Economic projections for Belgium – Spring 2010

Introduction

Following the worst recession to hit the global economy in more than sixty years, the recovery which had begun in mid 2009 continued during the rest of the year and in early 2010. Overall, the revival in activity has so far been slightly stronger than expected six months ago, the resolute action of the monetary authorities and governments at the height of the crisis having proved effective in restoring the operation of the financial system and providing support for demand, thereby reviving business and consumer confidence across the world. Thus, after reaching a low point in the second quarter of 2009, international trade began expanding again, while the substantial destocking eased and the financial market tensions faded away in most economic regions.

However, the recovery varied in strength from one country to another: in that regard, the emerging economies of Asia, propelled mainly by China, acted as a driving force. In view of the scale of the financial crisis and the economic recession, a number of factors could hamper this recovery in the advanced economies, after the initial upturn. On the one hand, the sizeable fiscal and monetary stimuli will need to be phased out, giving way to consolidation. Also, restoration of a sound financial position on the part of the various economic agents, though necessary to lay the foundations for balanced, sustainable growth, could depress demand for some time. However, the scale of that adjustment varies from one sector to another – government, financial institutions, non-financial corporations or households – in the different countries.

In the euro area as a whole, and the European Union in general, growth has also returned to positive figures since mid 2009, but it is less vigorous than in the United States, and especially, the emerging economies. The economic recession has highlighted major internal or external imbalances in some economies, while the growth of public deficits and debts has fuelled fears on the financial markets concerning the long-term sustainability of public finances; in Greece's case it triggered liquidity problems. On that occasion, as had also happened at the time of the autumn 2008 banking crisis, the various institutions involved – IMF, EC, ECB – and the European governments took measures during May 2010 to ensure that the tensions on certain segments of the government bond market did not spread to the financial sector as a whole. However, those plans will need to be accompanied by drastic fiscal retrenchment and measures to strengthen the competitiveness of the economies concerned.

The macroeconomic projections for 2010-2011 from the Eurosystem's six-monthly exercise for the euro area, presented in the June 2010 ECB Bulletin [1], and the corresponding projections for Belgium were therefore produced in a context which is both encouraging and highly uncertain. For the euro area, compared to the December 2009 findings, the new projections record growth which has undergone slight upward revision in 2010, as a result of foreign demand. However, domestic demand remains sluggish, and that explains why the growth rate predicted for 2011 is still low. In the short term, inflation is driven higher by the combined effects of the recent increase in commodity prices and the depreciation of the euro. Yet domestic price pressure remains weak and should continue to be subdued during the projection period.

(1) The Eurosystem's macroeconomic projections for the euro area, published in June and December each year, are updated by the ECB in March and September.

In Belgium the picture is broadly the same, although – in the absence of major imbalances – the economy has proved relatively resilient during the recession and should enjoy growth slightly above the euro area average in 2010 and 2011. This article explains those findings in detail. The first section summarises recent developments and the outlook for the international environment, together with the Eurosystem central bank projections for the euro area. A box sets out the technical assumptions underlying this joint exercise. Section 2 gives the detailed results for activity and employment in Belgium, section 3 examines the components of demand, while section 4 deals with inflation and labour costs. Section 5 focuses on the general government accounts. In that regard, it should be noted that the projections for public finances take account only of measures which have been formally approved by the government, with sufficiently specific implementing conditions. The final section looks at the risks surrounding these projections, and compares them with the other main forecasts available for Belgium.

The Bank's projections were finalised on the basis of data available as at 27 May 2010.

1. International environment

1.1 The global economy

The revival in activity and international trade which began in mid 2009, encouraged by accommodating economic policies, the easing of financial market tensions, and the restoration of business and consumer confidence, continued and even gathered momentum during the second half of 2009 and at the start of 2010. However, the strength of the recovery varied from one economic region to another. The emerging Asian countries maintained steady growth, making a major contribution to the recovery of world trade, and taking in tow the economies with which they have close links, including the commodity exporting countries. In China, in the first quarter of 2010, GDP growth reached 11.9 p.c. compared to the corresponding quarter of the previous year.

Growth was weaker in the advanced economies, with GDP up by 2.5 p.c. in the United States, 4.2 p.c. in Japan and 0.5 p.c. in the European Union as a whole, so that neither output nor exports there have yet regained their pre-crisis level. In that context, central banks kept their key interest rates at historically low levels, after the large and rapid cuts adopted during the recession became widespread, and have so far only just started to dismantle the exceptional measures which they had taken to avert the risks of the collapse of the financial system in late 2008 and early 2009. Similarly, the support measures taken by the governments have generally been kept on, although their impact on activity is now less than it was at first.

The strengthening of the global economy and the easing of financial market tensions triggered a marked recovery in business confidence throughout 2009 and 2010, with the survey indicators returning to levels comparable to their historical average. That improvement in turn presages a continuing revival in economic activity, since firms could become less restrictive in their attitude towards stock-building, employment or investment.

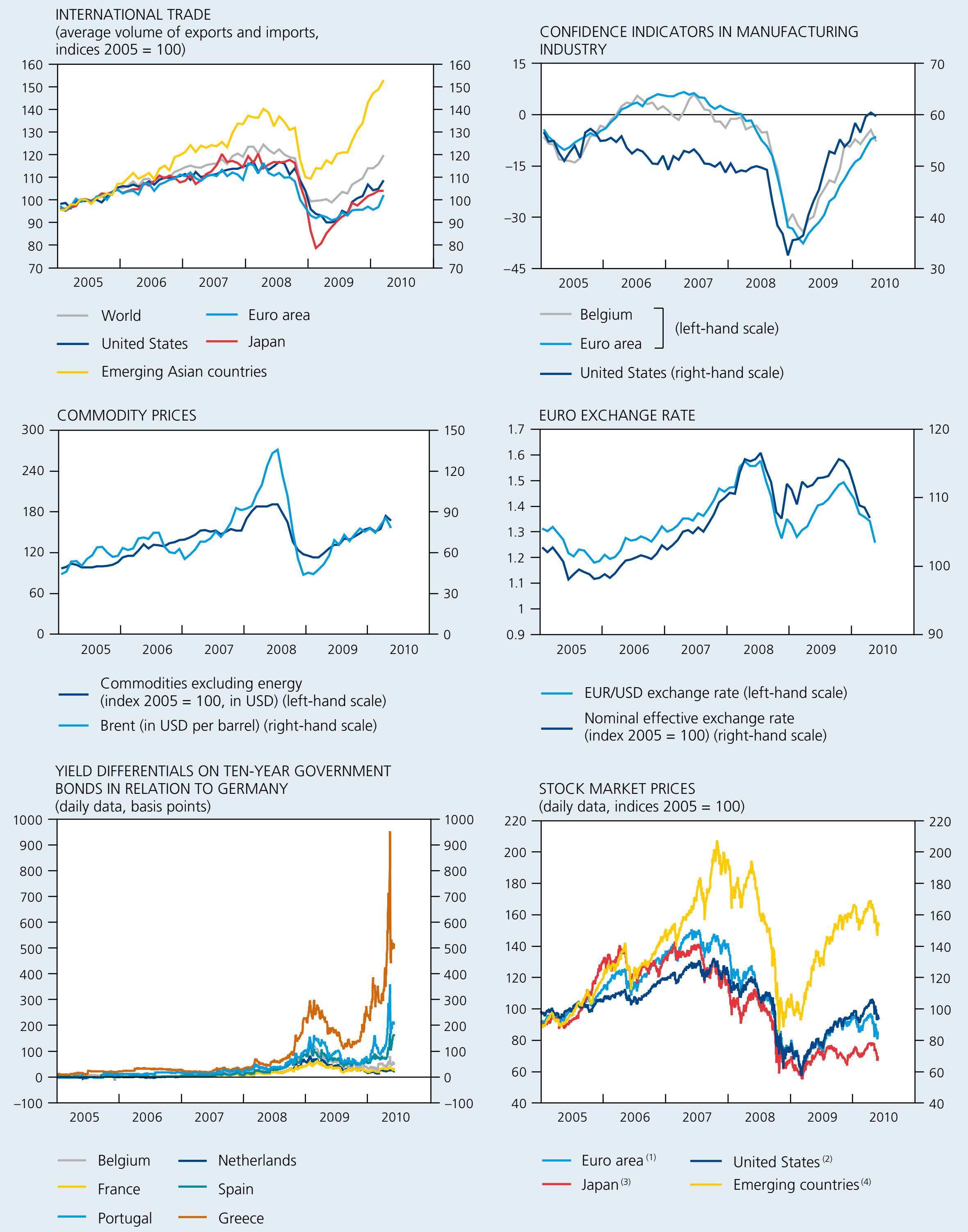
At the same time, the more sustained demand, particularly from the emerging economies, has brought a reversal in the trend in commodity prices. After reaching a low point in December 2008 at around USD 40 per barrel of Brent, crude oil prices on the international markets doubled to an average of USD 80 in May 2010, exerting direct upward pressure on inflation.

