

Economic projections for Belgium – Autumn 2013

Introduction

Following the sharp deceleration in activity in the spring of 2011, Belgium experienced a relatively long period in which, quarter after quarter, the economy hardly expanded at all, and actually contracted at times. The Bank's previous autumn projections, as well as the more recent spring projections published in June 2013, indicated that this sluggish activity would give way to a gradual recovery from the spring of 2013. The economic statistics currently available appear to confirm that forecast: according to the NAI's initial estimates, activity clearly expanded in the second and third quarter of 2013. That is essentially attributable to private consumption, business investment and exports, which actually seem to have staged a slightly stronger and earlier recovery than previously expected.

Of course, these developments are inextricably linked with what is happening in the rest of Europe and the world. While the global economy appears to be growing a little bit more slowly than predicted in the spring projections, the economy of the euro area has improved recently, as expected. Thus, in the second quarter of the year, activity growth in the euro area as a whole returned to positive territory for the first time since the final quarter of 2011. However, it should be noted that, in certain major countries such as Germany and France, growth in the second quarter has benefited to some extent from temporary factors, linked to weather conditions, among other things. That also partly explains why growth in the euro area lost some of its momentum in the third quarter. More generally, activity has clearly expanded in the advanced countries since the beginning of 2013, thus boosting trade, which also benefits Belgian exporters. The increase in domestic expenditure, most notably private consumption expenditure, has accompanied the

significant improvement in both producer and consumer confidence since the spring of this year. There is therefore little doubt that the recovery is partly due to confidence effects.

Confidence also seems to be gradually returning on the financial markets, which have been calmer for several months now. Thus, despite the recent rise, due to the prospect of the particularly accommodative monetary policies being phased out, particularly in the United States, long-term interest rates remain extremely low. Persistent concern over the resolution of the euro area crisis or the sustainability of the debt of several economies has not led to any new surge in interest rates. However, it should be noted that the rapid fall in inflation in the euro area is driving up real interest rates. In addition, the main stock markets have continued to recover, following the losses of recent years.

Against this backdrop, the current projections are very similar overall to the ones published in the June 2013 Economic Review. A relatively uniform recovery is still expected, with activity growing by an average of 0.3 % in the coming quarters, which is below the average growth rate seen prior to the great recession. For 2013, GDP growth in terms of volume was adjusted upwards to a very minor extent, namely by less than 0.2 percentage points, compared to the zero growth estimated in the spring forecasts. However, next year's growth forecast remains unchanged at 1.1 %. That is the result of two opposing forces. The slightly stronger growth in the latest quarters of this year gives rise to a favourable spillover effect on annual growth in 2014, reflected particularly in a higher contribution to growth from private consumption. However, that is entirely negated by two specific factors. First, the volume growth of public expenditure underwent

sharp downward adjustment compared to the June estimate. That is mainly due to the broad range of measures implemented after the cut-off date for the spring projections, both by the federal government and by the Communities and Regions when drawing up the budgets for 2014. Section 5 presents more detailed comments on those measures. In addition, the common technical and external assumptions underlying the Eurosystem forecasts, of which the main ones are described in the box in the first section of this article, are generally more unfavourable than those on which the June 2013 estimates were based. The downward revision of export market growth and the higher level of interest rates depress exports and investment, among other things.

Despite the hesitant signs of recovery in the Belgian economy, the labour market situation remains worrying. As is usual at the start of a recovery phase, job creation is still clearly lagging behind the trend in activity. Initially, activity growth is supported by an increase in hourly labour productivity and in the average number of hours worked. Despite a small upward revision compared to the spring projections, the level of employment will therefore remain practically unchanged until the end of the year, and will only start rising very gradually at the beginning of 2014. That also implies that the unemployment rate will continue to edge upwards in 2014.

Inflation, which has fallen sharply in Belgium, too, is expected to increase hardly at all in 2014 according to the current projections. That is partly attributable to the movement in the relatively volatile components of the price level, and more particularly the expected continuing fall in the oil price, but it is also due to the weak underlying inflation, which remains well below 2 % throughout the projection period. Control over labour costs in order to reduce the wage handicap in relation to neighbouring countries is a contributory factor here.

Finally, as a result of supplementary consolidation measures, the budget deficit is set to be considerably smaller next year than had been predicted in the spring projections, even though it will be hardly any lower than the 2013 level, namely 2.8 % of GDP. It will therefore remain well above the target set by the latest stability programme, even after incorporation of the initial 2014 budgets. However, it should be pointed out here that, in accordance with the rules applicable to the Eurosystem projection exercises, account is taken only of measures which have been formally adopted by the government – or which are very likely to be approved – and for which the implementing arrangements have been specified in sufficient detail on the exercise completion date. In addition, estimates of the budgetary impact of certain

measures, such as those designed to combat fraud, may differ from the amounts included in the budget. The projections were finalised on 22 November 2013. They therefore take no account of the measures to improve Belgium's competitiveness announced by the federal government on 29 November 2013. However, except for the cut in the rate of VAT on electricity consumption, those measures will not be implemented until after the projection period.

1. International environment and assumptions

1.1 Global economy

Contrary to the assumptions made in the spring, the expansion of global activity continued to slow down somewhat over 2013 as a whole. The reason was the unexpected dip in growth in the emerging countries, which was in turn due to less dynamic domestic demand in that region plus weaker foreign demand. However, growth in these countries significantly outpaced that in the advanced countries, where the balance sheet adjustments in both the private and the public sector continued to depress economic activity. In the United States, in particular, there was a marked slowdown which was mainly due to the strong fiscal contraction during the year. Conversely, in other large economies, growth gathered pace, underpinned by a still very accommodative monetary policy which was actually eased further in certain cases, such as in the euro area and the United Kingdom. Overall, financial conditions remained favourable to economic activity, despite a deterioration during the summer months.

Global activity displayed a mixed picture during 2013. Initially, it lost some momentum at the beginning of the year, the main reason being the marked slowdown in growth in the emerging countries, due to weaker activity in China and in central and eastern Europe. In the advanced countries, growth picked up following a slight fall at the end of 2012, but the expansion was very modest. Doubts therefore emerged over the sustainability of the global economic recovery which seemed to have started in the second half of 2012, under the impetus of various economic policy measures taken from the summer of 2012. Those doubts were due, in particular, to renewed turbulence in the euro area and the publication of disappointing economic figures in the United States, China and the euro area. Business confidence faltered, but the calm which had set in on the financial markets in the summer of 2012 was maintained.

This period of relative calm on the financial markets ended in May, as a new period of volatility began when the American central bank announced that it might reduce the volume of purchases of securities this year (tapering). That announcement was an important signal which led to a reappraisal of assets on the main markets. The correction proved most significant in the emerging countries, where assets came under heavy pressure as investors scaled down their positions. This was not only due to the tightening of global financial conditions but also to the more favourable growth prospects in the advanced countries and the weaker outlook in the emerging countries, which prompted a capital flight from the latter countries. In the second quarter, it was in fact mainly the advanced countries that recorded stronger economic growth.

From the end of August, the asset markets of the emerging countries stabilised, and then even recovered somewhat with the publication of better figures for the Chinese economy and some easing of concerns over the impact of tapering by the Federal Reserve. Calm was also restored on the financial markets of the advanced countries from September onwards, after the American central bank decided at its September and October meetings to keep its policy unchanged, as it considered that the economic recovery was not yet sufficiently far advanced for it to ease back on the accommodative policy, and that there was still too much uncertainty. This mainly concerned the fiscal policy of the United States, where the political deadlock seemed total in September and in the first half of October. It was not until mid-October that agreement was reached on the extension of the federal government's spending authority – after several public services had been shut down for about two weeks – and on a temporary suspension of the federal debt ceiling until 7 February 2014. On the basis of the available information, it seems that the growth of global economic activity gathered pace again in the third quarter.

At the end of November 2013, commodity prices were generally below those recorded a year earlier. Since the spring, those prices have exhibited a divergent pattern: prices of food commodities have continued to fall, essentially as a result of the increase in supply. In contrast, the prices of the commodities most sensitive to the economic cycle (crude oil and industrial commodities) increased as a result of the revival in activity. The strongest rise concerned oil prices, notably influenced by the geopolitical uncertainty related to the situation in North Africa and the Middle East. Subsequently, the agreement on the dismantling of Syria's chemical weapons under United Nations supervision and the rapprochement between Iran and the United States brought some easing of tensions

and a fall in prices during September. At the end of November, the price of Brent crude oil stood at \$ 111 per barrel, comparable to the end-2012 figure. Consumer price inflation maintained the downward trend which had begun in the second half of 2011, notably as a result of the fall in commodity prices. The nominal effective euro exchange rate increased from April onwards, an important factor being the strong appreciation of the euro against the Japanese yen and, to a lesser extent, against the US dollar.

