



# Economic Update Belgium

## 4 October 2011

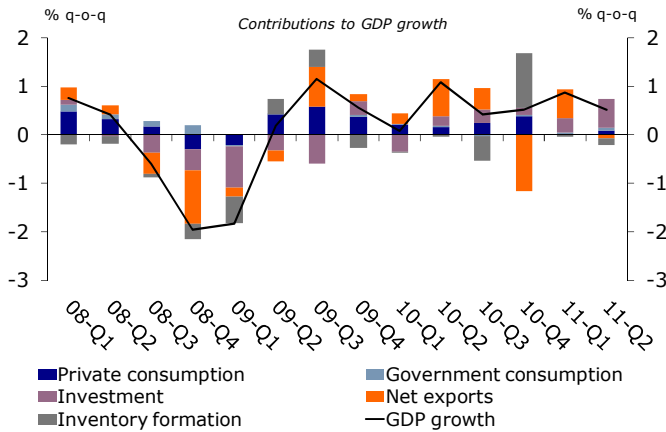
### Dark clouds reach Belgium

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	2.3	2¼	1¼
Private consumption	2.3	1¼	¾
Government consumption	0.2	½	1
Private investment	-0.9	6	3
Exports	9.9	5¼	4¼
Imports	8.7	5½	4¼
Inflation	2.3	3½	2
Unemployment (%)	8.3	7	6¾
Government balance (% GDP)	-4.2	-3¾	-3¼
Government debt (% GDP)	97.1	97¾	97¾

Source: Reuters EcoWin, Rabobank

After relatively good performance in the past quarters, the European debt crisis now also seems to weigh on the Belgian economy. The sentiment of both consumers and producers dropped sharply since August, which might put downward pressure on private spending in the next couple of months. Besides that, the stagnation of world trade is taking away a significant growth source for the Belgian economy. To sum up, the outlook for the coming months has deteriorated and is surrounded by high levels of uncertainty. On a more positive note, due to the recent political success at the negotiations for a new government, the yield on 10-year government bonds dropped below 4%.

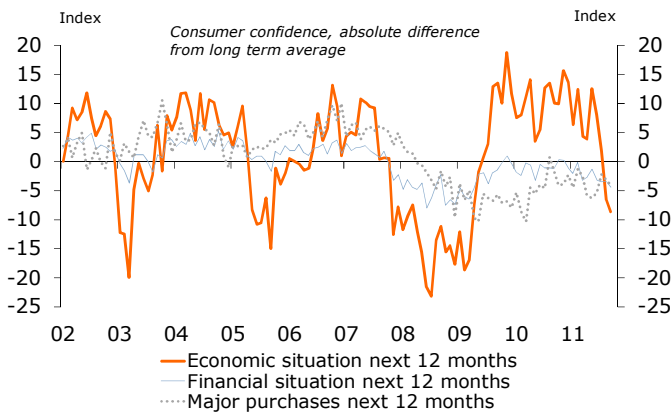
### Growth 11Q2 revised downwards



Source: Reuters EcoWin

The economy grew by 0.5% q-o-q in 11Q2. This was less than originally reported (+0.7% q-o-q), but Belgium still performed better than many other euro member states. Growth was mainly driven by an increase of business investments (4.8% q-o-q) and government investments (3.4% q-o-q). Total investments contributed 0.6%-point to the headline growth figure. Net exports subtracted 0.1%-point in 11Q2 after contributing 0.8%-point in the previous quarter. For the coming quarters we expect a significantly lower GDP-growth and, moreover, we cannot exclude the possibility of a slight contraction in one or a few quarters.

