



## The forecasts for the Belgian economy are characterised by modest growth, steady job creation and persistent public deficits

*The Federal Planning Bureau's Economic Outlook makes it possible to outline a future 'at unchanged policy' of the Belgian economy for the next five years. The 2017-2022 Outlook takes into account a modest economic recovery in the euro area and is characterised by economic policy measures at the Belgian level that lead to more labour-intensive growth.*

### **Economic growth accelerates in 2017, stabilises in 2018-2020 and then falls back slightly**

In 2017, GDP growth should amount to 1.6 %, compared to 1.2 % last year. During the 2018-2020 period, Belgian GDP should consistently increase by 1.5 % to 1.6 %, in line with GDP growth in the euro area. In 2021-2022, Belgian economic growth is expected to slow down somewhat to 1.4 % on average.

Households' final consumption expenditure is forecast to accelerate to 1.6 % in 2017, since the real disposable income of households shows a slightly more dynamic growth than last year. Disposable income is expected to increase considerably in 2018 and 2019, among other things due to additional tax reductions, leading to sustained growth of households' final consumption expenditure (1.7 % and 1.4 % respectively). Over the 2020-2022 period, private consumption growth is projected to slow down to 1.3 % per year on average. Public consumption growth (in volume) should amount to 0.7 % in 2017 and – assuming no new measures are taken – gradually increase to 1.2 % in 2022, supported by the increase in public health care expenditure.

Over the 2017-2019 period, business investment growth (in volume) is expected to amount to 3.1 % per year on average due to favourable market prospects, high profitability and real interest rates that remain historically low. This growth should subsequently fall back to 2.2 % in 2022. The volume growth in residential investment is forecast to remain limited to 0.3 % this year, but pick up again to 1.4 % in 2018. This modest growth should continue afterwards. Public investment is projected to increase considerably in 2017 and accelerate even further in 2018, the year of the municipal elections. After a setback in 2019, public investment in volume should increase very rapidly in 2020 as a result of important investments in defence and in the framework of the regional express network (RER/GEN). In 2021 and 2022, total public investment growth is expected to fall back again.

### **Controlled increase in wage costs which contributes to moderate inflation**

Belgian inflation, as measured by the growth rate of the national consumer price index, is forecast to amount to

2.1 % in 2017. The measures that pushed up inflation in 2016 – in particular the rise in the 'energy fund contribution' that forms part of the Flemish electricity bill – have a more limited impact in 2017, but this is nonetheless compensated by the increase in oil prices.

As a result of the policy of wage moderation of the previous years, unit labour costs registered negative growth during the 2014-2016 period. In 2017 and 2018, gross wages before indexation in the business sector are expected to rise by 0.4 % and 0.7 % respectively. This is consistent with the maximum rise which was agreed within the framework of the most recent interprofessional agreement. Taking into account the additional social security contributions reductions and the indexation, the hourly wage costs are forecast to increase by 1.7 % per year on average over the 2017-2018 period. Consequently, the average annual growth rate of the wage costs should amount to 2.2 %. As a result of the more rapid growth of the wage costs, underlying inflation should gradually increase. All in all, inflation should not exceed 1.6 % per year on average during the 2018-2022 period.

### **Persistent strong employment growth in the service industries and improvement in the industry**

Over the entire 2017-2022 period, domestic employment is expected to increase by 262 000 people, significantly more than in the years following the financial crisis. Employment growth in the market services (+248 000 people) should, however, be slightly lower than during that period. This can be attributed to the decline in the service voucher employment growth. The main differences with the recent past lie in the manufacturing industry and the building industry. While more than 90 000 jobs were lost in the manufacturing industry during the 2009-2016 period, no more than 15 000 jobs should be lost by 2022. In the building industry, we expect 27 000 jobs to be created, supported by the additional social security contributions reductions which come into effect in the sector as from 2020. In the non-tradable services, employment is projected to stabilise as a result of two divergent developments: a decrease in the public administration owing to austerity measures (-11 500 people in the public administration *stricto sensu* and -5 300 people in defence) and a further increase in education (+17 000 people).

According to the definition used in the framework of the EU 2020 strategy, the employment rate is expected to increase from 67.7 % in 2016 to 70.0 % in 2020 – which is considerably lower than the 73.2 % target that Belgium set itself for that year – and to 71.2 % in 2022.

