

Belgian economic growth is expected to amount to 1.7 % in both 2017 and 2018

The euro area economy keeps growing steadily, at 2.1 % this year and 1.8 % next year, according to estimates. Compared to the June forecasts, these figures have been revised upwards. The forecasts for the Belgian economy have also improved, albeit to a lesser extent. Employment is expected to rise by 104 000 people over these two years, while inflation should cool down considerably in 2018.

In accordance with the act 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.

Steady growth for the whole euro area

World economic growth should be considerably higher this and next year than in 2016, driven by both the emerging and the advanced economies. US economic growth is expected to reach 2.1 % in 2017 and 2.4 % in 2018. Within the euro area, various confidence indicators point towards a continued favourable development of economic activity, which is projected to increase by 2.1 % for the whole area. For 2018, the growth of the euro area should amount to 1.8 %, which is in line with the dynamics of the past two years. By contrast, the economy of the United Kingdom – an important trading partner for the euro area – is confronted with lower investment growth and has seen its purchasing power negatively affected by the choice to leave the EU.

This international scenario holds risks. In China, the strong credit growth could result in a debt crisis and a stronger than expected growth slowdown. Tightening monetary policy in the advanced economies could lead to nervousness on the financial markets and to increasing interest rate differentials between the euro countries. Confidence could be undermined if current geopolitical tensions escalate. Finally, the outcome of the Brexit negotiations remains highly uncertain.

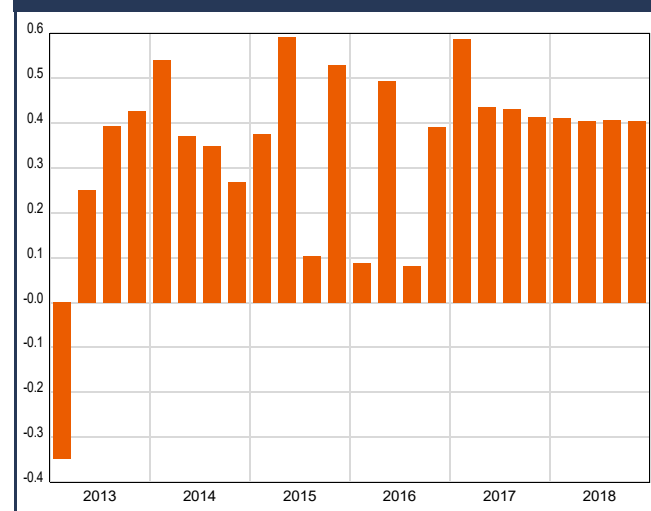
Belgian GDP growth strengthened by domestic demand ...

The Belgian economy made a strong start with a growth of 0.6 % in the first quarter. GDP growth slowed down somewhat to 0.4 % in the second quarter and is expected to maintain this pace over the second semester of 2017 and in 2018, driven by the dynamics of domestic demand. Private consumption and business investment in particular should prove to be important drivers of economic growth. On an annual basis, economic growth is therefore projected to amount to 1.7 % in both 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 5.5 % 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. In 2018, the growth deceleration of the potential export markets and the appreciation of the euro are expected to slow down export growth to 4.5 %. The deficit on the current account of the balance of payments should amount to 0.5 % of GDP this year but fall back to 0.2 % as a result of stable 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 (1.3 % and 2.2 % 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. Moreover, purchasing power is backed by the marked increase in

employment. Private consumption rose by 1.2 % last year and is expected to increase by 1.6 % in 2017 – partly due to the high level of consumer confidence – and by 1.8 % in 2018. The volume growth in residential investment is projected to pick up gradually after a weak first semester in 2017 and to amount to 0.9 % in 2017 and 1.0 % in 2018 on an annual basis.

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 is expected to increase considerably (4.6 % and 2.7 % respectively), stimulated by the high industrial capacity utilisation rate, improved demand prospects and high profitability.

