

Economic Review

December 2017



Economic projections for Belgium – Autumn 2017

Introduction

As expected, the global economy recorded relatively sustained growth in the first two quarters of 2017. According to the initial quarterly statistics and the leading indicators for some major countries, this growth pace would – at least – have been maintained in the second half of the year. In the common assumptions adopted for these projections with a cut-off date of 23 November 2017, the main ones being described in box 1, it is assumed that global year-on-year growth excluding the euro area will pick up slightly at first, but then subside a little from 2018. That contraction is likely to occur because the gradual slowdown in some advanced countries will not be entirely offset by the stronger growth seen in a number of emerging countries, such as the expected strengthening of the Brazilian economic recovery.

World trade rebounded strongly in the first half of 2017: according to the initial available data, global trade flows expanded at almost twice the pace of global GDP. This widespread phenomenon seems to be due in particular to the revival of highly import-intensive investment. The effect of the recovery in the emerging countries combined with the increasing supply constraints in a number of advanced countries may have also sparked a further extension of the global production chains. The marked expansion of trade also makes global growth more robust and less dependent on the situation in certain individual countries. However, similar to the latest projections by other international institutions, the common assumptions used for these Eurosystem estimates consider this to be partly the result of a series of one-off factors, and they therefore allow for a gradual decline in the trade intensity of growth during the projection period, so that the expansion of trade will fall back into line with world GDP

growth. The underlying idea is that some factors which have accentuated that trade intensity in the past, such as the progressive liberalisation of trade, will exert less influence in the future. In recent months, the financial markets have remained calm. Up to now, the tightening of monetary policy initiated in the United States and the announcement of the reduction of quantitative easing in the euro area from January 2018, as well as the ever-present geopolitical risks, have generated surprisingly little volatility. In fact, stock markets have continued rising strongly, reflecting the favourable profit outlook but probably also investors' search for yield which is fuelling a marked increase in the prices of other assets such as property. In the euro area, interest rates are still close to their historical floor, notably on account of inflation which has risen only modestly so far. However, oil prices have staged a fairly substantial rise since mid-2017. In view of the continuation of the current production restrictions and the only temporary impact of extreme weather phenomena which mainly affected American production, that rise essentially reflects the revival of world demand for oil, driven by the favourable global economic situation. However, the most significant development occurred on the foreign exchange markets, where the euro has appreciated considerably since the summer, partly as a result of the relative adjustment of the growth figures (or outlook) for the euro area.

According to the latest statistics, the pace of activity in the euro area continued to strengthen significantly from the autumn of 2016, at an average of 0.6 % over the past four quarters. Real GDP growth is therefore estimated at 2.4 % this year, representing the strongest rise for ten years. Growth gained steam in both Germany and France, and remained very robust in Spain and the Netherlands. Recently, also Italian activity gained some momentum,

even though its expansion is still clearly below the euro area average. The most relevant short-term indicators, such as those concerning business confidence, continue to point to a very favourable outlook for the euro area in the immediate future, with growth expected to remain practically unchanged in the final quarter of 2017. However, according to the new Eurosystem estimates, which run until 2020 this time – and incorporate the autumn projections discussed in this article and completed on 30 November – activity in the euro area is subsequently set to slow down gradually. The slowdown is due to the weakening momentum of global growth and world trade mentioned earlier, which will cause a gradual slackening of external demand, but also due to the labour market supply constraints which will be an impediment to growth in some major countries. Annual growth in the euro area is in fact predicted to slow gradually to 1.7% by 2020. Inflation in the euro area is bolstered this year by rising energy prices. Leaving aside that component and other volatile factors, core inflation is set to increase throughout the projection period, reflecting the growing pressure of domestic costs, but will remain below 2% at the end of 2020.

In regard to Belgium, the macroeconomic estimates were barely revised compared to the spring projections. The growth estimate for 2017 has been upgraded slightly to 1.7%, mainly on account of the revision of the quarterly statistics for the first half of the year. However, growth will then decline gradually up to 2020, the principal factor being the moderation in the business investment cycle and the traditional drop in local government investment following the elections. The negative growth gap between Belgium and the euro area, which opened up in 2015, will diminish, but will not entirely vanish during the projection period.

In 2017, employment clearly exceeded the spring projections, partly as a result of the revision of the initial quarterly statistics, and actually strengthened in comparison with 2016. This implies that the expansion of employment has practically kept pace with the growth of activity for two years now, which is very unusual in the context of a cyclical upturn. Hence, there is little doubt that the job creation was driven by the recent policy measures, and especially the wage cost moderation which makes labour relatively cheaper, as well as by certain structural labour market reforms which are boosting the effective labour supply. The strong jobs growth is accompanied by a rising participation rate, particularly among older workers who are remaining active on the labour market for longer as a result of the various reforms. Yet the current forecasts still assume that the additional stimulus of those measures will fade away and that employment growth will gradually

slow down, not only because labour costs begin rising again but also owing to the increasing impact of labour market shortages – as is already evident from the growing number of unfilled vacancies – so that firms will find it increasingly difficult to obtain suitable staff. The unemployment rate is set to decline further to just under 7%, which is close to the level prevailing immediately before the great recession.

Inflation, which stands at 2.2% in 2017, will ease considerably in 2018, dropping to around 1.6%. It will be tempered by various factors, particularly the expected levelling out of oil prices and the impact of the euro's recent appreciation, which makes imports cheaper, but also the abolition of the energy levy on domestic electricity consumption in the Flemish Region with effect from 1 January 2018. Core inflation edges upwards during the projection period even though, as in the past, the strong rise in labour costs will not be entirely passed on in prices; instead, it will lead to moderation of profit margins.

Finally, turning to public finances, the budget deficit fell much more steeply than expected in 2017, to 1.2% of GDP. The main factor here is the substantial increase in advance payments by companies and, to a lesser extent, the favourable effect of the strong job creation on public revenues and expenditure. However, the budget deficit is set to rise again in the years ahead, as the deterioration in the primary surplus will be only partly offset by the further fall in interest charges. At the end of the projection period, the budget deficit will still stand at 1.5%, which is far short of the target of a structurally balanced budget. The government's debt ratio is gradually falling, but the debt level will still exceed GDP at the end of the projection period. Here it should be remembered that, in accordance with the Eurosystem rules for such projection exercises, account is only taken of measures which, on the cut-off date for the estimates, the government has already specified in sufficient detail and formally approved or is very likely to approve. Furthermore, the estimates of the impact on the budget of certain measures, such as those to combat fraud, differ from the amounts included in the budget.

1. International environment and assumptions

1.1 World economy

After picking up in the second half of 2016, global economic growth continued to gain momentum in 2017. Growth also became more broadly based in geographical

terms, in both the advanced and the emerging economies. In the advanced economies, the vigorous activity was supported by the continuing accommodative monetary policy and restoring consumer and business confidence. It was based primarily on the dynamism of domestic demand and, more particularly, on a strong investment revival. In the emerging economies, growth recorded a slightly more moderate strengthening, but the variations between countries diminished considerably. The improvement in the global macroeconomic outlook was accompanied by a world trade revival and a strong rise in the valuation of assets on global markets. Conversely, commodity prices were more volatile.

In the emerging countries, there was a further slight strengthening of the robust growth of the Chinese economy. Economic activity benefited from substantial export growth which more than offset the slight slackening of domestic demand. Private consumption was fairly stable, while investment was down slightly, so that a considerable amount of production capacity remained unused. Fiscal policy was still relatively expansionary, and that was reflected in particular in a high level of public investment. The People's Bank of China maintained a "neutral" monetary policy stance. However, against the backdrop of a heavy debt burden and increased risks to financial stability, the Chinese authorities took new measures to halt the constant credit expansion.

In the commodity-exporting countries – and more especially those producing fossil fuels – activity was still depressed overall by the persistently low commodity prices, although those did exceed the 2016 average. However, Brazil and Russia recorded positive growth again after two years of deep recession. In Brazil, the recovery was initially supported by agriculture, but subsequently strengthened and spread to the other economic sectors, while falling inflation bolstered household consumption. In Russia, the economy picked up gradually from the end of 2016 as a result of rising oil prices, stabilisation of the rouble, and the steady decline in inflation. Both private consumption and private investment contributed to the revival in the context of a clear restoration of confidence and improving financing conditions. Conversely, in India, the effects of the measures to rein in the shadow economy, such as demonetisation and the harmonisation of taxes on goods and services, dampened growth, which is estimated at just under 7% this year.

As regards the advanced economies, activity in the United States surged in 2017, further fuelling the ongoing improvement in the labour market. Underpinned by a marked increase in investment, growth gradually picked up, reaching 3.3% year-on-year in the third quarter. In

November, as a result of job creation, the unemployment rate was back down to the level prevailing in the early 2000s, at 4.1%. Private consumption remained robust, supported in particular by the wealth effects associated with the good performance of the asset markets and the rise in wages, albeit still moderate. Despite these favourable developments, inflation remained below target and inflation expectations were still relatively low.

In Japan, economic activity accelerated against the backdrop of highly accommodative financing conditions and significant government measures to support the economy. The growth of exports resulting from the upturn in international trade supported investment, while consumption benefited from a new improvement in employment. However, with energy and food prices excluded, inflation still remained close to zero. The main explanatory factor seems to be the extreme caution displayed by Japanese firms in setting wages and prices. Despite unemployment running at less than 3%, a growing labour shortage and a surge in corporate profits, wages hardly increased at all in real terms.

In the United Kingdom, the economy began to slow down at the end of 2016, after the initial resilience following the vote on 23 June 2016 in favour of exit from the European Union. Corporate investment remained modest owing to uncertainty over the decision to leave the European Union, and private consumption suffered in particular from the fall in purchasing power. That fall is due more specifically to the strong rise in inflation resulting from the sharp depreciation of the pound sterling during 2016. Conversely, the lower pound boosted exports which, in contrast to imports, increased strongly. As a result, the growth slowdown was modest, and thanks to the sustained job creation unemployment declined further to less than 4.5%.