In this context, the global growth forecasts for 2013 and 2014 were downgraded slightly. The EC's autumn forecasts indicate very modest growth of global GDP, namely 2.8 % this year, the lowest level recorded since the start of

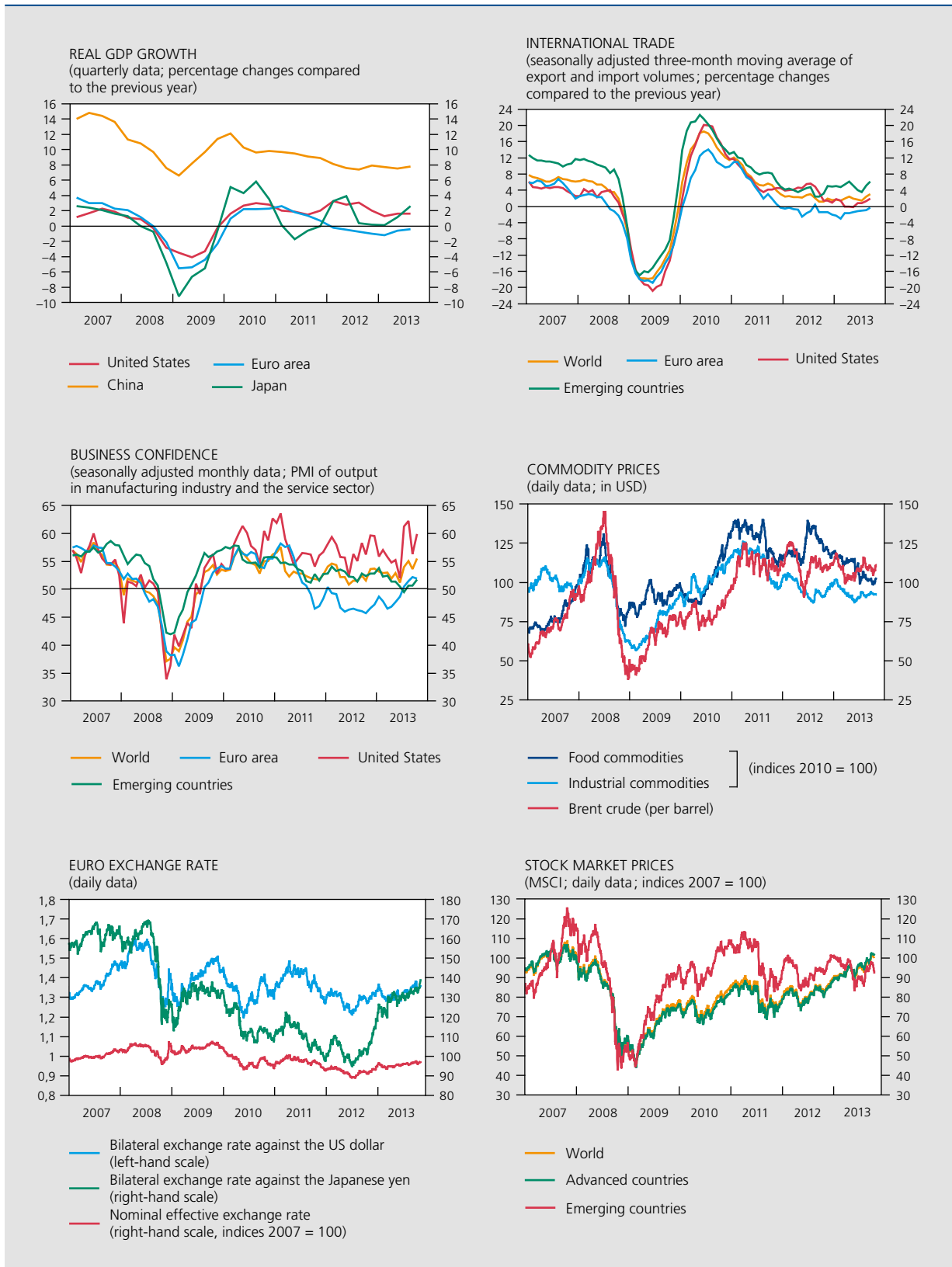
TABLE 1 PROJECTIONS FOR THE MAIN ECONOMIC REGIONS
(percentage changes compared to the previous year, unless otherwise stated)

	2012	2013	2014
	Actual figures	Projections	
Real GDP			
World	3.1	2.8	3.6
of which:			
Advanced countries	1.4	1.1	2.1
United States	2.8	1.6	2.6
Japan	2.0	2.1	2.0
European Union	-0.4	0.0	1.4
Emerging countries	4.9	4.5	5.0
China	7.8	7.5	7.4
India	3.8	2.9	4.0
Russia	3.4	1.9	3.0
Brazil	0.9	2.2	2.5
<i>p.m. World imports</i>	2.0	2.8	5.2
Inflation⁽¹⁾			
United States	2.1	1.5	1.9
Japan	0.0	0.3	2.6
European Union	2.6	1.7	1.6
China	2.6	3.0	3.0
Unemployment⁽²⁾			
United States	8.1	7.5	6.9
Japan	4.3	4.0	3.9
European Union	10.5	11.1	11.0

Sources: EC, IMF.
(1) Consumer price index.
(2) In % of the labour force.

CHART 1

GLOBAL ECONOMIC ACTIVITY AND DEVELOPMENTS ON FINANCIAL AND COMMODITY MARKETS



Source : Thomson Reuters Datastream.

the economic recovery that followed the great recession. In 2014, activity is set to gather pace in both the advanced and the emerging countries, though the acceleration will be stronger in the first group. The reason lies in the declining impact of some imbalances and the weaker budgetary contraction in a number of those countries. In the emerging countries, growth should remain well above that in the advanced countries, despite a sharp slowdown compared to the pre-recession years. There continue to be significant divergences within these two groups.

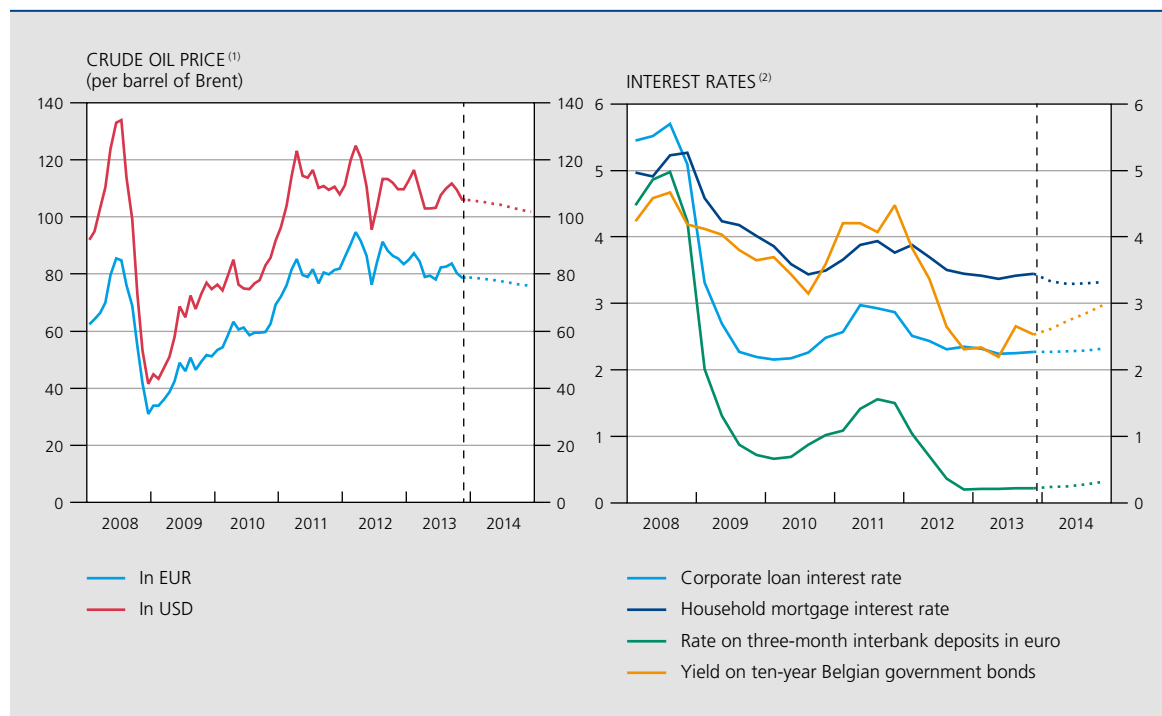
Growth is expected to remain stronger outside Europe, but the differences in relation to other major, advanced countries would be considerably smaller than in previous years. These growth disparities are expected to diminish in the euro area, too. The downward trend in inflation recorded in recent years is expected to come to a halt in 2014, owing to the revival in activity. Unemployment is projected to fall in 2014 in the largest economies, with the EU seeing the first decline since the end of the great recession.

Box – Assumptions adopted for the projections

The macroeconomic projections for Belgium described in this article form part of a joint Eurosystem exercise for the euro area. That exercise is based on a set of technical assumptions and forecasts for the international environment drawn up jointly by the participating institutions, namely the ECB and the national central banks of the euro area.

In particular, the projections are based on exchange rates set at the average level recorded in the last ten working days before the cut-off date of the assumptions on 14 November 2013. In the case of the US dollar, the exchange rate then stood at \$ 1.34 to the euro. That was slightly higher than the average of \$ 1.29 to the euro in 2012 and \$ 1.32 in the first three quarters of 2013.

ASSUMPTIONS CONCERNING THE MOVEMENT IN OIL PRICES AND INTEREST RATES



Source : ECB.

(1) Actual figures up to 14 November 2013, assumptions from 15 November 2013.

(2) Actual figures up to the third quarter of 2013, assumptions from the fourth quarter of 2013.