However, there are various factors suggesting that the strengthening of activity could be relatively modest in the advanced economies, as is generally the case after economic recessions accompanied by a financial crisis. First, the effect of temporary factors which had permitted the recovery – notably the measures encouraging the purchase of new vehicles in certain countries, the acceleration of public investment, and the turnaround in the trend in stocks – is likely to wane. The other components of domestic demand could take some time to gain momentum, since at this stage the effects of the economic and financial crisis have not yet been fully absorbed. Not only did the crisis give rise to excess capacity – concerning both physical capacity and labour – but it also led to a deterioration in the balance sheet position of credit institutions, firms and households, exacerbated in some countries by a major property market correction. Restoration of that position by a process of reducing debt levels or increasing savings is likely to depress demand. Finally, the recession resulted in a sharp deterioration in public finances worldwide, threatening their long-term sustainability unless consolidation measures are taken.

These factors seem particularly significant for the euro area countries, as is evident from the financial markets' increasing attention to the situation in certain countries, reflected in a marked widening of the spreads on government bonds in relation to German *Bunds.* In general, recent developments have highlighted external imbalances (in terms of competitiveness) and internal imbalances (via an excessive increase in debt levels) within the euro area.

CHART 1 DEVELOPMENTS CONCERNING THE FINANCIAL MARKETS, BUSINESS CONFIDENCE AND INTERNATIONAL TRADE

(monthly data, 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.

The box below discusses the tensions and their consequences for the euro area. Those fears have also sparked the depreciation of the euro by causing a downward revision of the growth forecasts: the exchange rate dropped from USD 1.44 at the end of 2009 to USD 1.26 per euro, on average, in the last 10 days of May 2010, a 13 p.c. depreciation. At the same time, European stock market indices fell by around 10 p.c. against their 2010 peak, driven down by financial stocks.

Against this backdrop of a recovery in global activity accompanied by great uncertainty in the advanced economies, the forecasts for the main economic regions indicate continuing growth in 2010 and 2011, following the 0.9 p.c. fall in world GDP in 2009. That year saw the first global recession since the Second World War. However, some countries such as China and India had been spared, and maintained clearly positive growth. According to the EC forecasts, the emerging Asian countries and commodity exporting countries such as Brazil and Russia should see vigorous growth again in 2010 and 2011, close to the pre-crisis average.

GDP growth is likely to be less robust in the advanced economies, being estimated at 2.8 p.c. in the United States, 2.1 p.c. in Japan, and 1 p.c. on average in the EU. In these first two cases, the growth rate is expected to fall slightly in 2011, as the temporary effect of the initial bounce will only gradually be replaced by the endogenous strengthening of demand for consumption and investment. In the EU, the expansion of activity is set to continue strengthening in 2011, though it will only reach 1.7 p.c. However, these figures are insufficient to reduce the unemployment rate.

TABLE 1 PROJECTIONS FOR THE MAIN ECONOMIC AREAS

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

	2009	2010	2011
	Actual	Projections	
GDP in volume			
World	–0.9	4.0	4.0
of which:			
United States	–2.4	2.8	2.5
Japan	–5.2	2.1	1.5
European Union	–4.2	1.0	1.7
China	8.7	10.3	9.4
India	5.7	8.1	8.0
Russia	–7.9	3.7	4.0
Brazil	–0.2	5.7	4.5
p.m. World imports	*–11.1*	*7.7*	*6.0*
Inflation (1)			
United States	–0.4	1.7	0.3
Japan	–1.4	–0.5	–0.4
European Union	1.0	1.8	1.7
Unemployment (2)			
United States	9.3	9.7	9.8
Japan	5.1	5.3	5.3
European Union	8.9	9.8	9.7

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

Box 1 – Tensions on the government bond markets and their consequences for the euro area

The private debt crisis which had begun on the US property market and affected the financial sector in many countries by August 2007, and even more seriously from September 2008 onwards, causing the severest global recession for sixty years, ultimately led to a public debt crisis in certain European countries. In October 2009, the revelation of a large upward revision in Greece's public deficit generated tensions on the Greek public debt market. In April 2010, concerns about the sustainability of Greek public finances worsened, generating a steep rise in the interest rates at which the Greek State was able to raise finance, and thus triggering a liquidity crisis. Moreover, contagion effects began to appear. Financial operators focused their attention on the situation in countries facing similar – though much less acute – problems concerning public finances and competitiveness, such as Portugal and Spain. In addition, fears that the insolvency of Greece, and perhaps other countries, too, might cause losses which could destabilise the banking sector of the creditor countries increased the banks' financing costs. Finally, the potential impact of that turbulence on the financing of the economy caused a decline in share prices and a rise in the risk premium component of corporate bonds, as well as a depreciation of the euro.

The authorities took various measures to contain the crisis and safeguard financial stability in the euro area. That involved providing financial assistance for the States facing a self-fulfilling loss of confidence on the financial markets, to give them time to regain their credibility, as well as restoring the operation of the disrupted markets, and giving an assurance of radical measures to consolidate the public finances of the countries in difficulty.

On the one hand, the European budgetary authorities and the IMF set up a system of conditional financial assistance. On 2 May 2010, the Eurogroup decided to grant this type of support to Greece : under a three-year programme, Greece will be able to borrow 110 billion euro, namely 30 billion from the IMF and 80 billion from the other euro area Member States ; those loans are conditional on the application of stringent fiscal retrenchment measures (an improvement in the structural balance of at least 10 p.c. of GDP between 2009 and 2014, much of it during 2010, and a reform of the pension system). The agreement also provides for the implementation of structural reforms to strengthen the Greek economy, notably by improving the operation of the labour market. Since this decision brought only very brief respite on the financial markets, the Ecofin Council decided on 9 and 10 May 2010 to create a European stabilisation mechanism for a three-year period, for the purpose of granting conditional financial aid to countries getting into difficulty on account of exceptional events beyond their control, up to a total of 500 billion euro. European Commission loans could fund a total of 60 billion euro intended for all EU Member States. In addition, a Special Purpose Vehicle guaranteed by the euro area Member States could contribute up to 440 billion euro towards financing assistance for euro area countries. The IMF is to participate in the support operations and the definition of the conditions ; it is expected to provide assistance equivalent to at least half of the European aid. At the same meeting, the Council also gave a firm undertaking to speed up fiscal consolidation and structural reforms where necessary. In that connection, the Spanish and Portuguese governments announced new fiscal measures.

In addition, on 10 May 2010, the ECB Governing Council – after having adapted the rules on guarantees accompanying Eurosystem loans – adopted a series of measures designed to ease the serious tensions on certain markets. In particular, it decided to intervene on the public and private bond markets of the euro area in order to remedy the disruption on the securities markets (*Securities Markets Programme*), and to neutralise the impact of those operations on liquidity. It also reactivated the supply of unlimited three- and six-month liquidity at a fixed rate, and the provision of liquidity in US dollar. Monetary policy will continue to aim at price stability in the euro area : decisions on the monetary policy stance will depend on an assessment of the risks of inflation – in particular, it is important to ensure that a false perception of a monetary financing of the public sector does not fuel inflation expectations – and the risks of deflation – the effect of fiscal adjustments on demand and hence on prices being duly taken into account.

It is vital to learn lessons from the crisis in order to improve the governance of the euro area. The strengthening of national fiscal institutions is likewise crucial. On 12 May 2010, the European Commission published a series of proposals for strengthening the coordination of economic policies, centring on four topics : an improvement in the application of the Stability and Growth Pact (with greater emphasis on the long-term sustainability of public finances, sanctions in the event of insufficient progress towards the medium-term objectives, and heavier penalties under the excessive deficit procedure) ; the supervision of macroeconomic developments in the euro area countries (including the possibility of issuing recommendations in the event of imbalances, loss of competitiveness, or excessive increases in credit and asset prices) ; introduction of a "European semester" permitting coordination of fiscal and structural supervision and their integration in the national parliamentary processes ; and consolidation of the crisis management system for the euro area shaped by the European stabilisation mechanism, comprising assistance to safeguard financial stability and strict conditions to avoid moral hazard, i.e. implicit encouragement for fiscal laxity. Since then, a working group on economic governance set up by the president of the European Council has started work. It is to report to the European Council on 17 June and plans to present its conclusions in October 2010.

1.2 Eurosystem projections for the euro area

Boosted by the strengthening export markets, the support measures adopted under the government recovery plans to combat the recession, and the easing of the strong tendency towards de-stocking recorded a year earlier, activity in the euro area began expanding again from the third quarter of 2009. However, growth was modest, at 0.7 p.c. in cumulative terms up to the first quarter of 2010, following a maximum fall of 5.2 p.c. during the recession.

