Economic activity, demand and employment in Belgium

2. Economic activity, demand and employment in Belgium

2.1 Belgium's economy records subdued growth in 2016 but creates many jobs

Following two years of already quite modest growth, 2016 saw a further moderation in the wake of a relatively lacklustre start to the year. In volume terms, year-on-year GDP rose by 1.2 %. Yet, the economic expansion, which had fluctuated around 1.5 % in the two previous years, proved quite robust.

Growth is also increasingly creating jobs – a normal pattern at a later stage of economic recovery. That said, the rising labour intensity of economic growth also reflects policies regarding wage moderation and cost reductions implemented over the past few years which were recently accelerated, as well as recent years' structural reforms that supported both the demand for and the effective supply of labour. Robust job creation makes an economy more resilient as it broadens the fundamentals of domestic demand.

CHART 18 ECONOMIC GROWTH CREATES MANY JOBS
(average annual growth in %)

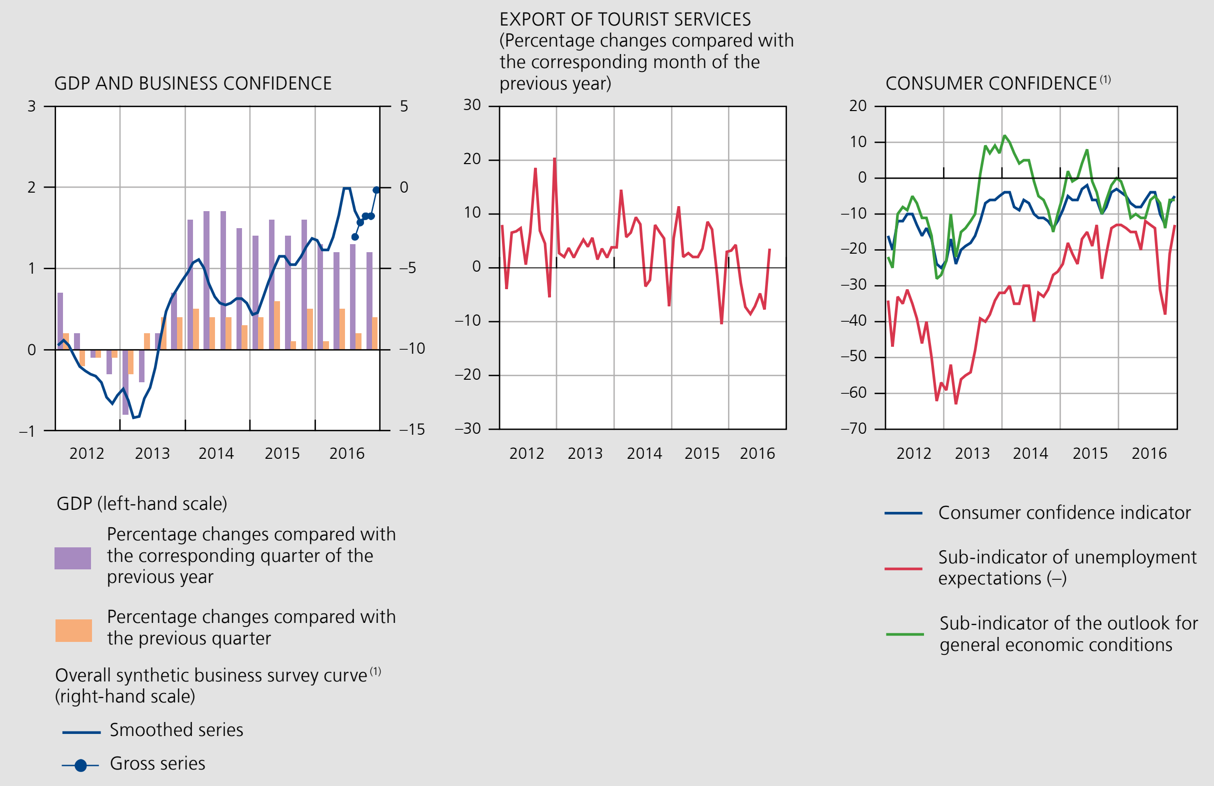
Sources: NAI, NBB.

This resilience was put to the test in 2016, starting with the terrorist attacks. After the Paris attacks in the autumn of 2015, Belgium imposed strict security measures. On 22 March 2016, Belgium was itself hit. The aftermath of the attacks was particularly noticeable in tourism and business travel, as well as in the hotels, cafés and restaurants industry. In June, the unexpected outcome of the Brexit vote in the United Kingdom greatly added to political uncertainty, while the autumn saw a wave of adverse corporate news grabbing the headlines. This dented consumer confidence – albeit temporarily – as unemployment expectations rose and general economic prospects weakened. As it turned out, the economic recovery proved solidly based and this series of shocks would appear to have had only limited consequences for growth. Business confidence trends remained pointing clearly upwards.

Growth of economic activity chiefly driven by private sector branches

In manufacturing, which had been a key contributor to economic expansion in 2015, weak foreign demand – particularly from economies outside the euro area – halved the increase in added value in 2016. Construction also failed to sustain 2015 growth rates, with added value peaking on mild weather conditions in the first quarter, then edging down but still ending the year higher than the average rise recorded since

CHART 19 MODERATE GDP GROWTH AND STEADILY GROWING BUSINESS CONFIDENCE IN AN EVENTFUL YEAR



Sources: EC, NAI, NBB.
(1) Balance of replies to monthly surveys, non calendar adjusted data

2000. Non-market services, which include public administration, education, health care and social work, were affected by fiscal consolidation efforts and in fact detracted from growth. Only market services, which account for over 50 % of the total, continued to grow at the same rate, but this proved insufficient to offset the slowdown in other branches.