### Historically low unemployment rate

After a sharp decrease last year, we expect unemployment to fall back again sharply this year (-34 000 people). The decrease in unemployment should be less pronounced during the years 2018-2019 (-15 000 people per year on average), but accelerate again afterwards (-29 000 people per year on average); in 2020 because employment growth is backed by additional labour cost reduction measures and in 2021-2022 because growth in labour force supply drops considerably. The unemployment rate decreases from 11.2 % in 2016 to 9.8 % in 2019 and falls back to 8.2 % in 2022, which is a level unseen since the beginning of the 1980s.

### Reduction in the public deficit in 2017, but no return to a balanced budget without additional measures

If the currently known budgetary measures are taken into account, the public deficit should drop from 2.6 % in 2016 to 1.9 % of GDP in 2017 and 2018. It consequently remains below the 3 % limit imposed by the European rules. To further reduce the deficit afterwards, additional measures will be required. If not, the deficit should slightly increase as from 2019. The structural deficit is forecast to decrease by 0.6 % of GDP in 2017 and subsequently remain at that level. In 2019 (the year in which the stability programme foresees a return to a balanced budget), we expect the structural deficit to amount to 2.0 % of GDP (approximately 9 billion euros).

The size of the government budget in terms of per cent of GDP was considerably reduced over the 2014-2016 period. Primary expenditure continues to decrease in 2017-2018 by a total of 0.8 % of GDP and increases slightly afterwards. The decrease in revenues is halted in 2017 and subsequently continues in 2018-2019 with approximately 0.9 % of GDP in two years, after which the revenues in terms of per cent of GDP remain virtually unchanged. By the end of the projection period, both the revenues and primary expenditure still represent about 50 % of GDP.

The deficit of Entity 1 (federal government and social security) decreases considerably in 2017 (to 1.8 % of GDP, compared to 2.8 % in 2016) owing to the decrease in operating costs, expenditure related to the asylum crisis and security and the interest charges. In the medium term – and despite extremely low operating costs – a large deficit persists (2.2 % of GDP by the end of the projection period). In part, this deficit results from the tax shift that reduces the taxes on earned income, notwithstanding its positive impact on employment. It

also results from the investment plans and the increase in expenditure related to pensions, sickness and invalidity allowances and health care.

Overall, the finances of the Communities and the Regions show a slight deficit in 2017 which stabilises at 0.2 % of GDP as from 2019. The slight budgetary deficit of the local authorities in 2016 disappears as from 2017 as a result of increased investment expenditure that is expected by the end of the electoral cycle. In the medium term, the local authorities remain close to a balanced budget. The Communities and the Regions as well as the local authorities record a decrease in revenues from the surcharges on the personal income tax as a result of the federal personal income tax relief measures.

### How should the figures from the Economic outlook be interpreted?

One of the missions of the Federal Planning Bureau (FPB) is to help policy makers anticipate the future evolution of the Belgian economy. In spring, the FPB publishes the economic outlook for the next five years. These forecasts for Belgium are produced within an international framework which is based – for the first two years – on the European Commission's Spring Forecast and on Consensus Economics. For the following years, it is based on the scenario for the global economy developed by the IMF. In addition, these forecasts are produced 'at unchanged policy', meaning that they only take into account measures that have been formally decided and that have sufficiently detailed implementation modalities. They show the current trends and the extent of the adjustments that are required to achieve the economic policy objectives in different domains.

### Main indicators for Belgium (annual average)

	2016	2017	2018	2019-2022
GDP growth (in %)	1.2	1.6	1.6	1.5
Inflation (NCPI)	2.0	2.1	1.5	1.6
Employment (annual variation, in thousands)	59.1	57.7	46.9	39.4
Unemployment rate (FPB definition)	11.2	10.5	10.0	8.2*
Public financial balance (in % of GDP)	-2.6	-1.9	-1.9	-2.3*
Gross public debt (in % of GDP)	106.0	105.1	104.5	104.1*

\* End of period

The publication 'Economic forecasts 2017-2022' can be ordered, consulted and downloaded on [www.plan.be](http://www.plan.be)

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