2. Economic developments in Belgium

2.1 Subdued economic growth against a backdrop of significant job creation

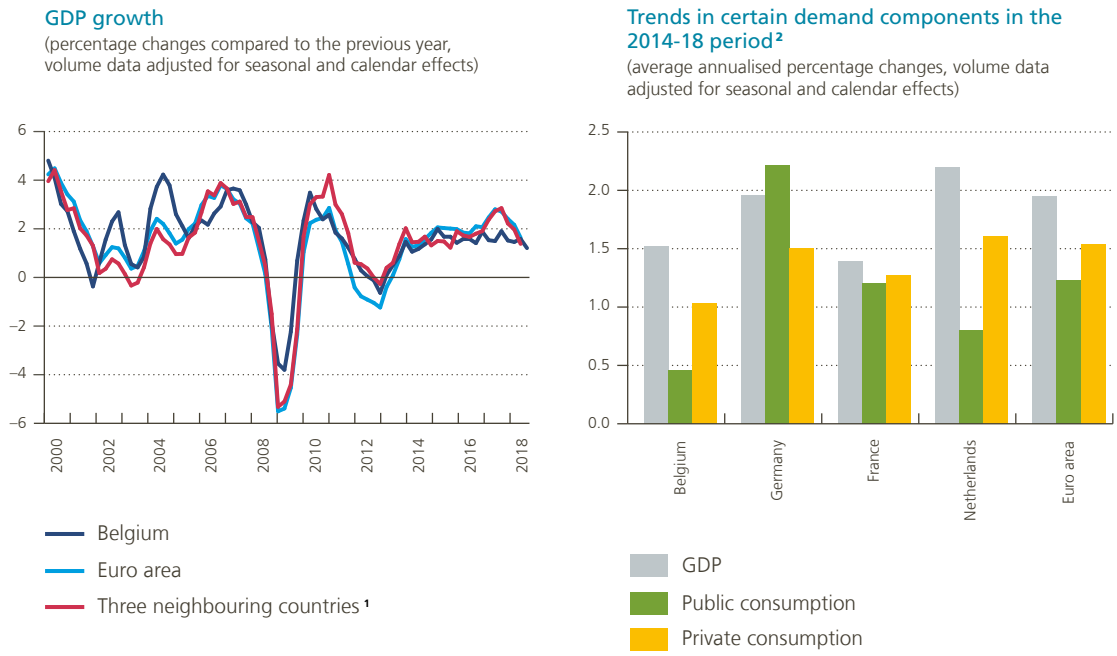
Economic activity continued to climb, but more slowly than in the euro area as a whole

In 2018, Belgium saw no interruption in the expansion of economic activity that had got underway five years ago, with real GDP growth, at 1.4 %, remaining close to the average recorded since 2014.

Nevertheless, growth was less robust than figures posted by the whole euro area or in Belgium's main neighbouring countries. Over the past five years, GDP growth has lagged 0.4 of a percentage point behind average growth recorded by the euro area and Germany. The gap with the Netherlands was even slightly greater, while trends in Belgium were quite similar to those seen in France. However, the rather marked negative gap with the

Chart 17

Stable Belgian growth despite modest private and public consumption



Sources: Eurostat, NAI, NBB.
1 Weighted average for Germany, France and the Netherlands.
2 Eurosystem staff projections for 2018.

euro area recorded in the second half of 2017 did narrow as 2018 progressed, mainly because the euro area slowed while Belgium's growth remained more stable.

Both in 2018 and in the past five years on average, Belgium's slower growth primarily reflected private and public consumption. The modest growth in private consumption, atypical for a time of steep job creation, is in part explained by the impact of wage moderation measures. Dampening down momentum in private and public sector wages and also social security benefits, these measures have eaten into household purchasing power. The lower growth of public consumption reflects Belgium's more restrictive fiscal spending policies in the recent past than those pursued by other countries. By contrast, net exports and investment rose more rapidly.

Going back even further to the 2008 financial crisis, cumulative real GDP growth up to and including the third quarter of 2018 worked out at 10 % in Belgium, compared with 7 % for the euro area. That said, Germany and the Netherlands both enjoyed a more dynamic trend across this period.

Industry and construction supported stronger economic activity, driven by market services

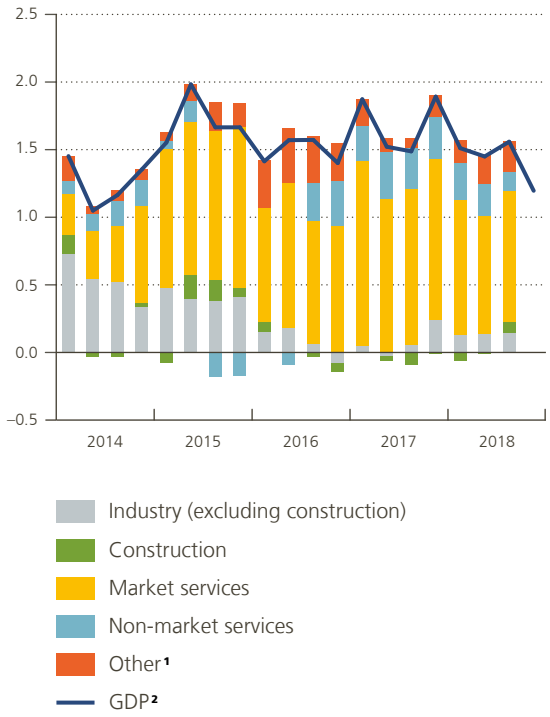
In 2018, market services continued to make the largest contribution to GDP growth. Value added in this branch of activity was up 2 % in the first nine months of the year, compared with the corresponding period in 2017. The rate of growth edged down slightly but remained comparable with its historical average, mainly due to business services. Non-market services continued to make a positive contribution, although recording a minor weakening in the last quarters of the year, which was mostly due to the public administration, defence and education branch.

Industry (excluding construction) saw its value added – which had stalled between mid-2016 and mid-2017 – climb back up by nearly 0.9 % in the first three quarters of 2018, thus contributing an average 0.1 of a percentage point to GDP growth. Meanwhile, economic activity was also up in construction.

Chart 18

Value added growth was chiefly supported by market services

(percentage point contribution to the change in real GDP relative to the previous year, unless otherwise stated; data adjusted for seasonal and calendar effects)



Sources: NAI, NBB.

1 Particularly the agriculture, forestry and fisheries sector and product-related taxes net of subsidies.

2 Percentage changes compared with the previous year.

Job creation remained high

2018 was the fourth successive year to see the net creation of a large number of jobs. Following the upturn in the number of workers by 59 000 in 2016 and by 65 000 in 2017, domestic employment expanded by another 59 000 jobs in 2018. Employment growth – running at an annualised figure of nearly 1.2 % in Belgium since 2015 up to and including 2018 – is similar to the averages reported by Belgium's neighbouring countries and the countries of Northern Europe, which were among the best performers in labour market terms even when economic activity in most of these countries had picked up faster. Recently, Belgium's growth has proved more employment-intensive than in the past. Increasingly, an ever-larger proportion of the working-age population have jobs, with the employment rate adding 2.4 percentage points between 2015 and 2018, to 69.6 %.

These results cannot be separated from measures taken in recent years to relieve both labour costs for employers and fiscal and parafiscal pressure on workers' incomes. The first series of measures boosted companies' demand for labour as this factor became relatively cheaper, while the second raft of measures raised supply through more robust financial incentives to take a job. In addition, incentives encouraging the unemployed back into the workforce also help increase the supply of labour.

Growth remains very employment-intensive

Apart from the ongoing employment growth in health care ("other services" category), it was the sectors that are sensitive to the business cycle that accounted for the biggest share of net job creation, as has been the case since the start of the expansion phase. Only financial and insurance activities continued to see their employee numbers shrink. Employment staged its biggest rise in business services, as well as in the sector comprising trade, transport and the entertainment industry. It was also up in industry, reversing the structural downtrend in this sector.

Self-employment also continued as a major factor underpinning net job creation. The popularity of self-employed status reflects the robust dynamics of the liberal professions, more demand from companies for greater flexibility, the rise of service platform work, successive improvements in the social status of the self-employed and opportunities for the retired to combine their pensions with independent paid work. Moreover, for some people who, despite their skill sets and active search for work, have a hard time finding a job as an employee, self-employed status serves as a gateway into the labour market.

Table 2

Labour supply and demand

(in thousands of persons, unless otherwise stated)

						Level
	2014	2015	2016	2017	2018 e	2018 e
Total population	55	59	57	54	54	11 404
Working-age population [1]	9	16	16	12	9	7 321
Labour force	33	21	33	37	28	5 355
Domestic employment	20	41	59	65	59	4 783
Employees	14	30	46	52	48	3 982
Sectors sensitive to the business cycle [2]	0	18	29	38	36	2 475
Public administration and education	7	3	3	2	1	816
Other services [3]	7	9	14	13	11	691
Self-employed	6	10	13	12	11	801
Unemployed job-seekers	14	–19	–26	–28	–30	495
p.m. Harmonised unemployment rate [4, 5]	*8.6*	*8.6*	*7.9*	*7.1*	*6.0*	
p.m. Harmonised employment rate [4, 6]	*67.3*	*67.2*	*67.7*	*68.5*	*69.6*	

Sources: FPB, NAI, NEO, Statbel, NBB.

1 People aged 15-64.

2 Agriculture, industry, energy and water, construction, trade, transport, catering industry and communication, financial activities, real estate activities and business services.

3 Health care and social work; arts, entertainment and recreation; other services; and households as employer.

4 Based on data from the labour force survey.

5 Job-seekers as a percentage of the labour force aged 15-64.

6 People in work as a percentage of the working-age population between 20 and 64.

More temporary and part-time contracts for new hires

Against the backdrop of robust employment, the question arises as to whether the nature of recruitment has changed since the onset of the financial crisis. To find answers, new hires in 2018 were compared with those in 2008, a year in which the labour market had not yet felt the effects of the great recession.

Growing use of temporary contracts

A new hire is a person who has held a particular position for less than twelve months. In 2017, most of these new hires (57 %) had previously already had a job, albeit under another employment contract, while 19 % were previously students, 16 % job-seekers and 8 % inactive, i.e. drawing a pension, a part-time pension, on disability pay or a housewife/househusband. Together, new hires accounted for 12 % of total employment, a turnover rate well below that of Belgium's neighbouring countries: in 2016 (the latest available year for international comparisons), this rate was 15 % in France, 24 % in the Netherlands and 29 % in Germany.

Temporary jobs as a proportion of new hires have grown significantly since 2008. This includes all temporary employment contracts, temp agency contracts, replacement contracts or agreements to perform certain clearly delineated tasks, plus also student jobs. In 2018, 46 % of new jobs were temporary in nature, 12 percentage points up on 2008, a trend fuelled by the scrapping in 2014 of the legal probationary period when entering into an employment contract. The growing proportion of hires on temporary contracts is particularly notable in the intellectual and academic professions, for people engaged in personal services, and in trade.

Although low-skilled jobs are more often temporary in nature, they have had only a small influence on this trend. Student employment is also increasingly common, and this may well continue as conditions governing this status have eased and this status entails very low social security contributions. This should help boost the employment rate among young people aged between 15 and 24, which has lagged well behind the average in other EU countries (34.7 % compared with Belgium's 22.7 %). Belgian students are much less likely to combine their studies with work, even though such experience would give them (especially the lower-educated ones) an advantage when they come to enter the labour market in the future. Even though it depresses the employment rate, the growing number of young people in higher education is also a positive development, as long as their chosen studies meet the needs of the labour market.

Table 3

New hires [1]: job characteristics

(as a % of the corresponding total)

	New hires			Total employment	
	2018 [2]	2014	2008	2017	2008
Type of employment contract					
Fixed	54	60	66	90	92
Temporary	46	40	34	10	8
Working hours [3]					
Full-time	69	73	76	75	78
Part-time	31	27	24	25	22

Source: Statbel.