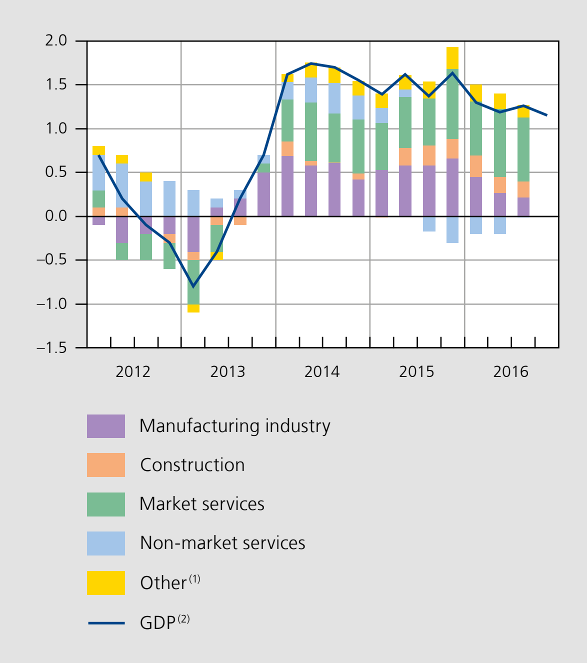
Belgian growth below most neighbouring countries for past few years

Despite resilient economic activity and a robustly recovering labour market, Belgian growth does not appear to be really kicking off: having notched up average annual growth of 0.7 % in the 2008-14 period, economic activity rose by nearly 1.4 % on average in both in 2015 and 2016. The total growth figure of 2.7 % for the past two years is comparable to France's, but clearly below that of the Netherlands and Germany.

Belgium's relatively low growth numbers are primarily caused by a smaller growth contribution by private consumption, as the wage moderation of the past few years has depressed households' purchasing power. In addition, general government consumption made a smaller contribution because of continued government savings. In the short term, then, these government-imposed measures slow down growth although they would already appear to be benefiting the labour market, and should translate into healthier economic fundamentals in the longer run. This is precisely what happened in the Netherlands, where the economy, after a longer and deeper recession, is currently bouncing back more strongly thanks to rapidly implemented reforms and austerity measures.

CHART 20 PRIVATE SECTOR BRANCHES MAIN CONTRIBUTORS TO GDP GROWTH

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



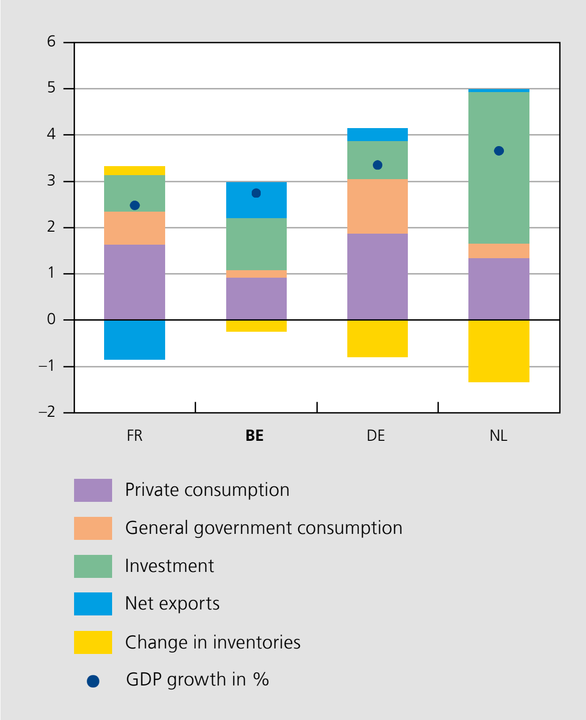
Source: NAI.

(1) Particularly "Agriculture, forestry and fishing" and product-related taxes net of subsidies.

(2) Percentage changes compared with the previous year.

CHART 21 PUBLIC SPENDING CUTS AND WAGE MODERATION A SHORT-TERM DRAG ON BELGIAN GROWTH

(contributions to growth in 2014-16 period, expressed in percentage points unless otherwise stated)



Sources: BdF, DBB, DNB, NBB.

Box 2 – Brexit has little impact on Belgium – for now

One of the main confidence shocks of 2016 was the unexpected outcome of the Brexit referendum. On 23 June 2016, the United Kingdom asked the British people whether the country should remain a member of the European Union. Confounding all expectations, a slight majority of 51.9% of voters chose to leave the Union. Although this was an advisory referendum and many political and legal hurdles still need to be cleared, the United Kingdom seems certain to withdraw from the EU. This box briefly outlines the UK's economic importance for Belgium and discusses the potential repercussions of Brexit for economic activity, both in the UK and in Belgium.

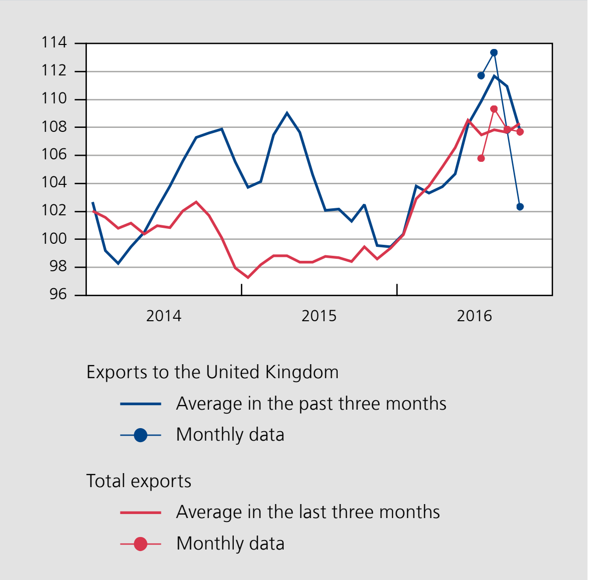
The leave vote and eventual Brexit will be felt in the United Kingdom first and foremost. In economic terms, demand channels are likely be affected and uncertainty and confidence effects could have a direct impact on household consumption, corporate investment and employment decisions even before the country pulls out of the European Union. These effects are liable to trigger responses in the financial and currency markets that may in their turn influence consumption, capital spending, and import and export flows.

