Economic projections for Belgium – Autumn 2010

Introduction

In the autumn of 2010, the economic recovery which began just over a year ago is now at a crossroads. It is true that the global strengthening of world economic activity was maintained during the first part of the year, thanks to accommodating economic policies and some easing of the financial tensions. The emerging economies of Asia and Latin America were particularly dynamic, making a major contribution to the strong revival of international trade. However, after the initial rebound, the real challenge now is to ensure that the recovery maintains its vitality endogenously without the support of new fiscal stimuli.

In some economies, the imbalances which had accompanied and exacerbated the financial crisis and the economic recession of 2008-2009 have not yet been rectified. For instance, the process of debt reduction which numerous players across the world have to undertake simultaneously has not yet been completed. That applies, for example, to the private sector in the countries where a property bubble burst, principally the United States and certain European countries. The reorganisation of the financial sector must also continue, since the situation of certain banking institutions remains fragile. In addition, the government measures to stem the financial crisis and the slump in activity led to a severe deterioration in public finances, requiring substantial consolidation measures. Finally, the economic crisis has revealed specific competitiveness problems in some euro area countries, giving rise to wide variations in performance within the euro area.

Against that backdrop, while monetary policies remain accommodating, it is generally expected that activity will continue to expand in the advanced economies, though reverting to a weaker growth rate than at the beginning of the year. In particular, in the Eurosystem's six-monthly projections, of which the results for the euro area were published in the December 2010 ECB Bulletin, GDP growth for this year was revised upwards in relation to the spring in view of favourable figures for the first two quarters. However, a slight slowdown is expected in 2011.

In Belgium, too, the recent figures for activity and especially employment have been better than had been forecast in the previous projections, including the one presented in June 2010. In the absence of major structural imbalances, the Belgian economy was able to take advantage of the recovery in global demand, while the waning uncertainty over job prospects and the financial situation bolstered consumption via a reduction in households' precautionary savings. Thus, GDP growth again outpaced that in the euro area, although the outlook for 2011 still depends very much on the international environment.

The results presented briefly in this article are based on the information available as at 19 November 2010. They were drawn up on the basis of the common assumptions for the Eurosystem, the main ones being described in the box in the first section. As is usual in the case of public finances, these projections only take account of measures which have been formally approved by the authorities and specified in sufficient detail.

1. International environment and assumptions

Encouraged by fiscal and monetary policies which remained accommodating, the global revival in activity and trade which had begun in mid-2009 continued and became more widespread during the first half of 2010. However, the revival varied in strength. In particular, having come out of the crisis without excessive debts, the emerging countries of Asia and Latin America were the driving force behind that consolidation. By early in 2010, their international trade in goods exceeded the level achieved in 2008 before the great recession. The advanced economies also started to recover, although at a slower pace. After a very strong initial rebound, attributable partly to the replenishment of inventories which had been reduced to very low levels, and to the impetus provided by measures to support demand during the crisis, there have recently been signs of some loss of momentum.

These developments were also reflected in the indicators which measure the worldwide business climate. Those indicators had plummeted, but during 2009 and early 2010 there was a very marked recovery, in a context of ebbing financial tensions and an improvement in the demand outlook for firms. That restored the indicators to values close to their long-term average. Their level implies that activity will continue to expand in the short term, even if the pace slows.

At the same time, the more sustained demand originating mainly from the emerging economies fuelled a commodity price rise. The price per barrel of Brent expressed in US dollars doubled between the end of 2008 and the beginning of 2010, before stabilising at around $ 80. Prices of agricultural commodities on the international markets increased by around 40 % compared to the low levels reached at the height of the crisis, and metal prices were up by 120 %.

In the euro area, the commodity price rise was reinforced in the first half of 2010 by the euro's depreciation against the US dollar. At that time, the recovery was weaker in Europe than in the United States, and the severe problems facing some countries on the government bond markets added to the anxiety. However, the second quarter brought better results in some euro area countries, in the wake of Germany's performance. At the same time, attention switched to the difficulties which the American economy was experiencing in maintaining its recovery without new fiscal stimuli, as those applied in the preceding two years had placed a serious burden on public finances. In the absence of any improvement on the jobs and property markets, the US recovery is still not soundly based. Moreover, that situation prompted the Federal Reserve to decide on substantial new injections of liquidity. In that context, the dollar depreciated against most other currencies, including the euro.

