

Economic Update Belgium

5 February 2013

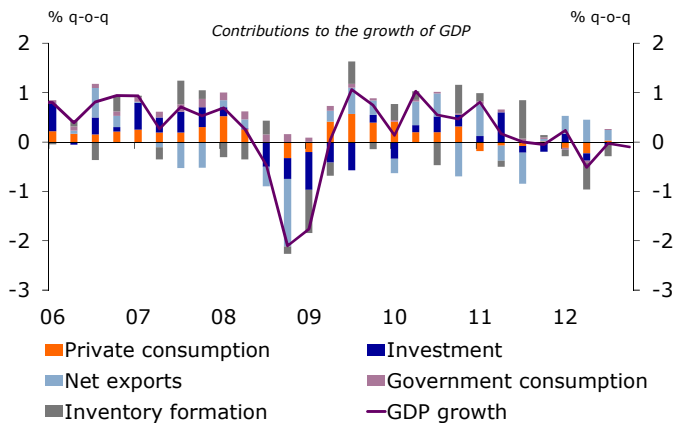
What can trigger growth in 2013?

Year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.8	-¼	0
Private consumption	0.2	-½	-¼
Government consumption	0.8	¼	¼
Private investment	4.1	0	¾
Exports	5.5	¾	1¾
Imports	5.7	0	1¼
Inflation	3.5	2¾	1½
Unemployment (%)	7.2	7¼	7¾
Government balance (% GDP)	-3.9	-3	-2½
Government debt (% GDP)	97.8	100	101

In the final quarter of 2012 economic growth was slightly negative after stagnating in 12Q3. This implies that GDP contracted in 2012 as a whole. The breakdown is not available yet but monthly data suggests that growth has been weak across the board. The weak start to the year indicates that economic activity is not likely to rebound strongly in 2013. Positive news stems from the downward trend of inflation and agreements to keep labor costs in check. Furthermore, Belgium's 2012 deficit was in accordance with the Eurozone's deficit rule for the first time since 2008. That said, in 2013 more fiscal consolidation is necessary, which will continue to act as a significant headwind.

Source: Reuters EcoWin, Rabobank

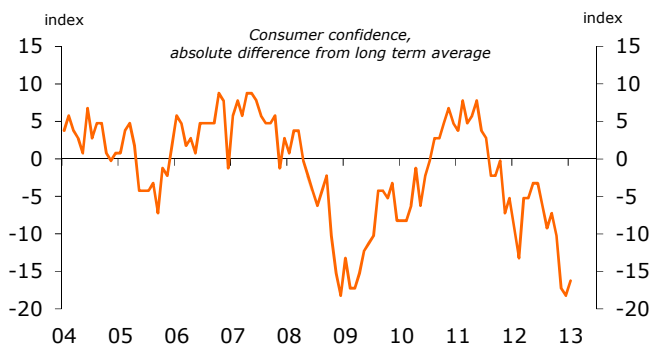
Just a minor fall in GDP in 12Q4



Source: Reuters EcoWin

The first estimate of the GDP figure in 12Q4 shows a minor contraction (-0.1% q-o-q). For 2012 as a whole, GDP contracted by 0.2%, as expected. The growth composition has not been published at the time of writing. However, trade data from October and November suggests that net exports acted as a drag on growth, after having a minor positive contribution in the third quarter (+0.2%-point). Furthermore, we do not expect private consumption to have positively contributed to growth amid fiscal consolidation and rise in unemployment. In addition, preliminary data from the National Bank of Belgium suggests that investment dropped in 12Q4.

Consumer confidence remains at depressed levels



Source: Reuters EcoWin

In December, consumer confidence reached a four-year low. This can be blamed on budgetary agreements including wage growth limitation and fiscal consolidation, the large scale job losses due to restructurings and bankruptcies, and the continuing euro crisis. In January, consumer sentiment improved slightly, but it is still stuck at a very low level due to weak expectations concerning future employment and the overall economic outlook. Against this backdrop, we cannot anticipate domestic demand to make a meaningful contribution to economic growth for some time to come. And external demand will stay weak thanks to sluggish growth in the Eurozone.

www.rabobank.com/economics

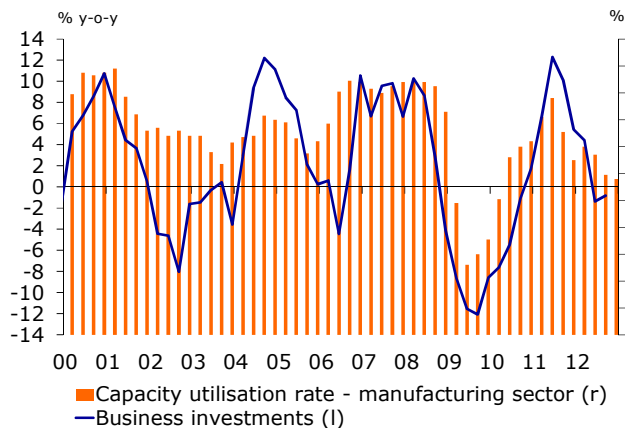
Nicole Smolders
Tel. +31 (0)40-2179108
N.M.P.Smolders@rn.rabobank.nl

