
Country Report

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The Economist Intelligence Unit

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Executive summary

Highlights

January 2009

Outlook for 2009-10

- The Economist Intelligence Unit expects the government, consisting of the Flemish and francophone Christian Democrats and Liberals and the francophone Socialists, to serve its full term until 2011.
- The change at the head of the government, from Yves Leterme to Herman Van Rompuy, has refocused attention on the smouldering crisis over Flemish demands for the devolution of power to the regions.
- Devolution negotiations will be carried out by regional and community politicians, but we expect little progress to be made before the regional elections in June 2009, as parties are unwilling to make concessions.
- The government will try to implement an economic recovery programme, aimed at achieving wage moderation, encouraging lending, boosting purchasing power and supporting public investment.
- We expect the budget deficit to grow to 2.3% of GDP in 2009 before narrowing to 1.6% of GDP in 2010. The government expects the economic recovery package to cause the deficit to rise to 1.8% of GDP in 2009.
- Domestic and foreign demand will fall in 2009, causing GDP to contract by 2.1%. In 2010 private consumption, investment and export growth will pick up moderately, causing GDP growth to rise to 0.5%.

Monthly review

- On December 19th the prime minister, Mr Leterme, tendered his resignation following allegations that he attempted to influence judicial proceedings surrounding the state-organised buy-out of Fortis by French bank BNP Paribas.
- On December 30th King Albert II swore in Mr Van Rompuy as prime minister. Mr Van Rompuy, a Flemish Christian Democrat like Mr Leterme, heads the same five-party coalition as his predecessor.
- Leading Flemish politicians considered and rejected the idea of establishing a short-term government to run the country until June 2009, when early federal elections could be held alongside regional elections already scheduled then.
- The previous government under Mr Leterme agreed on an economic recovery package that Mr Van Rompuy will implement. This package focuses on the inter-professional accords and a strategy for stimulating the economy.
- Consumer confidence has hit a ten-year low, largely as a result of growing concern about employment prospects.
- Business confidence in December 2008 reached a record low in the 30-year history of the indicator. The largest fall in confidence took place in the industrial sector.

Outlook for 2009-10

Political outlook

Domestic politics The Economist Intelligence Unit's central forecast is that the new government, led by Herman Van Rompuy and consisting of the Flemish and francophone Christian Democrats and Liberals and the francophone Socialists, will stay in power until the end of its term in mid-2011. Following the resignation of the prime minister, Yves Leterme, on December 19th, top Flemish politicians considered forming a short-term government with a limited mandate to run the country until June 2009, when new elections could be held to coincide with the regional and European Parliament elections already scheduled then. However, according to recent opinion polls, voter loyalty has not changed significantly since the June 2007 election, making it likely that the same parties would be returned to power as in the last federal election. As a result, Mr Van Rompuy was chosen to serve as the new prime minister and he is committed to filling the role until 2011.

The change at the head of the government has refocused attention on the smouldering crisis over Flemish demands for the devolution of power to the regions. Devolution negotiations between the Flemish and francophone communities were given a lower priority in recent months as the government responded to the crisis in the financial industry and pieced together rescue plans for the country's three largest banks, Fortis, Dexia and KBC. With regional elections approaching, however, the Flemish parties have resumed their demand for constitutional reform. Mr Van Rompuy's commitment to remain in office until 2011 results in part from his desire to ensure that devolution reform does not fall victim to short-term electoral manoeuvres in the run-up to the regional vote. We do not expect significant progress to be made on devolution before June 2009, as it is unlikely that any party will want to push for difficult compromise deals and risk losing support before the election.

International relations In contrast with the increased scepticism in many other member countries, there is still widespread support for EU integration in Belgium. The government will maintain a pro-EU stance. Belgium will continue to provide support for multilateral operations, such as the one in Afghanistan, and EU missions in Africa, such as the one in Chad. Belgium severed diplomatic ties with its former colony, the Democratic Republic of Congo (DRC), in June 2008. However, with the most recent political and humanitarian crisis in the DRC, relations between the two countries have improved and Belgium is in favour of sending troops to the DRC as part of an EU-led military mission.

Economic policy outlook

Policy trends The new government is committed to implementing the policies and priorities established by the outgoing government. One of Mr Van Rompuy's first tasks will be to implement the economic recovery package agreed on December 11th

by the previous government led by Mr Leterme. The package consists of two main parts. The first part focuses on the inter-professional accords between the trade unions and employers in an attempt to achieve wage moderation in 2009-10. The second part provides a strategy for stimulating the economy through modest measures to encourage lending, boost purchasing power, support public investment and provide export credit support. In the wake of the bail-outs of Fortis, Dexia and KBC, the government is also focusing on further measures to shore up the banking sector. On October 10th it increased its guarantee of savings deposits from €20,000 to €100,000, in line with increases in several other EU member states. Belgium also announced plans to extend a bank loan guarantee scheme to Belgian banks deemed solvent enough by the government.

The framework for constitutional reform, involving representatives of the regional governments, may impede policymaking at the regional level. With the minister-presidents of Flanders and Wallonia, Kris Peeters and Elio di Rupo respectively, playing a role in the devolution negotiations, it is likely that progress on developing and implementing social or economic policy at the regional level will be hamstrung by concerns about the economic consequences of devolution.

Energy policy will also be a priority in 2009-10. Although the Belgian energy market was fully liberalised in July 2007, we expect competition in the industry to develop only slowly. Access to the Belgian energy sector for smaller companies will be restrained by the emergence of new energy giants in the wake of the merger between Suez and Gaz de France (GDF). In order to comply with European competition regulations, Suez divested its 57% controlling stake in the Belgian gas supplier, Distrigas, to the Italian energy giant, Eni, in early November. GDF's stake in the number-two Belgian electricity supplier, SPE, will be divested to a UK energy group, Centrica.

