Economic projections for Belgium – Spring 2013

Introduction

Just as in the euro area in general, the growth slowdown which had begun during 2011 led to a contraction in activity in Belgium last year. According to the latest national accounts data, real GDP shrunk by about 0.3 % in 2012, which was slightly less than the fall recorded in the euro area.

The Bank's previous projections (autumn 2012), published in the December 2012 Economic Review, foresaw a slow economic recovery which would only emerge during 2013. However, activity was not projected to grow this year on an annual basis, also because of the negative spillover effect of the fall in GDP in 2012. That picture remains basically unchanged in the new projections. The year 2013 is still expected to bring a difficult, patchy recovery of the economy which, according to the available survey data, has slowed down again lately. The slow revival of domestic demand, hampered not only by the adverse evolution of employment but also by factors of uncertainty, credit restrictions and low capacity utilisation, continues to impede the recovery.

Nevertheless, at global level, the economic situation had appeared to stabilise, and even to pick up since the end of last year, against the backdrop of a strong surge of the financial markets and an extremely accommodating monetary policy pursued by the main central banks. In the United States and Japan, that policy was even explicitly and determinedly aimed at promoting the growth of activity and reducing unemployment. In the euro area, further progress had been made in eliminating the existing macroeconomic imbalances. Due to important austerity measures in many countries, the average public deficit in the euro area continued to fall in 2012, though it still stands at 3.7 % of GDP according to the EDP notifications published by Eurostat on 22 April 2013, and this despite a contraction in activity. The implemented structural reforms are also gradually improving the competitiveness of countries with a current account deficit, enabling them to increasingly support their macroeconomic adjustment policies by expanding their exports, rather than just restricting domestic demand.

The restoration of confidence on the financial markets also appears to be more robust than six months ago. Thus, the crisis concerning Cyprus and the uncertainty about the outcome of the Italian elections, with the ensuing fears of a political stalemate, did not cause lasting damage to confidence on the European financial markets.

As yet, this financial market optimism has nevertheless not generated a clear, stable revival of activity in all regions of the world. In that respect, the emerging countries are performing the best, followed by the United States which, after having found a temporary solution to the fiscal cliff at the beginning of the year, still needs to make progress in the form of lasting adjustments to public spending, though activity is gradually picking up. The euro area is clearly lagging behind.

According to the most recent statistics, namely the flash estimates published on 15 May 2013 by Eurostat, real GDP in the euro area was down again by 0.2 % in the first quarter of the year. That is already the sixth consecutive fall. The weakness of economic activity is clearly not confined to the peripheral countries. For example, in France and the Netherlands, traditionally among the core euro area countries and two of Belgium's main trading partners, the economy is still contracting as well. Although the Eurosystem's spring projections (of which these estimates for Belgium are a part) predict a slow recovery later this year, the outlook for the euro area in 2013 remains rather bleak.

The recent movement in the business survey indicators also shows that the economic engine of the euro area is struggling to restart. According to most survey data (such as the Bank's overall synthetic curve that gauges business confidence in Belgium), confidence, which had been picking up since the end of 2012, has clearly crumbled again since March 2013. Although these indicators are highly volatile, and their month-on-month changes must therefore be interpreted with due caution, this fall is a source of uncertainty regarding the short-term outlook, even though, in the case of the overall synthetic curve, the indicator recorded a marked improvement in May again, regaining roughly the level seen at the beginning of the year. As explained below, for various reasons, these estimates for Belgium assume that growth will stagnate again in the second quarter of the year.

The economic projections for 2013 and 2014 presented in this article were finalised on 22 May 2013. They were based on Eurosystem technical assumptions determined on 14 May, of which the main ones are described in the box in section 1. As usual in these exercises, the projections for public finances only take account of measures which have been formally adopted by the government – or which are very likely to be approved – and for which the implementing arrangements have been specified in sufficient detail at the time of conclusion of the exercise. In that regard, in contrast to the December projections, it was possible to take account of the budget and competitiveness measures, announced by the federal government in November 2012. The decisions adopted in the spring of 2013 at the time of the budget reviews of both the federal government and the Regions and Communities were also taken into consideration.

1. International environment and assumptions

In recent months, the global economy has continued to regain momentum. Economic activity and international trade, which had slowed down in the course of 2012, have picked up to some extent from the end of that year. However, the growth of global activity has remained moderate, despite the constant support from a very accommodating monetary policy, since the continuing correction of various imbalances and the persistent political uncertainty in the advanced economies are still acting as a worldwide brake. The growth revival has thus remained vulnerable to a possible further setback. In addition, growth rates have varied widely between regions. Mainly the emerging countries have recorded vigorous growth. A number of advanced economies, such as the United States, Sweden and Switzerland, have also shown a marked improvement and recorded moderate growth. Conversely, in the euro area, activity has continued to contract.

From the summer of 2012, a number of new economic policy measures were taken in response to the growth slowdown and the prolonged euro crisis. In Europe, the ECB's announcement of the new instrument of the Outright Monetary Transactions (OMTs) did much to help end the fragmentation of the financial markets in the euro area. It strengthened confidence in a favourable outcome for the euro crisis, in particular by banishing fears that a number of countries might be forced to leave the euro area. Later in the year, further progress was made concerning the institutional framework of the euro area, notably when the European Stability Mechanism (ESM) entered into force and with the progress towards the creation of a banking union. Outside Europe, there were also various important policy initiatives. For instance, at the end of last year, the American Federal Reserve announced additional purchases of securities and linked its future monetary policy to the movement in the employment rate and inflation. Furthermore, at the beginning of January 2013, an agreement was concluded in the United States, so that the US economy largely avoided a sudden and severe tightening of its fiscal policy (fiscal cliff). In Japan, the government elected at the end of last year launched an ambitious plan to combat the persistent deflation and to support economic activity. Finally, in China, the easing of monetary policy fostered a gradual revival.

These measures averted the main short-term risks and thus helped to restore confidence on the financial markets. Against the backdrop of an extremely accommodating monetary policy pursued by central banks in the advanced economies, stock markets gained an average of 25 % between the summer of 2012 and early 2013, and volatility was down to its lowest level since the outbreak of the financial crisis in 2007. Spreads on the bonds of euro area Member States against the German Bund also narrowed significantly. In the closing months of 2012, these various policy measures also prompted an improvement in business confidence and, mainly outside the euro area, economic activity appeared to stabilise.

However, at the beginning of 2013, doubts emerged about the durability of the economic recovery, as a number of events during the initial months of the year came as a reminder that the euro crisis was not over yet: the February elections in Italy led to a temporary political stalemate and at the end of March a rescue plan had to be devised for Cyprus, about which communication was sometimes ambiguous. In addition, financial market fragmentation persisted in the euro area. The publication of adverse economic figures in the United States, the euro area and China also fuelled concerns over economic activity. Business confidence was therefore eroded in the initial months of the year. In contrast, there was no reversal in sentiment on the financial markets. In the medium term, a number of factors of uncertainty continue to hamper the ongoing economic recovery: persistent imbalances in the euro area and the emergence of adjustment fatigue which could impede the necessary correction of those imbalances, the absence of a credible medium-term plan to lead public finances to a sustainable path in the United States and Japan, and latent geopolitical tensions which could cause a sudden surge in commodity prices.

Prices of the categories of commodities most sensitive to the business cycle (crude oil and industrial commodities) rose further at the end of 2012 and the beginning of 2013 in response to the improvement in the economic climate. However, a widespread fall set in from February, owing to the erosion of confidence and the gloomier outlook in the main regions, in particular in the emerging countries. The steepest fall concerned energy commodities, principally crude oil. The price of Brent crude dropped from USD 118.5 per barrel in mid-February to around USD 100 from mid-April. Consumer price inflation continued on the downward trend which had begun in the second half of 2011 as a consequence of, *inter alia*, the fall in commodity prices.

In this context, growth forecasts for 2013 were revised downwards. The EC's spring forecast predicts moderate global GDP growth of 3.1 % in 2013, followed by a rise to 3.8 % in 2014. That growth is likely to be supported by favourable financial conditions, the accommodating monetary policy and the further progress in deleveraging in a number of important economies. However, major divergences persist between the various regions. In general, growth is expected to be much more vigorous outside Europe. In the euro area, growth will probably continue to vary considerably between Member States. In 2013 and 2014, inflation is set to remain moderate; with the exception of Japan, which is pursuing an aggressive anti-deflationary policy, inflation is not expected to rise significantly during the projection period. Owing to the persistent weakness of economic activity, unemployment is expected to increase further in the European Union this year, in contrast to unemployment in the United States and Japan, and should only stabilise in 2014.

