



Economic Update Belgium

1 February 2011

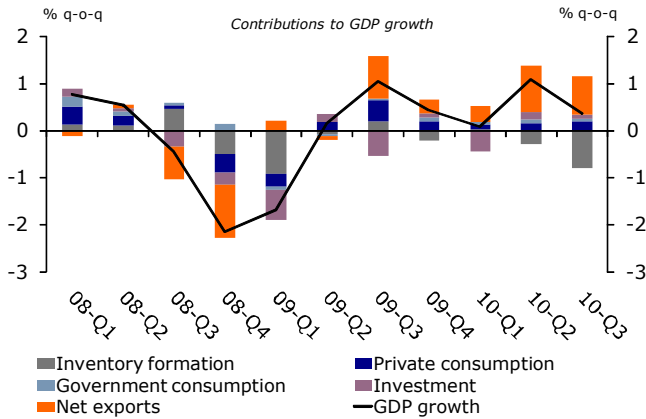
Recovery continues in spite of political uncertainty

Year-on-year change (%)	'09	'10	'11
Gross Domestic Product	-2.7	2	1½
Private consumption	-0.2	1½	1½
Government consumption	0.4	1	½
Private investment	-4.9	-1¾	¾
Exports	-11.4	10¾	5¼
Imports	-10.9	8	4¼
Inflation	0.0	2¼	1½
Unemployment (%)	7.9	8½	8
Government balance (% GDP)	-5.9	-5	-4¼
Government debt (% GDP)	97.0	98	98¾

The moderate economic recovery of 2010 is likely to continue this year. High household savings and the relatively limited rise in unemployment has supported consumer spending over the past year. But the recovery has been primarily driven by net exports. It remains to be seen to what extent domestic demand will be able to support the recovery in 2011. Consumers and producers are rather optimistic, in spite of the political stalemate. Eventually, the government will have to start imposing budget cuts, if not on its own account then forced by jittery financial markets. This will eventually suppress domestic demand growth.

Source: Reuters EcoWin, Rabobank

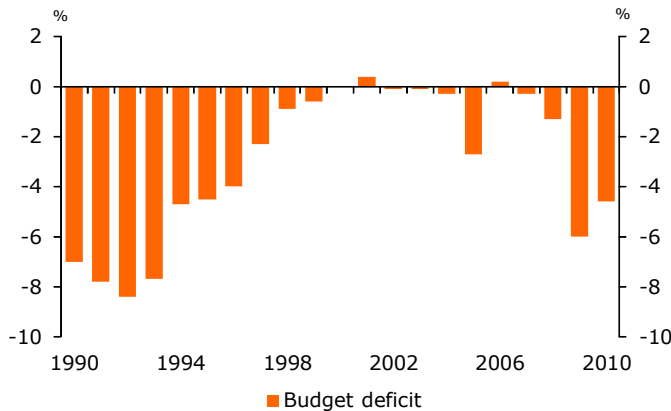
Economic recovery very dependent on export outlook



After the serious recession of 2009 (GDP -2.7%) the economy experienced a somewhat bumpy recovery during 2010. For the (small and open) Belgian economy, the renewed growth of exports, which at the depth of the recession were down 17% on its 2008 level, has been the driving force in the recovery. Domestic demand lagged behind and had only a very limited contribution to GDP growth. For this year, we expect export growth to continue, albeit at a more moderate pace. The recent rebound in world trade growth is good news for the Belgian economy. But further demand compression in the European periphery continues to pose a threat to our baseline scenario.

Source: Reuters EcoWin

Political stalemate delays structural budget cuts



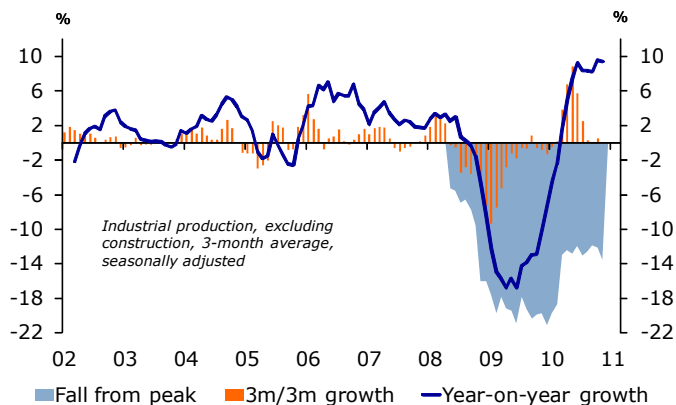
In the past decade, Belgium seemed to have parted with her history of sizeable government budget deficits. But the recession pushed the deficit to 4.6% of GDP in 2010. This is large, but relatively benign in European perspective. Even so, the financial markets are worried about the current political stalemate, which leads to a postponement of necessary structural adjustments to the budget. The current caretaker cabinet led by Yves Leterme will aim to reduce the deficit to below 4.1% of GDP in 2011, as was agreed upon with the European Union. In the long run, structural budgetary reforms are necessary, but at this moment a political solution to achieve this seems far away.

Source: Reuters EcoWin

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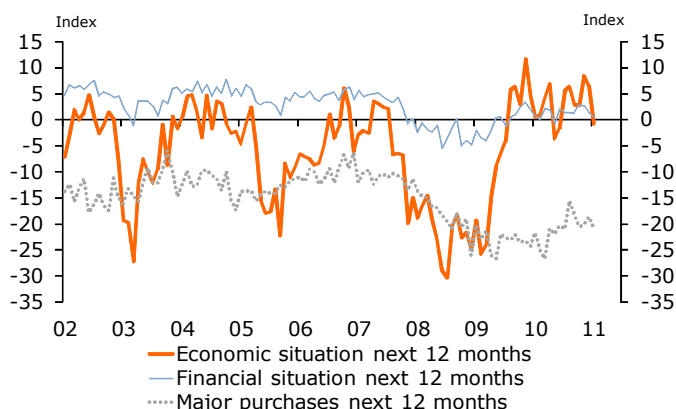
Production stagnates, but sentiment is up



After a deep fall due to the crisis, industrial production (IP) recovered in 10H1. Since then, the recovery stagnated and, as a result of that, the fall from the peak (April 2008) remains considerable. Further, IP even dropped with 1.6% m-o-m in November. That said, producer confidence in the manufacturing sector (measured by the European Commission) is rising for 5 months in a row now and since 10H2 its level is above the long term average. Producers are especially optimistic about their domestic and foreign order books. The recent positive momentum in world trade growth, therefore, seems to support Belgium's industrial recovery in 11Q1.

Source: Reuters EcoWin

Consumer optimism about the future...



Private consumption remained remarkably stable during the crisis. The healthy financial position of Belgian households, which is the result of high structural savings, was an important factor. Consumer confidence is on a relatively high level since last year, partly based on improving labour market dynamics. Since December, the index deteriorated slightly due to uncertainty concerning the economic outlook. In addition to that, the political stalemate might have contributed to this. For this year we expect a comparable growth of private consumption as in 2010. That said, looking forward notable austerity measures might become a threat to Belgian disposable income.

Source: Reuters EcoWin

... partly based on labour market developments



The unemployment rate rose in 2009 due to the severe recession, but stabilised during 2010 mainly due to the robust growth in employment. The renewed confidence resulted in the return of discouraged workers to the labour market, therefore the unemployment rate at first slightly increased in 2010. However, the rate dropped to 8.3% in November, clearly below the European average. For this year we expect job growth to be strong enough to bring down the unemployment rate – albeit at a gradual pace. A growing optimism among producers about employment prospects in the labour-intensive services sector supports our view.

Source: Reuters EcoWin

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