

Happy National Day Belgium!

On the occasion of Belgium's national day this Saturday, July 21, let's summarise Belgium's economic picture



As we know, the economic recovery gained traction in 2016, which is reflected in a better growth performance, a strong labour market and improving public finances. The risk of deflation is gone, and inflation is close to normal levels. Beyond this observations, what are the strengths and weaknesses of the Belgian economy in these four areas? What are the projects to be carried out?

Growth: the new normal?

With economic growth around 1.6%, we certainly cannot say that Belgian economic activity is weak. However, between 1995 and 2010, the normal level of growth was just over 2% per year. The Belgian economy seems to be struggling to come back to this past level. The consolidation of public finances (see below) can partly explain this, but there are other elements: Belgium could be missing the fourth industrial revolution?

The "+":

- + Diversified economy, open to the world
- + High level of productivity

The " - " :

- Rigidity of economic and social structures
- Labour market: Attention to mismatch

2.1% The 1995-2010 average economic growth in Belgium

Labour market: Mismatch needs attention

The evolution of the labour market was a nice surprise in recent years. More than 168,000 jobs have been created in the past three years and the unemployment decreased from 8.5% of the workforce in early 2015 to less than 7% today. However, several problems remain: more and more companies are complaining about not finding the people that meets their needs. While there are still nearly 500,000 job seekers in Belgium, this is an inadmissible paradox. Furthermore, the employment rate of people over 55 years is increasing, but remains one of the lowest among OECD countries. This shows that end-of-career management still needs to be improved. Raising the employment rate of people over 55 will be a crucial element for future economic growth. Otherwise, the lack of manpower will weaken potential growth.

The "+":

- + High productivity of workers
- + Good level of higher education
- + Ability to transform growth into jobs

The " - " :

- High unemployment of the unskilled
- Inadequacy between supply and demand for work (large group of non-qualified)
- Employment rate of 55+ very low

168,000 New jobs created over the last 3 years

Inflation: more competition

Inflation reached 2.1% in June, which remains higher than the euro area average. However, the gap has narrowed significantly compared to a year ago. Different factors can explain the gap

between Belgian and European inflation. Some elements, such as tax increases, are temporary. But two elements are likely to maintain a stronger pressure on prices in Belgium: (i) the automatic indexation of wages, which in particular circumstances (shock on oil prices or on taxes) remains a problem, and (ii) the lack of competition in some sectors.

The "+":

+ Better consideration of price developments thanks to “big data” provided by the retailers.

The " - " :

- Automatic indexation of wages, in certain circumstances

- Lack of competition pushes up prices

2.1% Inflation in June 2018

Public finances: further efforts needed

As the sharp decline in public spending (as % of GDP) has been greater than the decrease in revenue, the public deficit has been largely reduced in recent years, from over 3.0% of GDP in 2014 to just 1.0% of GDP in 2017. However, a balanced budget will still require many efforts, and it is unlikely that it will be achieved before 2020. The combination of a more sustained growth of nominal GDP and the continuous decline of the interest burden (as % of GDP) has nevertheless reduced the debt ratio to 103.4% in 2017 (107% in 2014). The improvement should continue in the coming years.

The "+":

+ Interest rates should remain low

+ The average maturity of the debt has been greatly increased in recent years, which will allow longer enjoyment of low rates

The " - " :

- Efforts of nearly € 3 billion will have to be made to remain on the path toward a balanced budget.

- The high level of debt remains a problem in the event of an economic slowdown

Happy National Day to all Belgians!

103.4%

 The debt ratio in 2017

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 www.ing.com.