Maartje Wijffelaars
Tel. +31 (0)30-2168740
M.Wijffelaars@rn.rabobank.nl

Economic Update Belgium

5 February 2013

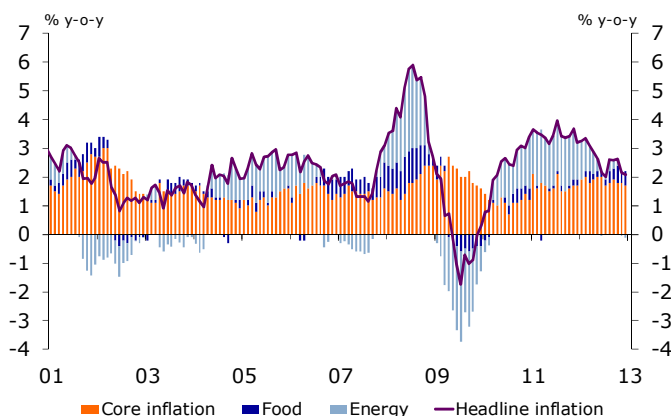
Investment growth on hold



Source: Reuters EcoWin

The capacity utilisation rate in the manufacturing sector fell for the fourth quarter in a row in 12Q4. Meanwhile, expectations concerning demand worsened both in the previous quarter and in January of this year. The available stocks are considered to be above average. Therefore, investments are not expected to make a sizeable contribution to growth in 13Q1. On a positive note, investment intentions are high as indicated in the Autumn 2012 investment survey. We should, however, not read too much into this figure due to its weak forecasting history. Besides, credit conditions are not expected to improve in 13Q1, according to the latest ECB survey.

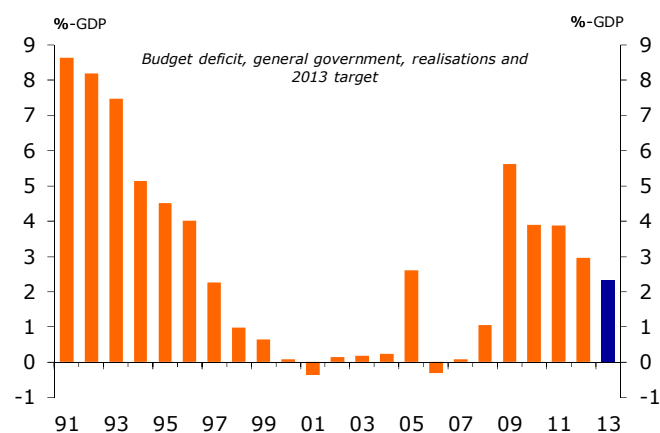
Inflation on a downward path



Source: Reuters EcoWin

In 2012, inflation was considerably lower (2.8%) compared to 2011 (3.5%). This was mostly due to a slower increase in energy prices. We expect inflation to drop further in 2013. The energy contribution will remain low if oil prices do not spike this year. What's more, core inflation could come down slightly in light of weak domestic demand and wage growth limitation. The latter is meant to reverse Belgium's loss of price competitiveness. A new way of computing the index of consumer prices by the authorities, which for example takes into account price drops during sales periods, could also help to constrain inflation and thereby the growth of inflation-indexed wages and prices.

Budget deficit in compliance with the EU budget rule



Source: Reuters EcoWin, Rabobank

Belgium ended 2012 with a budget deficit slightly below 3% of GDP. Although this is higher than the 2.8% target, it is sufficient to comply with the EU deficit rule for the first time since 2008. This achievement and the commitment the Belgian government shows to bring its budget deficit down has been rewarded by Fitch Ratings. In January, Fitch raised the outlook on Belgium's AA-rating from 'negative' to 'stable'. The target for 2013 is a deficit amounting to 2.2% of GDP. The Belgian government should however engage in austerity measures beyond those previously agreed upon if it is to meet this target. This results from the too optimistic growth assumption of 0.7% estimated in September 2012.

www.rabobank.com/economics

Nicole Smolders
Tel. +31 (0)40-2179108
N.M.P.Smolders@rn.rabobank.nl

Maartje Wijffelaars
Tel. +31 (0)30-2168740
M.Wijffelaars@rn.rabobank.nl