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PRESS RELEASE

Economic projections for Belgium – Spring 2013

(Article for the June 2013 Economic Review)

This article presents the Bank's new macroeconomic projections for the Belgian economy for 2013 and 2014. They form part of the biannual Eurosysteem projections; the results of those projections for the euro area are published by the ECB. These forecasts were produced in a low-key international context featuring wide variations in performance between the main economic regions and an apparent disconnect between the real economy and the financial sphere. In the euro area, activity remains hesitant and the economic situation still varies greatly between Member States, some of which continue to record a severe contraction in activity and very high unemployment rates. However, it looks as if the major efforts which governments have made in order to restore their competitiveness are beginning to produce results in some countries, as is evident from the gradual rebalancing of their current accounts. That is happening in a context of very accommodating monetary policies in the main economic regions.

According to the Eurosysteem's projections, economic activity in the euro area is expected to stabilise in the first half of 2013 and return to positive territory in the second half, before strengthening in 2014. However, given the very low starting point at the beginning of the year, GDP is set to contract again year-on-year by around 0.6 % in 2013, following a similar fall in 2012; economic activity is projected to record modest growth of around 1.1 % in 2014. Growth would be based on a positive contribution from external demand in the initial phase, followed by gradual expansion of domestic demand. The latter will be fostered by the accommodating monetary policy, the easing of uncertainty on the financial markets, and the fall in inflation, which underpins household purchasing power. After having reached 2.5 % in 2012, inflation in the euro area is projected to decline to 1.4 % in 2013 and 1.3 % in 2014, in a context of moderating import prices and weak economic activity. Domestic pressure on costs – notably labour costs – is likely to remain restrained.

These projections were finalised for both the euro area and Belgium on 22 May 2013 on the basis of common assumptions determined in mid-May. According to those assumptions, global growth (excluding the euro area) will come to 3.6% in 2013 and 4.2% in 2014, presupposing that the recent slowdown in China is only temporary. Foreign demand for Belgian exports would only truly pick up in 2014. Regarding the fiscal context, apart from the budgetary and other measures adopted under the political agreement of 20 November 2012, the measures taken at the time of the March 2013 budget reviews at the level of both the federal government and the federated entities were also taken into account. As usual, the projections only considered measures which have been formally adopted by the authorities and for which the implementing arrangements are sufficiently detailed. More generally, the forecasts were based on the assumption that implementation of the reform policies will continue in the euro area, thus preventing any new resurgence of the sovereign debt crisis.

The projections for Belgium show zero activity growth in 2013 – the same as in the forecasts published in December 2012 – although a gradual recovery is still expected in the second half of the year. Growth in 2014 is estimated at 1.1%. Regarding the short-term activity profile, GDP is set to stagnate in the second quarter of this year as in the first quarter. The cautious assessment of activity in the short term is based partly on the recent business and consumer surveys which, though indicating an improvement in April and May, have deteriorated sharply in March.

As in 2012, only net exports will contribute positively to activity growth in 2013, as all the components of domestic demand – except public consumption – will remain unchanged or record a negative growth in volume terms. However, the positive contribution from foreign demand is due to the weakness of imports rather than the dynamism of exports. In contrast, in 2014 the domestic demand components are set to expand again, and should become the main engine of activity.

Taking account of developments on the relevant markets, Belgian exports are forecast to fall slightly by 0.1% in 2013 before staging a modest recovery with a rise of 3.2% in 2014. These projections assume structural losses of market share of around 0.3% per quarter, though that should ease at the end of the projection horizon when the measures to support competitiveness decided at the end of 2012 begin to take effect. Having been depressed since the beginning of 2011, private consumption is likely to remain stagnant in 2013, and is forecast to grow by just 0.8% in 2014, well short of historical standards. Household consumption growth is also set to be outpaced by that in disposable income, which is forecast to rise by 0.3% in real terms in 2013 and 1.1% in 2014. Consequently, the household savings ratio will rise slightly each year: having stood at 15 % of household disposable income in 2012, it will reach 15.2 % in 2013 and 15.5 % in 2014. The increase in the savings ratio in 2013 is due to households' persistent anxiety over their short- and medium-term income prospects; in 2014, the rise in the savings ratio partly follows from a more favourable movement in property incomes, where the propensity to save is traditionally higher. Household investment in housing is expected to decline again in 2013 and record only very weak growth in 2014. After having stagnated in 2012, business investment is expected to fall by 1.3% in 2013, in a context of continuing very low capacity utilisation rates, uncertainty over sales outlets, and a deterioration in corporate profitability since mid-2011. Firms are not expected to begin investing again until the second half of 2013, and the revival may be modest at first; it will be driven by the general macroeconomic improvement which should lead to positive growth in the investment volume year-on-year from 2014. Finally, general government expenditure should continue to make a positive contribution to overall growth over the entire projection horizon.

