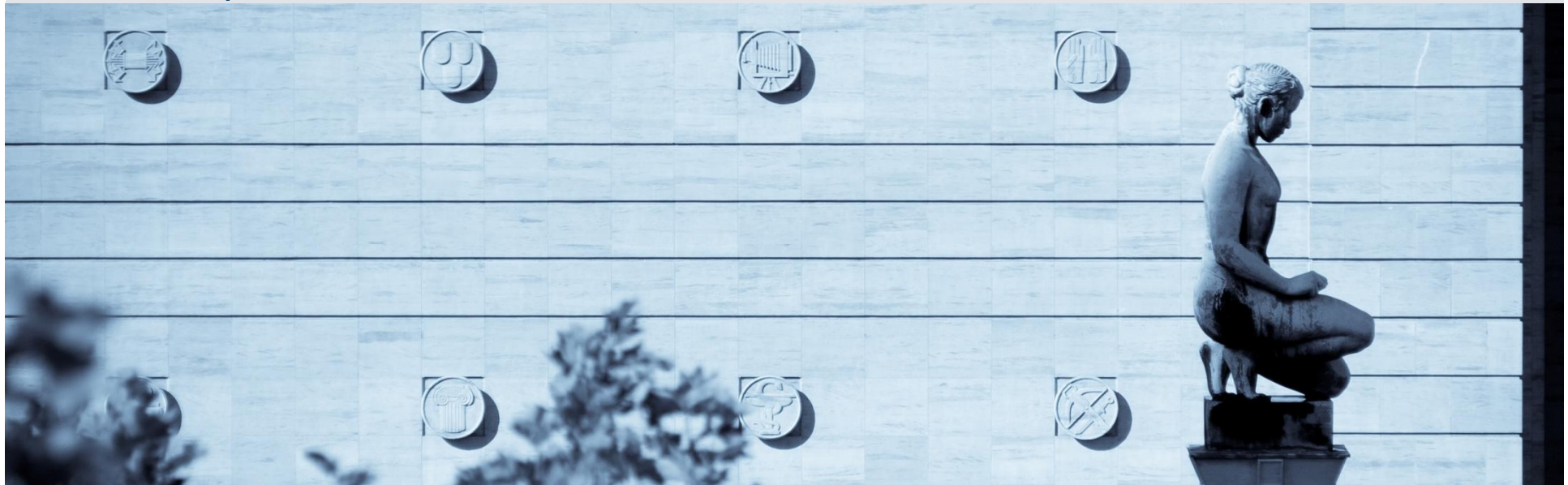


Converting the cyclical upturn into sustainable and inclusive growth

Governor Jan Smets
NBB Report 2017



EUROPE AND THE WORLD IN 2017:

Economic growth has gained momentum

Monetary policy is still accommodative

... Continue to strengthen the European Monetary Union



In 2017, economic growth accelerated almost everywhere

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

	2015	2016	2017
United States	2.9	1.5	2.3
China	6.9	6.7	6.8
Japan	1.1	0.9	1.8
United Kingdom	2.3	1.9	1.5
Euro area	2.1	1.8	2.2
World	3.4	3.2	3.7
<i>p.m. World trade</i> ¹	2.8	2.5	4.7

Sources: EC, IMF.

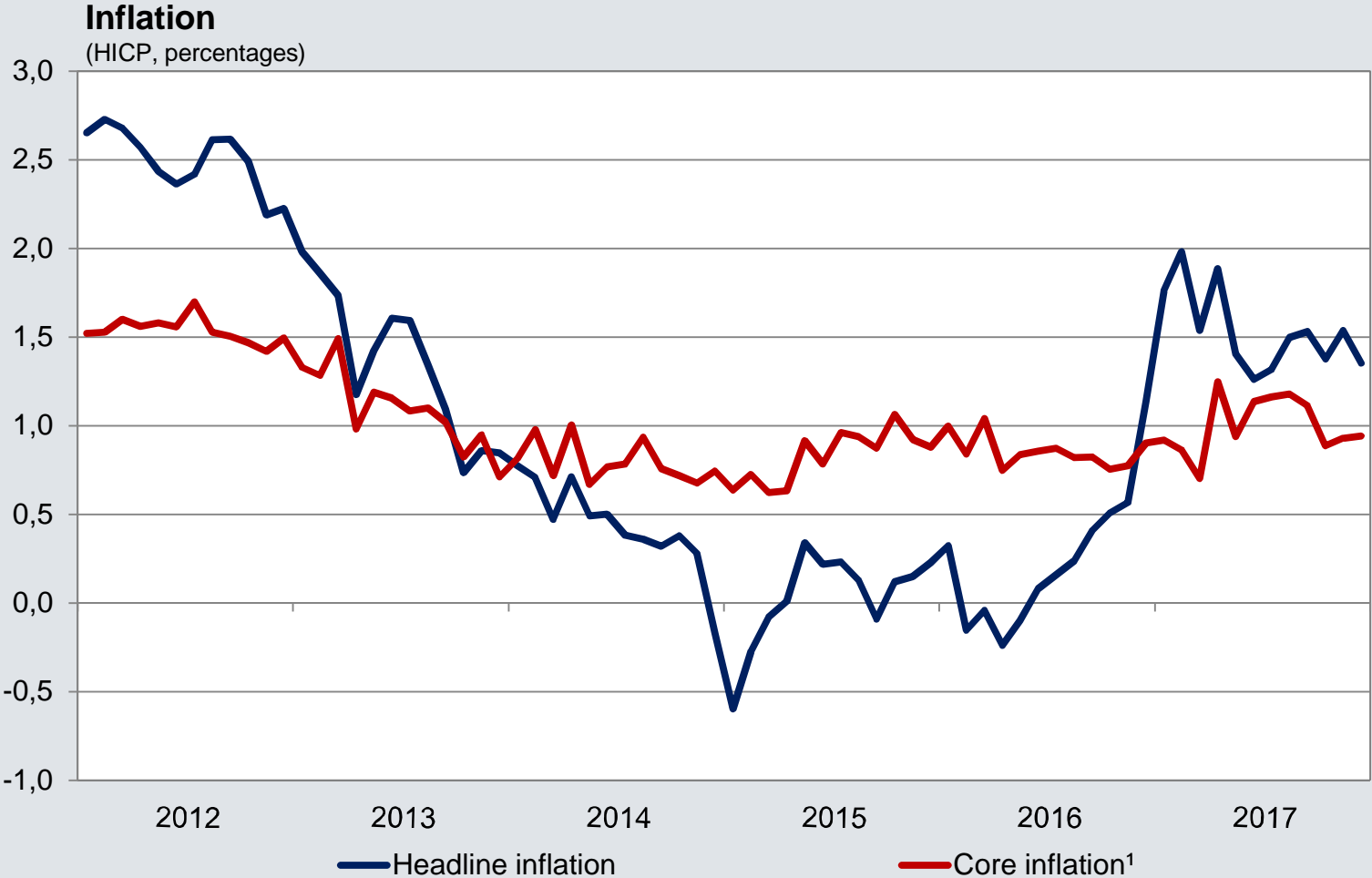
¹ Average of exports and imports of goods and services.