In hindsight, the UK economy proved unexpectedly resilient in the months following the referendum. Among other factors, this was probably a result of further easing of monetary policy as announced by the Bank of England in August and of news that fiscal policies would be put in place to cushion any economic slowdown. After a very brief period of tension in the financial markets, the initial shock wore off. Since the referendum announcement, sterling had weakened and its decline continued post-referendum. The currency depreciated by nearly 15% against the euro in 2016. In the short term, a weaker pound gives UK manufacturers a competitive edge over their overseas rivals and is supportive of industrial activity. At the end of the day, GDP staged third- and fourth-quarter growth matching the spring figures of 0.6%. At the same time, though, sterling depreciation makes for more expensive imports of goods and services, raising the cost of imported inputs for manufacturers and pushing up inflation, which eroded household purchasing power.

The Brexit effect on the UK economy and on the sterling exchange rate is chiefly percolating through to its trading partners via global trade. The rise in the volume of exports to the United Kingdom from Belgium – which had got under way at the beginning of 2016 – initially remained unchanged in the summer, but recent foreign trade data suggest a drop in September and October.

BREXIT COULD DEPRESS BELGIAN EXPORTS TO THE UNITED KINGDOM

(exports of goods from Belgium; by volume, index 2013 = 100)



Source: NAI.

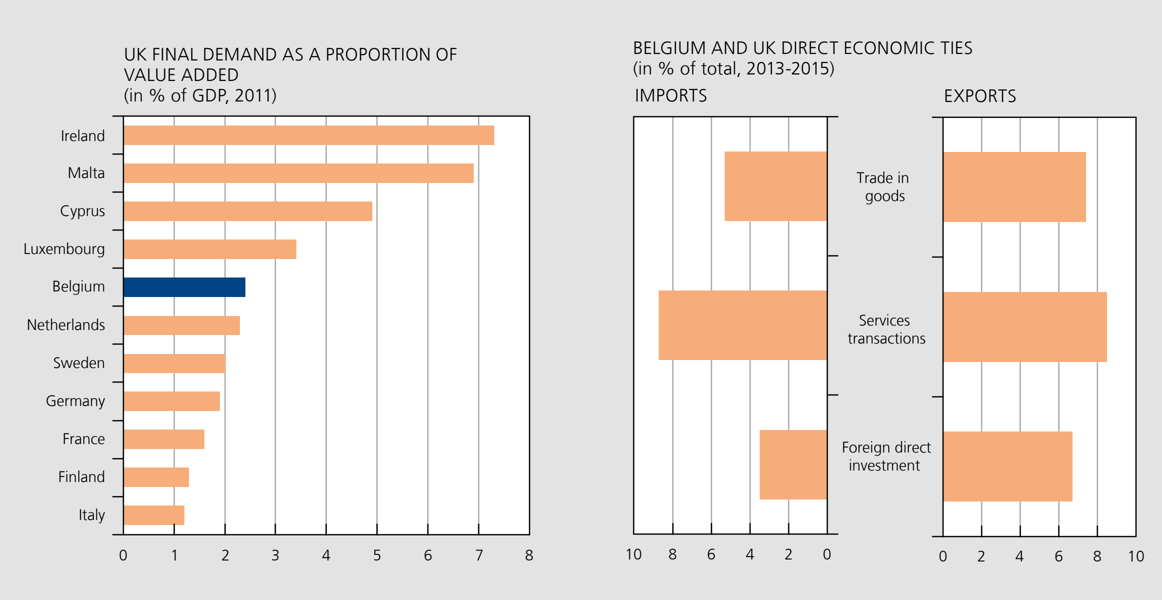
In the medium to long term, a UK departure from the EU is likely to increase obstacles to the flow of goods, services, people and capital, including intangible assets, which would depress production potential, both in the British economy and that of its trading partners, including Belgium. The potential reintroduction of customs and excise duties on goods is unlikely to be the only effect; non-tariff barriers might also bite, as technical standards or certification requirements for the United Kingdom and the EU could gradually start to diverge and companies will incur additional costs to serve these two markets. These aspects are particularly pertinent in services, including financial services, in which the City of London is a central player. Brexit will complicate the movement of capital and people, and might put a brake on foreign direct investment, a key disseminator of innovation.

Any assessment of Brexit's long-term impact will be largely influenced by assumptions regarding the nature of the economic ties between the United Kingdom and the EU after the country leaves the Union. The optimistic scenario of a soft Brexit sees the British continuing as members of the European Economic Area (EEA), implying free movement of people. A 'hard' Brexit, after which the relationship between the United Kingdom and the EU would be covered only by the rules of the World Trade Organisation (WTO), would have much greater economic repercussions. At this point, all scenarios remain possible, including hybrids that include free trade agreements, as the UK government has yet to formally notify the European Council of its intention to leave. Not until it has done so will negotiations get under way to work out the practical details of the British exit, to formalise future ties and perhaps to hammer out a transition agreement.

On current information, the extent of the impact is hard to gauge. Studies by the British authorities and international institutions put the negative impact on British GDP at between 2.7% and 6.3% by 2030 in the event of a 'soft' Brexit, and at between 7.5% and 9.5% in a 'hard' Brexit scenario. For most of its European partners, this effect would be quite a bit smaller, but still significant. Given Belgium's close economic ties with the United Kingdom, this country is likely to see its growth somewhat depressed, as the UK is a key economic partner in a range of ways. On the most recent available data (for 2011), around 2.5% of Belgian value added derives from British final demand; in Belgium's neighbouring countries, the UK accounts for a smaller proportion. Most important in this context in the industrial arena are chemicals and the manufacture of cars and other means of transport, alongside travel, transport and business services.

In the 2013-15 period, the United Kingdom accounted for an average 5.3% of Belgium's imports and 7.4% of its exports (national concept), making it the fourth biggest market for Belgian exporters. Irrespective of these products' relative weight in the Belgian economy, this market is exceptionally important for such goods as carpets and furnishings, cars and various foods. Trade in services is also relatively important, coming in at 8.7% for imports and 8.5% for exports. In addition, the UK is a major investment partner: the balance of payments in the same period shows that 6.7% of Belgium's foreign direct investment (FDI) ended up in the United Kingdom, while 3.5% of capital spending in Belgium comes from the UK.

