

7 February 2012

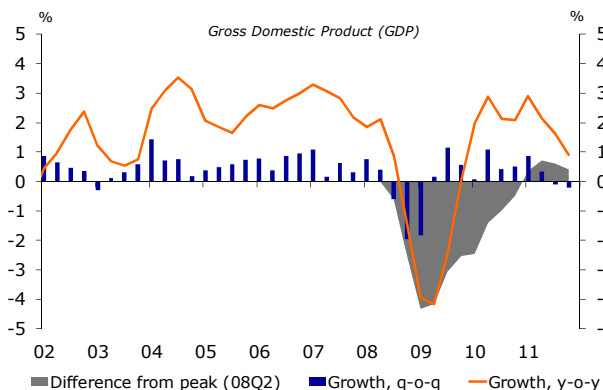
Mild recession has become reality

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	2.3	2	¼
Private consumption	2.3	1	0
Government consumption	0.2	½	-¼
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

In the second half of 2011 the Belgian economy experienced a mild recession. Also in 2012 the effect of the European debt crisis will be clearly visible in the economy. Growth of domestic demand will be very weak this year, partly due to the fiscal consolidation measures. Limited domestic activity is expected to have negative implications for the recovery of the labour market, which has been surprisingly strong so far. On a positive note, during 2012 exports can rise if world trade growth gathers some steam. The recent rise of producer confidence is clearly encouraging in this light. Further improvement of sentiment remains clearly dependent on the progress made regarding the Euro crisis.

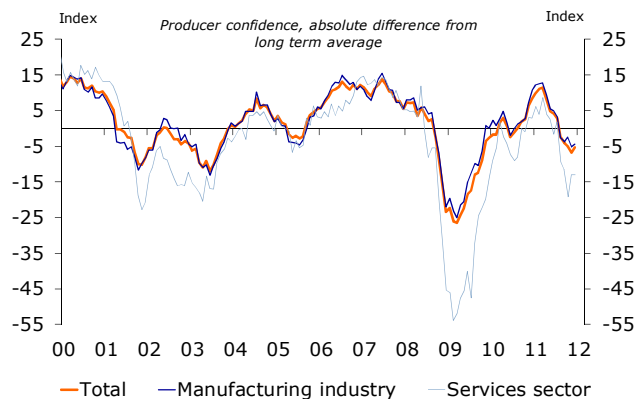
Also in 11Q4 the economy dipped into the red



Source: Reuters EcoWin

The first estimate of the GDP-figure in 11Q4 shows a small contraction (-0.2% q-o-q). Combined with the previous contraction in 11Q3 (-0.1% q-o-q), a recession has become reality. However, compared to the period after the financial crisis, this recession is very mild. The growth composition in 11Q4 is not published yet. In 11Q3 mainly exports and business investments were responsible for the economic contraction. Despite a rise in world trade (+1.1% q-o-q) the volume of exports contracted by 0.9% in 11Q3. Business investments contracted (-0.3% q-o-q) for the first time since 10Q1.

Producer sentiment on the rise!



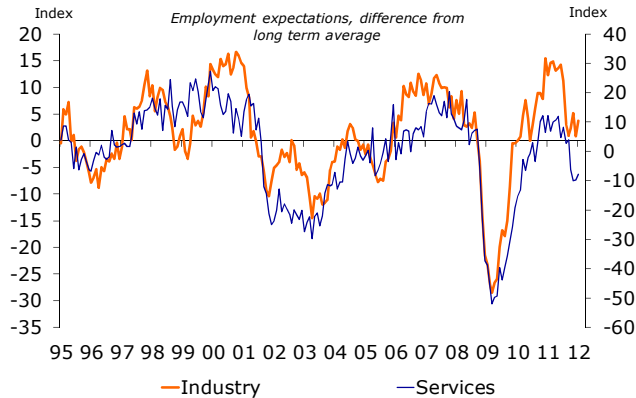
Source: Reuters EcoWin

Given the assumption that the European debt crisis will not get out of control, we expect a very moderate economic recovery in 2012. Domestic demand growth will be very weak partly due to the harsh austerity package announced recently. However, based on our expectation for a slight pickup in world trade, we believe the export sector can manage to support the economy throughout the year. This view is supported by the rebound in producer sentiment. Although the index is still below its long term average, it improved in January for the second month in a row. This encouraging development is not unique to Belgium. In many other major economies we see improvements in producer confidence.