Despite the economic recovery, inflation in the euro area has remained below target ...



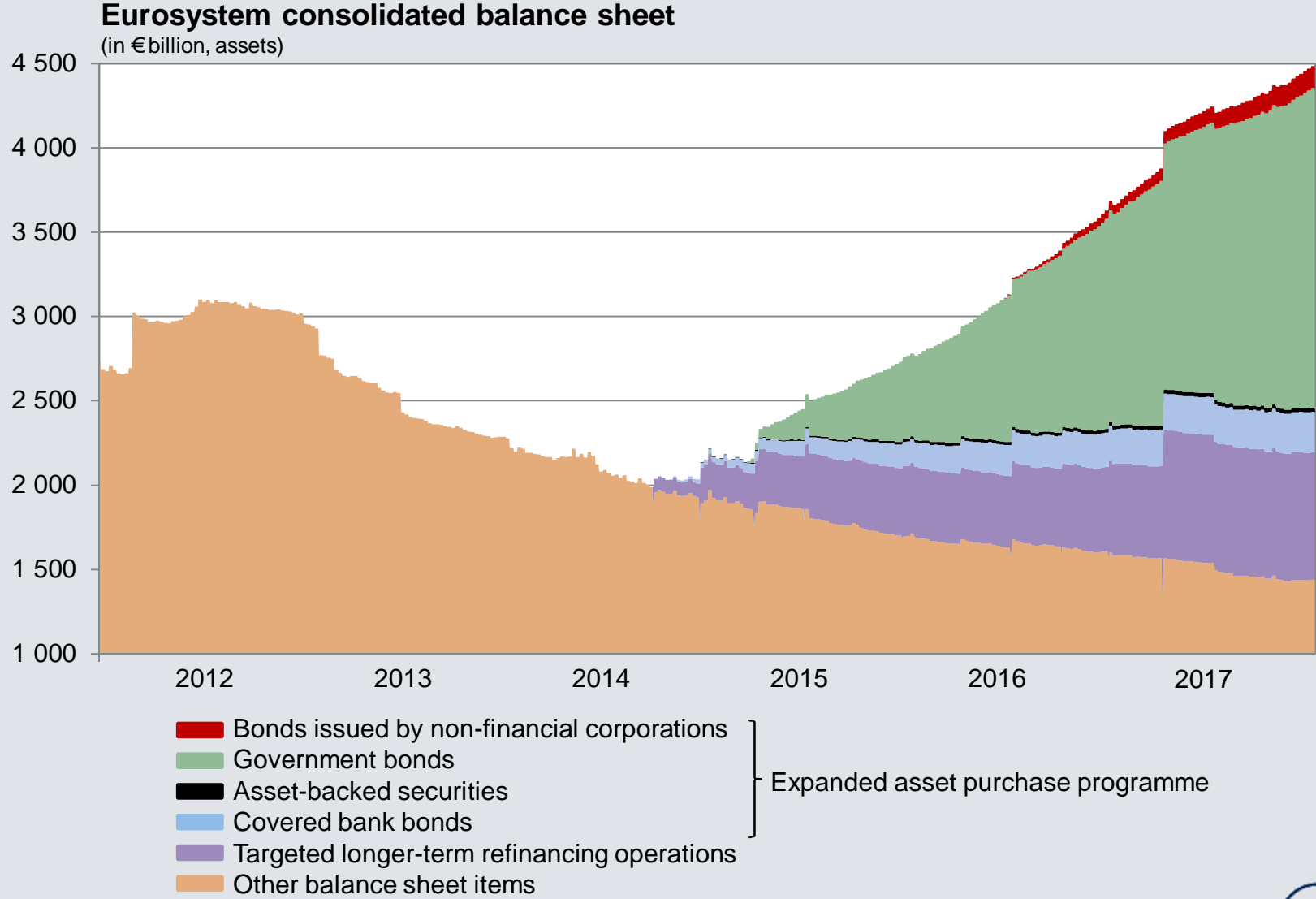
Despite the economic recovery, inflation in the euro area has remained below target



Source: ECB.
¹ Total inflation, excluding energy and food products.



So monetary policy has remained accommodative



Source: ECB.



