

## Belgium: Just not fast enough

For Belgium, 2017 was another recovery year which is definitively satisfactory but things could be much better. Yet, we don't see any signs of strong acceleration in the near future



Source: Shutterstock

### It could be better

The Belgian economy is sound, with positive growth in all sectors including solid job creation, growing household disposable income and company profit margins with high confidence levels. But despite all these positive elements, some disappointment remains.

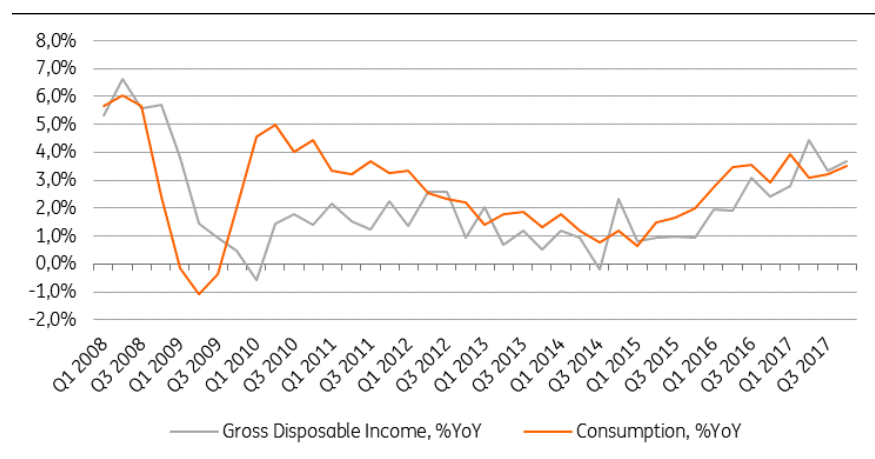
The current growth level stands clearly below its long-term average, while activity used to grow fast in a recovery period. Moreover, GDP grew by 3.2% in The Netherlands, 2.2% in Germany and even 1.8% in France over the same period, which means the Belgian economy performed worse than its neighbours and that is quite unusual. Finally, the GDP evolution was not in line with the (most better) evolution of soft data.

In the first quarter of this year, nothing seems to have changed: Belgian economic activity grew by 0.4% compared to the previous quarter and 1.6% year-on-year. Without any detail of the GDP components, it's difficult to explain why growth was, once again, so moderate. That said, with other Eurozone countries feeling some slowdown since the beginning of 2018, activity in the Belgian export sector could have been hit.

*The Belgian economy performed worse than Netherlands, Germany and even France and that is quite unusual*

More importantly, while Belgium has always been considered as a country of savers, the positive growth of private consumption has been supported between 2010 and 2016 by a decrease of the saving ratio (from 14.9% in 2010 to 11.3% last year), falling below the Eurozone average. As job creation has boosted disposable income since 2017, it seems that households preferred to keep their consumption moderate to save more. That's probably quite sound from a financial stability point of view, but the price to pay is softer domestic demand. Indeed, private consumption has, in 2017, shown some signs of weakness. The Q1 GDP number maybe reflects some further weakness from that side of the economy.

## Private consumption now grows at the same pace as disposable income, stabilising saving ratio



Source: NBB

## No strong acceleration ahead

The key question is if any strong acceleration is likely in the coming quarters? At this stage, the answer seems to be no.

First, the general sentiment about the economic situation in the Eurozone is more mixed than last year, and even if activity accelerated in the two coming quarters, we had to revise downward our full-year GDP growth forecast for the Eurozone. As a small open economy, Belgium will have some difficulties to boost its activity in a weaker global economic context. Secondly, higher oil prices have probably started to affect real disposable income, and as a consequence, any stronger recovery of private consumption could be somewhat postponed.

To be sure, we are far from expecting a recession. Even if most economic indicators have levelled off recently, they remain consistent with an activity expansion. In particular, the very high degree of capacity utilisation in the industry sector suggests that further investments could support domestic demand. All in all, economic growth is likely to remain in a 0.4% - 0.6% range in the coming quarters. But on the back of the first quarter figure and these expectations, we fear that

2.0% GDP growth for Belgium is, once again, out of reach, unless an unexpected positive shock sets in.

