

6 December 2011

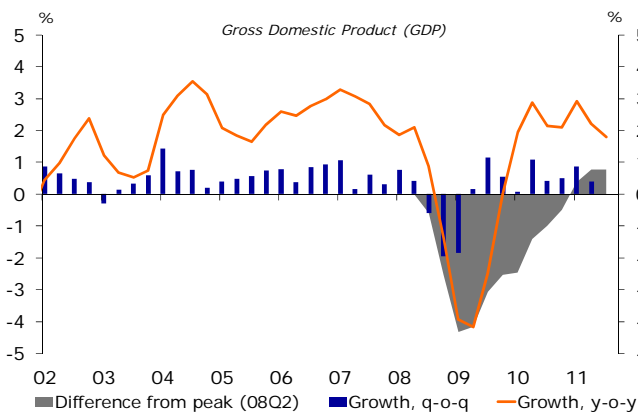
Finally a government!

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	2.3	2	½
Private consumption	2.3	1	¼
Government consumption	0.2	½	0
Private investment	-0.9	5	1½
Exports	9.9	5¼	3¼
Imports	8.7	5½	3¼
Inflation	2.3	3½	2
Unemployment (%)	8.3	7	7
Government balance (% GDP)	-4.2	-3¾	-3
Government debt (% GDP)	97.1	97¾	98

Source: Reuters EcoWin, Rabobank

Almost one-and-a-half year after the elections there has finally been a political breakthrough. The six negotiating parties reached an agreement about the formation of a new government, in which the Walloon socialist di Rupo will be the prime minister. With the announcement of harsh austerity measures in 2012 the government hopes to reduce the budget deficit and thereby to regain market trust. In contrast with this political success, the economic outlook is more worrying. Several indicators point to persistent weakness of activity in the coming quarters and because of that we expect GDP-growth in 2012 to be significantly lower than in 2011.

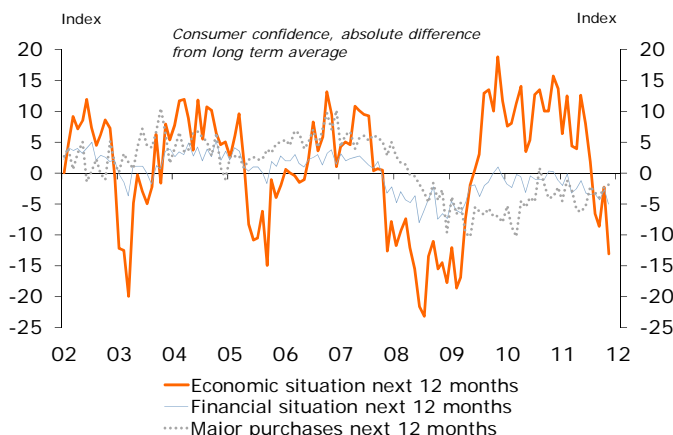
Economy stagnates in third quarter



Source: Reuters EcoWin

The first estimate of GDP-growth in 11Q3 shows a stagnation of the economy. Moreover, the growth figure in 11Q2 has been revised downwards from 0.7% to 0.4% q-o-q. The growth composition in 11Q3 is not published yet. In comparison to the other eurozone member states, Belgium recovered relatively strongly after the crisis and also the start of 2011 was promising. That said, the European debt crisis now seems to weigh on Belgium's economic activity and we do not exclude the possibility of a mild recession in 11Q4 and 12Q1. The chance of a deeper recession increases, the longer European leaders postpone a structural solution to the eurozone crisis.