Completing the European Monetary Union

Reducing and sharing risks

- ▶ Banking Union
 1. Single supervision
 2. Single resolution
 3. European deposit guarantee

- ▶ Capital Markets Union

- ▶ Stability and Growth Pact

- ▶ Economic Union



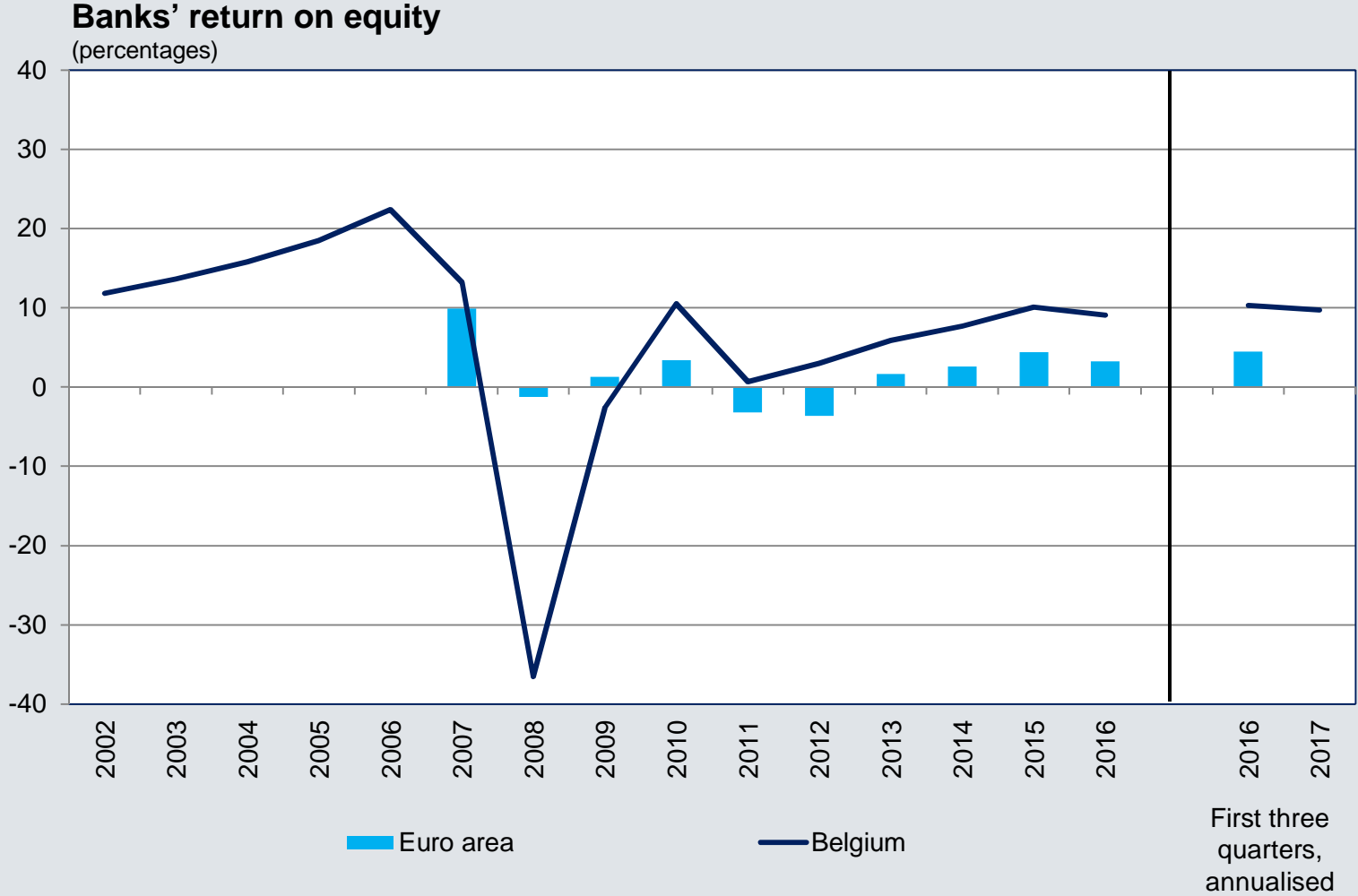
BELGIUM IN 2017:

The financial system is robust, growth of the economy and employment growth have been stronger and the budget situation has improved...

.... but there are still challenges to confront!