Fiscal policy

Affected by the political crisis, the budget registered a deficit of 0.3% of GDP in 2007, which grew to an estimated 0.6% of GDP in 2008. On October 14th Mr Leterme presented a balanced budget for 2009, but this did not include any of the measures in the new economic recovery package. In addition to the €2bn the government has earmarked for this package, Wallonia and Flanders agreed to spend €1.5bn and €842m, respectively, on measures to stimulate the economy. As a result, the government now expects an overall budget deficit of 1.8% of GDP in 2009. To limit the budgetary impact of the economic recovery package, the government plans to cut expenditure on government programmes, delay plans to set aside resources to address the issue of population ageing and implement a series of one-off measures. These one-off measures include contributions from the National Bank of Belgium (the central bank) and national railways. In light of our forecast of a decline in GDP by 2.1% in 2009 and some weakening of fiscal discipline to combat the effects of recession, we expect that the budget deficit will grow to 2.3% of GDP in 2009 before narrowing slightly to 1.6% of GDP in 2010. It will be difficult for the government to find new sources of revenue, as Belgium is already among the countries with the highest income tax in the world according to the *Individual Income Tax Rate Survey* published by an accountancy firm, KPMG. Furthermore, the overall

government budget relies on a surplus on the regional accounts to offset a deficit on the federal accounts. It is likely that Wallonia will post a deficit in 2009, given its economic stimulus programme.

Monetary policy

With the euro area entering a recession and banks being unwilling to lend, the European Central Bank (ECB) has sharply changed its monetary stance by cutting its refinancing rate from 4.25% to 3.75% on October 7th, to 3.25% on November 6th and then to 2.5% on December 4th. We expect further cuts in the coming months to bring the rate down to 1% by mid-2009, although it will remain higher than in the US or Japan. The link between central bank intervention rates and interbank market rates has weakened and the difference between the two has been much higher than previously since the international financial crisis started in August 2007. However, we expect market rates to follow the ECB rate downwards, albeit maintaining a wider differential than had been the norm. Until the deterioration of the financial situation in September-October 2008, the ECB had given priority to acting against inflation, which reached 4% in June and was still high at 3.2% in October. However, with commodity prices falling and the economy slowing, the rate is estimated to have fallen sharply in November to 2.1%, and is likely to have come down further in December to below the implicit ECB target of just under 2%. The ECB will continue to monitor inflationary pressures, especially wage developments. Our interest rate forecasts for 2009 are based on the expectation that there will not be a generalised increase in wages to compensate for recent inflation. Assuming that an economic recovery, even if a modest one, is under way in 2010, the ECB is expected to begin to move its rate back upwards later in the year.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	4.9	3.4	0.7	2.5
EU27	2.9	1.3	-1.3	0.4
US	2.0	1.1	-2.0	0.7
Exchange rates				
US\$:€	1.369	1.463	1.285	1.300
¥:€	161.19	151.53	119.51	119.60
£:€	0.684	0.791	0.881	0.833
Financial indicators				
€ 3-month interbank rate	4.27	4.77	2.10	1.95
US\$ 3-month commercial paper rate	5.06	2.18	1.55	2.20
Commodity prices				
Oil (Brent; US\$/b)	72.7	97.0	35.0	50.0
Gold (US\$/troy oz)	696.7	863.2	775.0	687.5
Food, feedstuffs & beverages (% change in US\$ terms)	30.9	29.1	-26.6	1.3
Industrial raw materials (% change in US\$ terms)	11.2	-5.6	-33.4	11.3

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

The outlook for the global economy has deteriorated considerably following the recent escalation of the global financial crisis. We have made further significant downgrades to our forecasts for all major countries. We expect world trade to contract and forecast recessions in the US, Europe and Japan. At market rates, the global economy will contract in 2009 by 0.4%. This would be the first such contraction since the end of the second world war. Although growth will resume in 2010, at 1.5% expansion will still be slower than in either of the two previous recessions in 1991 and 2001. One of the most serious threats to the global outlook would be a further deterioration of the financial market crisis.

A sharply weaker global growth outlook has triggered a hefty downgrading of our oil price forecast. We now expect that oil (Brent blend) will average US\$35/barrel in 2009, compared with US\$65/b in our previous forecast. A pick-up in global growth prospects and the impact of OPEC production cuts will help to lift the average for 2010 to US\$50/b. As a result, average global inflationary pressures should ease considerably in 2009 and pick up only slightly in 2010.

In focus

Risks to the global economy are exceptional

The most serious risk to the Economist Intelligence Unit's baseline forecast for the global economy is a further deterioration of the financial market crisis, which would cause even more drastic cuts in lending to households and companies and therefore even greater disruption to the real economy. Although a good deal of the exposure to sub-prime-related securities has now been factored in, the weakening of the broader housing market and the spreading of problems to other parts of the US economy (such as commercial real estate and commercial lending generally) and other economies (housing loans in some other countries that have experienced house-price bubbles) will lead to further losses for banks. In addition, the correction in the US housing market could still have a more adverse impact on consumer demand than is currently factored into our baseline forecast.

It now seems likely that massive programmes in the euro area, the UK and the US to restore stability to the banking system will be successful in stabilising interbank markets, but should the measures not have the desired effect, a sharp contraction of lending to the real economy can be expected. Many euro area countries experienced their own housing booms, and the impact of the expected correction is probably barely built into banks' balance sheets. The negative feedback effects from a weakening economy on the financial system, in the euro area and on the global level (many euro area banks are active internationally), will also weigh on financial stability, so that a sustained stabilisation after the recent exceptional turbulence is far from being assured. Even if the measures, any further action and additional monetary stimulus are successful in calming the situation, the financial sector will remain in a fragile condition and will focus on rebuilding balance sheets.

Economic growth **Gross domestic product by expenditure**

(€ bn at constant 1995 prices where series are indicated; otherwise % change year on year)

	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Private consumption	170.2	172.3	170.2	171.2
	2.0	1.2	-1.2	0.6
Public consumption	73.0	74.4	76.1	77.7
	2.3	2.0	2.2	2.1
Gross fixed investment	71.0	73.4	71.2	71.9
	6.1	3.4	-3.1	1.0
Final domestic demand	314.2	320.1	317.4	320.7
	3.0	1.9	-0.8	1.0
Stockbuilding	4.3	6.5	5.5	5.5
	0.1 ^d	0.7 ^d	-0.3 ^d	0.0 ^d
Total domestic demand	318.4	326.6	322.9	326.2
	3.0	2.6	-1.1	1.0
Exports of goods & services	288.9	294.9	291.1	295.1
	3.9	2.1	-1.3	1.4
Imports of goods & services	-280.3	-291.6	-291.0	-296.6
	4.4	4.0	-0.2	1.9
Foreign balance	8.6	3.3	0.1	-1.5
	-0.3 ^d	-1.6 ^d	-1.0 ^d	-0.5 ^d
GDP	327.1	330.3	323.5	325.2
	2.6	1.0	-2.1	0.5

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Contribution to real GDP growth (as a percentage of real GDP in the previous year).