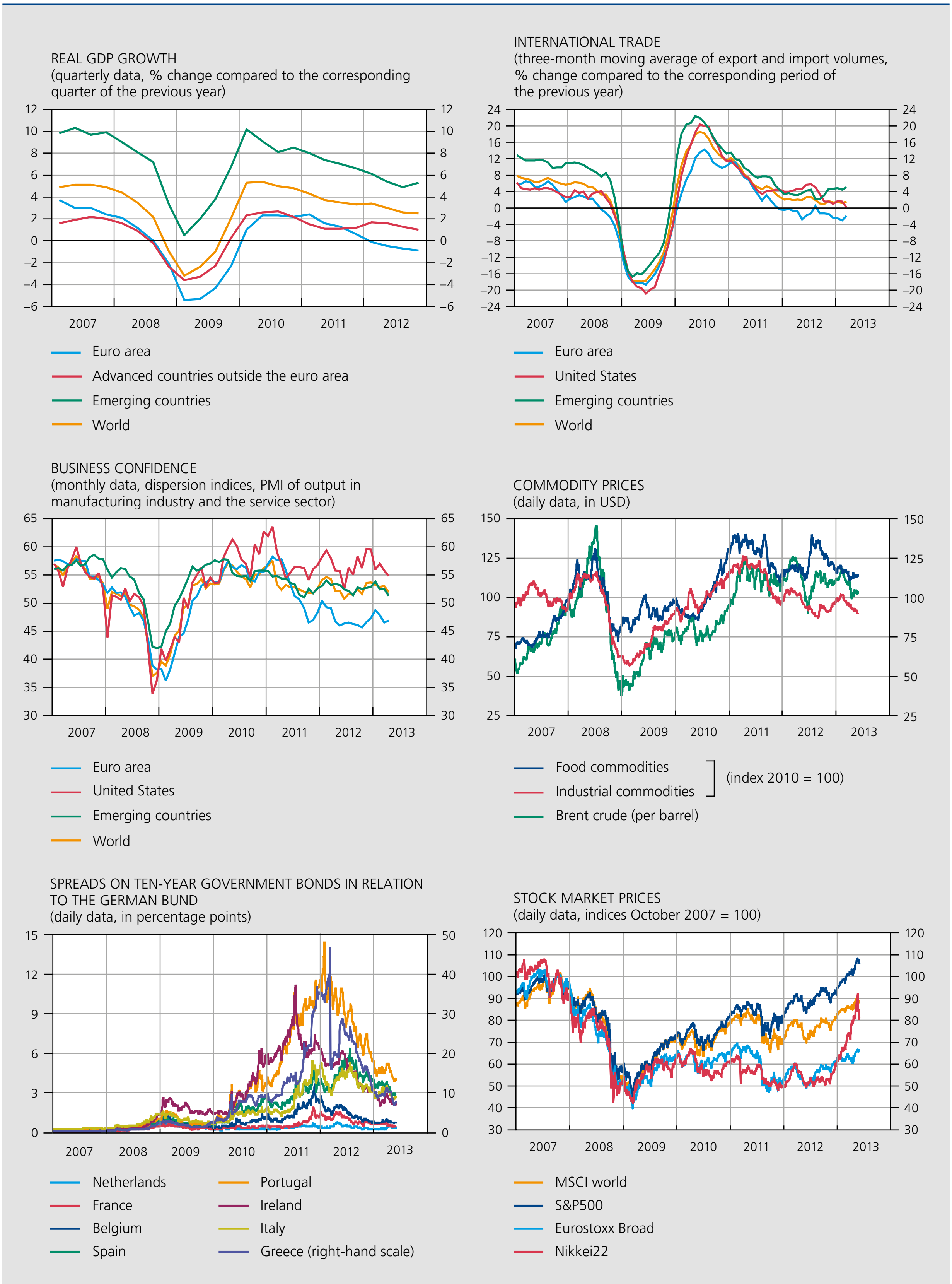
TABLE 1 **PROJECTIONS FOR THE MAIN ECONOMIC REGIONS**

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

	2012	2013	2014
	Actual figures	Projections	
GDP in volume			
World	3.0	3.1	3.8
of which:			
United States	2.2	1.9	2.6
Japan	2.0	1.4	1.6
European Union	–0.3	–0.1	1.4
China	7.8	8.0	8.1
India	4.1	5.7	6.6
Russia	3.4	3.3	3.8
Brazil	0.9	3.0	3.6
p.m. Global imports	*2.3*	*3.2*	*5.8*
Inflation (1)			
United States	2.1	1.8	2.1
Japan	0.0	0.2	1.8
European Union	2.6	1.8	1.7
China	2.7	3.0	3.0
Unemployment rates (2)			
United States	8.1	7.7	7.2
Japan	4.3	4.3	4.2
European Union	10.5	11.1	11.1

Sources: EC, IMF.
(1) Consumer price index.
(2) Percentages of the labour force.

CHART 1 GLOBAL ECONOMIC ACTIVITY AND DEVELOPMENTS ON FINANCIAL AND COMMODITY MARKETS



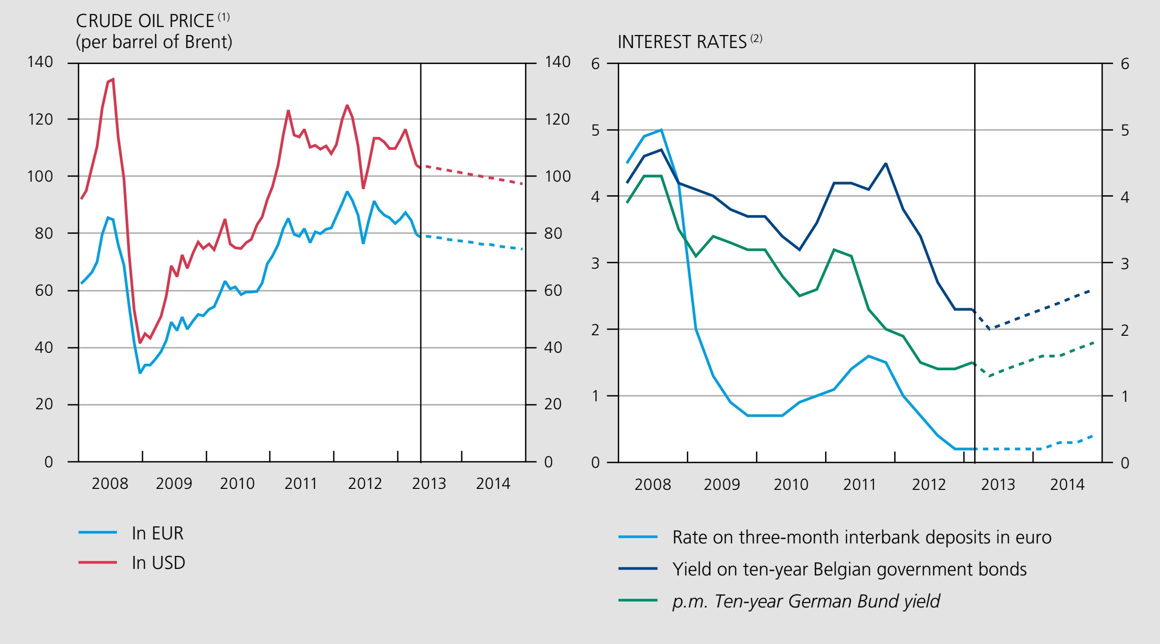
Sources: Thomson Reuters Datastream, NBB.

Box 1 – Assumptions for the projections

The macroeconomic projections for Belgium described in this article form part of a joint Eurosystem exercise for the euro area. That exercise is based on a set of technical assumptions and forecasts for the international environment drawn up jointly by the participating institutions, namely the ECB and the national central banks of the euro area.

In the projections, exchange rates are assumed to remain constant at the average level recorded in the last ten working days before the cut-off date of 14 May 2013. In the case of the US dollar, the exchange rate then stood at USD 1.31 to the euro, which was slightly above the 2012 average of USD 1.28 per euro.

ASSUMPTIONS CONCERNING OIL PRICES AND INTEREST RATES



Source: ECB.
(1) Actual figures up to 14 May 2012, assumptions from 15 May 2013.
(2) Actual figures up to the first quarter of 2013, assumptions from the second quarter of 2013.

In regard to oil prices, account is taken of market expectations as reflected in forward contracts on the international markets. Mid-May 2013, this indicator suggested that the price per barrel of Brent will decline gradually over the projection horizon, from an average of USD 113 in the first quarter of 2013 to an average of USD 98.5 in the last quarter of 2014.

The interest rate assumptions are likewise based on market expectations in mid-May 2013. The three-month interbank deposit rate, which had fallen to an unusually low level of barely 21 basis points in the first quarter of 2013, is projected to remain stable until the last quarter of 2013. In view of the evolution of these rates in 2012, this implies that the annual average for the short-term market segment in 2013 will decrease by almost two-thirds against the 2012 average. In 2014, this rate is expected to rise slowly to reach 36 basis points in the final quarter.

