

Belgium: Waiting for elections in May

In 2018, Belgian economic growth remained below the eurozone average, which was partly due to weak household consumption growth. This year the economy is expected to make only modest progress, while the collapse of the government in December and the upcoming elections scheduled for May will limit any new economic policy initiatives



Belgian Prime Minister Charles Michel and King Philippe at the Royal Palace

Source: Shutterstock

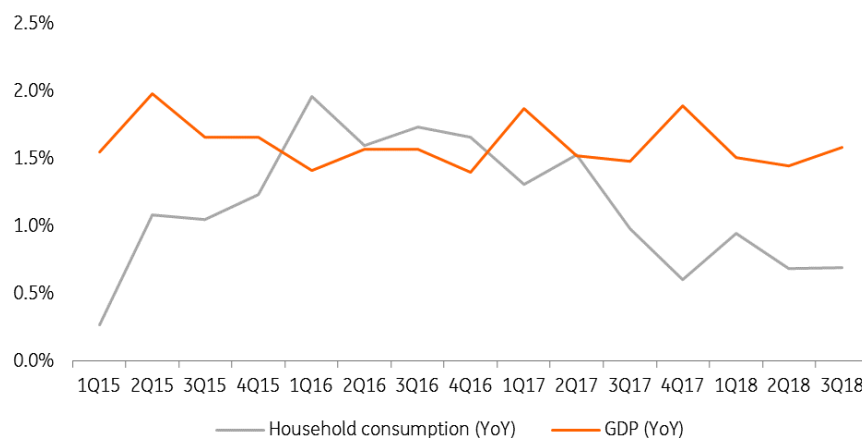
Moderate growth

In 2018 economic growth reached 1.4%, which is well below the euro area as a whole (1.9%). One reason for this poor performance is the sluggish growth in household consumption. In the third quarter, it actually contracted by 0.2% quarter on quarter, probably on the back of higher oil prices sapping purchasing power. Even assuming a rebound in the fourth quarter, household consumption is expected to grow by only 0.8% for 2018 as a whole.

This is all the more surprising as the job market continues to perform well. For the third consecutive year, the Belgian economy has created nearly 60,000 net jobs in 2018. Given the moderate economic growth this is a good performance, and has reduced the unemployment rate to around 6.5%, a level that would normally support household confidence.

We see two explanations for household consumption growth weakness. First, even though in nominal terms household disposable income is progressing well (by around 2.5% YoY, thanks to jobs creation), this increase is almost entirely offset by price increases. In Belgium, inflation reached 2.2% in 2018 (with energy prices one of the culprits). There is therefore little room for a real increase in consumption. Second, households are no longer reducing savings to consume more. Bear in mind that between 2010 and 2017, the savings rate declined from 15% to 11.5% of disposable income. But since then, it has hardly moved.

The support of consumption for GDP is abating



Source: National Bank of Belgium, ING

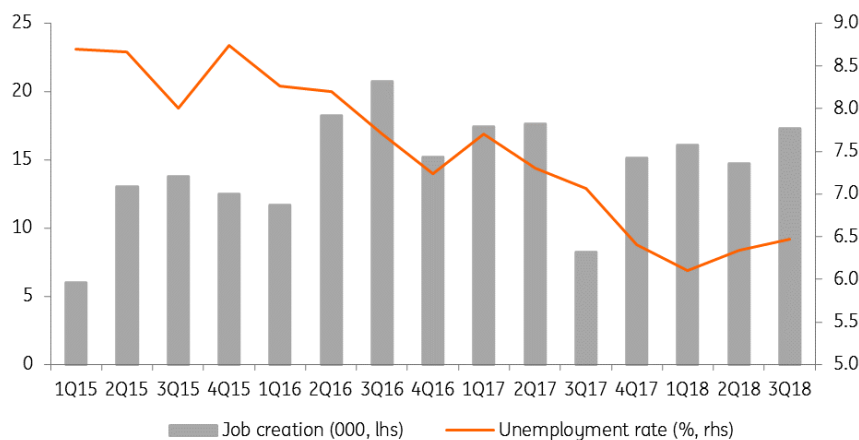
Prudent forecasts

In 2019, we believe the recent indexation of wages and social benefits combined with jobs creation and lower energy costs should help maintain positive growth of household consumption, despite an uncertain general economic background. However, no strong rebound is expected.