As usual, in regard to oil prices, account is taken of market expectations as reflected in forward contracts on the international markets. In mid-November 2013, this indicator suggested that the price per barrel of Brent would decline gradually over the projection horizon, from \$ 109.8 in the third quarter of 2013 to an average of \$ 102.2 in the last quarter of 2014.

The interest rate assumptions are likewise based on market expectations in mid-November 2013. The three-month interbank deposit rate, which had fallen to an unusually low level of barely 22 basis points in the third quarter of 2013, is projected to record a very small rise to around 32 basis points in the last quarter of 2014. Over the year as a whole, that amounts to an increase of barely 5 basis points compared to the 2013 average. The rise in long-term interest rates is expected to be slightly bigger, taking them to around 3% in the final quarter of 2014.

However, the interest rates that the banks are forecast to charge on business investment loans and household mortgage loans take account of the transmission generally apparent in relation to market rates. In these Eurosystem forecasting exercises, the rates applied by the banks of each country are modelled on the basis of the market rates to which they are most closely linked, and their projections are based on these reference interest rates. Thus, since the start of the financial crisis (and more especially the sovereign debt crisis), mortgage interest rates in Belgium have been greatly influenced by the Euribor ten-year swap rates, rather than government bond yields. In contrast, the interest rates charged on business loans generally depend on the rates for shorter maturities.

At the end of 2013, the long-term mortgage interest rate is projected at just under 3.5 %, slightly below the previous year's figure. In 2014, that interest rate is forecast to fall by a further 15 basis points, despite the expected rise in government bond yields. The average rate on business loans, which is closer to the short-term segment, is also projected to remain more or less unchanged in 2014. The level of interest rates for both households and businesses is therefore still very low throughout the projection period.

Another key assumption concerns developments on the foreign markets relevant for Belgium. During 2012, imports from Belgium's trading partners slowed sharply. Over the year as a whole, the export markets expanded by barely 1.2 % in volume (against more than 5 % in 2011). The decline was most marked for sales within the euro area, where the volume of demand for imports actually diminished slightly. In 2013, the export markets are forecast to expand by only 1.2 %, despite a hesitant revival in economic activity during the year. Markets in the euro area will again produce hardly any real growth, and demand for imports from markets outside the euro area is likely to slacken further. In 2014, world trade is expected to continue picking up, and export markets are forecast to expand again by 4 %. That last figure implies a small downward revision compared to the assumptions underlying the Bank's June 2013 forecasts.

The trend in Belgian exports is determined not only by the growth of these markets but also by changes in market shares and, therefore, Belgium's competitiveness. In regard to the cost aspects of that competitiveness, one important factor is the movement in the prices which competitors charge on the export markets. Those prices have been falling since the last quarter of 2012: in 2013, competitors' prices on the export markets are forecast to decline by 1.5 %, whereas in 2012 they increased by 3.8 % against the previous year. Prices are projected to remain almost unchanged in 2014, with an increase of just 0.3 %. Compared to the spring projections, there has been a sharp downward revision in regard to prices (of around one percentage point for each of the two years), due in part to the strong appreciation of the euro as measured on the basis of the real effective exchange rates.

Of course, developments on the export markets relevant for Belgium must be viewed in the context of global economic growth. Thus, the projections assume that, outside the euro area, global growth which – according to the latest estimates, declined further to 3.3 % in 2013 – would reach 3.9 % in 2014. That figure is based on a continuing improvement in economic conditions in the United States, where activity growth in 2014 is expected to be much more dynamic than in 2013, but also takes account of a marked slowdown in the Japanese economy. However, the main uncertainty concerns the assumption relating to the Asian emerging markets, which represent



more than a quarter of global output. For those countries, the Eurosystem projections assume that growth will again exceed 6 % in 2014. That implies that the growth slowdown in China in 2013 is temporary, and therefore does not herald a structural downturn. It is also assumed that the worries concerning the adoption of a less accommodative monetary policy in the advanced countries will not destabilise the economy of the emerging countries.

EUROSYSTEM PROJECTION ASSUMPTIONS

(in %, unless otherwise stated)

	2012	2013	2014
	(annual averages)		
EUR/USD exchange rate	1.29	1.33	1.34
Oil price (US dollars per barrel)	112.0	108.2	103.9
Interest rate on three-month interbank deposits in euro	0.6	0.2	0.3
Yield on ten-year Belgian government bonds	3.0	2.4	2.8
Corporate loan interest rate	2.4	2.3	2.3
Household mortgage interest rate	3.6	3.4	3.3
	(percentage changes)		
Export markets relevant to Belgium	1.2	1.2	4.0
Competitors' export prices	3.8	-1.5	0.3

Source: ECB.

1.2 Estimates for the euro area

According to the Eurosystem's autumn projections, the recovery which began in the euro area during 2013 should gradually gain momentum from the last quarter of 2013. Activity will be supported by the strengthening of both domestic and foreign demand. Domestic demand, which is set to be the main engine of growth in 2014, will be bolstered more particularly by the ebbing uncertainty, the accommodative monetary policy stance, low inflation and less restrictive credit conditions. However, the need for both governments and the private sector to proceed with further debt reduction in a good many countries continues to depress the growth outlook. Overall, activity in the euro area is expected to contract by a further 0.4 % in 2013 before returning to positive year-on-year growth in 2014 – after two consecutive years of decline – though growth will still be relatively weak at just over 1 %.

After having fallen to an unusually low level in the autumn of 2013, inflation is also set to begin rising gradually.

However, in view of its low starting point, it is unlikely to exceed 1.1 % over 2014 as a whole. It will also be curbed by the movement in prices of energy products if oil prices fall in 2014 in accordance with the above assumption. Similarly, underlying inflation – i.e. inflation excluding volatile movements in prices of energy and food – should remain particularly low at 1.3 %, well below the HICP reference value of 2 % used for the euro area's monetary policy. The reason lies in the still moderate domestic cost pressure during the first phase of the revival in activity.

As usual, job creation will lag behind the recovery of activity to some extent: growth is unlikely to produce a net gain in terms of jobs until some time in 2014. Also, the unemployment rate continued to rise significantly during 2013 to over 12 %, and there should only be a very slight fall in 2014. The average budget deficit in the euro area is set to decline by around 0.5 % of GDP in both 2013 and 2014, and will still come to 2.6 % of GDP in 2014 as a result of the continuing fiscal consolidation and the gradually improving economic situation.

TABLE 2 EUROSISTEM PROJECTIONS FOR THE EURO AREA
(percentage changes compared to the previous year)

	2012	2013 e	2014 e
Real GDP	-0.6	-0.4	1.1
Final consumption expenditure of households and NPIs	-1.4	-0.6	0.7
Final consumption expenditure of general government	-0.6	0.1	0.3
Gross fixed capital formation	-3.9	-3.0	1.6
Exports of goods and services	2.7	1.1	3.7
Imports of goods and services	-0.8	-0.1	3.5
Inflation (HICP)	2.5	1.4	1.1
Underlying inflation ⁽¹⁾	1.5	1.1	1.3
Employment	-0.6	-0.8	0.2
Unemployment rate ⁽²⁾	11.4	12.1	12.0
General government financing requirement (-) or capacity ⁽³⁾ ...	-3.7	-3.2	-2.6

Source: ECB.

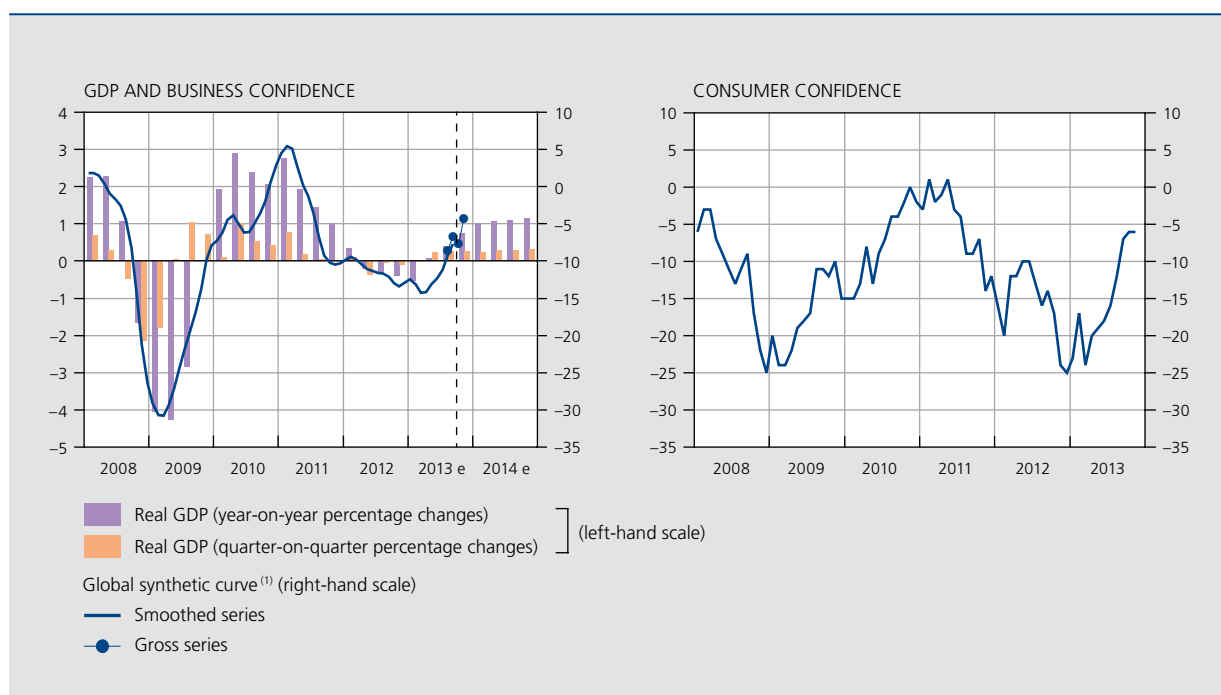
(1) Measured by the HICP excluding food and energy.