## Oil price driven inflation

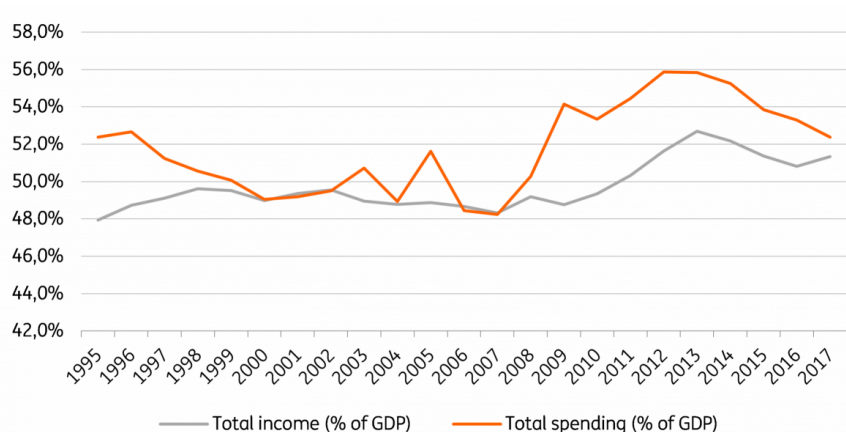
Headline inflation currently fluctuates around 1.5%. Its recent slight increase is mainly due to higher oil prices, affecting the cost of transport and the energy cost of housing. On top of that, there was also higher food price inflation, but this can be temporary as it depends on weather conditions. As a consequence, contrary to what headline inflation tends to show, the underlying dynamic of prices is probably decelerating. As an example, the inflation of services has decreased from 1.9% in March to 1.3% in April.

Looking ahead, moderate growth will probably not push inflation any higher which means oil price dynamics will mainly influence it. We, therefore, expect a full year inflation of 1.7% in 2018. In this context, an automatic wage indexation could happen in August, compensating households' disposable income for inflation, but increasing companies' labour cost by the same proportion.

## Budget balance still in doubt

The deficit reduction from -2.5% of GDP in 2016 to -1.0% of GDP in 2017 came as a good surprise. It seems that tax revenues combined with a decrease in total expenditures (from 53.3% of GDP to 52.4%) allowed the deficit to be reduced by more than expected. To be sure, public finances also benefited from the interest charge reduction thanks to the decreasing implicit rate on the total public debt.

## Public deficit declined thanks to a strong spending reduction



Source: NBB

Despite this good news, reaching a budget balance in 2019, as previously expected, remains doubtful.

One possible explanation for this is the necessity of taking additional structural measures to reach this target, while local elections this year and federal, regional and European elections next year make political consensus more difficult. Moreover, one has to remember that the cost of ageing increases each year and without any new measure, the public finances are structurally deteriorating. In its stability program, the government has further delayed significant structural

deficit reduction until 2020, when a new government will take the helm.

In the short run, we don't consider this as a big problem as the effort made in the past and the further positive economic growth allow the debt/GDP ratio to decrease. It could already decrease below the psychological threshold of 100% next year.

To conclude, we say the Belgian economy is doing well, but compared to what it was able to deliver in the past in terms of growth and inflation, it could be much better.

#### The Belgium economy in a nutshell (%YoY)

	2017	2018F	2019F	2020F
GDP	1.7	1.8	1.7	1.6
Private consumption	1.3	1.1	1.7	1.6
Investment	0.7	2.6	0.4	1.0
Government consumption	1.3	1.7	1.2	1.2
Net trade contribution	0.5	0.5	0.4	0.4
Headline CPI	2.1	1.7	1.6	1.7
Budget balance as % of	-1.0	-1.0	-0.8	-0.6

Source: Reuters, ING estimates

## Author

### Philippe Ledent

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).