In the euro area, economic growth picked up in 2017. It was supported primarily by domestic demand and became widespread across countries and sectors. Although private consumption was restrained by weak wage growth, it benefited from a new labour market revival, with the overall unemployment rate falling to 8.8% in October, its lowest level in nine years. Investment gained support from the continuing favourable financing conditions and from the rise in consumer confidence, increased profitability and a strengthening of global demand. Exports recorded substantial growth in view of the world trade revival. The marked improvement in the macroeconomic outlook for the euro area was backed by the progress achieved in cleaning up banks' balance sheets, although substantial outstanding amounts of non-performing loans persist in places.

Despite continuing significant discrepancies, all euro area countries contributed to the economic expansion recorded in 2017. While economic growth was consolidated in Germany and the Netherlands, it gathered pace in France and Italy. In Spain, activity remained robust and GDP surpassed its pre-crisis level.

After reaching 1.9% in April, mainly as a result of the rise in energy prices, headline inflation in the euro area subsided again. At 1.5% in November, it was well short of the ECB's target of close to 2%. Core inflation, i.e. excluding food and energy prices, increased for a time during the year to reach 1.2% in April and in the summer. However, recently it has fallen again to just 0.9% in November as a result of the continuing weak pricing and wage-setting dynamics.

After a marked slowdown in 2016, global trade flows recovered from the last quarter of 2016. Once again, the growth of world trade significantly outpaced the expansion of activity. The stronger trade dynamics were seen in both the advanced and the emerging economies, pointing to a rise in global demand, and more particularly increased investment which has a relatively high import content. Apart from the renewed dynamism in the euro area, where trade is particularly intense, the stronger growth in China and the United States played a dominant role. The expansion of Chinese exports fuelled trade between the Asian countries, while in the United States the oil price recovery underpinned investment in the energy sector.

Driven by encouraging macroeconomic news and the continuing accommodative monetary policy, the financial markets flourished throughout the world. The renewed risk appetite was accompanied by lower volatility in the main market segments, and more specifically on the bond market. Despite certain measures and signals indicating or presaging the start of monetary tightening in most of the advanced economies, yields on long-term sovereign

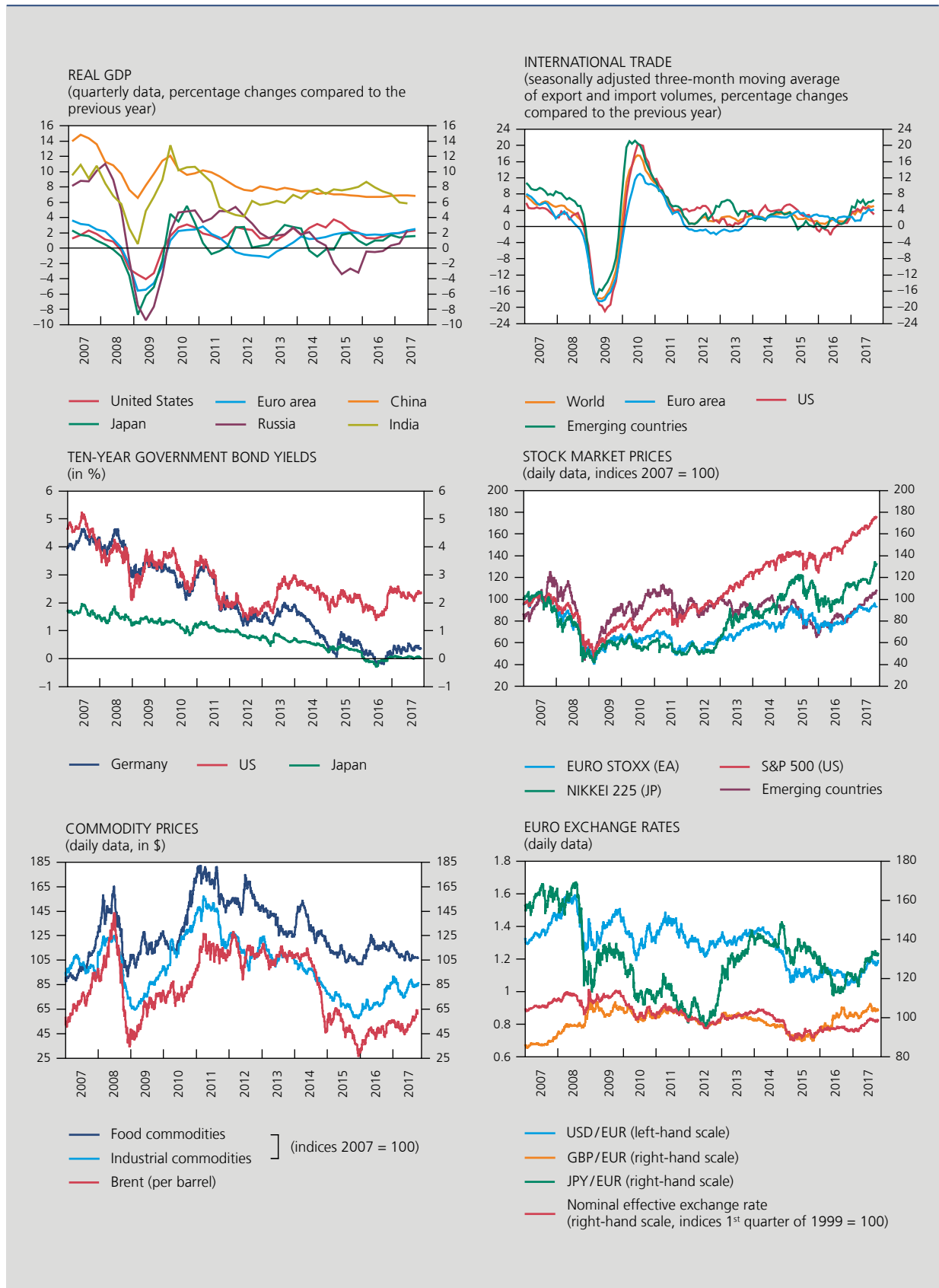
bonds remained low and stable in a rather low inflation environment. Equity markets produced a solid performance, while corporate bond spreads narrowed further. In the euro area, spreads on sovereign bonds continued to diminish gradually in the context of a general economic recovery. Sentiment regarding the emerging economies also continued to improve, while the attraction of high yields stimulated the inflow of capital.

On the foreign exchange markets, uncertainty over the development of US macroeconomic policy – both monetary and fiscal – depressed the US dollar, which fell against most currencies of the advanced and emerging economies. In contrast, as a result of the euro area's good macroeconomic performance and in anticipation of a very gradual tightening of the Eurosystem's monetary policy, the euro appreciated in effective terms.

After approaching the \$ 60 per barrel mark at the end of 2016, the oil price fell by almost 15% in the first half of 2017, despite the decision by OPEC and some other exporters to extend until March 2018 the production restrictions agreed at the end of 2016. In the second half of the year, however, the crude oil price escalated to almost \$ 65 per barrel in the autumn. Strong demand from Europe and the United States combined with the growing political uncertainty in Saudi Arabia, the world's largest oil-exporting country, were major factors contributing to that rise. Finally, expectations concerning renewal of the said OPEC agreement, eventually decided on 30 November (namely renewal of the agreement until the end of 2018), drove prices up at the end of the year. Commodity prices excluding energy also declined in the first half of the year before picking up to some extent in the second half. That applied in particular to metal prices, which benefited greatly from the improvement in the economic climate and more especially from the increased dynamism of the Chinese economy. Agricultural prices generally remained stable.

CHART 1

THE GLOBAL ECONOMY AND DEVELOPMENTS ON THE FINANCIAL MARKETS AND COMMODITY MARKETS



Sources: CPB Wereldhandelsmonitor, OECD, Thomson Reuters Datastream.

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

	2016	2017 e	2018 e	2019 e
Real GDP				
World	3.2	3.5	3.7	3.7
of which:				
Advanced countries	1.8	2.4	2.2	2.1
United States	1.5	2.2	2.3	2.1
Japan	1.0	1.6	1.2	1.0
European Union	1.9	2.3	2.1	1.9
Emerging countries	4.3	4.5	4.8	4.9
China	6.7	6.8	6.5	6.2
India	7.9	6.6	7.5	7.6
Russia	-0.2	1.7	1.6	1.5
Brazil	-3.6	0.7	1.8	2.0
<i>p.m. World imports</i>	2.4	4.3	4.3	4.2
Inflation⁽¹⁾				
United States	1.3	2.0	2.1	2.2
Japan	-0.1	0.4	0.8	1.2
European Union	0.3	1.7	1.7	1.8
Unemployment⁽²⁾				
United States	4.9	4.5	4.3	4.1
Japan	3.1	2.9	2.8	2.7
European Union	8.6	7.8	7.3	7.0

Source: EC.

(1) Consumer price index.

(2) In % of the labour force.

Box 1 – Assumptions for the projections

The macroeconomic projections for Belgium described in this article form part of the joint Eurosystem projections for the euro area. That projection 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 the projections, it is assumed that future exchange rates will remain constant throughout the projection period at the average levels recorded in the last ten working days before the cut-off date of the assumptions, i.e. 23 November 2017. In the case of the US dollar, the exchange rate then stood at \$ 1.17 to the euro, implying a clear appreciation of the euro compared to the average level in 2016.