1 People in work during the year and who were unemployed, inactive or in a different job in the previous year.

2 Average for the first three quarters.

3 Employees and self-employed.

Although new hires are more frequently for temporary jobs, the share of this particular status in total salaried employment has risen by only 1.4 percentage points over a decade, to 10 % by 2017. Temporary contracts seem to be increasingly used as an obligatory step towards a permanent contract. A study by Federgon[1], the federation of HR services providers in Belgium, found that two-thirds of workers on temporary contracts manage to land a permanent position about a year into their assignment.

Part-time work also accounts for an ever-larger slice of new hires, closely reflecting the increase in the number of male part-time workers in the past ten years. Nevertheless, women are still four times more likely to work part-time than men: 41.2 % of women compared with 10.2 % of men (2017). Compared with other European countries, part-time work in Belgium turns out to be a personal choice much more often, as only 7.8 % of those working part-time in Belgium report doing so involuntarily, as against 26.4 % in the EU as a whole. Moreover, this percentage is falling, which is quite the reverse of the trend across the EU. The rise in voluntary part-time working reflects a variety of schemes – time credit, career breaks and thematic leave – enabling employees to reduce their working time for personal reasons.

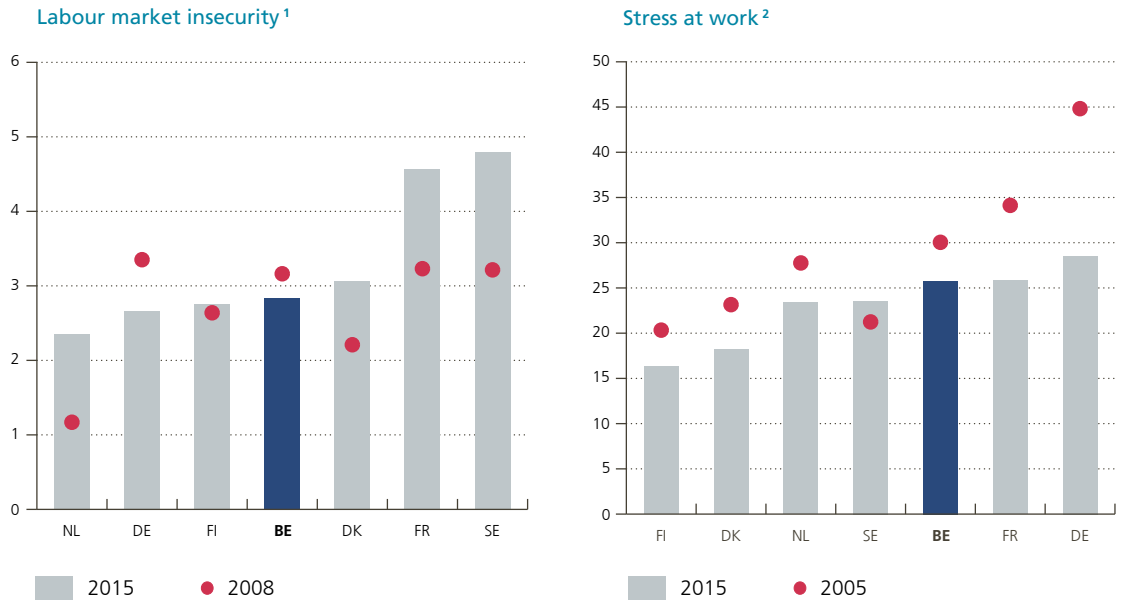
Part-time workers are still predominantly female

While temporary and part-time contracts for new hires have been steadily rising since the great recession, indicators measuring the quality of work – even though they become available only with some time lag – do not point to any deterioration in labour market conditions in Belgium. The country posts a favourable score on labour market insecurity and, like a number of other European countries, has seen work stress fall.

1 See www.uitzendkracht2018.be/www.interimaire2018.be, May 2018.

Chart 19

No fall-off in the quality of work



Source: OECD.

1 Expected loss of income on unemployment, depending on the risk of becoming unemployed, the expected spell of unemployment and unemployment insurance cover, in percentages.

2 Percentage of jobs with a shortage of people to handle the workload. Figures for Germany are for 2013.

Table 4

New hires: workers' characteristics [1]

(in % of the corresponding total)

	New hires			Total employment	
	2018 [2]	2014	2008	2017	2008
Education level					
Low	21	19	24	17	21
Average	38	40	42	39	41
High	42	41	34	45	38
Age					
15-24	30	28	26	6	8
25-54	66	69	71	78	82
55-64	4	3	3	15	10

Source: Statbel.
1 People in work during the year (employees and self-employed), who were unemployed, inactive or in a different job in the previous year.
2 Average for the first three quarters.

It is also possible to analyse the characteristics of newly hired workers for the first nine months of 2018. They show a higher proportion of highly-educated workers than ten years ago, with a lower share for people with a medium or low level of education. In fact, low-educated workers are more highly represented among new hires than in the total employment figure due to a higher turnover rate in the jobs they hold. In terms of age, logically, there are more young people among new hires than in total employment. However, the past ten years have seen their share among new hires come down in favour of older workers, highlighting an ageing working-age population and the positive effects of reforms intended to keep older people in work longer.

Unemployment showed broad-based decline

In line with the significant level of job creation, the number of unemployed job-seekers again fell sharply in 2018, amounting to fewer than 483 000 by the end of the year, which is comparable to numbers before the 2008 recession. In 2017 and 2018, unemployment shrank by around 30 000 people a year, a strikingly high figure, even disregarding a temporary statistical break between mid-2017 and mid-2018 [1].

The fall in unemployment was underway by the end of 2014 and is visible in all three Regions, for all inactivity periods and all age groups. In fact, this fall occurred in spite of the persistent effect of a factor that pushes up the number of unemployed job-seekers, namely the fact that a high proportion of jobless people who used to be exempt from looking for work are now registered as unemployed job-seekers. This change, which primarily concerns the 55-64 age group, reflects a succession of reforms since the early 2000s aimed at making it harder to access the system of unemployment via employer top-up and job-seeking exemptions, followed by the scrapping of the status of "exempt older unemployed person". In 2008, barely 15 % of fully unemployed benefit claimants between the ages of 55 and 64 were registered as job-seekers; this figure rose to 49 % in the first ten months of 2018. Reforms to the unemployment insurance system and end-of-career schemes swelled the labour force, as a proportion of the previously inactive population was now obliged to look for work.

Ever fewer unemployed exempt from seeking work

1 The figures between mid-2017 and mid-2018 do not include unemployed job-seekers in the Walloon Region obliged to register as recipients of subsistence benefit. In July 2018, around 16 000 people were re-included in the statistics.

Between 2014 and 2018, the number of unemployed job-seekers contracted by a total of 101 000. This rises to 174 000 people on a rather broader measure of unemployed job-seekers plus older unemployed exempt from seeking a job, and non-job-seeking unemployed with employer top-up.

Belgium's harmonised unemployment rate has been on a constant downward trend since 2015 and remains below the European average, even though it started falling later. In 2018, it worked out at 6 %, a level not seen since the 1970s. Favourable economic conditions doubtless contributed, but the figure also points to a sustained improvement in the labour market as a result of structural reforms that encourage labour supply and demand.

Labour market tensions have grown but failed to dent employment dynamics

With companies' demand for labour on the rise, vacancies posted by regional public employment services have been increasing since 2014. Replies to the Bank's business surveys confirm prevailing demand dynamics, flagging growing recruitment problems, while manufacturing companies increasingly report shortages of skilled workers, which hampers their production capacity. Nevertheless, the proportion of these companies is similar to pre-crisis levels.

No sign whatsoever of the demand for labour decelerating

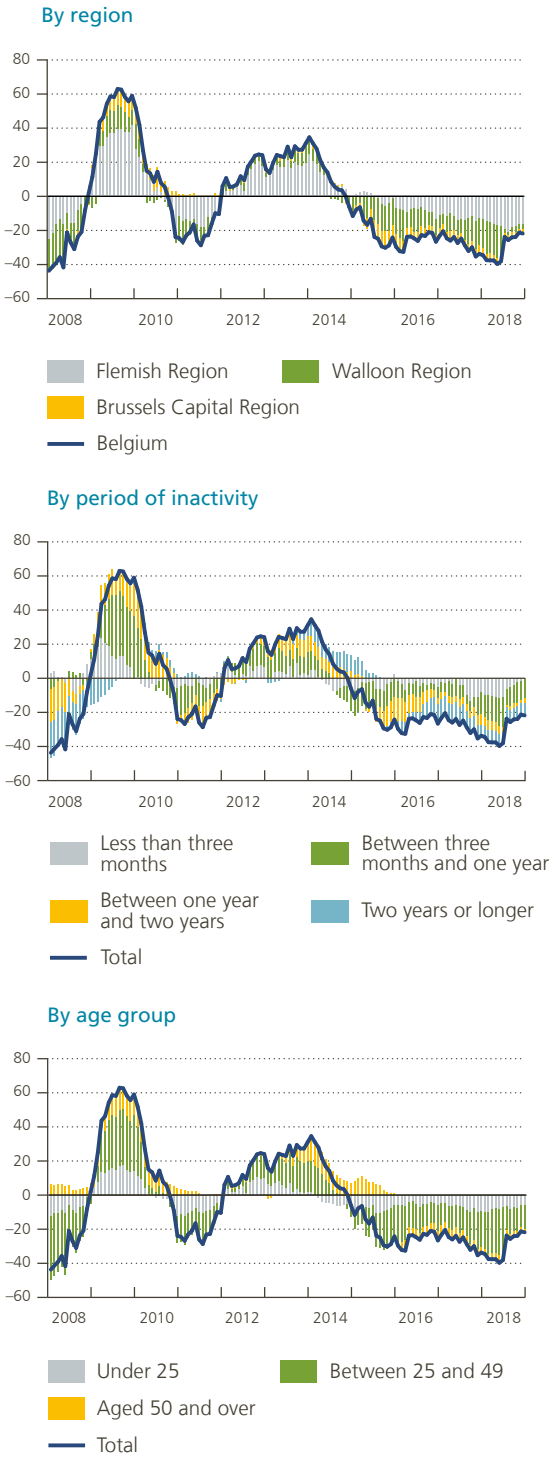
As it takes time for demand and supply in the labour market to align, the increase in vacancies as registered at public employment offices automatically pushes up the number of unfilled positions at the end of each month. The number of vacancies had reached a record high by the end of 2018: 64 000[1] according to statistics from the public employment offices. Yet there is no clear disconnect between end-of-month unfilled vacancies and the number of job offers registered, with the ratio between these two variables rising, though still below 2. Generally speaking, the matching process

1 Data not exhaustive. This figure only includes regular vacancies in the normal economic cycle about which the public employment offices were informed.

Chart 20

Fall in the number of unemployed job-seekers

(changes in thousands of people compared with the same month of the previous year)

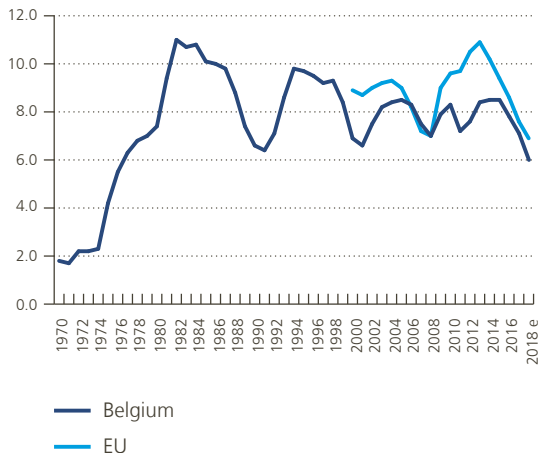


Source: NEO.

Chart 21

Fall in the harmonised unemployment rate

(in % of the labour force aged between 15 and 74)



Sources: EC, NBB.

between demand for and supply of labour continues to work, although tensions are rising in some geographical areas and for some occupations. It is worth noting that these tensions are highly structural in nature and are heightened by the labour market's cyclical dynamics.