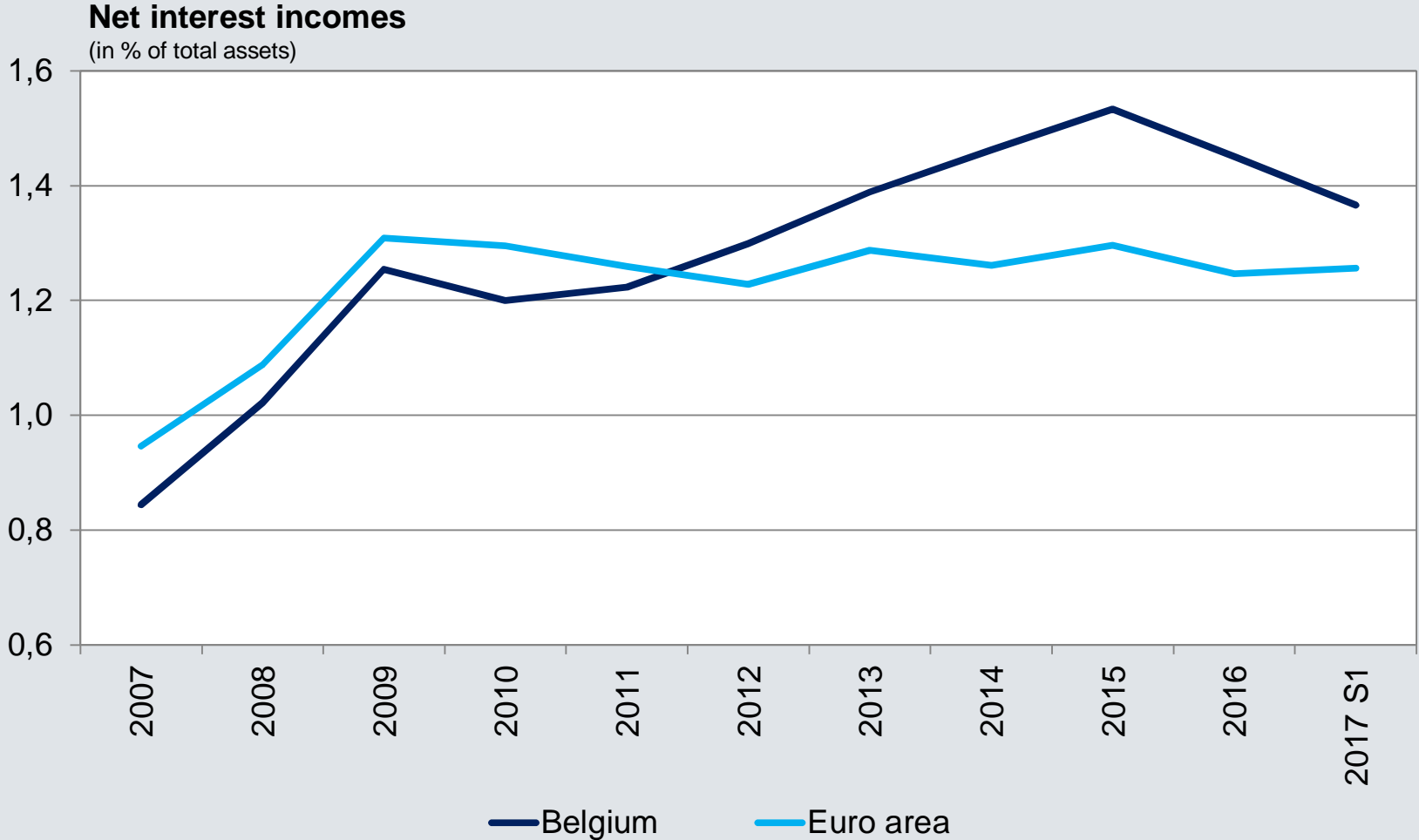
The financial system has gained stability



Sources: ECB, NBB.
¹ Data available from 2007 onwards.



But the low interest rate environment and digitisation still pose major challenges for banks



Sources: ECB, NBB.



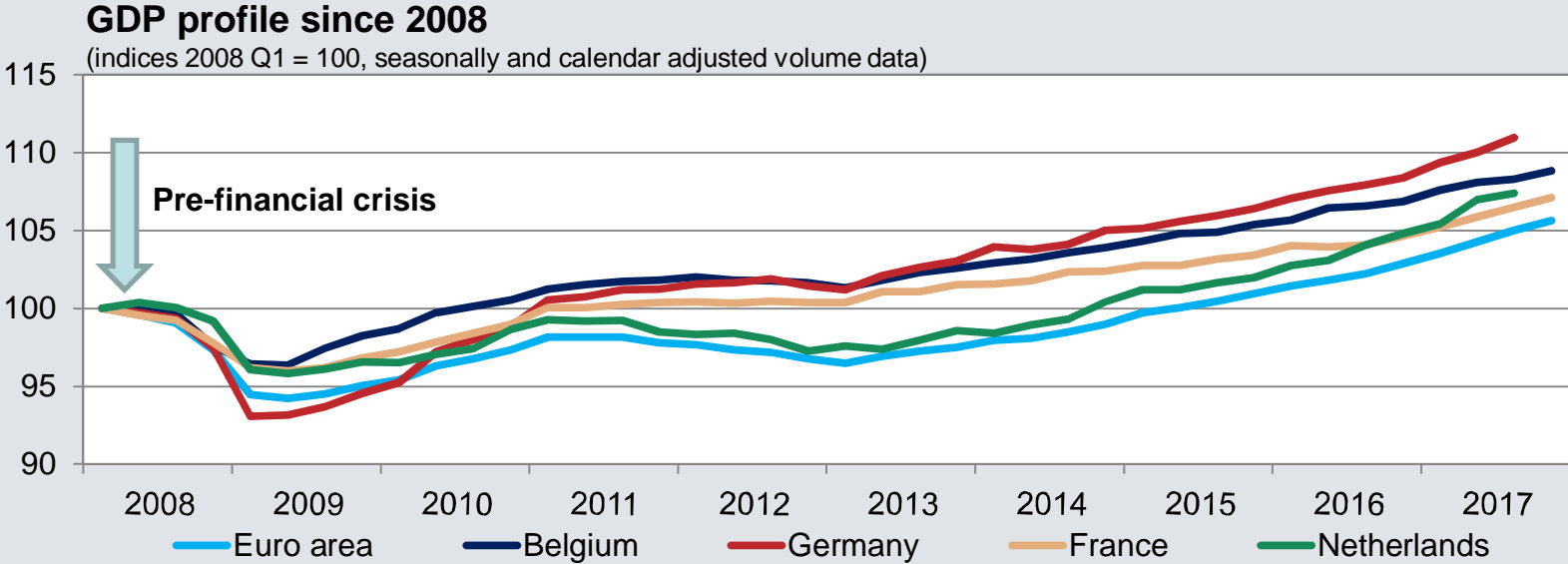
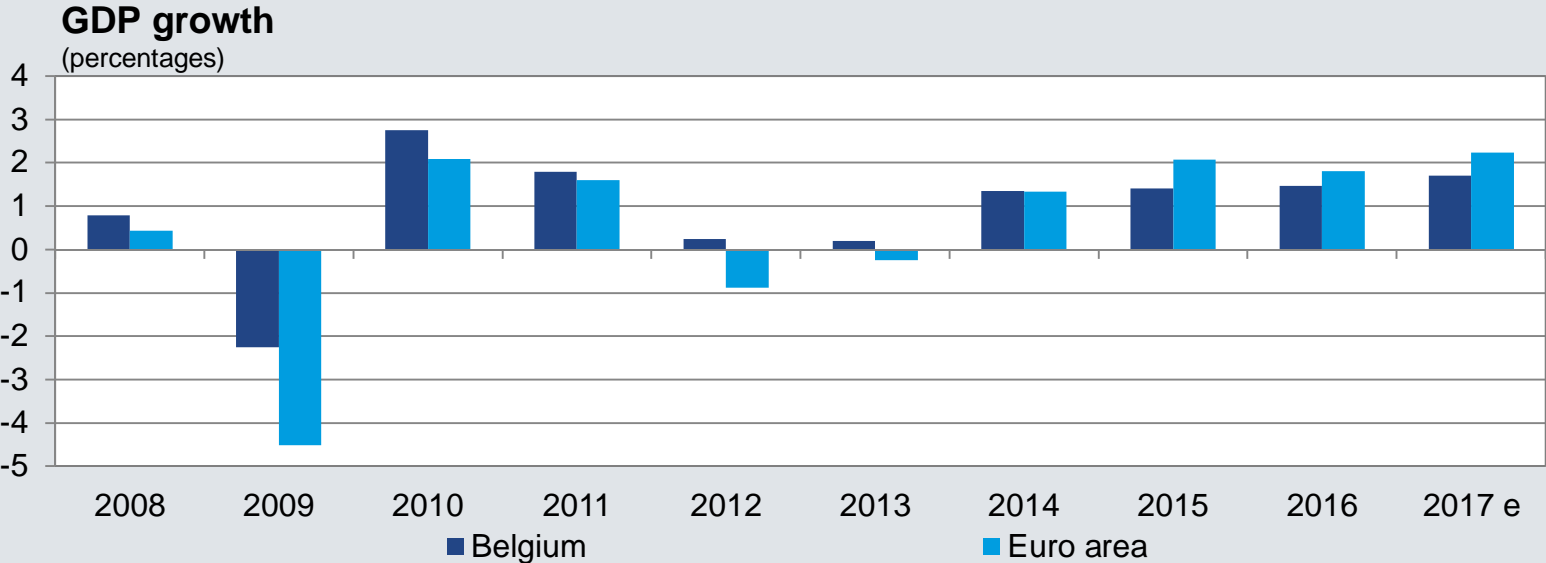
Prudential regulation and supervision