BELGIUM'S CLOSE ECONOMIC TIES WITH THE UNITED KINGDOM



Sources: Eurostat, NAI, OECD (TiVA), NBB.

2.2 Growth of economic activity driven by investment and net exports

The contribution to GDP growth of domestic demand, excluding the change in inventories, was almost the same as that of net exports in 2016, at 1 and 0.8 percentage points respectively. However, the change in inventories had a negative impact of 0.5 percentage points.

General government consumption inched ahead by a mere 0.2 % in 2016, yet another decline on the previous year. This near-stagnation reflects continuous fiscal consolidation by the government, which caused a slowdown in the growth rate of current expenditure. Public investment, however, was up once more, to its highest showing in five years at 3.6 %.

Subdued growth in private consumption

Household consumption added 0.7 % in real terms in 2016, 0.4 percentage points below the figure for 2015, but comparable to previous years. Weak consumption figures were also reflected in, for instance, retail sales: after an all-time high in mid-2015, these rapidly reverted back to their levels of 2010, in the aftermath of the great recession. Disappointing tourism numbers and modest spending on leisure and hotels, cafés and restaurants after the Paris and Brussels attacks undoubtedly played a part.

To an extent, the year's slow consumption growth was attributable to weaker figures in the second half of 2015, which spilled over into the 2016 annual growth in consumer spending. In effect, even at the beginning of 2016, consumption growth remained constrained, as the supportive effects of lower oil prices on real purchasing power petered out and households stepped up their precautionary savings. Not until the second quarter of 2016 was there any upward trend in the quarter-on-quarter change in consumption.

Although the consumption figures have not been particularly dynamic, confidence indicators are suggesting fairly stable underlying confidence in household incomes: although the monthly consumer confidence gauge was fairly volatile as 2016 progressed, every dip was followed by a robust recovery. One rather striking case in point was the sub-indicator for unemployment expectations, which peaked in the autumn of 2016 on a wave of negative and high-profile corporate news.

Resilience of confidence is also captured by the sub-indicator gauging consumers' views of the present as the right time for big-ticket purchases. This has been steadily recovering since the great recession and peaked provisionally in the first half of 2016. It is clear from rising new car registrations in 2016 that its recovery has effectively gone hand in hand with an increase in consumption. It would appear, then, that

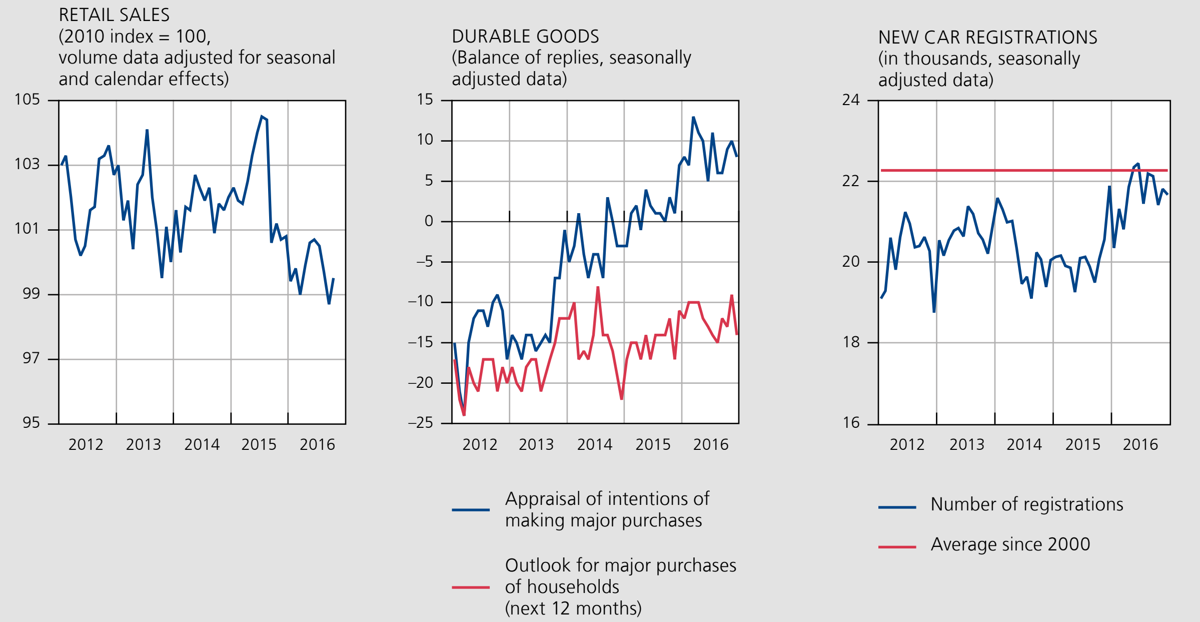
TABLE 2 GDP AND MAIN EXPENDITURE CATEGORIES

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

	2012	2013	2014	2015	2016 e
Private consumption	0.6	0.7	0.6	1.1	0.7
General government consumption	1.4	0.1	1.4	0.5	0.2
Gross fixed capital formation	0.2	−1.5	5.1	2.4	2.4
Housing	−0.1	−3.9	4.7	0.8	5.4
Enterprises	0.0	−0.3	5.6	3.1	1.2
General government	2.2	−4.2	3.1	1.9	3.6
p.m. Final domestic expenditure (1) (2)	*0.7*	*0.1*	*1.8*	*1.2*	*1.0*
Change in inventories (2)	−0.9	−0.6	0.4	0.3	−0.5
Net exports of goods and services (2)	0.3	0.4	−0.6	0.0	0.8
Exports of goods and services	1.8	0.8	5.1	4.3	5.8
Imports of goods and services	1.4	0.3	5.9	4.3	5.0
GDP	0.1	−0.1	1.7	1.5	1.2

Sources: NAI, NBB.
(1) Excluding the change in inventories.
(2) Contributions to the change in GDP compared with the previous year, percentage points.

CHART 22 CONTINUED SUBDUED GROWTH IN PRIVATE CONSUMPTION



Sources: EC, FEBIAC, NBB.

confidence was resilient enough for consumers to make major purchases.

