

2010-06-16

PRESS RELEASE

Economic projections for Belgium – Spring 2010

(Article published in the June 2010 Economic Review)

Coinciding with the publication in the ECB monthly bulletin of new Eurosystème projections for the euro area, this article presents the figures expected for the Belgian economy for 2010 and 2011. Since the previous forecasts were published in December 2009, the global economic recovery which had begun in mid 2009 has continued, though its strength has varied from one region to another. The emerging economies have been the driving force, propelling the revival of international trade, while the upturn is likely to be more gradual in the advanced economies, as is generally the case after economic recessions accompanied by a financial crisis. Following the steep decline in output in 2008-2009, there is still surplus production capacity and that is likely to depress investment and employment. Moreover, the fiscal and monetary stimuli will have to be gradually withdrawn, and the consolidation of the financial position of credit institutions and – in some countries – non-financial corporations and households could curb demand.

The euro area has also returned to positive growth since mid 2009, but growth has been far less dynamic than in the rest of the world. Moreover, the increase in deficits and public debts has given rise to fears over the sustainability of public finances in some countries, causing tensions on the financial markets. In May 2010 the IMF, the EC and the ECB acted to alleviate those tensions, but the measures will have to be accompanied by fiscal consolidation and an improvement in competitiveness in the economies concerned.

The context of the Eurosystème projections therefore remains uncertain and fragile. The projections are based on assumptions drawn up in the second half of May 2010. They take account of the continued restoration of foreign trade in 2010 and 2011. On the basis of the forward markets, oil prices are expected to rise from an average of 61.9 dollars per barrel in 2009 to 79.5 dollars in 2010 and 83.7 dollars in 2011. Interest rates are also assumed to follow the trend expected by the market. As an annual average, interest rates on three-month euro-denominated interbank deposits are projected at 0.8 p.c. in 2010 and 1.1 p.c. in 2011, with rates on Belgian government bonds reaching 3.5 p.c. in 2010 and 3.9 p.c. in 2011. Exchange rates are held constant at 1.26 dollars to the euro, compared to an average of 1.39 dollars in 2009. In this context, following a 4 p.c. decline in 2009, GDP growth in the euro area is expected to range between 0.7 and 1.3 p.c. in 2010 and between 0.2 and 2.2 p.c. in 2011. Inflation – which had been running at 0.3 p.c. in 2009 – is projected at between 1.4 and 1.6 p.c. in 2010, and between 1.0 p.c. and 2.2 p.c. in 2011.

In Belgium, activity also started to pick up from the third quarter of 2009, although the pace remained moderate. Altogether, however, the decline in GDP of 3 p.c. in 2009 was slightly smaller than in the euro area, and growth is estimated to be a little more sustained this year and next. According to the projections, it will reach 1.3 p.c. in 2010 and 1.7 p.c. in 2011. At first it is likely to be underpinned by foreign demand, while consumption – and later, business and household investment – should gradually gather momentum.

The various components of demand have returned to positive growth since mid 2009, or are expected to do so during 2010 or 2011; with the exception of consumption and investment in the general government sector, they had all fallen during the recession. First, exports are expected to benefit from the improvement in foreign demand combined with the effects of the recent euro depreciation. After households had exercised tight restraint on their expenditure and stepped up their savings in late 2008 and early 2009, against a backdrop of great uncertainty over the economic outlook and falling stock markets, private consumption looks set to expand again in 2010 and in 2011, in parallel with the consolidation of business activity and, gradually, the labour market. However, the savings ratio is expected to remain high. Taking account of the continuing low level of capacity utilisation, the decline in business investment is forecast to persist in 2010, although at a slower rate than last year. However, a recovery is expected in 2011. Household investments in housing are likely to follow a similar pattern.

The labour market has displayed some resilience, considering the seriousness of the economic recession. Job losses and the rise in unemployment were limited by large-scale use of temporary lay-offs and other measures to cut working time. A sharp fall in corporate productivity also acted as a cushion. However, since these factors are likely to return to normal, the reduction in employment is projected to continue in 2010. Following a decline of 38,500 units in the course of 2009, net job losses are estimated at 12,900 persons during 2010. Employment should increase again during 2011. The unemployment rate increased from 7 p.c. in 2008 to 8 p.c. in 2009; it is forecast at 8.8 p.c. in 2011.