According to the Eurosystem projections, the recovery should continue at a modest pace in 2010, the support provided by foreign demand being partly offset by the gradual disappearance of the temporary effects associated with economic policy measures or stock movements. The recovery should strengthen gradually during 2011, as domestic demand picks up. In all, after a fall of 4.1 p.c. in 2009, GDP is projected to grow in real terms by between 0.7 and 1.3 p.c. in 2010 and between 0.2 and 2.2 p.c. in 2011. As is generally the case after a financial crisis, the recovery rate will therefore be modest, taking account of the necessary adjustments to the balance sheet position of financial institutions, non-financial corporations and households, while substantial surplus production capacity still persists as yet.

Turning to the components of demand, exports could be underpinned by strong foreign market growth, while benefiting from the favourable impact on competitiveness of the euro's depreciation. Taking account of the excess capacity and the still high level of uncertainty over the outlook for demand, business investment will be slow to respond to the revival in activity. Moreover, although the property market corrections taking place in certain euro area countries have become less severe in recent months, they will continue to depress investment in housing. Finally, the growth of consumption will initially be curbed by disposable income, affected by wage moderation and the weakness of employment. Unemployment is in fact likely to continue rising during the projection period, now that the initial shock resulting from the decline in output in late 2008 and early 2009 has been largely absorbed by the simultaneous reduction in working time per person and productivity. These factors restraining domestic demand should gradually ease, as the improvement in the economic situation continues. However, the savings rate is likely to remain significantly above its pre-crisis level, owing to higher unemployment and the great uncertainty over the economic and financial prospects.

Inflation has gathered pace considerably in the recent period, from an average of 0.3 p.c. in 2009 to 1.5 p.c. in April 2010, owing to the impact of energy prices. That movement, due to the disappearance of base effects resulting from the sharp fall in oil prices a year ago, followed by their renewed rise and the recent euro depreciation, is expected to continue during the year. As demand is still relatively feeble, however, domestic inflationary pressures should be contained in regard to both unit labour costs and profit margins. Overall, inflation is expected to average between 1.4 and 1.6 p.c. in 2010 and between 1 and 2.2 p.c. in 2011.

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

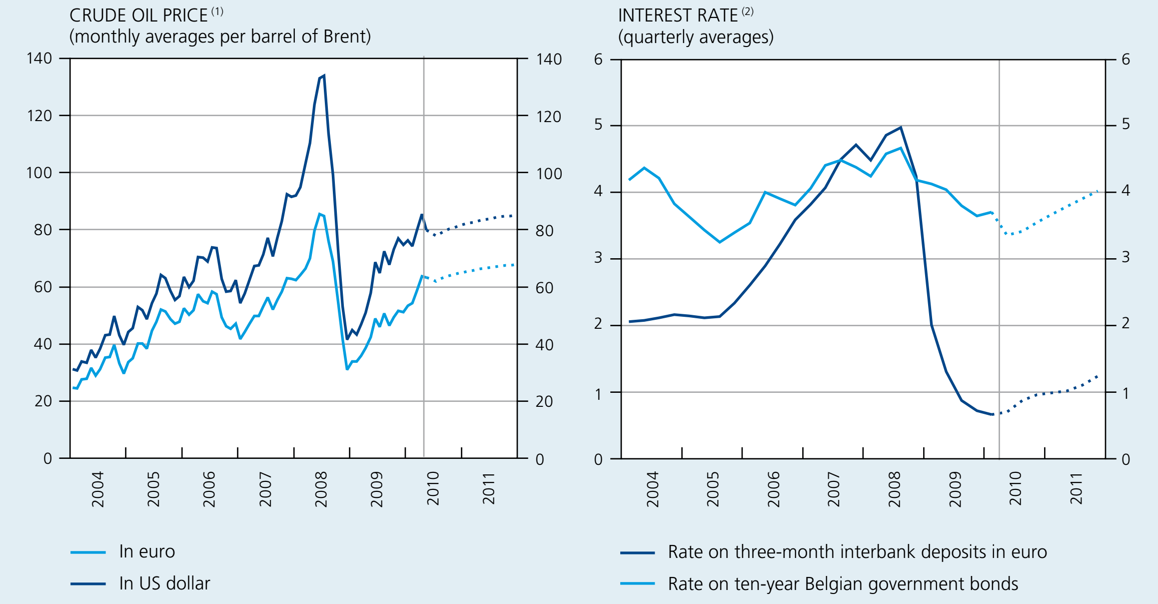
	Euro area			*p.m. Belgium*		
	2009	2010	2011	*2009*	*2010*	*2011*
Inflation (HICP)	0.3	1.4 / 1.6	1.0 / 2.2	*0.0*	*2.0*	*1.9*
GDP in volume	–4.1	0.7 / 1.3	0.2 / 2.2	*–3.0*	*1.3*	*1.7*
of which:						
Private consumption	–1.2	–0.2 / 0.4	–0.2 / 1.6	*–1.7*	*0.6*	*1.2*
Public consumption	2.6	0.3 / 1.3	–0.3 / 1.1	*1.6*	*1.4*	*1.3*
Investment	–10.8	–3.4 / –1.2	–2.1 / 2.7	*–4.2*	*–1.4*	*1.5*
Exports	–13.2	5.5 / 9.1	1.1 / 7.9	*–12.6*	*6.4*	*4.3*
Imports	–12.0	3.8 / 7.0	0.4 / 6.8	*–12.8*	*5.2*	*4.1*

Sources: ECB, NBB.

Box 2 – 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 a set of technical assumptions drawn up jointly by the ECB and the national central banks of the Eurosystem. The main ones are summarised here:

ASSUMPTIONS CONCERNING OIL PRICE AND INTEREST RATE MOVEMENTS



Source: ECB.
(1) Actual figures up to April 2010, assumptions from May 2010.
(2) Actual figures up to the first quarter of 2010, assumptions from the second quarter of 2010.

- The interest rate assumptions are based on market expectations. As an annual average, rates on three-month interbank deposits are expected to fall from 1.2 p.c. in 2009 to 0.8 p.c. in 2010, before picking up to 1.1 p.c. in 2011. The yield on ten-year Belgian government bonds is projected at 3.5 p.c. in 2010 and 3.9 p.c. in 2011.
- Bilateral exchange rates are held constant at their value in the second half of May 2010, namely USD 1.26 to the euro.
- In line with the implicit prices reflected in forward contracts, the price of a barrel of Brent is expected to average USD 79.5 in 2010 and USD 83.7 in 2011, compared to USD 61.9 in 2009.
- Following the slump at the end of 2008 and in early 2009, world trade began growing again last year. That expansion is set to continue in 2010 and 2011. As an annual average, demand from Belgium's export markets, calculated on the basis of the movement in the imports of the various trading partners, declined by 10.8 p.c. in 2009. The volume of demand is projected to grow by 7 p.c. in 2010 and 4.2 p.c. in 2011.

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

EUROSYSTEM PROJECTION ASSUMPTIONS

	2009	2010	2011
		(annual averages)	
Interest rate on three-month interbank deposits in euro	1.2	0.8	1.1
Yield on ten-year Belgian government bonds	3.9	3.5	3.9
EUR/USD exchange rate	1.39	1.29	1.26
Oil price (US dollars per barrel)	61.9	79.5	83.7
		(percentage changes)	
Export markets relevant to Belgium	–10.8	7.0	4.2
Competitors' export prices	–3.9	4.3	2.2

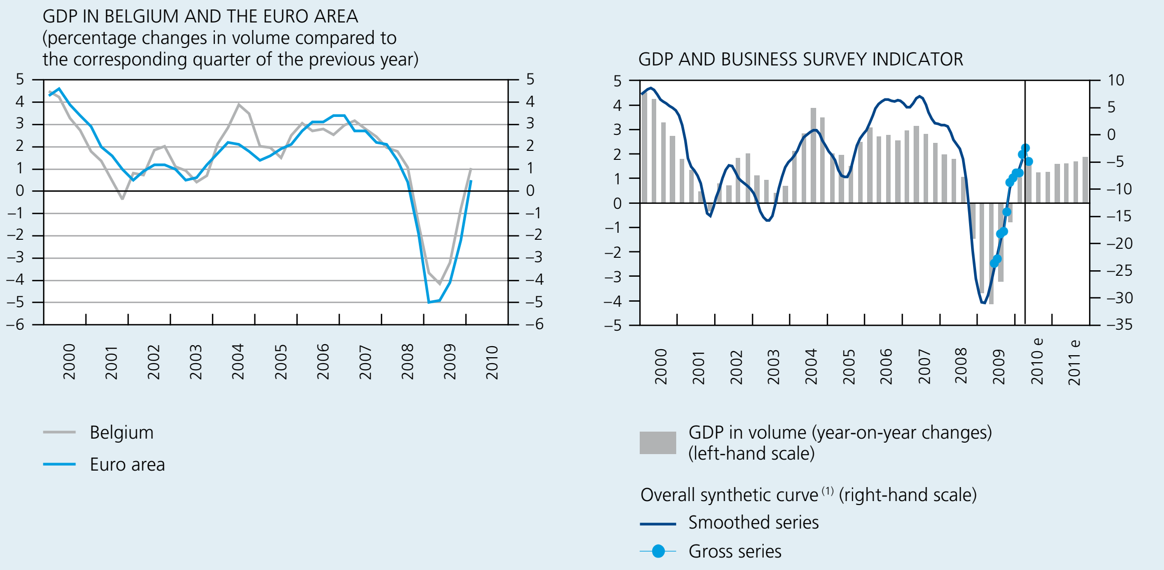
Source: ECB.