Spending on residential property also added a hefty 5.4 % in 2016 and households would appear fairly impervious to shocks and temporary blips and dips caused by uncertainty. Besides, persistently low mortgage rates have reduced barriers to building or purchasing homes, while accommodating monetary policies are squeezing returns on financial assets and therefore making the market for new builds relatively more attractive to investors looking for yields. That said, investment in residential property is still over 7 % below its end-2007 high.

Household gross disposable income surges

Private consumption recorded much slower growth than households' gross disposable income, which saw a rise of 1.3 % in real terms in 2016, its biggest increase since 2009. Moreover, gross disposable income grew faster than Belgium's population, whose 2016 growth the Federal Planning Bureau (FPB) puts at around 0.8 % according to the most recent demographic data. As a result, real average income per capita was up by about 0.5 %.

The increase in gross primary income was chiefly attributable to employees' higher total gross wages (up 2.3 % at current prices), as these account for around two-thirds of gross primary income. These higher gross wages reflect a sharp rise in the volume of labour, while gross wages per hour worked (excluding employers' contributions) bounced back by 1.1 %. In 2015, this latter item rose by a mere 0.5 % in the wake of continuous wage restraint policies. Although the wage indexation mechanisms were reactivated from April 2016, their temporary suspension (the so-called index jump) still constituted a significant drag on average annual figures for 2016.

The sum total of the gross operating surplus and gross mixed income grew by 2.2 % in nominal terms, mainly on the back of income earned by the self-employed, whose numbers kept rising, while favourable economic conditions also contributed.

After steep falls in previous years, income from wealth was virtually stable in 2016, as higher dividends received offset the ongoing decline in net interest income and other income from wealth.

The sharp rise in disposable income was also underpinned by the distribution of secondary income, i.e. the balance of current transfers received from and paid to other sectors. Current transfers received, mainly social benefit payments, rose more than in the two previous years, by 2.5 %

TABLE 3 DETERMINANTS OF HOUSEHOLD GROSS DISPOSABLE INCOME, AT CURRENT PRICES

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

	2012	2013	2014	2015	2016 e	*p.m. In € billion 2016 e*
Gross primary income [1]	1.6	1.0	0.8	0.7	2.0	*235.0*
Gross wages	3.2	1.6	1.4	1.1	2.3	*157.7*
Volume of labour of employees	0.4	−0.7	0.1	0.6	1.2	
Gross wages per hour worked [1]	2.8	2.3	1.3	0.5	1.1	
Gross operating surplus and gross mixed income	1.3	−0.2	1.8	2.7	2.2	*50.6*
Capital income [2]	−5.4	0.0	−4.2	−4.6	0.2	*26.7*
Interest (net)	−20.9	−32.0	−57.3	−60.3	−74.8	*0.1*
Dividends received	−1.8	11.4	4.3	0.9	4.3	*15.9*
Other	−1.4	0.4	0.3	−5.0	−1.9	*10.7*
Net current transfers [1]	30.9	−8.7	15.6	18.2	48.0	*6.6*
Current transfers received	5.2	3.3	1.5	1.2	2.5	*95.4*
Current transfers paid [1]	4.3	3.8	1.0	0.5	0.2	*88.8*
Gross disposable income	1.9	0.9	1.0	1.0	2.9	*241.6*
p.m. In real terms [3]	*−0.1*	*0.0*	*0.3*	*0.7*	*1.3*	
p.m. In real terms per person [4]	*−0.6*	*−0.4*	*−0.3*	*0.1*	*0.5*	
Savings ratio [5]	12.9	12.3	12.1	11.7	12.2	

Sources: FPB, NAI, NBB.
(1) Wages and salaries received and 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) Gross disposable income in real terms divided by annual average number of people.
(5) In % of disposable income in the broad sense, i.e. including changes in households' supplementary pension entitlements accruing in the context of an occupational activity.

at current prices. The index jump was in fact phased out in the course of 2016 and benefits rose as the spring progressed, after the threshold index had been passed. All that said, transfers paid were the key driver behind the surge in net transfers, as they were squeezed by lower personal income tax and reduced social security contributions by employees under the tax shift, adding up to a mere 0.2 % increase. However, the tax shift and a raft of other government measures also had an impact on inflation (up 0.8 percentage points) and real purchasing power was negatively affected, which may prove a key factor for households with a high ratio of consumption to income.