(2) In % of the labour force.

(3) In % of GDP.

2. Activity and demand

CHART 2 GDP AND CONFIDENCE INDICATORS
(data adjusted for seasonal and calendar effects, unless otherwise stated)



Sources: NAI, NBB.

(1) Seasonally adjusted data.

As had been predicted in the Bank's latest autumn and spring forecasts, the long period of economic stagnation or decline which had begun in the second half of 2011 seems to have ended in the spring of 2013. In the second and third quarter of 2013, the NAI's initial quarterly accounts show clear activity growth of 0.2 and 0.3 % respectively. The still low positive quarterly growth figure for Belgium in the second quarter of 2013 tallies with developments in the other euro area countries, which likewise appear to have seen a cyclical upturn in the spring, as is evident from the fact that the euro area economy expanded for the first time since the final quarter of 2011, namely by 0.3 %. However, euro area growth dipped to 0.1 % in the third quarter, notably owing to the disappearance of specific factors which had supported growth in France and Germany in the second quarter.

The improvement in the Belgian economic situation is also reflected in the upturn in the industry, the sector of activity most sensitive to (international) cyclical fluctuations: in the second quarter of 2013, industry's value added increased against the previous quarter for the first time since the final quarter of 2010, and continued to rise in the next quarter. In regard to the expenditure components, the return to positive growth was underpinned mainly by private consumption, exports and, to a lesser extent, business investment. These specific components of total demand actually seem to be growing faster or more strongly than expected in the Bank's spring forecasts. On the other hand, during the first three quarters, growth was held back by the reduction in the volume of public

investment and private investment in housing. These two factors, the first of which is essentially due to the traditional electoral cycle of local authority investment, also explain why activity in the construction sector is currently lagging well behind the general level of economic activity.

The economic recovery, particularly the said upturn in private consumption, exports and business investment, is taking place against the backdrop of a strong improvement in producer and consumer confidence. According to the Bank's surveys, these two confidence indicators have surged since the spring of 2013. Thus, following a low point at the end of 2012 which was more or less comparable to the level at the time of the great recession, consumer confidence has exceeded its long-term average for several months now. However, the increase in consumer confidence seems to have faltered in the fourth quarter. In October, producer confidence dropped slightly before improving again in November so that it is now also considerably above its long-term average.

The Bank's current forecasts are based on the assumption of a continuing recovery, with further clearly positive growth in the fourth quarter. That assumption is based partly on the estimates available on the forecast cut-off date of the short-term forecasting or 'now-casting' models used by the Bank. Overall, year-on-year growth in 2013 is put at 0.2 % according to the current forecast, which is a slight upward revision of the spring forecasts. That is due to the revision of the national accounts for 2012 and, in particular, the slightly stronger-than-expected growth

TABLE 3 GDP AND MAIN EXPENDITURE CATEGORIES

(volume data adjusted for calendar effects, percentage changes compared to the previous year, unless otherwise stated)

	2010	2011	2012	2013 e	2014 e
Final consumption expenditure of households and NPIs	2.8	0.2	-0.3	0.5	1.1
Final consumption expenditure of general government	0.6	0.7	1.4	0.7	1.1
Gross fixed capital formation	-1.1	4.1	-2.0	-2.3	1.4
general government	-2.1	7.1	2.4	-9.4	-2.8
housing	3.6	-3.2	-3.2	-4.5	-0.7
enterprises	-3.1	7.3	-2.1	-0.3	2.8
<i>p.m. Domestic expenditure excluding change in inventories . . .</i>	<i>1.4</i>	<i>1.1</i>	<i>-0.2</i>	<i>0.0</i>	<i>1.1</i>
Change in inventories ⁽¹⁾	0.3	0.9	-0.4	-0.3	0.0
Net exports of goods and services ⁽¹⁾	0.6	-0.3	0.5	0.5	0.0
Exports of goods and services	8.1	6.4	1.8	0.1	3.1
Imports of goods and services	7.5	6.9	1.3	-0.5	3.1
Gross domestic product	2.3	1.8	-0.1	0.2	1.1

Sources: NAI, NBB.

(1) Contribution to the change in GDP compared to the previous year, percentage points.

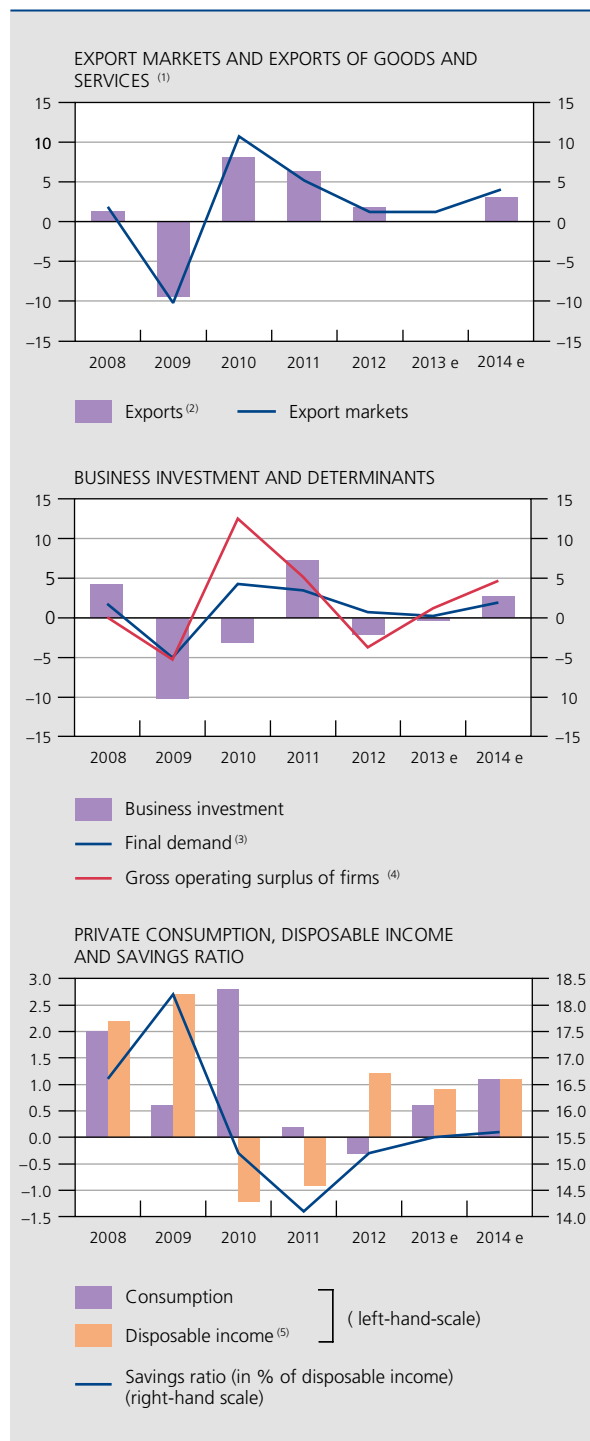
in the second and third quarter of 2013. Annual growth remains very weak, given that the positive growth rates from the second quarter are partly neutralised by the negative spillover effect of the contraction during 2012.

Next year, however, the improvement in economic activity should boost annual growth, with quarterly growth rates maintained at around 0.3 % throughout the year. According to the projections, activity will rise by 1.1 % in 2014. Although that forecast remains the same as in the spring, growth in 2014 will probably gain more support from private consumption – due mainly to the spillover effects of the stronger recovery in 2013 – and to a lesser extent from public spending owing to the additional expenditure cuts announced in the 2014 budgets.

In regard to the contribution to growth made by international trade, net exports are projected to represent around 0.5 percentage point of growth in 2013, owing to the moderate fall in the volume of imports and the even smaller rise in exports. That contribution is the same as in 2012, but it incorporates a small upward revision compared to the spring forecasts (which still predicted stagnating exports), given the slightly positive export growth. Moreover, a positive contribution from net exports typifies the start of a recovery in Belgium. In 2014, according to the current forecasts, imports and exports would expand in roughly equivalent proportions, reducing the growth contribution of net exports to practically zero.