After growing by 2.6% in 2007, GDP growth decelerated to an estimated 1% in 2008. We expect GDP to contract by 2.1% in 2009 as domestic and foreign demand fall, before rebounding moderately to grow by 0.5% in 2010. Whereas private consumption and investment underpinned GDP growth in 2008, we expect private consumption to contract by 1.2% in 2009. Employment will fall in 2009 and consumer demand will also be adversely affected by low real wage increases and low consumer confidence. In 2010 private consumption growth will pick up to 0.6%. Gross fixed investment will contract by 3.1% in 2009 as a result of low business confidence and tight bank lending policies. Belgium's three biggest banks—Fortis, Dexia and KBC—have required government bail-outs, and as a result banks in Belgium will adopt cautious lending policies over the forecast period. However, we expect that investment growth will pick up to 1% in 2010 as credit conditions become slightly easier. There is a downside risk for both private consumption and investment growth if confidence levels were to fall further.

Export growth accelerated to 3.9% in 2007, driven largely by the better-than-expected economic performance of Belgium's neighbours, before decelerating to an estimated 2.1% in 2008. Exports of goods and services will contract by 1.3% in 2009 as a result of the severe weakening of the euro area economy, before rebounding moderately to growth of 1.4% in 2010. Export growth over the forecast period will also be restrained by high producer price inflation and wage growth in Belgium relative to its main trading partners, reducing the competitiveness of Belgian exports.

Inflation Inflation (EU harmonised measure) rose from 5% in the second quarter of 2008 to 5.6% in the third quarter before easing to 3.6% in the final quarter. Inflation in the final months of the year (3.2% in November and 2.7% in December) nevertheless remained well above the euro area average (2.1% in November and 1.6% in December).

Belgium's automatic wage indexation mechanism was triggered in 2008 and will continue to be triggered in 2009. The timing of the automatic indexation is linked to the contract date for each industry, and as a result the ratchet is not uniform across sectors. We therefore expect some workers to try to recoup their loss in real income by demanding higher wages in the biannual wage negotiations for 2009-10, despite strong pressure by the government on the unions to minimise wage demands, given Belgium's high labour costs and the tendency of the indexation system to raise these costs by more than those of its competitors. We expect wage growth to contribute to inflation over the forecast period, even after price hikes in the so-called health index (which is used for indexation) decelerate in 2009, as there is a lag between when prices rise and consequent wage growth is triggered. Inflation should ease to 2.3% in 2009 and 2% in 2010.

Exchange rates The euro appreciated markedly against the US dollar from 2006 up to the middle of 2008, but has softened since July. From an estimated average of US\$1.46:€1 in 2008, we expect an average of US\$1.29:€1 in 2009 and US\$1.30:€1 in 2010. There is still a risk of a renewed fall in the US dollar against the euro, but this risk has diminished because the US external deficit is now falling.

External sector The previously large current-account surplus fell to an estimated 0.6% of GDP in 2008. We expect the current-account surplus to narrow further to 0.4% of GDP in 2009 before widening moderately to 0.9% of GDP in 2010. Merchandise trade will remain in deficit during the forecast period, but this will be offset by a substantial surplus in trade in services, driven by financial services, logistics and general business services. The income balance will also show surpluses over the forecast period, while transfers will see substantial deficits as a result of increasing foreign aid and net transfers to the EU.

Forecast summary

(% unless otherwise indicated)

	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Real GDP growth	2.6	1.0	-2.1	0.5
Unemployment rate (av) ^d	7.5 ^b	6.7	7.6	7.9
Unemployment rate (av; EU/OECD standardised measure)	7.5	6.7	7.6	7.9
Consumer price inflation (av; national measure)	1.8	4.5	2.3	2.0
Consumer price inflation (av; EU harmonised measure)	1.8	4.5	2.3	2.0
Short-term interbank rate	4.3	4.8	2.1	2.0
Government balance (% of GDP)	-0.3	-0.6	-2.3	-1.6
Exports of goods fob (US\$ bn)	322.2	351.7	301.0	310.2
Imports of goods fob (US\$ bn)	323.2	353.0	303.1	311.2

Forecast summary

(% unless otherwise indicated)

	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Current-account balance (US\$ bn)	3.3	3.0	1.6	4.0
Current-account balance (% of GDP)	0.7	0.6	0.4	0.8
Exchange rate US\$:€ (av)	1.369	1.463	1.285	1.300
Exchange rate US\$:€ (year-end)	1.460	1.280	1.300	1.305
Exchange rate ¥100:€ (av)	1.612	1.515	1.195	1.196
Exchange rate €:£ (av)	1.461	1.264	1.135	1.200

a Actual. b Economist Intelligence Unit estimates. c Economist Intelligence Unit forecasts.
d Harmonised.

Monthly review: January 2009

The political scene

Yves Leterme resigns as prime minister

On December 19th the prime minister, Yves Leterme, tendered the resignation of the entire government following allegations that he and the minister of justice, Jo Vandeurzen, attempted to influence the course of judicial proceedings surrounding the state-organised buy-out of Fortis by the French banking giant BNP Paribas. Minority shareholders of Fortis opposed the buy-out and sought a court ruling to impede it, claiming that they should have been consulted in advance and that the deal would result in an unjust return on their investments. The state countered that it had to act quickly and decisively in order to stabilise confidence in the banking system. The court ruled in favour of the shareholders, but the president of the court indicated that Mr Leterme and Mr Vandeurzen attempted to influence the court's decision.

As a result of the court ruling, the buy-out of Fortis has been delayed until February 2009 at the earliest. Mr Leterme and Mr Vandeurzen were concerned that a delay of the deal could ultimately result in the buy-out falling through, leaving the Belgian state to bail out Fortis. In an attempt to diffuse the controversy, Mr Leterme detailed the extent of contact between his office and the courts, but this only cemented the impression that the separation of powers between the executive and the judiciary had been blurred. When Mr Vandeurzen offered to resign, the prime minister instead tendered the resignation of the entire government. Mr Leterme also made it clear that he would not seek to regain the prime minister's office until his cabinet had been cleared of any wrongdoing. A parliamentary inquiry will be established to determine whether there is evidence of government interference in the Fortis affair.