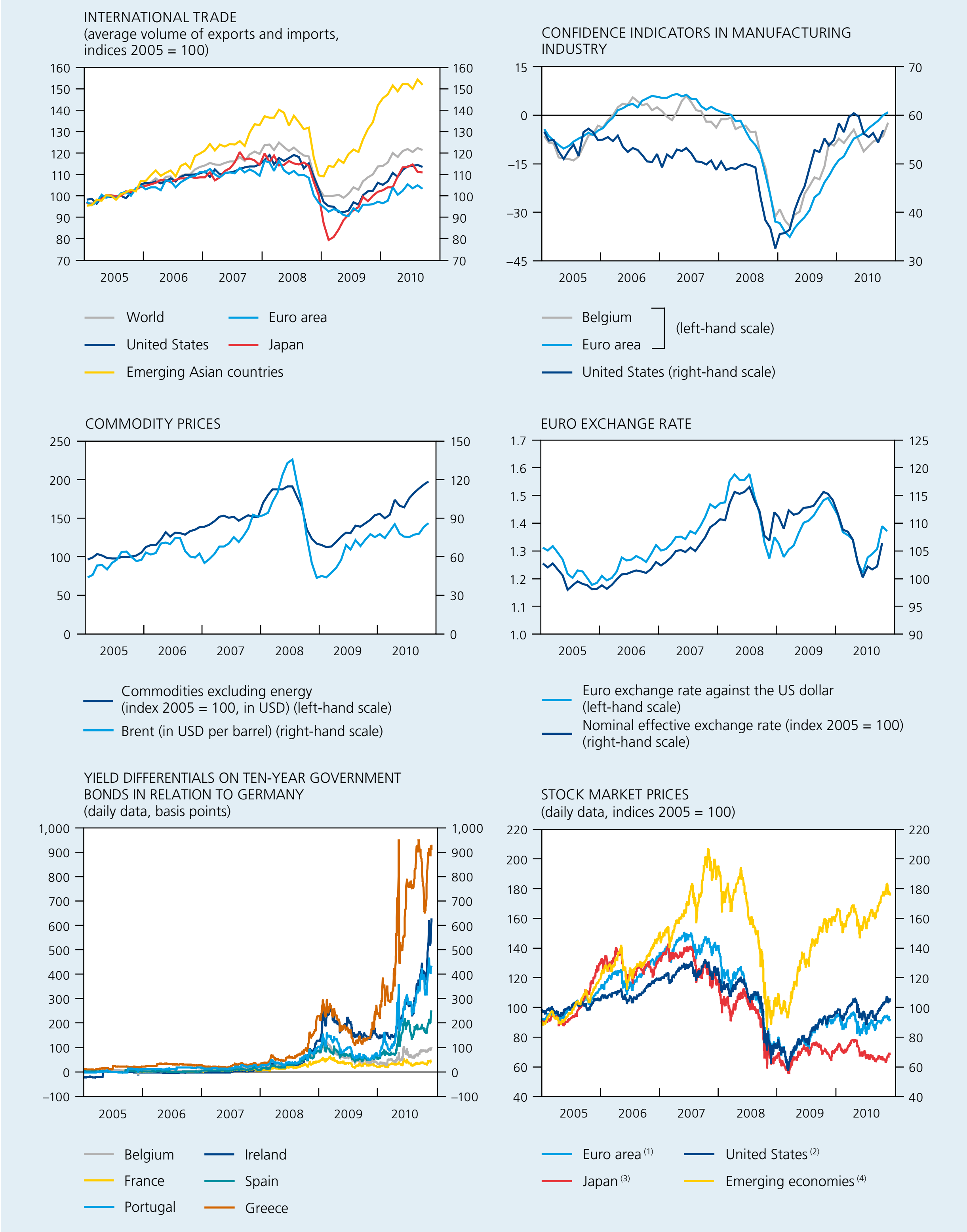
The stronger growth recorded in the euro area in the second quarter of 2010 is due partly to a revival in construction activity, which had been held back by bad weather during the winter. Apart from that temporary effect, growth was stimulated mainly by Germany's export performance and increasingly by its domestic demand. German GDP was 2.3 % up in the second quarter, encouraging activity in neighbouring countries. Conversely, the structural imbalances afflicting some countries on the periphery of the euro area were highlighted and worsened by the financial crisis and the economic recession. Depending on the case, this concerned the general competitiveness of the economy, excessive private sector debt levels – particularly following the bursting of a property bubble – or, more specifically, a banking sector in a seriously compromised debt position. This situation was a threat to the sustainability of the fiscal and financial position of the public sector, reflected in a dramatic increase in the spreads on government bonds issued by those countries. Following the Greek crisis in April and May 2010, mechanisms were set up by the European Union, the ECB and the IMF to offer emergency assistance. Nonetheless, the adjustments which are absolutely essential in order to ensure a fundamental improvement in these situations are depressing demand and activity in the economies concerned, and will continue to do so in the medium term, leading to wider divergences in performance between the euro area partners.

The resurgence of financial tensions in Europe and, more generally, the difficult transition from a cyclical upturn underpinned by temporary stimuli to a self-perpetuating recovery, particularly in the United States, curbed the rise of stock market prices in the advanced economies. However, between March 2009 and April 2010, almost 40 % of the losses recorded during the financial crisis were made good in the euro area, and almost 2/3 in the United States.

Against that background, forecasters generally expect activity to continue expanding in the advanced economies during the coming quarters, but at a slower pace than during the initial phase of the recovery. The emerging Asian economies are predicted to maintain vigorous growth. In all, according to the latest EC forecasts, global GDP is expected to grow by 4.5 % in 2010 and 3.9 % in 2011, after a 0.7 % contraction in 2009. In the United States, the rate of expansion is forecast at only 2.7 % in 2010 and 2.1 % in 2011, with 1.8 % and 1.7 % in the European Union, while growth is projected at around 10 % in China and 8.5 % in India.

CHART 1 FINANCIAL MARKET DEVELOPMENTS, BUSINESS CONFIDENCE AND INTERNATIONAL TRADE

(monthly averages, unless otherwise stated)



Sources: BIS, CPB, HWWI, Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx Broad index
(2) Wilshire 5000 index.
(3) Topix index.
(4) MSCI Emerging Markets index

TABLE 1	**PROJECTIONS FOR THE MAIN ECONOMIC REGIONS** (percentage changes compared to the previous year, unless otherwise stated)		
	2009	2010	2011
	Actual figures	Projections	
GDP in volume			
World	–0.7	4.5	3.9
of which:			
United States	–2.7	2.7	2.1
Japan	–5.2	3.5	1.3
European Union	–4.2	1.8	1.7
China	8.7	10.5	9.2
India	7.4	8.5	8.3
Russia	–7.9	3.5	3.8
Brazil	–0.2	7.4	4.8
p.m. World imports	*–13.1*	*12.1*	*7.1*
Inflation (1)			
United States	–0.4	1.6	1.1
Japan	–1.4	–0.9	–0.7
European Union	1.0	2.0	2.1
Unemployment (2)			
United States	9.3	9.6	9.4
Japan	5.1	5.1	4.9
European Union	8.9	9.6	9.5

Source: EC (autumn forecasts, November 2010).
(1) Consumer price index.
(2) Percentages of the labour force.