Following a brief period of disinflation during 2009, resulting from negative base effects influencing the movement in energy prices, inflation began rising again at the end of last year and during the initial months of 2010, owing to the recent rise in international oil prices and the euro's depreciation. The pressures exerted by import prices and wages are expected to be contained at first before gathering strength at the end of the forecasting period as economic activity picks up. In all, as an annual average, inflation – which had been zero in 2009 – is forecast at 2 p.c. in 2010 and 1.9 p.c. in 2011. The health index is likely to rise by 0.6 p.c. in 2009, 1.3 p.c. in 2010 and 1.7 p.c. in 2011.

Reflecting both the dip in labour productivity following the weakness of economic activity, and the still sustained rise in hourly labour costs, unit labour costs in the private sector went up by 4.6 p.c. in 2009. They are expected to remain broadly stable in 2010 and to rise by 0.8 p.c. in 2011. That deceleration compared to 2009 is due partly to the cyclical recovery in labour productivity. Moreover, the rise in hourly labour costs is projected to fall from 3.4 p.c. in 2009 and to 0.9 p.c. in 2010. That forecast is based, in accordance with the provisions of the central agreement for the period 2009-2010 concluded in December 2008, on the allowance for indexation and the possibility, in the negotiations at joint committee level, of granting one-off bonuses of 250 euro over the full period, with 125 euro of that in 2009. Hourly labour costs are projected to increase by 1.7 p.c. in 2011 owing to the forecast effect of indexation.

According to the NAI data, Belgium's public finances recorded a deficit of 6 p.c. of GDP in 2009. In the macroeconomic context described above, and taking account of the measures adopted by the federal and regional governments, if the policy remains unchanged that deficit should come to 5 p.c. of GDP in 2010 and 5.3 p.c. in 2011.

After having declined continuously since 1993, to reach 84.2 p.c. in 2007, the ratio of public debt to GDP has been rising again since 2008, mainly as a result of the capital injections and loans granted to financial institutions, and in 2009, following the decline in GDP and the deterioration in the deficit. The general government debt is expected to increase again in 2010 and 2011, though the rise may be slightly smaller than the average for the euro area. The debt ratio is projected to rise from 96.8 p.c. of GDP in 2009 to 100.2 p.c. in 2010 and 103.1 p.c. in 2011.

ANNEX

Projections for the Belgian economy: summary of the main results

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

	2007	2008	2009	2010 e	2011 e
GROWTH (calendar adjusted data)					
GDP by volume	2.8	0.8	-3.0	1.3	1.7
Contributions to growth:					
Domestic expenditure, excluding change in stocks	2.6	2.1	-1.58	0.4	1.2
Net exports of goods and services	0.2	-1.0	0.0	1.0	0.4
Change in stocks	0.1	-0.2	-1.5	-0.1	0.1
PRICES AND COSTS					
Harmonised index of consumer prices	1.8	4.5	0.0	2.0	1.9
Health index	1.8	4.2	0.6	1.3	1.7
GDP deflator	2.3	1.8	0.9	1.6	1.5
Terms of trade	0.3	-2.2	2.6	0.3	-0.5
Unit labour costs in the private sector	2.0	3.4	4.6	-0.1	0.8
Hourly labour costs in the private sector	3.4	3.4	3.4	0.9	1.7
Hourly productivity in the private sector	1.3	-0.1	-1.1	1.0	0.9
LABOUR MARKET					
Domestic employment (annual average change in thousands of units)	70.3	82.1	-16.4	-14.6	-1.3
<i>p.m. Change during the year in thousands of units¹</i>	<i>80.9</i>	<i>64.2</i>	<i>-38.5</i>	<i>-12.9</i>	<i>8.2</i>
Total volume of labour ²	1.9	1.3	-1.8	0.1	0.6
Harmonised unemployment rate ³ (p.c. of the labour force)	7.5	7.0	8.0	8.3	8.8
INCOMES					
Real disposable income of individuals	2.0	1.3	3.8	-1.1	1.2
Savings ratio of individuals (p.c. of disposable income)	16.2	16.6	21.0	19.7	20.0
PUBLIC FINANCES⁴					
Overall balance (p.c. of GDP)	-0.2	-1.2	-6.0	-5.0	-5.3
Primary balance (p.c. of GDP)	3.6	2.6	-2.3	-1.4	-1.7
Public debt (p.c. of GDP)	84.2	89.8	96.8	100.2	103.1
CURRENT ACCOUNT (p.c. of GDP according to the balance of payments)					
	1.6	-2.9	0.5	1.8	1.7

Sources: EC, DGSEI, NAI, NBB.

¹ Change between the fourth quarter of the year and the fourth quarter of the previous year.² Total number of hours worked in the economy.³ Percentages of the labour force, non calendar adjusted data.⁴ According to the methodology used in the excessive deficit procedure (EDP).