- 1 MICROprudential: supervision of financial institutions
 - ▶ Interest rate risks
 - ▶ Business models
- 2 MACROprudential: safeguarding financial stability
 - ▶ Residential real estate
 - ▶ Shadow banking sector
- 3 Bank recovery and resolution
 - ▶ Resolution plans
- 4 General
 - ▶ Anti-money-laundering
 - ▶ FinTech
 - ▶ Cyber risks

p.m. IMF audit: results in March



The Belgian economy has recovered

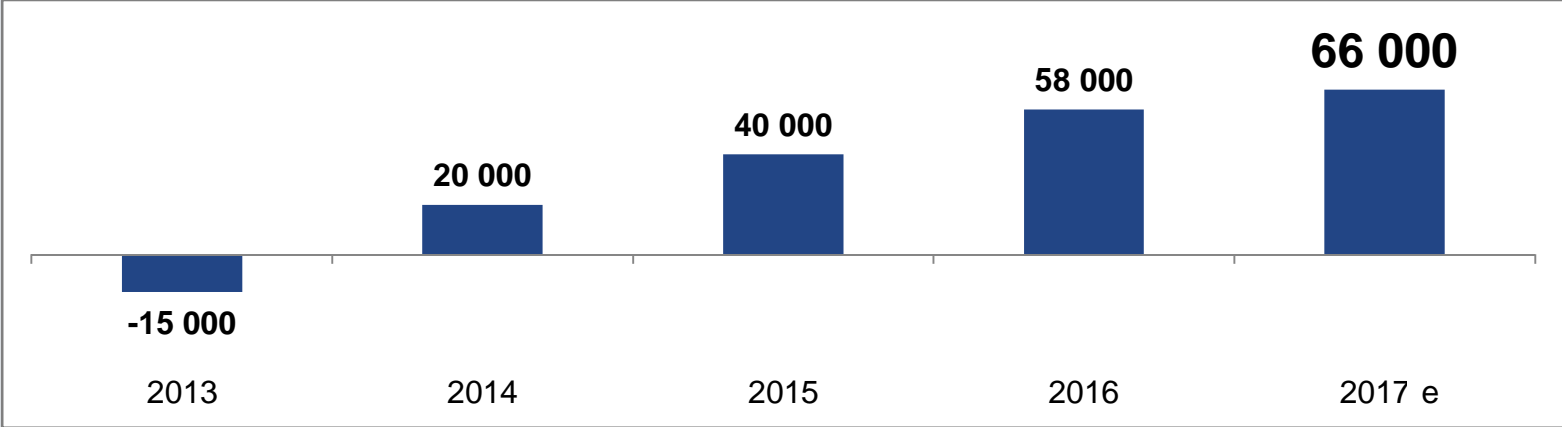


Sources : EC, Eurostat, NBB.

