wage costs are expected to increase by 7.3 p.c. over the two years taken together, so that the disadvantage vis-à-vis the three main trading partners is likely to be further widened. For 2009, the 3.2 p.c. rise in hourly labour costs assumed for this exercise essentially comprises the expected effect of indexation, as this takes time to respond to the acceleration in inflation measured by the health index. That assumption is based on moderate wage settlements, the factor determining the projected easing of inflation and the expected continuing job creation.

The figures for public finances take account of the recent movement in tax revenues, the endogenous effect of the macroeconomic environment, a movement in expenditure based on historical patterns and the measures which have already been decided. In accordance with the ESCB directives, new government measures which might be passed in the coming months have not been anticipated in the projection exercise. In that context, the public deficit is expected to increase from 0.2 p.c. of GDP in 2007 to 0.3 p.c. in 2008 and 0.8 p.c. in 2009. This larger deficit would be due mainly to the adverse impact of the economic situation, a structural decline in revenues and a slightly expansionary policy on expenditure. Conversely, there should be a slight fall in the interest charges incurred by general government.

Despite the budget deficits projected for 2008 and 2009, the debt ratio is expected to continue falling, to reach 81.4 p.c. of GDP in 2008 and 79.5 p.c. in 2009.

**Projections for the Belgian economy : summary of the main results**  
(percentage changes compared to the previous year, unless otherwise stated)

	2005	2006	2007	2008 e	2009 e
<b>GROWTH</b> (calendar adjusted data)					
GDP by volume	2,0	2,9	2,8	1,6	1,5
Contributions to growth:					
Domestic expenditure, excluding change in stocks	2,0	2,0	2,9	2,0	1,5
Net exports of goods and services	-0,2	-0,1	-0,6	-0,7	0,0
Change in stocks	0,2	1,1	0,6	0,4	0,0
<b>PRICES AND COSTS</b>					
Harmonised index of consumer prices	2,5	2,3	1,8	4,1	2,3
Health index	2,2	1,8	1,8	3,8	2,5
GDP deflator	2,5	2,0	1,6	3,3	2,6
Terms of trade	-0,3	-0,5	0,3	-0,6	0,0
Unit labour costs in the private sector	0,7	1,3	2,9	3,4	2,4
Hourly labour costs in the private sector	2,3	2,9	3,7	3,5	3,2
Hourly productivity in the private sector	1,5	1,5	0,8	0,1	0,8
<b>LABOUR MARKET</b>					
Domestic employment (annual average change in thousands of units)	51,1	52,7	72,6	55,8	29,6
Harmonised unemployment rate <sup>1</sup> (p.c. of the labour force)	8,4	8,2	7,5	6,9	6,8
<b>INCOMES</b>					
Real disposable income of individuals	0,0	2,7	3,3	0,1	1,6
Savings ratio of individuals (p.c. of disposable income)	12,2	12,5	13,2	12,2	12,4
<b>PUBLIC FINANCES<sup>2</sup></b>					
Overall balance (p.c. of GDP)	-2,3	0,3	-0,2	-0,3	-0,8
Primary balance (p.c. of GDP)	1,9	4,3	3,7	3,5	2,8
Public debt (p.c. of GDP)	92,1	88,2	84,8	81,4	79,5
<b>CURRENT ACCOUNT</b> (p.c. of GDP according to the balance of payments)					
	2,6	2,7	1,9	0,4	0,4

Sources: DGSEI, EC, NAI, NBB.

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

<sup>2</sup> According to the methodology used in the excessive deficit procedure (EDP).