



Economic Update Belgium

8 May 2012

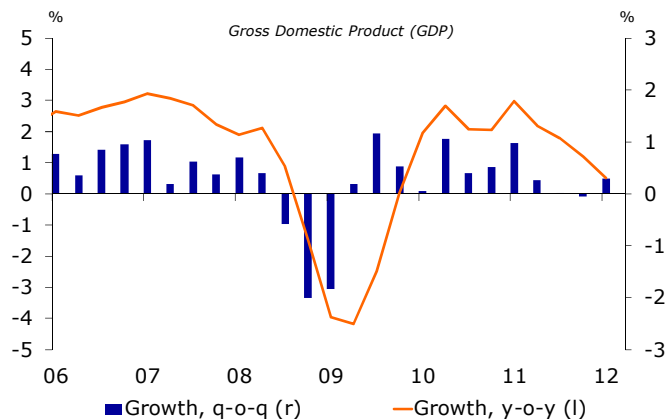
Surprisingly good start to the year

Year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.9	½	1¼
Private consumption	0.8	¼	¾
Government consumption	0.9	½	½
Private investment	4.5	½	5½
Exports	4.4	3	5¾
Imports	4.9	3¾	6½
Inflation	3.5	2½	1½
Unemployment (%)	7.2	7½	7
Government balance (% GDP)	-3.7	-3	-2¼
Government debt (% GDP)	98.2	98½	98

Source: Reuters EcoWin, Rabobank

Recent figures show that the Belgian economy did not experience a recession last year and that 2012 started with growth. Although encouraging, this does not pave the way for solid growth during the course of the year. Sentiment indicators deteriorated in April and the turmoil regarding the European debt crisis will continue to hamper economic activity. Due to the harsh austerity package, the government will be able to achieve the European budget target this year (3%-GDP), but the measures are expected to weigh on domestic demand significantly. In this light, the recent slowdown of inflation, which we expect to continue gradually going forward, should be considered as a bright spot.

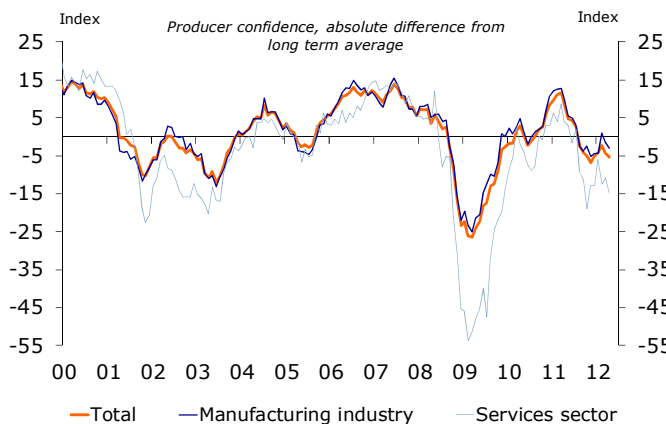
How to pull several rabbits from one hat?



Source: Reuters EcoWin

The first estimate of the GDP-figure for 12Q1 shows that economic growth was stronger than originally expected (+0.3% q-o-q). The breakdown is not published yet. And there is more good news. The quarterly figure for 11Q3 has been revised upwards (from -0.1% to 0%), as a result of which a small technical recession has been avoided altogether. The serious economic slowdown during 2011 remains intact, but recent GDP estimates show that the recovery remained resilient amid the global economic slowdown. Besides that, Belgium's economic growth since the crisis remains quick when compared to most other eurozone member states, even the so-called 'core'.

Confidence remains extremely fragile



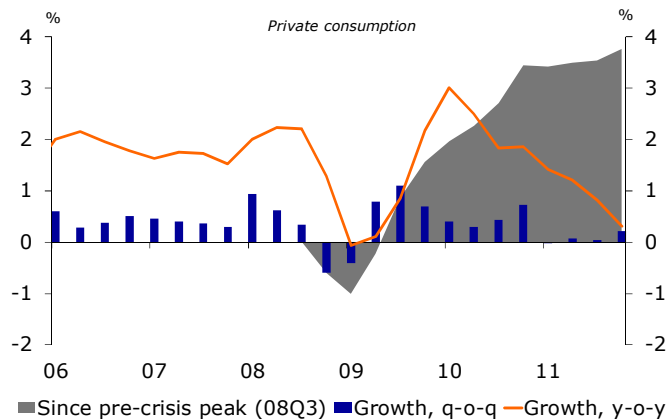
Source: Reuters EcoWin

However, the question remains; how long will the economy be able to surprise on the upside? It should be noted that sentiment indicators point to a new deterioration in April. Especially entrepreneurs in the services sector have become more pessimistic, which clearly corresponds with the development seen in many other eurozone countries. It will come as no surprise that the European debt crisis still plays an important role in pushing down sentiment. Since a quick solution cannot be expected, we believe that low confidence levels will continue to weigh on economic recovery going forward. Therefore, growth may post several weak readings in the coming quarters.

