

# Economic projections for Belgium – Spring 2008

## Introduction

Like the euro area, Belgium has recorded robust growth in the past two years, of nearly 3 p.c. However, the environment began to turn gloomy in the second half of 2007 so that, in its December 2007 projections<sup>(1)</sup>, the Bank predicted a GDP growth of 1.9 p.c. in 2008. Since then, the deterioration in the external factors has been more acute than initially expected, mainly as a result of the worsening financial tensions and the abrupt downturn in the property cycle in a number of countries. The US economy, in particular, faces a severe cyclical slowdown, which is curbing the buoyancy of international trade. Moreover, commodities, and especially oil, have risen further in price. In the euro area, while the euro's appreciation against the US dollar has partly cushioned those increases, it is detrimental to the opportunities for exports.

This unfavourable context looks unlikely to improve in the near future. It is therefore having an adverse effect on Belgium's economic prospects for 2008 and 2009. However, in view of the scale of the shocks, the slowdown seems relatively modest, as the economy's sound fundamentals are providing a partial buffer. The recent data for Belgium indicate that the slackening of activity was initially modest at the end of last year and in early 2008. Conversely, inflation accelerated sharply, owing to the direct impact of energy and food prices.

This article presents the Bank's macroeconomic projections for 2008 and 2009. Produced as part of a biannual exercise by the Eurosystem central banks – the results for the euro area being obtained by aggregating the results for the various national economies<sup>(2)</sup> – these projections are prepared on the basis of a set of common assumptions concerning the international environment and movements in interest rates, exchange rates and commodity prices. They also depend on assumptions specific to the Belgian economy as regards variables which are to a large extent influenced by the discretionary action of the economic agents. That applies, for example, to the wage agreements resulting from negotiations between the social partners, and to government decisions on the budget.

In regard to hourly labour costs in the private sector, the information currently available concerning the outlook in Germany, France and the Netherlands and the assessment of developments in Belgium is still highly fragmentary and uncertain. According to the technical assumption applied in this exercise, an increase of around 3.2 p.c. was projected for 2009.

The figures for public finances, in the case of both revenue and expenditure, take account only of measures already introduced and recent actual figures. Over the longer term, they result mainly from the endogenous effect of the macroeconomic environment on revenue, and an expenditure pattern based on past developments. New government measures to be adopted in the months ahead were not taken into account in this exercise. In some circumstances, they could in turn affect the projections for the economy as a whole.

(1) NBB (2007), *Economic projections for Belgium – Autumn 2007*, Economic Review, December.

(2) The projections for the euro area are published in the June edition of the ECB's Monthly Bulletin.

The first section deals with the international environment. It summarises the Eurosystem projections for the euro area and presents the principal common assumptions. The next three sections go into more detail on the recent situation and the projections for the national economy, dealing respectively with activity, employment and the main expenditure components (section 2) – which, in accordance with Eurosystem practice, are presented without taking account of specific seasonal effects and the impact of irregularities in the calendar –, prices and labour costs (section 3), and the public finance figures (section 4). Finally, the main risks relating to the projections are discussed in the last section, which also contains a summary of the results obtained by other institutions.

## 1. International environment

### 1.1 The global economy

In 2008, after four years of sustained growth, the global economy entered a marked deceleration phase, as a result of the persistent financial tensions, substantial corrections on certain property markets, and the widespread increase in commodity prices. These factors are largely interdependent, and it is likely that their effects will dissipate only gradually during the second part of the year and in 2009. Thus, according to the European Commission forecasts, the expansion of global GDP outside the euro area is set to fall from 5.1 p.c. in 2007 to 4.2 p.c. in 2008 and 4 p.c. in 2009.

The financial tensions, which initially concerned subprime mortgages in the United States, rapidly spread to other markets and affected banking institutions on both sides of the Atlantic. The uncertainty over the location of the risks and the extent of the counterparties' exposure affected the functioning of the money markets, leading to large interest rate differentials between collateralised and non-collateralised loans, despite the liquidity injections by the central banks. Although there was a slight fall in the yields on government bonds, preferred by investors seeking secure forms of investment, financing conditions also became tighter for non-financial corporations and households. In that context, the stock market indices began falling in the summer of 2007, particularly those which include the shares of financial institutions. In turn, the lower valuation of the banks is hampering the consolidation of the balance sheet structure in cases where banks are obliged to make provisions owing to the depreciation of assets or to transfer to their loan portfolios business previously handled by specialist vehicles.

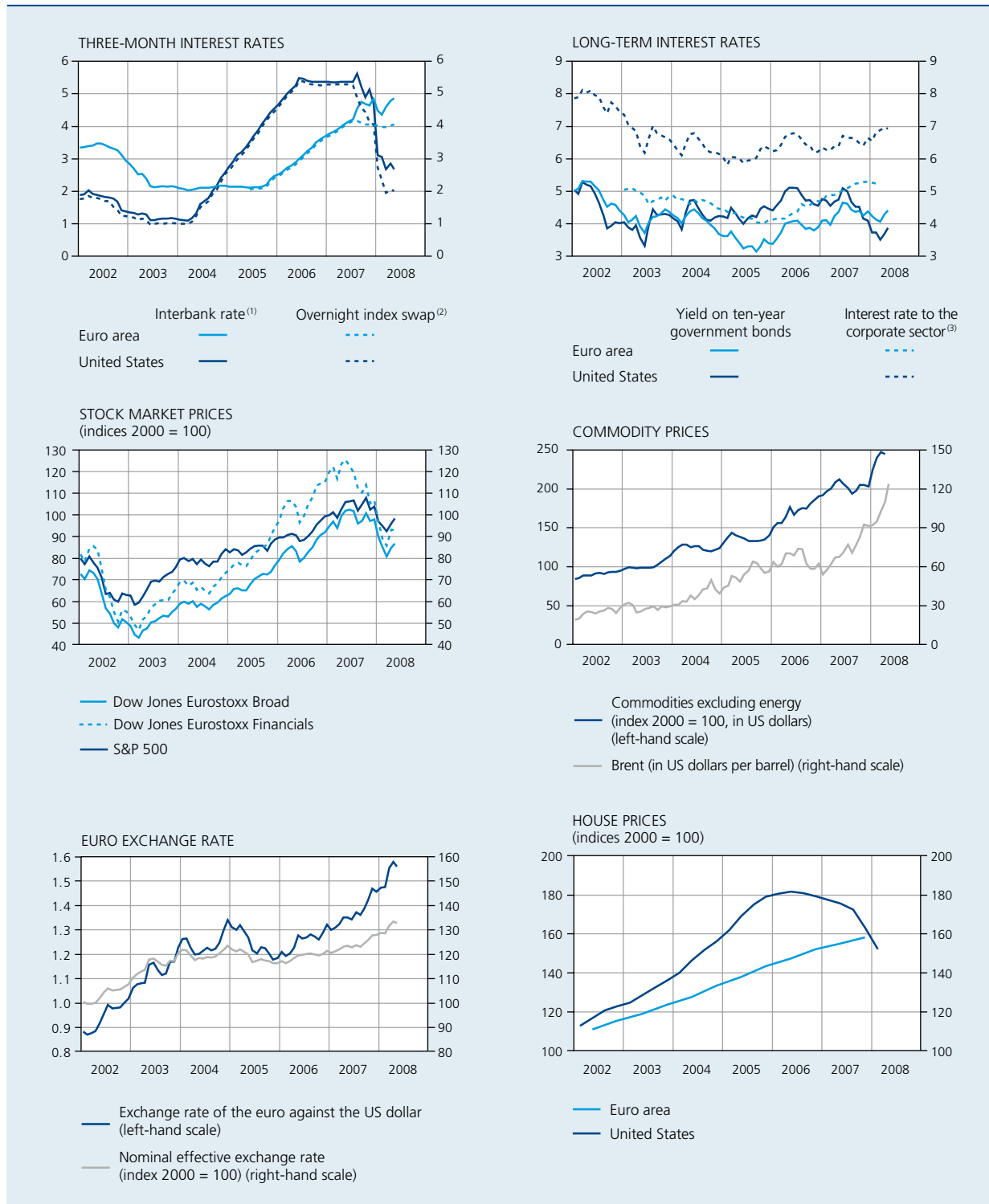
The financial tensions erupted following the downturn in the property cycle. Initially confined to a fall in house building activity in the United States, during recent months it has spread to the economy as a whole. In other countries, too, such as the United Kingdom or – in the euro area – Spain and Ireland, the property price boom has ended, causing a deceleration or even a decline in investment in housing and, depending on the extent of the wealth effects, depressing private consumption.

Perpetuating a trend which had begun in 2003, commodity prices continued to escalate at the beginning of 2008. Expressed in US dollars, oil prices increased by 63 p.c. during the twelve-month period ending in April 2008 and agricultural commodity prices rose by 59 p.c. Fundamentally, they are underpinned by robust demand, particularly from the emerging countries, while the scope for expanding supply is limited. In addition, the high prices quoted on the international markets are probably due partly to the fact that commodities are an alternative for some investors, in the face of the falling dollar and the financial turbulence. However, in view of the importance of structural factors, prices of these products are likely to persist at a high level, as indicated by forward prices.

These three factors triggered a widespread deterioration in the economic outlook, though its severity varies between economies according to their direct sensitivity to financial and property price developments and, indirectly, their economic proximity to the most exposed economies. The cyclical downturn is particularly marked in the United States, where recent information indicates that it will be longer and more acute than previously expected. The impact of the decline in investment in housing and the financial market setbacks is spreading to the labour market, driving up unemployment. Together with higher inflation and the wealth effects associated with the fall in the prices of financial assets and property, this is depressing private consumption. Despite the support of monetary policy and tax cuts introduced for 2008, the EC predicts that GDP growth in the United States will reach only 0.9 p.c. in 2008 and 0.7 p.c. in 2009, compared to 2.2 p.c. in 2007, and around 3 p.c. or more in previous years.