The expected movement in interest rates charged by the banks on business investment loans and private mortgage loans takes account of the transmission generally apparent in relation to market rates. In these Eurosystem projection exercises, the rates applied by the banks of each country are modelled on the basis of the market rates to which they are most closely linked, and their projections are based on the ones for these reference interest rates.

Thus, since the start of the financial crisis (and especially the sovereign debt crisis), mortgage interest rates in Belgium have been greatly influenced by the Euribor ten-year swap rates, rather than by government bond yields. The interest rates charged on business loans generally depend on the rates for shorter maturities.

At the end of 2013, the long-term mortgage interest rate is projected at only 2.93 %, more than half a percentage point lower than one year before. In 2014, that interest rate is forecast to fall by a further 20 basis points. The rate on business loans is also set to decline somewhat further to just over 2 % at the end of this year, before rising again by around 5 basis points in the course of 2014. The level of interest rates for both households and businesses is therefore exceptionally low throughout the projection period.

Another key assumption concerns developments on the foreign markets relevant for Belgium. During 2012, imports by Belgium's trading partners had already decelerated sharply. Over the year as a whole, the export market volume expanded by barely 1.3 % (against 5 % in 2011). The decline was most marked for sales in the euro area, where demand for imports stagnated. In 2013, the export markets are forecast to expand by only 1.2 %, owing to the persistent weakness of economic activity. For the second consecutive year, markets in the euro area will produce hardly any real growth, and demand for imports from markets outside the euro area is likely to slacken further. In 2014, global trade is expected to continue picking up, and export markets should expand again by 4.4 %. For both 2013 and 2014, that implies a substantial downward revision compared to the assumptions underlying the Bank's December 2012 forecasts.

The trend in Belgian exports is not only determined by the growth of these markets, but also by changes in market shares and therefore by Belgium's competitiveness. In regard to the cost aspects of that competitiveness, what matters is the development of prices which competitors charge on the export markets. The projections assume that those prices will fall : in 2013, competitors' prices on the export markets are forecast to decline by 0.6 %, whereas in 2012 they still increased by 3.7 % compared to the previous year. Price restraint is also forecast for 2014, with an increase of no more than 1.2 %.

EUROSYSTEM PROJECTION ASSUMPTIONS

	2012	2013	2014
		(annual averages)	
Interest rate on three-month interbank deposits in euro	0.57	0.20	0.29
Yield on ten-year Belgian government bonds	3.0	2.1	2.4
EUR/USD exchange rate	1.28	1.31	1.31
Oil price (US dollars per barrel)	112.0	105.5	100.0
Household mortgage interest rate	3.6	3.2	2.9
Corporate loan interest rate	2.4	2.3	2.2
		(percentage changes)	
Export markets relevant to Belgium	1.3	1.2	4.4
Competitors' export prices	3.7	–0.6	1.2

Source : ECB.

Of course, developments on the export markets relevant for Belgium are inextricably linked to global economic growth. In that respect, the Eurosystem projections are based on two key assumptions. First, as in December 2012, it is assumed that the current policy concerning the euro crisis will be continued up to the end of the projection period. That implies that there will be no major negative shocks to confidence which could seriously affect economic activity in the euro area. Also, for the rest of the world, the expansion of activity is expected to remain more or less unchanged in 2013, at around 3.6 %, rising to 4.2 % in 2014. In particular, this assumes that the growth slowdown in China in the first quarter of 2013 is temporary, and does not herald a prolonged downturn.

The Eurosystem projections for the euro area were revised downwards compared to the December 2012 forecasts, and are still slightly below the ECB staff estimate dated March 2013 for this year. After having contracted by 0.5 % in 2012, activity in the euro area is set to continue to decline this year within a range around a midpoint of –0.6 %. However, the forecasts still vary widely from one country to another. Although the economy will contract further in a number of core countries of the euro area as well, the countries that need to make greater efforts to consolidate their public finances and restore their competitiveness are likely to see their economic activity flagging by more than the euro area average in 2013. In 2014, the euro area should return to positive growth, though the pace will still be relatively slow: the projections indicate a broad range with a midpoint of 1.1 %.

Inflation in the euro area, which had still reached 2.5 % in 2012, is on a declining trend. That is not only attributable to the weak economic activity but also to the expected fall in commodity prices, including oil. Domestic cost pressures – especially labour costs – should remain under control throughout the euro area. For 2013, the Eurosystem expects inflation to range around a midpoint of 1.4 %. For 2014, the margin of uncertainty is naturally greater, but inflation is forecast to continue slowly subsiding.

2. Activity and demand

Economic growth in Belgium ground to a halt around mid-2011, and since then activity has even contracted. In its December projections, the Bank assumed that this slight decline would persist at least until the spring of this year. According to the latest estimates by the NAI, real GDP indeed recorded a slight fall in the fourth quarter of 2012, whereas for the first quarter of this year the flash estimate, which was taken into account in these projections, indicated very meagre positive growth of 0.1 %. The confidence indicators – in line with those for Germany, for example – had actually improved slightly

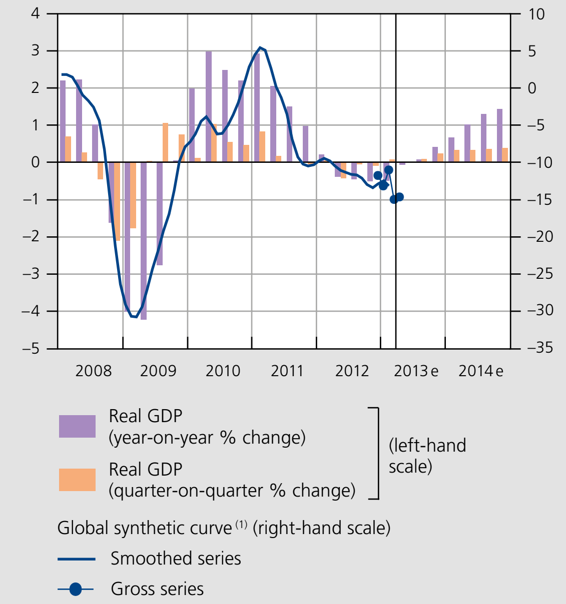
TABLE 2 EUROSYSTEM PROJECTIONS
(percentage changes compared to the previous year)

	Euro area			*p.m. Belgium*		
	2012	2013 e	2014 e	2012	2013 e	2014 e
Real GDP	–0.5	–1.0 / –0.2	0.0 / 2.2	*–0.3*	*0.0*	*1.1*
of which:						
Private consumption	–1.3	–1.1 / –0.5	–0.5 / 1.7	*–0.3*	*0.0*	*0.8*
Public consumption	–0.4	–0.6 / 0.4	–0.1 / 1.3	*0.4*	*0.9*	*1.5*
Investment	–4.2	–4.1 / –1.7	–0.9 / 4.5	*–0.6*	*–1.8*	*2.0*
Exports	2.9	–1.0 / 2.6	0.3 / 7.9	*0.7*	*–0.1*	*3.2*
Imports	–0.7	–2.5 / 1.1	0.1 / 7.5	*0.5*	*–0.4*	*3.3*
Inflation (HICP)	2.5	1.3 / 1.5	0.7 / 1.9	*2.6*	*1.0*	*1.2*

Sources: ECB, NBB.

CHART 2 GDP AND THE BUSINESS SURVEY INDICATOR

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



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

around the beginning of the year. The growth of exports and private consumption at the beginning of the year was slightly better than forecast in December. On 5 June 2013, however, the growth of activity in the first quarter was slightly downgraded by the NAI, and now stands at zero.

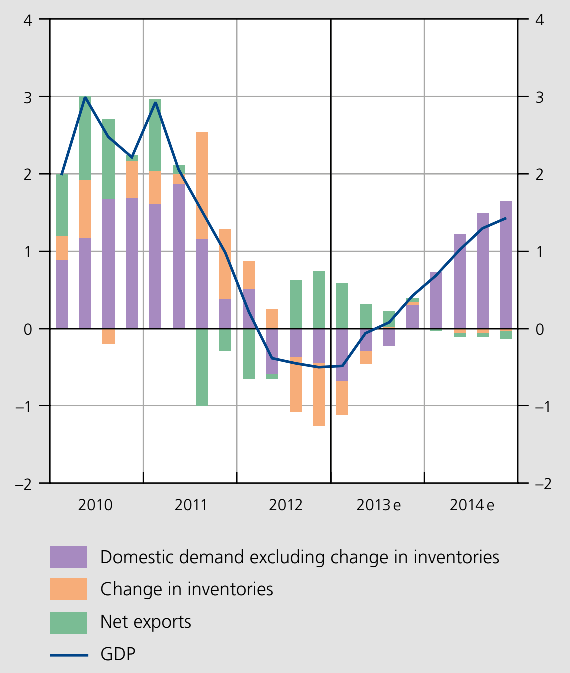
Since March 2013, the confidence indicators have clearly deteriorated again, as elsewhere in Europe: thus, in March, the Bank's synthetic curve fell to its lowest level since September 2009, although Belgian firms became considerably more optimistic again in May. Similarly, consumer confidence was seriously eroded at the end of the first quarter. Against that backdrop, when the estimates were finalised, it seemed likely that growth in the second quarter would slow down slightly compared to the flash estimate for the first quarter. The baseline scenario therefore assumes that the stagnation of economic activity will persist during this quarter. A sharper fall, as in the second quarter of 2012, is considered less likely. On the one hand, because the global economic revival appears more robust, and because the increasing confidence in a favourable resolution of the euro crisis seems to have strengthened. On the other hand, more specifically in regard to activity in Belgium, it seems less likely that private expenditure will decline more steeply and that the process of de-stocking by firms will also make a significant negative contribution to growth as that would imply an acceleration in inventory reduction.