Herman Van Rompuy is sworn in as prime minister

On December 30th King Albert II swore in Herman Van Rompuy, the former speaker of the Chamber of Representatives (the lower house), as prime minister. Mr Rompuy, a Flemish Christian Democrat like Mr Leterme, heads the same five-party coalition as his predecessor, consisting of the Flemish and French-speaking Christian Democrats and Liberals and the francophone Socialists. The former Christian Democrat prime minister, Jean-Luc Dehaene, was also a potential candidate for the role of prime minister, but he was not willing to serve beyond mid-2009 and was an unacceptable candidate for the Flemish Liberals. In return, the Flemish Christian Democrats opposed the former Flemish Liberal prime minister, Guy Verhofstadt, for the top job.

Leading Flemish politicians considered and rejected the idea of establishing a short-term government with a mandate to run the country until June 2009, when early federal elections could be held alongside the regional elections that are due to take place then. Instead, Mr Rompuy has pledged to head the government until the end of the present legislature in mid-2011, in part to ensure that constitutional negotiations between the Flemish and francophones

do not fall victim to short-term electoral manoeuvres in the run-up to the regional vote. Mr Van Rompuy is also committed to implementing the policies and priorities set by the outgoing government. The new prime minister and government obtained a vote of confidence from the federal parliament on January 2nd.

Economic policy

Economic recovery package is agreed

One of Mr Van Rompuy's first tasks as prime minister will be to implement the government's economic recovery package, which was agreed on December 11th under Mr Leterme. This package consists of two main parts, the first of which focuses on the inter-professional accords negotiated between the country's main employer and the trade union confederations. According to this part of the package, the country's controversial system of automatic wage indexation will remain, but the room for acceptable wage claims beyond inflation made in 2009 and 2010 will be limited. However, the government will try to boost purchasing power by supporting tax-efficient benefits such as higher meal coupons, more generous travel allowances and targeted eco-cheques to encourage consumption of environmentally friendly products, and by allocating more funding to unemployed and retired workers.

In the second part of the package, the government announced a three-fold strategy for stimulating the economy. The first element emphasises efforts to encourage lending and to ease pressure on corporate cash flows through more flexible tax payment plans and faster government disbursements and reimbursements. The second element aims to boost the purchasing power of workers and consumers. This extends beyond the measures indicated in the inter-professional accords to include more active labour market policies, energy subsidies and aggressive price monitoring in the private sector. Finally, the government aims to stimulate growth through public investments and export credit support. The specific details of the government's economic recovery package will be determined by February 1st.

The economic recovery package is expected to cost an estimated €2bn. This comes on top of regional measures to mitigate the effects of an economic slowdown in early December, which involved a €1.5bn outlay for Wallonia and €842m outlay for Flanders. It will be difficult for Mr Van Rompuy to find the resources for the new federal package. When the regional governments in Wallonia and Flanders negotiated their budgets in December, they left little over to subsidise activities at the federal level. With regional elections approaching in June 2009, that situation is unlikely to improve.

Economic performance

Consumer confidence hits a ten-year low

The aggregate indicator for consumer confidence in December continued a string of monthly declines to reach -25, a lower figure than any witnessed in the past decade. While considerations of the country's general economic situation and of the particular financial situation of households continue to weigh on the index, the principal driver behind the successive declines in

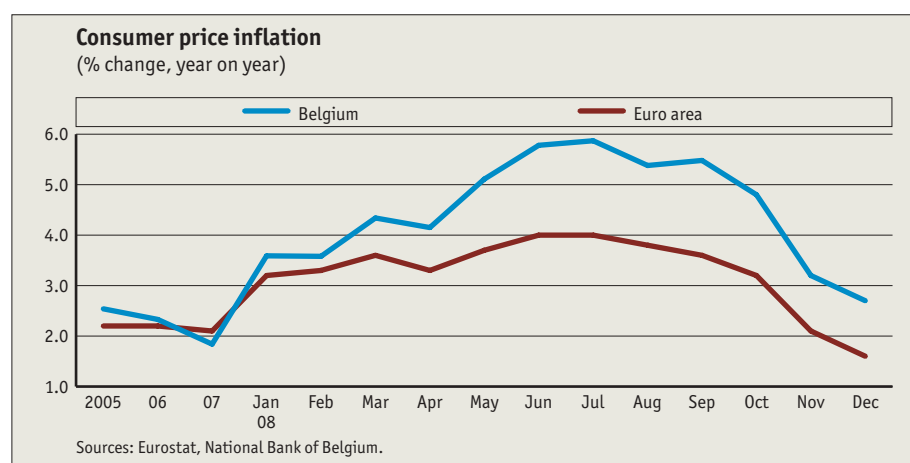
consumer confidence is the mounting concern about unemployment. The score for unemployment expectations, which increases with a deterioration of expectations, reached 65 in December 2008, compared with just 3 in December 2007 and a score of -2 as recently as March 2008. Concerns about unemployment are only partly validated by the forecasts of the National Bank of Belgium (NBB, the central bank). The NBB estimates that the unemployment rate fell from 7.5% in 2007 to 6.7% in 2008 and forecasts that the rate will rise only marginally to 6.9% in 2009. The central bank expects the labour market to remain resilient in 2009 in large part because of the growth of non-cyclical industries such as healthcare and the ability of employers to cut hours rather than workers. However, the Economist Intelligence Unit believes that these forecasts are optimistic, given rapidly rising labour costs in Belgium.

Business confidence plummets

Business confidence in December 2008 also continued to fall, reaching a record low in the 30-year history of the indicator at a score of -31.3, down from -23.7 the previous month. The largest decrease in confidence took place in the industrial sector, which dropped from a score of -27.1 to a score of -36.5 during the month on account of the rapid decline in both domestic and foreign orders. In the past four months both manufacturers and retailers have also reported an abnormal surge in inventories. This is consistent with expectations that output will contract at the beginning of 2009 as manufacturers slow production so that these unwanted inventories can be brought back down. Business service industries also reported a sharp decline in activity, with the expectation that they will face even further declines in 2009.

Health-index inflation remains high

After rising from 5% in the second quarter to 5.6% in the third quarter, consumer price inflation (according to the EU harmonised measure) decelerated to 3.6% in the fourth quarter of 2008. Inflation in the final months of the year (3.2% in November and 2.7% in December) remained significantly above the average for the euro zone (2.1% in November and 1.6% in December).