On a broader definition than that of the regional employment offices, this translates into a vacancy rate – the number of vacancies as a ratio of total potential jobs, filled and unfilled – averaging 3.5 % in the first nine months of 2018, clearly higher than the EU average (2.2 %), and also than the percentages for Germany (2.9 %) and the Netherlands (3 %).

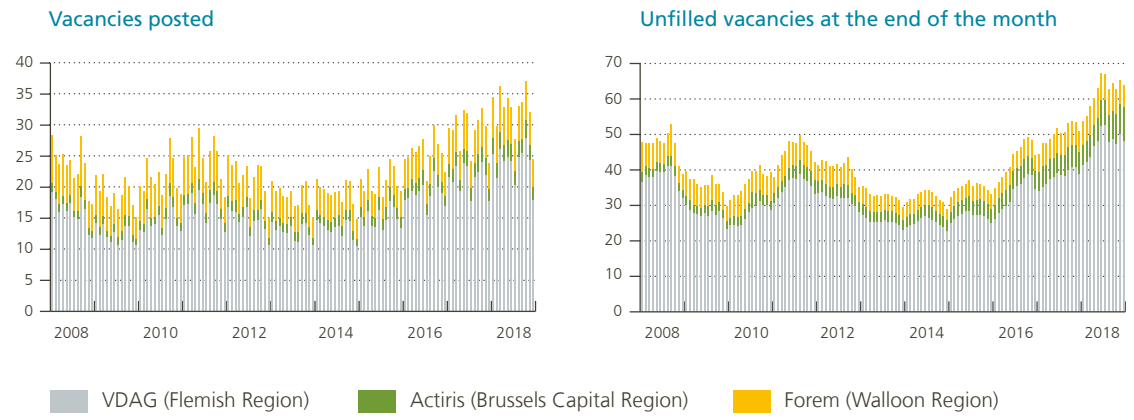
Labour mobility may well be a possible response to the tensions building in specific geographical areas. For one thing, employment in Flanders continued to grow even though the Region was looking at greater tensions. The NSSO's quarterly employment statistics based on where employees live (not on where they work) suggests that the number of Brussels-based employees is growing much more rapidly than those from the other Regions, with a proportion of them taking advantage of the dynamic demand for workers in the outskirts of the country's capital city. The role of the regional employment services – which exchange information on vacancies that go unfilled and which also run language courses – is precisely to alleviate the tensions (arising in Flanders in particular) by offering employment opportunities to unemployed people from the other Regions.

Mobility can reduce shortages

Chart 22

Signs of labour market tensions have become clearer

(vacancies reported[1] and unfilled[2] with public employment services, monthly averages in thousands)



Sources: Actiris, Forem, VDAB.

1 Only vacancies reported via the usual channels, ignoring temporary agency work, government aid and job offers from the other partners.

2 With Forem vacancies only available since 2009, the figures were backward extrapolated using the relationship between vacancies reported and unfilled vacancies in the first twelve months for which data is available.

The proportion of Brussels residents who work outside their Region crept up from 16.7 % in 2010 to 17.5 % in 2017, while Walloons are looking at a contraction of 0.7 of a percentage point (to 16.8 % in 2017) and the Flemish at a fall of 1.2 percentage points (to 10.2 %).

Contrary to popular belief, a very large proportion of vacancies registered and processed by the regional employment offices require only a low level of education or set no formal requirements at all. In 2018, this was true for 43 % of registered vacancies in Brussels, 41 % in Flanders and 60 % in Wallonia. This does not necessarily imply that employers place no importance on the candidates' qualifications, but rather that they are indicating a particular occupation or specific job instead of a diploma.

As discussed in greater depth in chapter 5, "bottleneck jobs" are generally similar for all three Regions, although a few specific features may be noted. In Flanders, for instance, the hardest vacancies to fill are those for cleaners, technical staff, commercial staff, and for people working in health care and social support. Wallonia is facing shortages in the construction sector and in executive, technical and commercial positions, while Brussels is mostly looking for administrative, commercial and information technology personnel.

Tightening recruitment conditions gradually began to translate into upward pressure on wages.

2.2 Moderate wage acceleration and slightly higher inflation

Private sector wages rose faster in 2018

Against a backdrop of robust demand for labour, private sector wages trended up in 2018, though only to a modest extent. Gross hourly wages rose by 2.3 %, compared with 1.7 % in 2017.

Real components primarily accounted for this slight acceleration, by the combined effect of real agreed adjustments and wage drift.

The interprofessional agreement concluded by the social partners in January 2017 set a maximum available margin for real wage increases – i.e. excluding the indexation effect – of 1.1 % over the 2017-18 period. The agreement specified that actual wage agreements should factor in specific economic conditions in the relevant sector and company.

A reading of the index of collectively agreed wages, as collated by FPS Employment, Labour and Social Dialogue based on a sample of the key joint committees, suggests that pay-scale increases agreed by employers remained well below the real margin, i.e. at 0.2 % in 2017 and 0.4 % in 2018. The somewhat faster upturn recorded in 2018 reflects a typical feature of the two-year cycle of wage negotiations

Table 5

Labour costs

(calendar adjusted data, percentage changes compared with the previous year, unless otherwise stated)

	2014	2015	2016	2017	2018 e
Hourly labour costs in the private sector	1.1	0.2	–0.2	1.4	1.7
Gross hourly wages	1.3	0.3	1.3	1.7	2.3
Real agreed adjustments [1]	0.0	0.0	0.0	0.2	0.4
Indexation	0.8	0.1	0.5	1.6	1.7
Wage drift [2]	0.5	0.2	0.7	–0.1	0.2
Employers' social contributions [3]	–0.1	–0.1	–1.5	–0.4	–0.6
Hourly labour costs in the public sector	1.2	0.3	2.3	2.9	2.2
of which: Indexation	0.0	0.0	1.0	2.0	1.5
Hourly labour costs in the economy as a whole	1.2	0.2	0.4	1.7	1.7

Sources: FPS ELSD, NAI, NSSO, NBB.

1 Wage increases fixed by joint committees.

2 Increases and bonuses granted by companies over and above those under interprofessional and sectoral collective agreements; wage drift resulting from changes in the structure of employment, and errors and omissions; contribution to the change in labour costs, in percentage points.

3 Contribution to the change in labour costs resulting from changes in implicit social security contribution rates, in percentage points.

and is attributable to the time required to actually implement the outcomes of sector-specific negotiations. Taken together though, the 0.7 % rise over these two years constitutes a reversal of the trend in the previous six years, when there were hardly any collective wage increases.

During this period of wage moderation, and perhaps more frequently in the last two years, some employers may well have granted financial benefits to their employees which fell outside collectively agreed wages. Social benefits could be expanded, such as an increase in the nominal value of meal vouchers, the allocation of eco-vouchers or hospitalisation cover or, alternatively, a higher employer contribution into a group insurance scheme. Some of these wage components can in fact be seen more as reimbursement of expenses than as an element of pay, such that no employer or employee contributions were applicable.

Employers opting for alternative types of compensation

These factors fall into the category of wage drift, which is also influenced by the employment structure. At times of expansion, when the young and the low-skilled find jobs more easily, the wage drift comes under pressure, whereas an ageing workforce and higher average qualification levels tend to exert upward pressure. On the whole, wage drift in the private sector was up from a slightly negative effect in 2017 to a positive contribution of 0.2 % in 2018. In the public sector, too, changes in the workforce structure were the key factor (apart from indexation) behind higher wages over the past three years; in fact, this factor caused hourly labour costs to climb higher than they did in the private sector in 2016 and 2017.

Indexation the key driving force behind gross wage trends

Whereas gross pay rises in the private sector between 2017 and 2018 were mostly due to real increases, the rise recorded in 2018 is mainly the result of wage indexation. This latter factor made a contribution of 1.7 % to higher private sector hourly pay in 2018, i.e. 0.1 of a percentage point more than in 2017. An indexation is applied to the public sector if the trigger index figure is exceeded by 2 %. The last time this happened was in August 2018 and before that in May 2017, which is why indexation added 1.5 % to public sector pay rises in 2018, compared with 2 % the previous year.

Indexation, which also applies to social security benefits and rent prices, was temporarily suspended in March 2015 until the indexation gauge, i.e. the average of the health index in the previous four months, had risen by 2 %, meaning that automatic indexation mechanisms were shelved until April 2016. Regular indexation has since been gradually applied, based on rules governing adjustment to price trends as implemented by the various joint committees, in settlements or in contracts. The index jump's wage moderation effects showed up in 2015, and especially in 2016 and on into 2017.

Higher wage costs in private sector mitigated by lower employer contributions under the tax shift

Under the 2016-2020 tax shift, reductions in employers' social security contributions were phased in.

The most important of these took effect in 2016. However, a new package of measures came into force in 2018. Arguably, the two most important measures were the reduction of the base rate for employers' social contributions from 22.65 % to 19.88 % and a lower wage restraint levy (down to 5.12 % from 7.35 %). However, these came at a price: employers lost their structural contribution reductions, as flat-rate structural cuts were scrapped (except for disabled employees), as were additional reductions for high wages (except for workers under the Social Maribel scheme). Other changes that had an impact included the full or partial exemptions from social security contributions for first hires at SMEs and the expansion of social contribution reduction for low wages, with the total depressive effect on wage costs working out at 0.6 % in 2018.

Even held back in this way, hourly labour costs in the private sector still rose by 1.7 % in 2018, compared with 1.4 % in the previous year.

Gap in labour costs narrowed in 2018, but Belgium is still at a disadvantage

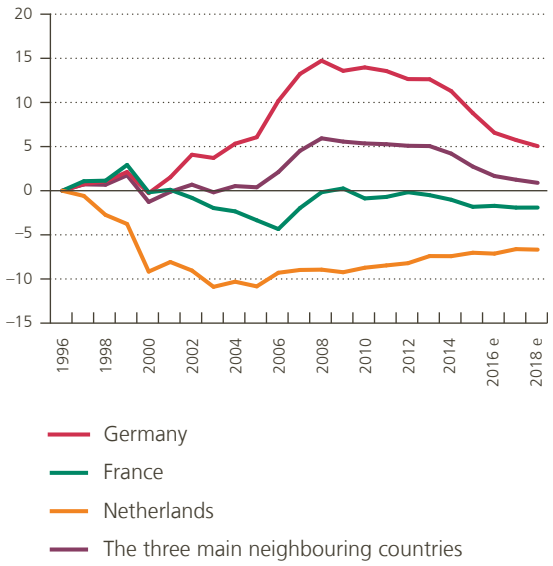
The interprofessional wage negotiation process in Belgium is informed by a comparison of trends in hourly labour costs in Belgium with those for the country's three main trading partners. According to the arrangements laid down in the 19 March 2017 Law amending the 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness, when calculating the benchmark labour cost gap, wage cost trends in Belgium must be adjusted to disregard the reductions in social security contributions that were decided as part of the tax shift, while only 50 % of any future reductions on top of the tax shift cuts can be taken into account. The measures governing lower contributions thus neutralised, the rise in the benchmark hourly labour costs in the private sector in 2018 was nearly 0.5 of a percentage point higher than national accounts data suggest.

According to the January 2019 technical report released by the Central Economic Council (CEC), hourly labour costs in Belgium measured in this way rose by 2.2 % in 2018, i.e. less than in Germany (2.9 %) and the Netherlands (2.3 %), and the same as in France (2.2 %). This has taken Belgium's wage gap 0.3 of a percentage point down on 2017.

Chart 23

Belgium's hourly labour costs gap narrowed in 2018

(cumulative differences[1] since 1996 in the private sector, in %)



Source: CEC.

1 In keeping with the calculation methodology as set down in the amended Employment and Competitiveness Law. A positive sign indicates a competitiveness gain for the relevant economy compared with Belgium.