Although it will be less pronounced, a slowdown is also likely in the other main economies, partly for the same reasons – as in the United Kingdom, where GDP growth is forecast to drop from 3 p.c. in 2007 to 1.7 p.c. in 2008 and 1.6 p.c. in 2009 –, and partly owing to the weaker growth of international trade. Thus, although they have hardly been affected so far by the financial turbulence, the emerging Asian economies will not be totally unscathed. However, with growth forecast at between

**CHART 1** DEVELOPMENTS ON THE FINANCIAL, PROPERTY AND COMMODITY MARKETS  
(monthly averages)



Sources: Bloomberg, ECB, Federal Reserve, Standard & Poor's.

(1) Interest rate on non-collateralised interbank deposits (Euribor for the euro area, Libor for the US).

(2) Fixed rate paid by the party receiving the variable rate (Eonia for the euro area, actual federal funds rate for the US), in a three-month interest rate swap.

(3) For the euro area: interest rate on bank loans to non-financial corporations (MIR survey); for the United States: yield on corporate bonds with a BAA rating (Moody's).

**TABLE 1** PROJECTIONS FOR THE MAIN ECONOMIC REGIONS EXCLUDING THE EURO AREA

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

	2007	2008	2009
	Actual	Projections	
<b>GDP in volume</b>			
World, excluding the euro area .....	5.1	4.2	4.0
of which:			
United States .....	2.2	0.9	0.7
Japan .....	2.0	1.2	1.1
United Kingdom .....	3.0	1.7	1.6
China .....	11.9	10.0	9.1
India .....	8.4	8.0	8.0
Russia .....	8.1	7.3	7.0
Brazil .....	5.4	4.6	4.3
<i>p.m. World trade, excluding the euro area .....</i>	7.3	6.6	6.3
<b>Inflation<sup>(1)</sup></b>			
United States .....	2.8	3.6	1.6
Japan .....	0.1	0.7	0.6
United Kingdom .....	2.3	2.8	2.2
<b>Unemployment rate<sup>(2)</sup></b>			
United States .....	4.6	5.4	6.2
Japan .....	3.9	4.0	4.2
United Kingdom .....	5.2	5.4	5.7

Source: EC (Spring forecasts, April 2008).

(1) Consumer price index.

(2) Percentages of the labour force.

9 and 10 p.c. in China, around 8 p.c. in India and 7 p.c. in Russia, sustained by domestic demand, these economies are likely to continue to make a dominant contribution to the expansion of global activity. Moreover, Russia – like the other producer countries – is benefiting from the rise in commodity prices.

Apart from the concerted action designed to ensure the liquidity of the money markets, variations in the expected scale of the slowdown in activity have prompted different monetary policy responses. In the United States, the Federal Reserve began cutting the federal funds target rate in September 2007, reducing it from 5.25 to 2 p.c. by 30 April 2008. Since the autumn of 2007, the Bank of England has cut its base rate on three occasions by 25 basis points, reducing it to 5 p.c. on 10 April 2008. For its part, the ECB Governing Council has kept the key rate of the Eurosystem on hold at 4 p.c. since June 2007, in view of the accelerating inflation and the associated risks.

## 1.2 Eurosystem projections for the euro area

Bolstered by the dynamism of foreign demand, the vigour of investment and the improvement in the labour market, the euro area's GDP grew by 2.7 p.c. in real terms in 2007, outpacing the potential growth of the economy as it had in the previous year. Measured by the HICP, inflation averaged 2.1 p.c. over the year as a whole. However, owing to the combined effects of higher energy prices and higher food prices, a very sharp acceleration occurred from September 2007, driving inflation up to 3.6 p.c. in March 2008.

A cyclical downturn began in mid 2007, though activity still proved resilient, including in the first quarter of 2008. However, a more marked deceleration in growth is expected in the middle of the year, attributable to all expenditure categories. Abroad, the growth of exports is likely to be affected by the weaker expansion of international trade and the adverse effect on competitiveness

**TABLE 2** EUROSISTEM PROJECTIONS  
(percentage changes compared to the previous year)

	Euro area			<i>p.m. Belgium</i>		
	2007	2008	2009	2007	2008	2009
Inflation (HICP) .....	2.1	3.2 – 3.6	1.8 – 3.0	1.8	4.1	2.3
GDP in volume .....	2.7	1.5 – 2.1	1.0 – 2.0	2.8	1.6	1.5
of which:						
Private consumption .....	1.6	1.1 – 1.5	0.9 – 2.1	2.4	1.1	1.3
Public consumption .....	2.1	1.3 – 2.3	1.2 – 2.2	2.1	2.5	1.8
Investment .....	4.7	1.3 – 3.5	-0.4 – 2.8	5.7	4.0	1.8
Exports .....	5.7	3.5 – 6.3	2.4 – 5.6	3.8	3.5	3.8
Imports .....	5.2	2.9 – 6.3	2.2 – 5.6	4.6	4.5	3.8

Sources: ECB, NBB.

of the euro's appreciation, since the euro gained around 17 p.c. against the US dollar and the British pound between April 2007 and April 2008. On the domestic front, the deteriorating outlook for demand and the rise in external financing costs are projected to curb the rate of corporate investment and amplify the existing slowdown in investment in housing, particularly in Spain and Ireland. Finally, the sharp increase in inflation will depress household purchasing power and hence private consumption. A gradual strengthening of demand and activity is expected during 2009, as the effects of the various current inhibiting factors fade away.

Inflation is projected to remain elevated during much of 2008, on the assumption that international market prices of oil and agricultural products will persist at a high

level. The current unusually large contribution made by the energy and food components to the year-on-year change in the price index is therefore likely to diminish at the beginning of 2009. The rise in unit labour costs looks set to outstrip the figure for previous years, owing to a faster increase in compensation per employee and the cyclical downturn in productivity. However, that effect will be partly offset by a reduction in corporate profit margins.

In all, according to the Eurosystem projections, GDP growth in the euro area is forecast at between 1.5 and 2.1 p.c. in 2008, and between 1 and 2 p.c. in 2009, after reaching 2.7 p.c. in 2007. Inflation is set to rise from 2.1 p.c. in 2007 to between 3.2 and 3.6 p.c. in 2008, before receding to between 1.8 and 3 p.c. in 2009.

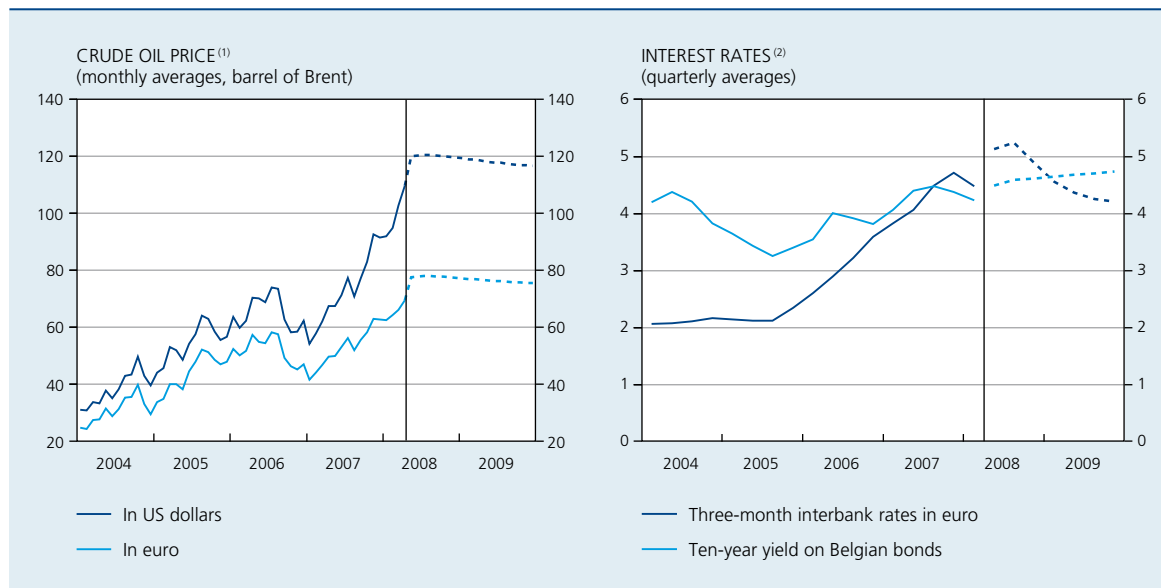
## Box 1 – Eurosystem assumptions

The Eurosystem's economic projections for the euro area and the Bank's corresponding projections for Belgium are based on the following technical assumptions:

- the interest rates are based on market expectations. As an annual average, three-month interbank deposit rates in euro are forecast to rise from 4.3 p.c. in 2007 to 4.9 p.c. in 2008, and then to drop back to 4.3 p.c. in 2009. This picture is affected by the spreads which developed from August 2007 in relation to the ECB's key interest rate. Rates on government bonds are projected to increase steadily, reaching an average of 4.3 p.c. in 2007, 4.5 p.c. in 2008 and 4.7 p.c. in 2009. Compared to the risk-free bond rates, the assumed cost of financing corporate and household investment includes a supplement of around 40 and 70 basis points respectively, reflecting the widening of the spreads recorded in that respect since August 2007;



## ASSUMPTIONS CONCERNING THE MOVEMENT IN OIL PRICES AND INTEREST RATES



Source: ECB.

