

ECONOMIC PROJECTIONS FOR BELGIUM

February 2009

Under normal circumstances, the Bank publishes economic projections for Belgium twice a year, in June and December. The latest edition was finalised on 20 November 2008 and published in the December 2008 Economic Review. At that time, the Bank forecast a moderate downturn in activity in 2009 and a slowing rate of inflation. In line with the estimates produced by the international institutions as well as the Eurosystem projections made at the time, these expected trends were in keeping with a climate of a general weakening of demand in the euro area and of falling oil prices, against a background of the contagion spreading from the crisis in the financial sector to the real economy.

It rapidly became apparent that the global economic slowdown was much more far-reaching and rapid than had been anticipated. In particular, industrial production and international trade recorded very steep falls both in developed and emerging economies, which was clearly reflected in the sharp decline in the NBB's economic indicators in November and December 2008. As a result of the slowdown in global activity, commodity prices on international markets, particularly those of oil, fell considerably further than previously expected.

No doubt, the slowing rate of inflation as a consequence of falling commodity prices, on the one hand, and action taken by monetary authorities and governments to stabilise financial markets and banking institutions and combat the economic slowdown, on the other, are providing some support for the economy. However, the forces of contraction continue clearly to dominate in the short and medium term, to the extent that at present the economic downturn appears to be substantially more pronounced with the recovery a more distant prospect. Against this background, the economic projections for Belgium had to be revised.

Table 1: Key figures
(percentage changes, unless otherwise stated)

	2008	2009	Revisions 2009 ¹
Overall inflation (HICP)	4.5	0.5	-1.4
Health index	4.2	1.1	-1.2
Real GDP	1.1	-1.9	-1.7
of which:			
Private consumption	0.8	-0.3	-0.3
Business investment	6.7	-4.9	-3.0
Exports	3.0	-4.3	-4.2
Imports	4.2	-3.2	-3.5
Employment (annual average changes in thousands of units)	71.0	-25.6	-33.5
Unemployment rate (p.c. of labour force)	7.1	7.8	+0.9
Balance of public finances (p.c. of GDP)	-1.1	-3.3	-1.6

¹Revisions compared to the autumn 2008 projections.

Reason for revisions

Recent information on developments in Belgium's economic climate indicate that the size of the fall in GDP in the final quarter of 2008 and in early 2009 was substantially more pronounced than was assumed in the Bank's last projections. According to new estimates by the Bank, GDP fell by 1.3 p.c. in the final quarter of 2008, reducing average annual growth for the year to 1.1 p.c. Furthermore, the outlook for the global economy as a whole and for neighbouring countries in particular has also deteriorated sharply, as shown by forecasts published in the last few weeks by the European Commission and the International Monetary Fund, to the extent that Belgium's foreign markets now clearly appear to be contracting. At the same time, oil prices, expressed in euros, are now some 30 p.c. lower than forecast last autumn.

Taking these factors into account, the projections for 2009 point to both a substantial downturn in activity and employment in Belgium, in line with what is expected for the euro area, and a significant fall in inflation.

According to the revised projections, therefore, GDP is set to be down 1.9 p.c. by volume, compared to the 0.2 p.c. contraction previously forecast. The most significant revisions have been made to exports and, as a knock-on effect, to business investment. The change in private consumption has also been revised downward, albeit to a lesser extent.

The fact that the economic slowdown is turning out to be sharper and more prolonged accounts for the downward revision of the projections for the labour market. Despite substantial recourse to mechanisms enabling reductions to be made in the number of hours worked per person, rather

than immediately cutting staff numbers, the average annual number of jobs is forecast to decline by more than 25,000 units in net terms in 2009. This decline corresponds to an anticipated loss of some 57,000 jobs between the final quarter of 2008 and the final quarter of 2009; in particular, job losses in areas most sensitive to the economic downturn are predicted to amount to 71,000 units. Based on an annual average, the unemployment rate is set to rise from 7.1 p.c. in 2008 to 7.8 p.c. in 2009.

