

Brussels, 3 July 2013

Economic revival in Wallonia?

Wallonia closes the growth gap, through Flanders slowdown and --

Ever since the 1960s, economic growth in Wallonia has been systematically lower than in Flanders. But over the last decade, the gap has been closing. This was mainly due to the slowdown in the growth of the Flemish economy which began already in the 90s, whilst growth in Wallonia has been more or less flat at the 80s/90s level. In the crisis period between 2008 and 2012 economic growth in Wallonia was actually higher than in Flanders. Thanks to the relatively higher growth performance in Wallonia, the region was able to reduce the welfare gap (measured in terms of the primary income per inhabitant i.e. before tax and redistribution through social security payments) with Flanders, and more notably with the EMU average. In 2012, the gap was nevertheless still around 20% with Flanders and 6% with the EMU. This compared with (on average) 23% and 10% respectively in the period 2000 to 2007.

- new industrial growth dynamics in Wallonia

Does this now mean that Wallonia is really beginning to catch up Flanders? Encouraging in any event is the change in industrial policy in Wallonia, notably via the Marshall plan which is supporting the development of new directions for industrial growth. Unlike Flanders, Wallonia has been successful over recent years in slowing down the process of de-industrialisation. The region was thus able to limit the decline in employment in the manufacturing sector between 2000 and 2011 to around 0.7% per annum. This compares with 1.5% in Flanders. The added value in Wallonia's manufacturing sector over the same period rose on average 1.5% per annum, compared to just 0.2% in Flanders. Since the launch of the Marshall plan in 2005, R&D expenditure by companies in Wallonia rose significantly. Relative to the (gross) regional product, R&D efforts by Wallonia companies are now clearly higher than that of Flemish companies. Macroeconomic investment and export statistics also suggest that the Walloon policy direction is gradually bearing fruit.

There are still major challenges facing Wallonia, notably with regard to the labour market, but --

Despite the improvements described above, Wallonia is still performing weaker than Flanders on several fronts. Exports (especially outside the European Union) and entrepreneurship are less developed there. Productivity in the service sectors is lower there. Education does not score as well, and both youth and long-term unemployment remain stubbornly high. The employment rate (people in employment as a percentage of the population at active age) is still very low compared to Flanders and also reveals greater intraregional variations than in Flanders. The employment rate among

Walloons is lower than among Flemings across all age categories except the Over-60s. This is due to the steeper increase in the average effective retirement age there compared to Flanders.

- the economic potential there is greater too.

If Wallonia can gradually overcome these relative weaknesses, then the pace of economic growth there – thanks in part to its more favourable demographics – could remain between 0.2 and 0.3% per year higher than in Flanders. This scenario presupposes that the adjustment will deliver stronger annual employment growth in Wallonia (+1.2%) than in Flanders (+0.9%). This would suggest an annual jobs growth of 16 300 compared to an average annual job creation of 11 100 between 2000 and 2012, pushing the employment rate up to 68% in 2020 compared to 62.5% in 2012. This would mean that as well as the change in Wallonia’s industrial policy, the region will also reap benefits from labour-market reforms that will be necessary across all the regions in the coming years to get the employment rate up.

Note to the editor

Please read the full analysis and the accompanying PowerPoint presentation www.kbceconomics.be

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