Activity in the euro area is likely to continue to be supported by foreign demand – particularly demand from the emerging economies – and the effect of the accommodating monetary policy. Conversely, the fiscal stimuli are set to disappear and give way to consolidation efforts. Thus, after a 1 % increase in the second quarter of 2010, GDP growth is expected to slow down at the end of the year and in early 2011, while remaining positive. According to the new Eurosystem projections, GDP growth is forecast at between 1.6 and 1.8 % in 2010 and between 0.7 and 2.1 % in 2011, following a 4.1 % fall in 2009. As is generally the case after a financial crisis, the strength of the recovery will be modest compared to the scale of the recession. However, as activity continues to gain ground, it should receive greater support from domestic demand.

Inflation is projected at between 1.5 and 1.7 % in 2010 and between 1.3 and 2.3 % in 2011. It rose sharply during 2010, from an annual average of 0.3 % last year to 1.9 % in October, driven by energy prices. That effect is likely to diminish in 2011, while domestic pressures will gradually increase in parallel with the improvement in the economic situation. However, they will remain moderate as production capacity is not yet being fully used.

TABLE 2	**EUROSYSTEM PROJECTIONS** (percentage changes compared to the previous year)					
	Euro area			*p.m. Belgium*		
	2009	2010	2011	*2009*	*2010*	*2011*
Inflation (HICP)	0.3	1.5 / 1.7	1.3 / 2.3	*0.0*	*2.3*	*2.1*
GDP in volume	–4.1	1.6 / 1.8	0.7 / 2.1	*–2.7*	*2.1*	*1.8*
of which:						
Private consumption	–1.1	0.6 / 0.8	0.4 / 1.4	*–0.2*	*1.4*	*1.4*
Public consumption	2.4	0.5 / 1.3	–0.8 / 0.6	*0.4*	*1.6*	*1.4*
Investment	–11.3	–1.4 / –0.6	–0.5 / 3.1	*–4.9*	*–2.0*	*2.1*
Exports	–13.1	9.9 / 11.7	3.7 / 8.7	*–11.4*	*10.3*	*4.8*
Imports	–11.8	8.2 / 9.8	2.6 / 7.6	*–10.9*	*9.0*	*4.2*

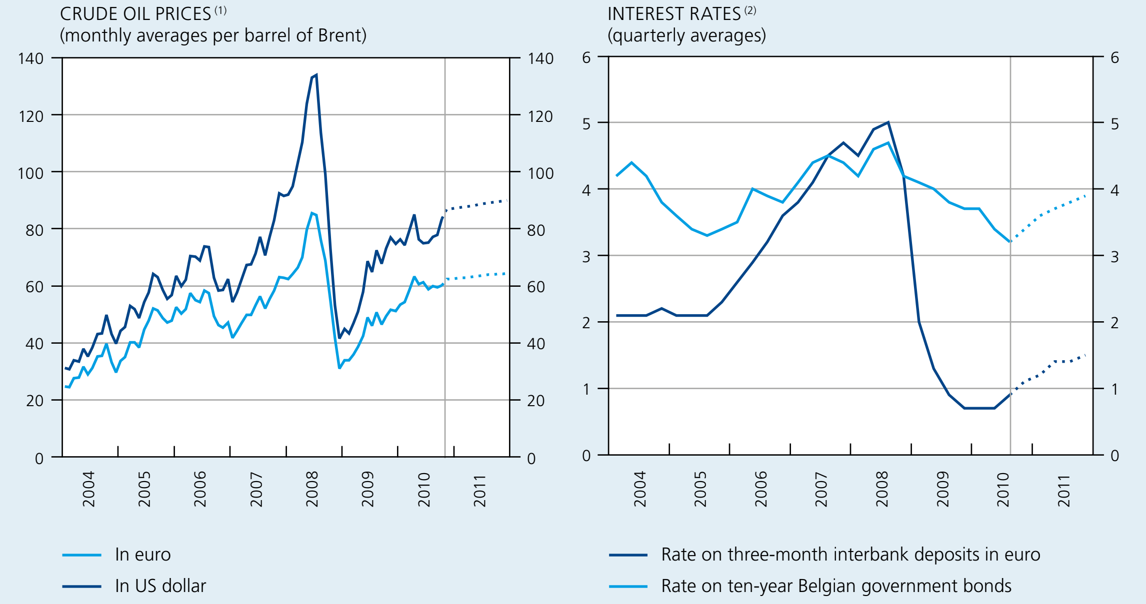
Sources: ECB, NBB.

Box – Assumptions adopted for the projections

Produced as part of a joint exercise, the economic projections for the euro area and the Bank's projections for Belgium are based on the following technical assumptions:

- The interest rate assumptions are based on market expectations. As an annual average, rates on three-month interbank deposits are projected to fall further from 1.2 % in 2009 to 0.8 % in 2010, before rising again to 1.4 % in 2011. The increase forecast for 2011 is due partly to a narrowing of the negative gap between overnight market rates and the key interest rates accompanying the expected return to normal liquidity provision, and the likely increase in the key interest rates. Interest rates on ten-year Belgian government bonds are forecast at 3.4 % in 2010 and 3.8 % in 2011.
- Bilateral euro exchange rates are held constant at their mid-November 2010 level, namely 1.39 US dollar to the euro. Thus, following a temporary depreciation of around 15 % against the US currency during the first half of the year, the bilateral euro exchange rate reverted to the average level which had prevailed in 2009.
- In line with the implicit prices reflected in forward contracts, the price of a barrel of Brent crude on the international markets is expected to average $ 79.5 in 2010 and $ 88.6 in 2011, against $ 61.9 in 2009.
- Following the slump at the end of 2008 and in early 2009, world trade began growing strongly again last year and in early 2010. That expansion is set to continue for the rest of the year and in 2011, albeit at a slower pace. As an annual average, demand from Belgium's export markets, calculated on the basis of the movement in the imports of the trading partners, declined by 11 % in 2009. It is expected to record a volume increase of 10.4 % in 2010 and 6.3 % in 2011.