The health index in Belgium, which excludes alcohol, tobacco, petrol and diesel, decelerated from 5.1% in the third quarter of 2008 to 4.8% in October, 3.9% in

November and 3.5% in December. As a result, consumer price inflation in November was driven by the health index, on which automatic wage indexation is based. This indicates that the steady rise in labour costs in Belgium will continue. According to the NBB, labour costs per hour worked rose by an estimated 3.5% in 2008 and will increase by a further 3.3% in 2009. Very little of that can be compensated for through increases in productivity growth. As a result, Belgium's labour costs per unit of output grew by an estimated 3.8% in 2008 and will increase by 3.2% in 2009. These growth rates exceed those of most of Belgium's competitors, and export competitiveness is likely to suffer consequently.

Data and charts

Annual data and forecast

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^c	2010 ^c
GDP							
Nominal GDP (US\$ bn)	359.3	377.0	400.3	458.4	518.7	457.5	484.1
Nominal GDP (€ bn)	289.0	302.6	318.8	334.9	354.6	356.0	372.4
Real GDP growth (%)	2.8	2.2	3.0	2.6	1.0	-2.1	0.5
Expenditure on GDP (% real change)							
Private consumption	1.1	1.5	2.1	2.0	1.2	-1.2	0.6
Government consumption	1.8	0.4	0.1	2.3	2.0	2.2	2.1
Gross fixed investment	6.8	7.3	4.8	6.1	3.4	-3.1	1.0
Exports of goods & services	6.1	3.9	2.7	3.9	2.1	-1.3	1.4
Imports of goods & services	6.0	4.9	2.7	4.4	4.0	-0.2	1.9
Origin of GDP (% real change)							
Agriculture	5.3	-5.3	-5.8 ^b	5.2 ^b	1.0	1.0	1.0
Industry	3.1	0.8	4.4 ^b	2.8 ^b	2.0	2.0	2.0
Services	1.8	2.6	2.5 ^b	2.8 ^b	0.6	-3.7	-0.1
Population and income							
Population (m)	10.4	10.5 ^b	10.6 ^b	10.6 ^b	10.6	10.6	10.6
GDP per head (US\$ at PPP)	30,902	32,033 ^b	33,894 ^b	35,507 ^b	37,148	36,863	37,459
Recorded unemployment (av; %)	8.4	8.5	8.3	7.5 ^b	6.7	7.6	7.9
Fiscal indicators (% of GDP)							
General government revenue	49.3	49.3	48.6	48.1	47.7	47.6	47.4
General government expenditure	49.5	52.0	48.4	48.4	48.3	49.9	48.9
General government balance	-0.3	-2.7	0.3	-0.3	-0.6	-2.3	-1.6
Net public debt	94.5	92.0	87.7	83.9	79.9	81.9	79.8
Prices and financial indicators							
Exchange rate US\$:€ (av)	1.24	1.25	1.26	1.37	1.46	1.29	1.30
Exchange rate US\$:€ (end-period)	1.35	1.18	1.32	1.46	1.28	1.30	1.31
Consumer prices (av; % change)	1.9	2.6	2.3	1.8	4.5	2.3	2.0
Producer prices (av; % change)	4.5	2.2	4.8	3.0	10.7	8.9	2.6
Stock of money M1 (% change)	16.9	11.9	4.7	3.2	5.9	0.4	4.6
Stock of money M2 (% change)	10.4	8.1	6.2	4.3	6.5	2.4	6.0
Lending interest rate (av; %)	6.7	6.7	7.5	8.6 ^b	8.0	8.0	8.0
Current account (US\$ bn)							
Trade balance	9.7	5.9	3.2	-1.0	-1.3	-2.1	-1.0
Goods: exports fob	245.4	263.3	281.2	322.2	351.7	301.0	310.2
Goods: imports fob	-235.7	-257.4	-278.0	-323.2	-353.0	-303.1	-311.2
Services balance	3.7	5.0	6.4	3.8	3.2	1.9	3.5
Income balance	5.8	5.2	7.7	8.8	11.1	11.0	11.7
Current transfers balance	-6.5	-6.3	-6.6	-8.3	-9.9	-9.2	-10.2
Current-account balance	12.6	9.8	10.7	3.3	3.0	1.6	4.0
International reserves (US\$ bn)							
Total international reserves	14.0	12.0	13.4	16.5	-	-	-