(1) Actual figures up to April 2008, assumption from May 2008.

(2) Actual figures up to the first quarter of 2008, assumption from the second quarter of 2008.

- the bilateral euro exchange rates are kept constant at their value as at mid May 2008, namely 1.54 US dollar to the euro. That represents a 12 p.c. appreciation compared to 2007;
- in accordance with the movement in implicit prices reflected in forward contracts, international market prices for a barrel of Brent are expected to average 113.3 dollars in 2008 and 117.7 dollars in 2009, against 72.7 dollars in 2007;

## ASSUMPTIONS UNDERLYING THE EUROSISTEM PROJECTIONS

	2007	2008	2009
	(annual averages)		
Three-month interbank rates in euro .....	4.3	4.9	4.3
Ten-year bond yields in Belgium .....	4.3	4.5	4.7
Euro exchange rate against the US dollar .....	1.37	1.54	1.54
Oil price (US dollar per barrel) .....	72.7	113.3	117.7
	(percentage changes)		
Export markets relevant to Belgium .....	5.0	4.3	4.7
Export competitors' prices .....	0.4	-0.2	1.5
of which: euro area competitors .....	1.3	1.6	1.4

Source: ECB.

- the growth of Belgium's export markets in real terms, measured as the weighted total of the volume of imports of the trading partners, including those in the euro area, is likely to decline from 5 p.c. in 2007 to 4.3 p.c. in 2008, before recovering to 4.7 p.c. in 2009;
- the export prices of euro area competitors are forecast to increase by 1.6 p.c. in 2008 and 1.4 p.c. in 2009;
- as is usual according to the Eurosystem conventions, the figures for public finances take account of the macroeconomic environment and budget measures which have already been announced and are sufficiently specific.

## 2. Activity, employment and demand in Belgium

### 2.1 Activity and employment

As in the euro area, economic activity in Belgium remained vigorous in 2007, expanding by 2.8 p.c. The slackening of GDP growth recorded in the second half of the year following the deterioration in the external environment proved less marked than expected, with growth continuing to hover between 0.5 and 0.7 p.c. quarter-on-quarter. Although there was a slight dip in the first quarter of 2008, the expansion of activity remained relatively robust against the backdrop of the progressive weakening of the international environment, the euro's appreciation and the rising prices of commodities and food.

Economic activity largely mirrored the pattern of business confidence which, though declining from its peak level of June 2007, remained above its long-term trend. As indicated by the continuing downward trend in business confidence, the growth slowdown is likely to be more apparent from the second quarter of 2008, owing to the further deterioration in the external environment, to which economic activity might respond with a certain time lag. Consequently, the GDP growth expected for 2008 has been adjusted downwards by 0.3 percentage point compared to the autumn estimate, bringing it to 1.6 p.c.

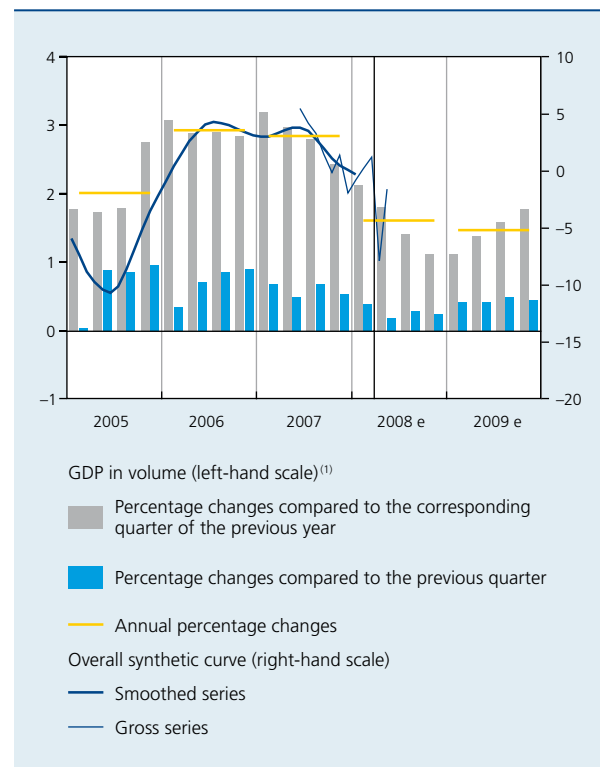
As the deceleration factors ebb away during 2008, before practically disappearing in 2009, economic growth should gradually pick up, regaining a rate close to its potential by the end of that second year. However, that recovery is masked in the annual growth for 2009, projected at 1.5 p.c., due to an adverse carry-over effect.

Propelled by the strengthening of activity, but also by the success of the service voucher system, the rate of job creation accelerated further in 2007, reaching 0.5 p.c. in the last quarter and 1.7 p.c. as an annual average. In all, 73,000 extra jobs were created in 2007, of which 11,600

were attributable to the service vouchers; that is the strongest expansion since 2000, which had admittedly been an exceptional year.

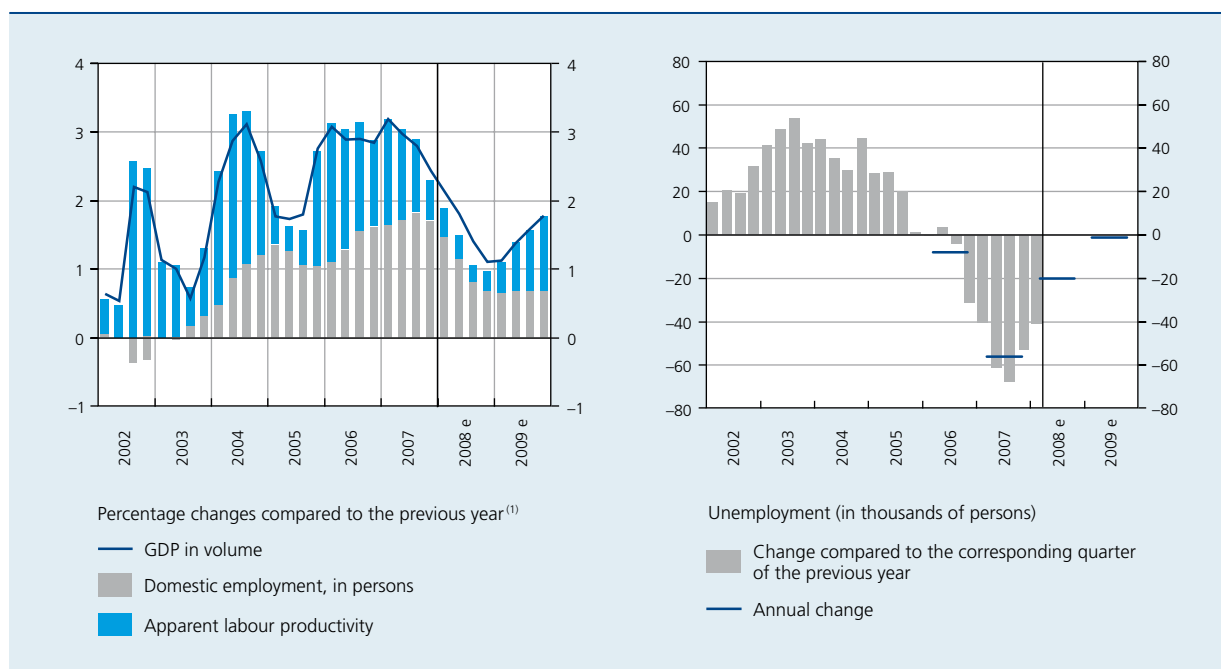
In line with the movement in activity, with due allowance for the fact that employment usually takes time to respond, job creation is projected at 1.3 p.c. in 2008 and 0.7 p.c. in 2009. This represents a cumulative net increase of 85,000 jobs or, taking account of frontier workers, an increase in the number of persons employed totalling 88,000 units altogether over the two years.

**CHART 2** ACTIVITY AND BUSINESS SURVEY INDICATOR  
(seasonally adjusted data)



Sources: NAI, NBB.  
(1) Calendar adjusted data.

**CHART 3** EMPLOYMENT AND UNEMPLOYMENT



Sources: NAI, NEMO, NBB.

(1) Data adjusted for seasonal and calendar effects.

**TABLE 3** LABOUR SUPPLY AND DEMAND

(calendar adjusted data, annual averages; year-on-year changes in thousands of persons, unless otherwise stated)

	2005	2006	2007	2008 e	2009 e
Population of working age .....	43.7	62.6	65.8	54.2	43.8
Labour force .....	71.5	47.1	18.7	37.2	28.6
<i>p.m. Harmonised activity rate<sup>(1)</sup></i> .....	66.7	66.5	67.1	67.1	67.1
National employment .....	51.7	55.3	74.3	57.4	31.0
<i>p.m. Harmonised employment rate<sup>(1)</sup></i> .....	61.1	61.0	62.0	62.3	62.3
Frontier workers .....	0.6	2.6	1.7	1.5	1.4
Domestic employment .....	51.1	52.7	72.6	55.8	29.6
Self-employed .....	7.8	7.8	14.0	15.6	12.0
Employees .....	43.3	44.9	58.7	40.2	17.6
Public sector .....	9.9	3.2	4.9	1.6	1.9
Private sector .....	33.4	41.7	53.7	38.7	15.7
Unemployed job-seekers .....	19.8	-8.2	-55.7	-20.1	-2.4
<i>p.m. Harmonised unemployment rate<sup>(2)</sup></i> .....	8.4	8.2	7.5	6.9	6.8

Sources: EC, NAI, NEMO, NBB.

(1) Percentages of the population of working age (15-64 years).