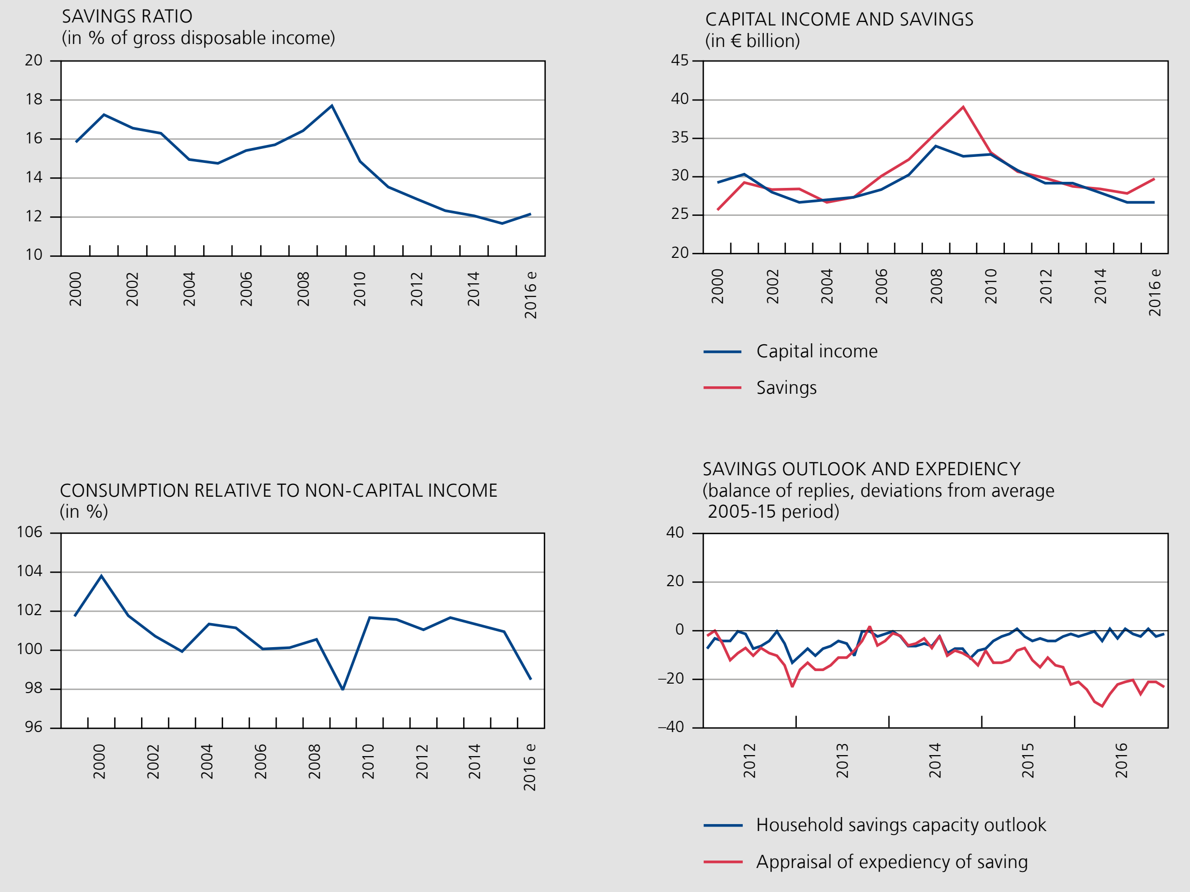
Household savings ratio up, after earlier steady declines

With private consumption clearly lagging behind the increase in disposable income, households started saving more. The savings ratio – i.e. the proportion of disposable income that households save – shot up to 12.2 % in 2016, ending the long and steady decline of previous years. The savings ratio has been fluctuating around 12 % for three years running but is still well behind levels seen before the great recession.

Although caution is required when inferring causal relationships, lower savings between 2010 and 2015 and their low levels in 2016 would appear to be related to declining income from wealth, from which households typically save more than they do from pay or benefits. During this time, households' private consumption relative to non-wealth income (i.e. all income excluding income from wealth) has remained more stable than its relationship to their disposable income. This would seem to show that the low interest rate environment, which basically makes saving less attractive, has not prompted households to consume more of their incomes.

Perhaps it was not so much their higher wealth income that prompted consumers to save more in 2016; they may well have started saving more because of mounting uncertainty and as a precautionary measure. What is more, individuals may well take some time to adjust their

CHART 23 FALLING INCOME FROM WEALTH A LONG-TERM DRAG ON HOUSEHOLD SAVINGS



Sources: NAI, NBB.

consumption habits to the way their incomes develop, particularly when hit by sudden shocks – e.g. measures to boost purchasing power as part of the tax shift.

Specific sub-indicators for household savings as measured by the NBB's monthly consumer survey suggest that private individuals expect to keep their savings unchanged, even if they realise that conditions do not currently favour savers. The two trends have clearly diverged since the start of 2015 and suggest that people have opted to continue saving despite falling savings yields.

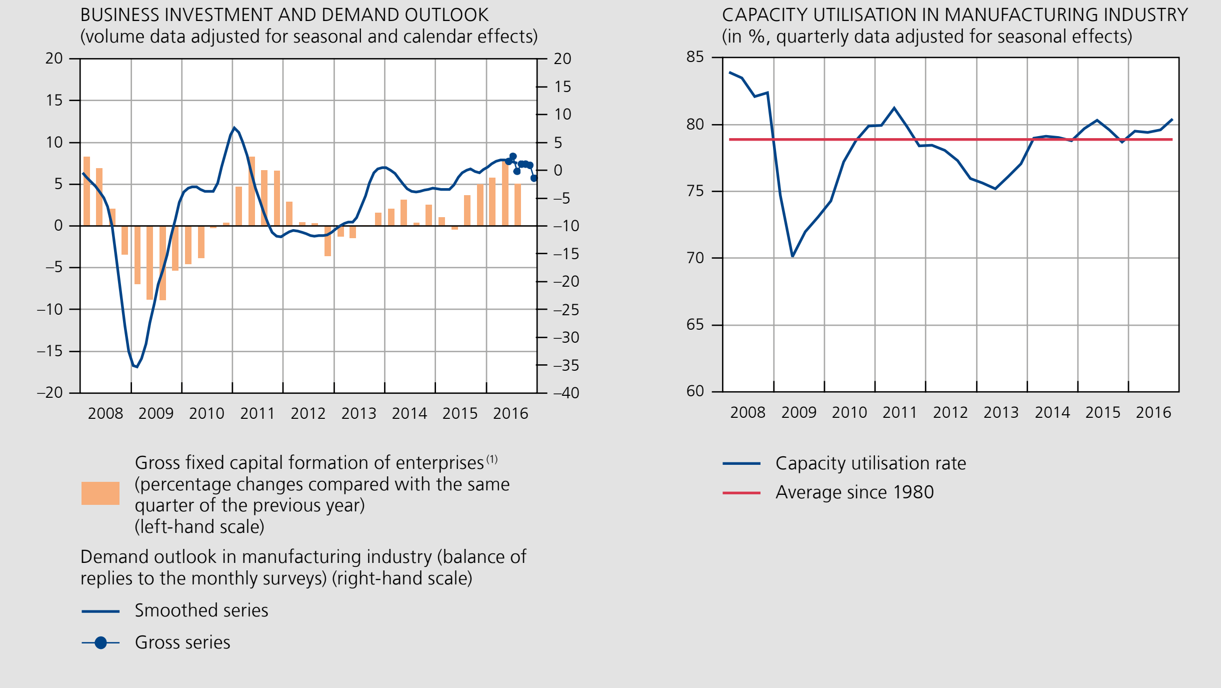
Businesses invested heavily

In 2016, business confidence shrugged off emerging uncertainty and improved steadily, as borne out by a strong investment performance. Granted, business investment showed a mere 1.2 % advance in 2016, but this percentage was held back by a few large purchases made abroad in the previous year. If these individual transactions are factored out, business investment grew by 5.2 % in 2016, a rapid acceleration on 2015. Corporate capital spending made a significant contribution to GDP growth.