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2006	2007				2008		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Output								
GDP at chained 2005 prices (€ bn) ^a	80.5	81.2	81.4	82.1	82.4	82.8	83.0	83.1
GDP at chained 2005 prices (% change, year on year) ^a	2.9	2.9	2.5	2.7	2.3	1.9	1.9	1.3
Industrial production index (2000=100) ^b	111.2	112.7	112.6	n/a	n/a	n/a	n/a	n/a
Industrial production index (% change, year on year) ^b	5.0	3.5	2.0	n/a	n/a	n/a	n/a	n/a
Employment, wages and prices								
Employment ('000)	4,337	4,367	4,405	4,496	4,419	4,450	4,482	4,561
Unemployment ('000)	570	547	512	554	517	506	479	527
EU harmonised unemployment rate (seasonally adjusted; % of the labour force)	8.0	7.7	7.8	7.3	7.0	6.9	6.7	6.6
Hourly earnings (2000=100) ^c	116.0	116.4	116.7	117.1	117.6	118.1	120.2	121.0
Hourly earnings (% change, year on year) ^c	2.4	2.3	1.6	1.5	1.3	1.5	3.0	3.3
Consumer prices (2004=100)	102.9	103.4	103.7	104.0	105.7	107.4	108.9	109.8
Consumer prices (% change, year on year)	1.9	1.8	1.5	1.3	2.7	3.8	5.0	5.6
Health index (2004=100) ^d	104.5	105.2	105.4	105.7	106.9	108.6	110.1	111.1
Health index (% change, year on year) ^d	1.9	2.0	1.5	1.3	2.2	3.3	4.5	5.1
EU harmonised consumer prices (2005=100)	102.9	102.9	104.2	104.1	105.7	106.8	109.4	109.9
EU harmonised consumer prices (% change, year on year)	1.9	1.8	1.5	1.3	2.8	3.8	5.0	5.5
Producer output prices (2000=100)	116.8	116.8	117.1	118.3	122.2	127.1	130.8	133.5
Financial indicators								
Exchange rate US\$:€ (av)	1.290	1.311	1.348	1.374	1.449	1.500	1.562	1.504
Exchange rate US\$:€ (end-period)	1.317	1.332	1.351	1.418	1.472	1.581	1.576	1.430
3-month Euribor rate (av; %)	3.59	3.82	4.06	4.50	4.72	4.48	4.86	4.98
ECB refinancing rate (end-period; %)	3.50	3.75	4.00	4.00	4.00	4.00	4.00	4.25
BXS, BEL 20 index (av; Jan 1st 1991=1,000)	4,210	4,435	4,637	4,354	4,219	3,747	3,719	3,014
Sectoral trends								
Manufacturing index (2000=100)	112.7	112.7	113.1	106.4	114.6	114.7	116.7	108.5
Manufacturing index (% change, year on year)	6.5	4.5	2.7	3.3	1.7	1.8	3.2	2.0
Construction index (2000=100)	95.0	94.3	99.0	84.0	95.4	92.5	103.9	84.0
Construction index (% change, year on year)	6.9	7.2	1.2	2.5	0.4	-1.9	5.0	0.1
Construction permits issued ('000 cu metres)	18,435	19,107	21,497	19,882	22,120	18,878	18,550	n/a
Retail trade, value (2000=100)	124	114	121	119	127	120	129	125
Foreign trade (€ bn)								
Exports fob	74.7	79.2	77.8	77.7	80.6	81.6	84.8	81.8
Imports cif	72.1	74.4	73.8	73.5	79.8	79.0	82.2	82.2
Trade balance	2.7	4.8	4.0	4.2	0.8	2.6	2.5	-0.4
Balance of payments (US\$ m)								
Merchandise trade balance fob-fob	1,123	2,105	2,080	918	-3,419	-7,595	-7,302	n/a
Services balance	2,736	2,200	2,421	739	1,174	3,672	2,087	n/a
Income balance	81	225	5,677	-887	801	71	6,405	n/a
Net transfer payments	-1,345	-1,862	-1,238	-1,872	-1,848	-1,617	-2,192	n/a
Current-account balance	2,595	2,668	8,940	-1,102	-3,292	-5,469	-1,002	n/a

^a Seasonally adjusted. ^b Seasonally adjusted, excluding construction. ^c Manufacturing. ^d CPI, excluding alcohol, tobacco, petrol and diesel oil.

Sources: OECD, *Monthly Economic Indicators*; IMF, *International Financial Statistics*; General Directorate Statistics & Economic Information; National Bank of Belgium.

Monthly data

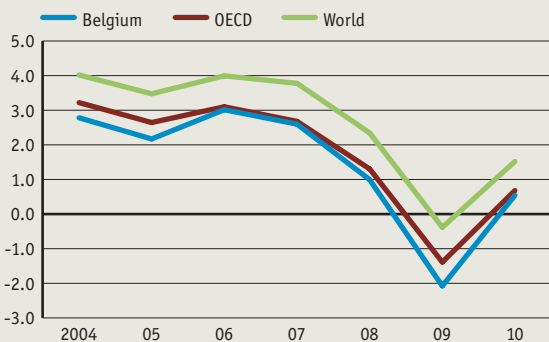
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate US\$:€ (av)												
2006	1.21	1.19	1.20	1.23	1.28	1.27	1.27	1.28	1.27	1.26	1.29	1.32
2007	1.30	1.31	1.32	1.35	1.35	1.34	1.37	1.36	1.39	1.42	1.47	1.46
2008	1.47	1.47	1.55	1.58	1.56	1.56	1.58	1.50	1.44	1.33	1.27	n/a
Exchange rate US\$:€ (end-period)												
2006	1.21	1.19	1.21	1.25	1.29	1.27	1.28	1.29	1.27	1.27	1.32	1.32
2007	1.30	1.32	1.33	1.36	1.35	1.35	1.37	1.37	1.42	1.44	1.48	1.47
2008	1.49	1.52	1.58	1.55	1.55	1.58	1.56	1.47	1.43	1.28	1.27	n/a
Real effective exchange rate (2000=100; CPI-based)												
2006	108.8	108.4	108.7	109.2	109.8	109.6	109.8	109.8	109.5	109.4	109.7	110.4
2007	109.9	110.1	110.3	110.6	110.2	110.0	110.5	110.0	110.5	111.6	112.6	113.0
2008	113.1	113.6	115.5	116.1	116.3	116.6	116.9	116.4	114.1	n/a	n/a	n/a
Deposit rate (av; %)												
2006	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.9	2.9	3.1	3.2	3.4
2007	3.4	3.4	3.6	3.7	3.6	3.9	4.0	4.0	4.0	4.0	4.0	4.0
2008	4.0	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.3	n/a	n/a	n/a
Lending rate (av; %)												
2006	7.0	7.0	7.3	7.3	7.3	7.5	7.5	7.8	7.8	7.8	7.8	8.3
2007	8.3	8.3	8.3	8.3	8.3	8.8	8.8	8.8	8.8	8.8	8.8	8.8
2008	8.8	8.8	8.8	8.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Long-term bond yield (av; %)												
2006	3.3	3.5	3.7	4.0	4.0	4.0	4.0	3.9	3.8	3.8	3.8	3.8
2007	4.1	4.1	4.0	4.2	4.4	4.6	4.6	4.4	4.4	4.4	4.3	4.4
2008	4.3	4.2	4.1	4.4	4.5	4.8	4.9	4.6	4.6	4.4	n/a	n/a
3-month Euribor rate (av; %)												
2006	2.5	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.5	3.6	3.7
2007	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.5	4.7	4.7	4.6	4.9
2008	4.5	4.4	4.6	4.8	4.9	4.9	5.0	5.0	5.0	5.1	4.2	n/a
Industrial production excl construction (seasonally adjusted; % change, year on year)												
2006	3.9	6.1	8.8	5.3	8.8	3.1	2.9	6.2	3.3	8.8	0.6	4.4
2007	4.2	3.8	3.7	4.5	0.8	2.6	5.1	3.6	1.3	1.0	3.4	-1.2
2008	3.5	6.8	-0.6	4.0	1.7	0.7	1.1	2.0	-0.8	n/a	n/a	n/a
Retail sales volume (seasonally adjusted; % change, year on year)												
2006	-0.7	-1.1	0.9	2.4	3.6	2.3	2.6	1.2	1.7	1.5	2.8	1.7
2007	3.6	3.8	3.6	2.0	0.9	2.0	1.4	3.2	2.7	1.4	-1.0	-0.6
2008	0.3	1.0	0.0	1.5	2.7	0.6	-0.1	-0.2	1.8	n/a	n/a	n/a
Unemployment rate (% of the labour force)												
2006	8.7	8.7	8.6	8.5	8.3	8.1	8.2	8.1	8.1	7.9	7.9	7.9
2007	8.0	8.0	7.9	8.0	7.7	7.2	7.5	7.3	7.0	7.0	7.0	7.2
2008	7.3	7.1	6.8	6.6	6.2	6.2	6.8	6.9	6.8	6.7	6.6	n/a
BXS, BEL 20 index (av; Jan 1st 1991=1,000)												
2006	3,667	3,813	3,918	3,896	3,801	3,570	3,702	3,862	3,970	4,139	4,200	4,291
2007	4,444	4,503	4,357	4,591	4,697	4,621	4,563	4,203	4,296	4,435	4,105	4,117
2008	3,845	3,721	3,674	3,858	3,795	3,504	3,033	3,047	2,962	2,198	2,014	n/a
Consumer prices (av; % change, year on year)												
2006	2.9	2.7	2.1	2.5	2.7	2.5	2.3	2.3	1.9	1.8	2.0	2.1
2007	1.8	1.8	1.9	1.8	1.4	1.4	1.4	1.2	1.5	2.2	2.8	3.0
2008	3.6	3.6	4.3	4.1	5.1	5.8	5.9	5.4	5.5	4.9	3.2	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Producer prices (av; % change, year on year)												
2006	1.5	2.4	3.4	4.5	5.0	5.7	5.9	5.8	6.2	5.9	6.2	5.2
2007	3.9	3.7	3.2	2.4	2.2	1.5	1.6	1.8	2.2	3.1	4.8	5.8
2008	7.5	8.9	10.0	10.6	11.5	13.1	13.8	12.8	12.0	9.8	5.2	n/a
Goods exports fob (€ bn)												
2006	22.7	23.0	27.2	22.4	25.1	26.1	22.9	22.0	26.0	26.2	26.0	22.6
2007	25.4	25.1	28.8	24.3	25.8	27.6	26.3	24.1	27.3	29.1	28.2	23.3
2008	26.9	27.2	27.5	29.1	26.7	29.0	28.7	23.6	29.5	n/a	n/a	n/a
Goods imports cif (€ bn)												
2006	22.6	22.3	26.6	21.5	23.5	24.1	21.2	22.1	24.3	24.8	25.5	21.8
2007	24.3	23.4	26.7	23.4	24.8	25.6	24.5	23.5	25.4	28.3	27.5	24.0
2008	26.9	25.2	26.9	28.2	25.7	28.3	28.3	24.6	29.3	n/a	n/a	n/a
Trade balance fob-cif (€ bn)												
2006	0.1	0.8	0.6	0.9	1.6	2.0	1.7	-0.1	1.7	1.4	0.5	0.8
2007	1.1	1.7	2.0	1.0	1.1	2.0	1.8	0.6	1.9	0.8	0.8	-0.7
2008	0.0	2.0	0.6	0.9	0.9	0.7	0.4	-0.9	0.2	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