2. Activity and employment

In parallel with the improvement in the business survey indicators, activity in Belgium has mirrored the recovery recorded from the middle of last year in the euro area. Real GDP growth became positive again from the third quarter of 2009, though it has remained relatively weak since then. According to the NAI data, following an initial 0.7 p.c. bounce in the third quarter, the quarterly growth rate subsided to 0.3 p.c. in the fourth quarter of 2009, and then – according to the flash estimate – to 0.1 p.c. in the first quarter of 2010. However, that last figure is

CHART 2 GDP AND THE BUSINESS SURVEY INDICATOR

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



Sources: EC, NAI, NBB.
(1) Seasonally adjusted data.

affected to some extent by the adverse weather conditions for the construction sector.

Though the recession was exceptionally severe – on a scale not seen since the Second World War – its impact was a little less harsh in Belgium than elsewhere, the decline in GDP averaging 3 p.c. in 2009, against an average of –4.1 p.c. in the euro area. Similarly, the recovery seen so far has been a little more robust, with annual GDP growth reaching 1 p.c. in the first quarter of 2010, against 0.6 p.c. in the euro area. The absence of major structural imbalances in terms of external accounts, private sector debt and the property market – imbalances which do exist in some euro area countries – is a factor in this relative resilience of the Belgian economy.

In that context, activity should continue to gain strength in 2010 and 2011, underpinned in particular by the improvement in the international environment and the expected gradual strengthening of domestic demand. According to the Bank's projections, annual GDP growth should average 1.3 p.c. in 2010 and 1.7 p.c. in 2011, slightly outpacing the growth forecast for the euro area. However, that will still be well below the growth of 2.5 p.c. per annum recorded from 2004 to 2007, before the economic and financial crisis.

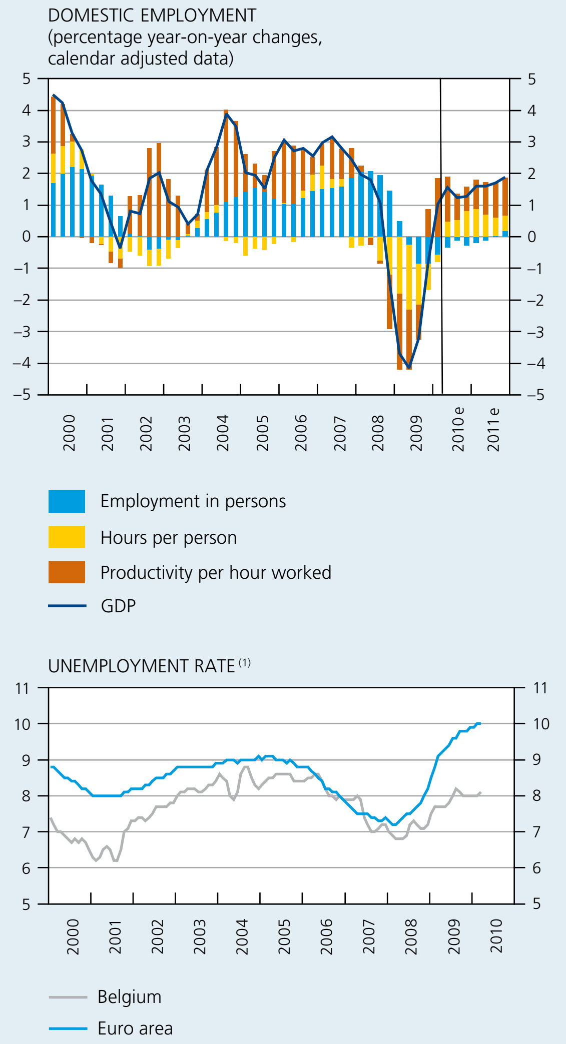
In view of the severity of the 2009 recession, it now seems that job losses were relatively limited in that year. In fact, large-scale, extended recourse to systems permitting some flexibility in the use of labour, mainly temporary lay-offs for manual workers but also additional measures under the recovery plan – notably the option of suspending execution of employment contracts for white-collar workers under certain conditions, or measures to encourage reductions in working time – cushioned the impact on employment, and probably indirectly supported demand, during the recession period.

By reducing the actual working time of persons in work, these systems enable firms to adapt, to some extent, the volume of labour used without having to make staff redundant. The implicit average working time per person therefore declined by 1.5 p.c. in 2009. However, that adjustment is partial, as sudden fluctuations in activity are generally accompanied by cyclical movements affecting productivity per hour worked. Thus, when GDP dropped by 3 p.c. in 2009, the volume of labour fell by 1.8 p.c. and hourly productivity declined by 1.1 p.c.

In 2010 and 2011, firms are expected to make substantial use of the expansion of activity to gradually restore their productivity, so that the volume of labour will increase by only 0.1 p.c. in 2010 and 0.6 p.c. in 2011. Moreover, as use of the system of temporary lay-offs diminishes, the average working time of employees is expected to return gradually to its pre-crisis level. Therefore, as an annual average, the fall in the number of persons in employment is likely to continue in 2010, with a 0.3 p.c. decline, compared to 0.4 p.c. in 2009.

In relation to the fourth quarter of 2008, over 38,000 jobs were lost during 2009, and another 13,000 job losses are forecast for 2010. The projections anticipate a slight improvement during 2011. The number of unemployed job-seekers is expected to increase by 127,000 units between the end of 2008 and the end of 2011, owing to the rise in the number of persons joining the labour

CHART 3 EMPLOYMENT AND UNEMPLOYMENT



Sources: EC, NAI, NEO, NBB.
(1) Harmonised unemployment rate (age 15 and over), as a percentage of the labour force.

TABLE 3 LABOUR SUPPLY AND DEMAND

(calendar adjusted data, annual averages, unless otherwise stated)

	2007	2008	2009	2010 e	2011 e
			(percentage changes)		
GDP	2.8	0.8	–3.0	1.3	1.7
Volume of labour	1.9	1.3	–1.8	0.1	0.6
Domestic employment in persons	1.6	1.9	–0.4	–0.3	0.0
			(changes in thousands of persons)		
Domestic employment	70.3	82.1	–16.4	–14.6	–1.3
p.m. Change during the year (1)	*80.9*	*64.2*	*–38.5*	*–12.9*	*8.2*
Employees	62.9	72.0	–20.4	–14.9	–2.3
of which: branches sensitive to the business cycle	49.0	48.7	–44.7	–35.2	–23.1
Self-employed persons	7.4	10.1	4.0	0.3	1.0
Frontier workers	1.8	0.3	0.0	0.0	0.0
Total employment	72.1	82.5	–16.4	–14.6	–1.3
Unemployed job-seekers	–53.1	–25.7	50.4	39.6	37.6
p.m. Change during the year (1)	*–49.8*	*–4.9*	*59.6*	*42.7*	*24.5*
Labour force	19.0	56.7	34.1	25.0	36.3
p.m. Harmonised activity rate (2)	*67.1*	*67.1*	*66.9*	*67.0*	*67.1*
Harmonised employment rate (2)	*62.0*	*62.4*	*61.6*	*61.1*	*60.8*
Harmonised unemployment rate (3)	*7.5*	*7.0*	*8.0*	*8.3*	*8.8*

Sources: EC, NAI, NEO, NBB.
(1) Difference between the fourth quarter of the year concerned and the fourth quarter of the previous year.
(2) Percentages of the population of working age (15-64 years), non calendar adjusted data.
(3) Percentages of the labour force (15-64 years), non calendar adjusted data.

market. While unemployment averaged 7 p.c. in 2008 and 8 p.c. in 2009, the rate is set to rise to 8.3 p.c. in 2010 and 8.8 p.c. in 2011. However, the rise in the unemployment rate since the outbreak of the economic crisis has been considerably smaller in Belgium than in the euro area.