The level of gross fixed capital formation was supported by an improved demand outlook for the manufacturing industry, encouraging companies to invest in expansion. What is more, production capacity utilisation rates have been consistently above the average observed since 1980 and rose even further in the course of 2016.

Accommodating funding options also promote investment growth. And it has not just been external financial conditions that are highly favourable on the back of monetary stimulus – companies' internal resources have kept growing and are increasingly held in cash. In 2016, companies saw their gross operating surplus, i.e. their revenues from operating activities, go up by 5.7 % in nominal terms, which is comparable to the figure for 2015. This implies that, once again, the surplus rose faster than added value.

CHART 24 SOLID FOUNDATIONS UNDERPIN BUSINESS INVESTMENT



Sources: NAI, NBB.
(1) Adjusted for exceptionally large individual transactions.

TABLE 4 DETERMINANTS OF THE GROSS OPERATING SURPLUS OF COMPANIES [1], AT CURRENT PRICES

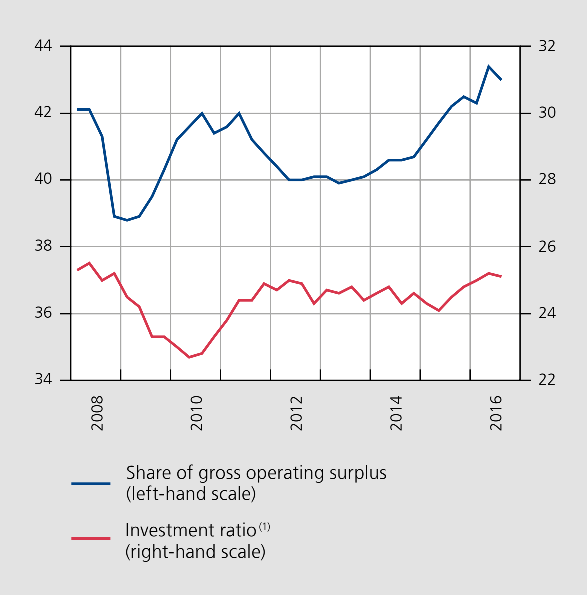
(percentage changes compared to the previous year, unless otherwise stated)

	2012	2013	2014	2015	2016 e
Gross operating margin per unit of sales [2]	−2.8	0.1	0.9	2.6	2.3
Unit selling price	1.4	0.1	−0.4	−1.2	−0.6
On the domestic market	2.2	0.9	0.5	0.3	1.4
Exports	1.3	−0.3	−1.0	−2.1	−1.5
Unit sales costs	2.2	0.1	−0.6	−1.9	−1.1
Imported goods and services	1.5	−0.5	−1.4	−3.1	−2.5
Costs of domestic origin per unit of output [2] [3]	3.8	1.4	−0.2	−0.7	0.6
of which:					
Unit labour costs [4]	3.3	1.8	−0.5	−1.1	−0.2
Unit net indirect taxes	7.5	−0.1	0.3	−0.6	3.2
Final sales at constant prices	1.1	0.3	3.9	3.1	3.3
Gross operating surplus of companies	−1.7	0.4	4.8	5.8	5.7

Sources: NAI, NBB.
(1) Private and public companies.
(2) Including change in inventories.
(3) In addition to wages, this item 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 25 GROWING IMPORTANCE OF GROSS OPERATING SURPLUS APPEARS TO FUEL BUSINESS INVESTMENT RATIO

(in % of gross added value of companies)



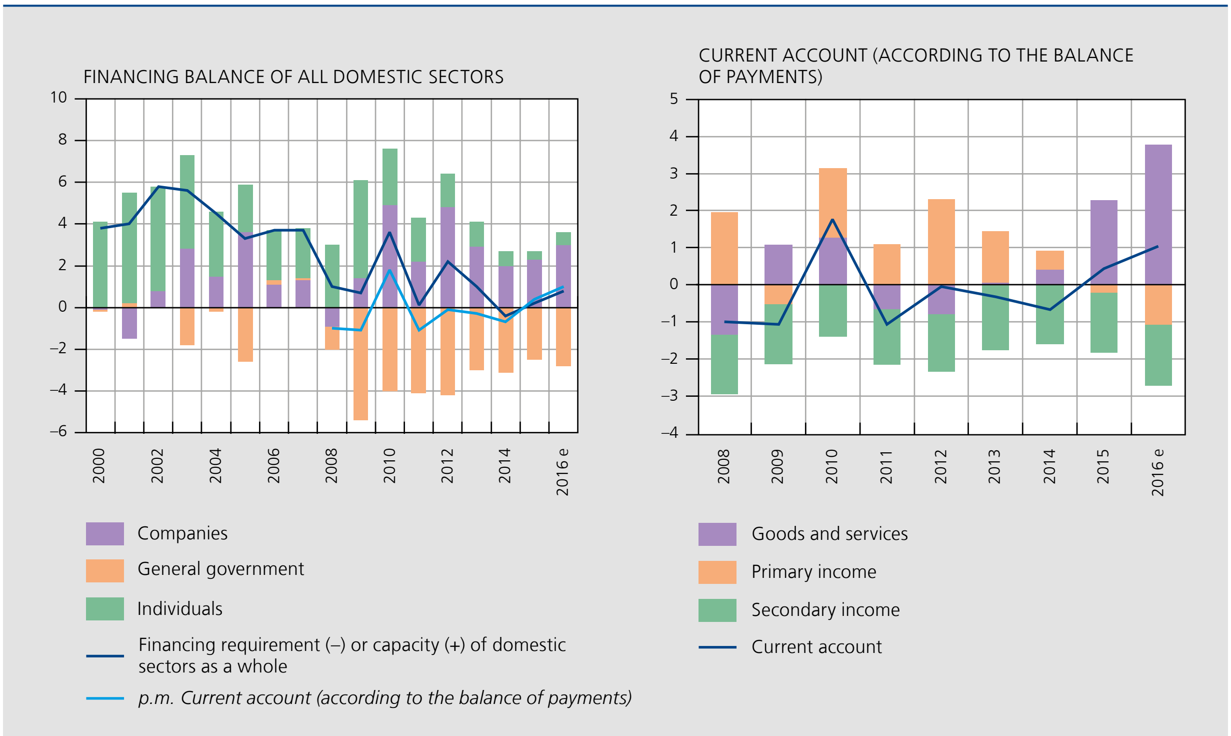
Sources: NAI, NBB.
(1) Adjusted for exceptionally large individual transactions.