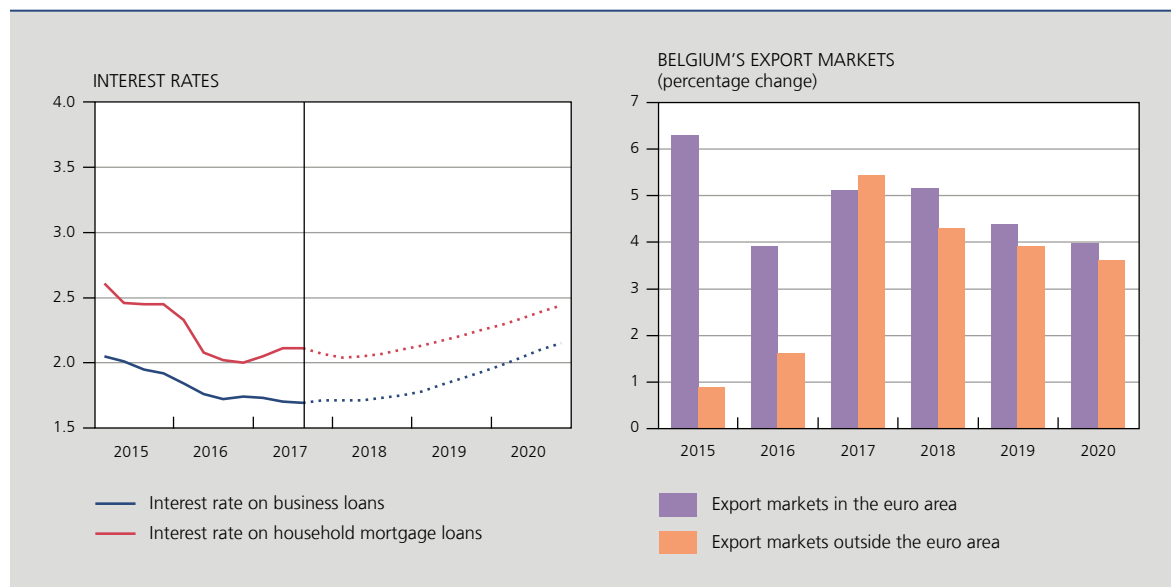
As usual, the assumptions concerning oil prices take account of market expectations as reflected in forward contracts on the international markets. In mid-November 2017, the markets expected the price per barrel of

Brent crude to rise fairly strongly towards the end of the year, before subsiding gradually from the beginning of 2018.

The interest rate assumptions are likewise based on market expectations in mid-November 2017. The three-month interbank deposit rate has been stable for more than a year and a half, at around –30 basis points, but is expected to edge upwards and rise above zero again towards the end of the projection period. The level of Belgian long-term interest rates is projected to rise more sharply from 0.8 % in the third quarter of 2016 to an average of 1.3 % in 2020.

INTEREST RATES AND VOLUME GROWTH OF EXPORT MARKETS

(in %)



Source: Eurosystem.

However, the expected movement in bank interest rates on business investment loans and household mortgage loans may diverge somewhat from that in market rates. For instance, the average mortgage interest rate is historically low, on account of the particularly accommodative monetary policy of the ECB and the resulting abundant liquidity. Nevertheless, it is set to rise gradually from around 2.1 % in 2017 to 2.4 % by the end of the projection period. The average interest rate on business loans, which is closer to the short-term segment, is also expected to rise slowly over the projection period: in 2020 it is forecast at an average of 2.1 %, i.e. about 0.4 percentage point above the 2017 figure.

As mentioned in chapter 1, the world economy has clearly gained momentum. Moreover, trade flows expanded much more vigorously than global GDP. However, their strong end to the year in 2016 and the robust start to 2017 are considered partially exceptional and, according to the Eurosystem's common assumptions, global import growth would therefore gradually return to a pace more in line with the growth of global activity. Nonetheless, the favourable start to the year has already enabled substantial annual growth on Belgium's export markets in 2017: at over 5 %, that growth represents the highest figure for six years. Conversely, over the remainder of the projection period, the expansion of Belgium's export markets is expected to weaken slightly, particularly on account of the slowdown in the euro area, dropping to a still robust rate of 3.8 % on average in 2020.



The trend in Belgian exports is determined not only by the growth of those foreign markets but also by the movement in market shares, and consequently by Belgium's competitiveness. As regards the cost aspects of competitiveness, fluctuations in the prices that competitors charge on the export markets are a key factor. In 2018, the more expensive euro will be reflected in a relatively small increase in the prices of competing exporters outside the euro area. In subsequent years, rising inflation in the euro area – but also elsewhere – will gradually lead to renewed upward pressure on the prices of Belgian exporters' competitors if exchange rates remain constant.

EUROSYSTEM PROJECTION ASSUMPTIONS

(in %, unless otherwise stated)

	2017	2018	2019	2020
	(annual averages)			
EUR/USD exchange rate	1.13	1.17	1.17	1.17
Oil price (US dollars per barrel)	54.3	61.6	58.9	57.3
Interest rate on three-month interbank deposits in euro	-0.3	-0.3	-0.1	0.1
Yield on ten-year Belgian government bonds	0.7	0.8	1.0	1.3
Business loan interest rate	1.7	1.7	1.9	2.1
Household mortgage interest rate	2.1	2.1	2.2	2.4
	(percentage changes)			
Belgium's relevant export markets	5.3	4.8	4.2	3.8
Export competitors' prices	2.2	0.3	2.0	2.1

Source: Eurosystem.

1.2 Estimates for the euro area

The Eurosystem's current growth estimates for the euro area have been clearly upgraded compared to the ECB's previous projections dated September 2017. During this year, activity has already accelerated more strongly than expected and, in view of the marked expansion of trade volumes, import demand from outside the euro area was revised upwards, especially for the first half of the projection period.

The euro area's economy is estimated to have grown by 2.4% in 2017 and is likely to maintain a similar pace in 2018. After that, the expansion of activity is predicted to slacken, though it will still considerably exceed potential growth. That slowdown is due to the assumed gradual weakening of the trade intensity of global growth, which will cause import demand from countries outside the euro area to rise less rapidly; another factor is that labour market supply constraints will increasingly impede growth

in certain countries, including Germany. Following a further decline in 2017, the household savings ratio is set to pick up gradually from next year, curbing the growth of consumption. That is due not only to the usual inertia in adjusting consumption patterns to rising incomes, but also to the need to dismantle household debt positions against the backdrop of rising market interest rates.

Despite some short-term volatility, the forecasts predict that inflation will remain fairly flat until well into the projection period. The assumed flattening of the oil price at the beginning of 2018 means a sharp fall in energy inflation. However, that is gradually more than offset by the rising domestic cost pressure. Labour costs are set to increase considerably, partly owing to the abolition of certain measures which have tended to moderate the rise in labour costs in various countries, but more generally as a result of increasing labour market tensions. Excluding the volatile components, core inflation is estimated at 1.8% at the end of 2020.

TABLE 2 EUROSISTEM PROJECTIONS FOR THE EURO AREA

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

	2016	2017 e	2018 e	2019 e	2020 e
Real GDP	1.8	2.4	2.3	1.9	1.7
Household and NPI final consumption expenditure	2.0	1.9	1.7	1.6	1.5
General government final consumption expenditure	1.7	1.2	1.2	1.2	1.2
Gross fixed capital formation	4.4	4.4	4.3	3.4	2.9
Exports of goods and services	3.3	5.0	5.1	4.1	3.7
Imports of goods and services	4.7	5.1	5.2	4.4	3.9
Inflation (HICP)	0.2	1.5	1.4	1.5	1.7
Core inflation ⁽¹⁾	0.9	1.0	1.1	1.5	1.8
Domestic employment	1.4	1.7	1.3	1.0	0.8
Unemployment rate ⁽²⁾	10.0	9.1	8.4	7.8	7.3
General government financing requirement (–) or capacity ⁽³⁾ ...	–1.5	–1.1	–0.9	–0.9	–0.5

Source: ECB.

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

(2) In % of the labour force.

(3) In % of GDP.

The labour market recovery continued to gain momentum this year. That primarily reflects the further expansion of activity; however, the labour intensity of that increased growth has diminished slightly. As the scarcity of suitable staff intensifies and activity slows down somewhat, job creation in the euro area will gradually run out of steam. Nonetheless, employment growth is still strong enough to reduce the unemployment rate to 7.3 % by the end of the projection period, the lowest figure for more than 35 years.

The average budget deficit in the euro area, which barely exceeds 1 % of GDP this year, is forecast to continue falling to 0.5 % of GDP in 2020. That improvement is attributable mainly to the upturn in the economy and the continuing reduction in interest charges resulting from the unusually low level of interest rates. Conversely, the structural primary balance which is an indicator of the underlying fiscal policy will probably remain virtually unchanged over the whole of the projection period. The decline in the public debt ratio, driven by the low level of interest rates, will continue: in 2020, the debt ratio will have fallen by more than 11 percentage points below its 2014 peak.

2. Activity and demand

According to the current quarterly statistics, economic activity got off to a good start in the first half of the year, with growth increasing to an average of 1.7 %

year-on-year. On the expenditure side, that growth is largely due to the contribution from private consumption, but also – and above all – to the underlying expansion of investment, at least if an adjustment is made to allow for the impact of specific major purchases of investment goods abroad by large multinationals at the end of 2016. On the production side, the increased activity in market services was the main contributor to growth, while value added in manufacturing industry decreased.

