

2015-06-05

PRESS RELEASE

Economic projections for Belgium – Spring 2015

(Article for the June 2015 Economic Review)

This article presents the new macroeconomic projections for Belgium for the 2015-2017 period, drawn up by the Bank as part of the Eurosysteem forecasting exercises.

As far as the international environment is concerned, the economic growth outlook has not really improved since the publication of the December 2014 projections. Even though the outlook should still be solid in the medium run, some advanced nations have seen their economic activity slow down in recent months. As for the emerging economies, several of which are also oil-exporting countries, medium-term growth is projected to be rather uneven but they will still do better than the advanced economies.

In the euro area, the recovery underway is currently enjoying strong tailwinds. The sharp drop in oil prices, the depreciation of the euro and the low level of interest rates – the latter two factors being largely attributable to the relaxation of the ECB's monetary policy –, are all strong drivers of demand, in a context of less restrictive fiscal policies. According to the Eurosysteem projections, real GDP in the euro area should rise by 1.5 % in 2015, before climbing to approximately 2 % in 2016-2017. The euro area inflation rate should still remain very low this year, under the impact of the sharp drop in energy prices since the summer of 2014, but should pick up again significantly after that, to reach 1.8 % in 2017.

In Belgium, the economic recovery is proceeding at a relatively moderate pace on the back of the upturn in the euro area. Projections for GDP growth are respectively 1.2% in 2015, 1.5 % in 2016 and 1.7% in 2017. Private consumption will remain sustained this year, also thanks to the favourable effect that lower energy bills are currently having on household purchasing power. Despite the resilience of the labour market, the impact of wage moderation on household disposable income should subsequently reduce consumption growth. Business investment – widely affected by specific factors in 2014 – should gradually regain strength as the recovery takes on a more sustainable character and profitability improves. In view of the consolidation measures adopted at all levels of power, the increase in public consumption is likely to be quite limited. Overall, domestic demand should make a relatively stable contribution to total growth over the period from 2015 to 2017 so the increase in growth in 2016 and 2017 can be mainly traced back to net exports. The latter are likely to further increase as the improvement in Belgian firms' cost competitiveness is reflected in their export performance.

The economic upturn and the moderate rise in wage costs will help support net job creations which are expected to reach a cumulative figure of 94 000 units over the period from 2015 to 2017, with the unemployment rate dropping below the 8 % mark in 2017.

Despite the increase seen over the last few months, inflation should still remain very low in 2015, at 0.6%, before rising to 1.5% in 2016 and 2017. In 2015, it will still be heavily influenced by the fall in energy prices, but the recovery of these prices combined with rising food prices is likely to continue, exerting a positive effect on the rate of increase in consumer prices from 2016 onwards. Although the recent fall in the euro exchange rate and the resultant rise in the cost of imports from countries outside the euro area will exert upward pressure on prices this year, underlying inflation – that is, inflation minus the influence from prices of volatile components – should gradually come down owing to domestic cost restraint. Under the impact of measures taken to boost competitiveness and rising productivity, unit labour costs in the private sector should indeed remain virtually unchanged until 2016.

Only taking account of the fiscal measures announced by the federal government and the federated entities, subject to the guidelines for the Eurosysteem projections exercises, the budget deficit should come down over the projection horizon, falling back to 2.0% in 2017. Additional measures will therefore be necessary to meet the targets set out in Belgium's stability programme, particularly when the budgets for 2016 and 2017 are being drawn up. The public debt is expected to remain around 107 % of GDP over the entire projection period.

Projections for the Belgian economy: summary of the main results (percentage changes compared to the previous year, unless otherwise stated)				
	2014	2015 e	2016 e	2017 e
GROWTH (calendar adjusted data)	1,1	1,2	1,5	1,7
Real GDP				
Contributions to growth:				
Domestic expenditure, excluding change in inventories	1,9	1,3	1,3	1,5
Net exports of goods and services	0,2	0,0	0,2	0,3
Change in inventories	-1,0	-0,1	0,0	0,0
PRICES AND COSTS				
Harmonised index of consumer prices	0,5	0,6	1,5	1,5
Health index	0,4	0,8	1,2	1,4
GDP deflator	0,6	0,9	1,0	1,4
Terms of trade	0,5	1,0	-0,3	-0,2
Unit labour costs in the private sector	-0,1	0,0	0,1	0,9
Hourly labour costs in the private sector	0,8	0,3	0,6	1,6
Hourly productivity in the private sector	0,9	0,3	0,6	0,7
LABOUR MARKET				
Domestic employment (annual average change in thousands of persons)	17,7	23,9	30,6	39,5
Total volume of labour ¹	0,3	0,7	0,9	1,1
Harmonised unemployment rate (in % of the labour force aged 15 and over)	8,5	8,5	8,3	7,9
INCOMES				
Real disposable income of individuals	2,0	0,8	0,7	1,2
Savings ratio of individuals (in % of disposable income)	14,3	13,6	13,3	13,5
PUBLIC FINANCES				
Primary balance (in % of GDP)	-0,2	0,1	0,2	0,4
Overall balance (in % of GDP)	-3,2	-2,7	-2,4	-2,0
Public debt (in % of GDP)	106,6	107,0	107,6	106,8
CURRENT ACCOUNT (according to the balance of payments in % of GDP)	1,4	1,4	1,4	1,6
Sources: EC, DGS, NAI, NBB.				
¹ Total number of hours worked in the economy.				