Economic Update Belgium

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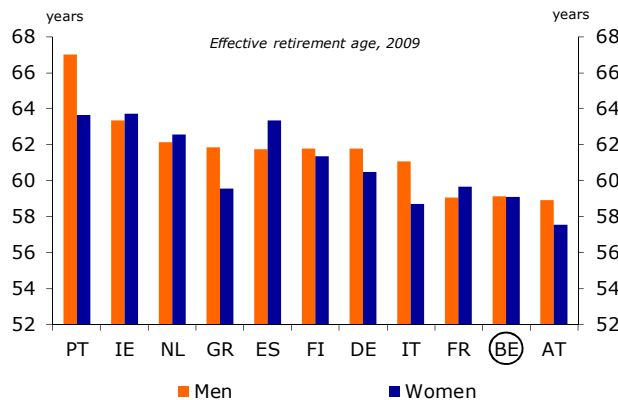
For how long will the labour market surprise?



The recovery of the labour market in 2010 and 2011 was relatively strong. The current number of jobs is clearly above its pre-crisis level and the unemployment rate dropped from a peak of 8.5% at the start of 2010 to 7.2% last December. This is significantly below the eurozone average (10.4%). However, indices of employment expectations clearly deteriorated since mid 2011. Moreover, the effects of the mild recession in 11H2 might show up with a lag in the labour market statistics. Based on this, we do not expect economic growth to be strong enough in 2012 to bring down the unemployment rate any further.

Source: Reuters EcoWin

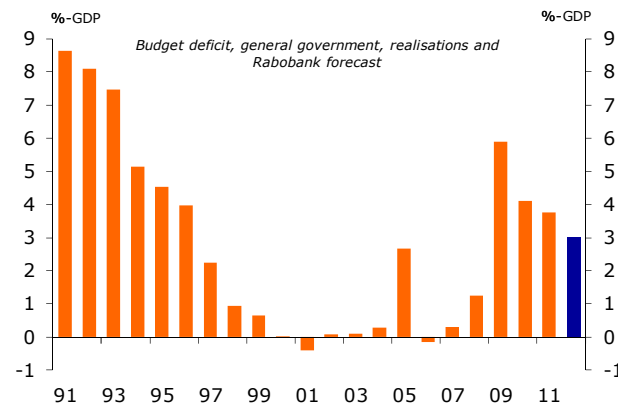
Pension reforms should be seen as a first step



The recent strikes against the austerity package were predominantly aimed at pension reforms. From 2013 onwards the minimum pensionable age will gradually be increased to 62 years, from 60. Also the career length needed for full pension entitlements will be increased from 35 to 40 years. Although the official pensionable age in Belgium is 65, many Belgians stop working way before this age due to generous entitlement programmes. The effective pensionable age (59.1) is very low from a European perspective. Even though the current measures do address these issues somewhat, we believe further pension reforms are necessary to put public finances on a sustainable footing.

Source: OECD

Europe enforces further austerity measures



Despite the harsh austerity measures enacted by the new government (€11.3 bln in 2012), further fiscal consolidation seems inevitable. The European Commission (EC) has threatened to fine Belgium (0.2%-GDP or €700mln) since it does not expect the current measures to bring the deficit below the agreed level of 3%-GDP in 2012. The EC estimated the budgetary effect of several measures and the growth assumption (0.8% in 2012) to be too optimistic. The government decided to temporarily freeze €1.3bn of public sector expenses, which was deemed sufficient by the EC for now. Later this month they will decide which measures will be taken to improve the budget permanently.

Source: Reuters EcoWin, Rabobank

www.rabobank.com/economics

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