

Economic Update Belgium

2 April 2013

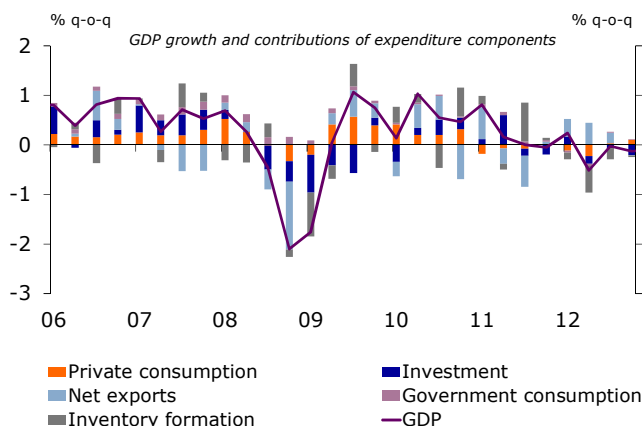
The outlook for growth remains downbeat

Year-on-year change (%)	'12	'13	'14
Gross Domestic Product	-0.2	0	1
Private consumption	-0.6	¼	½
Government consumption	0.1	¼	½
Private investment	-0.5	-¾	2½
Exports	0.4	¼	3¼
Imports	-0.1	0	3¼
Inflation	2.6	1½	1½
Unemployment (%)	7.5	7½	7¼
Government balance (% GDP)	-3.8	-3	-2½
Government debt (% GDP)	100	100	99

Source: Reuters EcoWin, Rabobank

Belgian GDP shrunk again in 12Q4. This was primarily due to the contraction of investment and exports. Declining producer and consumer sentiment points to a very weak pace of economic activity going forward. The fall in inflation will not support households' purchasing power because of automatic wage indexation. Against this backdrop, private consumption growth is expected to remain subdued. In addition, the relatively large fiscal adjustment will act as a strong headwind to economic growth. Therefore, we do not expect GDP growth to pick up strongly in the forthcoming period.

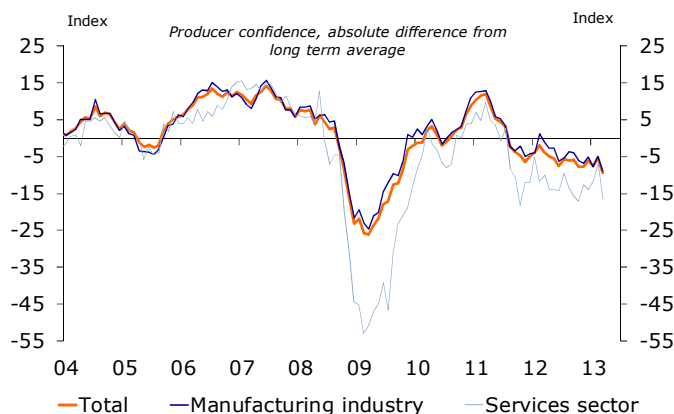
Growth continues to disappoint



Source: Reuters EcoWin

In 12Q4, Belgium's GDP fell by 0.1% q-o-q. This was mostly due to the drop in investment (-1% q-o-q) and exports (-1.6%). The extremely weak private consumption growth could not prevent the drop in GDP. Going forward, fixed investment is unlikely to rebound since the capacity utilisation rate in the manufacturing industry declined in 13Q1 for the fourth consecutive quarter. As far as exports are concerned, the expected pickup in world trade can lead to a modest increase in net trade's contribution to GDP growth. But stronger exports alone cannot push the economy into the growth territory.

Producer confidence drops again...