Recent inflation figures, covering the period from November 2008 to January 2009, have turned out to be lower than expected, chiefly as a result of the fall in the price of petroleum products. For the rest of 2009, projections have also been revised downward due to the delayed effect of the decline in oil prices feeding through to consumer gas and electricity prices and the deteriorating outlook for demand and the labour market. Overall inflation, as measured by the HICP, is predicted to fall on average to 0.5 p.c. in 2009, and, based on projections, is set to turn negative for a time during the summer of 2009. This situation, which will only last for a few months, is purely the result of base effects linked to the record prices for petroleum products observed in the summer of 2008. Therefore, it does not represent a fundamentally deflationary scenario. The health index, for its part, will reach 1.1 p.c.

According to the revised projections, the deficit of the general government sector account will rise from 1.1 p.c. of GDP in 2008 to 3.3 p.c. in 2009. This downward revision of the forecast from autumn 2008, which predicted a 1.7 p.c. deficit in 2009, is largely the result of the deteriorating economic outlook, and takes into account lower tax revenues from a number of sources observed at the end of 2008, in addition to the recovery plan formulated by the government, including measures to cut labour costs for businesses in conjunction with the central wage-bargaining agreement.

The Bank's new projections are broadly in line with recent results published by the other institutions.

Table 2: Comparison of projections for 2009

	Real GDP	Inflation	Budget balance ¹	Date of publication
EC	0.1	2.5	-1.4	3 Nov. 2008
OECD	-0.1	1.9	-1.3	26 Nov. 2008
NBB	-0.2	1.9	-1.7	8 Dec. 2008
EC	-1.9	1.1	-3.0	19 Jan. 2009
NAI	-1.7	1.0	-3.0	28 Jan. 2009
NBB	-1.9	0.5	-3.3	9 Feb. 2009

¹ Percentages of GDP.

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

	2005	2006	2007	2008 e	2009 e
GROWTH (calendar adjusted data)					
GDP by volume	2.2	3.0	2.6	1.1	-1.9
Contributions to growth:					
Domestic expenditure, excluding change in stocks	2.3	2.1	2.8	1.9	-0.7
Net exports of goods and services	-0.6	0.1	-0.3	-1.0	-1.0
Change in stocks	0.5	0.9	0.1	0.3	-0.2
PRICES AND COSTS					
Harmonised index of consumer prices	2.5	2.3	1.8	4.5	0.5
Health index	2.2	1.8	1.8	4.2	1.1
GDP deflator	2.4	2.3	2.4	2.2	2.7
Terms of trade	-0.3	-0.7	0.5	-2.9	1.8
Unit labour costs in the private sector	0.9	1.5	3.1	3.6	2.8
Hourly labour costs in the private sector	2.4	3.1	3.7	3.5	2.6
Hourly productivity in the private sector	1.5	1.6	0.6	-0.2	-0.1
LABOUR MARKET					
Domestic employment (annual average change, thousands of units)	54.8	58.1	77.4	71.0	-25.6
Total volume of work ¹	0.9	1.5	2.0	1.2	-1.7
Harmonised unemployment rate ² (p.c. of labour force)	8.5	8.3	7.4	7.1	7.8
INCOMES					
Real disposable income of individuals	0.4	2.5	2.8	0.1	1.7
Savings ratio of individuals (p.c. of disposable income)	12.6	12.9	13.7	12.9	14.8
PUBLIC FINANCES ³					
Overall balance (p.c. of GDP)	-2.6	0.3	-0.3	-1.1	-3.3
Primary balance (p.c. of GDP)	1.6	4.3	3.5	2.7	0.5
Public debt (p.c. of GDP)	92.1	87.8	83.9	88.7	94.8
CURRENT ACCOUNT (according to balance of payments, p.c. of GDP)					
	2.6	2.0	1.7	-2.0	-1.2

Sources: EC, DGSEI, NAI, NBB.

¹ Total number of hours worked in the economy.

² Adjusted series (Eurostat).

³ In line with the methodology used for the purpose of the excessive deficit procedure (EDP).