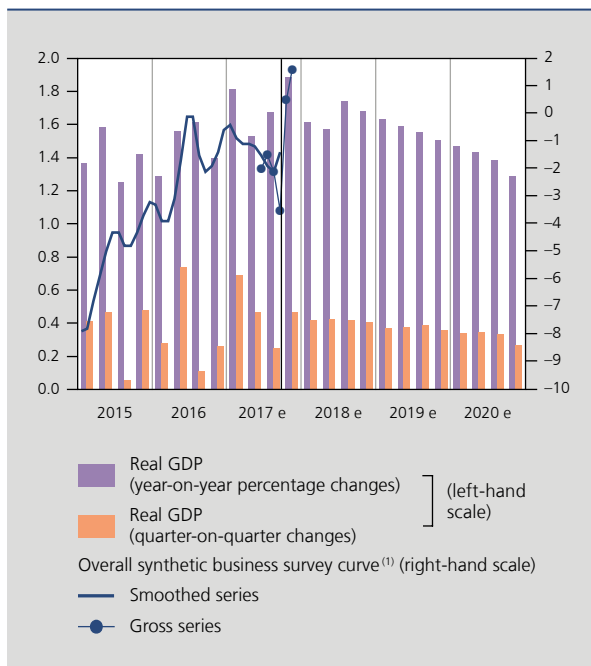
In the third quarter, growth subsided somewhat to 0.3 % quarter-on-quarter, though year-on-year growth was steady at 1.7 %. The gradual decline in quarterly growth mirrors the trend in business confidence which weakened since the beginning of the year, although it is still above the long-term average and began rising again from October. In contrast, consumer confidence has been rising almost continuously, and in October actually reached its highest level since the summer of 2001. These and other short-term indicators suggest that growth in the last quarter of this year will be slightly up again, as is also signalled by the nowcasting models used at the Bank. Although some models predict a stronger acceleration, the current estimates assume quarterly growth of 0.5 % in the final quarter of 2017.

In all, thanks to the strong first half of the year, economic growth year-on-year will have accelerated slightly in 2017 to reach 1.7 %. That growth rate is expected to persist in 2018, but in subsequent years activity will gradually

CHART 2

GDP AND BUSINESS CONFIDENCE

(data adjusted for seasonal variations and calendar effects, unless otherwise stated)



Sources: NAI, NBB.
(1) Non calendar adjusted data.

slacken, producing growth of 1.4% in 2020. That reflects the deceleration of Belgium’s export markets and a normalisation of the expansion of business investment, accentuated by the traditional post-election fall in public investment from 2019. Furthermore, certainly towards the end of the projection period, economic growth will be curbed by supply constraints, particularly in some geographical or functional segments of the labour market.

Over the projection period as a whole, just as in the preceding years, growth will clearly be driven by domestic demand, as the growth contribution of net exports will remain negative throughout the projection period at an average of –0.1 percentage point.

In 2016, imports and exports recorded very strong growth, but that was partly due to the reorganisation of the trading activities of a multinational pharmaceutical company in favour of its Belgium-based subsidiaries, so that from the second quarter of 2016 more trade flows to and from Belgium appeared in the statistics. Since imports and exports were both influenced upwards to practically the same degree, there was no net impact on GDP, though it is necessary to make an adjustment to take account of this statistical effect when examining the movement in market shares. The adjusted export growth in 2016 tallied much more

closely with the import growth of the trading partners, so that in reality the movement in Belgian exporters’ market shares was broadly neutral. In 2017, the (adjusted) loss of market shares increases fairly steeply to just over 1 percentage point, and according to the projections, there will be further losses of market shares amounting to around 0.4 percentage point per year over the projection period. That is mainly due to the pressure of domestic costs, which will rise again from 2017, ending the improvement in cost competitiveness compared to other countries. In line with the very gradual weakening of world demand, export growth will fall slightly, quarter-on-quarter, to average 0.8% in the last year of the projection period. Since import growth will be somewhat stronger, partly owing to buoyant domestic demand, the growth contribution of net exports remains slightly negative on a quarterly basis throughout the projection period.

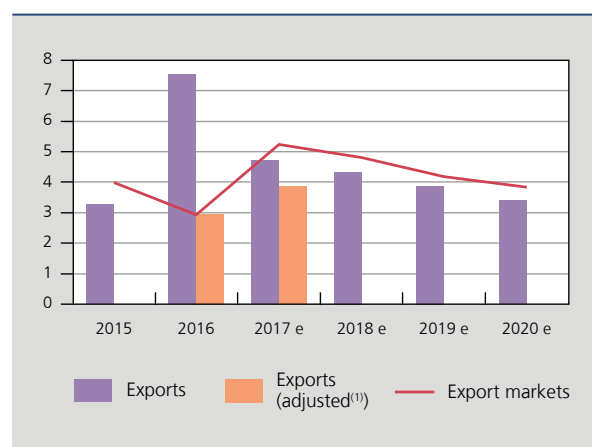
In 2017, stock-building will also have made a positive contribution to growth; that follows essentially from the statistics already available, because – as usual – according to the technical assumptions adopted for all the quarters covered by the projection periods, the growth contribution of the change in inventories is neutral, owing to the great statistical uncertainty surrounding that concept.

The robust increase in domestic demand during the projection period is due mainly to private consumption. After the strong growth recorded by that component in 2016, the figure was significantly lower this year,

CHART 3

EXPORTS AND EXPORT MARKETS

(volume data adjusted for seasonal and calendar effects, percentage changes compared to the previous year)



Sources: NAI, NBB.

(1) Export growth adjusted to take account of expenditure due solely to the reorganisation of the commercial activities of a large pharmaceuticals company in 2016. Since the impact of the reorganisation only becomes apparent from the second quarter of 2016, year-on-year export growth in the first quarter of 2017 can still be considered exceptional.

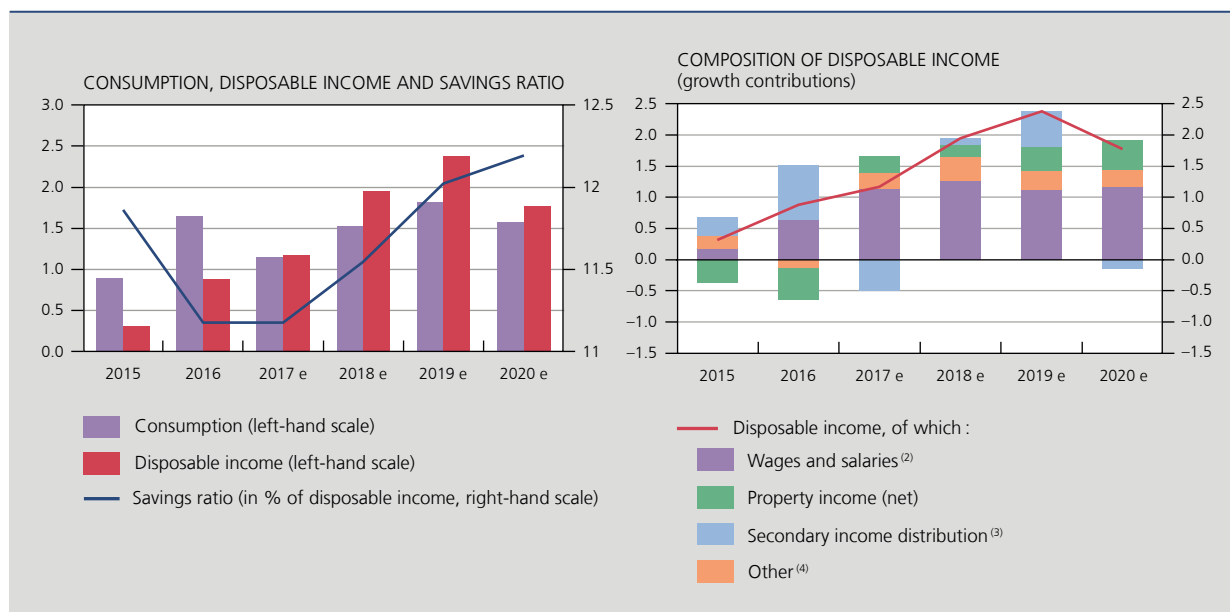
notably on account of a slowdown in purchases of durable goods. Nonetheless, the current forecasts point to a gradual acceleration of consumption growth during the projection period, rising to quarterly growth of 0.4% or more, though the pace slackens a little in 2020. Household consumption mirrors the increasing income growth, and in particular the acceleration of labour incomes.

That rise is due to the expansion of employment – which, though slowing down, should remain vigorous for some time – and above all to the increase in real wages. Furthermore, from this year onwards, property incomes should also positively contribute to household income growth once again, owing to the expected rise in interest rates and the increase in dividends paid out by companies. Finally, household purchasing power is also supported by the additional tax cuts planned for the coming years via the tax shift. They will give a strong boost to income growth, particularly in 2019. In 2018, the favourable impact of the tax shift will still be partly offset by the increase in certain levies on financial transactions and incomes, following the 2018 federal budget. In 2020, income growth diminishes again slightly, notably because there are no additional tax shift measures that year so that the positive contribution from the secondary income distribution disappears.

This year, annual consumption growth will roughly equal the growth of incomes, so that the savings ratio remains stable, but from 2018 that ratio begins rising again. On the one hand, households will as usual take time to adjust their expenditure to the increase in net labour incomes, and more generally to income fluctuations, thus smoothing their consumption profile and reducing its volatility. The upward trend in the savings ratio is also attributable to the restoration of the share of disposable income represented by property incomes, because a larger proportion of such income is generally saved.

Apart from private consumption, private investment will also continue to support growth, albeit to a diminishing extent. Excluding the distortion caused by certain specific purchases of investment goods abroad, which had driven up investment in 2016, the expansion of business investment in 2017 is particularly vigorous, with volume growth of 5.6%. The underlying determinants of investment remain favourable thanks to still favourable financing conditions, ample cash reserves, a growing operating surplus, low interest rates and increasing capacity utilisation, which will lead to ever more investment in expansion. In the years ahead, the growth of business investment is nevertheless set to subside gradually to a more normal pace, closer to the increase usually seen in this phase of the business cycle.

CHART 4 HOUSEHOLD CONSUMPTION AND DISPOSABLE INCOME ⁽¹⁾
(volume data, percentage changes compared to the previous year, unless otherwise stated)



Sources: NAI, NBB.

(1) Data deflated by the household consumption expenditure deflator.