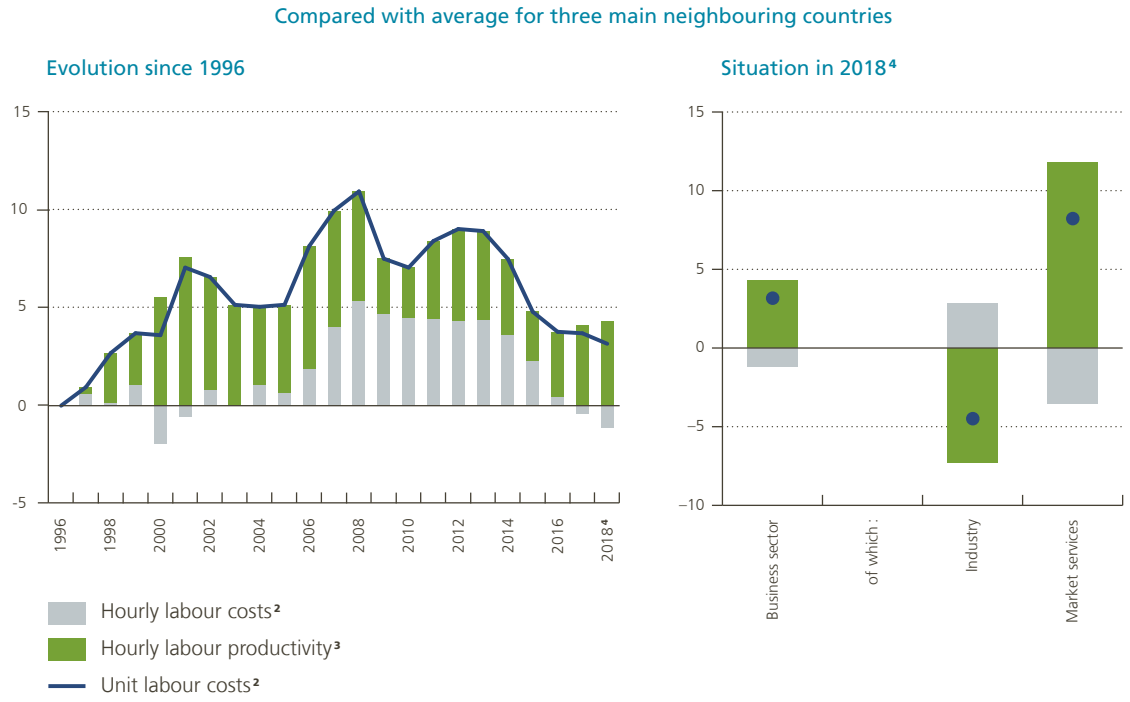
The size of the gap, a cumulative gauge kept since 1996, was also influenced by major overhauls in national accounts data in the four countries. In its January 2018 report, the CEC estimated the gap in labour costs at 0.3 % for 2017, but new data have led it to restate the figure for that year to 1.2 %. Thanks to the reduction recorded in 2018, the gap narrowed to 0.9 % in that year. The CEC is currently setting the maximum available margin at 0.8 % for the 2019-20 period. This margin will serve as a basis for the interprofessional agreement negotiations that will set the wage benchmark for the 2019-20 period.

The amended Law of March 2017 also stipulates that the CEC should calculate an absolute wage gap – comparing wage levels in Belgium with those in its neighbouring countries – in addition to a historical gap, i.e. the wage gap relative to the three neighbouring countries before the 1996 employment and competitiveness law came into force. As long as this historical gap is not run down to zero, any new

Chart 24

Slightly narrower gap for unit labour costs compared with the three main neighbouring countries in 2018

(cumulative differences since 1996 for the business sector[1], in %)



Source: Eurostat.

1 The business sector comprises NACE categories B to N and includes industry, construction and market services, serving as a proxy for the private sector.

2 A positive sign indicates a faster cumulative increase in Belgian labour costs since 1996 than the average in the three neighbouring countries.

3 A positive sign indicates a slower cumulative Belgian productivity gain since 1996 than the average in the three neighbouring countries.

4 First nine months.

reductions in social security contributions will automatically serve to narrow the gap.

Moreover, the Law says that Belgium's competitiveness should also be assessed in terms of the gap in unit labour costs, a measure that typically shows a neutral trend when a faster uptick in labour costs goes hand in hand with more robust productivity growth. In principle, hourly labour cost trends should not diverge persistently from the trend in labour productivity.

Unit labour cost differences are calculated using the national accounts, and therefore differ from benchmark hourly labour cost calculations – not just because they draw on a different source but also because the tax shift-derived cuts in contributions are not 'neutralised' and because the outcomes for 2018 reflect the average for the first nine months of the year rather than an annualised projection. The developments are comparable with those for hourly labour costs, although productivity in Belgium grew more slowly. The figures for the first nine months of the year suggest that the gap in unit labour costs narrowed in 2018, as a result of a relatively more moderate trend in hourly labour costs in Belgium. A breakdown by sector shows that productivity was particularly weak in market services, a sector that has in fact been gaining in importance in the economy.

Inflation slightly up on trends in food prices

Average annual headline inflation remained relatively high at 2.3 % in 2018, up from 2.2 % in 2017, with food prices accounting for the slight acceleration. By contrast, underlying inflation, which strips out the volatile components from the consumer price index basket, edged down from 1.5 % to 1.3 %.

Food price inflation nearly doubled during the year, working out at 2.7 % compared with 1.4 % a year earlier, reflecting a variety of factors. For one thing, prices

Table 6

Harmonised index of consumer prices (HICP)

(percentage changes compared with the previous year, unless otherwise stated)

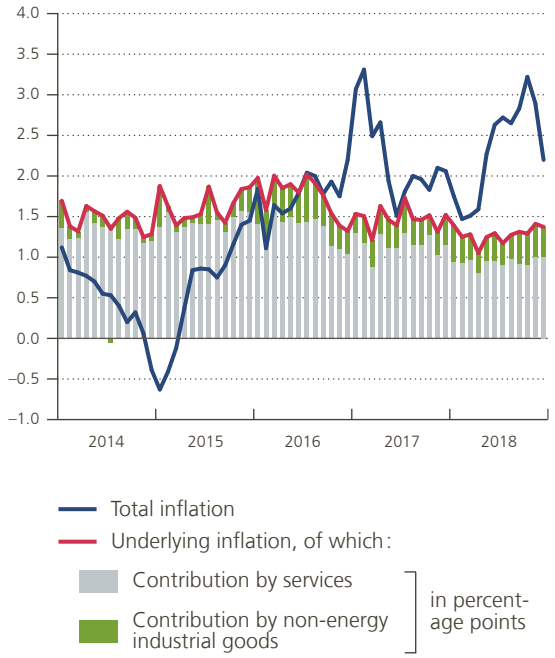
					p.m. Weighting
	2015	2016	2017	2018	*2018*
Total	0.6	1.8	2.2	2.3	*100.0*
Underlying inflation	1.6	1.8	1.5	1.3	*68.7*
Services	2.4	2.2	1.9	1.5	*41.5*
Non-energy industrial goods	0.5	1.0	0.8	0.9	*27.2*
Food	1.8	3.1	1.4	2.7	*21.3*
Energy [1]	–8.0	–0.6	9.9	8.9	*10.0*
Electricity	11.9	28.3	7.9	2.2	*3.2*
Gas	–5.4	–11.8	4.1	9.6	*1.6*
Fuels	–12.8	–5.3	10.6	10.7	*3.3*
Heating oil	–25.7	–17.5	18.7	19.4	*1.6*
Contribution to total inflation [2]					
Regulated prices [3]	0.4	0.3	0.3	0.3	*13.7*
Levies on energy and food	0.4	1.0	0.4	0.1	–
p.m. Health index [4]	*1.0*	*2.1*	*1.8*	*1.8*	–

Sources: Eurostat, Statbel, NBB.
1 Including solid fuels.
2 In percentage points.
3 Eurostat classification.
4 National consumer price index, excluding products seen as damaging to health, i.e. tobacco, alcohol and motor fuels.

Chart 25

Slowdown in underlying inflation

(HICP; percentage changes compared with the previous year, unless otherwise stated)



Source: Eurostat.

of dairy products rose significantly more than in 2017, by a hefty 4.7 % versus 1.2 %. This was related to higher European prices for milk fat and was not peculiar to Belgium: the three main neighbouring countries had seen these prices start to go up six months earlier, at the end of 2016. Feeding into the general rise in processed food prices was the January 2018 increase in excise duties on tobacco and soft drinks containing sugar as well as more expensive alcoholic beverages. As regards unprocessed foods, fruit prices, which had fallen in 2017, were back up in 2018.

Slightly higher inflation due to food prices

The slower underlying inflation was due to services inflation slowing to 1.5 % from 1.9 %, reflecting lower price rises for telecoms services and the "hotels, restaurants and cafés" category, as well as the scrapping of the radio and television licence in the Walloon Region in January 2018. Even without this last measure, which pushed the figure down by 0.2 of a percentage point, services inflation still slowed markedly in 2018, despite the fact that labour costs have been growing sharply since 2017. This was the reverse situation from the preceding years, when the rise in services prices continued to accelerate at a time of rather rigorous wage restraint and measures to alleviate labour costs. This confirms that, in Belgium, labour cost trends are passed on to sales prices only very gradually and after a time lag, with swings in labour costs partly cushioned by the opposite movement in corporate profit margins.

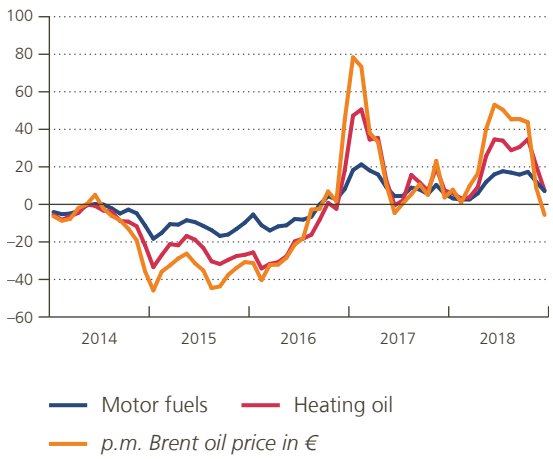
Energy inflation fluctuated significantly in 2018

At an average 8.9 % in 2018, energy inflation remained high but still below the figure for 2017. That said, this average masks major swings in the course of the year. Between May and October 2018, energy prices shot up on sharply higher Brent oil prices, with a year-on-year rise of 17.3 % in prices at the petrol pump and 34.7 % for heating oil in October. November saw oil prices change tack and by the end of the year the same products were recording year-on-year increases of 7.1 % and 7.4 % respectively. Heating oil prices reflect the ups and downs of the international markets much more clearly, as lower excise duties make for a smaller cushion.

Chart 26

Oil product prices reversed towards the end of the year

(HICP; percentage changes compared to the previous year)

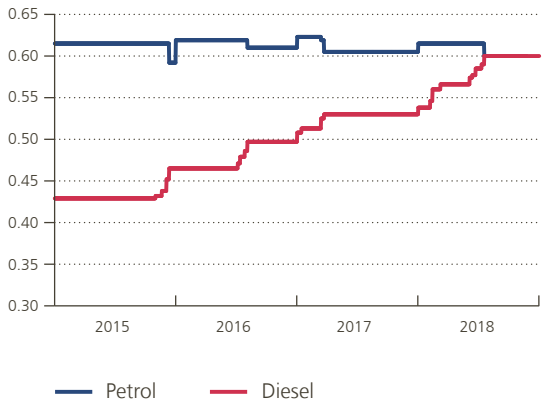


Sources: Eurostat, Thomson Reuters.

Chart 27

Excise duties on petrol and diesel have now converged

(daily data, in € per litre)



Source: Moniteur belge/Belgisch Staatsblad.

The so-called ratchet system clicked into action eight times in 2018. This mechanism was used as part of the tax shift funding; but it is also aimed at discouraging diesel usage because of the health hazard posed by emissions of particulates. The system ensures that any falls in daily maximum prices for diesel – set under the programme contract establishing the retail prices of oil products – are not fully passed on to consumers but are partly offset by higher excise duties. Once diesel excise duties have hit a ceiling, an offsetting cut in excise duties on petrol kicks in. The system was in place until excise duties on diesel reached the levels of duties on unleaded petrol, which has been the case since 19 July 2018, with a duty level of € 0.60 a litre. Regardless of the ratchet system, excise duties on petrol and diesel were indexed to headline inflation in January.

