2012-06-11

PRESS RELEASE

Economic projections for Belgium – Spring 2012

(Article for the June 2012 Economic Review)

This article presents the results of the macroeconomic projections for the Belgian economy for 2012 and 2013, in connection with the Eurosystem projections. The findings for the euro area are published in the ECB's June 2012 bulletin. These projections were finalised on 25 May on the basis of assumptions common to Belgium and the euro area, defined in mid-May.

The projections were produced in a context of serious concern about the state of the euro area. It is true that the measures taken by the European authorities since the end of 2011 did achieve at least temporary respite from the uncertainty and financial tensions which were then at their height. However, in the past few months the situation in the countries facing significant budgetary adjustments and/or a radical restructuring of their economy has triggered renewed nervousness on the sovereign debt market and among the economic agents. The resulting contagion is affecting financial institutions in the euro area. In that regard, these projections are based on the assumption that those tensions will ease and therefore that the euro area crisis will not worsen and will not have irreparable repercussions on systemic financial institutions.

In this context, foreign demand which was stagnant in late 2011 and early 2012 should gradually strengthen during 2012 and 2013, and become more vigorous outside the euro area than within it. The oil price is expected to record a modest fall, the price per barrel of Brent dropping to an average of $ 114.6 in 2012 and $ 107.9 in 2013. The euro exchange rate is forecast to remain constant at the average recorded in the last ten working days before the cut-off date for the assumptions, namely $ 1.30. Short-term interest rates are projected to remain at a low level, with the 3-month Euribor averaging 0.8 % in 2012 and 0.7% in 2013. The yield on ten-year Belgian government bonds is set to fall to 3.6 % in 2012, before edging back up to 3.9 % in 2013. Besides the interest rate conditions, the projections for Belgium do not incorporate any additional credit tightening effect, in line with the findings of successive credit institution surveys.

In regard to the budget framework, it should be noted that all the fiscal consolidation measures passed by the new Belgian federal government since the end of 2011 have been taken into account, something which was not possible in the previous projections dating from December 2011. While those measures will slightly depress incomes and demand in the short term, when combined with the structural reforms which have begun in the sphere of the labour market and pensions, they should ultimately have a beneficial effect on the structural position of the Belgian economy. Their announcement coincided with a marked narrowing of the yield spread between Belgian bonds and the German Bund. The spread has remained small since the recent resurgence of financial tensions, confirming the financial markets' more favourable view of the Belgian economy.

The results for the euro area suggest a gradual improvement in the economic situation during 2012, which should strengthen in 2013. Taking account of the necessary adjustments in many countries, the recovery will initially be supported by demand from outside the euro area, but also by Germany. After a rise of 1.5 % in 2011, the euro area should record GDP growth ranging between -0.5 and 0.3 % in 2012 and between 0 and 2 % in 2013. Inflation, which was running at 2.7 % in 2011, is expected to fall to between 2.3 and 2.5 % in 2012 and between 1 % and 2.2 % in 2013, mainly as a result of the projected decline in oil prices.

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The results for Belgium indicate that, after having reached 2 % in 2011, growth will come to just 0.6 % in 2012, subsequently rising to 1.4 % in 2013. The outlook is therefore slightly better than for the euro area as a whole. In the absence of any adjustment having a major impact on domestic demand, activity in Belgium, in Germany's wake, continues to exhibit some resilience as was the case during the 2008-2009 recession. Actually, after two quarters of virtual stagnation, GDP was up by 0.3 % in the first quarter of 2012, against 0 % in the euro area. However, that figure needs to be confirmed in the coming months since irregular factors are likely to affect the quarterly picture, and in view of the renewed weakness of the euro area since March.

The slowdown in activity in 2012 followed by a moderate revival in 2013 should be directly reflected in the volume of labour, which is set to expand by only 0.1 % in 2012, before growing by 0.8 % in the following year. These cyclical fluctuations in activity are attenuated slightly at the level of the employment of persons, via adjustments in the average working time per employee: employment growth will be more or less steady between 2012 and 2013, at 0.3 and 0.4 %. Expressed in terms of net job creation during the year, that corresponds to 3 300 additional jobs in 2012 and just over 27 000 jobs in 2013. Apart from the effects of a less buoyant economy, the weakness of job creation is also due to the budget restraint approved for the federal government and health care in 2012 and 2013, which is expected to result in around 13 000 job losses by the end of 2013. Taking account of the combined effects of the slackening pace of net job creation and the steady rise in the number of persons entering the labour market, the stabilisation of the unemployment rate in 2011, at around 7.2 % of the labour force, will give way to a slight increase during the two years covered by the projections, estimated at 7.5 % in 2012 and 7.7 % in 2013.