ASSUMPTIONS CONCERNING THE MOVEMENT IN OIL PRICES AND INTEREST RATES



Source: ECB.
(1) Actual figures up to October 2010, assumptions from November 2010.
(2) Actual figures up to the third quarter of 2010, assumptions from the fourth quarter of 2010.

Regarding public finances, the projections are based – in accordance with the Eurosystem conventions – on the macroeconomic environment and fiscal policy measures that have already been announced and specified in sufficient detail by the governments, and which have been or are in the process of being approved by the parliaments.

EUROSYSTEM PROJECTION ASSUMPTIONS

	2009	2010	2011
		(annual averages)	
Interest rate on three-month interbank deposits in euro	1.2	0.8	1.4
Yield on ten-year Belgian government bonds	3.9	3.4	3.8
EUR/USD exchange rate	1.39	1.33	1.39
Oil price (US dollars per barrel)	61.9	79.5	88.6
		(percentage changes)	
Export markets relevant to Belgium	–11.0	10.4	6.3
Competitors' export prices	–3.8	5.5	1.5

Source: ECB.

2. Activity, employment and demand

In Belgium as in the euro area, the revival in activity which had made a hesitant start in the second quarter of 2009 has since strengthened steadily. During the first three quarters of 2010, GDP has grown by an average of 0.5 % per quarter, slightly exceeding the spring forecast. Thus, according to the NAI's flash estimate, year-on-year growth came to 2.6 % in the third quarter.

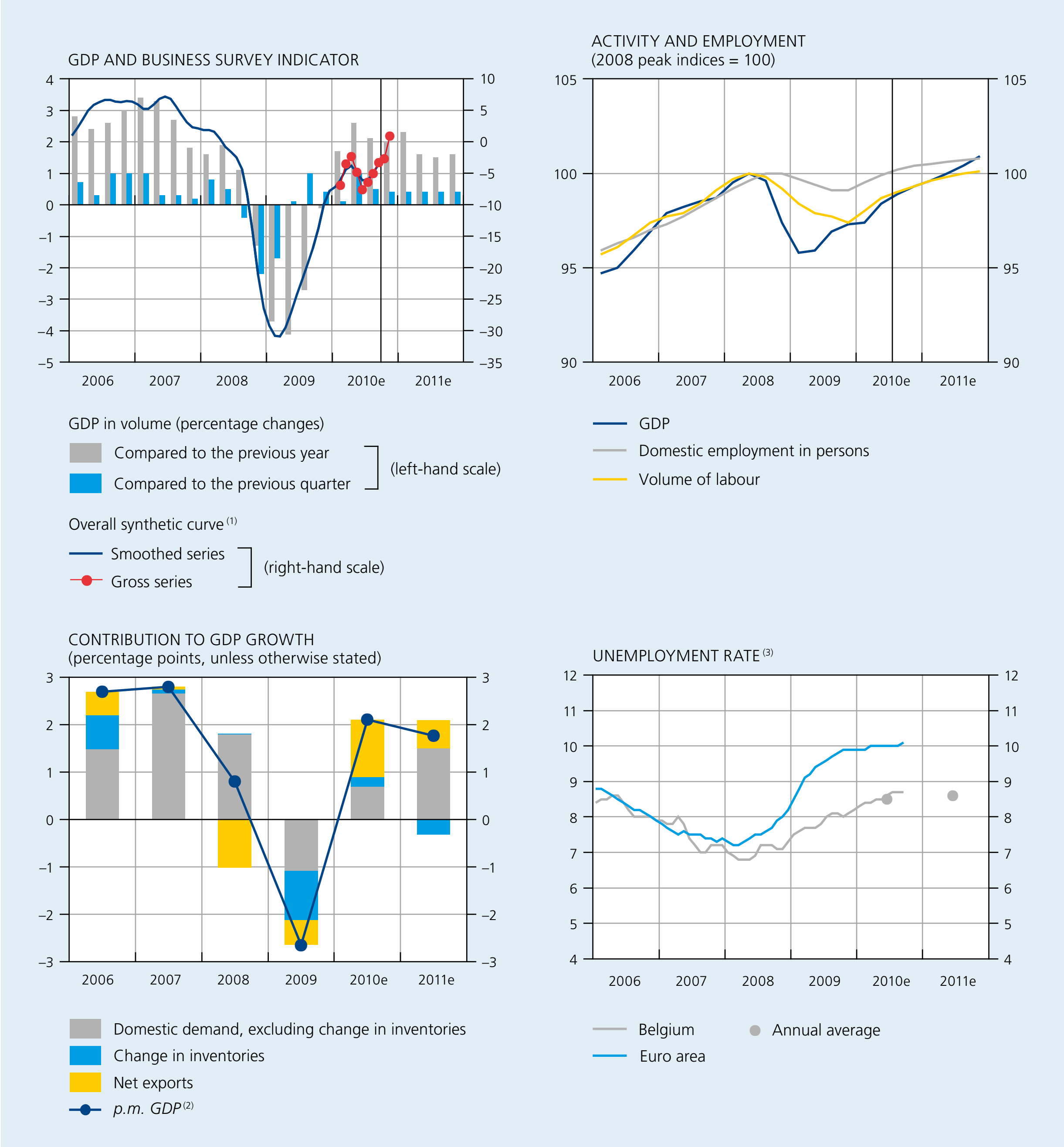
Unlike some euro area countries which had to undertake fundamental structural adjustments as a result of imbalances on the external accounts, private sector debt or the property market, the Belgian economy benefited from the improvement in the economic environment brought about by the strengthening of foreign demand, the easing of the financial tensions, and – hence – the restoration of business and consumer confidence. In that context, activity should continue to expand at the end of 2010 and in 2011 at a rate almost comparable to that at the start of the year, though it will be increasingly reliant on the gradual strengthening of domestic demand. According to the Bank's projections, following a decline of 2.7 % in 2009, average annual GDP growth should come to 2.1 % in 2010 and 1.8 % in 2011, slightly exceeding the growth figures expected for the euro area.