Petroleum products have kept energy inflation high

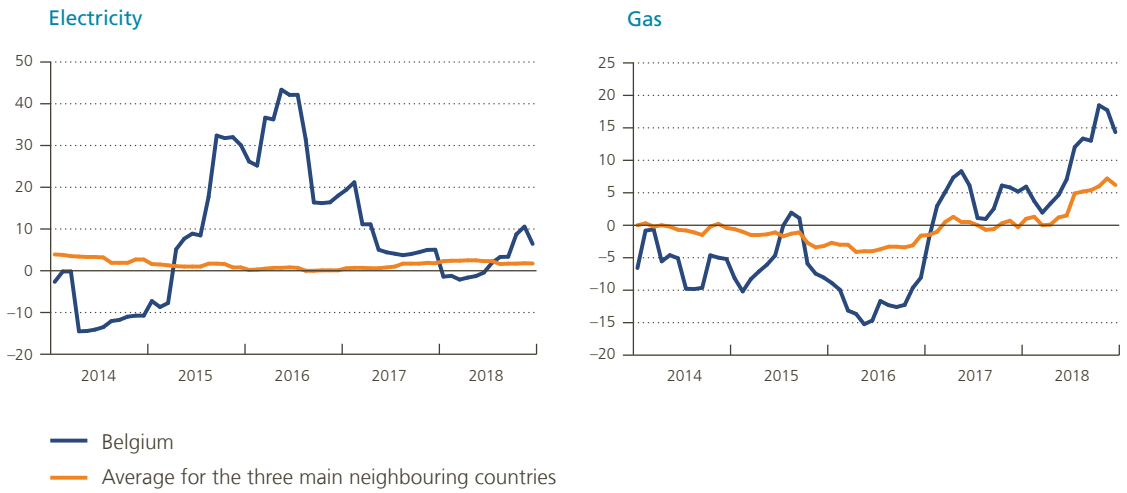
In the summer of 2018, the maximum price for diesel exceeded that of petrol for the first time, while, at € 1.42 a litre, diesel prices at the pump were also marginally higher than those for petrol. Diesel prices rose three times as fast as petrol, having still been below petrol prices in 2017. Excise duties accounted for about 40 % of fuel prices at petrol stations, a proportion that remained relatively stable between 2017 and 2018. Excise duties in Belgium are among the highest in the EU, after the United Kingdom, Italy and France.

Although, on average, electricity prices rose less sharply in 2018, they did record fairly major swings in the

Chart 28

Supply concerns generated upward pressure on electricity prices in 2018

(HICP; percentage changes compared to previous year)



Source: Eurostat.

course of the year. In January 2018, the energy levy in Flanders was scrapped, prompting a fall in electricity prices. Nevertheless, electricity inflation turned positive again from July, reflecting the energy component in electricity bills. Wholesale markets saw electricity prices rise from the second quarter of 2018, chiefly on the back of price developments for other energy-related commodities, such as oil, gas and coal, plus also a significant price increase for carbon credits in the wake of a reform of emissions trading schemes. The unavailability of a large part of Belgium's nuclear power capacity and uncertainty over power supplies in the winter months increased pressures in the electricity market, causing prices of new variable and fixed contracts for individual households to jump in October. Belgium's main neighbouring countries remained free of this additional pressure on consumer prices.

Driven by higher wholesale prices, gas prices for consumers also shot up from July and by October were 18 % higher than they had been a year earlier. Consequently, Belgium faced much steeper price rises in 2018 than the average for its three neighbouring countries, especially as retail prices in Germany were falling throughout the year. These developments caused the headline inflation gap to widen unfavourably for Belgium.

Belgium's inflation gap with its neighbouring countries narrowed sharply compared with previous years, but started widening again during the course of 2018

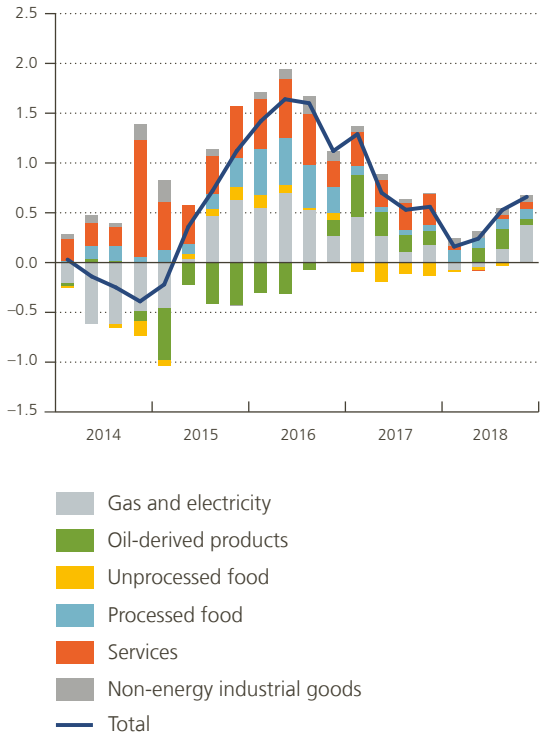
The inflation gap between Belgium and its three main neighbouring countries, which had risen significantly in 2015 and 2016 to reach as much as 1.6 percentage points, has been narrowing continuously since the start of 2017. In fact, it stood as low as 0.2 percentage point in the first six months of 2018. The gap had been mainly due to a faster rise in services prices and the measures taken to finance the tax shift. It started widening again in the second half of the year, this time because of shocks affecting energy-based products, as consumption prices in Belgium more directly reflect global swings in oil prices, while electricity and gas prices also rose more strongly than in the neighbouring countries.

Headline inflation in the three main neighbouring countries rose from an average 1.5 % to 1.9 % in 2018, the gap with Belgium narrowing from 0.8 of a percentage point in 2017 to 0.4 of a percentage point in 2018. Differences in inflation between Belgium and its three main neighbouring countries have been recorded since the creation of EMU in 1999. Although inflation has not been systematically higher in Belgium, the annualised gap has averaged 0.4 of a percentage point during this period.

Chart 29

After previously narrowing, the inflation gap between Belgium and its neighbouring countries widened again, due to energy prices

(quarterly average, in percentage points)



Source: Eurostat.

2.3 Private consumption growth weaker and current account in equilibrium

As in the previous year, GDP growth in 2018 was underpinned by a moderate rise in domestic demand, with net exports making a major contribution. At the same time, the change in inventories put the brakes on GDP growth.

Domestic expenditure (excluding inventories) in Belgium was up by 1 %, an increase almost as large as in 2017 but smaller than previously. Within domestic demand, private consumption and business investment, which together account for two-thirds of GDP, slowed. By contrast, investment in housing rose slightly in 2018, after having come to a standstill in the previous year. A relatively low interest rate environment combined with expanding purchasing power to drive up demand for housing. Government spending, in line with the typical investment cycle in the run-up to local elections, also grew slightly more robustly

Table 7

GDP and main expenditure categories

(calendar adjusted volume data; percentage changes compared with the previous year, unless otherwise stated)

	2014	2015	2016	2017	2018 e
Private consumption	0.6	0.9	1.7	1.1	0.8
General government consumption	0.6	0.6	–0.2	0.6	0.8
Gross fixed capital formation	5.8	2.7	3.8	1.8	1.7
Housing	5.7	1.0	3.7	0.0	0.4
Enterprises	6.5	3.6	4.7	2.3	1.7
p.m. Excluding major specific transactions	*2.5*	*3.6*	*5.4*	*5.5*	*2.3*
General government	1.4	0.7	–2.0	2.1	4.9
p.m. Final domestic expenditure [1]	*1.8*	*1.2*	*1.8*	*1.1*	*1.0*
Change in inventories [2]	0.3	0.3	0.3	0.0	–0.3
Net exports of goods and services [2]	–0.8	0.1	–0.5	0.6	0.7
Exports of goods and services [3]	5.2	3.5	7.6	5.0	3.5
Imports of goods and services [3]	6.2	3.4	8.5	4.3	2.8
GDP	1.3	1.7	1.5	1.7	1.4
p.m. Nominal GDP (in € billion)	*400.1*	*411.0*	*424.7*	*439.1*	*450.5*

Sources: NAI, NBB.

1 In the previous years, significant specific transactions (for instance, certain investment abroad or a multinational's business restructuring), while hardly affecting economic activity in Belgium, increased volatility in certain components of GDP.

2 Excluding the change in inventories.

3 Contributions to the change in GDP compared with the previous year, in percentage points.

than in 2017. Net exports made a larger contribution as gross imports slowed more markedly than gross exports.

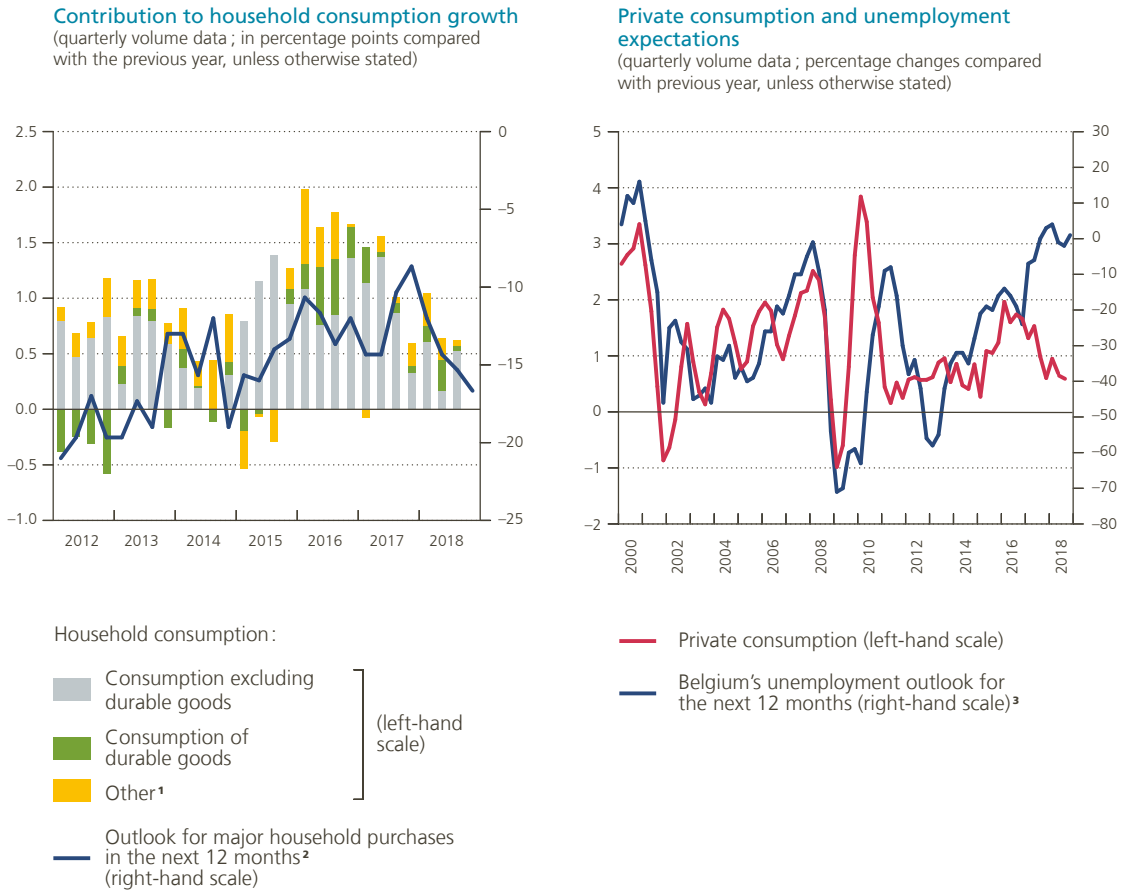
Private consumption growth continues to weaken

Private consumption volume growth slowed for the second consecutive year, coming in at 0.8 %. The slowdown was particularly noticeable in developments in consumption excluding durable goods, which grew at a much slower pace in the first three quarters of the year than on average in the three previous years. Durable goods consumption was up in the first half of 2018. This was not unexpected, in view of the rising indicator in the 2017 household consumption survey for major purchases in the next twelve months.

