

2014-12-05

## PRESS RELEASE

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### **Economic projections for Belgium – Autumn 2014**

(Article for the December 2014 Economic Review)

This article presents the Bank's new macroeconomic projections for 2014-2016. They have been produced for the first time on the basis of the national accounts compiled in accordance with the ESA 2010. The projections already take account of the measures adopted by the new federal government, even though the full details were not yet known at the end of the financial year. Among those measures, the temporary suspension of the mechanisms for the indexation of wages and replacement incomes will have a major influence on future macroeconomic developments; the effects of that measure have received special attention, and formed the subject of a detailed analysis described in a box.

Despite a mixed picture in the first half of the year, the global economy is currently maintaining a modest recovery which should strengthen in the years ahead. While growth remains generally higher in the emerging economies, the Chinese economy has slowed down, and geopolitical tensions have seriously depressed growth in Russia. In the advanced economies, activity slowed sharply at the beginning of 2014 owing to temporary factors, particularly in the United States. In the euro area, growth in the core countries dropped significantly in the second quarter, whereas activity gathered pace in the majority of the peripheral countries, being the ones which have implemented the most ambitious adjustment programmes in order to restore their competitiveness. According to the Eurosystem projections, real GDP growth in the euro area will come to 0.8 % in 2014, strengthening to 1.5 % in 2016. Inflation in the euro area is expected to edge upwards too, but will remain very low at just 1.3 % in 2016.

The economic recovery faltered more abruptly than expected in Belgium from the second quarter of this year, in a context of weakening activity in the euro area and erosion of business and consumer confidence. The expansion of activity is likely to remain meagre in the second half of the year, bringing annual growth to 1 % in 2014. In 2015 activity is projected to grow by only 0.9 %, gathering pace to 1.4 % in 2016. Over the projection horizon, the contribution of domestic demand is forecast to remain broadly unchanged: the limitation of wage growth will depress household expenditure, albeit to a limited extent in view of the smoothing of consumption over time; business investment should gradually strengthen as final demand picks up and business profits increase. Conversely, given the economy measures decided on by the new governments, the contribution of public expenditure to growth should gradually diminish. The stronger growth in 2016 will therefore be due mainly to net exports, which will gain momentum as the improvement in cost competitiveness is gradually reflected in the export performance of Belgian firms.

In 2014, net job creations should amount to almost 18 000, but will be confined mainly to the non-market service branches and self-employed activity. A cumulative total of around 45 000 extra jobs should be created in 2015 and 2016, as a result of stronger growth and the reduction in labour costs. Taking account of the expected movement in the labour force and the reintegration of older unemployed workers who were previously exempt from seeking work, a small decline in the unemployment rate is only likely to be apparent from 2016 onwards.

Inflation, which has fallen steeply in Belgium in recent months is expected to dip to 0.6 % in 2014, a very low level attributable partly to the cut in VAT on electricity, and in line with widespread disinflation in the euro area. In 2015 and 2016 the movement in prices and costs in Belgium is likely to be greatly affected by the package of measures aimed at reducing labour costs (not just the suspension of indexation but also the continued freeze on real wages and the reductions in employers' contributions). That should lower core inflation, i.e. inflation excluding the impact of the prices of volatile components, whereas overall inflation is likely to rise slightly, reaching 1.2 % in 2016 as a result of higher energy and food prices.

The measures in the budgets of the new federal government and the federated entities were taken into account in accordance with the provisions applicable to Eurosystem forecasting exercises. In that context, the public deficit is expected to fall significantly over the projection horizon, declining from 3.2 % of GDP in 2014 to 2.1 % in 2016. The public debt is forecast to stabilise at around 107 % of GDP.

<b>Projections for the Belgian economy: summary of the main results</b> (percentage changes compared to the previous year, unless otherwise stated)				
	2013	2014 e	2015 e	2016 e
<b>GROWTH</b> (calendar adjusted data)				
Real GDP	0.3	1.0	0.9	1.4
Contributions to growth:				
Domestic expenditure, excluding change in inventories	-0.1	1.2	1.2	1.2
Net exports of goods and services	1.0	0.7	-0.3	0.2
Change in inventories	-0.7	-1.0	0.0	0.0
<b>PRICES AND COSTS</b>				
Harmonised index of consumer prices	1.2	0.6	0.8	1.2
Health index	1.2	0.4	0.7	1.1
GDP deflator	1.5	0.6	0.9	1.0
Terms of trade	0.1	0.5	0.3	0.1
Unit labour costs in the private sector	2.2	0.3	0.3	-0.2
Hourly labour costs in the private sector	2.4	0.8	0.6	0.2
Hourly productivity in the private sector	0.2	0.5	0.3	0.5
<b>LABOUR MARKET</b>				
Domestic employment (annual average change in thousands of persons)	-12.4	17.9	19.3	25.2
<i>p.m. Change over the year, in thousands of persons<sup>1</sup></i>	12.2	24.0	17.8	32.1
Total volume of labour <sup>2</sup>	-0.1	0.3	0.6	0.8
Harmonised unemployment rate (in % of the labour force)	8.4	8.5	8.8	8.7
<b>INCOMES</b>				
Real disposable income of individuals	-0.2	0.8	0.9	0.8
Savings ratio of individuals (in % of disposable income)	13.5	13.5	13.4	13.3
<b>PUBLIC FINANCES</b>				
Overall balance (in % of GDP)	-2.9	-3.2	-2.5	-2.1
Primary balance (% of GDP)	0.3	-0.2	0.4	0.7
Public debt (% of GDP)	104.5	106.6	107.0	106.8
<b>CURRENT ACCOUNT</b> (in % of GDP according to the balance of payments)				
	0.1	1.4	1.3	1.5
Sources: EC, DGSEI, NAI, NBB.				
<sup>1</sup> Difference between the fourth quarter of the current year and the fourth quarter of the previous year.				
<sup>2</sup> Total number of hours worked in the economy.				