(2) Percentages of the labour force. This series corresponds to the results of the labour force survey, adjusted monthly in accordance with the Eurostat methodology, using national administrative data.



Even though it will be weaker, job creation is still expected to outstrip the expansion of the labour supply, forecast at around 66,000 units during the period 2008-2009, taking into account an activity ratio that remains more or less stable. Despite the economic slowdown, unemployment should therefore continue to fall during the projection period – by 22,000 units according to the estimates – even if the decline is considerably smaller in 2009. The harmonised unemployment rate, expressed as a percentage of the labour force, should thus fall from 7.5 p.c. in 2007 to 6.8 p.c. in 2009, while the employment rate, calculated as the ratio between the number of persons in work and the population of working age, will rise from 62 to 62.3 p.c.

Owing to the slower growth of activity, the rise in productivity per worker is expected to record a sharp cyclical reduction, dropping to barely 0.3 p.c. in 2008. Despite the recovery of productivity growth to 0.8 p.c. in 2009, the figure is likely to remain below its long-term average. The cyclical character of productivity is due to the fact that, in periods of cyclical slowdown, employers generally choose to maintain the level of their workforce.

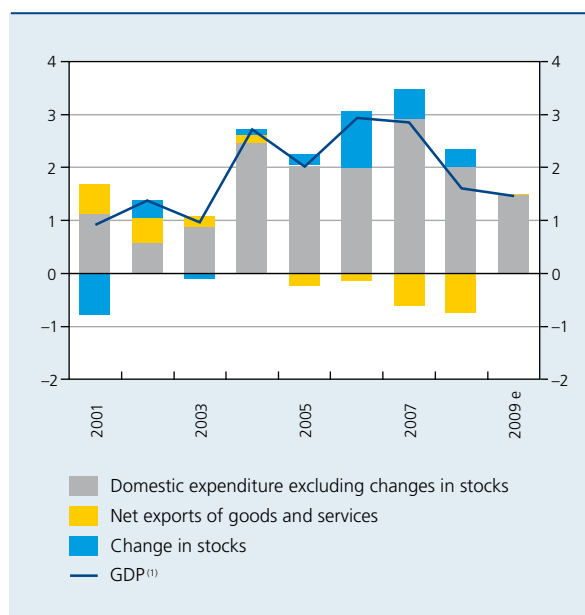
## 2.2 Main expenditure categories

While domestic expenditure as a whole had supported the dynamism of the past two years, a general deceleration is expected in 2008 and 2009. Thus, the contribution of domestic expenditure excluding changes in stocks is projected to fall from 2.9 percentage points in 2007 to 2 and 1.5 points respectively in the next two years. Similarly, the change in stocks is likely to contribute only 0.4 percentage point to growth in 2008, before becoming neutral in 2009. Net exports of goods and services are expected to depress growth again in 2008, to an extent comparable to that seen in 2007, namely -0.7 percentage point; nevertheless, their impact should be neutral in 2009.

Following a gradual recovery in 2006 and 2007, exports of goods and services would decelerate during 2008, in line with the deterioration in the international environment, before picking up subsequently. However, that revival will probably be hampered by the delayed effects of the euro's recent appreciation on the price competitiveness of European producers. Overall, the volume growth of exports is projected at 3.5 p.c. in 2008 and 3.8 p.c. in 2009. The volume growth of imports is expected to be just as sustained in 2008 as it was in 2007, near 4.5 p.c., owing to a base effect connected with the vigour of domestic demand in 2007. In the wake of the deceleration of that factor, imports are expected to expand by only 3.8 p.c. in 2009.

**CHART 4** MAIN EXPENDITURE CATEGORIES

(calendar adjusted volume data;  
contribution to the change in GDP in percentage points,  
unless otherwise stated)

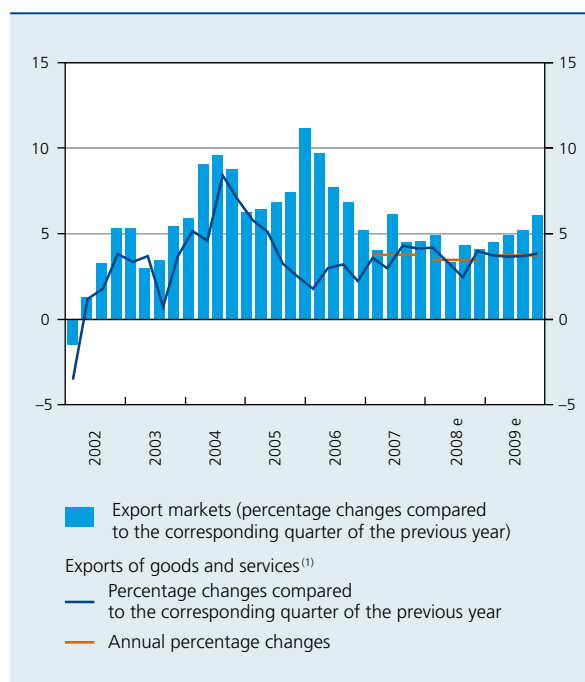


Sources: NAI, NBB.

(1) Annual percentage changes.

**CHART 5** EXPORT MARKETS AND EXPORTS OF GOODS AND SERVICES

(seasonally adjusted volume data)



Sources: ECB, NAI, NBB.

(1) Calendar adjusted data.

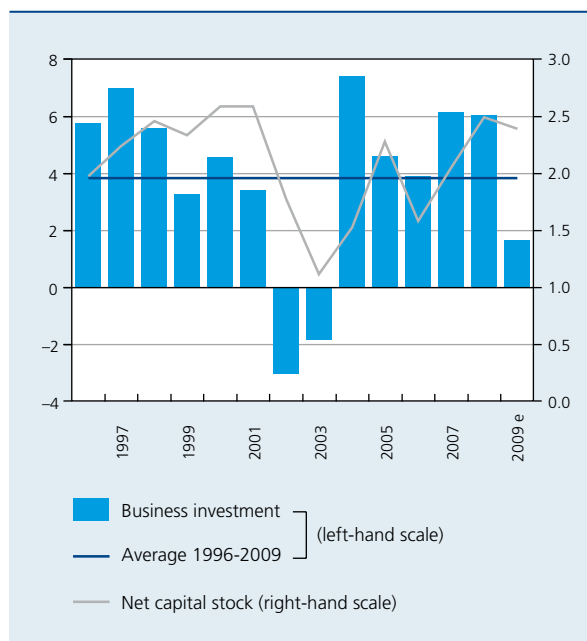
Investment by both businesses and households is likely to contribute to the marked decline in gross fixed capital formation during the period covered by the projections.

Business investment is forecast to fall owing to the combined effects of the slackening pace of economic activity and the deteriorating demand outlook. The further tightening of external financing conditions due to the rise in long-term interest rates will also depress investment somewhat, although lending criteria do not appear likely to curb demand for bank loans, as explained in box 2. Moreover, despite the weaker expansion of final demand, businesses still have ample internal resources. Measured by the gross operating surplus, those resources are projected to increase from 23.7 p.c. of GDP to 24.1 and 24.2 p.c. of GDP in 2008 and 2009.

Overall, these factors should have the effect of reining in business investment by the beginning of 2008. Driven by the sustained dynamism at the end of 2007 and the high capacity utilisation rate, investment growth is expected to reach 6 p.c. in 2008 before dropping to 1.6 p.c. in 2009. However, owing to the vigorous expansion of investment in recent years, the net capital stock is likely to continue growing at a relatively high rate.

Unlike business investment, investment in housing had already begun to slow in 2007, with a rise of 5.3 p.c., after recording an exceptionally high average growth rate of 9.2 p.c. per annum between 2004 and 2006. In line with the reduction in the number of building permits issued and mortgage loans granted, its growth is projected to fall to 1.5 and 0.2 p.c. respectively in 2008 and 2009. While investment in housing continued to be bolstered by the real disposable income of households in 2007, that is likely to change over the horizon of the

**CHART 6** BUSINESS INVESTMENT AND NET CAPITAL STOCK  
(calendar adjusted volume data, percentage changes compared to the previous year)



Sources : NAI, NBB.

forecasts owing to the slower rise in those incomes. Moreover, by the end of the projection period, long-term interest rates are expected to reach their highest level since mid 2002, when the expansion of the housing market began. The decline in investment in housing is also related to the less steep price increases on the secondary market, and is in line with the international downturn in the residential property market cycle, which is also sapping business confidence in the construction sector.

## Box 2 – Credit conditions in Belgium

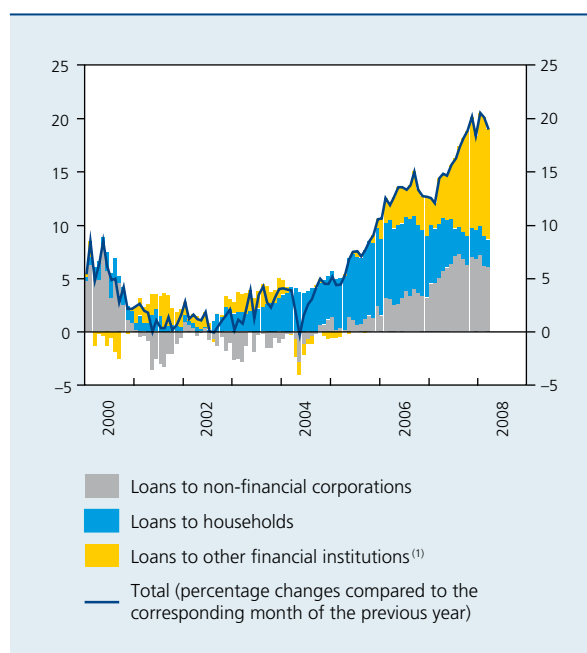
The difficulties facing certain financial institutions on either side of the Atlantic have kindled fears that non-financial corporations and households may be confronted by credit restrictions or even a credit crunch. This potential channel for the transmission of the financial tensions to the real economy would considerably worsen the severity and duration of the cyclical slowdown. In that context, this box draws the main lessons from the analysis of the various sources of information for Belgium, both in regard to lending (on the basis of the periodic accounting statements by credit institutions (scheme A) and the central corporate and individual credit registers), and concerning the situation of the main Belgian credit institutions and the lending rates and conditions applied by the banks (MIR surveys of interest rates applied to customers, and the Bank Lending Survey of lending criteria and similar surveys of businesses).



