Economic Update Belgium

3 June 2013

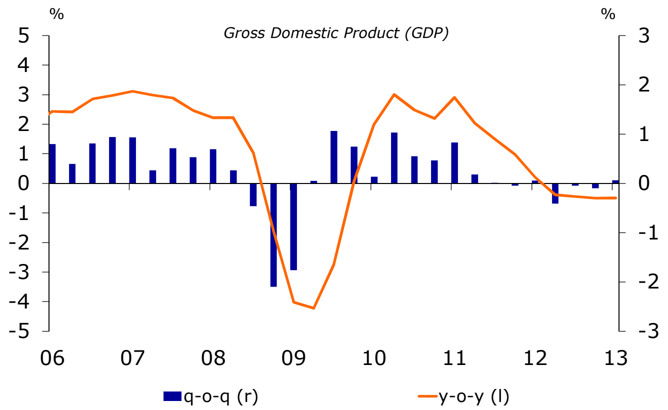
One swallow does not make a Summer

Year-on-year change (%)	'12	'13	'14
Gross Domestic Product	-0.3	0	1
Private consumption	-0.3	0	½
Government consumption	0.4	½	½
Private investment	-0.6	-1¾	1½
Exports	0.7	-¼	3¼
Imports	0.5	-¾	3
Inflation	2.6	1¼	1½
Unemployment (%)	7.7	8¼	8½
Government balance (% GDP)	-3.9	-3	-2¾
Government debt (% GDP)	100.0	100	99

Source: Reuters EcoWin, Rabobank

GDP grew by 0.1% in 13Q1. The expenditure components are not available yet, but net trade probably contributed positively and domestic demand negatively. Although sentiment in May and the capacity utilisation rate in the manufacturing industry in 13Q2 have improved, we do not expect domestic demand growth to gain momentum in this quarter. We must remember that credit conditions remain tight and the jobless rate is still on the rise. By violating EU's budgetary rules (the Stability and Growth Pact), Belgium might face a fine and the government needs to announce additional fiscal austerity measures. Further public sector retrenchment will surely act as an extra headwind.

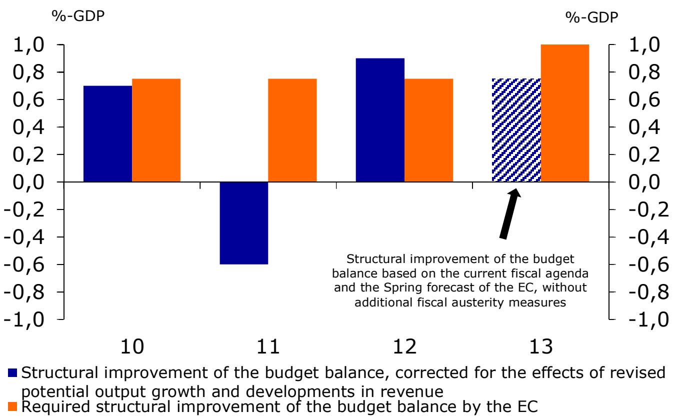
Recession comes to a halt



Source: Reuters EcoWin

After a light recession lasting three quarters, the Belgian GDP managed to grow modestly in 13Q1 (0.1% q-o-q). The expenditure components are not available yet, but monthly data suggest that the net trade contribution was positive. Domestic demand probably contributed negatively, which was, among other things, due to the austerity agenda of the government and the depressed investment climate. Moreover, credit conditions for non-financial corporations were tightened. Going forward, there is little reason to believe that domestic demand will support economic activity, especially when the government has to implement further fiscal austerity to address the budgetary overshoot.

Consequences of political impasse become visible



Source: Reuters EcoWin, European Commission

In the years 2010-11, the government did not sufficiently improve its structural balance in compliance with the Excessive Deficit Procedure (EDP) rules. Belgium has been in the EDP since 2009 and should have lowered its budget deficit to at most 3% of GDP in 2012 in a structural manner. But the budget deficit – adjusted for one-off measures – reached 3.2% of GDP last year. As a result, Belgium now risks receiving a fine. To prevent the deficit from exceeding the 3%-norm in 2013-2014, the government needs to implement structural budgetary cuts amounting to 1% of GDP in 2013. So budgetary cuts to the tune of 0.25% of GDP should be introduced on top of those previously announced.

