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PRESS RELEASE

Economic projections for Belgium – Spring 2014

(Article for the June 2014 Economic Review)

This article presents the Bank's new macroeconomic projections. For the first time, and in line with the change in the ECB publication format, the projection period extends to year t+2 (in this case up to 2016). It is necessary to bear in mind that the margin of error surrounding the projections increases for later years, because no account is taken of the impact of new economic policy decisions and due to greater uncertainty about the assumptions, namely those related to the international environment.

Despite some short-term volatility, the current international economic situation shows a continuing moderate recovery, which is likely to strengthen in the coming years. Remaining concerns mostly pertain to the sustainability of the strong – and often unbalanced – growth of the emerging economies, combined in some cases with risks relating to the reversal of capital flows and geopolitical uncertainties. Conversely, in the advanced economies the recovery which began in the course of 2013 appears to be strengthening, and fiscal policies there should place less restraint on growth in the medium term. According to the Eurosystem projections, following a 0.4% decline last year, the volume of GDP in the euro area is set to grow by 1 % in 2014, and then by 1.7 to 1.8 % in 2015-2016. Inflation in the euro area is expected to remain low in a context of import price moderation and control over domestic costs, especially labour costs. Inflation is thus projected to decline from 1.4 % in 2013 to 0.7 % in 2014, before edging upwards to 1.1 % and 1.4 % respectively in 2015 and 2016.

After several quarters of negative or zero growth, the Belgian economy began to pick up in the second quarter of 2013, thanks to a revival in household consumption and steady export growth. Nonetheless, given a weak starting point, annual growth in 2013 was no more than 0.2%. As growth becomes more broadly based, to include investment in particular, it should strengthen to reach 1.3% this year and 1.6-1.7% in 2015-2016. In 2014, household purchasing power will be supported by the low level of inflation, although labour incomes are likely to be curbed by wage moderation and the still slow employment recovery. Over the projection horizon, household consumption is projected to grow slightly less than disposable income, bringing a small increase in the savings ratio. After a very long period of decline, business investment began a hesitant revival in 2013, and is likely to stage a more marked recovery in 2014, supported by the improvement in the outlook for sales, better corporate profitability and the steady rise in capacity utilisation rates. Finally, public spending is set to continue making a positive contribution – of almost one-third – to GDP growth over the projection horizon.

Traditionally, the improvement in the labour market comes later than the revival in activity, as firms wait to be sure that the recovery is sound before taking on staff again. Thus, net job creations which have been positive again since the second half of 2013 are expected to still remain at a low level this year, at around 12 000 units; in 2015 and 2016, around 53 000 additional jobs are likely to be created (in cumulative terms). Job creations would be concentrated in the private sector, since public sector job cuts are set to continue, owing to the fiscal consolidation measures which have been taken at various levels of power. Taking account of the expected growth of the labour force, the unemployment rate will only decline from 2015.

Inflation, which has fallen sharply in Belgium over recent quarters, is projected to dip to 0.9% in 2014, a very low level attributable partly to the reduction on VAT on household electricity consumption. Like core inflation – which was still high in 2014 - inflation is expected to rise over the projection horizon, reaching 1.6% in 2016. The very small increase in unit labour costs, especially in 2014 and 2015, due to government measures and the increase in productivity, is likely to be partly offset by a restoration of corporate margins.

Under the rules applicable to the Eurosystem projection exercises, only budgetary measures which have been formally approved and for which the details are sufficiently specified were taken into account. That applies in particular to the measures included in the Pact for Competitiveness and Employment adopted at the end of 2013. In that connection, in the absence of any new fiscal consolidation measures, public finances are expected to end the year 2014 with a deficit unchanged at 2.6 % of GDP; the deficit is set to deteriorate in 2015-2016 while staying below the limit of 3% of GDP. The public debt would remain above 100% of GDP throughout the projection period.

| Projections for the Belgian economy: summary of the main results (percentage changes compared to the previous year, unless otherwise stated) | | | | |
|--|-------|--------|--------|--------|
| | 2013 | 2014 e | 2015 e | 2016 e |
| GROWTH (calendar adjusted data) | | | | |
| Real GDP | 0,2 | 1,3 | 1,6 | 1,7 |
| Contributions to growth: | | | | |
| Domestic expenditure, excluding change in inventories | 0,3 | 1,4 | 1,6 | 1,8 |
| Net exports of goods and services | 0,5 | 0,3 | -0,1 | -0,1 |
| Change in inventories | -0,6 | -0,3 | 0,0 | 0,0 |
| PRICES AND COSTS | | | | |
| Harmonised index of consumer prices | 1,2 | 0,9 | 1,3 | 1,6 |
| Health index | 1,2 | 0,7 | 1,2 | 1,7 |
| GDP deflator | 1,6 | 1,0 | 1,4 | 1,7 |
| Terms of trade | 0,2 | 0,8 | 0,1 | 0,1 |
| Unit labour costs in the private sector | 1,8 | 0,3 | 0,3 | 1,3 |
| Hourly labour costs in the private sector | 2,0 | 0,9 | 1,2 | 2,0 |
| Hourly productivity in the private sector | 0,2 | 0,6 | 0,8 | 0,7 |
| LABOUR MARKET | | | | |
| Domestic employment (annual average change in thousands of persons) | -9,7 | 11,9 | 21,5 | 31,0 |
| Total volume of labour ¹ | -0,3 | 0,6 | 0,7 | 1,0 |
| Harmonised unemployment rate ² (in % of the labour force) | 8,5 | 8,6 | 8,5 | 8,2 |
| INCOMES | | | | |
| Real disposable income of individuals | 0,6 | 1,1 | 1,4 | 1,7 |
| Savings ratio of individuals (in % of disposable income) | 15,0 | 15,1 | 15,2 | 15,2 |
| PUBLIC FINANCES ³ | | | | |
| Overall balance (in % of GDP) | -2,6 | -2,6 | -2,8 | -2,9 |
| Primary balance (% of GDP) | 0,6 | 0,5 | 0,1 | 0,0 |
| Public debt (% of GDP) | 101,2 | 101,7 | 101,9 | 101,5 |
| CURRENT ACCOUNT (in % of GDP according to the balance of payments) | | | | |
| | -1,6 | -0,8 | -0,6 | -0,5 |
| Sources: EC, DGSEI, NAI, NBB. | | | | |
| ¹ Total number of hours worked in the economy. | | | | |
| ² In % of the labour force (15-64 years), data not adjusted for calendar effects. | | | | |
| ³ According to the methodology used in the excessive deficit procedure (EDP). | | | | |