For both years, export growth lags a little behind the expansion of the export markets since the projections assume that Belgium will continue to lose market shares. The movement in these market shares is fairly volatile year-on-year, and according to the national accounts and the available statistics on the growth of demand for imports from partner countries, Belgian exporters have seen their market shares increase in some years, often when global economic activity was weak, as in 2009, 2011 and 2012. Measured over a slightly longer period, however, the Belgian economy has a tendency to lose market shares, the main reason being a lack of competitiveness, attributable to both costs and non-cost factors. According to the initial observations, the share of export markets held by Belgian firms was expected to be down again in 2013, and the current forecasts indicate that the same will apply in 2014. However, during these two years, the loss should be less than the long-term average owing to the relatively favourable movement in unit labour costs assumed by the forecasts, which will be examined in section 4. It is mainly thanks to the recent measures aimed at limiting pay increases, as a first move towards reducing the competitiveness gap in relation to neighbouring countries, that labour costs are set to rise more slowly in

CHART 3 MAIN EXPENDITURE CATEGORIES AND DETERMINANTS
(percentage changes; volume data, unless otherwise stated)



Source : NBB.
 (1) Seasonally adjusted data.
 (2) Calendar adjusted data.
 (3) Excluding change in inventories.
 (4) Value data.
 (5) Data deflated by the private consumption expenditure deflator.

Belgium than in the euro area as a whole in 2014, though another factor is a marked acceleration in wage growth in, for example, Germany. The narrowing of the wage gap should bolster export growth, even though the full effects will only become apparent in the longer term.

The volume of domestic demand (excluding changes in inventories) is expected to remain unchanged in 2013, as the positive growth rates recorded from the second quarter onwards are likely to be entirely offset by the spillover effect of the marked slowdown in domestic demand during 2012. However, demand will continue rising in 2014, when average growth is projected at 1.1 %. That is comparable to the 2011 growth rate, but still well below the figures recorded prior to the great recession.

Private consumption is once again likely to be the main driver of growth. After an exceptionally long period of decline in real terms in both 2011 and 2012, the revival from the start of 2013 should result in clearly positive year-on-year growth this year, and according to the current forecasts that growth should double in 2014. The upturn in private consumption is due both to the new, albeit modest, rise in the real disposable income of households and to the gradual waning of macroeconomic uncertainty.

In regard to the first of these two factors, the income growth recorded in 2013 is supported to a greater extent than in 2012 by the secondary distribution of incomes, with a further reduction in net transfers to general government in real terms, despite the relatively sizeable increases in taxes on income and assets. However, the real rise in labour income will subside to a very low level, owing to wage moderation and the fall in employment described in section 3. The real growth of other primary incomes, such as property income, will nevertheless exceed the 2012 figure, notably on account of the growth of private assets and the small rise in long-term interest rates. Overall, real disposable income will be up by around 1 % in 2013. Comparable growth is forecast for 2014, while the growth of labour income will be barely higher than in 2013.

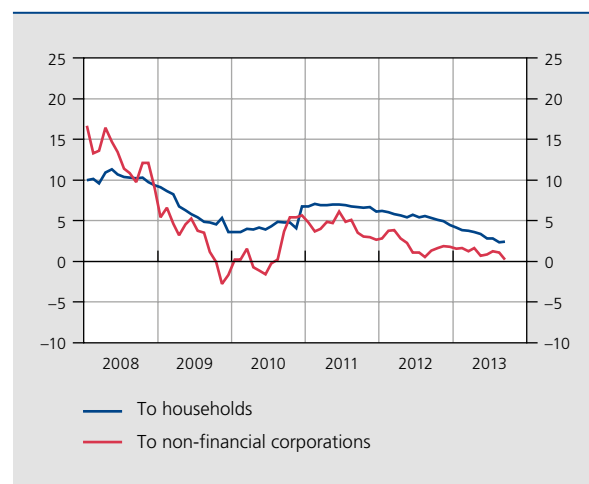
As regards the economic uncertainty, the household savings ratio which had fallen to an exceptionally low level after the end of the great recession in 2011 began rising again in 2012. While the propensity to save is expected to increase a little further in 2013, according to the currently available sector accounts, the current forecasts predict no change in 2014 despite the growing share of disposable income represented by financial incomes – which are traditionally devoted more to savings – and the higher returns on savings expected on the basis of the rise in real interest rates. The expectation of a constant savings ratio is linked

to the improvement in confidence which is prompting a gradual reduction in precautionary household savings. It may also be connected with liquidity constraints which imply that, for many households, increased income is reflected in a rise in consumption expenditure.

Unlike private consumption, investment in housing is expected to record (very) negative real growth again in 2013, for the third year running, which shows that household confidence in the longer-term income prospects is still very fragile. In addition, tighter credit conditions are also likely to be a factor, as will the rise in real mortgage interest rates and the uncertainty concerning the transfer to the regions of the tax treatment of mortgage loans. The growth of mortgage lending slowed further in 2013 while remaining positive. Despite the expected recovery of these investments in housing during 2014, the average growth is likely to remain negative next year.

The volume of business investment returned to positive growth from the first quarter of 2013, although year-on-year growth remains slightly negative owing to the spillover effect. These investments are set to continue rising steadily over the projection period, recording annual growth of just under 3 % in 2014. The business investment revival is of course due to the improvement in the demand outlook in a context of economic recovery. In addition, capacity utilisation in manufacturing industry began rising again in the second and third quarter of 2013, although it remains well below its long-term

CHART 4 LOANS GRANTED BY RESIDENT BANKS TO HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS
(end-of-quarter data, year-on-year percentage changes)



Source : NBB.

average. Moreover, the improvement in the gross operating surplus, after the steep fall in 2012, is creating scope for internal financing for firms, while – according to the Bank Lending Survey – business credit conditions eased in the first quarter.

Despite the consolidation efforts, public consumption will continue rising in real terms. The growth rate was expected to subside to around 0.7 % in 2013, notably owing to the need to cut the budget deficit below 3 % of GDP, but should pick up in the following year to just over 1 %, a rate similar to the growth of private consumption. In addition, public investment was down sharply in real terms in 2013, which is not unusual for a year following the local elections, and would probably continue to fall in 2014.

3. Labour market

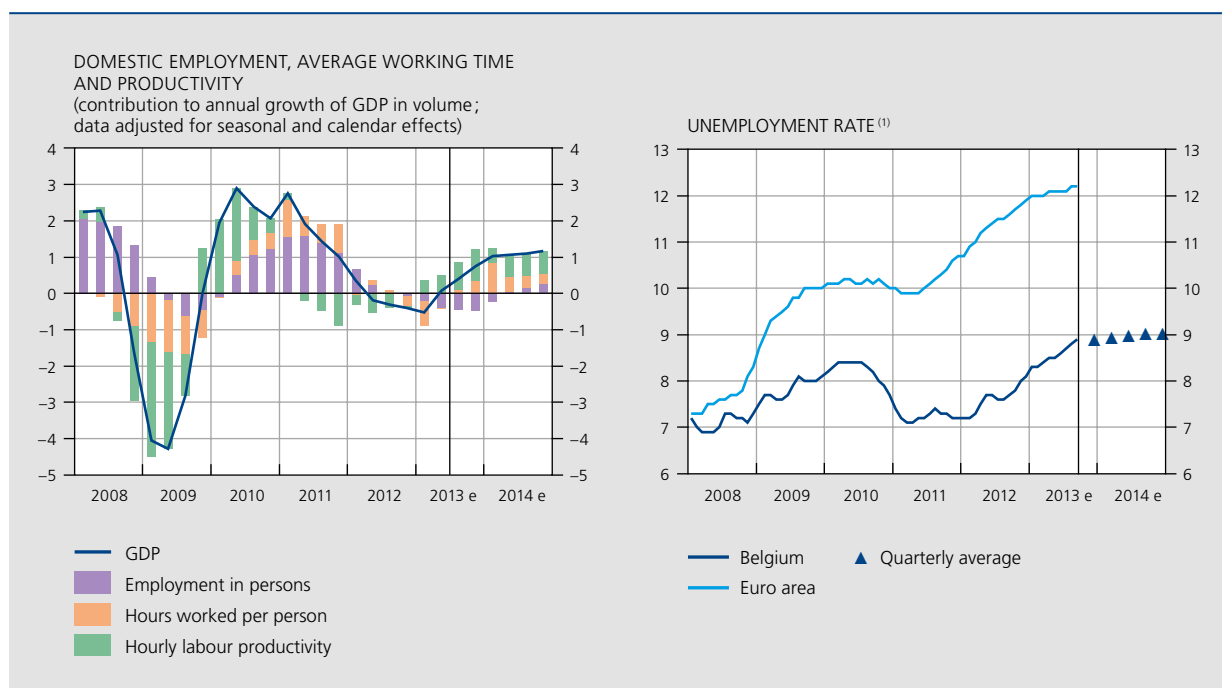
Employment generally takes a certain time to react to changes in economic activity. Thus, while GDP contracted in 2012, average employment was still slightly up on an annual basis. The revival in activity in 2013 was also not reflected in corresponding employment growth; employment is forecast to fall by 0.4 % this year. Only in 2014 is there likely to be new net job creation, but it should still be modest at around 0.1 %.

Initially, the rising demand will be absorbed by greater labour productivity and by an increase in the hours worked per person. Nevertheless, job creation has undergone a modest upward revision compared to the spring projections (which still predicted a slight drop in domestic employment in 2014).

Following the record reduction in average working time in 2009, as a result of employers making intensive use of temporary lay-offs and certain crisis measures, the hours worked per person have not yet returned to their pre-crisis level, according to the estimates for 2013. Less use was made of labour hoarding schemes during the 2012 cyclical downturn. Apart from the more modest decline in activity, there are at least two reasons for that: first, on emerging from the great recession, firms had smaller financial reserves, and second, the conditions for resorting to temporary lay-offs were tightened by introduction of a responsabilisation contribution by employers.