First, it must be said that, in line with the picture for the euro area as a whole, the growth of lending by Belgian banks to the resident private sector remained robust in the first quarter of 2008, at around 20 p.c. compared to the same period of the previous year, particularly lending to businesses and other financial intermediaries. However, there is no indication that the dynamism was due to any frontloading by businesses – whereby they borrowed in advance, while credit facilities were still available, in anticipation of future investment projects –, or excessive drawing on existing credit lines, or a substitution effect due to possible problems in raising finance on the capital markets.

#### LENDING BY BELGIAN CREDIT INSTITUTIONS TO THE RESIDENT PRIVATE SECTOR

(contribution to the change in total bank lending, percentage points, unless otherwise stated)



Source : NBB.

(1) Includes non-monetary financial institutions, financial auxiliaries, insurance companies and pension funds.

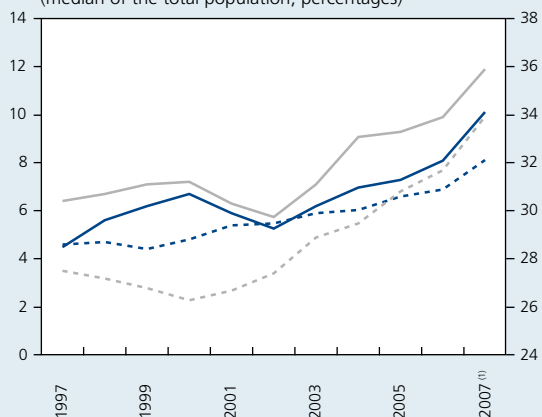
If Belgian banks have continued to grant large volumes of loans to the private sector, that is mainly because they have stood up relatively well so far to the financial turmoil. It is true that they have encountered the tightening of liquidity on the markets in non-collateralised interbank loans, and on other financial market segments, but their dependence on those sources of finance is attenuated by the scale of their customers' deposits and by the fact that they hold a large portfolio of public debt securities which can be used as collateral. Despite some deterioration in their profit ratios during the second half of 2007 – provisional data indicate that this trend persisted in the first quarter of 2008 – the overall financial position of the Belgian banks has remained relatively favourable, viewed in a historical context.

The overall financial situation of borrowers also remained sound in 2007. Despite an increase in their debt level, non-financial corporations continued to record high levels of profitability, liquidity and solvency. As for households, although their debts increased as a result of the marked rise in property prices since the beginning of the decade, their financial position also remains favourable, as indicated in particular by the low rates of default on their outstanding loans.



## FINANCIAL SITUATION OF BORROWERS AND BANK LENDING CONDITIONS IN BELGIUM

INDICATORS OF PROFITABILITY AND SOLVENCY OF NON-FINANCIAL CORPORATIONS (median of the total population, percentages)



Return on equity (left-hand scale)

— Small enterprises<sup>(2)</sup>

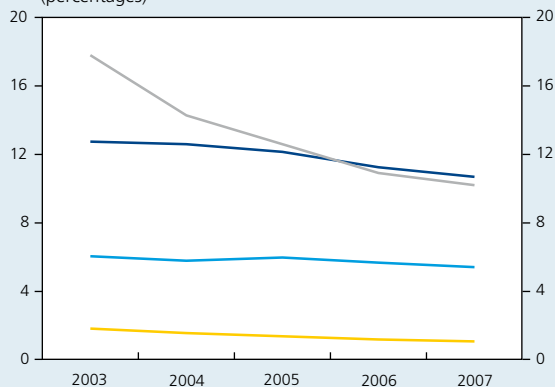
— Medium-sized and large enterprises<sup>(2)</sup>

Equity as a ratio of total liabilities (right-hand scale)

- - - Small enterprises<sup>(2)</sup>

- - - Medium-sized and large enterprises<sup>(2)</sup>

HOUSEHOLD SOLVENCY INDICATORS (percentages)



Number of unpaid defaulting loans as a ratio of total current loans

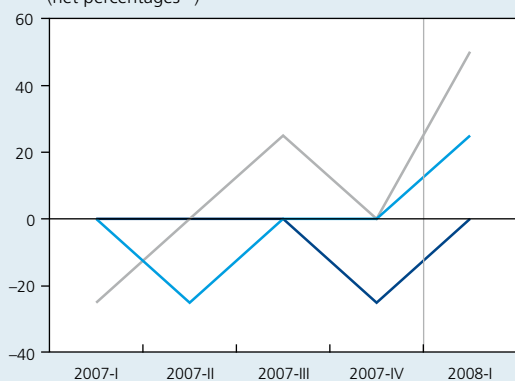
— Instalment loans

— Hire purchase

— Credit lines

— Mortgage loans

OVERALL CREDIT CONDITIONS FOR GRANTING LOANS TO NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS (net percentages<sup>(3)</sup>)

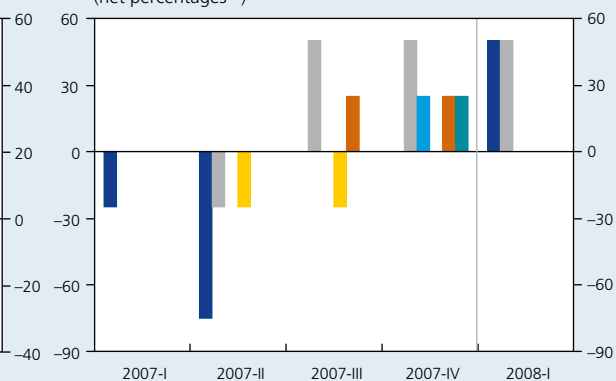


— Loans to SMEs

— Loans to large enterprises

— Mortgage loans to households

MAIN CRITERIA FOR LENDING TO NON-FINANCIAL CORPORATIONS (net percentages<sup>(3)</sup>)



■ Margins on loans as a whole

■ Margins on the riskiest loans

■ Size of the loan

■ Collateral requirements

■ Loan covenants

■ Maturity

Source : NBB.

(1) The values for the indicators in 2007 were obtained by taking the percentage changes between 2006 and 2007 of the values calculated for a constant sample of firms and applying them to the total population.

(2) Firms submitting their annual accounts in the abbreviated format are regarded as small enterprises; those submitting full-format accounts are regarded as medium-sized or large enterprises.

(3) Net percentage of credit institutions responding to the bank lending survey, indicating the degree of tightening or easing (-) of the overall conditions and the main lending criteria.

Consequently, the risk that Belgian banks may adopt a particularly restrictive credit policy in relation to the private sector in the coming months, owing to capital constraints or a sharp deterioration in the balance sheet of borrowers, can be regarded as low.

If credit were nevertheless to become significantly tighter, that could have a more pronounced effect on large enterprises. That can be deduced from successive bank surveys concerning credit conditions, carried out since the crisis erupted, and from the Bank's investment survey conducted in November 2007 on a sample of borrower firms. However, unlike households and smaller firms, large enterprises have alternative sources of funding to meet their financing needs.

The same surveys reveal that the banks have resorted almost exclusively to widening their margins, particularly those on the riskiest loans, in order to tighten their conditions. In the current context, the banks made little mention of the tightening of other lending criteria, such as the collateral requirements or the size of the loan. Taking account of the data available up to March 2008, it seems that the increase in the margins has been fairly small since the financial tensions emerged in August 2007, while their level remained low up to mid 2007.

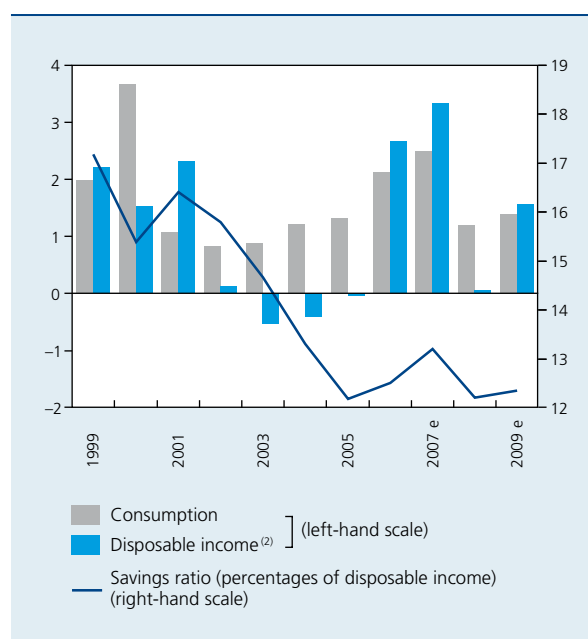
As stated in the box on the Eurosystem assumptions, these various items of information were taken into account in preparing the projections, by setting the costs of corporate investment credit at 40 basis points higher than the rate on government bonds, and those of household investment at 70 basis points higher.

