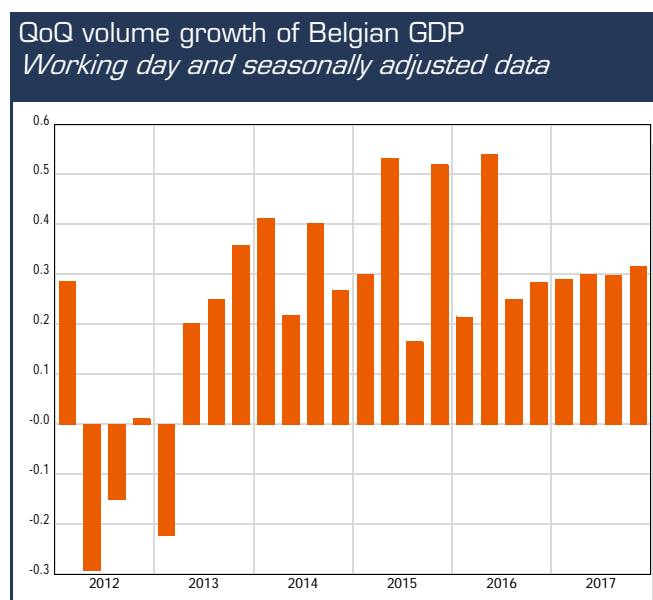




Belgian economic growth should slow down somewhat from 1.4% in 2016 to 1.2% in 2017

In accordance with the law of 21 December 1994, the National Accounts Institute (NAI) has communicated the data of the economic budget to the Minister of Economy. These macroeconomic forecasts are part of the preparation of the federal budget for 2017.

Compared to the forecasts of June, the growth of the Belgian economy for 2016 was revised upwards due to a strong second quarter. By contrast, Belgian GDP growth is expected to be lower due to an external factor, namely, the increased uncertainty in the EU following the Brexit referendum. However, the impact of that decision on the economic activity in the euro area (and in Belgium) is difficult to estimate at this point.



Slight slowdown in growth in the euro area in 2017 ...

After two years of moderate growth, global activity should slightly pick up in 2017, driven by the United States and the emerging economies. However, economic growth in the euro area should remain moderate, partially because an important risk – the Brexit decision – that was mentioned in the publication of the economic budget in June 2016 has materialised, creating more uncertainties. The impact of this decision will depend on different economic and political factors. In Europe, several confidence indicators fell significantly in August, but currently remain at a relatively high level. In the short-term, uncertainties should hit the British economy in particular, but inevitably weigh on the GDP growth of the whole euro area, which, on the basis of recent consensus forecasts, should slow down from 1.5% in 2016 to 1.3% in 2017.

... causing the Belgian economy to keep growing at a moderate pace

In 2016, the Belgian economy should grow by 1.4% for the second year in a row, which is largely due to unexpectedly high GDP growth in the second quarter (0.5% after 0.2% in the first quarter). The negative macroeconomic impact of the attacks at the end of March was largely compensated by dynamic domestic and foreign demand. Owing to a less favourable international context, subdued, but stable, growth of 0.3% per quarter is expected in the subsequent quarters. This would mean a slight deceleration in economic growth to 1.2% in 2017 on an annual basis.

In 2016, Belgian exports have been supported by the favourable evolution of domestic costs, which is a direct consequence of the measures designed to limit labour costs. Nevertheless, the rise in export volumes should not exceed 3.4% this year (compared to 4.9% in 2015); although this is exclusively due to a temporary lapse in the first quarter. In 2017, the economic slowdown in the euro area is expected to hamper export growth (3.6%). Net exports should make a slightly negative contribution to economic growth. Together with higher oil prices, this should lead to a small deficit on the current account balance next year.

The real disposable income of households should increase by 1.4% this year, supported by the net increase in employment (see below). In addition, a number of measures are having a positive effect on purchasing power, although this is partially offset by a rise in VAT on household electricity prices, an increase in other indirect taxes and the index jump. Against the backdrop of somewhat slower economic growth, the rise in purchasing power should not exceed 1% in 2017, despite a stronger increase in wages (in a scenario where no new wage moderation measure is imposed). Owing to a weak first quarter, the volume growth in private consumption is expected to rise by only 0.9%, making the household saving ratio temporarily go up. In 2017, consumer expenditure should catch up and rise by 1.4%, hereby making a significant contribution to economic growth. The strong volume growth (6.5%) in residential investment in 2016 is due to a favourable starting point, as a result of the sharp increase in housing construction in the second half of 2015 and the first half of 2016. Supported by financing conditions,

which are still favourable, household investment should further increase by 2.1% in 2017.

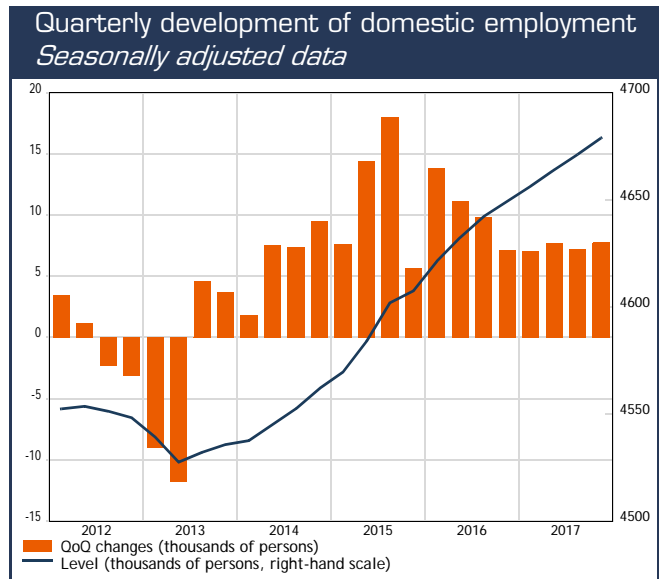
This year, volume growth in business investment should not exceed 2.3%. However, this figure is strongly influenced by the phasing out of exceptional transactions that boosted business investment in 2014 and 2015 but not economic growth, given that they were imports. Excluding these transactions, business investment is expected to rise by 6.2% this year, owing to increased profitability and low interest rates. In 2017, it should become less dynamic (2.5%) as a result of lower market prospects, but grow significantly faster than GDP for the fourth year in a row.

