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## PRESS RELEASE

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### **Economic projections for Belgium - Spring 2016**

(Article for the June 2016 Economic Review)

This article presents the new macroeconomic projections for Belgium for the period 2016-2018, produced by the Bank as part of the Eurosystem's projection exercises.

The global economy has slowed further in recent months, influenced by adverse conditions emanating from the emerging economies and some loss of momentum in the advanced economies, including the United States. In the euro area, activity continued to expand at a fairly sustained rate, despite the gradual dissipation of two factors which had done much to stimulate growth last year, namely the fall in oil prices and the depreciation of the euro. Against the backdrop of a still very accommodative monetary policy and a less restrictive fiscal policy stance, the growth outlook for the euro area is favourable and stable. According to the Eurosystem's projections, real GDP will rise by 1.6 % this year and 1.7 % in 2017 and 2018. Inflation will remain very low in the euro area this year, at 0.2 %, owing to the low energy prices and limited domestic price pressures, but will pick up subsequently to reach 1.3 % in 2017 and 1.6 % in 2018, as a result of rising commodity prices and strengthening activity.

In Belgium, activity grew at a slower pace at the beginning of the year, after a strong end to 2015. It is true that the terrorist attacks in Paris and Brussels have negative repercussions on activity, especially via the reduction in tourism and business travel, although the increased public expenditure on security partly offsets that effect. Overall, however, these attacks are likely to have only a limited, short-lived impact on growth. Having reached 1.4 % in 2015, growth is expected to dip to 1.3 % in 2016 before strengthening slightly thereafter to 1.5 % in 2017 and 1.6 % in 2018.

Domestic demand will be the main engine of growth in Belgium over the projection horizon. While private consumption growth will be down slightly in 2016, owing to wage moderation measures and the rise in indirect taxes, which depress purchasing power, it will recover from 2017, but more slowly than disposable income, implying a small rise in the savings ratio. In the past two years, the earlier euro depreciation and the measures to curb labour costs have brought a marked improvement in firms' cost-competitiveness, boosting their exports. Against the backdrop of strengthening global demand, exports will remain robust in 2016 and beyond, despite the dissipation of the euro effect and the renewed rise in labour costs from 2017, which will to some extent erode the competitive advantage of Belgian exporters. Investments will strengthen further from next year, supported by extremely favourable financing conditions and the high level of corporate profitability. Public expenditure, which was temporarily bolstered by exceptional factors in 2016 relating in particular to the terrorist attacks, will increase more moderately in 2017 and 2018.

The labour market has been improving steadily for almost two years now. This favourable trend, attributable to structural reforms, particularly in regard to unemployment benefits, and to measures to reduce labour costs, is expected to continue in the coming years. In cumulative terms, over the period 2016-2018, net job creations will amount to 140 000 units. The unemployment rate will fall to 7.8 % of the labour force by 2018.

In April, inflation in Belgium stood at 1.6 %, considerably higher than in the euro area. The projections for Belgium indicate inflation averaging 1.6 % in 2016, 1.8 % in 2017 and 1.9 % in 2018. The increase in indirect taxes - since the autumn of 2015 - is a major factor fuelling inflation in Belgium in 2016, while in 2017 and 2018 inflation will be driven more by higher energy (and food) prices, but also by growing domestic cost pressures originating from wages. Core inflation - i.e. excluding the influence of prices of volatile components - will average around 1.8 % over the three years. Unit labour costs in the private sector, greatly influenced by the various measures to reduce the cost of labour (specifically the temporary suspension of the indexation mechanisms, wage moderation and cuts in employers' contributions) will continue to fall slowly in 2016 before rising more considerably in 2017 and 2018. Corporate profit margins, which increased in 2015, are likely to continue growing quite strongly in 2016 and more moderately in 2017 and 2018.

The projections for public finances were produced in accordance with the rules applicable to the Eurosystem's projection exercises, which imply in particular that measures for which the details or the yield are not sufficiently certain are disregarded. In that context, the public deficit will rise to 2.8 % in 2016, exacerbated by exceptional expenditure (security, migrant crisis) and by the reduction in the ratio of tax revenues to GDP. The deficit will decline to 2.4 % of GDP in 2017, largely as a result of lower interest charges, and will remain steady at that level in 2018. There will be almost no reduction in the public debt over the projection horizon: in 2018 it will amount to 106 % of GDP, hardly any lower than in 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)
 

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|  | 2014  | 2015  | 2016e | 2017e | 2018e |
|--|-------|-------|-------|-------|-------|
| <b>GROWTH</b> (calendar adjusted data)                                     |       |       |       |       |       |
| Real GDP   | 1.3   | 1.4   | 1.3   | 1.5   | 1.6   |
| Contributions to growth:   |       |       |       |       |       |
| Domestic expenditure, excluding change in inventories                      | 1.8   | 1.3   | 1.2   | 1.5   | 1.6   |
| Net exports of goods and services  | -0.4  | -0.3  | 0.2   | 0.1   | 0.1   |
| Change in inventories  | -0.2  | 0.4   | 0.0   | 0.0   | 0.0   |
| <b>PRICES AND COSTS</b>  |       |       |       |       |       |
| Harmonised index of consumer prices  | 0.5   | 0.6   | 1.6   | 1.8   | 1.9   |
| Health index   | 0.4   | 1.0   | 1.9   | 1.5   | 1.8   |
| GDP deflator   | 0.7   | 0.9   | 1.4   | 1.6   | 1.8   |
| Terms of trade   | 0.0   | 1.3   | 0.3   | -0.3  | 0.0   |
| Unit labour costs in the private sector <sup>1</sup>                       | -0.3  | -0.3  | -0.3  | 1.4   | 1.9   |
| Hourly labour costs in the private sector <sup>1</sup>                     | 0.6   | 0.4   | 0.2   | 2.0   | 2.5   |
| Hourly productivity in the private sector                                  | 0.9   | 0.7   | 0.5   | 0.6   | 0.6   |
| <b>LABOUR MARKET</b>   |       |       |       |       |       |
| Domestic employment (annual average change in thousands of persons)        | 15.6  | 41.4  | 42.8  | 46.5  | 50.3  |
| Total volume of labour <sup>2</sup>  | 0.5   | 0.8   | 0.8   | 0.9   | 1.0   |
| Harmonised unemployment rate (in % of the labour force aged 15 to 64)      | 8.6   | 8.6   | 8.6   | 8.3   | 7.8   |
| <b>INCOME</b>  |       |       |       |       |       |
| Real disposable income of individuals                                      | 0.4   | 1.3   | 1.4   | 1.6   | 2.2   |
| Savings ratio of individuals (in % of disposable income)                   | 12.6  | 12.7  | 13.1  | 13.4  | 14.0  |
| <b>PUBLIC FINANCES</b>   |       |       |       |       |       |
| Public sector financing requirement (-) or capacity (in % of GDP)          | -3.1  | -2.6  | -2.8  | -2.4  | -2.4  |
| Primary balance (in % of GDP)  | 0.1   | 0.3   | -0.2  | 0.0   | -0.2  |
| Public debt (in % of GDP)  | 106.5 | 106.1 | 106.9 | 106.8 | 106.0 |
| <b>CURRENT ACCOUNT</b> (according to the balance of payments, in % of GDP) | -0.2  | 0.0   | 0.1   | 0.4   | 0.7   |

Sources: EC, DGS, NAI, NBB.

<sup>1</sup> Including wage subsidies (mainly reductions in payroll tax) and reductions in targeted social contributions.

<sup>2</sup> Total number of hours worked in the economy.
 

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