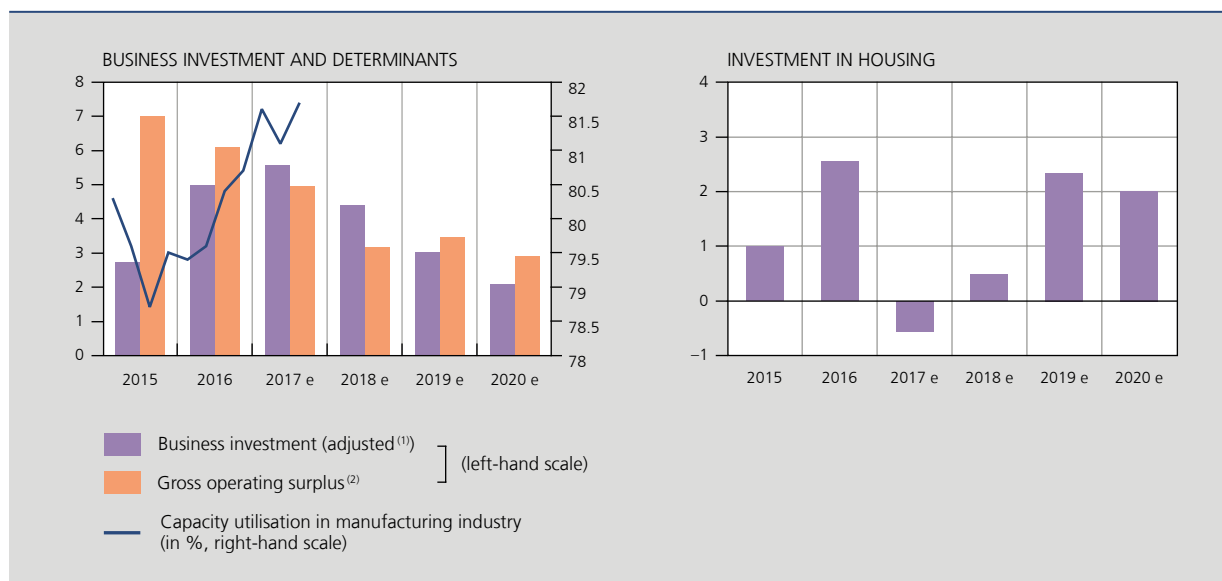
(2) Excluding employers' social contributions.

(3) Including employers' social contributions.

(4) 'Other' comprises the gross operating surplus and gross mixed income (of self-employed persons).

CHART 5 BUSINESS INVESTMENT AND INVESTMENT IN HOUSING

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



Sources: NAI, NBB.

(1) Adjusted to take account of major purchases of specific investment goods abroad.

(2) In nominal terms.

TABLE 3 GDP AND MAIN EXPENDITURE CATEGORIES

(seasonally adjusted volume data; percentage changes compared to the previous year, unless otherwise stated)

	2016	2017 e	2018 e	2019 e	2020 e
Household and NPI final consumption expenditure	1.7	1.2	1.5	1.8	1.6
General government final consumption expenditure	0.5	0.8	0.7	0.6	0.7
Gross fixed capital formation	3.6	1.0	3.8	2.5	2.2
general government	-3.1	2.7	6.4	-1.2	3.0
housing	2.6	-0.6	0.5	2.3	2.0
business	4.9	1.3	4.4	3.0	2.1
<i>p.m. Domestic expenditure excluding change in inventories⁽¹⁾</i>	1.8	1.0	1.8	1.7	1.5
Change in inventories ⁽¹⁾	0.2	0.4	-0.1	0.0	0.0
Net exports of goods and services ⁽¹⁾	-0.6	0.3	-0.1	-0.1	-0.1
Exports of goods and services	7.5	4.7	4.3	3.9	3.4
Imports of goods and services	8.4	4.4	4.5	4.0	3.5
Gross domestic product	1.5	1.7	1.7	1.6	1.4

Sources: NAI, NBB.

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

Household investment – in the form of new builds or renovation projects – also continues to be stimulated by the low interest rate environment. In that connection,

property has increasingly become an alternative form of investment for households seeking yield. The available quarterly statistics nevertheless show a marked fall in

such investment since mid-2016. That may be due to the declining impact of portfolio reallocations, given that financial market interest rates have been fairly stable for some time. However, the current projections point to a modest revival in residential investment: over the projection period, that investment will rise by 0.5 % per quarter, on average. All the same, investment in housing has yet to recover fully from the crisis, since it remains well below its 2008 peak at the end of the projection period.

Finally, as regards government expenditure, the growth of public consumption will be rather modest throughout the projection period. Conversely, public investment will, as usual, mirror the profile of the electoral cycle: following the acceleration predicted for 2018, investment growth will slow down sharply from 2019.

3. Labour market

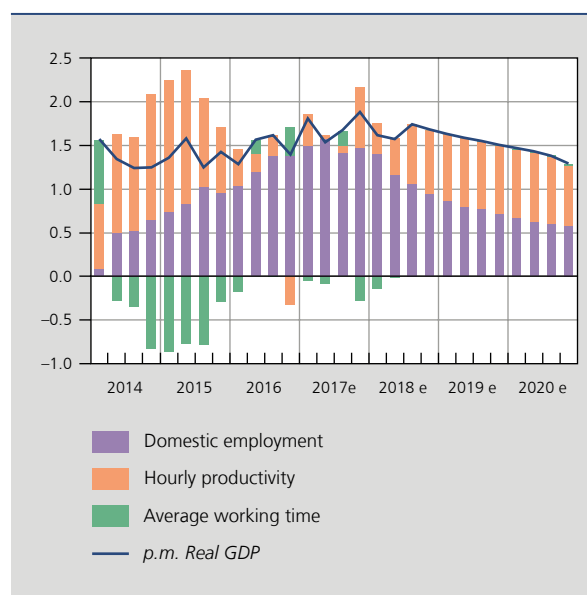
Job creation remained substantial in 2017. The number of persons in work, which had already risen by 58 000 units in 2016, will increase by a further 69 000 units this year. That is all the more remarkable since GDP growth reaches a relatively modest 1.7 %. For comparison: in 2007, for example, the number of jobs created was fairly similar (+71 000 units), but GDP growth was twice as high at 3.4 %. Over the past two years, growth has been very employment-intensive. While the exact impact cannot be assessed at present, the wage moderation policy which makes labour relatively less expensive and the various structural reforms which boost the effective labour supply have evidently helped to achieve that.

For the next three years, the projections assume that the ratio between job creation and activity growth will gradually return to a level in line with its long-term value. Thus, around 121 000 jobs are likely to be created during the period 2018-2020. On the one hand, the effect of the reforms will gradually fade away, while labour costs will begin rising again, curbing job creation. In addition, GDP growth is expected to lose momentum over the projection period as a whole, since it will not exceed 1.4 % in 2020. As unemployment continues to fall, supply shortages in certain geographical and functional segments of the labour market will increasingly moderate the expansion of employment.

Simultaneously to the strong job creation, hourly productivity growth will remain relatively weak in 2017, at 0.3 %. The causes of the slackening of productivity since 2016 are currently still being analysed. Nonetheless, several factors can already be cited, such as the shift to

CHART 6 DOMESTIC EMPLOYMENT, WORKING TIME AND PRODUCTIVITY

(contribution to GDP growth, percentage points, data adjusted for seasonal and calendar effects)



Sources: NAI, NBB.

a services economy (as the services sector is less productive than manufacturing industry), the aforesaid labour market reforms encouraging job creation mainly for low-skilled workers, and the extension of working life. Although productivity growth picks up during the projection period, it will still be lower than in the past.

Roughly 60 % of the jobs created can be attributed to the increasing number of employees in branches sensitive to the business cycle. In those branches, it is only financial and insurance activities that continue to record a decline in their workforce. In contrast to preceding years, there were no further job losses in industry and construction in 2017. The sectors seeing the most job creation are business services, on the one hand, and trade, transport and hotels and restaurants on the other.

During the projection period, the growth rate of the number of employees will decline a little faster than that of self-employed persons, as the latter are unaffected – or at least less affected – by the diminishing impact of the recent labour cost moderation and the structural reforms. Moreover, some trends encouraging a shift to self-employed status in certain jobs will persist. Against the backdrop of declining growth in the population of working age – whose impact on the labour supply is partly offset by the rise in the participation rate, accelerated by the structural labour market

TABLE 4 LABOUR SUPPLY AND DEMAND

(seasonally adjusted data; change in thousands of persons, unless otherwise stated)

	2014	2015	2016	2017 e	2018 e	2019 e	2020 e
Total population	55	59	57	58	58	54	55
Population of working age	9	16	16	13	8	4	2
Labour force	33	21	32	43	35	27	21
Domestic employment	20	40	58	69	54	38	30
Employees	14	30	44	58	44	29	22
Branches sensitive to the business cycle ⁽¹⁾ ..	-1	19	29	42	33	19	12
Public administration and education	8	2	2	3	0	0	0
Other services ⁽²⁾	7	9	13	14	12	10	10
Self-employed	6	10	13	11	10	9	8
Unemployed job-seekers	14	-19	-26	-26	-19	-11	-9
<i>p.m. Harmonised unemployment rate⁽³⁾⁽⁴⁾</i>	8.6	8.6	7.9	7.3	7.0	6.9	6.9
<i>Harmonised employment rate⁽³⁾⁽⁵⁾</i>	67.3	67.2	67.7	68.3	69.0	69.5	69.9

Sources: DGS, FPB, NAI, NEO, NBB.

(1) Agriculture, industry, energy and water, construction, trade, hotels and restaurants, transport and communication, financial activities, property services and business services.

(2) Health, welfare, community, public social services, personal services and domestic services.

(3) On the basis of data from the labour force survey.

(4) Job-seekers in % of the labour force aged 15-64 years.