The slowdown in private consumption recorded in 2018 coincided with a falling consumer confidence indicator. This indicator, having risen since 2001 and peaked in 2017, fell gradually but stayed above its long-term average. The moderate weakening of consumer confidence probably also reflected increased international risks. Consumers nonetheless remained fairly optimistic about the labour market outlook. This sub-indicator usually correlates most closely with trends in private consumption, but this link has weakened sharply in the past three years.

Chart 30

Private consumption slows



Sources : NAI, NBB.

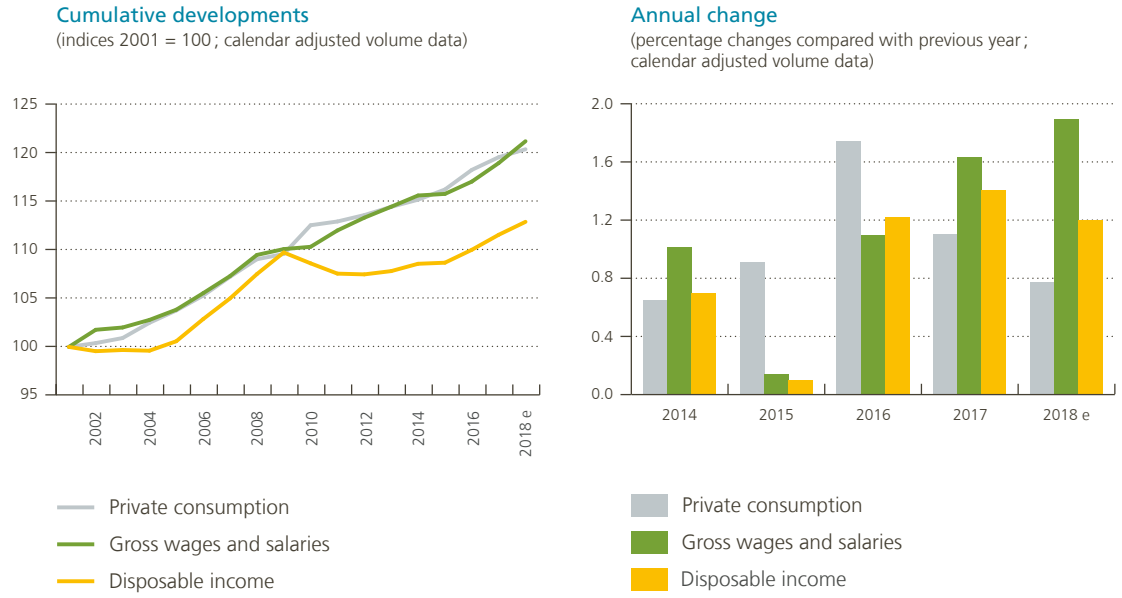
1 The 'Other' category includes Belgian tourists' expenditure abroad minus foreign tourists' expenditure in Belgium.

2 Balance of replies to monthly survey, calendar adjusted data.

3 Balance of replies to monthly survey, aggregate quarterly data. Calendar adjusted data. Reverse of the indicator released by the NBB.

Chart 31

Long-term consumption and household income trends moving in the same direction



Sources : NAI, NBB.

Economic uncertainty may have prompted households to curb their spending to some extent. On the whole, the 0.8 % growth in private consumption in 2018 was somewhat more modest than the 1.2 % rise in purchasing power. As a result, the savings ratio inched up from 11.5 % to 11.8 % of disposable income.

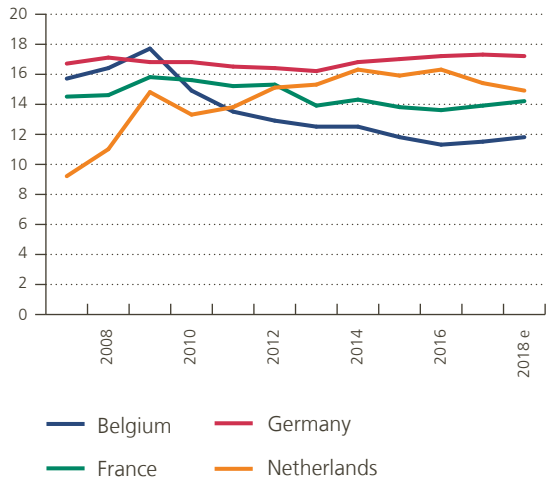
In the long term, consumer spending trends correspond closely to earned income trends. Under normal circumstances, there is also a strong link with disposable income. Between 2010 and 2015, however, this link became less clear due to a fall in capital income, against the backdrop of low returns in the wake of the financial crisis and the sovereign debt crisis in the euro area. This caused the household savings ratio to fall sharply, dropping below the level recorded in neighbouring countries.

That said, the year-on-year changes in these variables may temporarily diverge, among other reasons because households are inclined to smooth out their consumption in response to significant income variability. Their real consumption in 2015 and 2016 grew more strongly than their income, while the index jump curtailed both income growth and the rise in transfers

Chart 32

Gross household savings ratio recovers but is still below neighbouring countries

(in % of disposable income)



Sources : Eurostat, NAI, NBB.

received from the public sector. The reverse was the case in 2017 and 2018, when more rapid income growth did not fuel consumption.

A slight slowdown in disposable income growth

Household purchasing power in 2018 grew at about the same rate as in 2016 and 2017. Just as in previous years, the increase was less marked than in neighbouring countries (1.5 % in Germany and France and 1.9 % in the Netherlands). The purchasing power gap widened in a period of higher inflation in Belgium. Although income indexation mechanisms mitigate the impact of sharper domestic price increases – at the risk, it must be said, of jeopardising Belgium's competitiveness – certain product categories are left out, which potentially further erodes purchasing power. This was the case in 2018 for fuel price rises in particular, as these products are excluded from the reference price index. Wage restraint measures initially also weighed on earned income but, in the medium term, they tend to support corporate competitiveness and employment.

Wages were the main driving force behind household income

Household disposable income grew by 3.1 % in nominal terms in 2018, mainly driven by higher labour income just as in the two previous years. Gross wages rose by 3.8 % in total, on the back of a vigorous new expansion in labour volumes

Table 8

Determinants of household gross disposable income, at current prices

(percentage changes compared to the previous year, unless otherwise stated)

						p.m. In € billion
	2014	2015	2016	2017	2018 e	*2018 e*
Gross primary income [1]	1.1	0.6	2.0	3.4	3.3	*252.1*
Gross wages	1.5	0.8	2.9	3.5	3.8	*170.5*
Volume of labour of employees	0.2	0.6	1.4	1.6	1.5	
Gross wages per hour worked [1]	1.4	0.2	1.5	1.9	2.2	
Gross operating surplus and gross mixed income	3.6	1.5	1.2	3.0	2.5	*53.2*
Capital income [2]	–5.0	–1.8	–1.8	3.5	2.2	*28.3*
Interest	–55.1	–43.7	–32.9	–17.6	90.5	*0.9*
Dividends received	3.1	4.3	2.2	5.9	1.0	*17.0*
Other	–0.8	–4.4	–5.1	0.9	0.3	*10.4*
Net current transfers [1]	6.6	9.2	63.1	–1.3	–6.8	*6.0*
Current transfers received	1.6	1.8	3.1	2.3	2.1	*101.0*
Current transfers paid [1]	1.4	1.5	0.4	2.6	2.7	*95.1*
Gross disposable income	1.2	0.8	3.0	3.3	3.1	*258.0*
p.m. In real terms [3]	*0.7*	*0.1*	*1.2*	*1.4*	*1.2*	
Savings ratio [4]	12.5	11.8	11.3	11.5	11.8	

Sources: NAI, NBB.

1 Wages and salaries received, or current transfers paid, not including contributions paid in by employers.

2 These are net amounts, i.e. the difference between income or transfers from other sectors and those paid to other sectors.

3 Data deflated by the household final consumption expenditure deflator.

4 In % of disposable income in the broad sense, i.e. including changes in households' supplementary pension entitlements accruing as a result of an occupational activity.

and a gradual acceleration in hourly wages. Labour income trends, hampered in the first half of the decade by wage moderation efforts, have since shown a more robust dynamic.

Labour income had a more significant impact on disposable income in 2018 thanks to additional personal income tax cuts, following the first stage of the tax shift in 2016. More specifically, the aim was to expand the flat-rate deduction on business expenses, raise the personal income tax allowance, and undertake a further adjustment of the tax brackets. As a result, transfers from households to other sectors, mainly comprising taxes, went up by only 2.7 % – a considerably smaller rise than the total wage bill increase.

Other income categories were much less of a factor in the growth of household disposable income. Total gross operating surplus and gross mixed income went up by a mere 2.5 %, compared with 3 % in 2017. Capital income growth slowed most markedly, decelerating from 3.5 % to 2.2 % in 2018. Corporate dividends saw the smallest increase since 2012.

Transfers received by households from other sectors went up by 2.1 % in 2018. Pension and disability benefits, unlike unemployment benefits, continued to rise at a steady pace.

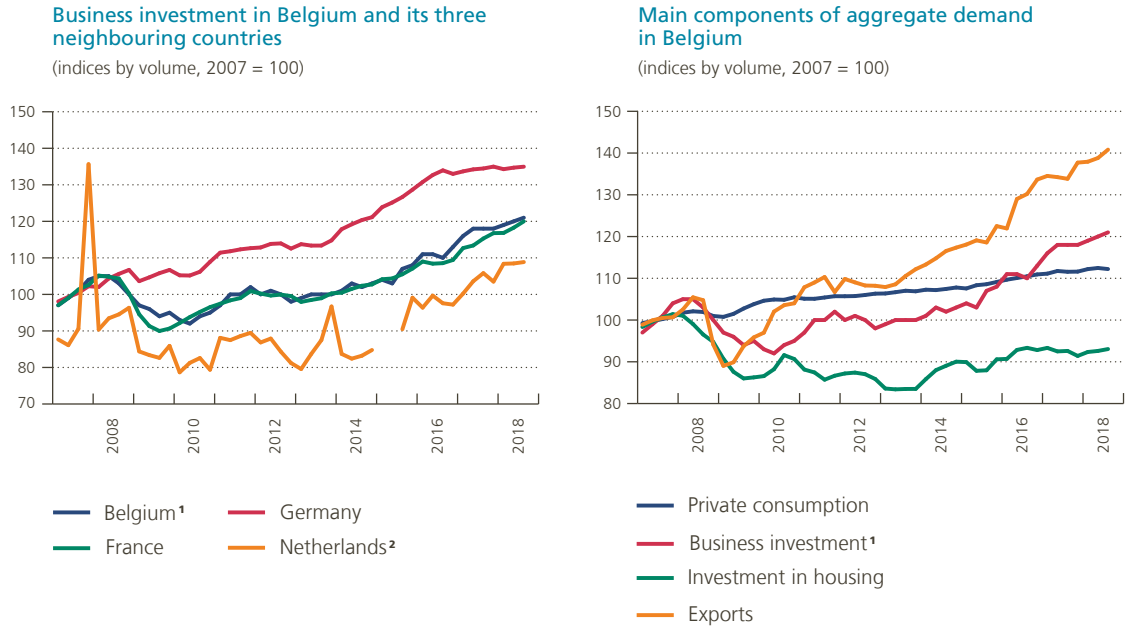
Business investment continued to grow more than GDP

After growing robustly in the four previous years, business investment – excluding certain specific operations – slowed in 2018: its growth by volume came in at 2.3 %, still above GDP growth.

Following the 2008 financial crisis, business investment started to pick up in 2010 and kicked ahead sharply from 2014 onwards, on the back of ample and relatively cheap external funding, wider gross operating margins and robust aggregate demand fundamentals. Business investment was one of the main drivers of economic growth in Belgium. Driven by exports in particular, it increased by a total of well over 20 % between 2007 and 2018, while cumulative

Chart 33

Business investment in Belgium strongly supported growth



Sources: Eurostat, NAI, NBB.