Contrary to what economists predicted and what households feared at the height of the 2008-2009 recession, employment has proved remarkably resilient of late. In view of the size of the shock to activity – at its nadir, GDP was down by 4.2 % and it could take twelve quarters to regain its pre-crisis level – the decline in employment was both modest and short-lived: altogether, employment was down by 38,400 units between the end of 2008 and the end of 2009. According to the national accounts data, these losses were already more or less offset by job creations during the first two quarters of 2010, whereas the general expectation was that the downward adjustment of the labour market would persist throughout that year. In fact, employment stabilised in industry while recruitment picked up in the temporary employment sector and remained steady in the health care sector. According to the new projections, net job creations should total 56,600 units during 2010 with a further additional 15,000 units in 2011.

Two factors prevented employment from fully reflecting the decline in activity. First, by cutting overtime working

CHART 2 ACTIVITY, LABOUR MARKET AND DEMAND

(data adjusted for seasonal and calendar effects, unless otherwise stated)



Sources : EC, NAI, NBB.
(1) Seasonally adjusted data.
(2) Percentage annual average changes.
(3) Harmonised unemployment rate (people aged 15 years and over) as a percentage of the labour force.

and using temporary lay-offs and other systems in favour of flexible reductions in working time, firms were able to make bigger reductions in the volume of labour used than in the number of jobs. Thus, while the number of persons in work in the economy as a whole was down by 0.4 % in 2009, the volume of labour fell by 1.8 %, reflecting a 1.5 % reduction in the implicit average working time per person. Also, apparent hourly labour productivity declined by 0.8 %, as the adjustment in the volume of labour only partly mirrored the fluctuations in activity, as generally happens in the case of marked cyclical swings.

TABLE 3 GDP, EMPLOYMENT AND MAIN EXPENDITURE CATEGORIES

(percentage changes compared to the previous year, calendar adjusted data)

	2008	2009	2010 e	2011 e
GDP (1)	0.8	–2.7	2.1	1.8
Total volume of labour (2)	1.4	–1.8	0.9	1.1
Total domestic employment in persons	1.7	–0.4	0.7	0.7
Real disposable income of individuals	2.1	1.6	–0.5	1.2
Expenditure components (1)				
Private consumption expenditure	1.4	–0.2	1.4	1.4
Consumption expenditure of general government	2.5	0.4	1.6	1.4
Gross fixed capital formation	2.4	–4.9	–2.0	2.1
Housing	–0.6	–3.0	–3.9	–0.4
General government	5.5	10.3	–1.2	8.0
Enterprises	3.4	–7.5	–1.3	2.4
p.m. Domestic expenditure excluding change in inventories (3)	*1.8*	*–1.1*	*0.7*	*1.5*
Change in inventories (3)	0.0	–1.0	0.2	–0.3
Net exports of goods and services (3)	–1.0	–0.5	1.2	0.6
Exports of goods and services	1.4	–11.4	10.3	4.8
Imports of goods and services	2.8	–10.9	9.0	4.2

Sources: NAI, NBB.
(1) In volume.
(2) Total number of hours worked in the economy.
(3) Contribution to change in GDP.

These two parameters – working time per person employed and productivity – were expected to normalise quickly once activity began to pick up, but there has been little sign of that so far. According to the projections, that process will become more marked in 2011, which is why the rate of net job creations is expected to slow.

Taking account of the increase in the labour market population, job creations have not prevented the rise in unemployment from persisting in 2010. However, the increase has been modest, with average unemployment up from 7 % in 2008 – the lowest level in the past six years – to 7.9 % in 2009 and 8.5 % in 2010. It looks set to stabilise around that level in 2011.

Bolstered by the labour market's resilience, the consolidation of the recovery expected for 2010 and 2011 is manifested mainly in more broadly based activity growth. At the height of the economic recession and the financial crisis, in late 2008 and early 2009, all expenditure categories had depressed activity, with the sole exception of final government expenditure. The recovery was triggered during 2009 by the cessation of the tendency towards de-stocking and by the export revival resulting from the marked strengthening of international trade. This meant that the change in inventories and net exports made a significant contribution to GDP growth in 2010. Domestic demand excluding the change in stocks is also expected to gather momentum, driven primarily by private consumption, reinforced by investment in housing and business investment in 2011. In the wake of this stronger demand, imports are projected to increase more sharply, reducing the contribution of net exports to GDP growth.

Exports of goods and services returned to very vigorous growth from mid-2009, benefiting from the renewed dynamism of foreign demand, especially that from the emerging economies and their main suppliers, Germany being one. As explained in the section on the international environment, however, the foreign market expansion is expected to continue at a less sustained rate during the coming quarters, with growth subsiding from 10.4 % in 2010 to 6.3 % in 2011, following the 11 % contraction in 2009. Overall, the volume of Belgian exports is expected to present a similar pattern, with forecast growth dropping from 10.3 % to 4.8 % during the two years covered by the projections.

Private consumption had fallen sharply at the beginning of 2009, as serious uncertainty over the outlook for employment and significant losses on their financial assets prompted households to boost their savings ratio substantially. The stock market rally in 2009 and the resilience of the labour market nevertheless encouraged them to relax the restraint on their consumption expenditure. In all, following a 0.2 % decline in real terms in 2009, private consumption will have grown by 1.4 % in 2010. That increase is likely to be due solely to the 1.5 percentage point cut in the savings ratio, restoring it to a level close to that prevailing in 2008. Household disposable incomes are expected to fall by 0.5 % in real terms in 2010, mainly as a result of wage moderation and subdued interest income, plus the decision by the Flemish government to limit the tax cuts which had been granted in the previous year. In 2011, private consumption is projected to grow by 1.4 %, in line with the increase in disposable income.