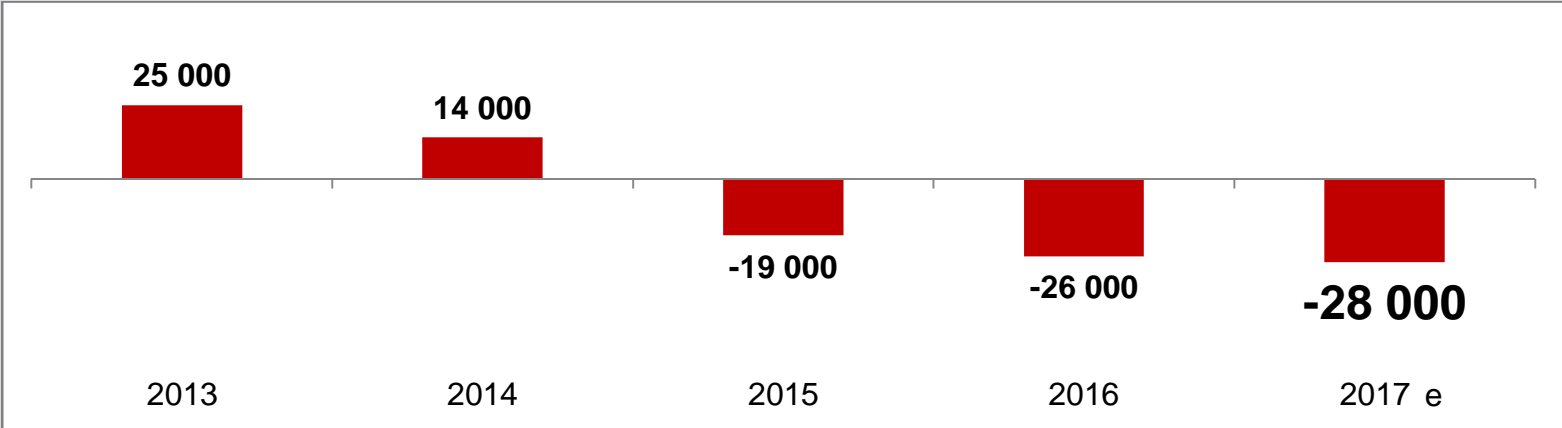


Economic growth, lower labour costs, support for the labour supply and activation policies have together generated a lot of jobs

Employment



Unemployment



Sources: NAI, NEO, NBB.



The budget deficit has come down considerably

(in % of GDP)

	2013	2014	2015	2016	2017 e
Budget balance					
Nominal	-3.1	-3.1	-2,5	-2.5	-1.0
Structural ¹	-3.0	-2.9	-2.2	-2.1	-1.2
Public debt	105.5	106.8	106.0	105.7	102.8

Sources: NAI, NBB.

¹ Budget balance adjusted for cyclical and non-recurring factors. The cyclical component is calculated using the EC's method and figures.



We need to start making preparations now for the FUTURE:

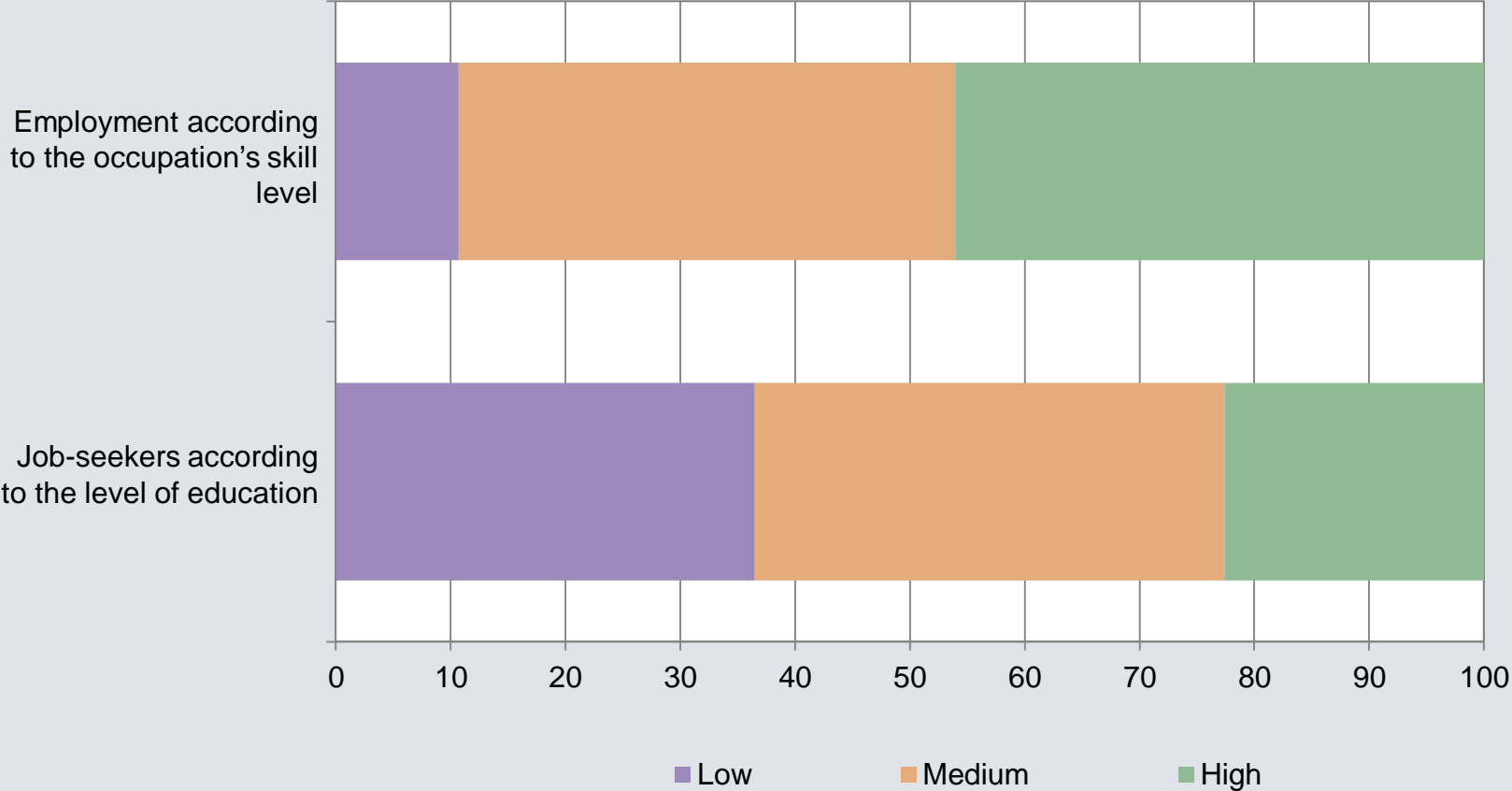
- .. by making maximum use of the labour potential**
- .. by making the economy more productive and dynamic**
- .. by building up budgetary buffers for the future**



... by making maximum use of the untapped labour potential ...