1 Index for Belgium adjusted for specific transactions.

2 A one-off sharp increase was recorded in the Netherlands in 2015, driven by amendments to the tax legislation governing investment. The chart ignores this increase for the sake of readability.

Table 9

Determinants of companies' gross operating surplus[1], at current prices

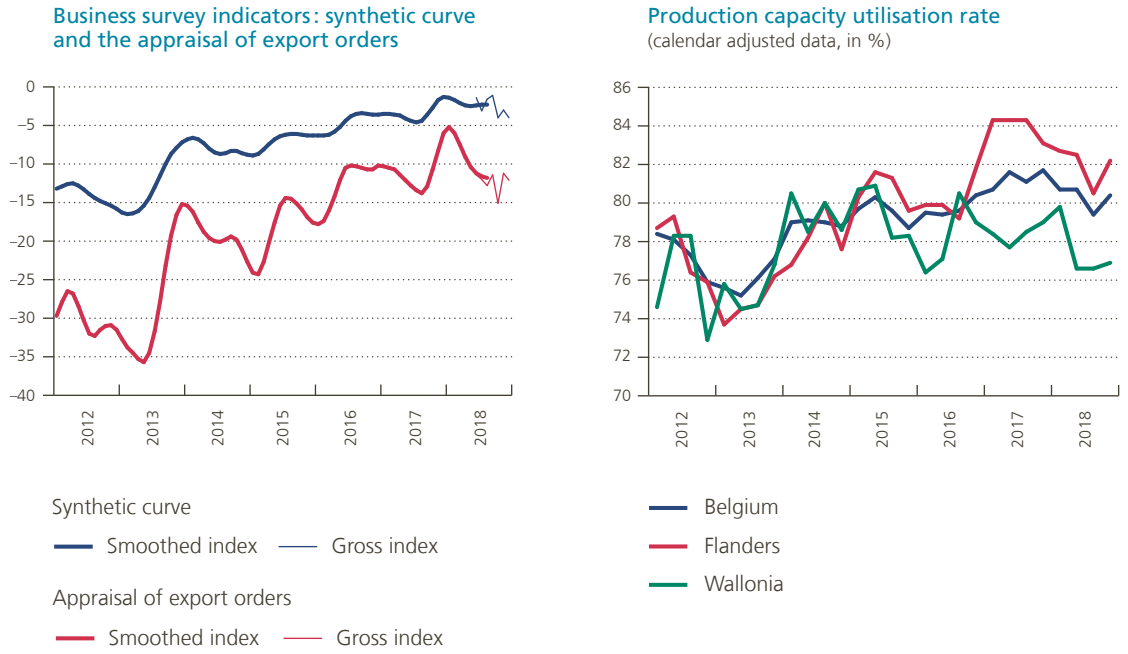
(percentage changes compared with the previous year, unless otherwise stated)

	2014	2015	2016	2017	2018 e
Gross operating margin per unit of sales[2]	–0.8	4.6	1.2	0.5	–1.2
Unit selling price	–0.7	–1.4	–0.3	2.3	2.2
On the domestic market	0.4	0.5	1.3	2.0	2.1
Exports	–1.9	–3.0	–1.7	2.2	1.6
Unit sales costs	–0.7	–2.6	–0.6	2.7	2.9
Imported goods and services	–2.1	–3.8	–2.3	3.1	3.2
Costs of domestic origin per unit of output[2,3]	0.5	–1.3	0.6	1.4	2.0
of which:					
Unit labour costs[4]	0.2	–1.7	–0.2	1.5	2.1
Unit net indirect taxes	0.1	–0.4	4.8	1.9	2.8
Final sales at constant prices	3.7	2.8	5.1	3.1	2.2
Gross operating surplus of companies	2.9	7.6	6.4	3.7	1.0

Sources: NAI, NBB.
1 Private and public companies.
2 Including the change in inventories.
3 In addition to wages, this category includes indirect taxes less subsidies, and gross mixed income of self-employed people.
4 Unit labour costs are expressed in units of value added of the business sector and are not calendar adjusted.

Chart 34

The business cycle weakened in the manufacturing industry



Source: NBB.

private consumption grew by 12 % and investment in housing fell by 7 %. Belgian businesses stepped up their investment more than firms in the Netherlands but less than those in Germany.

Most of this investment was in intangible assets – i.e. intellectual property rights, software and databases – and, to a lesser degree, in real estate. Investment in machinery and equipment only recently returned to the level recorded before the 2007-2008 crisis.

After several years of strong acceleration, the slower growth of business investment in Belgium would appear to be a return to normal. Businesses saw their growth pace slacken in the context of a less favourable environment due to the international cyclical downturn and pressure on operating results.

The gross operating surplus of companies – i.e. revenues from operating activities – grew less robustly in 2018, edging up by a mere 1 %, compared with 5.2 % on average in the four previous years. The slowdown was mainly related to less dynamic developments in sales volumes, both in exports and on the domestic market. Margins also narrowed: unit selling prices rose considerably more slowly than unit sales costs, particularly because imports became more expensive, but also because of the rise in unit labour costs and indirect taxes. Differences of this kind had not been recorded since 2012. As a result, businesses saw their gross operating margins shrink by 1.2 %, reflecting the fact that they have not yet fully passed on the burden of the additional costs in their selling prices.

In addition to the deteriorating international economic situation, the general climate of growing uncertainty also has repercussions for investment. Monthly business surveys point to a gradual slowdown in the appraisal of export orders in the course of the year, prompting the synthetic business confidence indicator to fall relative to its historical high of 2017. More generally, demand prospect indicators also fell between the beginning and the end of the year, both in the manufacturing industry and in business services and trade. Other survey data also point to a slowdown

Slower business investment growth would appear to be a normalisation

Chart 35

Market share remained virtually stable [1, 2]

(annual percentage changes, volume data adjusted for seasonal and calendar effects)

Sources: ECB, NAI.
1 Export markets are determined based on the most recent projections for import demand from trading partners.
2 Excluding the effect of the reorganisation of a pharmaceuticals company's activities in 2016 and 2017.

in business investment. The production capacity utilisation rate in the manufacturing industry fell yet remained above its historical average. This country-wide result nonetheless conceals regional differences, given that the production capacity utilisation rate in Flanders has markedly exceeded the national average since the beginning of 2017.

Exports slowed due to weakening foreign demand

Volume growth of exports of goods and services slowed to 3.5 % in 2018, coming down from around 5 % in 2017. This movement was related directly to falling external demand, which affected markets in the euro area and the rest of the world alike. However, market share remained practically stable in 2017 and 2018, much as it had done on average in the three previous years.

Imports slowed more markedly than exports: the growth in imports dropped from 4.3 % in 2017 to 2.8 % in 2018. Weaker exports played a fundamental role here, as the production process for exports largely depends on imported inputs and components. This effect was exacerbated by the slower pace of private consumption and business investment in Belgium.

All in all, net exports in 2018 contributed 0.7 percentage points to GDP growth by volume, up 0.1 of a percentage point from the – already clearly positive – contribution in 2017. However, the improvement, resulting from volume movements, was not enough to prevent the 2018 trade surplus from weakening. Belgium's terms of trade deteriorated considerably, by nearly 1.6 % in 2018, as import prices rose much faster (by 3.2 %) than export prices (1.6 %), due to rapidly rising energy prices.

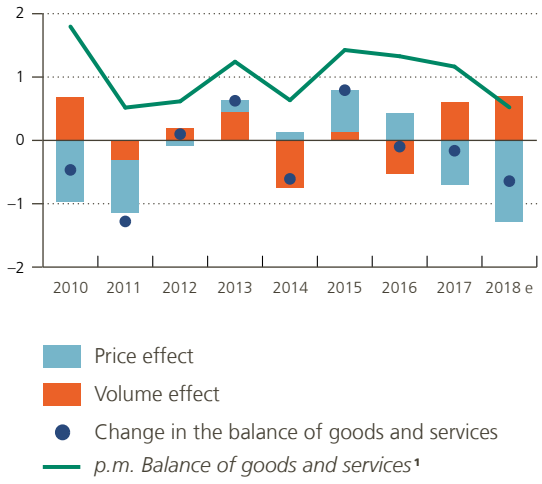
Belgium's trade surplus weakened

According to balance of payments and external trade data, the goods and services surplus is estimated to have shrunk from € 4.4 billion in 2017 to € 0.1 billion in 2018. Available detailed statistics for the first three quarters show that the deterioration was caused by the rising net bill for energy and the falling services trade surplus.

Chart 36

Marked deterioration in terms of trade

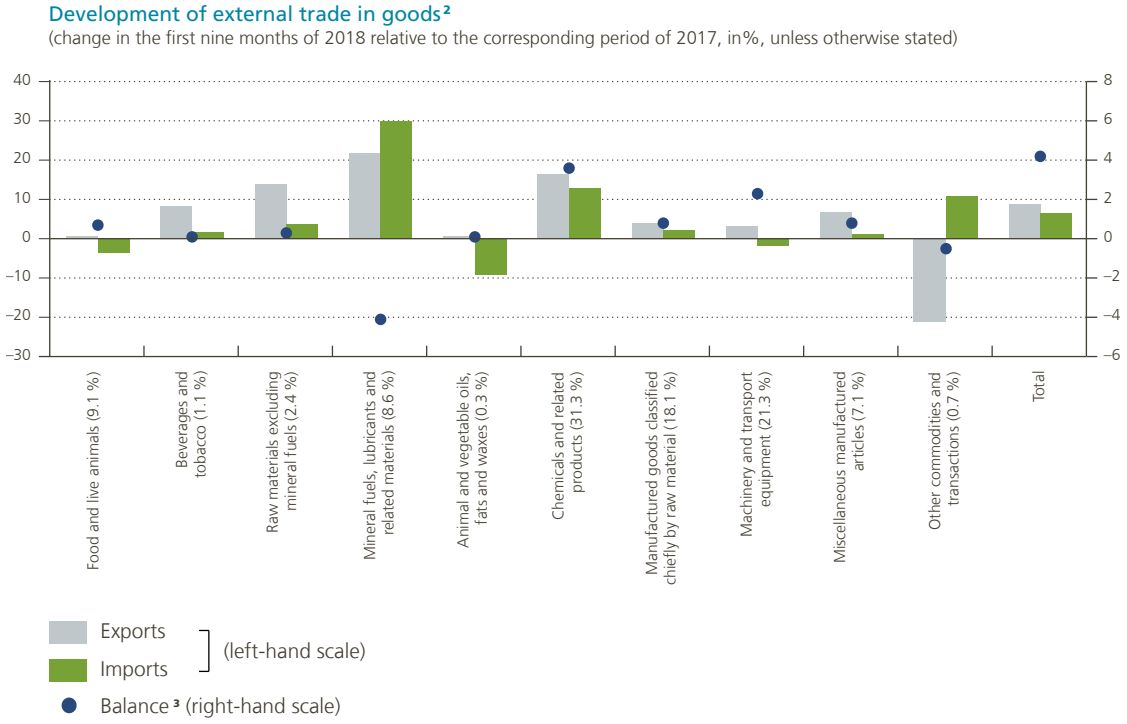
(in percentage points of GDP, unless otherwise stated)

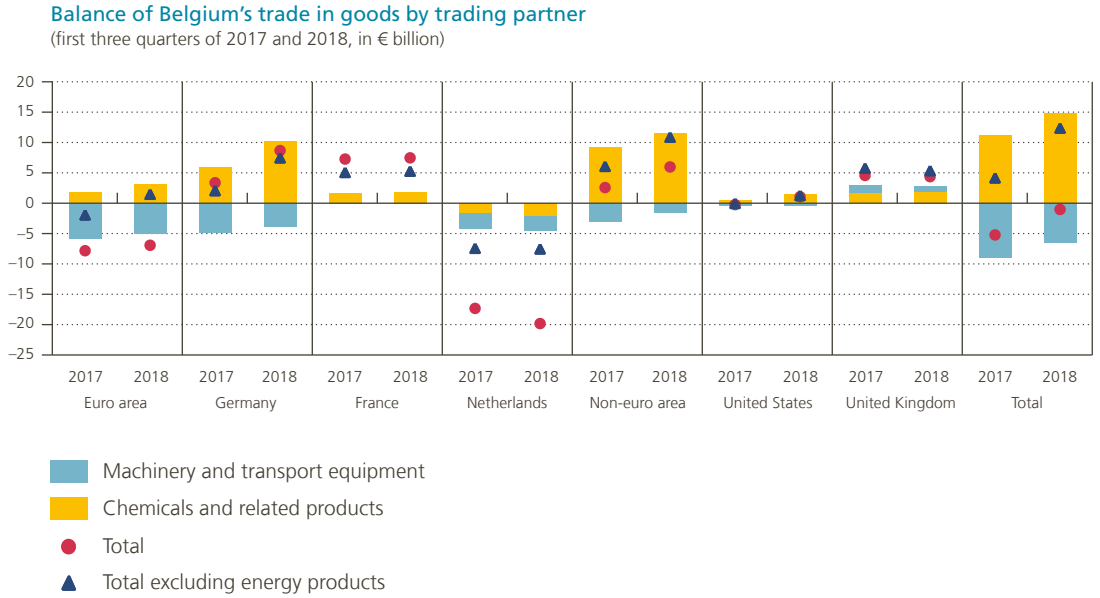


Sources: NAI, NBB.
1 In % of GDP.