Taking account of the very small reduction in average hours, the decline in the total volume of work in 2013 is mainly due to job losses, which should be greater than in 2009. This delayed response by employment is also partly attributable to the expiry of certain measures which buttressed demand for labour and which had been reinforced

CHART 5 LABOUR MARKET



Sources : EC, NAI, NEO, NBB.

(1) Harmonised unemployment rate in % of the labour force.

in 2010. In particular, in the second quarter of 2013, the number of people benefiting from the Activa win-win scheme reverted to zero. At the same time, various collective redundancy programmes previously announced in connection with business closures or restructuring took effect. In view of the length of the associated procedures, these collective redundancies would continue to have an impact on the employment figures in 2014.

In the context of the expected economic recovery, firms are initially expected to get their staff to increase their working hours and restore their level of productivity before they embark on new recruitment. In 2014, the hours worked per person should therefore rise, while there is only likely to be a small increase in the number of persons employed, so that the rise in the total volume of labour would be attributable mainly to the increased working hours of existing workers. However, since activity is set to pick up more strongly in 2014, the rate of increase in hourly productivity is expected to match last year's figure.

Job losses in 2013 have mainly occurred in branches sensitive to the business cycle, and there should be virtually no net job creation throughout 2014. In contrast to

what happened during the great recession, the "general government and education" sector is also likely to be affected in the light of the fiscal consolidation at various levels of power. Conversely, as in previous years, the heavily subsidised "other services" branch (mainly health care and social services) is likely to contribute to the rise in employment.

Other subsidised jobs, such as those covered by the service voucher system, should continue to support job creation. However, the growth rate here will be slightly below the 2008-2009 figure, partly owing to the gradual saturation of demand and successive increases in the price of the vouchers.

As in previous years, the number of self-employed persons is forecast to boost employment, with growth of about 1 % in 2013 and 2014, representing between 6 000 and 7 000 additional workers.

In total, domestic employment is expected to decline by 17 400 persons in 2013 and expand by 2 500 in the following year. As a result of the contraction in demand for labour and its dissuasive effect on labour supply, the

TABLE 4 LABOUR SUPPLY AND DEMAND
(annual averages, calendar adjusted data, unless otherwise stated)

	2009	2010	2011	2012	2013 e	2014 e
	(percentage change)					
GDP	-2.8	2.3	1.8	-0.1	0.2	1.1
Volume of labour	-1.3	1.0	2.1	0.2	-0.4	0.5
Domestic employment in persons	-0.2	0.7	1.4	0.2	-0.4	0.1
	(change in thousands of persons)					
Domestic employment	-8.8	30.2	63.4	9.4	-17.4	2.5
Employees	-13.3	23.9	53.7	0.5	-24.1	-3.2
of which:						
Branches sensitive to the business cycle ..	-38.1	2.8	31.9	-6.0	-31.5	-13.3
General government and education	13.8	6.7	3.7	-0.6	-1.6	-1.8
Other services	11.0	14.4	18.1	7.1	9.1	11.9
Self-employed	4.5	6.3	9.7	8.9	6.7	5.7
Frontier workers	1.1	0.8	-0.1	1.1	0.2	0.0
Total employment	-7.7	31.1	63.2	10.5	-17.2	2.5
Unemployed job-seekers	50.6	13.7	-19.8	14.4	23.5	19.4
Labour force	42.9	44.7	43.4	25.0	6.4	22.0
<i>p.m.</i> Harmonised unemployment rate ⁽¹⁾	8.0	8.4	7.2	7.6	8.7	9.1

Sources: EC, NAI, NEO, NBB.

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

labour force is expected to grow by around 6 000 persons in 2013, a much slower growth rate than in previous years. This slowdown should cushion the impact of job losses on unemployment. The new rise in unemployment would be felt mainly in 2013, with 23 500 additional job-seekers. The extra 19 400 job-seekers in 2014, would bring the number of unemployed to almost 600 000. The harmonised unemployment rate of the 15-64 age group would thus continue rising to reach an average of 9.1 % in 2014, the highest figure since 1998.

4. Prices and costs

According to the current projections, consumer price inflation measured by the HICP will reach 1.2 % in Belgium in 2013 against 1.4 % in the euro area – and 1.3 % in 2014. These price increases are much lower than in previous years, since inflation stood at 3.4 % in 2011 and 2.6 % in 2012.

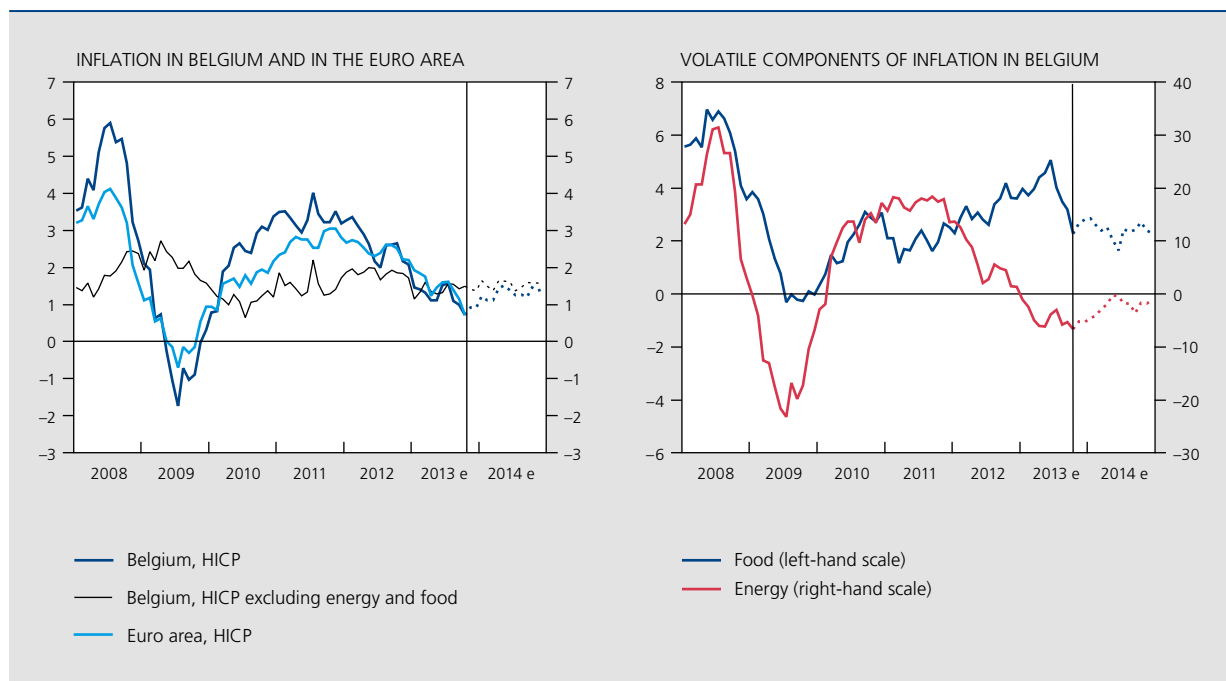
The underlying trend in inflation is linked to factors such as the movements in business costs, including wages, and business pricing policies – and hence also to the competitive environment – and contributes to the slowdown in the inflation rate. It is projected to revert to an average

of 1.4 % over 2013 as a whole, and 1.5 % in 2014. This evolution is likewise due to the fact that the January 2012 increases in indirect taxes in the service sector ceased to exert any influence from 2013, whereas they were part of the reason why underlying inflation gathered pace to an average of 1.9 % in 2012.

However, the fall in total inflation is due primarily to the movement in energy prices, which have fallen year-on-year since the beginning of 2013. The current projections assume a 4.7 % decline in 2013 against 2012, when they had risen by an average of 6 %. Although the fall will gradually become less marked, negative year-on-year growth rates are still expected in 2014, with an average reduction of 2.5 %.

These fluctuations are partly attributable to oil prices quoted on the international markets and the behaviour of the euro against the US dollar, and partly to changes on the gas and electricity markets. Thus, the price per barrel of Brent is set to fall slightly over 2013 as a whole, the current projections anticipating an average of \$ 108 per barrel in 2013, compared to \$ 112 in 2012. At the same time, the euro/US dollar exchange rate will rise to 1.33, against 1.29 in 2012. The lower Brent price combined with a stronger euro will accentuate the fall in the oil

CHART 6 INFLATION
(HICP, percentage changes compared to the corresponding period of the previous year)



Sources : EC, NBB.

price in euros in 2013 compared to 2012. Moreover, after the freezing of the gas and electricity price indexation between April and December 2012, a number of suppliers announced substantial tariff cuts from January 2013 in a context of keener competition. In addition, under new legislation, indexation formulas for variable price contracts can in future only be based on the prices quoted on European gas and electricity markets, and may no longer refer to the oil price.

In contrast to energy prices, food prices are rising faster than in 2012, curbing the deceleration in total inflation. More particularly, prices of unprocessed food are the reason for this acceleration, since they are estimated to have risen by an average of 4.5 % in 2013, as a result of adverse supply conditions due to bad local weather conditions for fruit and vegetables. From 2014, the year-on-year increases should become more modest, our projections forecasting an average rise of 2 %.