3. Demand components

In 2010, export growth is again set to be the main factor supporting the revival in economic activity which began in mid 2009. Exports should in fact benefit from both strong expansion on the export markets where Belgian firms are active and from the depreciation of the euro. Conversely, the contribution of domestic demand to GDP growth is likely to remain very modest in 2010. During 2011, domestic demand should nevertheless strengthen to become the main engine of GDP growth. In the wake of that strengthening demand, imports are expected to grow more rapidly, considerably reducing the contribution of net exports to GDP growth.

Just as the collapse of world trade in the second half of 2008 was the main factor in the spread of the economic crisis, the ensuing recovery of world trade is the principal driver behind the upturn in economic activity since mid 2009. That recovery is expected to continue in 2010 and 2011, albeit at a less sustained pace. After contracting by 10.8 p.c. in real terms in 2009, the export markets of Belgian firms are set to expand by 7 p.c. in 2010 and 4.2 p.c. in 2011. The depreciation of the euro is also stimulating exports. Overall, they should return to positive growth, reaching 6.4 p.c. in 2010 and 4.3 p.c. in 2011.

In the absence of support from domestic demand, however, imports are set to grow more slowly in 2010, so that net exports should make a positive contribution of 1 percentage point to GDP growth this year. If domestic demand also begins rising again in 2011, import growth is likely to decelerate by less than exports, so that the contribution of net exports will be considerably smaller that year, at 0.4 percentage point.

TABLE 4 **GDP AND MAIN EXPENDITURE CATEGORIES**

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

	2007	2008	2009	2010 e	2011 e
Private consumption expenditure	1.6	1.0	–1.7	0.6	1.2
Consumption expenditure of general government	2.6	3.3	1.6	1.4	1.3
Gross fixed capital formation	5.7	3.8	–4.2	–1.4	1.5
Housing	–0.8	–1.6	–2.9	–1.3	–0.1
General government	3.6	3.4	11.7	–0.7	8.8
Enterprises	8.7	6.1	–6.4	–1.5	1.2
p.m. Total final domestic expenditure (1)	*2.7*	*2.2*	*–1.5*	*0.4*	*1.3*
Change in stocks (1)	0.1	–0.2	–1.5	–0.1	0.1
Net exports of goods and services (1)	0.2	–1.0	0.0	1.0	0.4
Exports of goods and services	4.4	1.4	–12.6	6.4	4.3
Imports of goods and services	4.4	2.7	–12.8	5.2	4.1
GDP	2.8	0.8	–3.0	1.3	1.7

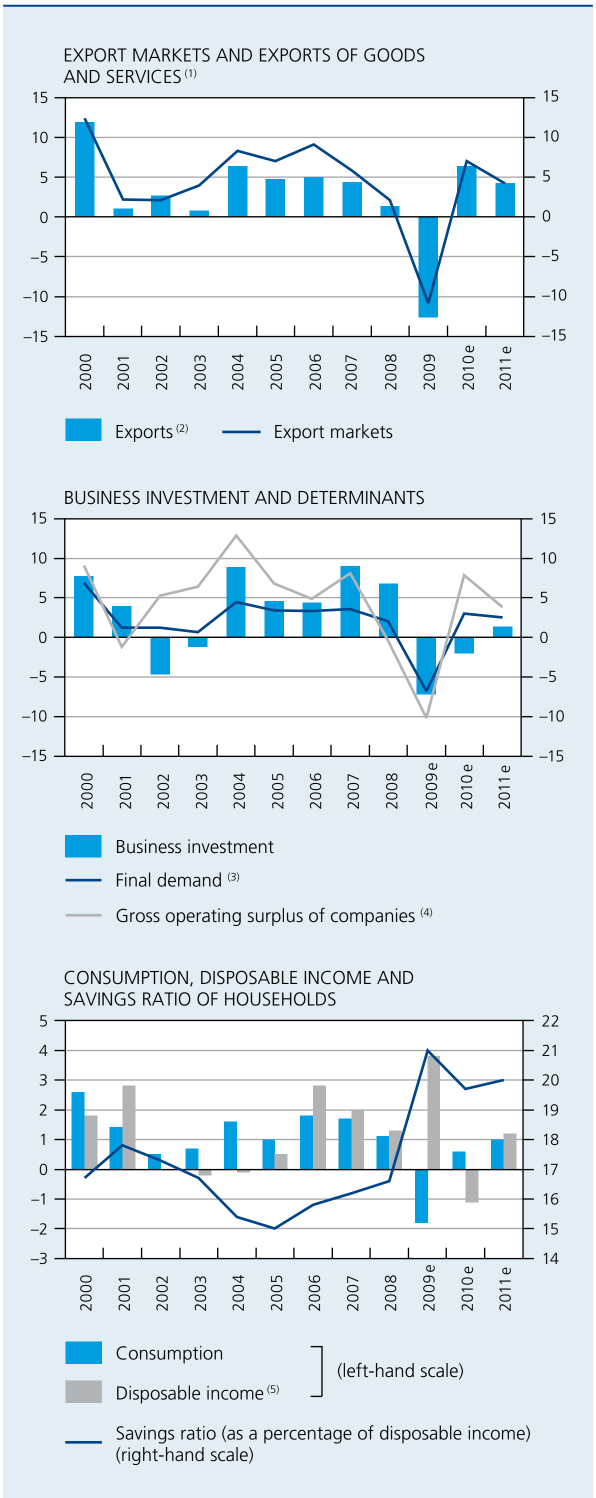
Sources: NAI, NBB.
(1) Contribution to the change in GDP.

Domestic demand is also projected to remain relatively weak in 2010, but all its components are expected to return to positive growth in 2011. Business investment is likely to continue falling in 2010 – by 1.5 p.c. in real terms – after a very steep 6.4 p.c. decline in 2009. In the euro area as a whole, business investment recorded an even larger fall (14.1 p.c.). Following the significant deterioration in global economic activity, the capacity utilisation rate of firms contracted sharply. According to the quarterly survey of manufacturing industry, that rate declined from the figure of 82.4 p.c. recorded in the third quarter of 2008 to a historic low of 70.1 p.c. in the first quarter of 2009. Although a recovery followed – the utilisation rate reaching 77.2 p.c. in the first quarter of 2010 – that residual excess capacity is likely to continue to dampen firms' propensity to invest for some time to come. True, final demand is predicted to begin rising in 2010, but the growth rate is likely to fall short of its pre-crisis level, preventing the rapid absorption of excess capacity. Business investment is not expected to expand until 2011, and then only by 1.2 p.c. In regard to investment financing, two opposing movements should partly offset one another. On the one hand, the gradual rise in long-term interest rates could curb business investment slightly. Moreover, until the financial sector has finished reorganising its own activities, a question mark remains over its willingness to satisfy growing demand for credit at an acceptable price. On the other hand, after falling by 10.7 p.c. in 2009, the gross operating surplus of enterprises is projected to rise again in 2010 and 2011, by 7.9 and 3.8 p.c. respectively; that would enable firms to revert to making more use of internal financing. That increase in the gross operating surplus originates partly from expansion in the volume of sales – of around 2.5 p.c. per annum – and partly from an increase in the gross operating margin per unit of sales. Against the backdrop of strengthening demand, selling prices are in fact likely to rise faster than unit costs in 2010, the latter being held down by particularly moderate movements in labour costs. Expressed as a percentage of GDP, this increase in the gross operating surplus of firms will, however, be insufficient to negate the whole of the decline recorded in 2008 and 2009.

In real terms, the decline in investment in housing which had begun in 2007 is set to continue in 2010 and in 2011, albeit at a slower rate. While a fall of 2.9 p.c. had been recorded in 2009, households are projected to cut their investment in the construction of new housing or the renovation of existing housing by 1.3 and 0.1 p.c. respectively. These findings are attributable mainly to the expected adverse movement in the real disposable incomes of households. Since the unemployment rate is still rising, the increase in real wages remains modest, and inflation is weakening consumer confidence and disposable incomes, individuals are reluctant to spend on major items such as house building or renovation. Moreover, mortgage interest rates could gradually increase, as the banks may pass on to their customers the expected rise in long-term interest rates, and the balance sheet problems which banks are facing could cause them to cut back their

CHART 4 MAIN EXPENDITURE CATEGORIES

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



Sources: ECB, NAI, NBB.
(1) Seasonally adjusted data.
(2) Calendar adjusted data.
(3) Excluding change in stocks.
(4) Value data.
(5) Data deflated by the private consumption expenditure deflator.

lending. Finally, the moderate price rises on the secondary market could be a factor contributing to the weakness of households' propensity to invest.