Consumer confidence is still falling



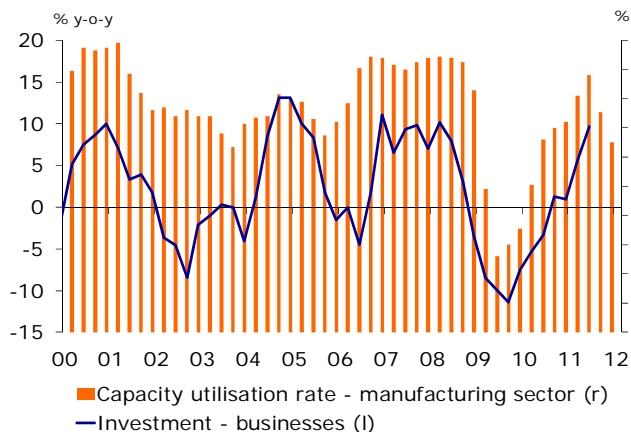
Source: Reuters EcoWin

An important cause of economic slowdown is that the ongoing crisis has resulted in a drop in consumer confidence. The confidence indicator now stands at its lowest level in more than two years. Surprisingly, the sub-component measuring the willingness to purchase big ticket items has increased slightly in the last couple of months. The formation of the government might push sentiment gently upwards in the coming months. However, we should state that private consumption has been particularly weak in the first half of 2011 (average growth of 0.1% q-o-q in two quarters) and that high inflation (3.8% y-o-y in November) does not provide a solid base for growth in 11Q4.

Economic Update Belgium

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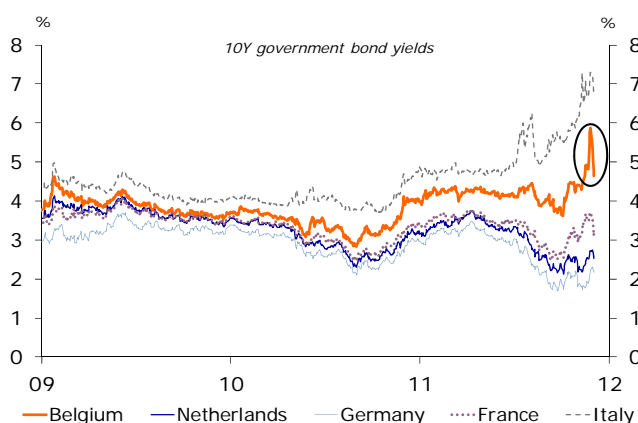
Companies face worsening (investment) climate



Source: Reuters EcoWin

Also producers have become more pessimistic in the last couple of months. Foreign demand grew strongly until 11Q1 but it contracted slightly afterwards. Similar to most other eurozone members, the capacity utilisation rate decreased significantly in the second half of the year. The sluggish recovery of domestic demand, the uncertain economic outlook and tighter credit conditions have resulted in a poor investment climate. Belgian firms are not expected to increase investment in order to increase their production capacity. As things stand, we foresee a substantially lower growth of private investments in 2012 compared to last year.

Note to S&P and the markets: Thank you!

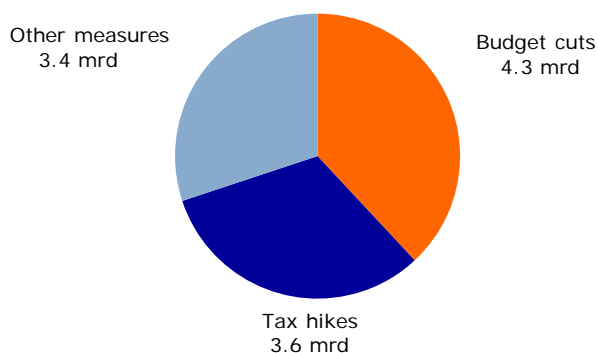


Source: Reuters EcoWin

Even Belgian politicians are sensitive to high external pressure. In the weekend after the downgrade (from AA+ to AA, with a negative outlook) by rating agency Standard & Poor's, the six negotiating parties finally reached an agreement on the 2012-2014 budget. This turned out to be the crucial step in the formation process. In the week ahead of the downgrade, the negotiations seemed to fail and, as a result of that, the interest rate on Belgian 10-year government bonds rose quickly to levels above 5.8%. However, the political breakthrough immediately resulted in optimism among investors. In a single week, the interest rate dropped back to 4.6%.

Harsh austerity measures are planned for 2012

Total austerity measures by federal government in 2012, 11.3 billion euro.



Source: Reuters EcoWin

The new government intends to bring down the budget deficit in 2012 to 2.8% of GDP and aims to reach a structurally balanced budget in 2015. Harsh austerity measures by the federal government are announced for the coming year. The budget cuts include cuts in public sector expenditure on health care and the civil service. On the revenue side, mainly companies and wealthy individuals will see a higher tax rate. Other measures include efficiency savings, which are the result of the battle against social and fiscal fraud. In our view, the six-party coalition and the economic headwinds (growth assumption in the budget is 0.8%-GDP in 2012) make the realisation of the budget target for next year uncertain.

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Michiel Verduijn
 Tel. +31 (0)30 – 2130522
 M.P.Verduijn@rn.rabobank.nl