Taking into account all known measures, the volume growth in public consumption should amount to 0.1% and 0.6% in 2016 and 2017 respectively. The volume growth in public investment in 2016 (2.5%) is largely due to the building of schools by the Flemish authorities. In 2017 (2.7%), it is expected to be spurred on by increased investment by local authorities in the run-up to the 2018 local elections.

Measures aimed at reducing labour costs make economic growth more labour intensive

In spite of a further trend decrease in employment in the manufacturing industry, total domestic employment grew by 0.9% last year (net increase of 41 400 in employment). In 2016 and 2017, employment is expected to increase by 1% and 0.7% respectively, i.e. a net increase of almost 77 000 jobs over these two years. Wage-earning employment in the market sector is (especially in 2016) positively affected by measures designed to limit labour costs. Combined with a relatively stable economic growth, this can lead to more than 56 000 additional jobs over both years. The number of self-employed should grow by more than 21 000 persons in the same period, a figure which exceeds, as in the past four years, the increase in wage-earning employment. However, public employment in 2017 is projected to be down by 900 persons compared to 2015.

As a result of the lower than expected inflow of asylum seekers during the past months, the increase in the labour force was revised downwards compared to the economic budget of June. Combined with the stronger increase in employment, this results in a downward revision of unemployment in 2016 and 2017. The number of unemployed (including wholly unemployed non-jobseekers receiving benefits) is expected to decrease by 36 000 persons in total over the 2016-2017 period. The harmonised unemployment rate (Eurostat definition) is expected to go down from 8.5% in 2015 to 8.2% in 2017.



Inflation accelerates markedly in 2016, before going down slightly

Belgian inflation, as measured by the yoy growth rate of the national consumer price index, decreased to 0.3% in 2014 and 0.6% in 2015, largely as a result of the decline in oil prices. Even if oil prices gradually increase, they are expected to remain below their 2015 level on average in 2016. At the same time, gas and electricity price quotations are projected to be down compared to last year. Nevertheless, inflation should reach 2% in 2016. The negative contribution of oil and natural gas prices is indeed fully offset by the positive contribution of the consumer electricity price. The latter will increase significantly when a number of taxes and charges are introduced or raised and the free KWh for households in Flanders are withdrawn. Moreover, underlying inflation is expected to be higher compared to 2015.

In 2017, inflation is expected to decrease to 1.6% due to several factors that compensate each other partially. On the one hand, crude oil prices are expected to rise for the first time since 2012 but, on the other hand, core inflation should decline – particularly as a result of labour cost reduction measures – and the upward pressure from measures aimed at electricity prices should disappear to a large extent.

The health index, which is not affected by petrol and diesel price developments, is expected to rise by 2.1% in 2016 and by 1.4% in 2017. According to the Federal Planning Bureau's monthly forecasts of the development of the health index, the current pivotal index for public wages and social benefits (103.04) should be exceeded in August 2017.

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

| | 2014 | 2015 | 2016 | 2017 |
|---|-------|-------|-------|-------|
| Private consumption | 0.4 | 1.3 | 0.9 | 1.4 |
| Public consumption | 0.6 | 0.9 | 0.1 | 0.6 |
| Gross fixed capital formation | 7.0 | 2.4 | 3.2 | 2.4 |
| Final national demand | 1.7 | 1.6 | 1.2 | 1.4 |
| Exports of goods and services | 5.4 | 4.9 | 3.4 | 3.6 |
| Imports of goods and services | 5.9 | 5.2 | 3.2 | 4.0 |
| Net-exports (contribution to growth) | -0.4 | -0.2 | 0.2 | -0.2 |
| Gross domestic product | 1.3 | 1.4 | 1.4 | 1.2 |
| National consumer price index | 0.3 | 0.6 | 2.0 | 1.6 |
| Consumer prices: health index | 0.4 | 1.0 | 2.1 | 1.4 |
| Real disposable income households | 0.5 | 1.1 | 1.4 | 1.0 |
| Household savings ratio (as % of disposable income) | 12.6 | 12.4 | 12.8 | 12.5 |
| Domestic employment (change in '000, yearly average) | 15.6 | 41.4 | 45.6 | 31.2 |
| Unemployment (Eurostat standardised rate, yearly average) | 8.5 | 8.5 | 8.3 | 8.2 |
| Current account balance (BoP definition, as % of GDP) | -0.2 | 0.0 | 0.1 | -0.1 |
| Euro exchange rate (USD per 100 EUR) | 132.9 | 111.0 | 111.6 | 112.9 |
| Short term interest rate (Euribor, 3 m.) | 0.2 | 0.0 | -0.3 | -0.4 |
| Long term interest rate (10 y.) | 1.7 | 0.8 | 0.4 | 0.3 |