Belgian foreign trade, which contributed significantly to economic growth in 2018, risks being affected this year by the weakening of economic growth in the eurozone, by the tensions in international trade (including between the US and the eurozone) and Brexit.

Taking these elements into account, we expect GDP growth to be limited to 1.3% this year and in 2020. It should also be noted that this scenario takes the Belgian political context into account and, in particular, the fact that new economic policy initiatives will be rare in 2019.

Job creation allowed a strong decrease in the unemployment rate



Source: National Bank of Belgium, ING

The long road to elections

Just before Christmas, the Belgian king accepted the resignation of prime minister Charles Michel and the Belgian government. But given that parliament has not been dissolved, the minority government remains in place as a caretaker government and will stay until a new government is in place after the federal elections in five months.

The majority of parties prefer to keep this date and not call early elections so, in the meantime, we shouldn't expect much in terms of economic policy as the government can't take on any initiatives and would have difficulty finding a majority for any propositions anyway.

After the elections, the caretaker government will have to stay in place until a new majority is found, which is likely to take some time. Bear in mind it took 541 days after the 2010 elections to form a new government, and in 2014 it took 4.5 months.

Following the latest polls, various coalitions are possible, and no party would be unavoidable at the federal level. However, the only coalition that could win a majority in both the federal parliament and the Flemish and Walloon parliaments would be the N-VA, the liberals and the socialists. That said, after previous federal and regional elections, the N-VA and the French-speaking socialist party have refused to work in the same government.

Therefore, it is highly likely that the majorities will not be symmetrical between federal and regional levels. Therefore, this will require longer negotiations and diminish the effectiveness of economic policy afterwards. A new state reform could also be the price to pay for having a government at the federal level.

As a consequence, a caretaker federal government will remain in place for most of 2019 without any real economic policy initiatives. But, at the same time, the regional governments are still in place and are often formed faster than the federal government after elections. This situation should not necessarily jeopardise the state of public finances but, admittedly, savings measures decided by the previous government will not now come into force in 2019.

Based solely on the measures that had been voted, the central bank expects a deterioration of the budget deficit, from -0.8% of GDP in 2018 to -1.6% of GDP this year. This deterioration, which does not meet the objectives of the European Commission, would nevertheless allow the debt ratio to fall slightly from 102.3% in 2018 to 101.4% of GDP in 2019.

The Belgian economy will be dependent mainly on the global and European economic context, especially in 2019. But given that no significant growth acceleration is expected anytime soon, Belgian economic activity is likely to suffer.

[For more information on the upcoming elections, read our detailed Belgium election guide](#)

The Belgian economy in a nutshell (% YoY)

	2017	2018	2019F	2020F
GDP	1.7	1.4	1.3	1.3
Private consumption	1.1	0.8	1.2	1.3
Investment	1.8	1.3	0.6	1.3
Government consumption	0.6	1.0	1.2	1.2
Net trade contribution	0.6	1.0	0.7	0.5
Headline CPI	2.1	2.0	1.8	1.8
Unemployment rate	6.3	6.2	6.3	6.0
Budget balance as % of GDP	-1.0	-0.8	-1.6	-1.2
Government debt as % of GDP	103.0	102.3	101.4	100.2

Source: Thomson Reuters Datastream, all forecasts ING estimates; unemployment rates according to ILO definition

Author

Philippe Ledent

Senior Economist, Belgium, Luxembourg

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 <http://www.ing.com>.