For the second half of 2013, the forecasts indicate a slow improvement in the economic climate resulting from gradually strengthening foreign demand. Overall, however, the growth outlook for 2013 remains unchanged compared to the December forecast, so that growth is again put at zero. The somewhat stronger-than-expected growth in the first quarter is likely to be offset by slightly weaker activity growth in the following quarters, mainly owing to a loss of momentum in export growth. That is caused by the downward revision concerning the growth of the export markets mentioned previously, and, to a lesser extent, by the weaker increase in public consumption owing to the consolidation measures specified in the 2013 federal budget. In accordance with the December forecast, real GDP is therefore not expected to grow in 2013 since the slightly positive growth rates predicted for the second half of the year will be neutralised by the negative spillover effect of the contraction of activity in the course of 2012.

Next year, the improvement in economic activity, with quarterly growth rates forecast at 0.3 to 0.4% throughout the year, should produce a positive year-on-year growth.

CHART 3 MAIN EXPENDITURE CATEGORIES

(contributions to year-on-year GDP growth in percentage points; data adjusted for seasonal and calendar effects)



Sources: NAI, NBB.

According to the projections, activity is set to expand by 1.1 % in 2014.

In regard to the expenditure components, activity is likely to be only supported by a positive contribution from net exports in 2013, which is not unusual in the initial phase of a cyclical revival. Although the positive year-on-year figure for net exports is largely due to a spillover effect of 2012 growth, the estimates for 2013 also assume that exports will strengthen by a bit more than imports, despite the very modest growth of the export markets. Exports are thought to have produced somewhat stronger growth particularly in the first quarter of this year, as is also suggested by the provisional monthly foreign trade figures; exporters would have seen a clear increase in the volume of their sales on foreign markets in the first quarter of 2013. Overall, the year-on-year growth of the volume of exports is expected to remain virtually unchanged in 2013, whereas imports will record slightly negative growth. In 2014, exports are forecast to grow by more than 3 %, but as domestic demand should pick up, the contribution from imports is expected to roughly match that growth. In contrast to this year, the growth contribution from net exports will therefore be neutral.

Over the projection period as a whole, export growth falls slightly short of the (limited) expansion of the export markets. In the projections it is therefore assumed that, as in previous years, Belgium will lose market share as a result of competitiveness gaps, attributable to both costs and non-cost factors. The recent government measures aimed at restricting wage growth and whose goal it is to reduce the competitiveness gap in relation to other countries are likely to somewhat boost price competitiveness in the longer term; ultimately, that should reduce the loss of market share in later years.

Real domestic demand (excluding the change in inventories) is set to shrink in 2013. Although the profile varies somewhat for the different demand components, it mainly concerns a spillover effect due to the decline in 2012. During the first half of the year, real domestic demand is expected to continue recording slightly negative quarter-on-quarter growth rates, before returning to positive territory from the second half. This accelerating growth will continue in 2014, with the projections indicating quarterly growth averaging 0.4 %. That should translate into year-on-year growth comparable to the 2010 and 2011 figures.

Real private consumption is expected to remain virtually unchanged this year, despite the more rapid growth in activity in the second half of the year. Over the year as a whole, while the disposable income of households is

TABLE 3 GDP AND MAIN EXPENDITURE CATEGORIES IN CHAINED EUROS, REFERENCE YEAR 2010

(percentage changes, data adjusted for calendar effects, unless otherwise stated)

	2010	2011	2012	2013 e	2014 e
Final consumption expenditure of households and NPIs	2.7	0.2	–0.3	0.0	0.8
p.m. Real gross disposable income	*–1.2*	*–0.9*	*0.7*	*0.3*	*1.1*
Savings ratio [1]	*15.3*	*14.1*	*15.0*	*15.2*	*15.5*
Consumption expenditure of general government	0.6	1.1	0.4	0.9	1.5
Gross fixed capital formation	–1.2	4.2	–0.6	–1.8	2.0
Housing	3.1	–5.3	–2.8	–3.1	0.2
General government	–1.2	5.9	0.9	–1.8	1.2
Enterprises	–3.2	8.6	0.1	–1.3	2.9
p.m. Domestic expenditure excluding change in inventories [2]	*1.3*	*1.2*	*–0.2*	*–0.2*	*1.2*
Change in inventories [2]	0.3	0.7	–0.2	–0.1	0.0
Net exports of goods and services [2]	0.7	–0.1	0.2	0.3	0.0
Exports of goods and services	9.6	5.5	0.7	–0.1	3.2
Imports of goods and services	8.9	5.7	0.5	–0.4	3.3
GDP	2.4	1.9	–0.3	0.0	1.1

Sources: NAI, NBB.

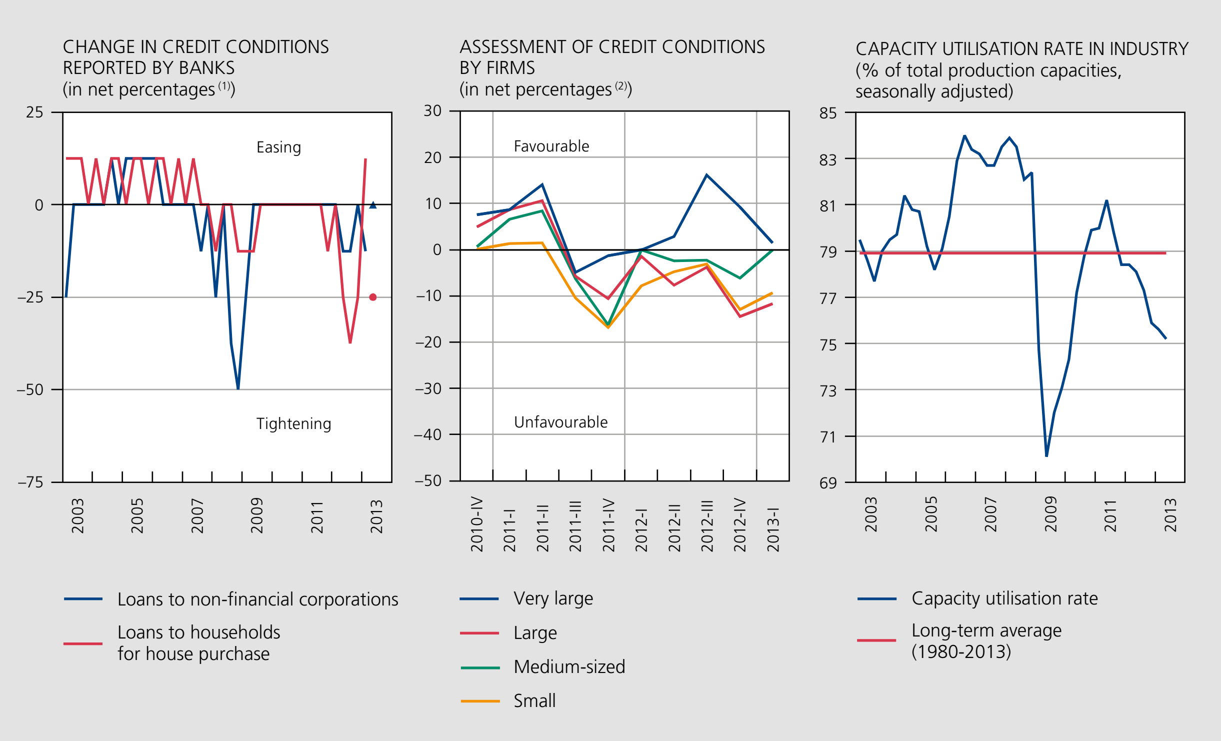
(1) Gross data, in percentage of gross disposable income in the broad sense, i.e. including the change in households' entitlements to additional pensions accruing in the context of an occupational activity.