As a result of the adverse economic conditions and the fall in public employment, domestic employment is set to decline by 26 000 units in the course of 2013, and expected to rise only very slightly in 2014, by barely 9 000 units. In the face of the protracted crisis which has weakened their financial position, and the tightening of conditions for access to the system of temporary unemployment, firms can no longer afford to retain excess workers in relation to their sales volume and will therefore need to implement speedier redundancies. Taking account of the expected movement in the labour force, the unemployment rate is forecast to continue rising from 7.6% in 2012 to 8.7% in 2014.

Inflation is projected to decline sharply over the projection horizon, coming down from 2.6 % in 2012 to 1% in 2013 and 1.2% in 2014. That picture is attributable to the expected fall in oil prices on the international markets, and to the changes seen on the gas and electricity markets, where various suppliers implemented substantial cuts in tariffs at the beginning of 2013. In contrast to energy, food is expected to record faster price increases in 2013 than in 2012, curbing the slowdown in overall inflation. Underlying inflation – which had been strongly influenced in 2012 by increases in indirect taxes in services and price increases in the communications sector – will cease to be influenced by those factors in 2013 and should therefore decelerate sharply to 1.3 % and stabilise at 1.4 % in 2014.

After peaking at 4.1 % in 2012, the rise in unit labour costs in the private sector is expected to slow to 1.8 % in 2013, and these costs should even decline by 0.2 % in 2014. Thus, although the competitiveness of Belgian producers was still affected in 2012 by unit labour costs outpacing those in Belgium's three main partners, namely Germany, France and the Netherlands, the situation should stabilise in 2013, and tend towards a slight improvement in 2014.

After having reached 3.9 % of GDP in 2012, the Belgian government deficit is expected to fall to 2.9 % of GDP in 2013, before rising again to 3.3% of GDP in 2014 as a result of the disappearance of one-off factors. The government debt ratio, which came to 99.8 % of GDP at the end of 2012, is forecast at 101.1 % of GDP at the end of 2013 and 102.9 % of GDP at the end of 2014. The increase in the debt ratio over the two years is attributable solely to endogenous factors.

The Bank's projections described in this article are very similar to those of the other institutions. However, that convergence still does not mean that the uncertainty surrounding the projections has vanished. Overall, the risks affecting the growth outlook remain high and primarily concern the strength of the recovery at global level, and in the euro area in particular.

Projections for the Belgian economy: summary of the main results

(in % change compared to the previous year, unless otherwise stated)

	2010	2011	2012	2013 e	2014 e
GROWTH (calendar adjusted data)					
Real GDP	2.4	1.9	-0.3	0.0	1.1
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.3	1.2	-0.2	-0.2	1.2
Net exports of goods and services	0.7	-0.1	0.2	0.3	0.0
Change in inventories	0.3	0.7	-0.2	-0.1	0.0
PRICES AND COSTS					
Harmonised index of consumer prices	2.3	3.4	2.6	1.0	1.2
Health index	1.7	3.1	2.7	0.9	1.1
GDP deflator	2.0	2.0	2.0	1.6	0.9
Terms of trade	-1.6	-1.2	-0.2	0.2	0.1
Unit labour costs in the private sector	-0.6	2.1	4.1	1.8	-0.2
Hourly labour costs in the private sector	0.9	2.2	3.3	1.8	0.9
Hourly productivity in the private sector	1.5	0.1	-0.8	0.0	1.1
LABOUR MARKET					
Domestic employment (annual average change in thousands of persons)	30.8	61.6	8.2	-17.7	-6.0
<i>p.m.: Change during the year¹, in thousands of persons</i>	58.9	53.1	-8.9	-26.4	9.2
Total volume of labour ²	0.9	1.9	0.2	-0.2	0.0
Harmonised unemployment rate ³ (in % of the labour force)	8.4	7.2	7.6	8.3	8.7
INCOMES					
Real disposable income of individuals	-1.2	-0.9	0.7	0.3	1.1
Savings ratio of individuals (in % of disposable income)	15.3	14.1	15.0	15.2	15.5
PUBLIC FINANCES⁴					
Overall balance (in % of GDP)	-3.8	-3.7	-3.9	-2.9	-3.3
Primary balance (in % of GDP)	-0.4	-0.4	-0.5	0.3	-0.2
Public debt (in % of GDP)	95.6	97.8	99.8	101.1	102.9
CURRENT ACCOUNT (in % of GDP according to the balance of payments)					
	1.9	-1.1	-1.4	-0.5	-0.3

Sources: EC, DGSEI, NAI, NBB.

¹ Difference between the fourth quarter of the year concerned and the fourth quarter of the previous year.

² Total number of hours worked in the economy.

³ In % of the labour force (15-64 years), non calendar adjusted data.

⁴ According to the methodology used in the excessive deficit procedure (EDP).