If the government measures that are sufficiently specified are taken into account, public consumption growth (in volume) is expected to amount to 0.8 % in 2017 and 0.7 % in 2018. Increased investment activity by local authorities in the run up to the local elections should lead to an acceleration in public investment growth to 4.0 % in 2017. Investment activity by local authorities is also expected to increase considerably next year. In addition, total public investment growth should be spurred on by the Flemish investments in the Oosterweel connection in 2018 (8.5 %).

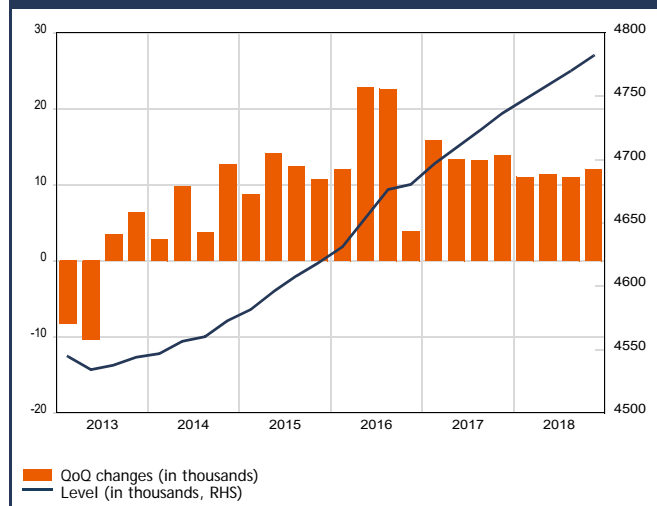
... and remains labour intensive

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 on employment this year and result in a particularly labour-intensive development in the market sector activity. However, the increase in wage costs should lead to a – admittedly modest – growth acceleration of labour productivity. Employment growth is expected to reach 1.2 % in 2017 and slow down slightly to 1.0 % in 2018. This should amount to an additional 104 000 jobs over both years. The number of wage earners in the market sector is expected to rise by 88 000 people. Furthermore, the number of self-employed should continue to increase (by almost 19 000 people), while public sector jobs are projected to shrink by almost 3 000.

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

further decrease by a total of 62 000 people over the 2017-2018 period. The harmonised unemployment rate (Eurostat definition) is therefore expected to fall back from 8.5 % in 2015 to 7.1 % in 2018.

Quarterly evolution domestic employment
Data adjusted for seasonal influences



Inflation cools down considerably in 2018

Belgian inflation, as measured by the national consumer price index, accelerated to 2.0 % in 2016, among other things because of the 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 is projected to 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. As a result of the strong rise in oil prices, overall inflation should still reach 2.1 %. In 2018, inflation is forecast to cool down significantly to 1.2 % due to the stabilisation in oil prices and the phasing out of the ‘energy fund contribution’ in Flanders (in these forecasts, no alternative measures have been taken into account).

The health index, which is not affected by the evolution of petrol and diesel prices among others, is expected to rise by 1.8 % in 2017 and 1.1 % in 2018. 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	1.8
Public consumption	0.5	-0.1	0.8	0.7
Gross fixed capital formation	2.4	1.7	3.7	2.9
Final national demand	1.5	1.1	1.8	1.8
Exports of goods and services	4.3	6.0	5.5	4.5
Imports of goods and services	4.3	6.0	5.7	4.8
Net-exports (contribution to growth)	0.0	0.1	0.0	-0.1
Gross domestic product	1.5	1.2	1.7	1.7
National consumer price index	0.6	2.0	2.1	1.2
Consumer prices: health index	1.0	2.1	1.8	1.1
Real disposable income households	0.7	0.9	1.3	2.2
Household savings ratio (as % of disposable income)	11.7	11.4	11.1	11.4
Domestic employment (change in '000, yearly average)	42.1	59.2	55.8	48.3
Unemployment (Eurostat standardised rate, yearly average)	8.5	7.9	7.4	7.1
Current account balance (BoP definition, as % of GDP)	0.4	-0.4	-0.5	-0.2
Euro exchange rate (USD per 100 EUR)	111.0	110.6	113.6	121.8
Short term interest rate (Euribor, 3 m.)	0.0	-0.3	-0.3	-0.3
Long term interest rate (10 y.)	0.8	0.4	0.7	0.9