(2) Contribution to the change in GDP.

forecast to edge upwards in real terms, according to the projections almost all of that additional income will be set aside as savings. In a context of persistent macroeconomic uncertainty, particularly in relation to employment and future income, individuals will continue to focus primarily on building up precautionary savings. The savings ratio, which had begun to rise in 2012 from an exceptionally low level of around 14 % in 2011, will therefore continue to climb this year, though there will be a fall in the share of non-labour income in total disposable income, of which a larger part is traditionally devoted to savings. Moreover, the rise in household income will also be restrained by the slower growth of labour incomes and the increase in income taxes. After three consecutive years of minimal or even negative growth, private consumption will not really take off until 2014, and even then, growth will probably amount to less than 1 %. Once again, a disproportionate share of the income growth – which should considerably exceed the 2013 figure while remaining modest, notably on account of wage moderation – will be allocated to savings. Despite the economic upturn, households – which had to dip into their savings in 2010 and 2011 in order to more or less maintain their consumption levels – will restore their savings ratio to a level closer to the long-term average. Moreover, although the share of non-labour incomes is likely to increase, the rise in the savings ratio should be modest overall. That may also be caused by the extremely low real return on financial assets, which makes savings relatively less attractive.

In contrast to private consumption, investment in housing is forecast to record negative real growth again in 2013, for the third successive year. Naturally, the macroeconomic uncertainty also weighs – and perhaps even more so – on this household expenditure category. Lending criteria are also restraining the growth of this investment. Although the mortgage interest rate is historically low, there are myriad signs that households are finding it increasingly difficult to obtain mortgage loans from financial institutions. For instance, the Bank Lending Survey shows that credit conditions for mortgage loans have been tightened significantly since mid-2012 (though they were apparently eased slightly in the first quarter of 2013). This more restricted access to credit is depressing residential building and activity in the construction sector. The real growth of investment in housing is not expected

CHART 4 CREDIT CONDITIONS AND CAPACITY UTILISATION



Source : NBB.

(1) Weighted net percentages of banks indicating whether the (non-interest-related) lending criteria have been eased (+) or tightened (–) compared to the previous quarter. Banks' expectations for the second quarter of 2013 (Bank Lending Survey).

(2) Quarterly survey of credit conditions : in regard to the general conditions, the net percentage is calculated as the difference between the percentage of firms stating that these conditions are favourable (+) or unfavourable (–).

to return to positive territory until the first quarter of 2014, since both uncertainty and credit restrictions are likely to become less severe at that time.

Real business investment is also expected to markedly decline in the first half of 2013. Once again, this is partly attributable to the uncertain outlook and credit restrictions. In regard to the latter, in the Bank Lending Survey, financial institutions report a tightening of the conditions in the second half of 2012 and again in the first quarter of 2013. However, the situation is not clear-cut, and varies according to firm size: although firms of all sizes indicated a deterioration in the first quarter of this year in the quarterly survey on credit conditions, very large firms still reported a fairly favourable assessment of credit conditions. This suggests that mainly small and medium-sized firms have been experiencing problems in obtaining loans to fund investment projects for several quarters. Internal financing options are also likely to be very limited, following the steep decline in the gross operating surplus of firms in 2012, and with the prospect of moderate real growth of that surplus in 2013, owing to the relatively sluggish economic environment. In addition, capacity utilisation in manufacturing industry is currently clearly below its long-term average, suggesting that strengthening activity will initially be covered by more intensive use of existing production facilities, and will only induce new investment at a later stage. Nevertheless, it is estimated that real business investment will gradually rise from the third quarter of 2013. However, over the year as a whole, it will still fall by more than 1 % before returning to clearly positive growth in 2014.

Despite the consolidation efforts, public consumption is still rising in real terms. It is even likely to gather momentum over the projection horizon, recording real year-on-year growth of almost 1 % in 2013 and 1.5 % in 2014. In that respect, it should be noted that these projections do not take account of future measures which might be taken at the time of the 2013 budget review or when the 2014 budget is drawn up. Conversely, public investment is set to fall sharply in real terms in 2013, as is quite usual for a year following the local elections.

3. Labour market

Employment generally takes some time to react to changes in economic activity. The cyclical downturn which occurred in the course of 2012 and the rather gloomy outlook for 2013 therefore have implications for the labour market projections. Despite the revival of economic growth in 2014, employment will probably continue to fall in that year, though to a lesser extent.

The reduction in the volume of labour at the time of the 2008/2009 recession had been largely cushioned by the fall in the hours worked per person, due to, *inter alia*, the anti-crisis measures which aimed to preserve a maximum number of jobs. The pre-existing temporary unemployment scheme had played a key role in that respect. After several years of crisis, many firms now have smaller financial reserves, the anti-crisis measures have come to an end, and the access conditions for the temporary unemployment scheme have become stricter[(1)]; consequently, it has become harder for firms to continue labour hoarding to the same extent in the event of a new downturn in activity. Moreover, it is only a viable option in the case of a temporary weakening of activity, and is much less usual if stagnation persists.

In 2013, in a context of zero activity growth, the volume of labour is set to fall slightly. Taking account of the aforementioned factors, domestic employment is unlikely to be sustained by a reduction in average working time, and could even fall a little more sharply than the volume of labour. While the number of days of temporary unemployment is expected to continue rising, average working time should nevertheless increase slightly, partly as a result of stricter conditions governing access to certain forms of part-time time credit and because, at the start of an upturn in activity, firms generally decide, where possible, to first get their existing staff to work more hours before taking on new employees. Despite this slight increase, hours worked per person remain well below the level prevailing before the great recession.

The number of employees is projected to fall considerably during the projection period, primarily – of course – in the branches sensitive to the business cycle, but also, to a lesser extent and owing to fiscal consolidation both at the federal level and at the level of the Communities and the Regions, in general government and education. In the branches sensitive to the business cycle, job losses will mainly occur in industry.

In contrast, salaried employment in the heavily subsidised "other services", which had been a stabilising factor during the crisis years, is likely to continue to grow in 2013 and 2014. The employment generated by the service voucher system, which subsidises part of the wage cost of domestic helpers and whose use has made a particularly significant contribution to employment in recent years, should continue to expand in both 2013 and 2014. However, the more stringent controls and recent price

(1) It was decided that employers making excessive use of the temporary unemployment scheme should pay a "responsibilisation contribution".

TABLE 4 LABOUR SUPPLY AND DEMAND

(Data adjusted for calendar effects, annual averages, unless otherwise stated)

	2009	2010	2011	2012	2013 e	2014 e
			(percentage change)			
Real GDP	–2.8	2.4	1.9	–0.3	0.0	1.1
Volume of labour	–1.6	0.9	1.9	0.2	–0.2	0.0
Domestic employment in persons	–0.2	0.7	1.4	0.2	–0.4	–0.1
			(changes in thousands of persons)			
Domestic employment	–8.8	30.8	61.6	8.2	–17.7	–6.0
p.m. Change during the year (1)	*–24.3*	*58.9*	*53.1*	*–8.9*	*–26.4*	*9.2*
Employees	–13.3	25.0	52.0	2.2	–21.3	–9.2
of which:						
Branches sensitive to the business cycle	–38.1	3.4	34.5	–6.5	–28.4	–21.1
General government and education	13.8	6.7	0.8	–3.2	–3.1	–1.4
Other services	11.0	14.9	16.8	11.9	10.2	13.3
Self-employed persons	4.5	5.8	9.6	6.0	3.6	3.2
Frontier workers	1.1	0.5	–2.3	–0.4	0.0	0.0
Total employment	–7.7	31.3	59.3	7.8	–17.7	–6.0
Unemployed job-seekers	50.6	13.7	–19.8	14.5	30.2	31.8
p.m. Change during the year (1)	*59.7*	*–10.3*	*–11.7*	*24.4*	*39.6*	*16.3*
Labour force	42.9	45.0	39.5	22.3	12.5	25.8
p.m. Harmonised unemployment rate (2)	*8.0*	*8.4*	*7.2*	*7.6*	*8.3*	*8.7*

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 labour force (15-64 years), non calendar adjusted data.

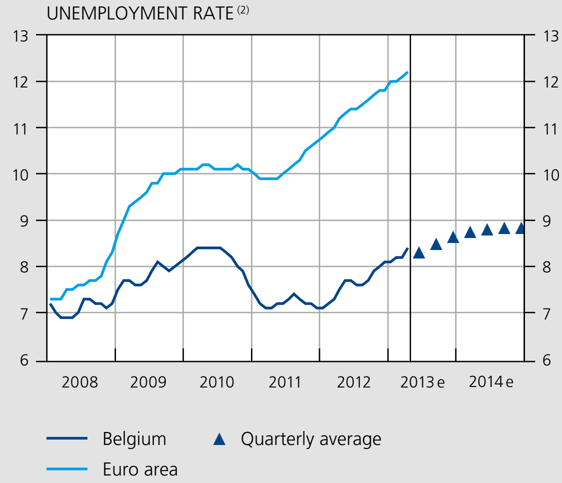
increases, together with a saturation effect, are likely to somewhat curb the pace of growth.