(5) Persons in work in % of the total population of working age (20-64 years).

reforms – employment growth is accompanied by a fall in the number of unemployed job-seekers. In 2017, there will be on average 26 000 less compared to the previous year. That decline is expected to continue for the next three years, so that there will be roughly 39 000 fewer unemployed persons by the end of the projection period. However, it should be noted that this fall is due partly to the gradual retirement of a large cohort of unemployed persons who are now over 60 years old. After dropping sharply in the past three years, the unemployment rate is set to fall further to 6.9% in 2020.

4. Costs and prices

4.1 Labour costs

Gross wages in the private sector increased in 2017, following a period of severe wage moderation. Under the 2017-2018 central agreement, real negotiated increases were set at 1.1% for the period as a whole, namely 0.3% in 2017 and 0.8% in 2018. For 2019-2020, in the absence of a wage norm for that period, the technical assumption regarding real increases put the

growth of negotiated adjustments excluding indexation in 2019 at the same figure as in 2018, and in view of the stylised facts concerning those agreements and the increased tensions on the labour market, it was assumed that growth would be slightly higher in the second year, at 1% in 2020. The increase in hourly wages over the projection period also incorporates the wage drift, i.e. the increases due to structural factors such as the rising average age and level of skills of the working population. In addition, the relatively strong demand for labour could lead to tensions on the labour market, potentially accentuating the pressure on wages at company level, which also contributes to the wage drift. Taking account of the restoration of price indexation (which drives up nominal wages by an average of 1.6% per annum during the projection period), hourly wages are set to rise from 2017.

As a result of measures taken by successive governments to reduce labour costs, employers' social security contributions have fallen significantly. This aspect of the tax shift had its greatest impact in 2016, but its effects will still be felt up to 2020. Overall, hourly labour costs in the private sector will rise by 1.9% this year, but the pace will increase to 2.7% in 2020. However, thanks

to the accelerating recovery of productivity, the rise in unit labour costs will be more modest at around 1.6% in 2017, 1.7% in the ensuing two years, and 1.9% in 2020.

4.2 Prices

The headline inflation rate increased from an average of 1.8% in 2016 to 2.2% in 2017, owing to rising energy prices – driven mainly by oil prices – while inflation in the other categories of goods and services slowed down on average. Core inflation would thus decline from 1.8 to 1.5% in 2017, due to a slowdown in the price increases concerning non-energy industrial goods and services. There are several contributory factors here, such as the disappearance of the upward influence of the increase in higher education tuition fees in the Flemish Community (which affected inflation up to September 2016) and the smaller rise in telecommunications prices. Package prices did not rise as steeply as in 2016, and the abolition of roaming charges in June 2017 had a favourable effect on the mobile telephony price index. Finally, increases in food prices in 2016 were quite exceptional and did not occur again in 2017.

Total inflation is set to fall sharply in 2018, once again as a result of energy price fluctuations. Apart from the expected weaker rise in the price of Brent crude oil, that is largely due to the abolition of the contribution to the Energy Fund in the Flemish Region pursuant to a Constitutional Court judgment, whereas that contribution had driven up the price of electricity from March 2016. Over the remainder of the projection period, energy price inflation is predicted to be slightly negative, in line with the Eurosystem's assumptions for oil prices and, to a lesser degree, the pattern of gas and electricity prices.

Food inflation is expected to accelerate in 2018 as a result of price rises for both unprocessed and processed foods. The latter are greatly influenced by changes in excise duties: according to the budget figures announced in the summer of 2017, the duty on tobacco will increase faster in 2018. To a lesser degree, the rise in the "health tax on soft drinks" will also boost food inflation. After that, excise duties are not expected to continue rising at the same pace, and the inflation rate should weaken up to 2020.

Core inflation covering services and non-energy industrial goods is predicted to increase from 1.5% in 2017 to 1.8% in 2020. Price rises for the latter slowed

TABLE 5 PRICE AND COST INDICATORS
(percentage changes compared to the previous year, unless otherwise stated)

	2015	2016	2017 e	2018 e	2019 e	2020 e
Private sector labour costs ⁽¹⁾						
Labour costs per hour worked	0.1	-0.7	1.9	2.2	2.5	2.7
of which: Indexation	0.1	0.6	1.6	1.6	1.5	1.6
Labour productivity ⁽²⁾	1.7	-0.6	0.3	0.5	0.8	0.8
Unit labour costs	-1.6	-0.1	1.6	1.7	1.7	1.9
<i>p.m. Labour costs per hour worked according to the national accounts⁽³⁾</i>	0.2	-0.8	1.7	2.1	2.4	2.6
Core inflation ⁽⁴⁾	1.6	1.8	1.5	1.5	1.7	1.8
Energy	-8.0	-0.6	9.8	1.4	-0.3	-0.3
Food	1.8	3.1	1.3	2.1	2.2	1.9
Total inflation (HICP)	0.6	1.8	2.2	1.6	1.6	1.6
<i>p.m. Inflation according to the national consumer price index (NCPI)</i>	0.6	2.0	2.1	1.5	1.6	1.6
Health index ⁽⁵⁾	1.0	2.1	1.8	1.4	1.6	1.6

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

(1) Labour costs per hour worked are not shown here according to the national accounts concept but according to a broader concept that also includes reductions in contributions for target groups and wage subsidies. That concept gives a better idea of the true labour cost for firms.

(2) Value added in volume per hour worked by employees and self-employed persons.

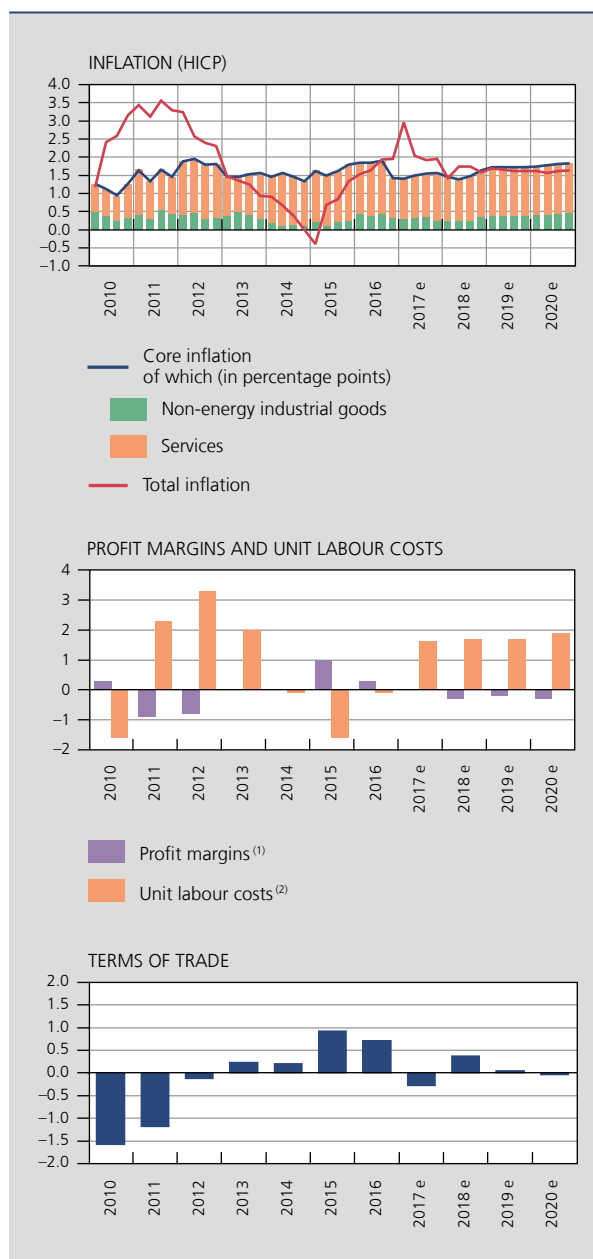
(3) Excluding wage subsidies and reductions in contributions for target groups.

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

(5) Measured by the national consumer price index excluding tobacco, alcohol and motor fuel.

CHART 7 INFLATION AND DETERMINANTS

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



Sources: EC, NAI, NBB.

(1) Difference between the year-on-year rise in unit selling prices and unit production costs.

(2) Including wage subsidies and reductions for target groups.

in 2017, notably as a result of certain base effects resulting from the purchase of vehicles (some measures had driven prices up in 2016); subsequently, they are not expected to accelerate but will actually slow down in view of the effects of the euro's appreciation. Over the rest of the projection period, inflation in industrial goods is forecast to increase to around 1%. Services

inflation, which is still the biggest contributor to total inflation, is forecast to rise from 2% in 2017 to 2.2% by the end of the projection period. The increase in labour costs is reflected only slowly and partially in that component. The relatively stable pattern of core inflation in the past suggests in particular that large fluctuations in labour costs are partly absorbed in profit margins. Thus, the labour cost moderation of recent years has led to a widening of those margins. Conversely, the rise in labour costs during the projection period would curb the margin growth, and the increase in core inflation would thus be fairly small, despite the growing cost pressure. In the euro area, according to the Eurosystem estimates, the higher labour costs should be passed on to a greater extent in prices. As a result, the gap between Belgian and euro area inflation, which has been relatively large in recent years, will gradually dwindle.

The above analysis concerns the HICP, which permits comparison of inflation rates across all European countries. Inflation measured according to the Belgian national consumer price index (NCPI) deviates slightly from that figure owing to methodological differences. The NCPI is used to calculate the health index, i.e. the national index which excludes tobacco, alcoholic beverages and motor fuel. That health index, which forms the basis of wage indexation, is forecast to rise a little more slowly in 2017 (1.8%) and much more slowly in 2018 (1.4%) – mainly as a result of the fall in electricity prices – before eventually accelerating again up to 2020.

5. Public finances

5.1 Budget balance

According to the latest estimates, the public finances will end the year 2017 with a deficit of 1.2% of GDP, representing a 1.3 percentage point improvement over 2016. In the macroeconomic context described above, the general government budget deficit will edge upwards in 2018 and 2019, then remain more or less stable in 2020.

