

Belgium

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Macroeconomic overview

The Belgian economy felt the full impact of the global recession in 2009. The annual real GDP went down by 3.1% on average, i.e. the most severe contraction since the Second World War. From the 1960s up to now, there have been only three other occurrences of a year-on-year fall in GDP: by 1.5% in 1975, by 0.3% in 1981 and by 1% in 1993.

Despite being strongly dependent on international trade and very sensitive to the difficulties encountered by major banks, the Belgian economy has proved more resilient than that of the euro area as a whole. However, the recovery remains fragile for the moment, being largely reliant on tax incentives and replenishment of stocks. The continued downturn in the stock market and the highly uncertain economic context have made Belgian citizens and enterprises very cautious.

Just like in the euro area, economic activity in Belgium returned to positive growth in Q3 2009. Although the recession came to a standstill by mid-2009, the sharp contraction in real GDP will continue to take its toll for some time.

Having reached 5.9% in July 2008, inflation measured on the basis of the harmonised index of consumer prices (HICP) fell sharply in Belgium down to negative territory, dropping to -1.7% in July 2009. Then it started rising, becoming slightly positive again by the end of the year, reaching 0.3%. On average, inflation was flat in 2009, whereas it had reached 4.5% in the previous year.

Concerning employment, an average decrease of 24,000 units was seen in 2009. This drop affected mostly those sectors that are exposed to the fluctuation of the business cycle, such as agriculture, industry, construction and services. A total loss of 52,000 jobs was recorded, whereas in 2008 and also 2007, around 50,000 new jobs had been created. In 2009 the harmonised unemployment rate reached on average 7.9% i.e. an increase by 1 percentage point compared to the previous year.

Housing and mortgage markets

Average house prices continued to record an upward trend during the first three quarters of 2008 followed by a drop in Q4 2008. The decrease in prices established a new and continuous trend until Q2 2009, when it came to a standstill. In Q4 2009 housing prices started to rise again (i.e. to EUR 175,156 in absolute terms).

Villa prices have dropped down to an average of EUR 291,898 during Q2 2009 and reached the same level recorded in Q4 2006. Following the trend in the average housing prices, villa prices also started an upward trend and went up to EUR 303,729 in Q4 2009.

The average price for apartments continued to fluctuate around EUR 175,000. In Q4 2009, a strong increase up to an average of EUR 183,473 was recorded in the housing market segment for single apartments.

The outstanding amount of residential mortgage lending reached roughly EUR 146 billion by the end of 2009 (compared to the year end of 2008 EUR 137 billion).

During the first three quarters of 2009, the financial assets held by households amounted to EUR 25 billion, more than over the whole year of 2008. As a result, total outstanding financial assets held by households went up to EUR 872 billion by 30 September 2009, compared to the EUR 800 billion figure at the end of December 2008.

In 2009, the value of new mortgages granted (including refinancing operations) increased by 2.5% on 2008 (while in 2008 it had decreased by 2.2% on 2007). The number of contracts granted increased by more than 10% compared to 2008 (0.4% in 2008 compared to 2007). If refinancing operations are excluded, the number of new mortgages granted increased by 9.5% on 2008, the corresponding amount however increased only by 1%.

The level of new credit granted during the first half of 2009 was substantially lower than in 2008 (-11% in values and -3% in number of contracts). The results for the second half of 2009 showed a clear increase (+17.8% in values and 24.6% in the number of new contracts) in comparison with the second half of 2008, mainly due to very positive developments in Q4 2009. It should be pointed out that the Q4 2008 was very weak, since the financial crisis had reached its peak in Belgium at that time.

Considering the fact that the level of mortgage applications submitted since mid 2009 started to increase again, compared to the corresponding period of the previous year, it seems that the worst already lies behind us as far as the mortgage market is concerned. In fact, data suggests that the upswing during the second half of 2009 continued in Q1 2010 (i.e. an increase of more than 26% in the number of contracts in comparison with Q1 2009, and an increase of 33% in values).

“House Purchases” represented 40.3% (an annual decrease of 6% in numbers) of the number of contracts signed in 2009, and this corresponds to 54.3% (for an annual decrease of 4.5%) in values. Further information on the construction market breakdown reveals that the market share of “new construction” reached 12.4% regarding the number of contracts (equal to an annual decline of 1%) and 16.2% as regards the amount of loans granted (an increase of 0.3%). The market share of “renovations” grew considerably and represented 30.7% of the total number of contracts (an 6.9% annual increase). These developments were mainly driven by the government’s stimulating measures for energy-saving investments; in fact, one of these measures is the 1.5% interest deduction for ‘green’ loans that is being granted by public authorities.

The average amount of mortgage loans for “purchases” was EUR 125,496, a little bit lower than in 2008 (EUR 126,683). The average amount of mortgage loans for renovation purposes dropped by roughly 6% to EUR 34,000.

After having reached an absolute record share of more than 85% in 2007, the market share of fixed rate mortgages (i.e. with an initial fixed period longer than 10 years) decreased to 53.5% in 2009. Moreover, the underlying evolution was even more remarkable: during the last quarter of 2009, the market share of this type of mortgage loan represented barely 33%. In Q1 2010, this downward trend in the share of fixed rate mortgages was confirmed.

Considering the evolution of mortgage applications in Q1 2010 (which recorded a 14% increase compared to Q1 2009), the Belgian mortgage market is likely to be resilient. However, developments in the upcoming months will depend on the evolution of the economic situation interest rates to a large extent.

	EU27, 2009	Belgium, 2009	Belgium, 2008
GDP growth (%)	-4.2	-3.1	1.0
Unemployment rate (%)	8.9	7.9	7.0
Inflation (%)	1.0	0.0	4.5
% owner occupied	68.2	78.0	78.0
Residential Mortgage Loans as % GDP	51.9	43.3	39.8
Residential Mortgage Loans per capita, EUR thousand	12.37	12.84	13.86
Total value of residential loans, EUR million	6,125,727	146,329	137,016
Annual % house price growth	-6.8	1.7	0.7
Typical mortgage rate (euro area), %	2.71	4.43	4.99
Outstanding Covered Bonds as % outstanding residential lending	23.2	n/a	n/a

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Belgium= 2007

Sources: EMF, ECB, Eurostat, National Bank of Belgium