The decline in the number of employees should be partly offset by the rise in the number of self-employed persons, even though that increase is likely to be considerably smaller than in the past years. The reason lies not only in the persistent weakness of economic activity, but also in certain institutional factors which are now playing a lesser role, such as the transitional rules on the free movement of people, applicable to the countries which joined the EU in 2004. Those rules – abolished since 2009 – which were intended to protect the labour markets of the "old" EU Member States against a supply shock, were in fact largely circumvented by working on a self-employed basis, as that status was not covered by the rules. This measure now still applies to persons from Romania and Bulgaria, countries which joined the EU in 2007, and expires on 31 December 2013.

Owing to these developments, domestic employment is likely to record an annual average fall of around 18 000 persons in 2013 and around 6 000 persons in 2014.

The decline in employment, partly owing to the downturn in economic activity and partly to the expansion of the labour force, will lead to a further increase in unemployment in 2013 and 2014, ultimately affecting over 620 000 persons. The recently implemented unemployment and pre-pension reforms are aimed at helping unemployed persons to find a (new) job as quickly as possible and extending working life. On account of the downturn in economic activity and the lack of demand for labour, those measures are unlikely to have a significant impact at present. These are the main reasons why the unemployment rate of persons aged from 15 to 64 years is set to increase, reaching an average of 8.3 % in 2013 and 8.7 % in 2014.

CHART 5 LABOUR MARKET
(seasonally adjusted data)



Sources: EC, NAI, NBB.
(1) Percentages.
(2) Harmonised unemployment rate, as a percentage of the labour force.

4. Prices and costs

According to the current projections, consumer price inflation, measured by the HICP, is estimated at 1 % in 2013, against around 1.4 % in the euro area, and 1.2 % in 2014. Having exceeded 2 % throughout 2012 – with an average of 2.6 % –, the increase in prices has remained well below that figure since January 2013.

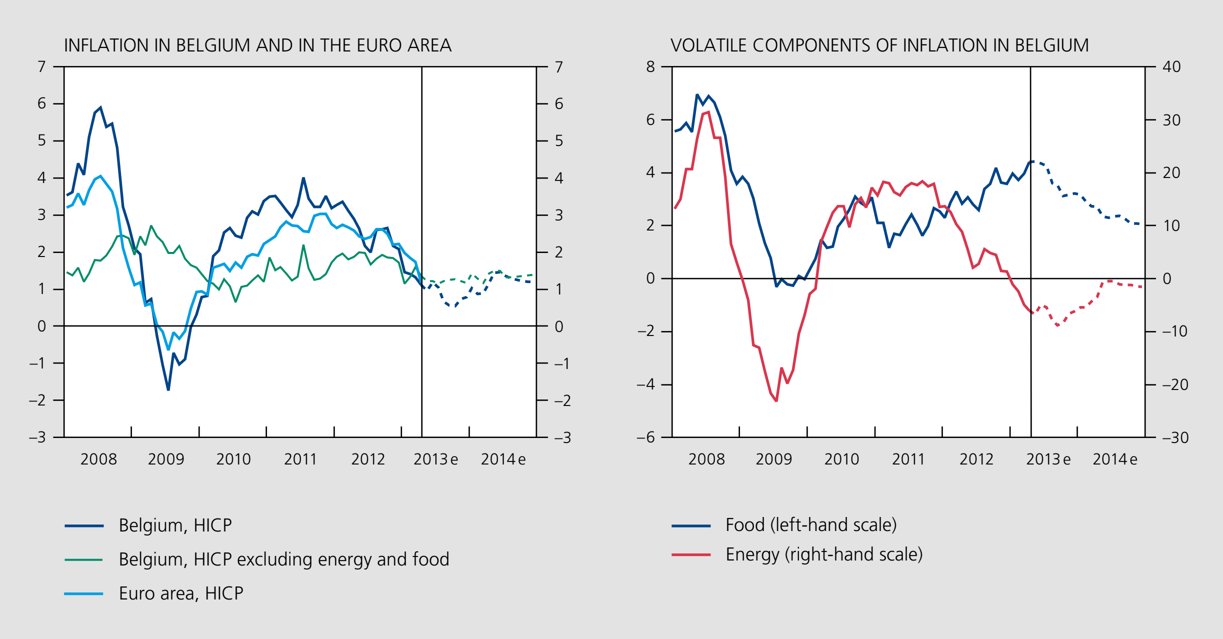
The observed deceleration is primarily due to energy prices which, after rising by 6 % in 2012, are set to fall by a comparable amount in 2013. These prices are projected to record negative year-on-year growth rates in 2013, and in 2014 too, albeit to a lesser extent.

These developments are attributable partly to the prices of petroleum products on the international markets and the behaviour of the euro in relation to the dollar, and partly to developments on the gas and electricity market. Although the annual average price of a barrel of Brent remained stable between 2011 and 2012, it is likely to fall over 2013 as a whole since the current projections forecast an average of USD 105 in 2013, compared to USD 112 in 2012. At the same time, the exchange rate of the euro against the dollar is projected to stand at 1.31, compared to 1.28 in 2012. The combination of a lower Brent price with a slightly stronger euro accentuates the fall in the oil price in euro in 2013 compared to 2012. Moreover, after the freezing of gas and electricity price indexation between April and December 2012, several suppliers announced substantial tariff cuts from January 2013 as a result of significant changes in market shares. In addition, the indexation formulas for variable-price contracts can henceforth only be based on the prices quoted on European gas and electricity markets, and may no longer refer to the oil price, though a transitional period has been granted for gas up to the end of 2014, subject to certain conditions.

In contrast to energy prices, food prices are rising faster than in 2012, curbing the deceleration in total inflation. Thus, prices of unprocessed food, which had risen by 3.4 % in 2012, are expected to increase even more in 2013. Adverse supply conditions linked to bad local weather conditions for fruit and vegetables are expected to drive up prices in this category by 4.4 % in 2013. Moreover, the average year-on-year price rise for processed food could reach 3.5 % in 2013, against 3.1 %

CHART 6 INFLATION

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



Sources: EC, NBB.

in 2012. That is partly caused by the increase in world prices of food commodities in 2012, especially cereals, more specifically because of the drought in the United States, and partly to the new increases in excise duties on tobacco in 2013.

The increases in indirect taxes on services and the price rises in the communications sector in January 2012 accounted for much of the acceleration in underlying inflation in 2012, which averaged 1.9 %. In 2013, the underlying trend is no longer influenced by these factors and has therefore decelerated sharply since January, helping to restrain total inflation, though to a lesser extent than

TABLE 5 PRICE AND COST INDICATORS

(percentage change compared to the previous year)

	2010	2011	2012	2013 e	2014 e
HICP	2.3	3.4	2.6	1.0	1.2
Health index	1.7	3.1	2.7	0.9	1.1
Underlying inflation (1)	1.1	1.5	1.9	1.3	1.4
GDP deflator	2.0	2.0	2.0	1.6	0.9
Labour costs in the private sector					
Labour costs per hour worked	0.9	2.2	3.3	1.8	0.9
of which indexation	0.5	2.7	2.8	1.6	0.9
Labour productivity (2)	1.5	0.1	–0.8	0.0	1.1
Unit labour costs	–0.6	2.1	4.1	1.8	–0.2

Sources: EC, FPS Employment, Labour and Social Dialogue, NAI, NBB.
(1) Measured by the HICP excluding food and energy.
(2) Real value added per hour worked by employees and self-employed workers.

energy. Taking account of the gloomy economic context, the current projections forecast core inflation at an average of 1.3 % over 2013 as a whole, and 1.4 % in 2014.

After having peaked at 4.1 % in 2012, the rise in unit labour costs in the private sector is expected to subside to 1.8 % in 2013, and would even move into negative territory, at –0.2 %, in 2014, according to the adopted assumptions and in view of the projected economic climate. Although in 2012 the competitiveness of Belgian producers was still influenced by this stronger rise in labour costs that outpaced the rise in Belgium's three main trading partners, namely Germany, France and the Netherlands, the situation is likely to stabilise in 2013 and improve slightly in 2014.