Conversely, individuals are estimated to have made a further 3.9 % reduction in their investment in the construction of new housing or improvements to existing housing in 2010. According to the projections, this decline which has persisted for two years should come to an end in 2011, although the annual average change will still be negative owing to the low starting point at the beginning of the year. Apart from the improvement in the outlook for employment and household income, this still fragile recovery will be underpinned by the continuing low interest rate on mortgage loans and the relative stability of the property market. In Belgium, average house prices have again been edging upwards since mid-2009, following a minor correction in the three preceding quarters, in contrast to the sharp falls recorded in Spain and Ireland, in particular.

The volume of business investment, which had recorded a very steep 7.5 % decline in 2009, is expected to fall more slowly, by 1.3 %, in 2010, before growing by 2.4 % in 2011. This gradual improvement will occur against the backdrop of a significant increase in the capacity utilisation rate of firms – from a record low of 70.1 % in April 2009 to 79.9 % in October 2010, a figure close to the average for the past two decades according to the survey of firms in manufacturing industry – in parallel with the strengthening of final demand. After a 6.5 % fall in 2009, the gross operating surplus of firms is set to increase again in 2010 and 2011, by 7.9 and 2.3 % respectively, enabling firms to make more use of internal funding once again.

Finally, growth in the consumption expenditure of general government is forecast at 1.6 % in 2010 and 1.4 % in 2011. General government investment, which had recorded a strong 10.3 % rise in 2009, is expected to dip slightly in 2010. Fluctuating in line with the electoral timetable, it should expand strongly again by 8 % in 2011, in the run-up to the 2012 local elections.

3. Prices and costs

In line with a trend which had begun in the middle of the previous year, when the inflation rate had been negative for a time, inflation measured by the HICP began rising rapidly during 2010 to reach 3.1 p.c. in October. However, it is forecast to dip slightly during the coming year, so that – as an annual average – it will increase from the rate of 0 p.c. recorded in 2009 to 2.3 p.c. in 2010 before subsiding to 2.1 p.c. in 2011.

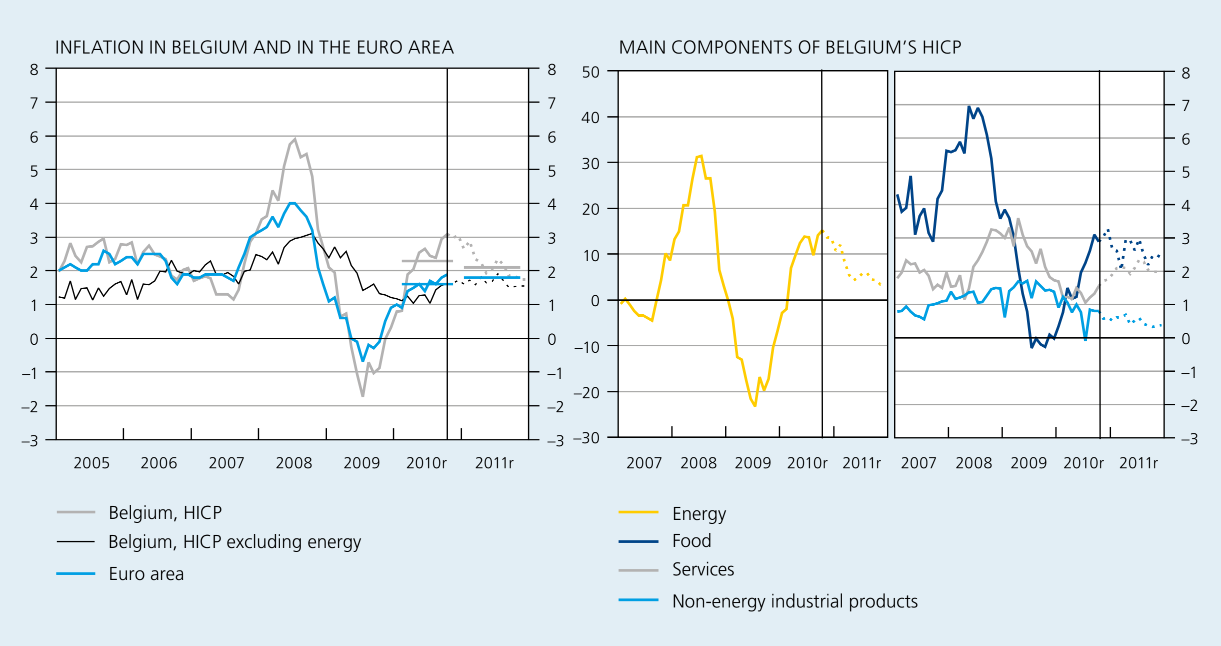
The energy component is largely responsible for these fluctuations. In the wake of the collapse in oil prices at the height of the global economic crisis, consumer prices of energy had fallen by 14 % last year, and that had been a major factor in the generally low level of inflation during that period. However, oil prices rapidly bounced back to reach almost $ 80 dollars per barrel of Brent from the beginning of 2010 – double the lowest figure recorded a year earlier – and hovered around that level for the rest of the year. The effect of this increase on consumer prices in Belgium was reinforced during the first half year by the temporary depreciation of the euro against the dollar; it was therefore the main source of the higher inflation at that time. The recent fluctuations in the energy component of the HICP also account for much of the inflation gap between Belgium and the average for the euro area and for the three neighbouring countries.

As explained in more detail in another article in this Review (1), inflation in Belgium is more sensitive to movements in international oil prices. That is due to the greater weight of energy in the households' consumption bundle, a lower level of excise duty on energy products, and the swifter, more marked adjustment of consumer prices of gas and electricity. In 2009 these factors had been favourable, but in 2010 their effect was adverse. Moreover, inflation excluding energy was also slightly higher in Belgium during the recent period, owing to a stronger response to the trend in food commodity prices and, more generally, a more sustained rise in labour costs.

(1) See the article "The inflation gap between Belgium and the three main neighbouring countries and likely repercussions on competitiveness".

CHART 3 INFLATION

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



Sources: EC, NBB.