The budget balance improves in 2017 because both primary expenditure and interest charges are down, while revenues increase as a ratio of GDP. Primary expenditure is set to decline further in 2018 and should remain broadly stable in the ensuing years. Interest charges are predicted to maintain their downward trend, but will fall less steeply towards the end of the projection period. However, the favourable impact of those factors on the budget balance

TABLE 6 GENERAL GOVERNMENT ACCOUNTS
(in % of GDP)

	2016	2017 e	2018 e	2019 e	2020 e
General government					
Revenue	50.7	51.1	50.4	49.9	49.9
Primary expenditure	50.3	49.7	49.4	49.3	49.3
Primary balance	0.4	1.3	1.0	0.6	0.6
Interest charges	2.9	2.5	2.3	2.2	2.1
Financing requirement (–) or capacity	–2.5	–1.2	–1.3	–1.5	–1.5
Overall balance per sub-sector					
Federal government ⁽¹⁾	–2.5	–1.1	–0.8	–1.5	–1.4
Social security	–0.1	0.0	0.0	0.0	0.0
Communities and Regions ⁽¹⁾	0.0	–0.1	–0.5	–0.2	–0.2
Local authorities	0.2	0.1	0.0	0.1	0.1

Sources: NAI, NBB.

(1) These figures include the advances on the regional additional percentages on personal income tax although, according to the methodology of the ESA 2010, those advances are regarded as purely financial transactions and the regional additional percentages are only taken into account at the time of collection.

will only partly offset the decline in fiscal and parafiscal charges from 2018.

The deficits will occur mainly at the level of the federal government, but the sub-sector comprising the Communities and Regions will continue to record a small deficit during the projection period. In contrast, the local authority and social security accounts should remain virtually in balance. In 2018, the downward revision of the autonomy factor for determining the regional additional percentages on personal income tax will result in a one-off adjustment for the excess taxes paid to the Regions since 2015; that will have a negative impact on the budget balance of the Communities and Regions and a positive impact on the federal government budget.

As usual, the projections are based on the assumption of no change in policy. Consequently, they only take account of budget measures which have already been announced and specified in sufficient detail. It is assumed that the corporation tax reform will be neutral for the budget.

5.2 Revenues

The downward trend in public revenues evident for several years is expected to pause in 2017, with revenues increasing by 0.3 percentage point of GDP. In 2018

and 2019, however, there will be a further sharp drop, with government revenues down by 0.7 and 0.4 percentage point of GDP respectively, while in 2020 they are likely to remain virtually stable.

The rise in the revenue ratio in 2017 is due mainly to the increase in income from taxes on corporate profits. Those taxes are up by 0.4 percentage point of GDP, primarily as a result of the sharp increase in advance payments by firms; it seems that those advance payments are reverting to the level prevailing before the start of the financial and economic crisis.

Conversely, levies on labour incomes are likely to dip by 0.1 percentage point of GDP in 2017, essentially owing to a fall in social contributions, now that the reduction in the rate of employers' contributions has been fully operational since 1 April 2016.

Income from taxes on goods and services will remain more or less stable. This is the outcome of a small decline in VAT revenues combined with a slight rise in excise revenues resulting from the increase in excise duties on tobacco and alcohol.

In 2018 and 2019, the fiscal and parafiscal pressure will ease significantly as a result of the tax shift measures. For instance, personal income tax revenues will fall by 0.3 percentage point of GDP in each of those

TABLE 7 PUBLIC REVENUES
(in % of GDP)

	2016	2017 e	2018 e	2019 e	2020 e
Fiscal and parafiscal revenues	43.8	44.1	43.4	43.1	43.1
Levies applicable mainly to labour income	25.0	24.9	24.4	24.2	24.3
Personal income tax	11.1	11.0	10.7	10.4	10.6
Social contributions	14.0	13.9	13.7	13.7	13.7
Taxes on corporate profits	3.4	3.8	3.6	3.6	3.6
Levies on other incomes and on assets	4.2	4.2	4.2	4.2	4.2
Taxes on goods and services	11.2	11.2	11.1	11.1	11.1
of which:					
VAT	6.8	6.8	6.7	6.7	6.7
Excise duty	2.2	2.3	2.3	2.3	2.2
Non-fiscal and non-parafiscal revenues	6.9	7.0	6.9	6.9	6.8
Total revenues	50.7	51.1	50.4	49.9	49.9

Sources: NAI, NBB.

years. In addition, a further reduction in employers' contribution rates will lead to a decline in social contributions in 2018, 2019 and 2020. Corporation tax revenue will also diminish in 2018 and 2019 because the strong rise in advance payments in 2017 will lower the amounts collected via assessments. Finally, levies on other incomes and on assets will increase in 2018 as a result of the entry into force of the tax on securities accounts and the increase in the rates of the tax on stock market transactions, but in 2019 the measures taken concerning the activation of savings will depress those levies.

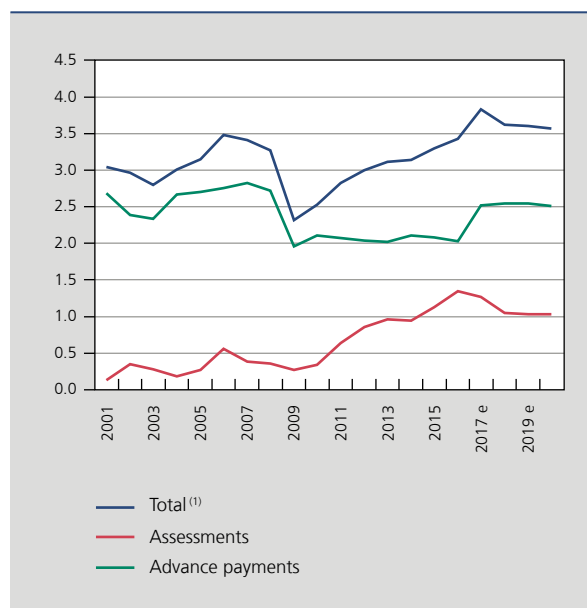
5.3 Primary expenditure

The downward trend in primary expenditure as a ratio of GDP will continue in 2017 and in the two subsequent years. In nominal terms, that expenditure will therefore rise more slowly than economic activity up to 2019. After that, if there is no change in policy, expenditure growth will broadly match the growth of GDP.

The moderation of expenditure expected for this year will continue to reflect the federal government's efforts to restrain its operating costs and keep social security expenditure under control. That moderation should also benefit from the weakening or disappearance of various unexpected factors which had a negative impact on the budget balance in 2016. This concerns such things as substantial tax refunds due to court rulings, and the

exceptional effort devoted to managing the influx of asylum-seekers. In 2017, there will also be a temporary reduction in Belgium's EU budget contribution based on gross national income.

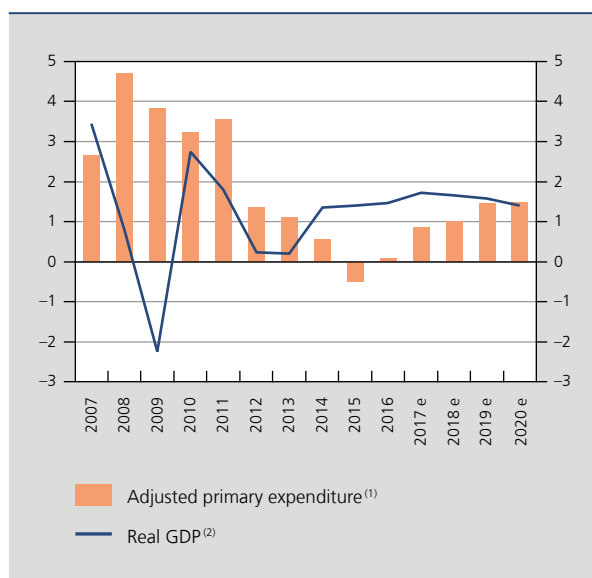
CHART 8 CORPORATION TAX
(in % of GDP)



Sources: NAI, NBB.

(1) Including other taxes, primarily the withholding tax on income from movable property.

CHART 9 PRIMARY EXPENDITURE OF GENERAL GOVERNMENT AND GDP
(percentage changes compared to the previous year)



Sources: NAI, NBB.

(1) Primary expenditure deflated by the GDP deflator and adjusted for cyclical, one-off and fiscally neutral factors, and for the effect of indexation. The latter is due to the difference between the actual indexation (or the theoretical figure for 2015 and 2016, as a result of the approved index jump) of civil service pay and social benefits and the increase in the GDP deflator.

(2) Calendar adjusted data.

Conversely, a new indexation of social benefits and public sector pay, exactly a year after the previous one, will have driven up the corresponding expenditure in 2017.

Following adjustment for these temporary factors, the impact of the business cycle and the time lag between inflation and indexation, real primary expenditure will rise by 0.9 % in 2017. As in previous years, that increase will be kept under control and will fall short of real GDP growth.

In 2018, primary expenditure will remain under control despite the expected traditional surge in public investment in the run-up to the municipal and provincial elections.

In 2019 and 2020, in the absence of new economy measures, the structural trend in public expenditure will closely match that in real GDP.

5.4 Debt

During the projection period, the public debt is forecast to decline gradually as a ratio of GDP.

