PRICEWATERHOUSECOOPERS

ECONOMIC VIEWS

economics.pwc.com

September 2007

BELGIUM

View from the top

The Belgian economy continued to perform dynamically in the first half of 2007. Less accommodative economic conditions, particularly in the form of a stronger euro, high interest rates and a slowing Euroland economy, should see growth ease in the short term.

Key metrics

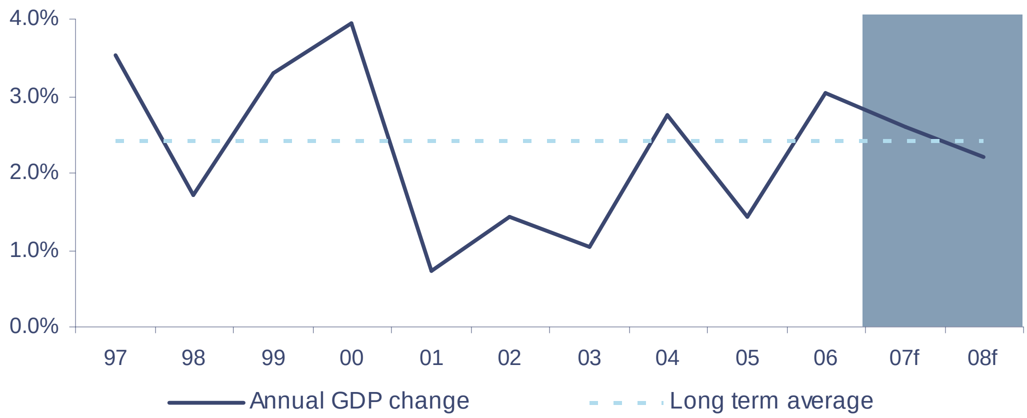
Indicator	2006	2007f	2008f
GDP growth	3.0%	2.6%	2.2%
Inflation	2.3%	1.6%	1.8%
Base interest rate (EOP)	3.5%	◄► *	◄►
General outlook		Stable	Stable

Source: NBB, Eurostat; PricewaterhouseCoopers forecasts (f) * Rate as of September 2007 is 4%.

Key trends

- The economy grew strongly in Q2 of 2007, with consumer spending and exports expanding robustly.
- Business and consumer confidence are trending downwards due to high interest rates and increased uncertainty in capital markets.
- Growth should slow in the short term, with a cooling Euroland and stronger euro weighing on export growth.

Economic growth profile



Source: NBB, PricewaterhouseCoopers forecasts (f)

Yael Selfin
yael.selfin@uk.pwc.com
+44 (0)20 7804 7630

Brian Farthing
brian.farthing@uk.pwc.com
+44 (0)20 7804 7303

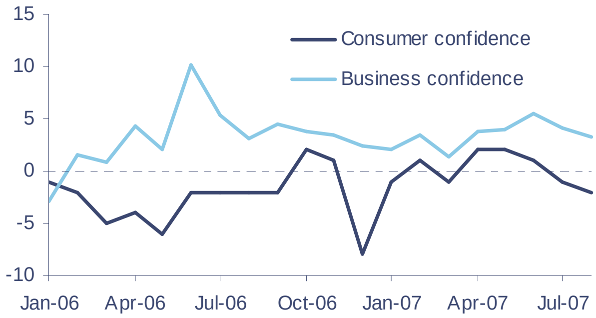
Robert Sullivan
robert.s.sullivan@uk.pwc.com
+44 (0)20 7804 0663

Next issue:
December 2007

Strong performance in Q2

The Belgian economy performed strongly in Q2, growing by 0.6% over the quarter. Although down slightly on the previous quarter's growth of 0.7%, the figures for Q2 suggest Belgium's robust, broad-based expansion has continued apace. In 2006, the economy expanded at the fastest pace witnessed in six years, with strong domestic demand driving overall growth.