In 2009, private consumption recorded an unusually sharp fall of 1.7 p.c. in real terms. That decline must be seen in the context of the exceptionally great uncertainty prevailing at the height of the economic and financial crisis. Adverse prospects for the labour market, and hence for future remuneration, severe losses on financial assets and the deterioration in public finances undeniably prompted individuals to delay certain major purchases. In 2010, private consumption will cease falling, but growth is projected at only 0.6 p.c. That is due mainly to the contraction of disposable income. In 2009, the real disposable income of households increased strongly as a result of several government measures aimed at reducing the net personal income tax bill, and because individuals benefited from the fact that the indexation of wages and social benefits was significantly greater than the erosion of purchasing power owing to the fall in inflation. Since the government did not repeat those measures and since the indexation of wages and social benefits is likely to be considerably below the rise in inflation, real disposable incomes are set to fall by 1.1 p.c. in 2010. Moreover, (real) wage moderation contributes to the reduction in the growth of disposable incomes, although it does help to maintain employment. In 2010, though the savings ratio is likely to be lower than in 2009, it is still projected reach nearly 20 p.c. of household disposable incomes, which is well above its pre-crisis level. The outlook for household incomes in fact remains uncertain, in view of the deteriorating situation on the labour market and in public finances following the recession. In 2011, consumption is forecast to increase again, bolstered by the growth of disposable incomes and an easing of the labour market situation. Although wage growth is expected to remain modest in real terms in 2011, real disposable incomes are projected to increase again, by 1.2 p.c.

In contrast to the rise in private sector spending, the growth of general government consumption expenditure is expected to slacken pace slightly, falling from 1.6 p.c. in 2009 to 1.4 p.c. in 2010 and 1.3 p.c. in 2011. General government investment which had expanded strongly by 11.7 p.c. in 2009, is set to subside a little in 2010. Fluctuating according to the election timetable, it is expected to record a further sharp rise of 8.8 p.c. in 2011, in the run-up to the 2012 municipal elections.

4. Prices and costs

After falling to a maximum negative level of –1.7 p.c. in July 2009, owing to the steep decline in oil prices, consumer price inflation returned to positive figures from December and continued to rise during the ensuing months. That rise was initially due to the disappearance of the base effects connected with the oil price movements; it was reinforced in recent months by a further rise in commodity prices on the international markets, combined with a depreciation of the euro against the dollar. In April 2010, inflation measured by the HICP reached 2 p.c.

According to the assumptions adopted for this exercise, prices will maintain their upward trend in 2010 and 2011, although they will rise less steeply than at the beginning of this year. As an annual average, they are expected to increase from 61.9 dollars per barrel of Brent in 2009, or 44.1 euro per barrel, to 79.5 dollars in 2010 and 83.7 dollars in 2011 (61.5 and 66.7 euro respectively in 2010 and 2011), one reason being the revival in demand from the emerging countries. This rise accounts for much of the acceleration in overall inflation, forecast to rise from 0 p.c. in 2009 to 2 p.c. in 2010 and 1.9 p.c. in 2011. The health index is projected to increase by 1.3 p.c. in 2010 and 1.7 p.c. in 2011, following a 0.6 p.c. rise in 2009.

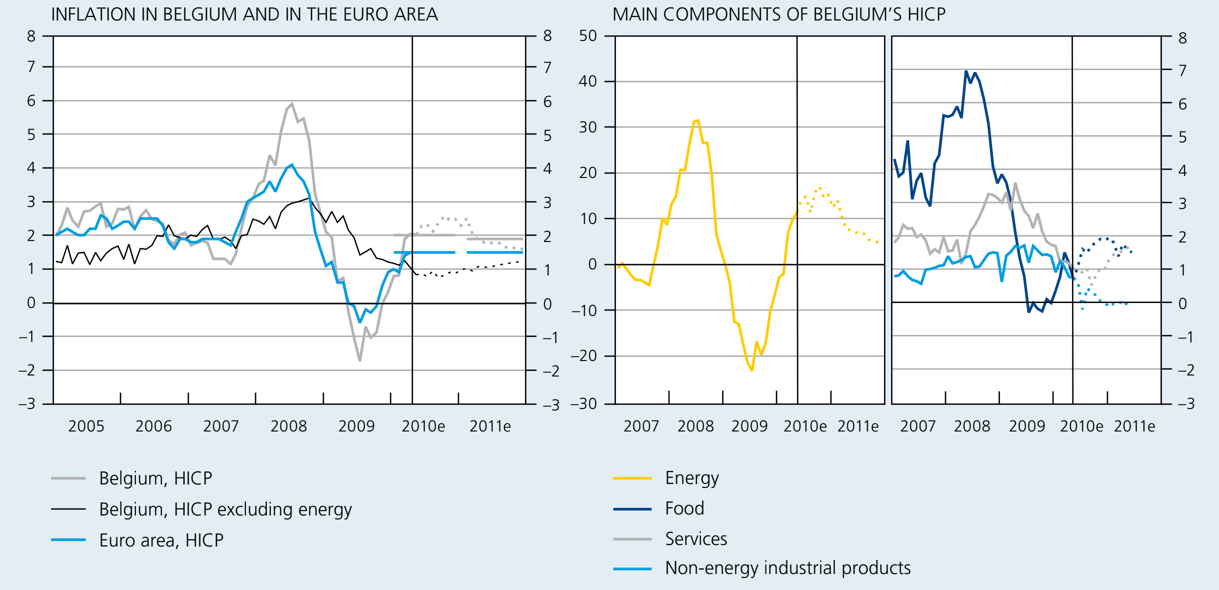
In contrast, inflation excluding energy is expected to slow significantly, dropping from an annual average of 1.9 p.c. in 2009 to 0.9 p.c. in 2010. This fall, which had begun during 2009, is attributable to both non-energy industrial goods and to services. However, inflation is expected to edge upwards at the end of the year and in 2011, owing to the gradual improvement in economic activity, but also to the effects of the euro depreciation.

In particular, after a 6.6 p.c. fall in 2009, the projected rise in the import deflator of 2.8 p.c. in 2010 and 2.4 p.c. in the following year would lead to a steady increase in the prices of non-energy industrial goods. The movement in the price of services is largely affected by the pattern of unit labour costs in the private sector. After increasing by 4.6 p.c. in 2009, those prices are set to remain virtually stable in 2010, before a modest 0.8 p.c. increase in 2011.

The rapid rise in unit labour costs in 2009 and their marked slowdown in 2010 are due predominantly to the cyclical profile of labour productivity. While firms did not cut the volume of labour entirely in line with the drop in output in 2009 – giving rise to a marked 1.1 p.c. decline in hourly productivity – they are likely to take advantage of the revival in activity to improve efficiency in their use of the factor labour. Thus, hourly labour productivity is expected to increase by around 1 p.c. in 2010 and in

CHART 5 INFLATION

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



Sources: EC, NBB.

TABLE 5 PRICE AND COST INDICATORS

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

	2007	2008	2009	2010 e	2011 e
HICP	1.8	4.5	0.0	2.0	1.9
Health index	1.8	4.2	0.6	1.3	1.7
Underlying inflation (1)	1.9	2.7	2.0	0.8	1.0
GDP deflator	2.3	1.8	0.9	1.6	1.5
Labour costs in the private sector:					
Labour costs per hour worked	3.4	3.4	3.4	0.9	1.7
Employers' social security contributions (2)	0.5	–0.3	0.6	0.6	0.1
Gross wages	2.9	3.7	2.8	0.3	1.6
of which indexation	1.6	2.9	2.5	0.5	1.8
Labour productivity (3)	1.3	–0.1	–1.1	1.0	0.9
Unit labour costs	2.0	3.4	4.6	–0.1	0.8

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 adjustments to the implicit contribution rates, percentage points.
(3) Value added in volume per hour worked by employees and self-employed persons.

2011, though that is slightly below the average rise of 1.2 p.c. recorded from 2004 to 2008.

Hourly labour costs in the private sector are also likely to contribute to the strong deceleration in unit labour costs between 2009 and 2010, their increase slowing from 3.4 p.c. to 0.9 p.c. That corresponds essentially to the expected impact of indexation, which has taken time to reflect the higher inflation measured by the health index in 2008, followed by the marked fall in the next year. Leaving aside indexation, the rise in labour costs in real terms will be limited since the central agreement only provides for the possibility of granting one-off bonuses of 125 euro in 2009 and 250 euro in 2010. Moreover, two effects – both connected with the sharp deterioration in the economic climate – have worked in opposing directions in 2009 and 2010. Variable remuneration was reduced owing to the decline in corporate results, while the rising job losses led to an increase in redundancy payments made by employers.

The assumption adopted for 2011 of a 1.7 p.c. increase in hourly labour costs in the private sector corresponds essentially to the expected effect of indexation. This is a technical assumption which does not in any way prejudge the outcome of the forthcoming wage negotiations for the period 2011-2012.

5. Public finances

5.1 Overall balance

The economic and financial crisis caused a surge in budget deficits in almost all the advanced economies. The same applied to Belgium since, according to the provisional data published by the NAI in March 2010, Belgium's public deficit came to 6 p.c. of GDP in 2009. In the macroeconomic context described above, the general government accounts are likely to record further deficits in 2010 and in 2011, of 5 and 5.3 p.c. of GDP respectively.

