Institut des Comptes nationaux

Federal Planning Bureau

The growth of the Belgian economy should slightly pick up this year to 1.8%

Economic growth in the euro area was surprisingly high (2.5%) last year and is expected to remain solid (2.2%) in 2018. Against this backdrop, the growth forecasts for the Belgian economy in 2018 have been revised slightly upwards to 1.8%, compared to our September release. This favourable development leads to a rise in employment by 57000 people. This year, inflation is expected to cool down somewhat to 1.7% as a result of both the appreciation of the euro and the significant decrease in electricity prices in Flanders.

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 macro-economic forecasts will serve as a basis for the 2018 budget review.

Economic recovery in the euro area continues

Global growth has sped up since the second half of 2016. This favourable development is seen in almost all regions. With a GDP growth of 2.5%, the euro area recorded a strong rebound in 2017. The euro-area economy benefited from a pick-up in world trade and was also gradually backed up by an increase in domestic demand, which strengthened the economic recovery. Several confidence indicators are currently at their highest level in years, which suggests a strong dynamism in the first half of 2018. GDP growth of the whole euro area is expected to reach 2.2%, with all euro countries experiencing positive growth for the second consecutive year, while US growth is forecast to pick up to 2.7%, in part owing to new tax relief measures.

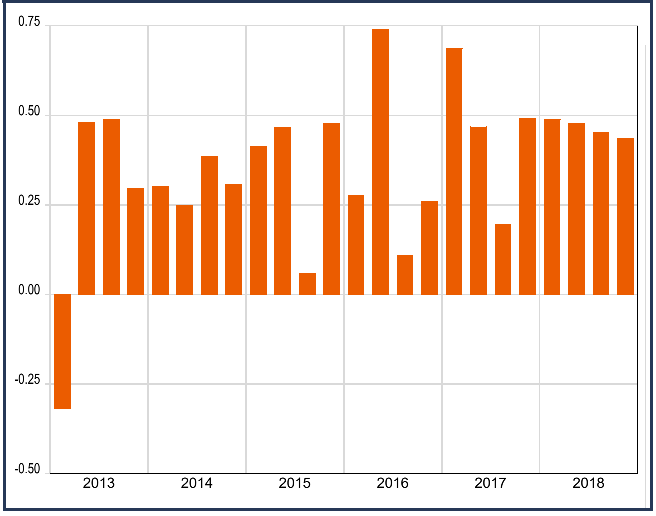
This international scenario is confronted with important risks, including China's debt build-up, geopolitical tensions and uncertainty about the Brexit. Moreover, unexpectedly high inflation could give rise to an accelerated phasing out of monetary stimulus by the central banks, with the risk of a sharp increase in the long-term interest rates.

Belgian GDP growth strengthens in 2018, underpinned by domestic demand

The Belgian economy grew vigorously in the first semester of 2017, with an average quarterly growth of 0.6%. After a disappointing (0.2%) third quarter, GDP growth picked up again (0.5%) in the fourth quarter. Supported by a further increase in business and consumer confidence around the turn of the year, the Belgian economy is expected to deliver a strong performance in 2018 as well, reaching an average quarterly growth of 0.5% during the first semester and of 0.4% during the second one. Private consumption especially is expected to gain momentum this year, bringing GDP growth from 1.7% in 2017 to 1.8% in 2018.

This year, Belgian foreign export markets are expected to grow at a pace similar to that in 2017. As a result, volume growth of Belgian exports should likewise remain relatively stable (4.4%). By contrast, import growth is expected to pick up due to the upward trend in domestic demand, implying that net exports no longer contribute positively to economic growth. The deficit on the current account of the balance of payments should increase slightly (to 0.9% of GDP) as the appreciation of the euro only partly compensates for the higher oil prices.

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



Last year, private consumption grew at almost the same pace (1.2%) as real disposable income (1.1%). In 2018, the rise in purchasing power is expected to be stronger and reach 2.1%, partly owing to a marked increase in employment, additional reductions in personal income tax, a somewhat stronger growth of gross wages and higher property income. With a volume growth of 1.8%, households' final consumption expenditure should show some delay in adapting to the increase in income this year, leading to a slight rise in the savings rate. Residential investment was slightly scaled down in 2017 but is forecast to register a modest growth rate of

1% this year, due to the developments in purchasing power and interest rates that remain low.

In 2017, volume growth in business investment remained limited to 1.2%. However, this figure is biased downwards by some significant purchases of investment goods in 2016, which did not boost economic growth as they were imported. Underlying investment activity was hence more dynamic in 2017. The industrial capacity utilisation rate has been above its historical average for several years now, increasing the need for expansion investment. Combined with high profitability and easy credit conditions, this should once again create a positive investment climate in 2018, with a (4.2%) volume growth amply exceeding GDP growth.