After having peaked at 4.4 % in 2012, the rise in unit labour costs in the private sector is expected to subside to 1.7 % in 2013, and 0.6 % in 2014. The deterioration in cost competitiveness in 2012 was due to the unfavourable trend in both labour productivity and hourly labour costs. The outlook for 2013 and 2014 benefits from the gradual recovery of labour productivity gains and the decelerating rise in labour costs, forecast at 2.1 % in 2013 and 1.1 % in 2014, against 3.7 % in 2012. Consequently, the cost competitiveness of Belgian firms compared to firms in Belgium's three main partners, namely Germany, France

and the Netherlands, should tend to improve in 2013, and especially in 2014.

Wage indexation is still the main determinant of the movement in labour costs. Following a rise of 3.1 % in 2011 and 2.7 % in 2012, the health index – which is used as the reference for wage indexation – is projected to increase by 1.3 % in 2013 and 1.4 % in 2014. One of the changes made in January 2013 to the calculation of the health index, namely the inclusion of the downward effect of prices discounted in the sales, is a one-off contributory factor in this deceleration in 2013. Nonetheless, since the various joint committees do not all apply the indexation mechanisms at the same time, the automatic wage adjustment will continue to generate bigger increases in 2013, even though inflation has been falling since the end of 2012. In 2014, that effect will be apparent in a significantly slower pace of wage increases. Apart from indexation, the assumption concerning the movement in hourly labour costs in the private sector in 2013 and 2014 takes account of a real negotiated wage freeze, as specified in the draft interprofessional agreement for 2013-2014 imposed by the government. The movement in other factors relating to wage-setting would be slightly positive in 2013, but a little negative in 2014, mainly owing to the impact of cuts in social security contributions.

TABLE 5 PRICE AND COST INDICATORS
(percentage change compared to the previous year)

	2009	2010	2011	2012	2013 e	2014 e
HICP	0.0	2.3	3.4	2.6	1.2	1.3
Health index	0.6	1.7	3.1	2.7	1.3	1.4
Underlying inflation trend ⁽¹⁾	2.1	1.1	1.5	1.9	1.4	1.5
GDP deflator	1.2	2.1	2.0	1.9	1.6	1.5
Labour costs in the private sector						
Labour costs per hour worked	2.7	0.9	2.4	3.7	2.1	1.1
of which indexation	2.5	0.5	2.7	2.8	1.9	1.3
Labour productivity ⁽²⁾	-1.5	1.3	-0.2	-0.7	0.4	0.6
Unit labour costs	4.3	-0.4	2.6	4.4	1.7	0.6

Sources: EC, NAI, FPS Employment Labour and Social Dialogue, NBB.

(1) Measured by the HICP excluding food and energy.

(2) Real value added per hour worked by employees and self-employed workers.

5. Public finances

5.1 Revenue, expenditure and overall balance

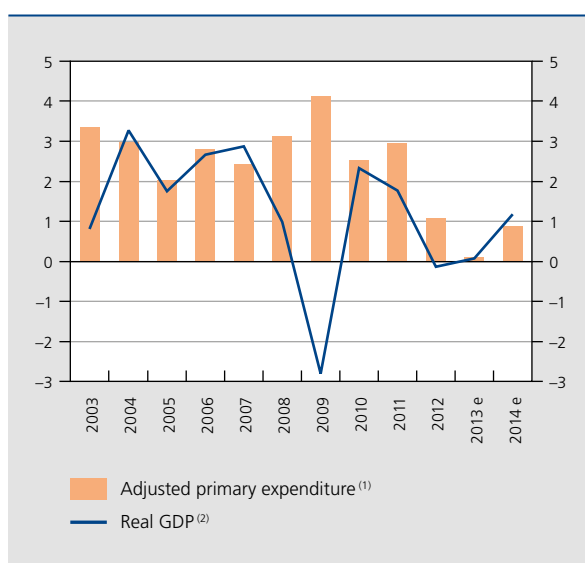
According to the latest data, public finances are expected to end the year 2013 with a deficit of 2.8 % of GDP. In 2014, in the macroeconomic environment described above, that deficit is set to remain stable.

Public revenues expressed as a percentage of GDP are projected to rise by 0.5 percentage point in 2013, before declining by 0.2 percentage point.

The new increase in the revenue ratio in 2013 is mainly due to structural fiscal measures. These include the continuing harmonisation of the tax on income from movable assets at 25 %, the increased tax on capital gains and life insurance premiums, adjustment of the reference rate for the calculation of the notional interest deduction, the increase in excise duty on tobacco and alcohol, and tightening of the rules concerning VAT on investment goods for both business and private use. In 2013, the positive influence of purely temporary factors will be generally comparable to that in 2012, as the revenues expected from such measures as the tax regularisation are likely to offset overall the exceptional revenues generated last

CHART 7 PRIMARY EXPENDITURE OF GENERAL GOVERNMENT AND GDP

(year-on-year percentage changes)



Sources : NAI, NBB.

(1) Primary expenditure is deflated by the HICP and adjusted for cyclical, non-recurring and fiscally neutral factors, and for the effect of indexation. The latter is due to the difference between the actual indexation of civil service pay and social benefits and the increase of the HICP.

(2) Data adjusted for calendar effects.

TABLE 6 GENERAL GOVERNMENT ACCOUNTS⁽¹⁾
(in % of GDP)

	2011	2012	2013 e	2014 e
General government				
Revenue	49.6	51.0	51.4	51.2
Fiscal and parafiscal revenue	43.6	44.8	45.3	45.5
Other	6.0	6.2	6.2	5.7
Primary expenditure	50.0	51.6	51.0	50.9
Primary balance	-0.4	-0.6	0.4	0.3
Interest charges	3.3	3.4	3.1	3.0
Financing requirement (-) or capacity	-3.7	-4.0	-2.8	-2.8
<i>p.m. Effect of one-off factors</i>	-0.2	-0.4	0.4	0.1
Overall balance per sub-sector				
Federal government	-3.4	-3.4	-2.7	-2.6
Social security	0.0	-0.1	0.1	0.0
Communities and Regions	-0.2	0.0	0.0	-0.1
Local authorities	-0.1	-0.4	-0.1	-0.1

Sources : NAI, NBB.

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

year by the late payment of the 2011 nuclear levy and the early collection of the tax on life insurance premiums. In regard to non-fiscal and non-parafiscal revenues, the repayment by bpost of subsidies granted in the past and the EU refund of excess customs duties collected are positive one-off factors.

In 2014, fiscal and parafiscal revenues should continue rising, thanks to various measures. Personal income tax revenues should increase, notably following the abolition of the partial allowance for energy-saving investments. In addition, revenues are likely to be boosted by the fairness tax which is applicable to certain companies whose distributed profits exceed the corporation tax base, the introduction of VAT on lawyers' fees, and other measures, particularly concerning excise duty. Conversely, non-fiscal and non-parafiscal revenues are expected to be down sharply as a result of the disappearance in 2013 of one-off revenues and the reduction in the financial sector's payments in respect of capital injections and guarantees granted by the government, which have been partly scaled down.

In 2012, primary expenditure had risen to a particularly high level in historical terms, partly on account of the recapitalisation of Dexia. In 2013, that expenditure was expected to contract in relation to GDP by 0.5 percentage point, and that fall should persist in 2014 at a rate of 0.1 percentage point. Adjusted for one-off and cyclical factors and indexation effects, the primary expenditure expressed in volume terms is expected to stabilise in 2013 before rising by 0.9 % next year. The structural growth of public expenditure would then lag slightly behind real GDP growth.

The stagnation of adjusted primary expenditure, in real terms, expected overall in 2013, masks divergent movements within the sub-sectors. The federal government's expenditure is projected to stabilise in real terms. Social security expenditure is expected to rise by 0.9 %; this very small increase compared to the average rise in recent years is attributable to moderation of health care expenditure. In contrast, the Communities and Regions, like the local authorities, are likely to see their expenditure fall by 0.4 and 1.5 % respectively. The reduction in local authority expenditure is attributable in particular to the fall in public investment, which traditionally occurs in the year following the municipal and provincial elections.

The projections for 2014 point to a 1.9 % contraction in the federal government's adjusted real expenditure. Social security expenditure is predicted to rise by 2 %, a larger increase than in 2013 but still below the average seen in the past. The expenditure of the Communities and

Regions, like that of the local authorities, is forecast to increase by 1.4 % and 0.1 % respectively.

Interest charges will again exert a favourable influence on the budget balance. After rising slightly in 2012, they are expected to decline again in 2013 and 2014 in relation to GDP, following the reduction in the implicit interest rate on the public debt.

