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PRESS RELEASE

Economic projections for Belgium – Autumn 2015
(Article for the December 2015 Economic Review)

This article presents the new macroeconomic projections for Belgium for the period 2015-2017, produced by the Bank as part of the Eurosystem's projection exercises. They incorporate the budgets of the federal government and the federated entities, and therefore the measures decided in mid-October in connection with the tax shift, which aims to reduce the taxes on labour by transferring part of the tax burden to consumption and capital. Apart from their impact on the budget, these measures affect household incomes, firms' labour costs – and hence their competitiveness – and the general movement in prices within the economy.

At global level, the slowdown in the emerging economies was sharper than expected at the time of the Spring economic projections, and the downturn in world trade - which is largely attributable to that - has been surprisingly steep. Conversely, activity has continued to gain momentum in the advanced economies, particularly in the United States where the steady improvement in the labour market and rising wages have boosted private consumption. Following the decline in foreign demand in the first part of the year, the recovery in the euro area has lost some momentum recently but the slowdown has remained contained since activity is still bolstered by the steep fall in oil prices, the depreciation of the euro and low interest rates, driven by the major monetary policy measures adopted at the beginning of 2015; in addition, fiscal policies became less restrictive. According to the Eurosystem projections, after a growth of 1.5% in 2015 real GDP in the euro area is set to expand by 1.7 % in 2016 before accelerating to 1.9 % in 2017. Inflation in the euro area will be practically zero this year, as a result of the steep fall in energy prices, but is expected to rise thereafter to reach 1.6 % in 2017.

In Belgium, the economic recovery continued at a moderate pace in the first half of 2015 before running out of steam somewhat from the summer, against the backdrop of deteriorating business and household confidence. According to our projections, that loss of momentum should be temporary, yet still enough to cause a dip in growth next year: after reaching 1.4 % in 2015, growth is likely to fall to 1.3 % in 2016 before reviving to 1.6 % in 2017. Private consumption, which was the main engine of growth in the first half of 2015, is expected to slow. Although the labour market is doing well, wage moderation and the rise in indirect taxes – in particular those on electricity - would curb real disposable income of households, which will therefore restrict their consumption expenditure. Firms are set to benefit from a clear improvement in their cost competitiveness, thanks to the government measures aimed at cutting labour costs, combined with the competitive advantage obtained from the past depreciation of the euro. This should support their exports while at the same time the recovery in their profitability should continue. The business investment revival should also gather strength while the growth of household investment in housing is likely to remain moderate. The continuing fiscal consolidation at all levels of government will bring further tight restrictions on public expenditure in 2016 and 2017.

Activity growth and the reduction in labour costs are expected to support net job creation: after just over 30 000 units created in 2015, the figure is set to rise to more than 40 000 units per annum in 2016 and 2017. The participation rate would increase over the projection horizon as a result of the recent end-of-career measures. The unemployment rate is set to decrease from the 2014 figure of 8.6 % to 8.1 % in 2017.

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Inflation, which had fallen to a low point at the start of the year, driven down by the decline in energy prices, returned to positive territory in April and has risen steadily since then. It would increase, approaching 2 % next year owing to the expected rise in commodity prices, but primarily on account of the increase in indirect taxes, particularly the taxes on household electricity consumption, adopted at federal level and in the Flemish region. Core inflation, i.e. inflation excluding the influence of prices of volatile components, is projected to hover around 1.5 % over the three years. Unit labour costs in the private sector, which are greatly influenced by the various measures to cut labour costs (specifically the temporary suspension of the indexation mechanisms, wage moderation and reductions in employers' contributions), are set to continue falling slowly until 2016 before rising moderately again in 2017.

The measures included in the budgets of the federal government and the federated entities were taken into account in accordance with the rules on the Eurosystem forecasting exercises, which imply in particular the exclusion of measures for which the details or the yield are insufficiently specified. In that context, the public deficit is expected to fall only modestly over the projection horizon, from 3.1 % of GDP in 2014 to 2.5 % in 2017; in addition, that improvement will be due almost exclusively to the decline in interest charges. Government debt is projected to stabilise at around 107 % of GDP.

These projections were finalised on 19 November 2015 and therefore take no account of the impact of the exceptional security measures introduced in view of the temporarily heightened threat level following the terrorist attacks in Paris on 13 November 2015.

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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)				
Real GDP	1.3	1.4	1.3	1.6
Contributions to growth:				
Domestic expenditure, excluding change in inventories	1.9	1.3	0.6	1.4
Net exports of goods and services	-0.4	-0.5	0.6	0.2
Change in inventories	-0.2	0.5	0.1	0.0
PRICES AND COSTS				
Harmonised index of consumer prices	0.5	0.6	1.9	1.7
Health index	0.4	1.1	1.7	1.4
GDP deflator	0.7	1.2	1.8	1.7
Terms of trade	0.0	2.9	0.3	0.1
Unit labour costs in the private sector[1]	-0.3	-0.4	-0.1	1.3
Hourly labour costs in the private sector	0.6	0.2	0.2	1.9
Hourly productivity in the private sector	0.9	0.6	0.3	0.5
LABOUR MARKET				
Domestic employment (annual average change in thousands of persons)	15.6	31.6	40.4	42.0
Total volume of labour[2]	0.5	0.7	1.0	1.1
Harmonised unemployment rate (in % of the labour force aged 15 to 64)	8.6	8.7	8.4	8.1
INCOMES				
Real disposable income of individuals	0.5	1.3	1.1	1.3
Savings ratio of individuals (in % of disposable income)	12.6	12.4	12.4	12.5
PUBLIC FINANCES				
Public sector financing requirement (-) or capacity (in % of GDP)	-3.1	-2.9	-2.9	-2.5
Primary balance (in % of GDP)	0.0	-0.1	-0.2	-0.1
Public debt (in % of GDP)	106.7	106.9	107.3	106.8
CURRENT ACCOUNT (according to the balance of payments, in % of GDP)	0.1	0.8	1.4	1.7

Sources: EC, DGS, NAI, NBB.
1 Including wage subsidies (mainly reductions in payroll tax) and reductions in targeted social contributions.
2 Total number of hours worked in the economy.

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