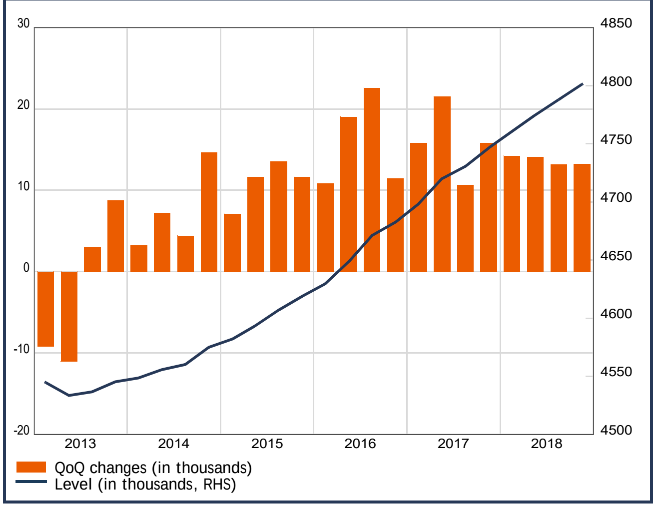
If the measures that are sufficiently specified are taken into account, public consumption growth in volume is expected to amount to 0.9% this year. The strong growth in public investment in 2017 and 2018 (respectively 4% and 6.9% in real terms) is mainly due to increased investment activity by local authorities in the run up to the local elections and also by regional investments (in 2018).

Accelerating productivity growth leads to a less marked employment growth compared to 2017

Domestic employment grew by 1.4% last year, somewhat faster than in 2016. It was backed over the past two years not only by the economic upturn but also by measures aimed at reducing labour costs. These measures resulted in a particularly labour-intensive evolution of activity in the market sector in both years (but mainly in 2016) as employment and value added grew almost equally strongly. In 2018, job creation is expected to further increase by 1.2% (57 000 people), which is less marked than in 2017 in a context of higher wage costs. The number of wage earners in the market sector is expected to rise by 47 000 people. Furthermore, the number of self-employed should continue to increase (by 10 000 people), while public employment is expected to stabilize.

Due to the further increase in the labour force, the number of unemployed (including wholly unemployed non-job-seekers receiving benefits) is expected to decrease by 35 000 in 2018, making it the fourth consecutive year in which a marked decrease has been observed. As a consequence, the harmonised unemployment rate (Eurostat definition) is expected to fall back to 6.7%.

Quarterly evolution domestic employment
Data adjusted for seasonal influences



Inflation cools down somewhat in 2018

Belgian inflation, as measured by the growth rate of the national consumer price index, amounted to 2.1% in 2017. Underlying inflation cooled down as the upward pressure of several measures disappeared and the unit labour costs decreased in the past few years. Overall inflation was nevertheless slightly higher than in 2016, because of the strong rise in oil prices.

The slowdown in inflation to 1.7% in 2018 is almost exclusively due to a decrease in electricity prices, after their sharp increase in recent years. The stronger dynamism of labour costs should gradually fuel underlying inflation, even though this development is slightly offset by the appreciation of the euro.

In comparison with our previous forecasts, the rate of inflation was revised upwards, mainly because of the recent increase in oil prices and the smaller than expected decline in electricity prices in January.

The increase in the health index is expected to be lower than inflation, both in 2017 (1.8%)and 2018 (1.6%). The health index does not take into account the price developments of petrol and diesel and is therefore less affected by the increase in oil prices in both years. According to our monthly forecasts for the development of the health index, the current pivotal index for public wages and social benefits (105.10) should be exceeded in September 2018.

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

	2015	2016	2017	2018
Private consumption	0.9	1.7	1.2	1.8
Public consumption	0.5	0.5	1.0	0.9
Gross fixed capital formation	2.7	3.6	1.3	3.8
Final national demand	1.4	2.1	1.4	1.8
Exports of goods and services	3.3	7.5	4.5	4.2
Imports of goods and services	3.3	8.4	4.1	4.3
Net-exports (contribution to growth)	0.0	-0.6	0.3	0.0
Gross domestic product	1.4	1.5	1.7	1.8
National consumer price index	0.6	2.0	2.1	1.7
Consumer prices: health index	1.0	2.1	1.8	1.6
Real disposable income households	0.3	0.9	1.1	2.1
Household savings ratio (as % of disposable income)	11.9	11.2	11.1	11.3
Domestic employment (change in ’000, yearly average)	40.5	57.7	65.9	57.2
Unemployment (Eurostat standardised rate, yearly average)	8.5	7.9	7.2	6.7
Current account balance (BoP definition, as % of GDP)	-0.1	0.1	-0.7	-0.9
Euro exchange rate (USD per 100 EUR)	111.0	110.6	113.0	125.6
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	1.0