### Free fall of consumer confidence



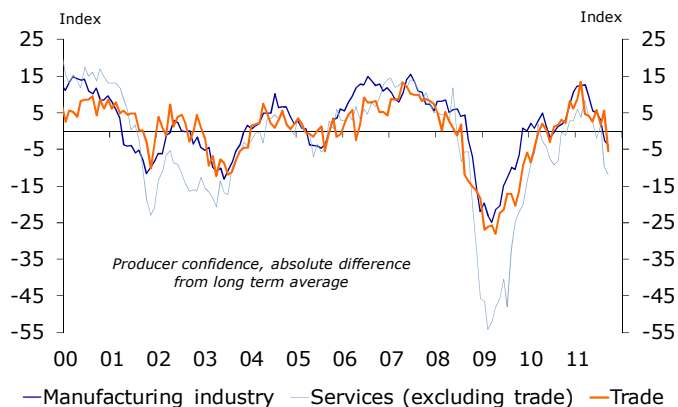
Source: Reuters EcoWin

Our cautious estimate of GDP-growth for the coming quarters is mainly based on a marked drop of both consumer- and producer confidence indices. As for the former, the general indicator of consumer sentiment plummeted in August and remained at the same level in September. This level is the lowest in 15 months. Consumers are pessimistic about the economic climate and are probably worried about the ongoing European debt crisis. The growth of private consumption was already at an absolute minimum during the first half of the year and the current sentiment levels certainly do not point to any improvement in the near term.

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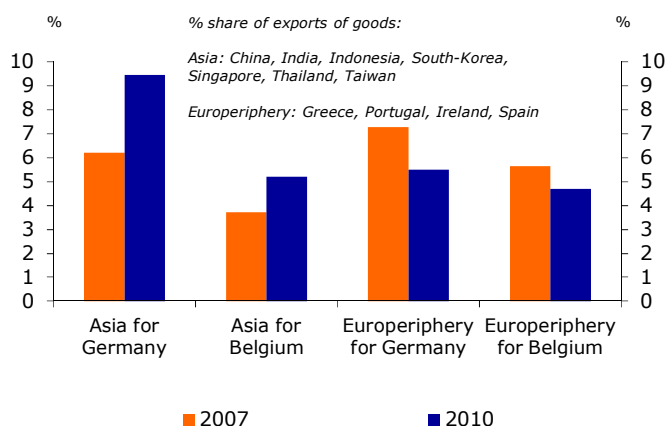
## Trade sector lowers producer sentiment



Producer sentiment has been falling since March this year, but in August and September this process accelerated considerably. This development took place in all sectors, but the downfall was remarkably large in the trade sector. Due to the decrease in September, the trade-indicator dropped below its long term average. It should be noted that the current level is still relatively upbeat compared to the levels seen during the peak of the financial crisis in 2008-09. In 11Q2, the business sector was able to keep up GDP-growth through solid investment growth. Based on the aforementioned deterioration of sentiment, it is questionable to what extent they can repeat this trick in 11H2.

Source: Reuters EcoWin

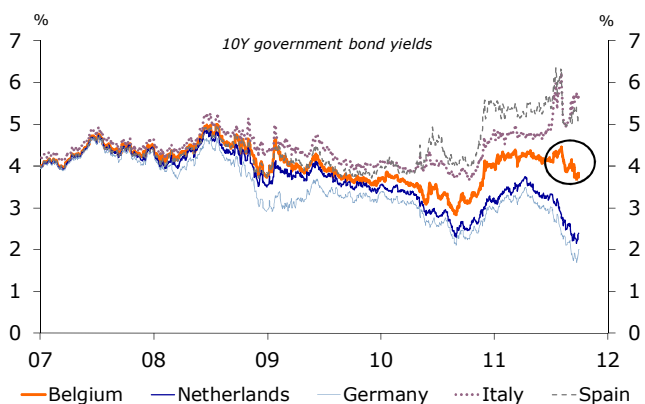
## Who turns on the export motor again?



The economic recovery has been supported substantially by the quick growth of foreign demand. However, the export of goods and services decreased in 11Q2 (-0.8% q-o-q) for the first time since spring 2009. Obviously, the development of world trade is crucial for export growth. Given that world trade stagnated during the recent past, the outlook for the coming months is not-so-rosy to say the least. In the longer term, it is important for a country to increase its export market share in the international marketplace. The share of exports aimed for the Asian market increased since 2007 (from 3.7% to 5.2% in 2010), but is still relatively low compared to, say, Germany.

Source: Reuters EcoWin

## Progress on the political front pleases investors



In the last couple of weeks there have been two important 'break-throughs' in the negotiations on the formation of a new government. The eight negotiating political parties reached agreement on both the voting district of Brussels-Halle-Vilvoorde and on a new financing law, which allocates more financial autonomy to the individual regions. Although more hurdles should be overcome on the trail to a new government (e.g. on the need for more stringent fiscal consolidation measures), investors reacted with enthusiasm after the announcement of the political results. The yield on 10-year government bonds dropped from a peak of 4.4% during the summer of this year to 3.7% at the start of October.

Source: Reuters EcoWin

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