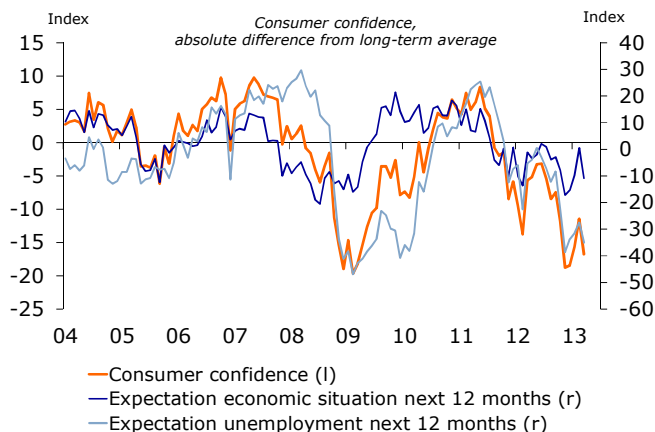
Source: Reuters EcoWin

Producer sentiment has dropped further in March to a level last seen at the end of 2009. The confidence of firms in the services sector deteriorated the most. Depressed domestic and external demand and the uncertain economic outlook are the main reasons for the persistent negative sentiment amongst producers. Other survey-based indicators also show little improvement. For example, the Economic Sentiment Indicator compiled by the European Commission declined again in March after rising slowly since December. Producer sentiment in Belgium, therefore, points to a very weak pace of economic activity in the coming months.

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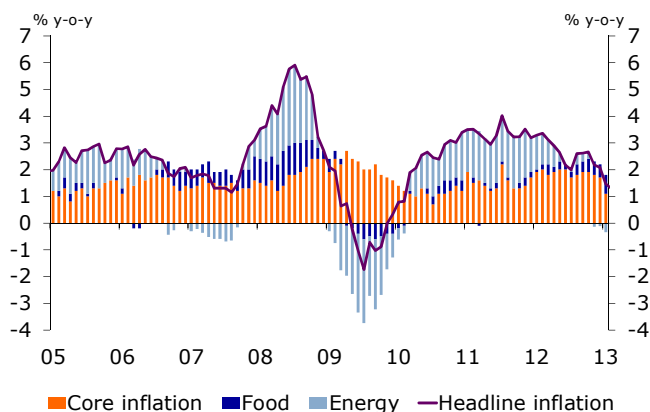
...and Belgian consumers remain depressed



Source: Reuters EcoWin

After a rebound in February, consumer confidence dropped back again in March to a very low level. The breakdown reveals that mainly concerns about the labour market and the general economic situation have increased amongst Belgian consumers. This is understandable in light of the difficult economic times. We do not expect consumer confidence to improve much in the near term amid ongoing fiscal austerity and bleak employment prospects. Therefore, private consumption growth will continue to stay weak in 2013.

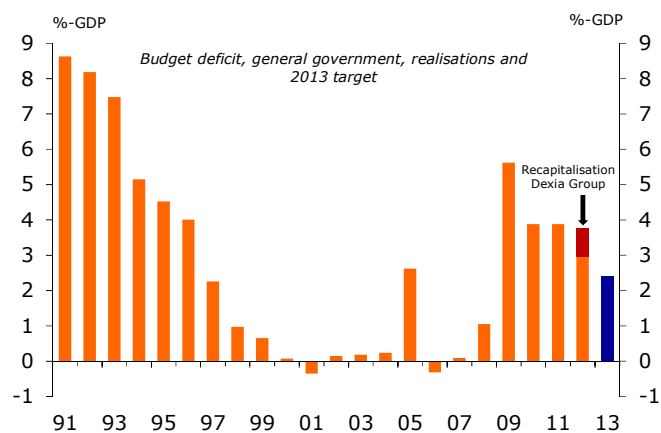
Rapidly decreasing inflation provides little comfort



Source: Reuters EcoWin

The sharp decline in inflation (from 2.1% in December to 1.3% in February) is mainly due to lower oil prices compared to last year. Since energy prices have a large weight in the Belgian consumer price index, the current negative energy contribution has a significant impact on overall inflation. Looking ahead, if oil prices do not rise substantially this year, we expect inflation to remain modest due to the weak economic climate. But this offers little comfort for consumers. The automatic wage indexation in Belgium, as a result of which wages respond quickly to consumer price developments, means households' purchasing power does not respond to changes in inflation.

Further austerity measures necessary



Source: Reuters EcoWin

Due to the recapitalisation of Dexia Group, the budget deficit for 2012 increased from 3% of GDP to 3.8%. Breaching the 3% ceiling has no implications for the 2013 budget, as the recapitalisation is considered a one-off measure. The European Commission requires, however, that the Belgian government implements structural budget cuts amounting to at least EUR 3.3bn. If the government does not follow up on this requirement it will receive a fine because it has not achieved sufficient structural budget cuts during its latest Excessive Deficit Procedure. The required fiscal adjustment this year is significantly larger than that in previous years and is expected to act as a strong drag on economic growth.

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