Chart 1: Confidence indicators



Source: NBB

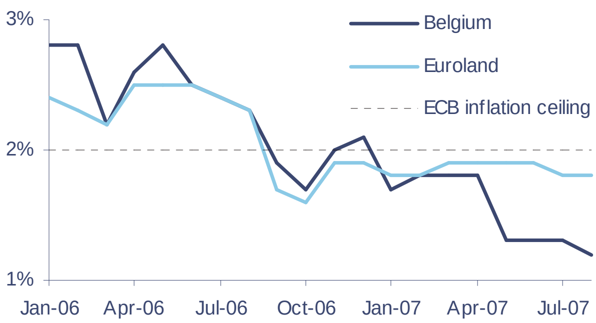
Consumer spending driving growth

Consumer spending continued growing strongly in the second quarter, contributing over half the quarter's GDP growth. Consumer spending has rebounded strongly from the poor growth seen towards the end of 2006. However, growth over the remainder of the year is likely to be less rapid, with consumer confidence trending downwards in recent months (see Chart 1 above).

The pace of investment growth slowed in Q2 from the rapid 3.6% seen in the first quarter, when growth was driven by both strong business and residential investment. Growth did still remain robust overall, although the outlook is tempered by business confidence that is also beginning to trend downwards.

Export growth rebounded strongly from a slow Q1 performance, expanding by 1% in the quarter. With most trade conducted with fellow Euroland economies, which are expected to slow in coming quarters, export growth should decelerate over the short term. Reflecting robust domestic demand, import growth also accelerated in Q2 and led to net trade making an overall negative contribution to growth.

Chart 2: Inflation

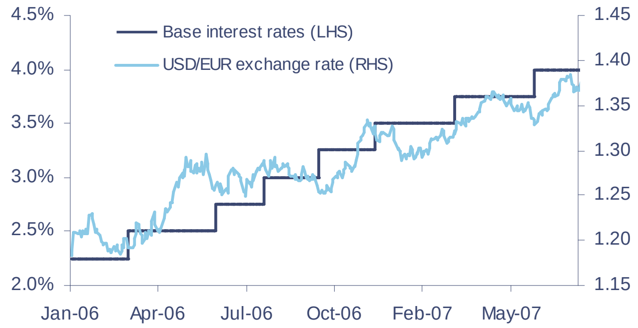


Source: Eurostat

Inflation firmly below the Euroland average

As it has been in recent months, inflation remains muted, registering at only 1.2% in August. This was well below the Euroland average of 1.8% in the same month. (see Chart 2 below). Energy prices continue to exert upwards pressure on the price level, with oil prices reaching record nominal highs in September. However, these pressures are being limited by the recent strength of the euro (see Chart 3 below), which has contained import price inflation.

Chart 3: Interest and exchange rates



Source: ECB, Eurostat

Also constraining inflation are relatively loose labour market conditions, with wage growth remaining modest and expected to decelerate over 2007. Unemployment, at 7.5% in July, has remained stable in recent months but remains above the Euroland average of 6.9%. Large regional disparities remain in the labour market: Flanders, the economic powerhouse of Belgium, had unemployment 5.2% in 2006, while in Wallonia that figure was 11.8%.

A slowing but stable outlook

As the large Euroland economies begin to cool, we anticipate growth in the Belgian economy will also slow modestly from the level seen in 2006. Growth should, however, remain robust by recent standards.

The economy should decelerate from 3% growth in 2006 to around 2.6% this year and 2.2% in 2008. Slower export demand from the Euroland will be compounded by the stronger euro hurting exports destined outside the Euroland. With confidence beginning to ease and interest rates at relatively high levels, both consumer spending and investment growth will also begin to decelerate. Adding downside risk to the outlook is the recent turmoil in global capital markets. The full impact of these events on confidence levels and borrowing conditions remains to be seen.

Also of concern are the recent political developments in Belgium. Over a hundred days have passed since general elections were held and still no government has entered office. With coalition talks collapsing, a solution remains elusive. The prospect of a dissolution of the Belgian state has even emerged, with the Dutch-speaking Flemish and French-speaking Wallonians growing increasingly alienated from one another. Significant economic reform is unlikely while such a situation persists, leaving issues such as the repayment of the significant public debt unaddressed.