Difficulties in matching supply to demand for labour

(in percentage of the population aged between 15 and 64 years, 2016)

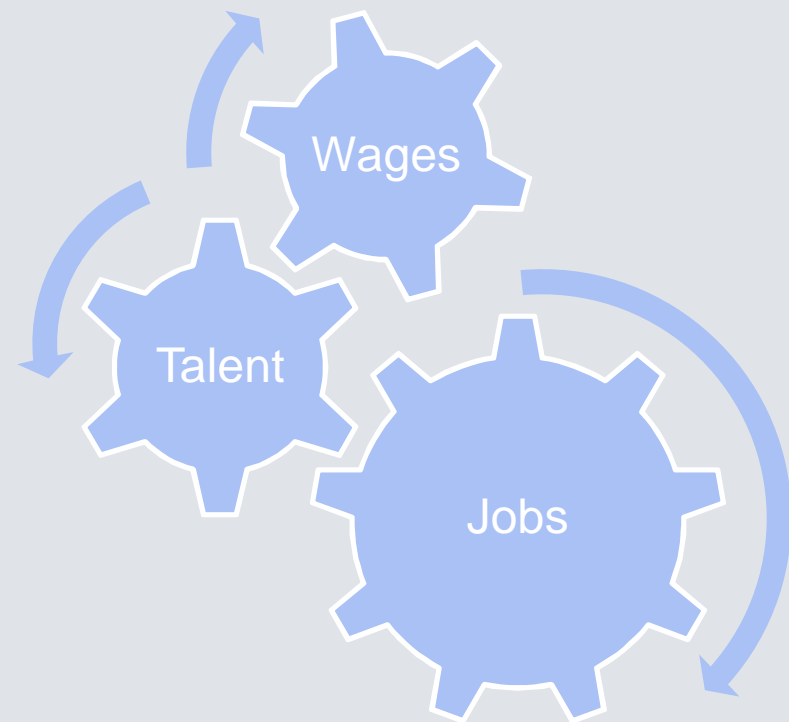


Source: Eurostat.



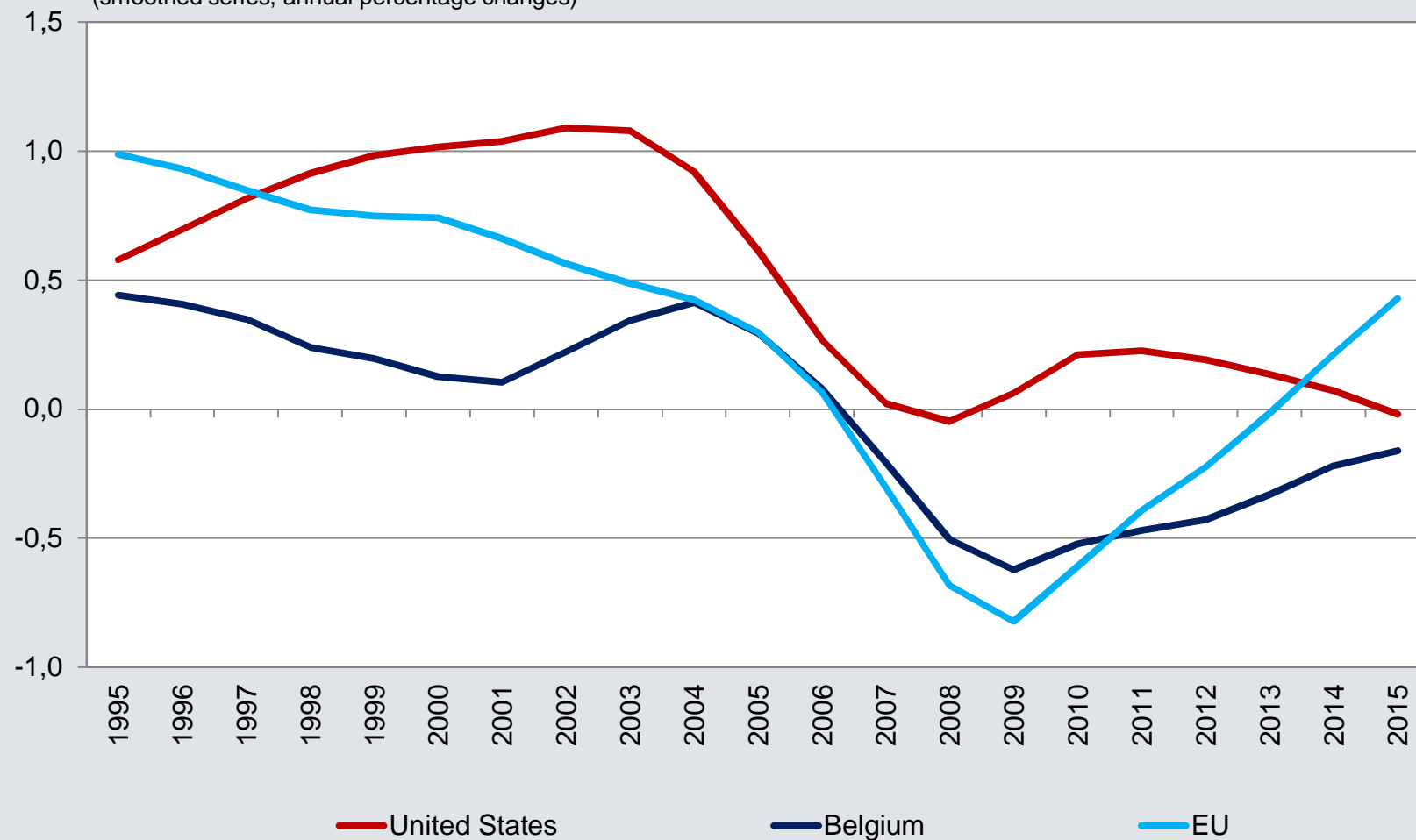
... by making maximum use of the untapped labour potential ...