Chart 37

Goods trade surplus became larger[1]





Source: NAI.

1 National concept, according to external trade statistics, SITC-1 classification.

2 The proportion of the product category in Belgium's total exports in parentheses.

3 Balance change, in € billion, between the first three quarters of 2017 and 2018.

The balance of goods excluding energy products improved

Belgium's net bill for energy products relative to the rest of the world climbed to nearly € 13.8 billion in the first nine months of 2018, as against € 9.3 billion during the corresponding period of 2017. Higher import prices for oil and natural gas products contributed to the increase. Imports of electricity also grew considerably, mainly in the second and third quarters as a result of the unavailability of a large number of Belgian nuclear power plants and rising wholesale market prices, among other factors.

At the same time, the balance of goods excluding energy products improved by € 7.9 billion to € 12.1 billion, or around 3.7 % of GDP, in the first three quarters of the year. The improvement was reflected particularly strongly in the "chemicals and related products" category, which accounts for more than 30 % of Belgium's total exports. Sales of these commodities on foreign markets grew by more than 16 % in the first nine months of 2018, and their imports by nearly 13 %. The "machinery and transport equipment" category, which has traditionally recorded a negative balance, also contributed to the recovery of the external goods balance, with exports rising by around 3 % and imports falling.

From a geographical perspective, the total goods trade balance improved vis-à-vis both euro area and non-euro area countries. The balance with euro area trading partners nonetheless remained negative due to substantial energy imports from the Netherlands. Excluding energy products, however, the goods trade balance improved significantly, particularly vis-à-vis Germany, Belgium's main trading partner. Exports to Germany in value terms increased by around 14 %, mainly as a result of exports of chemicals and related products, while imports fell by nearly 3 %. The goods surplus with non-euro area countries also grew robustly: excluding energy, it jumped from nearly € 6.1 billion in the first nine months of 2017 to around € 11 billion in the corresponding period of 2018. Regarding trade with the United States, for instance, a € 1.3 billion surplus was recorded, while the goods trade with the US in 2017 was almost in balance.

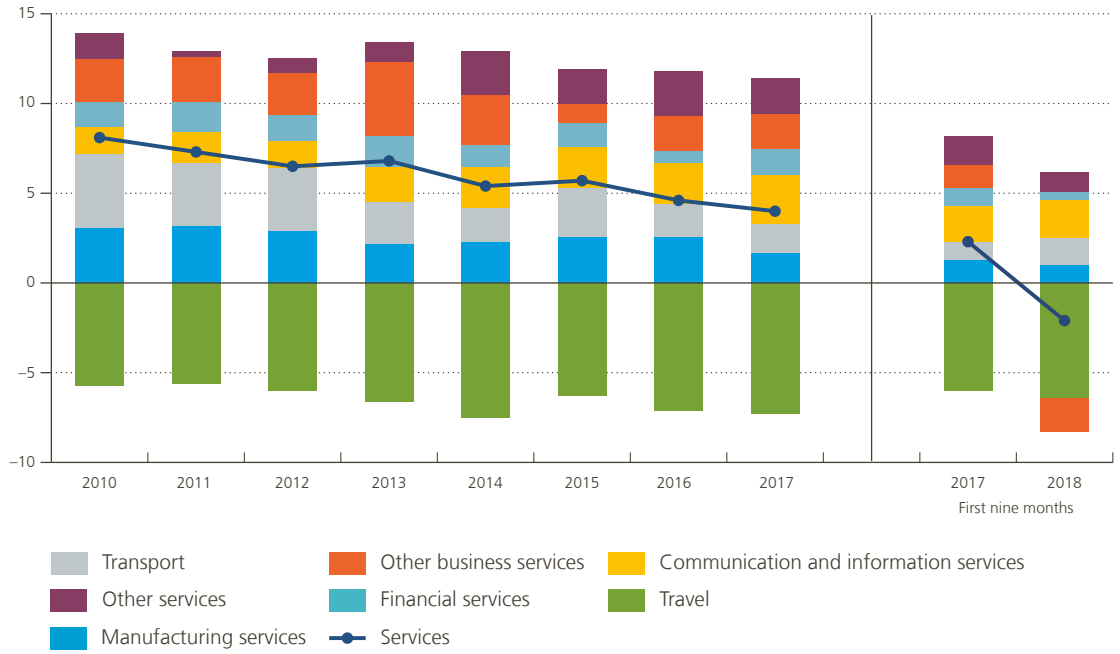
The services surplus was further eroded

In contrast with the expansion of the goods trade surplus, the services balance shrank further in 2018. A deficit of nearly € 2 billion was recorded in the first nine months of the year, whereas 2017 had seen a surplus of almost € 4 billion. Since the beginning of the decade, the services surplus has declined from around 2.2 % of GDP in 2010 to 0.9 % in 2017. This development has been driven mainly by the "transport", "manufacturing services on physical

Chart 38

The services trade surplus was further eroded

(balance, in € billion)



Source: NBB.

inputs owned by others" (comprising the processing, assembly and packaging of goods held by third parties, whereby the services provided do not involve transfer of ownership of the goods in question), "travel" and "other business services" (including inter alia consultancy and R&D services) categories. The surplus or deficit in these categories became smaller or larger respectively, a trend that continued during the first three quarters of 2018.

Belgium's current account balance is close to equilibrium

The decline in Belgium's current account balance with the rest of the world was caused primarily by the shrinking external goods and services trade surplus, which fell from € 4.4 billion in 2017 to € 0.1 billion in 2018. After having turned (slightly) positive in 2017 for the first time since 2010 and amounting to 0.7 % of GDP, the current account was almost back to equilibrium in 2018 (–0.1 % of GDP).

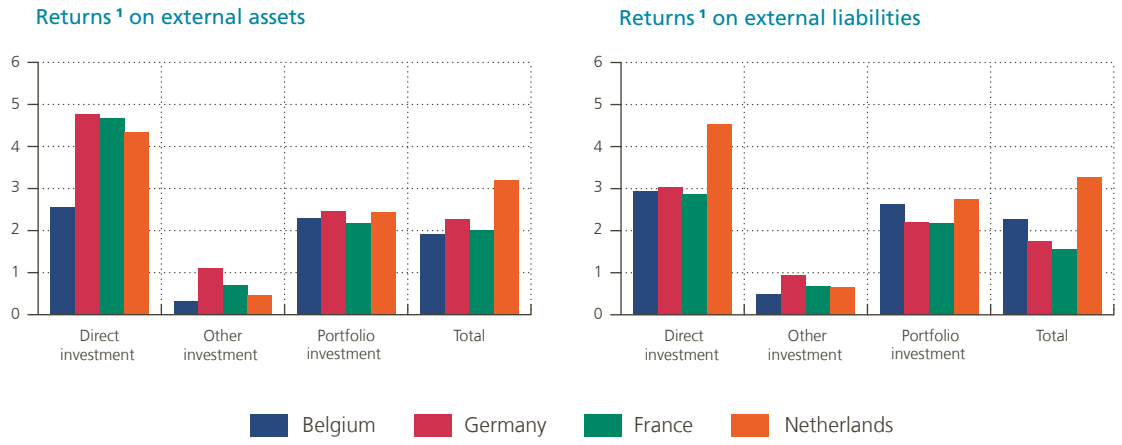
The primary income balance picked up significantly, from around € 5.3 billion in 2017 to nearly € 7.9 billion in 2018. This improvement was largely due to the increase in net investment income in relation to the rest of the world. As the situation on the financial markets returns to normal, particularly in terms of interest rate movements in the medium and long term, net investment income is gradually picking up from previous years. Between 2014 and 2016, net investment income was negative, in line with the general decline in returns on investment products on the financial markets.

Although it improved in 2018, Belgium's net investment income remained relatively small against the backdrop of Belgium's net external position, which remains largely positive at nearly 50 % of GDP. This situation can be explained by both a composition effect and a returns effect. The country's net foreign assets have remained relatively stable in recent years, but their composition by instrument has changed. The proportion of net foreign direct investment rose to nearly 20 % of GDP, primarily as a result of falling foreign shareholdings in Belgian

Chart 39

Belgium's foreign direct investment returns are below those of the neighbouring countries

(in %, average 2014 Q4-2018 Q2)



Sources: ECB, NBB.

1 Implicit annual return, calculated as the ratio of the investment income recorded in the last four quarters to the outstanding assets and liabilities of the net external position during the corresponding quarter of the previous year.

companies. This helped to balance the composition of Belgium's net external position by financial instrument. Although the greater weight of foreign direct investment in the net external position should have a positive effect on net returns, Belgium's returns were lower than those of the neighbouring countries. While the latter recorded average returns of more than 4 % on an annual basis in the 2014-18 period, Belgium's returns came in at just 2.5 %. This situation is reinforced by the still significant weight of intra-group loans in direct investment as opposed to shareholdings. Moreover, Belgium's net foreign assets continue to take the form of substantial positions in portfolio investment and other investment (which includes deposits and loans from various sectors including banking, trade credit, etc.). Against the general backdrop of falling returns on investment products in the financial markets, implicit returns in these investment categories are lower than in others. In fact, returns are somewhat lower on external assets than liabilities, which may reflect a different breakdown of assets and liabilities in terms of maturities.

Net investment income remained relatively small despite a largely positive external position

Lastly, the secondary income deficit grew somewhat in 2018, reflecting, among other factors, the falling secondary income of Belgium's general government relative to other countries. This development is chiefly attributable to a larger Belgian contribution to the EU budget under the "fourth resource", which is based on gross national income. The 2017 contribution was rather small, on account of the gradual and initially limited implementation of new Structural Funds programmes.

Table 10

Current account according to the balance of payments

(balance; in € billion, unless otherwise stated)

	2014	2015	2016	2017	2018 e
Goods and services	0.1	4.8	4.6	4.4	0.1
Goods	–5.3	–0.9	0.0	0.4	n.
Services	5.4	5.7	4.6	4.0	n.
Primary income	2.8	–2.2	0.4	5.3	7.9
Compensation of employees	5.7	5.9	6.1	6.2	6.3
Investment income	–2.3	–7.2	–4.4	0.3	3.0
Other primary income	–0.6	–0.9	–1.2	–1.3	–1.3
Secondary income	–6.4	–6.8	–7.6	–6.5	–7.5
General government	–3.6	–3.8	–4.3	–3.1	–4.1
Other sectors	–2.8	–2.9	–3.3	–3.3	–3.4
Total	–3.5	–4.2	–2.6	3.2	0.5
p.m. Idem, in % of GDP	*–0.9*	*–1.0*	*–0.6*	*0.7*	*0.1*

Sources: NAI, NBB.