

Belgian economic growth should amount to 1.6 % both in 2017 and 2018

European economic activity has so far proved to be more robust than expected in the wake of the Brexit referendum. The growth forecasts for the Belgian economy in 2017 have hence been revised upwards to 1.6 %. The same growth rate is expected in 2018. In both years, private consumption and business investment in particular should support economic growth. Net employment should rise by 105 000 people over these two years, while inflation should cool down in 2018.

In accordance with the Law of 21 December 1994, the National Accounts Institute (NAI) has transmitted the figures of the economic budget to the Minister for Economy. These macroeconomic forecasts will serve as a basis for the 2018 budget review.

World economic growth strengthens in 2017 and 2018

Global economic growth should accelerate somewhat both this and next year, mainly driven by the emerging economies. While Chinese economic growth decelerates slightly, several countries within this group benefit from rising commodity prices. With regard to the advanced economies, US economic growth should pick up to 2.1 % in 2017 and to 2.4 % in 2018, which is a more robust growth rate than last year. In the euro area, several confidence indicators have risen to a high level, which suggests a sustained economic recovery. GDP growth in the euro area should amount to 1.7 % in 2017 (as was the case last year) and slow down slightly to 1.6 % in 2018. The British economy, an important trading partner of the euro area, has so far held up better than expected. The Brexit choice should, however, weigh on British GDP growth in 2018 through lower investment and a decrease in purchasing power.

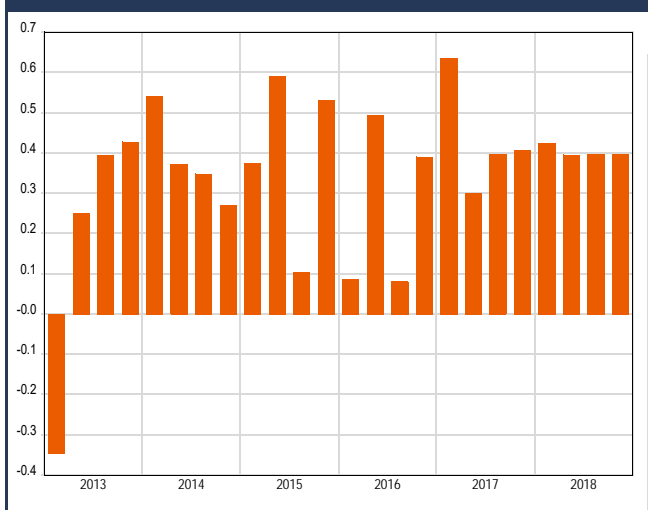
This international scenario is confronted with important risks. As a result of its high debt rate, the Chinese economy could decelerate at a faster pace than expected. Furthermore, the future US fiscal and trade policies are shrouded in uncertainty. Finally, the upsurge in confidence in Europe could stall and go into reverse because of a resurgence of the debt crisis or a disturbance of (trade) relations in the case of a hard Brexit.

Belgian GDP growth also driven by domestic demand

After reasonably firm growth in the fourth quarter of last year, Belgian economic growth accelerated further in the first quarter of 2017. Driven by the dynamics of domestic demand, the evolution in economic activity should be favourable in the coming quarters. Private consumption and business investment in particular should prove to be important drivers of economic growth. On an annual basis, economic growth should thus accelerate from 1.2 % in 2016 to 1.6 % both in 2017 and 2018.

As was the case last year, Belgian export growth in 2017 and 2018 should be backed by the positive development in domestic costs, which is a consequence of the government measures aimed at limiting labour costs. The rise in export volume in 2016 and 2017 (6.0 % and 4.8 % respectively) is inflated by the reorganisation of an international enterprise that is active on the Belgian market. Consequently, this enterprise has considerably increased its import and export since February 2016, albeit without any consequences for GDP growth. Export growth in 2018 should amount to 4.0 %, in line with expected growth in Belgian foreign export markets. The deficit on the current account of the balance of payments should rise from 0.4 % of GDP in 2016 to 0.9 % this year, mainly as a result of the rise in oil prices. The external deficit should fall back to 0.6 % of GDP in 2018 due to the stabilisation of oil prices and the appreciation of the euro.

Belgium, quarterly GDP volume growth
Data adjusted for seasonal and calendar effects