In 2014, this development will benefit from the gradual recovery of labour productivity gains which had been hit by the slowdown in activity at the end of 2011, and mainly in 2012 ; that effect should still be noticeable in 2013. The rise in hourly labour costs is another decisive factor : in the private sector, hourly labour cost growth, which went up from 2.2 % in 2011 to 3.3 % in 2012, will drop to 1.8 % in 2013 and 0.9 % in 2014. These fluctuations largely reflect the pattern of wage indexation. Following a rise of 3.1 % in 2011 and 2.7 % in 2012, the health index – which is used as the reference for wage indexation – is projected to increase by 0.9 % in 2013 and 1.1 % in 2014. The change in the calculation of the health index (in particular due to the inclusion of the downward effect of prices discounted in the sales) is a contributory factor to this deceleration in 2013. Nonetheless, since the various joint committees do not all apply the indexation mechanisms at the same time, the automatic wage adjustment will continue to generate slightly bigger increases in 2013, even though inflation began to fall at the end of 2012. In 2014, that effect will be apparent in a significantly slower pace of wage increases. Apart from indexation, the assumption concerning the movement in hourly labour costs in the private sector in 2013 and 2014 takes account of an agreed real wage freeze, as specified in the draft interprofessional agreement for 2013-2014 imposed by the government. Other factors relating to wage-setting should have a neutral impact in 2013 and be slightly positive in 2014.

5. Public finances

5.1 Overall balance

According to the provisional data published by the NAI at the end of March 2013, the Belgian government deficit stood at 3.9 % of GDP in 2012. In the macroeconomic context described above, the deficit should fall to 2.9 % of GDP in 2013, before increasing again to 3.3 % of GDP in 2014.

The improvement in the overall balance in 2013 is primarily due to non-recurring factors. In particular, the 2012 deficit was driven up by the federal government's capital injection in Dexia. In contrast, in 2013, temporary factors, such as the expected revenues from the fiscal regularisation, will have a beneficial effect on the overall balance. In 2014, the disappearance of these one-off factors is likely to be the principal determinant of the increase in the deficit.

Interest charges are expected to have a favourable influence on the budget balance again in 2013. Following a slight rise in 2012, they will begin to decline again in 2013 and 2014 as a percentage of GDP, mainly as a result of the steep fall in both short- and long-term interest rates.

The efforts already made by the various levels of government should also improve the overall balance.

Conversely, the economic situation is likely to have a detrimental effect on public finances in 2013, while its impact on the overall balance should be generally neutral in 2014.

According to the projections, which only take account of measures which have already been announced and are sufficiently detailed – consolidation efforts are still needed to meet the April 2013 stability programme targets. That programme anticipates a deficit of 2.5 % of GDP in 2013, then 2 % of GDP in 2014, a year for which no budget has yet been drawn up. In 2013, the difference between the Bank's projections and the stability programme target is mainly attributable to two factors. First, the macroeconomic framework is a little less favourable than expected in the budget. This is the principal factor accounting for a gap of 0.1 percentage point of GDP compared to the government's target of 2.5 % for federal finances. Second, the projections result in a slight deficit for both the Communities and the Regions and for local authorities – the latter case partly on account of the upward revision of the 2011 deficit in the NAI's government accounts – whereas the stability programme aims at a balanced budget for all these sub-sectors.

5.2 Revenue

Public revenues expressed as a percentage of GDP are projected to rise by 0.5 percentage point in 2013, before declining by 0.3 percentage point in 2014. The new

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

	2010	2011	2012	2013 e	2014 e
General government					
Revenue	48.7	49.5	50.9	51.4	51.1
Fiscal and parafiscal revenue	43.1	43.5	44.7	45.2	45.3
Other	5.5	6.0	6.2	6.1	5.8
Primary expenditure	49.1	49.9	51.3	51.1	51.3
Primary balance	–0.4	–0.4	–0.5	0.3	–0.2
Interest charges	3.4	3.3	3.5	3.2	3.1
Financing requirement (–) or capacity	**–3.8**	**–3.7**	**–3.9**	**–2.9**	**–3.3**
p.m. Effect of non-recurring factors	*0.0*	*–0.2*	*–0.4*	*0.4*	*0.0*
Overall balance per sub-sector					
Federal government	–3.0	–3.4	–3.4	–2.6	–2.9
Social security	0.0	0.0	–0.1	0.0	0.0
Communities and Regions	–0.7	–0.2	–0.1	–0.2	–0.3
Local authorities	0.0	–0.1	–0.3	–0.2	0.0

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

increase in the revenue ratio in 2013 is due mainly to structural fiscal and parafiscal measures, while the impact of temporary factors is stable, and non-fiscal and non-parafiscal revenues are down against the previous year.

Apart from the tougher measures to combat evasion of taxes and parafiscal levies, the principal structural measures can be divided into several main categories. Thus, the continuing harmonisation of the tax on income from movable property at 25 %, with a few exceptions, and the increased tax on capital gains and life insurance premiums are expected to generate almost 0.2 % of GDP in additional revenue originating from capital incomes. Companies are subject to a new reference rate for the calculation of notional interest, which is now equal to the average interest rate on ten-year OLOs in the third quarter – instead of the whole year – of the penultimate year preceding the year of the tax assessment. Moreover, personal income tax revenues should increase, amongst others as a result of the abolition of the deduction for part of energy-saving investments and the conversion of the tax deductions into tax cuts. Finally, indirect taxes would be boosted by the increase in excise duty on tobacco and alcohol and tightening of the rules concerning VAT on investment goods for mixed – both business and private – use.

TABLE 7 STRUCTURAL MEASURES AND FACTORS CONCERNING PUBLIC REVENUES
(in € million, unless otherwise stated; changes compared to the previous year)

	2013 e	2014 e
Taxes	1 934	951
of which:		
Capital incomes	679	59
Percentage change in the tax deduction for risk capital	386	517
Deduction for energy-saving investment	206	136
Taxes on goods and services	385	329
Measures to prevent tax evasion and to improve collection of taxes	249	0
Social security contributions	–207	–124
Non-fiscal and non-parafiscal revenues	–478	–763
Total	**1 249**	**64**
p.m. Idem, in % of GDP	*0.3*	*0.0*

Sources: Budget documents, NBB.

Social security contributions are set to decline slightly in 2013, as a result of the structural reductions thereof which have been approved and which are intended to improve competitiveness. However, the impact of those measures will be attenuated by exceptional revenues resulting from the current spate of redundancies, as the severance pay paid by employers is subject to tax and social security contributions.

Structural non-fiscal and non-parafiscal revenues are also diminishing to a large extent. For instance, the payments made by the financial sector in return for the assistance and guarantees provided for the sector will decline sharply in 2013.

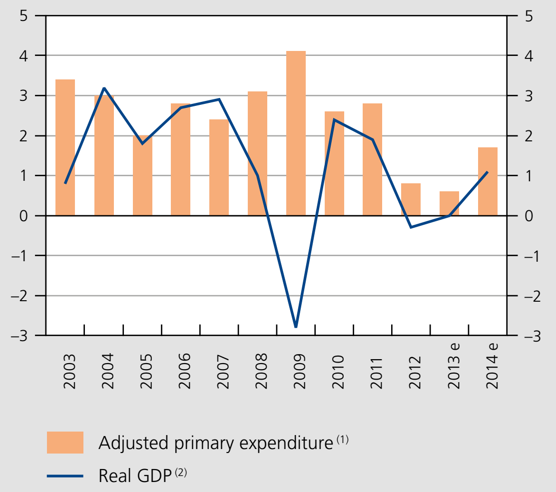
Temporary factors had given a major boost to fiscal and other revenues in 2012. In 2013, their importance in tax revenues should be more or less stable, as the revenues expected from the tax regularisation, in particular, should roughly offset last year's windfalls, namely the late payment of the nuclear levy and the early collection of the levy on life insurance reserves. In the case of non-fiscal and non-parafiscal revenues, there are some new temporary factors in 2013 – such as the repayment by bpost of earlier subsidies or the refund of excess customs duties collected by the EU – which only partly compensate for the loss of the previous year's positive factors.

The reduction in the revenue ratio in 2014 will be partly due to the evaporation of temporary factors increasing revenues in 2013. That effect is likely to be reinforced by a further decline in the financial sector's payments for guarantees, the reduction of dividends paid out by KBC, and the further cut in social security contributions. However, that should be partly offset by revenues from the sale of licences for greenhouse gas emissions and by the impact of the fall in the reference rate used to calculate notional interest, as well as by other less significant factors.

5.3 Primary expenditure

In relation to GDP, primary expenditure is projected to fall by 0.3 percentage point to 51.1 % in 2013, before creeping back up to 51.3 % in 2014. Real primary expenditure will remain stable in 2013, before a 1.1 % increase in the following year, in line with real GDP growth. The rise in real expenditure in 2013 is considerably restrained by the end of the recapitalisation of Dexia in 2012. After adjustment for the influence of non-recurring and cyclical factors plus indexation effects, growth is put at 0.6 % in 2013 and 1.7 % in 2014.