In 2008, the movement in private consumption expenditure incorporates the automatic downward effect – estimated at 0.3 percentage point – of the transfer from the private to the public sector, at the beginning of that year, of the coverage of minor health risks of self-employed persons. In terms of the national accounts, that transfer means a shift from private to public consumption expenditure. However, the expected slowdown in private consumption reflects mainly the marked deceleration in private purchasing power. Thus, following a rise of 6 p.c. over the two preceding years as a whole, and a particularly sharp increase in 2007, real disposable income is set to rise by a total of only 1.7 p.c. over the period covered by the projections. After two years of growth in the region of 2.3 p.c., private consumption would therefore record a marked deceleration in 2008, expanding by barely 1.1 p.c. It is forecast to strengthen slightly in 2009, growing by 1.3 p.c.

Primary household incomes are expected to feel the effects of the gradual deceleration of wages and salaries. That will be due mainly to the weakening of job creation, particularly in 2009. In fact, the nominal annual rise in compensation per person in the economy as a whole is forecast at well above 3 p.c. over the projection horizon. Taken as a whole, net transfers by households to other sectors are likely to increase less rapidly than in 2007.

**CHART 7** CONSUMPTION, DISPOSABLE INCOME AND SAVINGS RATIO OF INDIVIDUALS

(percentage changes by volume compared to the previous year<sup>(1)</sup>, unless otherwise stated)



Sources : NAI, NBB.

(1) Data not adjusted for calendar effects.

(2) Data deflated by the deflator of private final consumption expenditure.

**TABLE 4** GROSS DISPOSABLE INCOME OF INDIVIDUALS, AT CURRENT PRICES

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

	2005	2006	2007 e	2008 e	2009 e
Gross primary income .....	2.8	3.9	5.7	4.5	3.7
of which:					
Wages and salaries .....	3.2	4.5	5.3	4.7	3.8
Compensation per person .....	1.9	3.2	3.6	3.6	3.3
Employment .....	1.2	1.3	1.6	1.1	0.5
Incomes other than wages and salaries .....	1.8	2.5	6.6	3.9	3.5
Current transfers <sup>(1)</sup> .....	3.0	-1.4	8.2	4.9	2.6
of which:					
Current taxes on income and assets .....	4.1	-0.3	4.0	5.1	2.5
Gross disposable income .....	2.7	5.2	5.1	4.4	3.9
<i>p.m. In real terms</i> <sup>(2)</sup> .....	0.0	2.7	3.3	0.1	1.6
Consumption expenditure .....	4.1	4.6	4.3	5.6	3.8
Savings ratio <sup>(3)</sup> .....	12.2	12.5	13.2	12.2	12.4

Sources: NAI, NBB.

(1) These are net amounts, i.e. the difference between transfers received from other sectors and those paid to other sectors, excluding transfers in kind.

(2) Figures deflated by the deflator of private final consumption expenditure.

(3) Gross savings as a percentage of gross disposable income, these two aggregates including the net claims of households on pension funds.

**TABLE 5** GDP AND MAIN EXPENDITURE CATEGORIES

(calendar adjusted volume data; percentage changes compared to the previous year, unless otherwise stated)

	2005	2006	2007	2008 e	2009 e
Consumption expenditure of individuals .....	1.4	2.2	2.4	1.1	1.3
Consumption expenditure of general government .....	-0.2	0.0	2.1	2.5	1.8
Gross fixed capital formation .....	6.7	4.2	5.7	4.0	1.8
Housing .....	10.1	7.4	5.3	1.5	0.2
General government .....	13.0	-3.2	3.5	-3.8	9.2
Enterprises .....	4.6	3.9	6.1	6.0	1.6
Change in stocks <sup>(1)</sup> .....	0.2	1.1	0.6	0.4	0.0
<i>p.m. Total domestic expenditure</i> .....	2.3	3.2	3.6	2.4	1.5
Net exports of goods and services <sup>(1)</sup> .....	-0.2	-0.1	-0.6	-0.7	0.0
Exports of goods and services .....	4.1	2.6	3.8	3.5	3.8
Imports of goods and services .....	4.7	2.8	4.6	4.5	3.8
GDP .....	2.0	2.9	2.8	1.6	1.5

Sources: NAI, NBB.

(1) Contribution to the change in GDP.

Though there is some deceleration in nominal terms, the main factor curbing purchasing power in 2008 will be higher inflation, measured by the deflator of private consumption expenditure. However, households are expected to absorb the impact on their consumption expenditure of the slower rise in their purchasing power by cutting their savings ratio to a level close to that preceding the 2007 upsurge. It is thus projected at 12.2 p.c. of disposable income in 2008 and 12.4 p.c. in 2009, compared to 13.2 p.c. in 2007.

After remaining steady in 2005 and 2006, the consumption expenditure of general government grew by around 2 p.c. in 2007, and is expected to maintain that growth rate over the projection horizon. In 2008, it is actually forecast to accelerate owing to the growth of health care spending. Public investment is projected to contract by 3.8 p.c. in 2008, owing to the sales of public buildings, recorded as disinvestment by general government, and the low point in the electoral cycle of local authority investment. The following year it is forecast to increase by 9.2 p.c.

### 3. Prices and costs

After remaining almost constantly below 2 p.c. in the previous twelve months, inflation in Belgium rose sharply from the fourth quarter of 2007, reaching 4.4 p.c. in March 2008. As explained in detail in this Review<sup>(1)</sup>, that acceleration was due exclusively to the higher prices of food – particularly processed food – and energy, the main factor being the increase in the prices of these products on the international markets. In addition, the higher charges for electricity and gas distribution and transport contribute 0.3 percentage point to overall inflation from February 2008.

According to the current projections, the unusually large contribution from the food and energy components to the annual increase in consumer prices is likely to persist at that high level during the coming months, before rapidly fading away at the beginning of 2009. For the purpose of this exercise it is in fact assumed that international market prices for oil and agricultural commodities will remain stable, albeit at a high level close to that recorded in mid May 2008. Overall inflation is therefore expected to rise from 1.8 p.c. in 2007 to 4.1 p.c. in 2008, before dropping back to 2.3 p.c. in 2009. The health index, which is used as the benchmark for the indexation of wages and social benefits, as well as rents, is forecast to increase by 3.8 p.c. in 2008 and 2.5 p.c. in 2009.

The sharp increase in overall inflation in recent months conceals more modest increases for the other components of the HICP: during the first four months of 2008, inflation was running at 1.3 p.c. for non-energy industrial goods and 1.5 p.c. for services. However, some acceleration is expected for both components despite the continued moderating effect of the euro's appreciation and keen international competition. Apart from the disappearance of the downward pressure exerted by the steep fall in mobile telephony charges in the summer of 2007, contributory factors here will be the indirect effect of the commodity price shocks and the gradual incorporation of the increase in labour costs recorded in the previous year and expected for the current year. The underlying trend in inflation is therefore projected at 2.2 p.c. in 2009.

The rise in unit labour costs in the private sector is estimated respectively at 2.9 and 3.4 p.c. in 2007 and 2008, compared to an annual average increase of 0.6 p.c. over the period 2002-2006. This steep increase is due both to the dip in labour productivity – already apparent in 2007, owing to the marked expansion of employment in the private sector, and further accentuated in 2008, owing to the cyclical downturn –, and to the faster rise in hourly labour costs. These two factors should weigh less in 2009, so that the rise in unit labour costs should fall to 2.4 p.c.

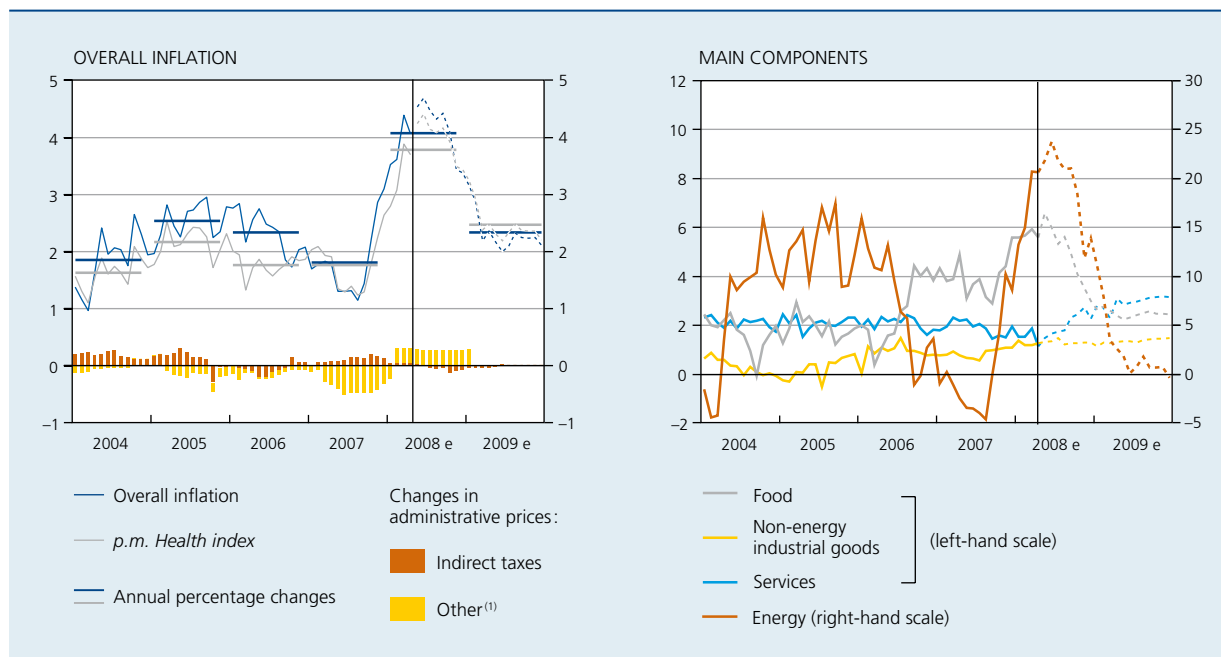
The accelerating rise in hourly labour costs in 2007 and 2008 takes place against the background of the pressure exerted on some segments of the labour market in the wake of the economic boom. In addition, temporary factors reinforced the increase in 2007, namely the earlier payment of the holiday allowance on termination of a contract of employment, and the payment of redundancy allowances in connection with the restructuring of large companies, in total accounting for around 0.6 percentage point. While these factors exert the opposite effect on the movement in labour costs in 2008, they are not sufficient to offset the major impact of indexation. Thus, according to the information currently available for 2007 and the developments expected for 2008, hourly labour costs are set to rise by 7.3 p.c. over the two years as a whole, significantly exceeding the 5 p.c. norm. The handicap in relation to the three main neighbouring countries – Germany, France and the Netherlands – is therefore likely to worsen.

