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PRESS RELEASE

Economic projections for Belgium – Spring 2017
(Article for the June 2017 Economic Review)

The article presents the new macroeconomic projections for Belgium for the period 2017-2019 produced by the Bank as part of the Eurosystem forecasting exercises.

The global economic recovery which began in the second half of 2016 is still on track; after having been particularly sluggish over the past two years, trade flows also staged a vigorous revival from the end of 2016. In the emerging countries, growth generally stabilised; the Chinese economy's soft landing is continuing, while Russia and Brazil are exiting their deep recession, thanks in particular to rising commodity prices. In the advanced economies, the many political uncertainties have largely ebbed away, though without disappearing altogether, especially as regards the American economic policy stance. In the euro area, activity and employment have continued to pick up, in an environment which is still favoured by the accommodative monetary policy and past structural reforms. According to the Eurosystem projections, euro area real GDP is set to rise by 1.9 % in 2017, but growth will subside slightly thereafter, dropping to 1.8 % in 2018 and 1.7 % in 2019. Inflation is expected to increase considerably this year to reach 1.5 %, driven mainly by rising energy prices. Inflation is projected to remain below the 2 % ECB's target for price stability until the end of 2019.

In the first quarter of 2017 the Belgian economy recorded particularly robust growth at 0.6 % quarter-on-quarter. After that, it is estimated to come in at around 0.4 % per quarter: while the confidence indicators remain very favourable, the quantitative indicators suggest a more moderate activity picture. Belgian growth is therefore estimated at 1.6 % year-on-year in 2017, and is expected to maintain more or less the same pace over the two following years (1.6 % in 2018 and 1.5 % in 2019). Compared to the autumn forecasts, growth was revised upwards slightly in 2017 and remains unchanged in 2018 and 2019.

Among the demand components, it is private consumption that will increasingly contribute to growth in the medium term. Households should benefit both from the resumption of wage increases and from the tax reduction measures under the tax shift, which should support their disposable income and hence their consumption expenditure. Business investment, which has been fairly vigorous in recent years, is likely to revert to a pace more in line with the fundamentals, against the backdrop of continuing highly favourable financing conditions. Conversely, public consumption will make a very limited contribution to growth in the wake of the economy measures taken to restore public finances. The public investment profile will probably be greatly influenced by the local electoral cycle, meaning that investment is expected to be stepped up from mid-2017 and in 2018, and should decline in 2019.

Job creation was substantial in 2016 - almost 60,000 new jobs - key factors being the measures to reduce labour costs and the structural reforms aimed at boosting the labour supply. While the pace has slackened somewhat since the end of 2016, the job intensity of growth is expected to continue returning to normal as labour costs rise and possible supply constraints become apparent on certain segments of the labour market. Nonetheless, over the period 2017-2019, around 115 000 new jobs should be created in cumulative terms, primarily in the private paid employment sector and among self-employed workers. The unemployment rate which stood at 7.9 % in 2016 is expected to fall to 7.2 % of the labour force by 2019.

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Inflation has been rising for the past two years, mainly on account of the trend in energy prices: in February this year it levelled out at 3.3 % before dipping slightly to 2.7 % in April. It is projected to decline further over the coming months as the year-on-year increase in oil prices slows down and a number of measures which caused electricity prices to rise during 2016 cease to have an impact. Core inflation, which excludes the effect of the volatile components, rises only slightly over the projection period, from 1.6 % in 2017 to 1.9 % in 2019. On the one hand, unit labour costs in the private sector – which had fallen from 2014 to 2016 following measures of wage moderation – are set to rise gradually from 2017 onwards. On the other hand, corporate profit margins are projected to increase more slowly than in the past, notably as a result of measures to limit increases in the prices of certain services (particularly in the hotel and restaurant, trade and telecommunications branches). Annual inflation is therefore estimated at 2.2 % in 2017, 1.7 % in 2018 and 1.8 % in 2019. The inflation gap in relation to the euro area will diminish but will not disappear.

The public deficit, estimated at 2.6 % of GDP in 2016, should fall to 2.0 % in 2017, notably as a result of the economy measures which have been announced, but is not expected to decline much after that. The fiscal balance will therefore remain far from the target of a structurally balanced budget. It should be remembered that, in accordance with the rules applicable to the Eurosystem projection exercises, the projections only take account of measures which have been formally adopted by the government – or which are very likely to be approved – and are specified in sufficient detail on the cut-off date for the exercises. Moreover, the estimates of the budgetary impact of certain measures, such as those relating to fraud prevention, may deviate from the amounts included in the budget. The public debt is projected to fall from 106% in 2016 to 104% of GDP by 2019.

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Projections for the Belgian economy: summary of the main results
(percentage changes compared to the previous year, unless otherwise stated)

	2016	2017 e	2018 e	2019 e
GROWTH (calendar adjusted data)				
Real GDP	1.2	1.6	1.6	1.5
Contributions to growth:				
Domestic expenditure, excluding change in inventories	1.0	1.3	1.8	1.7
Net exports of goods and services	0.1	-0.1	-0.1	-0.2
Change in inventories	0.1	0.4	0.0	0.0
PRICES AND COSTS				
Harmonised index of consumer prices	1.8	2.2	1.7	1.8
Health index	2.1	1.9	1.5	1.7
GDP deflator	1.6	1.7	1.6	1.7
Terms of trade	0.9	-0.7	-0.1	0.0
Unit labour costs in the private sector[1]	-0.3	1.2	1.5	1.7
Hourly labour costs in the private sector[1]	-0.8	1.9	2.3	2.6
Hourly productivity in the private sector	-0.5	0.7	0.8	0.8
LABOUR MARKET				
Domestic employment (annual average change in thousands of persons)	59.2	43.3	38.6	33.1
Total volume of labour[2]	1.6	0.9	0.8	0.7
Harmonised unemployment rate (in % of the labour force aged over 15)	7.9	7.5	7.3	7.2
INCOMES				
Real disposable income of individuals	1.0	1.4	2.3	2.2
Savings ratio of individuals (in % of disposable income)	11.4	11.4	11.7	11.9
PUBLIC FINANCES				
Primary balance (in % of GDP)	0.2	0.6	0.2	0.1
Overall balance (in % of GDP)	-2.6	-2.0	-2.1	-2.1
Public debt (in % of GDP)	106.0	105.0	104.4	103.9
CURRENT ACCOUNT				
(according to the balance of payments, in % of GDP)	-0.4	-0.3	-0.1	-0.1

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