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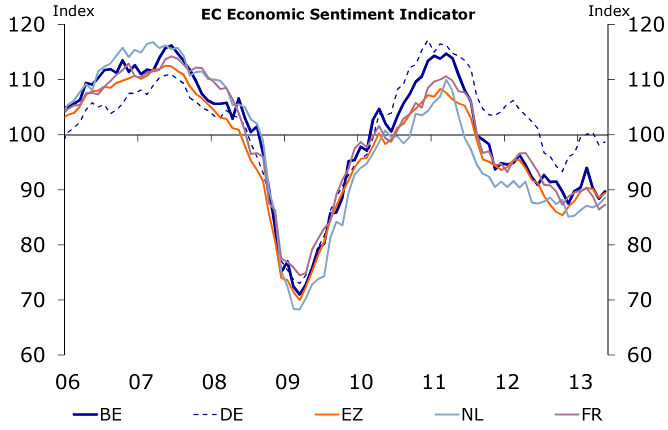
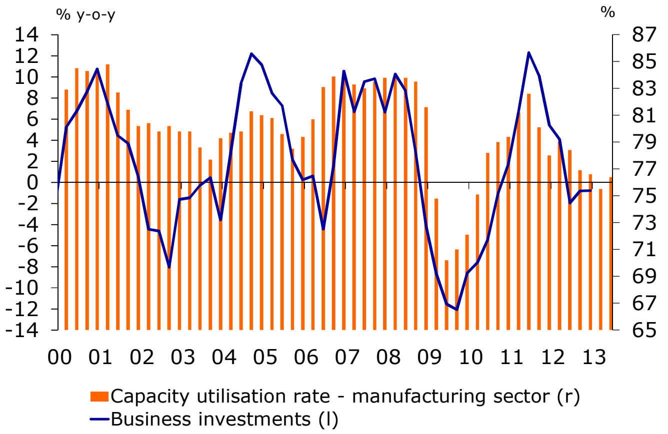
Sentiment improvement only of little value



Source: Reuters EcoWin, European Commission

The need for additional fiscal adjustment will probably weigh on sentiment. However, this reaction is not yet included in the Economic Sentiment Indicator (ESI) of May. After declining for three months in a row, the ESI slightly rose again last month (from 88.4 to 89.7). An increase was also observed in the neighbour countries and the Belgian index is now equal to that of the euro area as a whole. After a drop in March (-24), consumer confidence also picked up modestly (-19) in May. All in all, while the increases are encouraging, it is too early to conclude that the country is on the road to recovery. This is especially because both indicators are still well below their long-term averages.

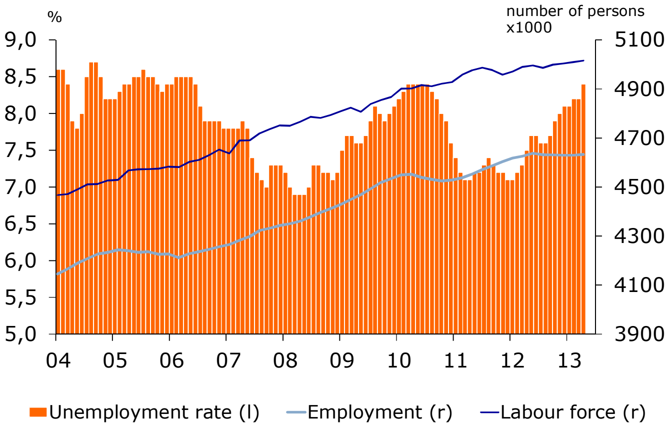
Investments will not take off just yet



Source: Reuters EcoWin, European Commission

The capacity utilisation rate in the manufacturing industry has risen to 76.4% in 13Q2, according to the latest survey conducted by the European Commission. This is a welcome development after four quarters of decline. The increase, though, is not expected to lead to investment growth yet. Capacity utilisation remains low in historical perspective and this also goes for the order position and demand prospects, according to the May business survey of the National Bank of Belgium. Meanwhile, the amount of stocks are said to be greater than normal. Note that credit conditions for non-financial corporations tightened again in 13Q1 and substantial easing is not expected in the current quarter.

Unemployment slowly increases



Source: Reuters EcoWin

Lack of demand is taking its toll on the labour market. Admittedly, the unemployment rate is below the eurozone average (12.2%), but it did rise from 7.6% in July 2012 to 8.4% in April 2013. Employment growth was minimal in this period and the labour force grew faster. Employment has even fallen compared to the end of 2011. In April and May, employment expectations of producers in the construction sector and manufacturing industry were less negative. But this does not mean that they foresee a robust recovery in the job market. Amid the weak domestic demand, we do not expect a significant increase in employment in the near-future.

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