For 2009, the figure of 3.2 p.c. growth in hourly labour costs assumed for this exercise corresponds essentially to the expected effect of indexation, as the latter will take time to respond to the 2008 acceleration in inflation measured by the health index. That assumption is based on moderate wage settlements, a factor determining the expected easing of inflation and the forecast continuation of job creation.

(1) *Inflation and indexation in Belgium: causes and possible effects of the current acceleration in inflation*, Economic Review, NBB, June 2008.

## CHART 8 INFLATION

(HICP, percentage changes compared to the corresponding period of the previous year)



Sources : EC, NBB.

(1) Impact on overall inflation, in percentage points, of price changes associated with measures concerning the radio and television licence fee and changes to network industry tariffs.

**TABLE 6 PRICE AND COST INDICATORS**

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

	2005	2006	2007 e	2008 e	2009 e
HICP .....	2.5	2.3	1.8	4.1	2.3
Health index .....	2.2	1.8	1.8	3.8	2.5
Underlying trend in inflation <sup>(1)</sup> .....	1.4	1.6	1.9	2.4	2.2
Private sector labour costs:					
Labour costs per hour worked .....	2.3	2.9	3.7	3.5	3.2
Employers' social contributions <sup>(2)</sup> .....	-0.3	-0.2	0.1	-0.4	
Gross wages .....	2.6	3.0	3.5	4.2	
of which: indexations .....	2.1	1.8	1.6	3.2	
Labour productivity <sup>(3)</sup> .....	1.5	1.5	0.8	0.1	0.8
Unit labour costs .....	0.7	1.3	2.9	3.4	2.4

Sources: EC; FPS Employment, Labour and Social Dialogue; NAI; NBB.

(1) Measured by the HICP excluding unprocessed food and energy.

(2) Contribution to the change in labour costs following the adjustments to the implicit contribution rates, percentage points.

(3) Value added in volume per hour worked by employees and self-employed workers.



## 4. Public finances

### 4.1 Overall balance

According to provisional data published by the NAI in March 2008, Belgian public finances recorded a small deficit of 0.2 p.c. of GDP in 2007. In the macroeconomic context described above, that deficit is likely to increase to 0.3 p.c. of GDP in 2008 and 0.8 p.c. in 2009.

However, the interest charges of general government are expected to have a favourable influence on the movement in the budget balance, as they are likely to fall by 0.1 p.c. of GDP in both 2008 and 2009. That fall is due exclusively to the continuing reduction in the debt ratio. The average implicit rate applicable to the public debt will in fact increase slightly, as the projections are based on market rates higher than those in 2007. Nevertheless, this increase in market rates will have only a limited impact on the implicit interest rate, on account of the small proportion of short-term debt securities and the fact that long-term loans maturing can still be refinanced at lower interest rates.

Non-recurrent factors, which are expected to have a slightly less negative impact on the budget balance in 2008 than in 2007, should also bring some improvement in the general government accounts. These factors are expected to boost the overall balance by 0.1 p.c. of GDP in 2008. They will have practically no effect in 2009.

Conversely, the economic situation is likely to depress the budget balance, since – as stated earlier – the projections are based on a slowdown in economic activity in 2008. In 2009 also, GDP growth is expected to be below the trend growth rate.

Adjusted for the influence of the economic cycle and non-recurrent factors, the primary surplus is forecast to fall by 0.6 p.c. of GDP between 2007 and 2009. The deterioration in the structural primary balance will be due both to a decline in revenues and to a slightly expansionary expenditure policy.

It should be noted that the projections only take account of budget measures which have already been announced in sufficient detail. They disregard the effect of decisions yet to be taken, e.g. on the occasion of the budget

**TABLE 7** GENERAL GOVERNMENT ACCOUNTS<sup>(1)</sup>  
(percentages of GDP)

	2005	2006	2007	2008 e	2009 e
Revenue .....	49.4	48.8	48.6	48.5	48.2
of which: fiscal and parafiscal revenue .....	44.3	44.0	43.8	43.7	43.4
Primary expenditure .....	47.5	44.5	44.9	45.0	45.4
Primary balance .....	1.9	4.3	3.7	3.5	2.8
Interest charges .....	4.2	4.0	3.8	3.7	3.6
Financing balance .....	-2.3 <sup>(4)</sup>	0.3	-0.2	-0.3	-0.8
Changes in the financing balance .....	-2.3	2.6	-0.5	-0.1	-0.6
due to changes in					
interest charges .....	0.5	0.2	0.1	0.1	0.1
cyclical component <sup>(2)</sup> .....	-0.4	0.5	0.5	-0.3	-0.1
GDP growth .....	-0.2	0.4	0.4	-0.2	-0.3
composition effects .....	-0.2	0.1	0.2	-0.1	0.2
non-recurrent factors .....	-2.8	2.8	-0.9	0.1	0.0
structural primary balance <sup>(3)</sup> .....	0.4	-0.9	-0.3	0.0	-0.5
<i>p.m. Stability programme targets</i> .....	<i>0.0</i>	<i>0.0</i>	<i>0.3</i>	<i>0.0</i>	<i>0.3</i>

Sources: FPS Finance, NAI, NBB.

(1) According to the methodology used in the excessive deficit procedure (EDP).

(2) According to the methodology described in Bouthevillain C., Ph. Cour-Thimann, G. van den Dool, P. Hernández de Cos, G. Langenus, M. Mohr, S. Momigliano and M. Tujala (2001), *Cyclically adjusted balances: an alternative approach*, ECB Working Paper Series, n° 77 (September). A less technical description of this methodology may be found in Box 6 *Cyclically adjusted budget balances: calculation method used by the ESCB* in the NBB Report 2003 (Part 1), p. 83-84.

(3) Balance adjusted for cyclical and non-recurrent factors.

(4) Excluding the impact of the assumption by the Railway Infrastructure Fund of the major part of the debt of the BNRC when the latter was restructured on 1 January 2005, the accounts of general government would have ended with a surplus of 0.1 p.c. of GDP in 2005.

revisions in 2008 and the preparation of the 2009 budgets. In that regard, the projections reveal that substantial supplementary measures are needed in order to attain the targets set in the April 2008 stability programme, namely a balanced budget in 2008 and a surplus of 0.3 p.c. of GDP in 2009, rising to 1 p.c. of GDP in 2011.

## 4.2 Revenue

General government revenues expressed as a percentage of GDP are projected to decline in both 2008 and 2009 by 0.1 and 0.3 p.c. of GDP respectively.

That decline is due mainly to structural measures, which are likely to have an impact of 0.2 p.c. of GDP in each of the two years. Levies on earned incomes are likely to be reduced again as a result of the introduction on 1 January 2008 of a system of performance-related bonuses attracting advantageous tax treatment, the increase in the standard allowance for professional expenses from 1 July 2008 and the extension in 2008, and especially the generalisation in 2009, of the lump sum reduction in personal income tax on professional activities, already applied in the Flemish Region. Moreover, the increase introduced in recent years in the tax allowance for energy-saving investments has a negative impact on the personal income tax

assessments. Finally, the gradual abolition of the compensatory levy on excise duty for diesel cars, entering its final phase in 2008, is also depressing public revenues. However, the reductions in charges will be partly offset by the general introduction on 1 April 2008 of the measure whereby the tax deductibility for company vehicles will depend on their CO<sub>2</sub> emissions, and by the redefining of the basis for assessment of the tax on unused power station generating capacity.

The easing of the tax burden is also due partly to the disappearance of the effect of the transitional measures which had augmented revenues in 2007, such as the temporary tax regime for tax-exempt reserves and the earlier collection of social contributions on holiday allowances paid in advance by employers on termination of contracts of employment. The structural shifts at macroeconomic level are also likely to influence the movement in general government revenues. The trend increase in earned incomes, which are taxed relatively more heavily, is expected to be weaker than GDP growth. However, those effects should be offset in 2008 by the fact that payroll tax will increase more strongly than earned incomes, owing to the acceleration in inflation. The annual indexation of the scales used to calculate the payroll tax are in fact based on the average indexation for the previous year. In 2009, the expected fall in inflation should have the opposite effect.

**TABLE 8** STRUCTURAL MEASURES RELATING TO PUBLIC REVENUES  
(millions of euro, unless otherwise stated; changes compared to the previous year)

	2008 e	2009 e
Taxes .....	-526	-658
Increase in the standard allowance for professional expenses .....	-75	-150
Increased allowance for energy-saving investments .....	-79	0
Flemish Region tax abatement .....	-50	-375
Introduction of a performance-related bonus system .....	-100	-100
Gradual abolition of the compensatory levy on excise duty for diesel vehicles .....	-104	0
Tax deductibility for company vehicles .....	85	30
Other .....	-203	-63
Social security contributions .....	-30	0
<b>Total</b> .....	<b>-556</b>	<b>-658</b>
<i>p.m. Percentages of GDP</i> .....	<i>-0.2</i>	<i>-0.2</i>
<i>p.m. Increase in social security contributions of self-employed persons (owing to compulsory insurance against minor health care risks)</i> .....	<i>340</i>	<i>0</i>

Sources: Budget documents, NSSO, FPS Finance, NBB.