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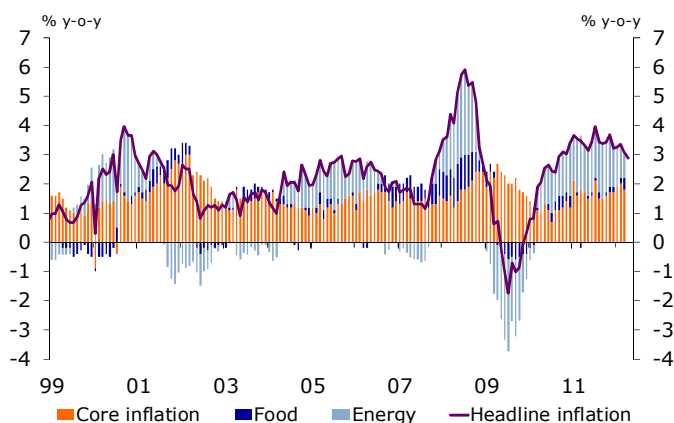
Are households about to throw in the towel?



Backed by robust real wage growth, large financial buffers and an improving labour market, households played an important role in the Belgian economic recovery. The level of private consumption at the end of 2011 was 3.7% higher than its pre-crisis level. For comparison: private consumption in the Netherlands decreased by 4.4% since its pre-crisis peak. That said, in 11Q4 household consumption grew by a meagre 0.2% q-o-q and we expect hardly any growth in the coming quarters. The most important drivers of weaker consumer spending are the low confidence level and the harsh austerity measures announced by the government.

Source: Reuters EcoWin

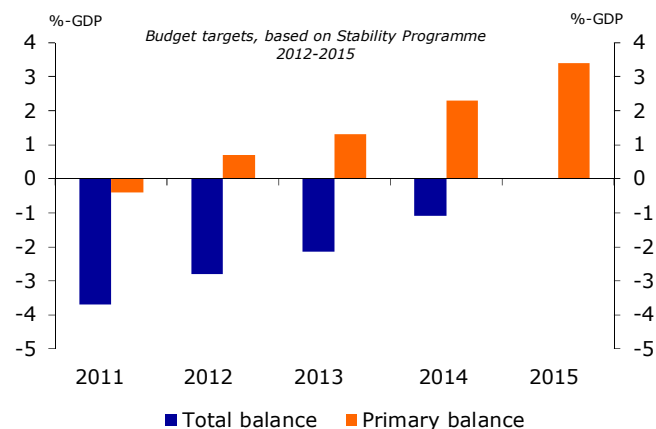
Inflation has finally begun to fall



The drop in inflation (2.9% in April) can hopefully cushion the abovementioned pressures on consumer spending. However, in Belgium this effect will be dampened by automatic wage indexation, as a result of which wages quickly respond to developments in the average price level. Nevertheless, lower inflation should be able to support the recovery temporarily and, besides that, it improves Belgium's international competitiveness. If the oil price does not rise significantly going forward, the positive contribution of energy prices to annual inflation will reduce gradually. What's more, core inflation may decrease as well amid weak domestic demand dynamics.

Source: Reuters EcoWin

Government presents stability programme



Recently, the government handed in its stability programme 2012-2015 to the European Commission. The budget targets correspond to previous plans, namely a maximum deficit of 2.8%-GDP this year and a balanced budget in 2015. However, growth assumptions have been revised downwards, as a result of which severe austerity measures remain inevitable to achieve the targets. In this light, the initial austerity package of EUR 11.3bn for 2012 has been raised to EUR 12.8bn. Moreover, the growth assumption for this year can be called conservative, especially after the recent release of the GDP data. Therefore, achievement of the European budget target of 3%-GDP this year is possible.

Source: Stability Programme 2012-2015

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Michiel Verduijn
Tel. +31 (0)30 - 2130522
m.p.verduijn@rn.rabobank.nl