CHART 7 PRIMARY EXPENDITURE OF GENERAL GOVERNMENT AND GDP
(year-on-year % change)

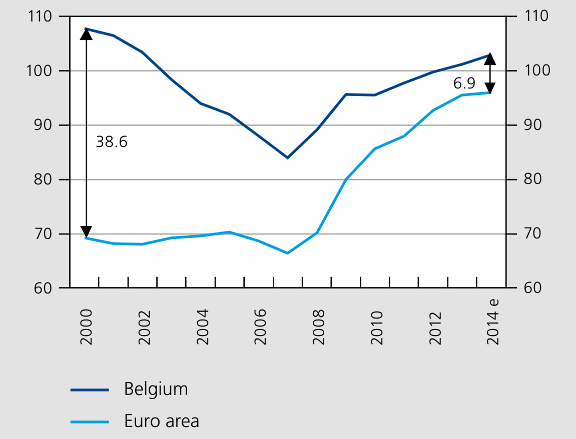


Sources: NAI, NBB.
(1) Primary expenditure is deflated by the HICP and adjusted for cyclical, non-recurring and fiscally neutral factors, and for the effect of indexation. The latter is due to the difference between the actual indexation of civil service pay and social benefits and the increase of the HICP.
(2) Data adjusted for calendar effects.

The expected development of total adjusted primary expenditure in 2013 masks divergent movements within the government sub-sectors. The federal government is projected to record an increase in expenditure outstripping the trend growth of GDP. Compared to the pace of past increases, the growth of social security expenditure is expected to be moderate, particularly as a result of the health care savings, while pension expenditure will continue to significantly outpace GDP growth owing to population ageing. The Communities and Regions are projected to record very slightly negative expenditure growth. Local authority expenditure is also expected to fall in real terms, as investment is scaled down following the municipal and provincial elections.

The growth of primary expenditure in 2014 is naturally harder to assess, since the corresponding budgets have not yet been drawn up. The projections take account of the impact of the measures taken under the federal government agreement for 2012-2014, plus the structural savings specified in the initial budget and in the 2013 budget review. Those measures should lead to a slight fall in real federal government expenditure, but a larger increase in social security expenditure than in 2013. These movements should be smaller than the average growth recorded in the past; the same applies to the expenditure of the Communities, Regions and local authorities taken together.

CHART 8 CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT
(in % of GDP)



Sources: EC, NAI, NBB.

5.4 Debt

At the end of 2012, Belgium's debt ratio stood at 99.8 % of GDP, an increase of 15.8 percentage points since 2007. According to the projections, public debt will come to 101.1 % of GDP at the end of 2013. In 2014, the debt will continue rising to 102.9 % of GDP.

The increase in the debt ratio in 2013 will be entirely attributable to endogenous factors. The primary balance will be insufficient to make up for the weak nominal growth of GDP. This year, exogenous factors are expected to have a neutral impact on the debt, with various transactions cancelling one another out. The loans granted under the EFSF and the capital injections in the ESM and the EIB are likely to contribute to an increase in the debt ratio, while the repayment by KBC and the sale of Royal Park Investments should counterbalance that upward effect.

In the April 2013 stability programme, the government announced its intention to keep the debt ratio below 100 % of GDP. It undertook to identify measures to achieve that before the end of June. Those measures have not yet been incorporated in the projections.

6. Risk factor assessment

While the Bank's forecasts in December 2012 were considerably more pessimistic than those of most other institutions, the current spring projections are entirely in line with them, as the other institutions revised their forecasts downwards at the beginning of 2013. Thus, the latest growth forecasts produced by the European Commission and the OECD for 2013-2014 tally almost perfectly with the Bank's estimates. In the February 2013 Economic Budget, the Federal Planning Bureau was still predicting slightly higher growth for this year, but in the Economic Outlook 2013-2018 published in May 2013, it assumes

TABLE 8 COMPARISON WITH ESTIMATES OF OTHER INSTITUTIONS
(year-on-year real GDP growth, in %)

Institution	Latest forecasts			Previous forecasts	
	Date of publication	2013	2014	Date of publication	2013
Federal Planning Bureau	May 2013 (1)	0.2	1.2	September 2012 (2)	0.7
Belgian Prime News	April 2013	0.3	1.2	September 2012	0.6
IMF	April 2013	0.2	1.2	October 2012 (3)	0.3
EC	May 2013	0.0	1.2	November 2012	0.7
Consensus Economics	April 2013	0.1	1.1	November 2012	0.4
OECD	May 2013	0.0	1.1	November 2012	0.5
NBB	June 2013	0.0	1.1	December 2012	0.0

Sources: Federal Planning Bureau, Belgian Prime News, IMF, EC, Consensus Economics, OECD, NBB.
(1) Economic Forecasts 2013-2018.
(2) Economic Budget.
(3) European Economic Forecast – Autumn 2012.

growth for 2014 only very slightly different from the Bank and the OECD's estimates, and identical with the EC and the IMF forecasts.

Yet this remarkably large convergence between the various macroeconomic forecasts must not divert attention from the prevailing great economic uncertainty, and, thus, from the significant risks surrounding those forecasts. In particular, the aforementioned recent deterioration in the economic indicators at the beginning of the spring implies a need for great caution in that respect.

Since Belgium has a very open economy, Belgian growth naturally depends primarily on developments in other countries. In that connection, the greatest risks seem to concern the euro area. For instance, it is quite possible that, owing to the ongoing process of deleveraging in several countries, the euro area may need more time to regain a growth rate comparable to the figures for other regions of the world. The recovery could also be hampered by reform fatigue and the accompanying recrudescence of uncertainty over the sustainability of the (private and public) debt burden in various countries, and by institutional developments in the euro area. In that respect, the implications of the recent delay in the consolidation of public finances are still uncertain. Although it could bolster demand in certain cases in the short term, it also implies risks of compromising a swift return to robust growth in the medium term. Finally, various developments concerning competitiveness in the euro area may also entail certain risks. The steady improvement in the competitiveness of the peripheral countries hardest hit by the crisis could be achieved partly at the expense of the export growth of the core countries which take longer to implement their reforms. Moreover, there is still great uncertainty surrounding the global economic revival, for example in China.

At the purely national level, there is a risk that the current uncertainty and more difficult access to credit may depress domestic demand to a greater extent than is assumed in these projections. Against the background of falling employment, and despite the extremely low return on financial assets, precautionary savings could rise beyond the level assumed in the forecasts, driving the private savings ratio still higher. In view of the increased uncertainty over the outlook for demand and the difficulties of funding investment projects with loans, business investment and recruitment could also take longer to pick up than is currently expected. Conversely, more vigorous global growth could also have a more marked, positive impact on confidence, leading to a speedier revival of domestic demand.

Annex

PROJECTIONS FOR THE BELGIAN ECONOMY: SUMMARY OF THE MAIN RESULTS

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

	2010	2011	2012	2013 e	2014 e
Growth (calendar adjusted data)					
Real GDP	2.4	1.9	–0.3	0.0	1.1
Contributions to growth:					
Domestic demand, excluding change in inventories	1.3	1.2	–0.2	–0.2	1.2
Net exports of goods and services	0.7	–0.1	0.2	0.3	0.0
Change in inventories	0.3	0.7	–0.2	–0.1	0.0
Prices and costs					
Harmonised index of consumer prices	2.3	3.4	2.6	1.0	1.2
Health index	1.7	3.1	2.7	0.9	1.1
GDP deflator	2.0	2.0	2.0	1.6	0.9
Terms of trade	–1.6	–1.2	–0.2	0.2	0.1
Unit labour costs in the private sector	–0.6	2.1	4.1	1.8	–0.2
Hourly labour costs in the private sector	0.9	2.2	3.3	1.8	0.9
Hourly productivity in the private sector	1.5	0.1	–0.8	0.0	1.1
Labour market					
Domestic employment (average annual change in thousands of persons)	30.8	61.6	8.2	–17.7	–6.0
p.m. Change during the year, in thousands of persons [1]	*58.9*	*53.1*	*–8.9*	*–26.4*	*9.2*
Total volume of labour [2]	0.9	1.9	0.2	–0.2	0.0
Harmonised unemployment rate [3]	8.4	7.2	7.6	8.3	8.7
Incomes					
Real disposable income of individuals	–1.2	–0.9	0.7	0.3	1.1
Savings ratio of individuals (in % of disposable income)	15.3	14.1	15.0	15.2	15.5
Public finances [4]					
Overall balance (in % of GDP)	–3.8	–3.7	–3.9	–2.9	–3.3
Primary balance (in % of GDP)	–0.4	–0.4	–0.5	0.3	–0.2
Public debt (in % of GDP)	95.6	97.8	99.8	101.1	102.9
Current account ((% of GDP according to the balance of payments)	**1.9**	**–1.1**	**–1.4**	**–0.5**	**–0.3**

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 hours worked in the economy.
(3) In % of the labour force (15-64 years), data not adjusted for calendar effects.
(4) According to the methodology used in the excessive deficit procedure (EDP).