Recent performance and forecasts

	2004	2005	2006	2007[f]	2008[f]
Real growth (annual % change)					
GDP	2.8	1.4	3.0	2.6	2.2
Consumer spending	1.4	1.1	2.5	2.2	1.9
Government	2.1	-0.6	1.4	2.1	2.0
Investment	8.1	4.3	5.7	5.4	4.3
Exports	5.9	3.1	3.6	4.6	3.9
Imports	6.3	3.8	4.6	5.1	4.4
Contribution to growth (%)					
Consumer spending	0.8	0.6	1.3	1.2	1.0
Government	0.5	-0.1	0.3	0.5	0.4
Investment	1.5	0.8	1.1	1.1	0.9
Exports	4.8	2.6	3.0	3.9	3.4
Imports	-4.9	-3.0	-3.7	-4.2	-3.7
Domestic demand	2.9	1.8	3.5	2.9	2.5
Net exports	-0.1	-0.4	-0.7	-0.2	-0.3
Economic structure (% of GDP)					
Consumer spending	52.8	52.7	52.4	52.2	52.0
Government	22.9	22.5	22.1	22.0	22.0
Investment	19.5	20.0	20.5	21.1	21.5
Exports	83.5	84.9	85.3	87.0	88.5
Imports	79.5	81.3	82.6	84.6	86.4
Inflation					
CPI (annual % change, average)	1.9	2.5	2.3	1.6	1.8
CPI (annual % change, EOP)	1.9	2.8	2.1	1.7	1.8

Source: NBB, Eurostat; PricewaterhouseCoopers forecasts (f)

Size of the economy

	2004	2005	2006	% of 2006 world total
Population (millions)	10.4	10.5	10.6	0.2%
GDP, current prices (US$ billions)	359.2	372.7	393.6	0.8%
GDP, PPP terms (US$ billions)	329.6	344.8	364.6	0.5%
GDP per capita, current prices (US$)	34,382	35,461	37,214	
GDP per capita, PPP terms (US$)	31,557	32,808	34,478	

Source: IMF

Report date: 24 September 2007

Definitions

Base interest rate – The policy interest rate for Euroland is the main refinancing operations minimum bid rate

Base interest rate forecasts – ▲ increase; ▼ decrease; ◄► no change

General outlook – In the Key Metrics table on page 1, the overall economic environment is assessed as being Positive, Stable or Negative

ECB – European Central Bank

EOP – End of Period

NBB – National Bank of Belgium

Economic Views reports are produced by PwC's Macro Consulting team. The team's consulting services provide practical and empirically-supported solutions using economic tools and combining strategic analysis with strong quantitative skills, as well as in-depth industry expertise.

Identifying new opportunities, exploring new markets, and recognising potential threats ahead of competition are all key to the success of businesses.

We can help businesses to assess the risks and opportunities in their markets, the effectiveness of their strategy, and the impact their business has on the economy. All these factors are essential to establishing the best strategy for the business.

How we can support you:

- Prepare economic outlook reports on the country or industry you are interested in;
- Prepare short term and long term forecasts of macroeconomic variables such as GDP, inflation, average earnings, consumer demand and interest rates;
- Advise on the impact of key events such as EU accession or major changes in tax policy on your markets;
- Assess the contribution your company has to the local economy in terms of economic variables such as employment, tax revenue and output;
- Construct models to forecast prices and key market trends.

.

For more information about our services please contact one of the members of the macro consulting team below:

Yael Selfin	Head of Macro Consulting	+44 (0)20 7804 7630	yael.selfin@uk.pwc.com
Brian Farthing	Global, Americas	+44 (0)20 7804 7303	brian.farthing@uk.pwc.com
Robert Sullivan	Western Europe	+44 (0)20 7804 0663	robert.s.sullivan@uk.pwc.com
Mal Božić	Eastern Europe	+44 (0)20 7804 4089	mal.bozic@uk.pwc.com
Gordon Cookson	Asia Pacific	+44 (0)20 7804 2604	gordon.p.cookson@uk.pwc.com

economics.pwc.com