Up to mid-2011, GDP growth had been supported by the various sources of demand – domestic and foreign – and by the change in inventories. That came to an end during the year, with growth of all the demand components gradually dwindling to almost zero, with the exception of public spending. In 2012, the volume of exports of goods and services is set to stagnate owing to the weak growth of Belgium's export markets, but also as a result of new losses of market share. In 2013, exports of goods and services are projected to recover, growing by 4.5%, though that is still below the figure prevailing before the great recession. The sluggishness of private consumption in 2011 is expected to persist in 2012. However, instead of being due to a rise in the savings ratio as had been the case last year, in the climate of serious uncertainty, this time it will be due to the expected decline in disposable incomes, put at 0.4% in real terms. Apart from the continuing high inflation, the decline in purchasing power is due to the combined effects of the deteriorating economic conditions on employment and hence on labour incomes, self-employed incomes and property incomes, on the one hand, and the measures adopted under the 2012 budget on the other. In 2013, consumption expenditure is expected to grow by only 0.7 %, as the 1.7 % real increase in disposable income will be offset by the rise in the savings ratio to 16.4 % of disposable income. Regarding business investment, following 8.8% expansion in 2011, growth is expected to reach just 1.3 % in 2012, then 3.2 % in 2013. The weakening demand outlook, the limited growth in the gross operating surplus of enterprises, and the low capacity utilisation rate in industry – down to 78.1 % in April 2012 – account for the feebleness of investment over the projection horizon. Finally, taken overall, the volume of public spending should expand by just under 1% per annum in 2012 and 2013.

Since peaking at 4 % in July 2011, inflation has fallen steadily in Belgium, dropping to 2.9 % in April 2012, the latest reading available on the projection cut-off date. Inflation is expected to subside over the projection horizon, easing to an annual average of 2.6 % in 2012 and 1.5 % in 2013, the main reason being the fall assumed for oil prices. On the other hand, underlying inflation is set to remain high in 2012, averaging 1.9% per annum, compared to 1.7 % in 2011, before declining to 1.5 % in 2013. The predicted rise in 2012 broadly corresponds to the effect of the increases in indirect taxes on notaries' fees and digital television subscriptions, and the excise duty on tobacco. More generally, the movement in the price of services will be influenced by the rise in unit labour costs, which is expected to gather pace to 3.1% in 2012, before dropping back to 1.5 % in 2013. The cumulative increase of over 5 % for the period 2011-2012 significantly outstrips the figure forecast for Belgium's three main partners – Germany, France and the Netherlands – and that is detrimental to the competitiveness of Belgian producers. Apart from indexation, the assumption adopted for the movement in hourly labour costs in the private sector in 2012 takes account of the maximum 0.3 % increase in negotiated wages specified in the draft central agreement and imposed by the government for the period 2011-2012, and a negative movement in the other wage-setting factors. For 2013, the assumption adopted is based mainly on the expected effect of indexation, as real increases are expected to remain small.

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In regard to public finances, the projections indicate an improvement in the deficit which is expected to fall from 3.7 % of GDP in 2011 to 2.8 % in 2012. The overall balance is likely to deteriorate slightly in 2013, to 3.1 %. Public revenues should rise steeply, mainly as a result of the new structural fiscal and parafiscal measures plus some temporary factors in 2012, while expenditure will record moderate growth. The public debt is projected to rise significantly in 2012, to 98.9% of GDP, owing to exogenous factors relating to the Greek rescue package and participation in the European Stability Mechanism. In 2013, the debt will continue to grow, but only slightly, to reach 99.2% of GDP.

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

	2009	2010	2011	2012e	2013e
GROWTH					
GDP in chained euros, reference year 2009	-2.7	2.2	2.0	0.6	1.4
Contribution to growth:					
Domestic expenditure, excluding change in inventories	-1.2	1.1	1.7	0.5	1.0
Net exports of goods and services	-0.7	1.2	-0.5	-0.3	0.4
Change in inventories	-0.8	0.0	0.8	0.3	0.0
PRICES AND COSTS					
Harmonised index of consumer prices	0.0	2.3	3.5	2.6	1.5
Health index	0.6	1.7	3.1	2.6	1.5
GDP deflator	1.2	1.8	1.9	2.2	1.5
Terms of trade	3.4	-1.5	-1.2	0.1	-0.1
Unit labour costs in firms	3.8	-0.1	2.1	3.1	1.5
Hourly labour costs	2.7	0.9	2.5	3.1	2.0
Hourly productivity	-1.0	1.0	0.4	0.1	0.6
LABOUR MARKET					
Domestic employment (average annual change in thousands of persons)	-7.6	37.0	62.2	14.3	16.6
p.m. Change during the year, in thousands of persons[1]	*-23.2*	*63.4*	*46.7*	*3.3*	*27.1*
Total volume of labour[2]	-1.6	1.1	1.7	0.1	0.8
Harmonised unemployment rate[3] (% of the labour force)	7.9	8.3	7.2	7.5	7.7
INCOMES					
Real disposable income of individuals	3.0	-0.6	1.1	-0.4	1.7
Savings ratio of individuals (% of disposable income)	18.5	16.2	16.4	15.6	16.4
PUBLIC FINANCES [4]					
Primary balance	-2.0	-0.4	-0.4	0.6	0.2
Financing requirement (-) or capacity of general government	-5.6	-3.8	-3.7	-2.8	-3.1
Public debt	95.7	95.9	98.2	98.9	99.2
CURRENT ACCOUNT (% of GDP according to the balance of payments)	-1.6	1.4	-0.8	-1.4	-1.1

Sources: EC, DGSEI, NAI, NBB.
1 Difference between the fourth quarter of the year concerned and the fourth quarter of the previous year.
2 Total number of hours worked in the economy.
3 Percentages of the labour force aged 15 years and over, non calendar adjusted data.
4 Percentages of GDP. According to the methodology used in the excessive deficit procedure (EDP).