In line with a trend which had begun before the economic recession, early in 2009, inflation excluding energy continued to ease, dropping to 1 % in July 2010. The significantly slower pace of food price rises contributed to this fall in 2009, but the main factor was the movement in prices of services and non-energy industrial goods, owing to the weight of these two components in the HICP. The initial reasons for the slower pace concerned pressure on import prices and profit margins in a context of widespread weakness of demand and surplus production capacity. In 2010, the decline in unit labour costs also contributed to the moderation of inflation.

However, the trend was reversed from the summer of 2010, when inflation excluding energy began rising again, although at a relatively modest pace. Food prices increased more sharply during the spring and summer, partly because of the bad weather and the higher prices of food commodities, while the improvement in economic activity led to higher inflation in services. That rise is expected to be modest but steady in 2011, with the consolidation of the economic recovery. As an annual average, inflation excluding energy is forecast to increase from 1.3 % in 2010 to 1.7 % in 2011. The rise in the health index of consumer prices, used as the benchmark for wage indexation, is set to gather pace from 0.6 % in 2009 to 1.7 % in 2010 and 2.1 % in 2011.

The 0.2 % fall in unit labour costs in the private sector in 2010, following an increase of 4.7 % in 2009, is due partly to the cyclical pattern of labour productivity. While firms had not cut the volume of labour by the full amount of the decline in output in 2009 – causing a noticeable 0.8 % reduction in hourly productivity –- they took advantage of the revival in activity to make more efficient use of the factor labour. Thus, hourly labour productivity is projected to increase by 0.7 % in 2010 and 0.4 % in 2011, though that is below the average rise of 1.2 % recorded from 2004 to 2008.

The movement in hourly labour costs in the private sector is also expected to contribute to the strong deceleration in unit labour costs between 2009 and 2010, as the increase should slow from 3.9 to 0.5 %. That essentially corresponds to the predicted effect of automatic wage indexation, influenced after a time lag by the higher inflation measured on the basis of the health index in 2008, then by the slowdown recorded in the following year. Apart from the impact of indexation, the rise in labour costs in real terms should be limited, since the central agreement only makes provision for the possibility of granting one-off bonuses of € 125 in 2009 and € 250 in 2010. The contribution to increased labour costs made by redundancy payments, including those relating to the corporate restructuring undertaken during the recession,

TABLE 4 PRICE AND COST INDICATORS
(percentage changes compared to the previous year)

	2008	2009	2010 e	2011 e
Total HICP	4.5	0.0	2.3	2.1
Energy	19.8	–14.0	9.7	5.9
Total excluding energy	2.7	1.9	1.3	1.7
GDP deflator	1.9	1.1	1.7	1.7
Labour costs in the private sector:				
Unit labour costs	3.8	4.7	–0.2	2.0
Hourly costs	3.6	3.9	0.5	2.4

Sources: EC, NAI, NBB.

was relatively modest, and the temporary unemployment benefit supplements paid in certain sectors declined in 2010, reflecting the reduced use of this system, thus curbing the growth of hourly costs.

The assumption adopted for 2011 of a 2.4 % increase in hourly labour costs in the private sector corresponds largely to the expected effect of indexation. This is a technical assumption which in no way anticipates the outcome of the forthcoming pay negotiations for the period 2011-2012.

4. Public finances

According to the latest data, Belgium's public finances will end the year 2010 with a deficit of 4.8 p.c. of GDP, which is a 1.2 percentage point improvement on 2009. In the absence of a budget for the federal government and social security, the forecasts for 2011 are highly uncertain. If there is no change of policy in those two sectors, and in the macroeconomic context described above, the deficit is forecast to fall slightly as a percentage of GDP.

Expressed as a percentage of GDP, government revenue is forecast to rise by 0.5 percentage point in both 2010 and 2011, to reach 49.1 %. This increase is due partly to the growth of fiscal and parafiscal revenues, resulting mainly from the combination of three factors. First, certain measures – such as the limiting of the flat-rate tax cut granted by the Flemish Region and the increase in excise duty on diesel – will boost revenues compared to 2009. Second, the disappearance of the negative effect, amounting to around 0.4 % in 2009, caused by the acceleration of

TABLE 5 GENERAL GOVERNMENT ACCOUNTS (1)
(percentages of GDP)

	2008	2009	2010 e	2011 e
Revenue	48.8	48.1	48.6	49.1
Fiscal and parafiscal revenue	43.7	42.9	43.1	43.4
Other	5.1	5.3	5.5	5.8
Primary expenditure	46.4	50.5	49.9	50.3
Primary balance	2.4	–2.4	–1.3	–1.2
Interest charges	3.8	3.6	3.5	3.5
Financing requirement (–) or capacity	–1.3	–6.0	–4.8	–4.7
Consolidated gross debt	89.6	96.2	97.6	99.8

Sources: NAI, NBB.
(1) According to the methodology used in the excessive deficit procedure.

personal income tax assessments, will also boost revenues. However, as wages are taxed more heavily, on average, than other incomes, the decline in their share of GDP, which is usual in an economic recovery phase, did partly offset those effects. Also, the rise in other revenues is due to the substantial increase in dividends and other revenues following government intervention in financial institutions, in the form of capital injections, loans or State guarantees.

Primary expenditure, which totalled 50.5 % of GDP in 2009, is likely to fall to 49.9 % of GDP in 2010, mainly as a result of three factors. First, two court rulings against the Belgian State concerning taxes wrongly levied in the past on certain companies receiving dividends from foreign subsidiaries, on the one hand, and also on married unemployed persons had depressed expenditure by 0.4 percentage point of GDP in 2009, but will cease to have an impact in 2010. Next, the upturn in economic activity will have curbed the increase in social security expenditure. Finally, wages and social benefits were not indexed until the end of the year, so that inflation will have less impact on these expenditure categories than on GDP. In 2011, primary expenditure is projected to rise by 0.4 percentage point of GDP, mainly as a result of strong investment by local authorities – a consequence of the electoral cycle – and the trend rise in expenditure on health care as a percentage of GDP.