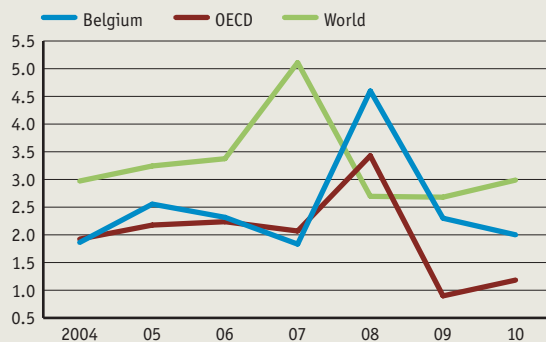
Annual trends charts

Real GDP growth
(% change)



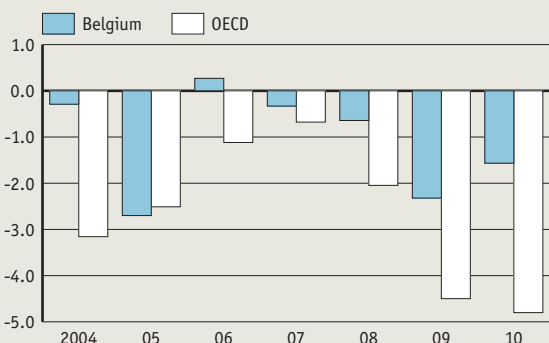
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



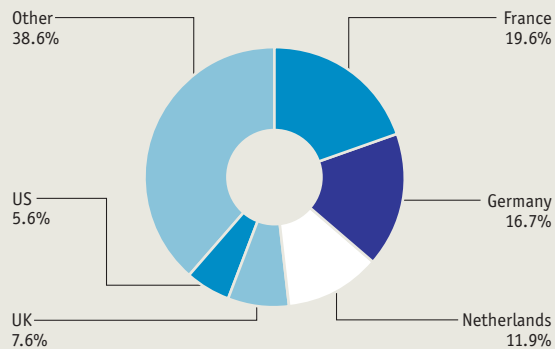
Source: Economist Intelligence Unit.

External sector
(% real change, year on year)



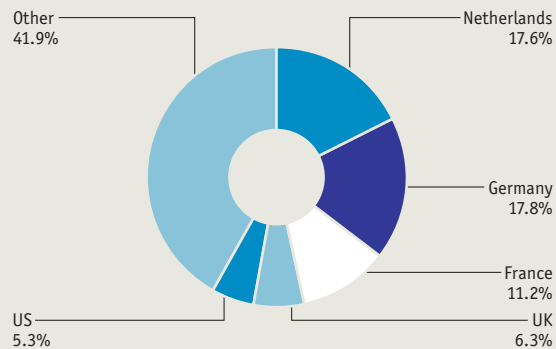
Source: Economist Intelligence Unit.