The improvement in the financing balance in 2010 is due largely to the disappearance of the non-recurrent factors which had adversely affected public finances in 2009. In that year, the federal government had speeded up the personal income tax assessments, significantly augmenting the amount of payments in favour of households. Moreover, primary expenditure had also been inflated in 2009 following two court rulings ordering the Belgian government to repay substantial amounts of taxes wrongly levied in the past from certain companies receiving dividends from subsidiaries, on the one hand, and from married unemployed persons, on the other.

Interest charges are projected to remain unchanged overall throughout the projection period, as a result of the low level of interest rates. Although the public debt

TABLE 6 GENERAL GOVERNMENT ACCOUNTS [1]
(percentages of GDP)

	2007	2008	2009	2010 e	2011 e
Revenues	48.2	48.8	48.3	48.8	49.0
Fiscal and parafiscal revenue	43.3	43.7	43.0	43.3	43.2
Other	4.9	5.1	5.3	5.5	5.8
Primary expenditure	44.5	46.2	50.6	50.2	50.7
Primary balance	3.6	2.6	–2.3	–1.4	–1.7
Interest charges	3.8	3.8	3.7	3.6	3.7
Financing requirement (–) or capacity	–0.2	–1.2	–6.0	–5.0	–5.3
p.m. Effect of non-recurrent factors	*–0.1*	*0.0*	*–0.9*	*0.0*	*0.0*

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

would increase, the impact of that growth on interest charges would be almost totally neutralised by the fall in the implicit interest rate on the public debt.

It should be noted that these projections take account only of budgetary measures which have already been announced and specified in sufficient detail. They disregard the effect of any measures yet to be taken, particularly when the 2011 budgets are drawn up. The January 2010 stability programme provides for a deficit of 4.8 p.c. of GDP in 2010, which is to be cut to 4.1 p.c. of GDP in 2011 and 3 p.c. of GDP in 2012, and a return to a balanced budget in 2015.

5.2 Revenue

After contracting in 2009, public revenues expressed as a percentage of GDP are projected to rise by 0.6 percentage point in 2010 and 0.2 percentage point in 2011.

However, the expected decline in the share of labour incomes – which are subject to relatively high fiscal pressure – will have a negative impact on the movement in fiscal and parafiscal revenues as a ratio of GDP during the projection period. Conversely, the revenue ratio is being inflated in 2010 by the effect of the disappearance of the negative impact on revenues in 2009 resulting from the acceleration of the personal income tax assessments. The rise in the revenue ratio predicted for 2010 is also due to structural measures. For instance, the levies on labour will increase as a result of the smaller lump-sum reduction granted by the Flemish Region to its residents, but that effect will be partly offset by the impact of the granting of tax-favourable wage increases totalling a maximum of 250 euro per person, under the central agreement, and the impact of the 2005 reform of the system of deducting mortgage charges on owner-occupied homes. In addition, taxes on companies will be increased by the imposition of tighter conditions for claiming the allowance for finally taxed income, by adapting tax deduction rates for

TABLE 7 STRUCTURAL MEASURES CONCERNING PUBLIC REVENUES
(millions of euro, unless otherwise stated; changes compared to the previous year)

	2010 e	2011 e
Taxes	627	–27
of which:		
Tax reduction granted by the Flemish Region [1]	432	–150
Deduction of mortgage charges for own homes	–208	0
Tax-favourable wage increases	–113	0
Corporation tax	403	0
Excise duty on petrol and diesel	229	120
Reduction in VAT in hotel and catering trade	–255	0
Social security contributions	–70	0
Total	**557**	**–27**
p.m. Percentages of GDP	*0.2*	*0.0*

Sources: Budget documents, FPS Finance, NSSO.
(1) Part of the tax reduction granted by the Flemish Region to self-employed persons on income in 2009 will not be taken into account until the time of the tax assessment, namely in 2011.

company car expenses and fuel costs and by the limit on the rate used to calculate risk capital allowance. In regard to the taxes on goods and services, the revenues generated by the increase in excise duty on diesel will be offset by the cut in VAT on meals in hotels and restaurants, down from 21 to 12 p.c. The measures already approved will have little impact on fiscal and parafiscal revenues in 2011.

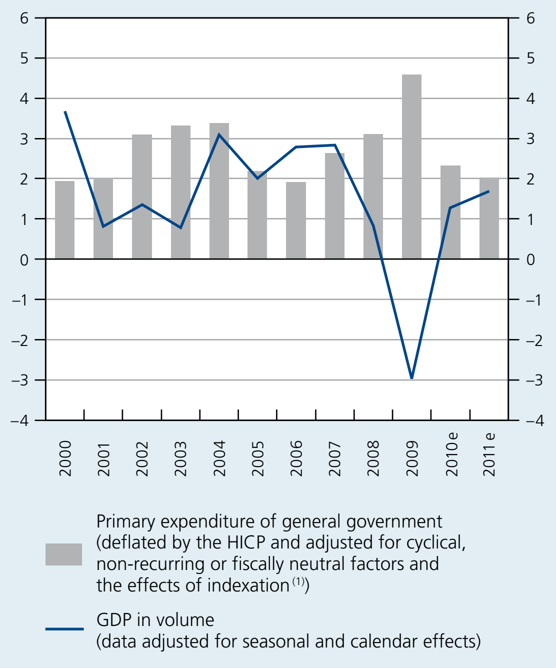
During the projection period, the other revenues will be driven up by higher payments made by financial institutions supported by the government during the financial crisis, and by the new levy relating to the deposit protection system.

5.3 Primary expenditure

Primary expenditure increased sharply in 2009, expressed as a percentage of a GDP which had suddenly slumped. That expenditure ratio should fall slightly in 2010, but is likely to rise again in 2011. In volume terms, primary expenditure is expected to remain virtually stable in 2010 and should expand by 2.2 p.c. in 2011. This year, the movement in that expenditure will benefit from the absence of indexation of wages and social benefits and from court decisions which drove up expenditure substantially in 2009. Conversely, it will feel the impact of the increase in unemployment expenditure associated with the deterioration in economic activity. Adjusted for these non-recurring or cyclical factors and the effects of indexation, primary expenditure is projected to grow by 2.3 and 2 p.c. respectively in 2010 and 2011, or still well ahead of trend GDP.

CHART 6 PRIMARY EXPENDITURE OF GENERAL GOVERNMENT AND GDP

(percentage changes compared to the previous year)



Sources: NAI, FPS Finance, NBB.

(1) Effect due to the gap between actual indexation of public sector pay and social benefits, on the one hand, and the rise in the HICP on the other.

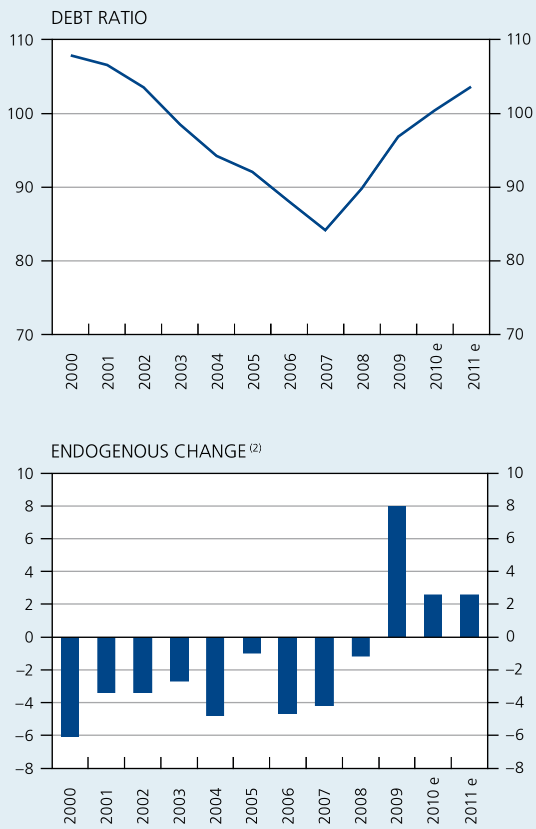
The 2010 increase in expenditure – adjusted for those various factors – is the outcome of divergent movements within the general government sub-sectors. At federal government level, the increase will be smaller than in the three preceding years, while remaining substantial. One of the factors driving that growth, notably the expansion of certain employment promotion measures such as the general reduction in payroll tax, recorded as a subsidy in accordance with the ESA 95, will increase primary expenditure to an even greater extent than in 2009. At the same time, the increase in social security expenditure is set to slow down gradually, reverting to a rate below the average for the past ten years. The main categories of social expenditure are projected to rise by less than in 2009, but some of them, such as health care and unemployment benefits, will continue to grow strongly. Some of them will still be influenced by a set of measures concerning adjustment in line with prosperity. In the case of the Communities and Regions and the local authorities, expenditure will grow at a fairly modest pace.

