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PRESS RELEASE

Economic projections for Belgium – Autumn 2016

(Article for the December 2016 Economic Review)

This article presents the new macroeconomic projections for Belgium, produced by the Bank as part of the Eurosysteem forecasting exercises. The projection period has been extended to match that of the stress tests conducted for the purposes of the prudential supervision of financial institutions; in this case it covers the period 2016-2019. To the extent that they concern a more distant horizon, projections are subject to a higher degree of uncertainty, particularly as regards future economic policy choices in Belgium, and currently - above all - at the international level.

Despite an environment affected by manifold – primarily political – uncertainties, the global economy has appeared to recover somewhat in recent months following the slowdown seen throughout 2015 and in early 2016. In the emerging economies, growth has stabilised overall: while the Chinese economy is still heading for a soft landing, Russia and Brazil are gradually emerging from last year's deep recession, particularly thanks to rising commodity prices. In the American economy, still supported by private consumption thanks to very low unemployment and the rise in wages, growth slowed slightly this year. In the euro area, activity continued to expand steadily with domestic demand and job creation remaining buoyant in a context still benefiting from the accommodative monetary policy and past progress achieved in deleveraging and structural reforms and despite fears triggered by the result of the Brexit referendum. As global activity is set to gain momentum from 2017, the medium term growth prospects for the euro area also remain favourable and stable: according to the Eurosysteem projections, the volume of GDP will expand by around 1.6 -1.7 % over the period 2017-2019. Inflation, which has been very low this year at 0.2 %, is expected to pick up considerably next year to reach 1.5%, driven higher by the rise in energy prices but also by increasing wage pressure. However, it is likely to level off at 1.7 % in 2019, below the ECB's target for price stability.

In Belgium, growth was down slightly in 2016 at 1.2%; that should be viewed in the context of the highly volatile profile of activity over the year, reflected for instance in very weak growth in the first quarter (and in the third), while the second quarter was more dynamic. Growth is expected to strengthen somewhat in 2017 to 1.4% before reaching 1.6 % in 2018 and 1.5% in 2019. The growth forecasts for 2017 and 2018 are virtually unchanged compared to those dating from June 2016, despite the new, less favourable technical and international assumptions, namely weaker external demand. In fact, the short-term activity indicators still point to accelerating activity from the final quarter of 2016.

Among the demand components it is investment and, increasingly, private consumption that are likely to be the main factors supporting growth in the medium term. Since mid-2015 private consumption has slackened pace: despite substantial job creation, household purchasing power was hit by the rise in indirect taxes and the continuing wage moderation, in a climate rendered somewhat fragile by the terrorist attacks. In the future, households should benefit both from renewed wage growth and from the measures to cut taxes, adopted in connection with the tax shift; that should bolster their disposable income and hence their consumption expenditure, but also investment in housing. The profitability of Belgian firms has improved considerably in recent years, thanks to lower wage costs and cheaper imported inputs; this rise in profits has been accompanied by robust growth of corporate investment. The capacity utilisation rate has been above its long-term average for more than two years already, stimulating investment aimed at capacity expansion. Over the next three years, firms should continue to invest steadily thanks to the improving outlook for demand and continuing extremely favourable financing conditions. Conversely, the growth contribution of public expenditure is set to be very limited, in the wake of the economy measures needed to restore public finances. The public investment profile will be heavily influenced by the local electoral cycle, i.e. investment will gather momentum from mid-2017 and in 2018, and subside in 2019.

A very positive dynamic has been evident on the Belgian labour market for more than two years, likewise attributable to the measures to cut labour costs and the structural reforms, particularly concerning unemployment benefits. With around 55 000 additional jobs, 2016 is already emerging as a vintage year for job creation. Over the next three years, some 120 000 new jobs are likely to be created in cumulative terms, mainly in private salaried employment and among the self-employed. That reflects a continuing positive dynamic, even though the employment intensity of growth will probably return gradually to normal. Given the

expected growth of the labour force – boosted somewhat in 2016 and 2017 by the integration of asylum seekers – the unemployment rate is projected to fall from 8.2 % of the labour force this year to 7.6 % by 2019.

In 2016, Belgian inflation will have averaged 1.8 %. The increase in indirect taxes – since the autumn of 2015 – was a major factor behind the rise in inflation in Belgium, and largely accounts for the inflation gap in relation to the euro area, although other factors – particularly those affecting inflation in services – also appear to be in play. Over the period 2017-2019, Belgian inflation is projected to average 2 %, so that the inflation gap in relation to the euro area will diminish though it will not disappear. Unit labour costs in the private sector, which had been driven down substantially by the various measures to reduce labour costs, are expected to show a more marked rise from 2017 (in a scenario without any new wage moderation measures). On the other hand, corporate profit margins which widened in 2015 and 2016 are likely to increase at a more modest pace in the future.

Estimated at 3.0 % of GDP in 2016, the public deficit should fall to 2.3% in 2017, notably as a result of the consolidation measures announced, but will remain virtually unchanged thereafter and, hence, far from the target of structural balance. The public debt in 2019, when expressed in relation to GDP, would have barely declined below last year's level. In this connection, it should be remembered that, in accordance with the rules applicable to the Eurosystem projection exercises, the projections only take account of measures which have been formally adopted by the government – or which are very likely to be approved – and are specified in sufficient detail on the cut-off date for the exercises. Moreover, the estimates of the budgetary impact of certain measures, such as those relating to fraud prevention, may deviate from the amounts included in the budget.

Projections for the Belgian economy: summary of the main results

(percentage changes compared to the previous year, unless otherwise stated)

	2015	2016 e	2017 e	2018 e	2019 e
GROWTH (calendar adjusted data)					
Real GDP	1.5	1.2	1.4	1.6	1.5
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.2	1.0	1.5	1.5	1.5
Net exports of goods and services	0.0	0.9	0.2	0.1	0.0
Change in inventories	0.3	-0.7	-0.2	0.0	0.0
PRICES AND COSTS					
Harmonised index of consumer prices	0.6	1.8	2.0	2.0	2.0
Health index	1.0	2.1	1.5	1.8	1.8
GDP deflator	0.9	1.6	1.7	1.7	1.9
Terms of trade	1.0	0.9	-0.1	-0.2	0.2
Unit labour costs in the private sector ¹	-1.1	0.1	1.6	1.6	2.1
Hourly labour costs in the private sector ¹	-0.1	-0.2	2.0	2.5	3.0
Hourly productivity in the private sector	1.1	-0.3	0.4	0.9	0.8
LABOUR MARKET					
Domestic employment (annual average change in thousands of persons)	42.1	55.0	45.8	38.0	36.6
Total volume of labour ²	0.6	1.4	0.9	0.7	0.7
Harmonised unemployment rate (in % of the labour force aged over 15)	8.6	8.2	8.0	7.8	7.6
INCOMES					
Real disposable income of individuals	0.7	1.8	1.1	1.7	1.9
Savings ratio of individuals (in % of disposable income)	11.7	12.6	12.5	12.7	12.7
PUBLIC FINANCES					
Primary balance (in % of GDP)	0.5	-0.3	0.1	-0.2	-0.3
Overall balance (in % of GDP)	-2.5	-3.0	-2.3	-2.3	-2.3
Public debt (in % of GDP)	105.8	106.5	106.3	106.0	105.6
CURRENT ACCOUNT (according to the balance of payments, in % of GDP)					
	0.4	1.4	1.6	1.8	2.2

Sources: EC, Statistics Belgium, NAI, NBB.

¹ Including wage subsidies (mainly reductions in payroll tax) and targeted social contribution reductions.

² Total number of hours worked in the economy.