Finally, account needs to be taken of the 2008 increase in social security contributions of self-employed workers, since it is now compulsory for them to have insurance against minor health care risks. This technical factor is expected to have only a limited net impact on the financing balance of general government, since social benefits will increase at more or less the same rate.

#### 4.3 Primary expenditure

Primary expenditure, which had amounted to 44.9 p.c. of GDP in 2007, is projected to increase slightly to 45 and 45.4 p.c. of GDP respectively in 2008 and in 2009. This represents a volume increase in primary expenditure of 1.2 and 2.5 p.c. in those two years. Following adjustment for cyclical and non-recurrent factors and indexation, it will grow by 2 and 2.2 p.c.

The expenditure increase expected in 2008 is due to varying developments in the subsectors which make up general government. At federal government level, the adjusted growth of primary expenditure is likely to be fairly strong. Measures to promote employment, particularly shift working, which are recorded as subsidies in accordance with the ESA 95, should continue to expand, but less strongly than in 2007. At the same time, social security expenditure is likely to continue rising steadily, owing to the expected growth of expenditure on health care and pensions. In the latter case, a number of measures will have an influence, notably those applied under the generation pact. In contrast, at the level of the communities and regions, expenditure is forecast to increase at a fairly modest rate, slightly below the potential growth rate. Finally, local authority expenditure is set to remain practically unchanged in 2008, owing to the reduction in investment which normally occurs in the two years following the municipal and provincial elections, in this case those held in 2006.

It is difficult to estimate the rate of increase in primary expenditure in 2009 since no budget is available as yet. However, the projections already allow for a set of measures to increase social benefits; these were implemented, in particular, under the generation pact, and will augment social security spending. The growth of federal government expenditure is expected to be relatively moderate, as the measures so far approved concerning the reduction in payroll tax will by then be fully operational. In the case of the communities and regions, these projections are based largely on what has happened in the past. Local authority expenditure is expected to revert to growth approaching its trend rate, as investment usually picks up at that point.

#### 4.4 Debt

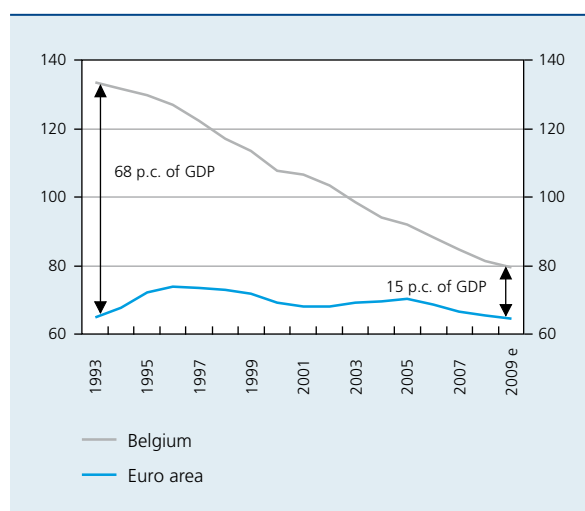
Since 1993, when the public debt peaked at 133.5 p.c. of GDP, the general government debt ratio has constantly declined. At the end of 2007, it stood at 84.8 p.c. of GDP.

Despite the budget deficits projected for 2008 and 2009, the debt ratio should continue to fall during those two years. By the end of 2008, it should be down to 81.4 p.c. of GDP. In 2009, it is expected to decline further to 79.5 p.c. of GDP. That should reduce the differential between Belgium's debt ratio and the average for the euro area to around 15 p.c. of GDP by the end of the projection period.

### 5. Assessment of the risk factors

Like those published by the ECB for the euro area, the Bank's new projections for Belgium indicate that, throughout 2008 and, by inertia, in 2009 as well, the economy will feel the effects of the substantial shocks occurring in the global environment. The increasing severity of those shocks in the past six months also explains why the GDP growth forecast for 2008 has been cut by 0.3 percentage point compared to the autumn 2007 estimate. Nevertheless, despite the scale of those shocks, the slowdown in activity is expected to be moderate overall. Inflation felt the full impact of the higher commodity prices in the fourth quarter of 2007, causing a 1.2 point upward revision for

**CHART 9** CONSOLIDATED GROSS DEBT  
(percentages of GDP)



Sources: EC, NAI, NBB.

inflation in Belgium, but the influence of that factor should wane at the beginning of 2009.

However, this scenario is subject to the assumptions made for both the global economy and Belgium. In that regard, there are still many uncertainties, as it is difficult to determine whether the numerous instances of financial tension will become even more acute or will rapidly fade away. In the United States, in particular, the severity and duration of the slowdown in domestic demand are hard to predict. In the past, the American economy has been quick to recover from an adverse shock, but this time the shocks are having a direct and simultaneous impact on all the agents – financial institutions and households and, via a ricochet effect, non-financial corporations – which could attenuate the effect of the fiscal and monetary support measures. In addition, commodity prices could continue to climb beyond their current levels. There is nothing really definite about the outlook here, as is evident from the fact that the markets are passing on almost fully the fluctuations in spot prices over the entire period of forward prices.

The latest available statistics, which relate to the first quarter of 2008, reveal that activity has remained buoyant in the euro area. Most forecasters explain this resilience by the fundamentally sound situation of the European economies and by the fact that, on average, the financial turbulence has only a moderate influence on the real economy, via the widening of the spreads for bank

lending. However, it is important to check that the worst effects do not become apparent in the coming quarters, taking longer to emerge than initially expected.

If they materialise, these risk factors will tend to depress the growth prospects. Via a feedback effect, that would help to reduce the inflationary pressure, but the latter also depends on the movement in commodity prices. In Belgium, specifically, the assumption made regarding wages presupposes moderate wage increases in 2009 and, by implication, throughout the period covered, in principle, by the forthcoming agreements between the social partners, following the increase which was recorded in 2007 and is projected for 2008 exceeding that in neighbouring countries. Failing that, inflation will continue to exceed the level assumed in the projections and the risk of a lasting deterioration in competitiveness and employment could damage the economy.

More generally, it will only be possible to preserve and consolidate the economy's resilience to shocks with the backing of structurally sound fiscal and economic policies, offering stable development prospects for enterprises and households.

Like those produced by the Bank, the recent forecasts issued by other institutions also indicate two years of moderate GDP growth, assuming a gradual economic revival in 2009. In the absence of new measures, this macroeconomic environment would lead to an increase

**TABLE 9** COMPARISON OF THE FORECASTS FOR BELGIUM  
(percentage changes compared to the previous year)

	Real GDP		Inflation <sup>(1)</sup>		Budget balance <sup>(2)</sup>		Publication date
	2008	2009	2008	2009	2008	2009	
NBB – Spring 2008 .....	1.6	1.5	4.1	2.3	-0.3	-0.8	June 2008
<i>p.m. Autumn 2007</i> .....	1.9	<i>n.</i>	2.9	<i>n.</i>	-0.3	<i>n.</i>	<i>December 2007</i>
Federal Planning Bureau (FPB) .....	1.7	1.7	3.8	2.0	-0.3	-0.8	May 2008
IMF .....	1.4	1.2	3.1	1.9	-0.3	-0.7	April 2008
EC .....	1.7	1.5	3.6	2.3	-0.4	-0.6	April 2008
OECD .....	1.7	1.7	3.7	2.0	-0.3	-0.9	June 2008
Belgian Prime News .....	1.7	1.9	3.0	2.0	-0.3	-0.2	March 2008
Consensus Economics .....	1.8	2.0	2.9	1.9	<i>n.</i>	<i>n.</i>	May 2008
The Economist's Poll .....	1.7	1.7	2.9	1.9	<i>n.</i>	<i>n.</i>	May 2008
<i>p.m. Actual figures 2007</i> .....	2.8		1.8		-0.2		

(1) HICP, except FPB: private final consumption deflator.

(2) Percentages of GDP.

TABLE 10 COMPARISON OF THE ASSUMPTIONS

	2008					2009				
	NBB	EC	IMF	FPB	OECD	NBB	EC	IMF	FPB	OECD
Export markets .....	4.3	5.1	n.	5.6	5.4	4.7	4.7	n.	5.3	5.3
Oil (dollars per barrel) .....	113.3	101.2	95.5	101.5	113.2	117.7	100.0	94.5	100.2	120.0
Short-term interest rate .....	4.9	4.3	4.0	4.3	4.5	4.3	3.8	3.6	3.8	4.1
Long-term interest rate .....	4.5	n.	n.	4.0	4.3	4.7	n.	n.	3.8	4.4
Dollars per euro .....	1.54	1.55	1.47	1.55	1.54	1.54	1.57	1.48	1.54	1.56

in the budget deficit in 2009. Regarding the movement in consumer prices, all the forecasts predict that the rise in food and energy prices will be temporary, so that inflation will recede to an average of 2 p.c. in 2009.

The unusually large variations in the estimated rate of inflation for 2008, ranging from 2.9 to 4.1 p.c., are due largely to the dispersion of the assumptions regarding oil prices.

## Annex

### 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 in 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</b> <sup>(2)</sup>					
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: EC, DGSEI, NAI, NBB.

(1) Adjusted series (Eurostat).

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