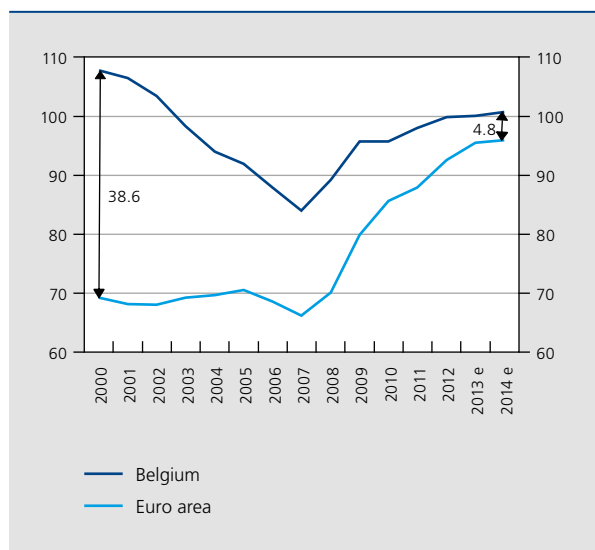
The public deficits indicated by the projections exceed the targets set by the federal government of 2.5 % of GDP for 2013 – including a safety margin in relation to the target of 2.7 % of GDP set by the Ecofin Council of 21 June 2013 – and 2.1 % of GDP for 2014. For 2013, the revenues estimated by the present projections are lower than those in the general government budget, giving rise to a spillover effect for 2014. In the case of the local authorities the deficit is expected to exceed the budget figure. In addition, in accordance with the methodology used for the Eurosystem projections, measures which are insufficiently detailed are disregarded. That restriction applies in particular to the relatively substantial under-utilisation of funds assumed in various budgets for 2014, and to a large proportion of the revenues expected from measures to combat tax evasion and social security fraud. Finally, the government expects the Communities and Regions and the local authorities to post a joint surplus of 0.1 % of GDP in 2014, whereas the estimates predict a deficit of 0.1 % of GDP.

5.2 Public debt

At the end of 2013, Belgium's debt ratio is estimated at 100.1 % of GDP, an increase of 0.3 percentage point against the previous year. These figures disregard any additional measures designed to meet the federal government's aim of keeping the debt ratio below 100 % of GDP. Since 2007, Belgium's public debt would thus have expanded by 16.1 percentage points. Over the same period, however, the rise in the debt ratio appears to have been much larger in other European countries, so that the gap between Belgium's debt ratio and that of the euro area should narrow further.

The rise in the Belgian debt ratio in 2013 is attributable mainly to exogenous factors, which are expected to raise the debt by 1.1 percentage points of GDP. However, their negative impact should be slightly less than in 2012, mainly thanks to the improvement in the primary surplus, though for 2013 this positive factor is unlikely to offset the dip in nominal GDP growth. The improvement in the primary balance is therefore not likely to be sufficient to stabilise the public debt ratio.

CHART 8 CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT IN BELGIUM AND IN THE EURO AREA
(in % of GDP)



Sources : EC, NAI, NBB.

Exogenous factors, thus named because they affect the debt but not the overall balance, are predicted to exert a positive influence of 0.8 percentage point of GDP on the debt in 2013. The loans granted under the EFSF, like the capital injections in the ESM, are likely to contribute to an increase in the debt ratio, while the repayment by KBC and the sale of Royal Park Investments and Fortis Bank should very largely counterbalance that upward effect.

In 2014, the debt ratio is expected to reach 100.8 % of GDP, 0.7 percentage point of GDP higher than in 2013. That is almost exclusively due to exogenous factors, such as the loans granted by the EFSF and the capital injections in the ESM, but also to a range of factors resulting from treasury management⁽¹⁾. Endogenous factors are predicted to have a slightly negative influence on the debt. According to these projections, the improvement in nominal GDP growth and the level of the primary balance are not yet sufficient to avoid the public debt snowball effect.

6. Risk factor assessment

The Bank's current projections remain similar to forecasts made by other institutions which likewise predict activity growth of around 1 % for next year. However, this close convergence in the various macroeconomic forecasts must not divert attention from the great economic uncertainty

that still surrounds these projections. Generally speaking, the risks still appear to be on the downside.

Indeed, various factors could still undermine the global recovery. First, there is the persistent uncertainty over American fiscal policy and, in particular, the need to restore expenditure growth to a more sustainable path. In addition, there is the prospect of the phasing out of a particularly accommodative monetary policy in the United States and possibly in other regions. For example, the macroeconomic projections for the United Kingdom were recently revised upwards to a significant degree which – according to the Bank of England's forward guidance – could imply a more rapid monetary tightening. Moreover, this uncertainty over the monetary policy stance in the advanced economies could further depress the growth prospects of the emerging economies via capital flows. In addition, many of those countries have to contend with serious structural challenges, so growth could prove to be weaker than currently estimated. For example, the necessary changes to the Chinese growth model could have a more negative influence on the growth of activity during a transitional period. Finally, in regard to the euro area, the debt reduction process necessary in many countries is far from complete. Here, the recovery is still very fragile and could also be hampered by reform fatigue and the accompanying heightened uncertainty over the sustainability of the (private and public) debt burden in various countries, and the associated institutional developments. Although the recovery in the euro area and in other advanced economies predicted by the previous estimates appears to be continuing, significant downside risks nevertheless persist.

At the national level, the downside risks seem to relate mainly to the movement in relative competitiveness and the persistence of favourable confidence effects. On the first point, one key factor concerns the degree to which the current control over wage costs will be maintained in 2014, as expected in the present projections, and may lead to a narrowing of the wage gap in relation to the main partner countries. However, it should be borne in mind that labour costs are only one aspect of the competitiveness differential. If the movement in Belgian competitiveness proves to be less favourable than expected – which depends, of course, on developments in the other countries – the losses of market share could worsen, causing export and activity growth to slow down, though that will only be perceptible in the medium term.

(1) This concerns the cost of repurchasing the buy-backs, the impact of issue premiums – the exceptional issue premiums recorded in 2012 and 2013 reduced the debt ratio at that time but will drive the ratio higher in 2014 – and the difference between interest on a transaction basis and a cash basis.

TABLE 7 COMPARISON WITH ESTIMATES OF OTHER INSTITUTIONS
(year-on-year GDP growth, in volume, in %)

Institution	Latest forecasts			Earlier forecasts		
	Date of publication	2013	2014	Date of publication	2013	2014
Federal Planning Bureau	September 2013 ⁽¹⁾	0.1	1.1	May 2013 ⁽²⁾	0.2	1.2
Belgian Prime News	September 2013	0.0	1.0	June 2013	0.1	1.2
IMF	October 2013	0.1	1.0	April 2013	0.2	1.2
Consensus Economics	October 2013	0.0	0.9	June 2013	0.0	1.0
EC	November 2013	0.1	1.1	May 2013	0.0	1.2
OECD	November 2013	0.1	1.1	May 2013	0.0	1.1
NBB	December 2013	0.2	1.1	June 2013	0.0	1.1

(1) Economic budget.

(2) Economic forecasts 2013-2018.

In regard to confidence effects, one might point out, for example, that stabilisation of the household savings ratio, as predicted in these projections, clearly depends on a continuing decline in uncertainty. Increased uncertainty over the medium-term income prospects, caused for instance by a slower recovery in employment, could give rise to higher precautionary savings. Similarly, greater uncertainty among producers regarding the demand prospects could dampen the revival of business investment or employment. The confidence of Belgian

consumers, investors and employers is naturally very dependent on the international economic outlook, but purely national factors, such as uncertainty over fiscal policy, may also play a part. Conversely, more robust global growth could also trigger stronger positive confidence effects which could cause domestic demand to pick up faster than forecast by the projections. Finally, the federal and regional elections in May 2014 and the ensuing formation of governments could likewise be a factor of uncertainty.

Annex

PROJECTIONS FOR THE BELGIAN ECONOMY: SUMMARY OF THE MAIN RESULTS

(percentage changes compared to the previous year, unless otherwise stated)

	2010	2011	2012	2013 e	2014 e
Growth (calendar adjusted data)					
GDP in volume	2.3	1.8	-0.1	0.2	1.1
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.4	1.1	-0.2	0.0	1.1
Net exports of goods and services	0.6	-0.3	0.5	0.5	0.0
Change in inventories	0.3	0.9	-0.4	-0.3	0.0
Prices and costs					
Harmonised index of consumer prices	2.3	3.4	2.6	1.2	1.3
Health index	1.7	3.1	2.7	1.3	1.4
GDP deflator	2.1	2.0	1.9	1.6	1.5
Terms of trade	-1.6	-1.3	-0.2	-0.4	0.6
Unit labour costs in the private sector	-0.4	2.6	4.4	1.7	0.6
Hourly labour costs in the private sector	0.9	2.4	3.7	2.1	1.1
Hourly productivity in the private sector	1.3	-0.2	-0.7	0.4	0.6
Labour market					
Domestic employment (average annual change in thousands of persons)	30.2	63.4	9.4	-17.4	2.5
Total volume of labour ⁽¹⁾	1.0	2.1	0.2	-0.4	0.5
Harmonised unemployment rate ⁽²⁾ (in % of the labour force)	8.4	7.2	7.6	8.7	9.1
Incomes					
Real disposable income of individuals	-1.2	-0.9	1.2	0.9	1.1
Savings ratio of individuals (in % of disposable income)	15.2	14.1	15.2	15.5	15.6
Public finances⁽³⁾					
Overall balance (in % of GDP)	-3.7	-3.7	-4.0	-2.8	-2.8
Primary balance (in % of GDP)	-0.4	-0.4	-0.6	0.4	0.3
Public debt (in % of GDP)	95.7	98.0	99.8	100.1	100.8
Current account					
(according to the balance of payments, in % of GDP)	1.9	-1.1	-2.0	-1.7	-1.1

Sources: EC, DGSEI, NAI, NBB.

(1) Total number of hours worked in the economy.

(2) In % of the labour force (15-64 years), data not adjusted for calendar effects.

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