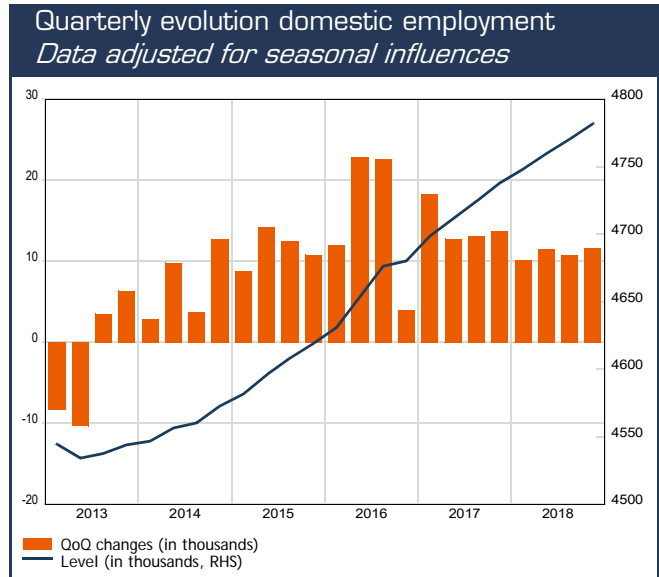
The real disposable income of households rose by 0.9 % last year. In 2017 – and especially in 2018 – more pronounced increases (1.2 % and 1.9 % respectively) are expected. The downward impact of a number of measures (such as the index jump) will have worn off, while property income should recover slightly and additional tax cuts are planned in 2018 in the context of the tax shift. Finally, purchasing power in 2017 and 2018 is supported by the considerable increase in employment. Private consumption growth should accelerate from 1.2 % in 2016 to 1.6 % and 1.7 % in 2017 and 2018 respectively, partly due to the high level of consumer confidence that is particularly sensitive to the situation in the labour market. This year, volume growth in residential investment should be limited to 0.3 % as a result of a disappointing first quarter. Backed by the increase in purchasing power and financing conditions that remain favourable despite the increase in the mortgage rate, household investment growth should amount to 1.4 % in 2018.

In 2016, volume growth in business investment remained limited to 1.2 %. This figure was, however, negatively influenced by some exceptional purchases in 2015. In 2017 and 2018, business investment should increase considerably (3.3 % and 4.0 % respectively), stimulated by the high industrial capacity utilisation rate, improved demand prospects and high profitability.

Taking into account all known measures, annual government consumption growth (in volume) in 2017 and 2018 should amount to 0.7 % and 0.8 % respectively. Increased investment activity by local authorities in the run up to the local elections of 2018 should lead to an acceleration in public investment growth to 3.5 %. In 2018, the Flemish investments in the Oosterweel connection lead to a further growth acceleration (to 8.3 %).

Measures aimed at reducing labour costs and acceleration in economic activity lead to considerable job creation

Domestic employment rose by 1.3 % last year (net increase of 59 000 jobs), backed by measures aimed at limiting labour costs. These measures should continue to have a beneficial effect this year and result in a particularly labour-intensive evolution of activity in the market sector. Together with strong economic growth, employment growth in 2017 and 2018 should hence amount to 1.2 % and 1.0 % respectively. This should amount to an additional 105 000 jobs over both years. The number of wage earners in the market sector should rise by 89 000 people. Furthermore, the number of self-employed should continue to increase (by 19 000 people), while the number of public employed should shrink by almost 3 000 people.



The number of unemployed (including wholly unemployed non-jobseekers receiving benefits) decreased considerably in the past two years. In spite of the increase in labour force, unemployment should decrease by a total of 56 000 people over the 2017-2018 period. The harmonised unemployment rate (Eurostat definition) should fall back from 8.5 % in 2015 to 6.6 % in 2018.

Inflation cools down in 2018

Belgian inflation, as measured by the national consumer price index, accelerated to 2.0 % in 2016, among other things because of a strong increase in electricity prices after a number of taxes and levies were introduced or raised and after the so-called 'free kWh' for households in Flanders were withdrawn.

Underlying inflation should cool down in 2017 – partly owing to the decline in unit labour costs in the past few years – and the upward pressure of several measures on inflation should disappear. Because of the strong rise in oil prices, however, overall inflation (at 2.1 %) is comparable to last year's level. In 2018, the stabilisation in oil prices should result in a slowdown of inflation (to 1.5 %).

The health index, which is not affected by the evolution of petrol and diesel prices among others, should in 2017 and 2018 rise by 1.8 % and 1.4 % respectively. According to the monthly forecasts of the Federal Planning Bureau for the development of the health index, the current pivotal index for public wages and social benefits (105.10) should not be exceeded in 2018.

For more information:

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Main figures for the Belgian economy
Changes in volume - unless otherwise specified

	2015	2016	2017	2018
Private consumption	1.1	1.2	1.6	1.7
Public consumption	0.5	-0.1	0.7	0.8
Gross fixed capital formation	2.4	1.8	2.6	3.2
Final national demand	1.5	1.1	1.8	1.8
Exports of goods and services	4.3	6.0	4.8	4.0
Imports of goods and services	4.3	6.0	5.1	4.3
Net-exports (contribution to growth)	0.0	0.1	-0.1	-0.2
Gross domestic product	1.5	1.2	1.6	1.6
National consumer price index	0.6	2.0	2.1	1.5
Consumer prices: health index	1.0	2.1	1.8	1.4
Real disposable income households	0.7	0.9	1.2	1.9
Household savings ratio (as % of disposable income)	11.7	11.3	11.0	11.2
Domestic employment (change in '000, yearly average)	42.1	59.1	57.7	46.9
Unemployment (Eurostat standardised rate, yearly average)	8.5	7.8	6.8	6.6
Current account balance (BoP definition, as % of GDP)	0.4	-0.4	-0.9	-0.6
Euro exchange rate (USD per 100 EUR)	111.0	110.6	110.4	114.4
Short term interest rate (Euribor, 3 m.)	0.0	-0.3	-0.3	-0.2
Long term interest rate (10 y.)	0.8	0.4	0.7	0.9