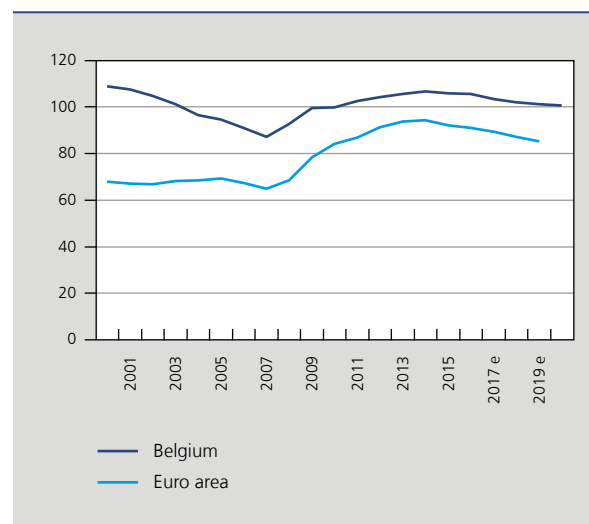
The debt ratio will fall by more than 2 percentage points in 2017. That is due solely to the downward impact of the endogenous factors, as nominal GDP growth will exceed the implicit interest rate on the public debt, and the primary balance will be positive. The exogenous factors will exert a slight upward influence, since the effect of selling part of the federal government's stake in BNP Paribas is outweighed by the debt-increasing impact of the rise in lending under the social housing policy and a series of factors concerning debt management.

The debt ratio should then resume its decline, again as a result of a favourable interest rate/growth dynamic combined with – albeit small – primary surpluses. In 2020, at the end of the projection period, the debt ratio should come to 100.5 % of GDP. However, no account is taken of any additional measures which will speed up the decline in the Belgian public debt ratio.

6. Differences compared to the previous estimate

In these projections, the growth of Belgium's economy underwent only minimal upward adjustment, amounting to less than 0.1 percentage point on average. The two aspects for which the outlook has changed the most in comparison with the spring forecasts are the labour market and public finances.

CHART 10 CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT
(in % of GDP)



Sources: EC, NBB.

The expansion of domestic employment was again surprisingly strong in the most recent quarters of 2017, partly because of revisions of earlier NAI statistics. The main factor here seems to be the initial underestimation of the participation rate, particularly in the 55-64 age group, which suggests that the recent government measures to curb early retirement and expand the labour supply are having a bigger impact than initially thought. Taking account of that trend, the estimates for the future participation rate were also revised upwards slightly. The higher estimated job creation in the ensuing years is therefore partly absorbed by increased labour market participation. Nonetheless, the unemployment rate was adjusted downwards on account of the increased job creation. In addition, unit labour costs were revised upwards in comparison with the spring forecasts, in view of the slower restoration of productivity associated with the strong expansion of employment in the context of hardly any increase in GDP growth.

The most striking change in these estimates is perhaps the public sector financing requirement which comes to 1.2% of GDP in 2017. That is 0.8 percentage point better than predicted in the spring forecasts. Although this is due partly to the somewhat more favourable macroeconomic environment, almost 0.4 percentage point of the revision since June is attributable solely to the (much) higher advance payments by companies, while the reduction in funding for the EU and the more favourable starting position in 2016 together also account for 0.2 percentage point of the revision.

The other changes are less substantial. They are often due to revisions of the underlying data series relating to the recent past. For instance, the starting point for the growth contributions of the expenditure components changed as a result of the inclusion in the 2016 annual accounts of a new, very large purchase of investment goods abroad. Although that purchase was neutral for growth, it has a clear impact on the breakdown between domestic demand and net exports. Level effects mean that, at the beginning of the projection period, this is reflected in a downward revision of the estimate for domestic demand in favour of a corresponding increase in the growth contribution of net exports.

Changes to the legislative (fiscal) framework also led to revisions. Among other things, the inflation estimates were adjusted downwards as a result of the abolition of the energy levy in the Flemish Region with effect from 1 January 2018. Compared to June, the core inflation figure was also adjusted downwards slightly on account of the euro's appreciation. Like the abolition of the levy

mentioned above, that revision resulted in lower wage indexation after a certain time lag, and thus also influences pricing.

7. Conclusion and risk factor assessment

The Eurosystem's autumn forecasts currently point to an economic boom phase for Belgium and the euro area. This year and next, Belgian growth peaks at 1.7% before gradually losing momentum over the projection period, dropping to 1.4% in 2020. However, this puts Belgium throughout the projection period well below the average growth rate for the euro area, estimated at 2.4% this year. Just as in the euro area, the GDP growth estimated for Belgium in the coming years is driven largely by domestic demand.

These growth estimates are very similar to the latest forecasts issued by other institutions. While the growth estimates pre-dating November, such as the FPB's September Economic Budget and the latest IMF forecast issued in October, were unable to take account of the revisions to the quarterly accounts published by the NAI at the end of October (including the upward adjustment to growth in the first half of 2017), the impact of those revisions appears to be generally small.

Despite the relative similarity of the macroeconomic estimates, such forecasts are always based on a particular set of assumptions and surrounded by great uncertainty.

At international level, financial market tensions and geopolitical risks in the EU and elsewhere are the main factors of uncertainty, since they could necessitate revisions to the framework within which these estimates were produced. Another risk concerns the progress of the Brexit negotiations. At present, it is still assumed that, in the end, there will still be a close relationship between the EU and the United Kingdom, and that Britain's departure will have only minor economic repercussions. However, if the Brexit process were to take a different turn, its economic impact would need to be reassessed.

Generally speaking, the domestic risks for the growth estimates seem to be neutral. As was already the case in June, those risks are manifested first in the labour market. Although the published quarterly employment figures for 2017 look surprisingly good, it is still assumed that job creation will gradually slow down over the projection period as a result of increasing tensions on the labour market. The uncertainty for the years ahead concerns the scale and timing of these tensions and the extent to which they will

TABLE 8 COMPARISON WITH THE ESTIMATES OF OTHER INSTITUTIONS
(in %)

Institution	Publication date	Real GDP growth				Inflation (HICP, unless otherwise stated)			
		2017	2018	2019	2020	2017	2018	2019	2020
Federal Planning Bureau ⁽¹⁾	September 2017	1.7	1.7	1.5	1.6	2.0	1.6	1.6	1.5
IMF	October 2017	1.6	1.6			2.1	1.2		
EC	November 2017	1.7	1.8	1.7		2.2	1.4	1.6	
OECD	November 2017	1.7	1.7	1.7		2.2	1.6	1.8	
Consensus Economics	December 2017	1.7	1.7			2.1	1.7		
NBB	December 2017	1.7	1.7	1.6	1.4	2.2	1.6	1.6	1.6

(1) Economic budget for 2017-2018, supplemented by the Medium-term Economic Outlook for 2019-2020, as published in June. The inflation rates are the NCP1 figures.

be offset by the recent reforms boosting the labour supply and aimed at improving the match between demand and supply (both in geographical terms and in regard to skills).

There is also the possibility that business investment may succeed in maintaining its current growth rate for longer than currently assumed. The forecast for future years is in fact influenced by the analysis that the ratio between the expansion of that investment (adjusted for specific transactions) and GDP growth reached a maximum in 2017. That finding is based partly on the ratios and patterns seen in previous economic cycles, but also on the fact that business confidence has weakened in recent months. However, the latest business confidence observations dating from October and November 2017 were surprisingly high, underlining the upside risks.

Although it is possible in principle that the recent gain in (labour) cost competitiveness may yet lead to a positive impact in the short term, the recent appreciation of the euro could depress exports, and hence the net export position, to a greater extent than expected. What is more, there is a real risk that the structural loss of market share (resulting from a decline in non-cost competitiveness) has been underestimated, implying additional risks for exports over the projection period.

Finally, as regards inflation, the risks appear to be balanced, although it must be said that the estimate for wage growth in 2019-2020 is particularly uncertain since the wage norm for that period is still being negotiated. If it is lower than currently assumed, that could again have secondary effects on inflation and consumption.

Annex

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	2020 e
Growth (calendar adjusted data)					
Real GDP	1.5	1.7	1.7	1.6	1.4
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.8	1.0	1.8	1.7	1.5
Net exports of goods and services	-0.6	0.3	-0.1	-0.1	-0.1
Change in inventories	0.2	0.4	-0.1	0.0	0.0
Prices and costs					
Harmonised index of consumer prices	1.8	2.2	1.6	1.6	1.6
Health index	2.1	1.8	1.4	1.6	1.6
GDP deflator	1.6	2.0	1.6	1.6	1.5
Terms of trade	0.7	-0.3	0.3	0.1	0.0
Unit labour costs in the private sector ⁽¹⁾	-0.1	1.6	1.7	1.7	1.9
Hourly labour costs in the private sector ⁽¹⁾	-0.7	1.9	2.2	2.5	2.7
Hourly productivity in the private sector	-0.6	0.3	0.5	0.8	0.8
Labour market					
Domestic employment (annual average change in thousands of persons)	57.7	69.4	54.0	37.6	29.8
Total volume of labour ⁽²⁾	1.3	1.4	1.1	0.8	0.6
Harmonised unemployment rate (in % of the labour force aged 15 years and over)	7.9	7.3	7.0	6.9	6.9
Incomes					
Real disposable income of individuals	0.9	1.2	1.9	2.4	1.8
Savings ratio of individuals (in % of disposable income)	11.2	11.2	11.5	12.0	12.2
Public finances					
Primary balance (in % of GDP)	0.4	1.3	1.0	0.6	0.6
Budget balance (in % of GDP)	-2.5	-1.2	-1.3	-1.5	-1.5
Public debt (in % of GDP)	105.7	103.3	102.1	101.2	100.5
Current account					
(according to the balance of payments, in % of GDP)	0.1	0.0	0.1	0.1	0.0

Sources: DGS, EC, NAI, NBB.

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

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

National Bank of Belgium
Limited liability company
RLP Brussels – Company number: 0203.201.340
Registered office: boulevard de Berlaimont 14 – BE-1000 Brussels
www.nbb.be



Publisher

Jan Smets

Governor

National Bank of Belgium
Boulevard de Berlaimont 14 – BE-1000 Brussels

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© Illustrations: National Bank of Belgium
Cover and layout: NBB AG – Prepress & Image
Published in February 2018

