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PRESS RELEASE

Economic projections for Belgium - Autumn 2017
(Article for the December 2017 Economic Review)

This article presents the new macroeconomic outlook for Belgium for 2017-2020, prepared by the Bank as part of the Eurosystem projections.

As expected, the global economy grew relatively strongly in the first two quarters of 2017. In the emerging countries, economic activity continued to gain momentum. In China there was a further slight acceleration in growth, and Russia and Brazil posted positive growth figures, partly thanks to the increase in commodity prices. In the advanced economies, growth remained robust despite the tightening of monetary policy that was started in the US and the announcement of the reduction of the quantitative easing in the euro area, plus the geopolitical risks which still exist. Global growth was also particularly trade intensive, partly owing to temporary factors but also as a result of the investment revival. Like the international institutions, the Eurosystem assumes that global growth will be relatively stable in the coming years, although the expansion of trade flows will gradually fall more into line with the growth of global GDP.

In the euro area, the economy has clearly gathered steam since the autumn of last year, growing by an average of 0.6% in the past four quarters. According to the Eurosystem projections, real GDP growth will come to 2.4% this year, the strongest expansion in the past ten years. Subsequently, annual growth is set to decline steadily to 1.7% by 2020. Inflation in the euro area was driven up this year by the recent increase in energy prices, and will ease back in 2018. Core inflation, excluding the effect of such volatile components, is expected to rise over the projection period as a whole, in line with the increasing domestic cost pressure, though it is still likely to remain below the ECB's price stability target of 2% by end-2020.

According to the revised NAI statistics, it was mainly in the first half of 2017 that the Belgian economy expanded strongly, leading to a slight upward adjustment of growth for the year to 1.7%. The Belgian economy is expected to maintain that momentum in 2018. After that, growth declines gradually to 1.4% in 2020, primarily as a result of the gradual slowdown in Belgium's export markets and the cooling of the corporate investment cycle, plus the traditional post-electoral decline in local government investment. The negative growth gap between Belgium and the euro area thus diminishes but does not disappear altogether during the projection period.

In the most recent quarters, GDP growth on the expenditure side is due mainly to the underlying expansion of investment, but will be increasingly driven by private consumption. That primarily reflects the increase in household purchasing power, now supported more by a rise in real wages. Corporate investment, which grew strongly in 2017, after adjustment for some major specific purchases abroad, is expected to slow down gradually during the projection period to a pace more in line with the fundamental determinants.

Net job creation peaked in 2017. For already two years now, the rise in the number of people in work has almost matched the growth of activity. There is little doubt that this job creation was bolstered by the recent policy measures, particularly the labour cost moderation and certain structural reforms expanding the effective labour supply, as witnessed by an increasing participation rate, for example, especially among older workers. Nevertheless, the current forecasts still assume that the job intensity of growth will return to normal, not only because labour costs are rising again but also as a result of the increasing impact of labour market shortages. Towards the end of the projection period, the unemployment rate is set to decline to just under 7%, which is close to the level prevailing immediately before the great recession.

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This year, inflation will amount to 2.2% and subsequently decline to 1.6% from 2018. That evolution is closely connected with the energy price situation and also reflects the euro's recent appreciation and the impact of the abolition of the energy levy on household electricity consumption in the Flemish Region from 1 January 2018. However, core inflation rises gradually over the projection period from 1.5% in 2017 to 1.8% in 2020, but - as in the past - the strong rise in labour costs will not be entirely passed on in prices; instead, it will lead to a moderation of profit margins.

Finally, as regards public finances, the budget deficit falls much more steeply than previously expected, to 1.2% of GDP in 2017. That is due mainly to the substantial increase in advance payments by companies and, to a lesser extent, the favourable impact of the stronger jobs growth on public revenue and expenditure. However, the budget deficit is expected to increase again somewhat in the years ahead, as the deterioration of the primary surplus will only be partially compensated by the further decline in interest payments. The public debt is set to fall from 103.3 % of GDP in 2017 to 100.5 % in 2020. It should be remembered that, in accordance with the Eurosystem rules for such projection exercises, account is only taken of measures which, on the cut-off date for the estimates, the government has already specified in sufficient detail and has formally approved or is very likely to do so. In addition, the estimates of the impact on the budget of certain measures, such as those to combat fraud, 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)

	2016	2017 e	2018 e	2019 e	2020 e
GROWTH (calendar adjusted data)					
Real GDP	1.5	1.7	1.7	1.6	1.4
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.8	1.0	1.8	1.7	1.5
Net exports of goods and services	-0.6	0.3	-0.1	-0.1	-0.1
Change in inventories	0.2	0.4	-0.1	0.0	0.0
PRICES AND COSTS					
Harmonised index of consumer prices	1.8	2.2	1.6	1.6	1.6
Health index	2.1	1.8	1.4	1.6	1.6
GDP deflator	1.6	2.0	1.6	1.6	1.5
Terms of trade	0.7	-0.3	0.3	0.1	0.0
Unit labour costs in the private sector[1]	-0.1	1.6	1.7	1.7	1.9
Hourly labour costs in the private sector[1]	-0.7	1.9	2.2	2.5	2.7
Hourly productivity in the private sector	-0.6	0.3	0.5	0.8	0.8
LABOUR MARKET					
Domestic employment (annual average change in thousands of persons)	57.7	69.4	54.0	37.6	29.8
Total volume of labour[2]	1.3	1.4	1.1	0.8	0.6
Harmonised unemployment rate (in % of the labour force aged over 15)	7.8	7.3	7.0	6.9	6.9
INCOMES					
Real disposable income of individuals	0.9	1.2	1.9	2.4	1.8
Savings ratio of individuals (in % of disposable income)	11.2	11.2	11.5	12.0	12.2
PUBLIC FINANCES					
Primary balance (in % of GDP)	0.4	1.3	1.0	0.6	0.6
Overall balance (in % of GDP)	-2.5	-1.2	-1.3	-1.5	-1.5
Public debt (in % of GDP)	105.7	103.3	102.1	101.2	100.5
CURRENT ACCOUNT (according to the balance of payments, in % of GDP)	0.1	0.0	0.1	0.1	0.0

Sources: DGS, EC, 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.

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