Main destinations of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

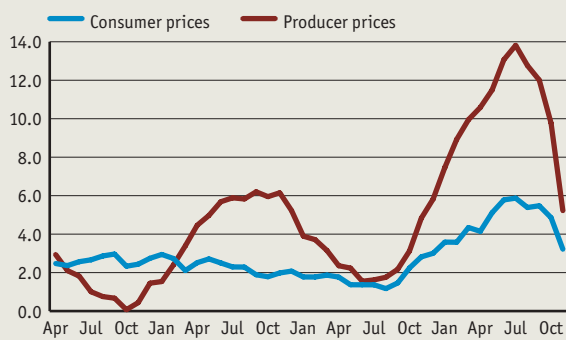
Main origins of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

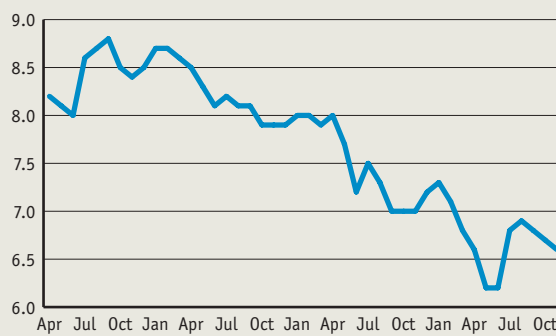
Monthly trends charts

Price inflation
(% change, year on year)



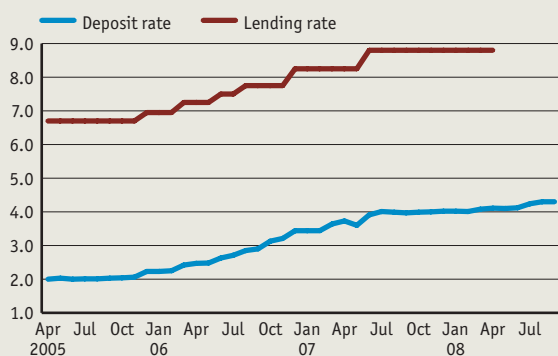
Source: Economist Intelligence Unit.

Unemployment rate
(%)



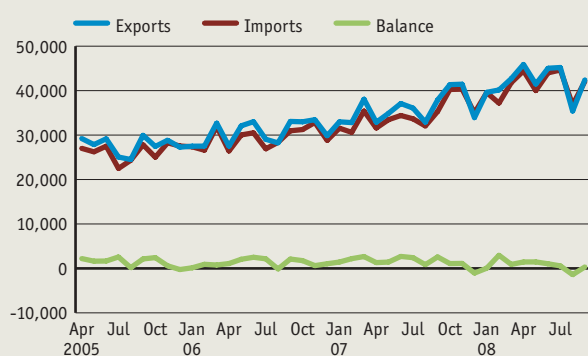
Source: Economist Intelligence Unit.

Interest rates
(av; %)



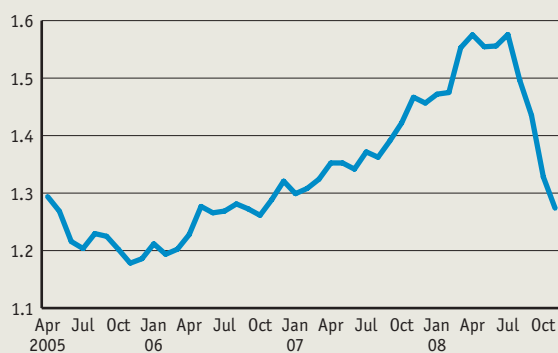
Source: Economist Intelligence Unit.

Foreign trade
(US\$ m; goods only)



Source: Economist Intelligence Unit.

Exchange rate
(US\$:€; av)



Source: Economist Intelligence Unit.

Oil: Brent crude price
(US\$/b; av)



Source: Economist Intelligence Unit.

Country snapshot

Political structure

Official name	Kingdom of Belgium	
Form of state	Constitutional monarchy	
Federal legislature	Chamber of Representatives of 150 members directly elected by a system of proportional representation; Senate of 71 members, with 40 members directly elected and 31 indirectly elected or co-opted, including the children of the king aged over 18	
Electoral system	Universal direct suffrage over the age of 18	
Parliamentary elections	Last election for the federal parliament was held on June 10th 2007; the next federal election is due by 2011. Elections for community parliaments were held on October 8th 2006; the next regional elections will be held in June 2009	
Head of state	King Albert II acceded to the throne in August 1993	
State legislatures	Councils with governments for the regions of Flanders, Wallonia and Brussels-Capital, as well as for the linguistic communities; the region of Flanders and the Flemish linguistic community governments have in effect been merged	
National government	Council of Ministers headed by prime minister, who is appointed by the king on the basis of ability to gain support in the Chamber of Representatives. A government consisting of the CD&V, cdH, Open VLD, MR and PS was sworn in on March 20th 2008	
Main political parties	Flemish Liberal Democrats (Open VLD, Flemish); francophone Reform Movement (MR, an alliance between the liberal PRL and three smaller parties); Socialist Party (SPA, Flemish); Socialist Party (PS, francophone); Christian, Democratic and Flemish Party (CD&V); francophone Christian Social Party, changed in May 2002 to Humanist Democratic Centre (cdH); Vlaams Belang (far-right Flemish); National Front (FN, far-right francophone); New-Flemish Alliance (N-VA, nationalist, Flemish); Green Party (Agalev changed to Groen! in 2003, Flemish); Ecologist Party (Ecolo, francophone)	
Council of ministers	Prime minister	Herman Van Rompuy (CD&V)
	Deputy prime minister, finance & institutional reform	Didier Reynders (MR)
	Deputy prime minister & foreign affairs	Karel de Gucht (Open VLD)
	Deputy prime minister & health & social affairs	Lauratte Onkelinx (PS)
	Deputy prime minister & labour & budget	Joëlle Milquet (cdH)
	Deputy prime minister & public service, public enterprise & institutional reforms	Steven Vanackere (CD&V)
	Agriculture, science & the self-employed	Sabine Laruelle (MR)
	Defence	Pieter De Crem (CD&V)
	Economy, communications & innovation	Vincent Van Quickenborne (Open VLD)
	Energy & climate change	Paul Magnette (PS)
	Immigration & asylum	Annemie Turtelboom (Open VLD)
	Interior minister	Guido De Padt (Open VLD)
	Overseas development	Charles Michel (MR)
	Pensions & social integration	Maria Arena (PS)
Central bank governor	Guy Quaden	