In 2011, the adjusted real growth of federal government expenditure is expected to be relatively muted, owing in particular to the virtual stabilisation of the amounts relating to the measures to reduce the payroll tax. The projections for social security expenditure take account of a set of measures to increase social benefits; these will augment expenditure, although to a lesser degree than in 2010. In contrast to these first two sub-sectors, the Communities and Regions do not yet have a budget for 2011, so that the projections are based largely on past developments. Local authority expenditure is likely to expand relatively strongly as a result of substantial investments in the year preceding the local elections.

5.4 Debt

Between 1993 – when the public debt had peaked at 134.1 p.c. of GDP – and 2007, the general government debt ratio had declined continuously at an annual average rate of 3.6 percentage points, mainly as a result of

CHART 7 PUBLIC DEBT (1)
(percentages of GDP)



(1) Consolidated gross debt of general government.
(2) The endogenous change in the public debt reflects the debt dynamics, leaving aside the impact of operations which influence the debt without affecting the overall balance.

endogenous factors such as the primary surplus, the reduction in the implicit interest rate, and the economic growth rate. At the end of 2007, the debt ratio stood at 84.2 p.c. of GDP.

In 2008, the capital injections and loans granted to financial institutions during the crisis in the financial sector caused a surge in the general government debt. By the end of that year, it had already reached 89.8 p.c. of GDP. It continued to rise in the following year, and by the end of 2009 the Belgian public debt came to 96.8 p.c. of GDP. That 7 percentage point increase was due solely to endogenous factors, under the combined effect of the decline in nominal GDP and the substantial deterioration in the primary surplus.

In 2010 and 2011, the endogenous increase in the debt is likely to continue, but at a slower rate than in 2009, as economic activity regains momentum and the primary balance improves somewhat. In 2010, with due regard for the loans granted by the federal government to Greece in the context of the debt crisis afflicting that country, the debt ratio is expected to rise to a little over 100 p.c. of GDP. In 2011, it is projected to increase further, to 103.1 p.c. of GDP.

6. Risk factor assessment

Like the euro area, and the global economy in general, Belgium came out of the recession phase in mid 2009. Since then, the recovery has been slightly stronger than expected, owing to the dynamism of the emerging

TABLE 8 COMPARISON OF THE FORECASTS FOR BELGIUM
(percentage changes compared to the previous year, unless otherwise stated)

	GDP in volume		Inflation (1)		Budget balance (2)		Date of publication
	2010	2011	2010	2011	2010	2011	
NBB – Spring 2010	1.3	1.7	2.0	1.9	–5.0	–5.3	June 2010
p.m. Autumn 2009	*1.0*	–	*1.6*	–	*–5.4*	–	*December 2009*
Federal Planning Bureau (FPB)	1.4	1.7	1.8	1.7	–4.7	–5.1	May 2010
IMF	1.2	1.3	1.6	1.5	–5.1	–4.4	April 2010
EC	1.3	1.6	1.6	1.6	–5.0	–5.0	May 2010
OECD	1.4	1.9	1.8	1.4	–4.9	–4.2	May 2010
p.m. Actual figures 2009	*–3.0*		*0.0*		*–6.0*		

(1) HICP, except FPB: final private consumption deflator.
(2) Percentages of GDP.

countries and the impact of fiscal and monetary support measures ; that explains the small upward revision in GDP growth predicted for 2010, from 1 p.c. in the December 2009 forecasting exercise to 1.3 p.c. in the new exercise. Thus, the Bank's growth projections are close to those of other forecasters for both 2010 and 2011. The Bank puts inflation at a higher figure, on account of the recent rise in oil prices and the depreciation of the euro. In regard to the general government budget balance, the deficit of 5.3 p.c. of GDP in 2011 predicted by the Bank is higher than the forecasts of the IMF or the OECD, as those two institutions implicitly take account of additional consolidation measures beyond those which governments have already implemented.

While all forecasters expect the recovery to continue, the advanced economies will nevertheless still feel the impact of the economic and financial crisis. The baseline scenario assumed for a number of months now suggests that a slow recovery of domestic demand, and hence activity, remains the most likely outcome, owing to the adjustments which the various sectors will need to make. Excess production capacity still persists, in both capital and labour, so that investment and employment will take a while yet to recover. In addition, financial institutions need to continue reorganising their activities and balance sheets, and that could curb lending.

This scenario of a slow recovery applies to most of the European economies, and is therefore not specific to Belgium. Conversely, in the absence of significant imbalances at the level of foreign trade, domestic sector debt or the property market, the scale of the recession in 2008-2009 was slightly smaller in Belgium than in the euro area, and Belgian growth will be slightly higher in 2010 and 2011. Although the balance of current transactions for the Belgian economy remains below the figure for the early 2000s, it is still decidedly positive ; according to the forecasts, it will amount to 1.8 and 1.7 p.c. of GDP in 2010 and 2011 respectively. Over time, this positive balance has led to the formation of net financial assets in relation to the rest of the world. Owing to more prudent practices than in other countries, particularly in regard to mortgage loans, the household debt ratio is also lower than the euro area average, while the financial structure of firms has strengthened. However, taking account of its economic and financial openness, Belgium is unlikely to escape any risks which materialise in other countries.

In that regard, the serious tensions on the government bond markets since April 2010 reflect the difficulties surrounding the exit from the crisis for public finances. While the rising deficits and public debt in most countries are an inevitable consequence of government intervention to support the financial sector and the economy, they threaten the long-term sustainability of public finances. In that context, though the retrenchment measures announced in a growing number of countries could certainly hamper the recovery for a time, while it remains fragile, the absence of any clear prospect of consolidation would trigger a rise in interest rates, as illustrated recently by the case of Greece, and could prompt households to raise their savings ratio as a precaution in the face of uncertainty over their future income.

Very considerable uncertainty therefore persists over the economic outlook for the euro area and for Belgium, and the risks – if they materialise – would tend to dampen the growth of activity and demand. That would have the effect of curbing inflation, but conversely, the generalisation of the upward effect generated by the energy component or the euro depreciation could push inflation above the level assumed in the projections. It is therefore necessary to maintain the ability of the Belgian economy to take advantage of the recovery and to cope with the accompanying fits and starts by establishing a stable macroeconomic framework. Such a framework needs to be based, in particular, on a sustainable long-term path for public finances and moderate movements in wages, in line with developments in the main trading partners. At the same time, it is vital to strengthen the growth potential of productivity and employment, not only to boost the economy's resistance to cyclical shocks, but also in preparation for the challenges ahead in the longer term.

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	–3.0	1.3	1.7
Contributions to growth:					
Domestic expenditure, excluding change in stocks	2.6	2.1	–1.5	0.4	1.2
Net exports of goods and services	0.2	–1.0	0.0	1.0	0.4
Change in stocks	0.1	–0.2	–1.5	–0.1	0.1
Prices and costs					
Harmonised index of consumer prices	1.8	4.5	0.0	2.0	1.9
Health index	1.8	4.2	0.6	1.3	1.7
GDP deflator	2.3	1.8	0.9	1.6	1.5
Terms of trade	0.3	–2.2	2.6	0.3	–0.5
Unit labour costs in the private sector	2.0	3.4	4.6	–0.1	0.8
Hourly labour costs in the private sector	3.4	3.4	3.4	0.9	1.7
Hourly productivity in the private sector	1.3	–0.1	–1.1	1.0	0.9
Labour market					
Domestic employment (annual average change in thousands of units)	70.3	82.1	–16.4	–14.6	–1.3
p.m. Change during the year, in thousands of persons (1)	*80.9*	*64.2*	*–38.5*	*–12.9*	*8.2*
Total volume of labour (2)	1.9	1.3	–1.8	0.1	0.6
Harmonised unemployment rate (3) (p.c. of the labour force)	7.5	7.0	8.0	8.3	8.8
Incomes					
Real disposable income of individuals	2.0	1.3	3.8	–1.1	1.2
Savings ratio of individuals (p.c. of disposable income)	16.2	16.6	21.0	19.7	20.0
Public finances (4)					
Overall balance (p.c. of GDP)	–0.2	–1.2	–6.0	–5.0	–5.3
Primary balance (p.c. of GDP)	3.6	2.6	–2.3	–1.4	–1.7
Public debt (p.c. of GDP)	84.2	89.8	96.8	100.2	103.1
Current account (p.c. of GDP according to the balance of payments)	**1.6**	**–2.9**	**0.5**	**1.8**	**1.7**

Sources: EC, DGSEI, NAI, NBB.
(1) 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) Non calendar adjusted data.
(4) According to the methodology used in the excessive deficit procedure (EDP).