- ▶ Empowerment of people and talent
 - Education & training
 - Lifelong learning
- ▶ Quality jobs
- ▶ Employment-friendly wage- and price-setting



... by making the economy more productive and more dynamic ...

Total factor productivity only picked up slightly in Belgium after the financial crisis
(smoothed series, annual percentage changes)



Source: Conference Board.



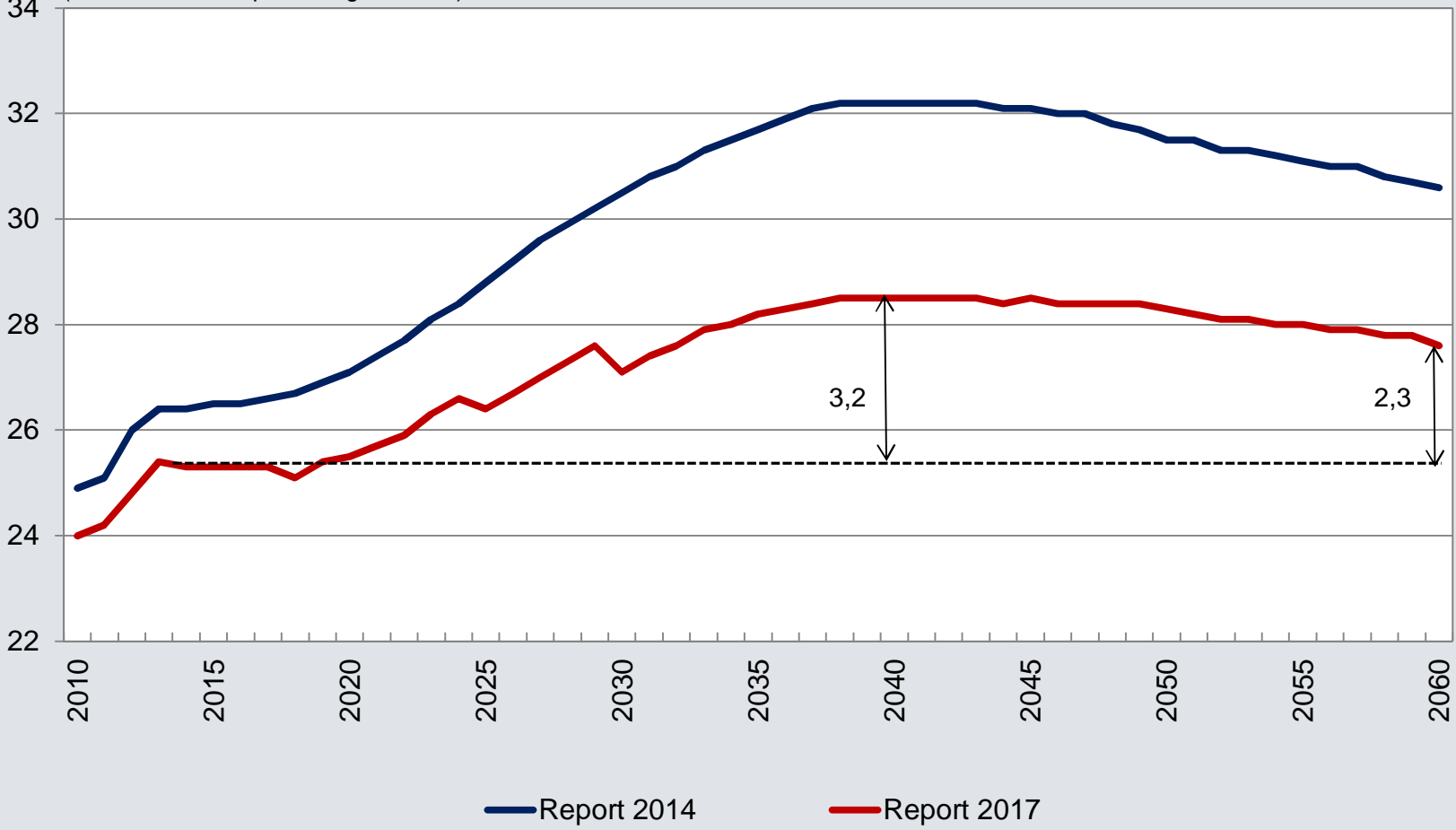
... by making the economy more productive and more dynamic ...

- ▶ R&D and innovation
- ▶ Competitive market environment
- ▶ Dynamic business demography
- ▶ Efficient infrastructure



... and by building up budgetary buffers for the future

Budgetary costs of population ageing to the Study Committee on Ageing (social benefits in percentage of GDP)



Source: SCA.



... and by building up budgetary buffers for the future

Challenges

High public debt
Costs of ageing population
Mobility
Energy transition
Adequate social safety net

Responses

Structural budget balance
Fiscal coordination
Structural reforms
Proper collection of revenue
Growth-friendly adjustments
Efficiency and quality of government action



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