Interest charges are forecast to edge downwards in 2010, as the growth of the public debt is more than offset by the fall in the implicit interest rate on the debt. They are expected to stabilise in 2011.

The rise in the general government debt ratio is projected to continue in 2010 and 2011, but at a much more modest pace than in the previous two years. In 2010, the debt ratio is estimated at 97.6 % of GDP. It will probably rise further in 2011, though remaining just below 100 % of GDP.

5. Risk factor assessment

In Belgium, the general picture of a gradual consolidation of the economic situation presented in the two previous projection exercises is still the most likely scenario at the moment. However, the revival in activity was more vigorous for a time than had been predicted at the end of 2009 and during the first two quarters of 2010, which explains the upgrading of the GDP growth forecast for 2010, from 1.3 % in the June 2010 exercise to 2.1 % in the new forecast. Since they take account of the latest data, the Bank's projections are higher than those presented earlier by the NAI and the IMF. They are close to those published recently by the OECD and the EC. The picture regarding the number of persons in employment has also been much better than expected, since job losses were limited in 2009, and did not persist in 2010. For inflation, the projected increases were also revised upwards owing to the higher commodity prices and a faster than expected increase in service prices. Regarding the general government budget balance, the Bank predicts a deficit of 4.8 % of GDP in 2010 and 4.7 % in 2011, which is similar to most other forecasts. The improvement on the June figures is due mainly to the more favourable economic climate since, in the absence of a fully operational federal government, there have been few changes in budgetary and fiscal policy.

Various risk factors persist.

TABLE 6 COMPARISON OF THE FORECASTS FOR BELGIUM
(percentage changes compared to the previous year)

	GDP in volume		Inflation [1]		Budget balance [2]		Publication date
	2010	2011	2010	2011	2010	2011	
NBB – Autumn 2010	2.1	1.8	2.3	2.1	–4.8	–4.7	December 2010
p.m. Spring 2010	*1.3*	*1.7*	*2.0*	*1.9*	*–5.0*	*–5.3*	*June 2010*
NAI	1.8	1.7	2.1	2.0	n.	n.	September 2010
IMF	1.6	1.7	1.9	1.9	–4.8	–5.1	October 2010
OECD	2.1	1.8	2.1	1.6	–4.9	–4.5	November 2010
EC	2.0	1.8	2.3	1.9	–4.8	–4.6	November 2010
p.m. Actual figures for 2009	*–2.7*		*0.0*		*–6.0*		

(1) HICP, except for NAI: national consumer price index.
(2) Percentages of GDP.

In regard to the international environment, those risks depend on the extent to which the recovery is consolidated in the various economic regions. Experience has shown that it is harder to emerge from a recession which was accompanied by a financial or property crisis. That is the type of scenario adopted for the projections, but it is difficult to determine the scale of the effects of the reduction in the household and general government debt ratio resulting from measures which are likely to be taken simultaneously in a number of economies.

Moreover, the reorganisation of the financial sector is still ongoing. It will also have to take account of the new rules currently being laid down at international level to limit the likelihood and scale of a new financial crisis.

On the domestic front, the economy's relative resilience during the crisis and its ability to take advantage of the improvement in the general economic climate have so far made it less urgent than in other countries to consolidate the situation of the government accounts. However, apart from the improvement due to temporary factors in 2010, structural measures will be needed to ensure that those accounts revert to a path which is sustainable in the long term, as defined in the stability programme. Those measures must be taken before too long, in view of the challenges presented by population ageing and by the need to strengthen the economy's growth potential.

Strengthening the productivity of the economy, mobilising a bigger proportion of the population in employment, and enhancing competitiveness are also vital factors for meeting the challenges of population ageing and globalisation. That implies, in particular, control over labour costs. In the present projections, the rise in hourly labour costs in the private sector in 2011 is assumed to be similar to the effect of automatic indexation. That assumption in turn influences the forecasts for inflation and employment.

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 in volume	2.8	0.8	–2.7	2.1	1.8
Contributions to growth:					
Domestic expenditure, excluding change in inventories	2.7	1.8	–1.1	0.7	1.5
Net exports of goods and services	0.1	–1.0	–0.5	1.2	0.6
Change in inventories	0.1	0.0	–1.0	0.2	–0.3
Prices and costs					
Harmonised index of consumer prices	1.8	4.5	0.0	2.3	2.1
Health index	1.8	4.2	0.6	1.7	2.1
GDP deflator	2.3	1.9	1.1	1.7	1.7
Terms of trade	0.2	–2.4	3.5	–1.1	–0.4
Unit labour costs in the private sector	1.9	3.8	4.7	–0.2	2.0
Hourly labour costs in the private sector	3.1	3.6	3.9	0.5	2.4
Hourly productivity in the private sector	1.1	–0.2	–0.8	0.7	0.4
Labour market					
Domestic employment (average annual change in thousands of persons)	69.6	75.9	–15.9	28.9	29.5
p.m. Change during the year, in thousands of persons (1)	*77.8*	*57.4*	*–38.4*	*56.6*	*15.3*
Total volume of labour (2)	1.9	1.4	–1.8	0.9	1.1
Harmonised unemployment rate (3) (percentages of the labour force)	7.5	7.0	7.9	8.5	8.6
Incomes					
Real disposable income of individuals	2.2	2.1	1.6	–0.5	1.2
Savings ratio of individuals (percentages of disposable income)	16.4	17.0	18.3	16.8	16.8
Public finances (4)					
Overall balance (percentages of GDP)	–0.3	–1.3	–6.0	–4.8	–4.7
Primary balance (percentages of GDP)	3.5	2.4	–2.4	–1.3	–1.2
Public debt (percentages of GDP)	84.2	89.6	96.2	97.6	99.8
Current account (according to the balance of payments, percentages of GDP)	**1.6**	**–1.9**	**0.8**	**1.2**	**1.3**

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, non calendar adjusted data.

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