Gross operating surplus as a share of companies' value added reached historically high levels in 2016, as the wage bill has increased little in the past few years. Typically responding to changes in their financial situation after some delay, companies are taking the opportunity to invest and the investment ratio – business investment as a ratio of their value added – appears to have been following the upward trajectory of the operating surplus since mid-2015.

Much as in 2015, both wider margins and unit sales trends contributed to companies' higher operating surplus. Companies notched up a 2.3 % advance in gross operating margin, as they did not fully pass on the reduction in unit sales costs – of 1.1 % – to prices, which only contracted by 0.6 %. As in previous years, these lower unit sales costs reflected cheaper goods and services imports, the main factor being low commodity prices, and oil prices in particular. Unlike the previous year, 2016 did see costs of a domestic origin go back up, by 0.6 %, mostly because of higher unit net indirect taxes. Unit labour costs were down only modestly in 2016, compared with more significant falls in the two previous years. Sales volumes, by contrast, were up by 3.3 %.

CHART 26 HIGHER CORPORATE AND INDIVIDUAL FINANCING CAPACITY AND A POSITIVE CURRENT ACCOUNT BALANCE

(in % of GDP)



Sources: NAI, NBB.

Current account continues to improve

Confirming the recovery that had started in the previous year, Belgium's financing capacity continued to grow in 2016 and, as estimated in the national accounts, it reached nearly 0.9 % of GDP, compared with 0.2 % in 2015. The country's improved financing capacity mostly reflected that of companies which recorded a significant increase in their operating income and a reduction of their inventories. Private individuals likewise boosted their financing capacity in 2016 as their savings outpaced their investment spending. Together, these trends amply offset the general government's higher borrowing requirements.

Balance of payments figures show this favourable trend in the financing capacity of the Belgian economy as a whole to have percolated through into the country's current account balance with the rest of the world. After four years of minor deficits, the current account turned positive again in 2015 and recorded a surplus of nearly 1 % of GDP in 2016.

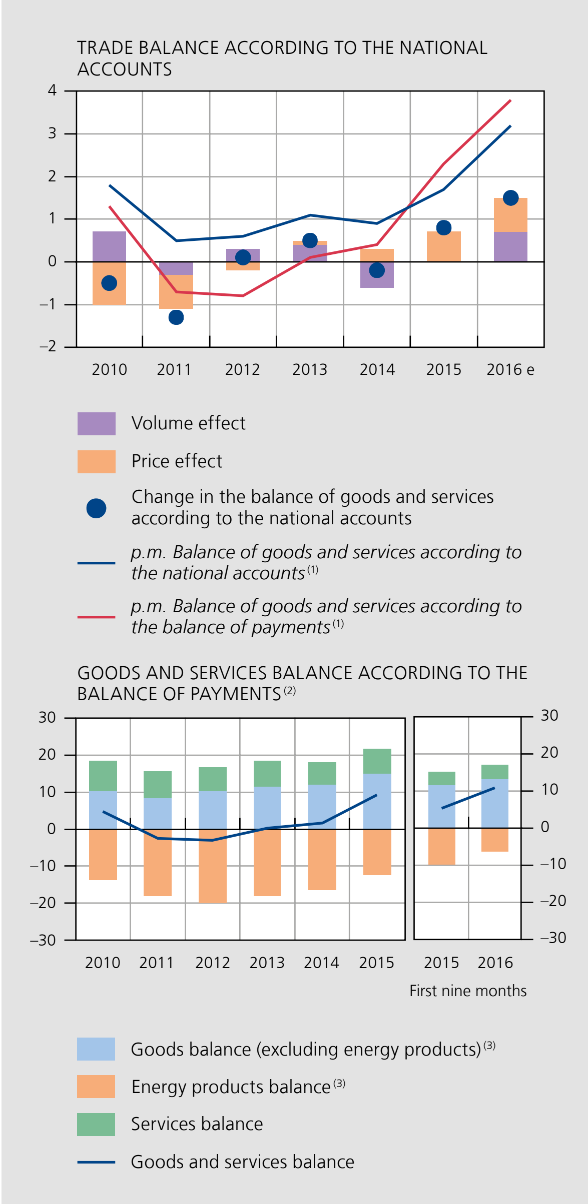
The current account improvement was underpinned by higher results from goods and services transactions, which saw a surplus of nearly € 9.3 billion in 2015 widen to € 15.9 billion in 2016, and to which both foreign trade prices and volume trends have contributed.

On the one hand, just as in 2015, the Belgian economy benefited from an improvement in the terms of trade of around 1 % in 2016, mainly because of the energy price falls that continued until the beginning of 2016 and the relatively low level at which these subsequently stabilised. Net energy bills fell from an average of nearly € 17.2 billion per year between 2010 and 2014 to € 12.4 billion in 2015, and to around € 6.2 billion in the first nine months of 2016.

On the other hand, in volume terms, exports of goods and services (5.8 %) increased quite a bit more than did imports (5 %). However, both flows were significantly and quite similarly boosted by the reorganisation of a large pharmaceuticals company's activities. Ignoring this, market share would have grown by 0.9 % (instead of 3.3 %) in 2016, while losses of market share would have been recorded in 2015 (instead of a small gain). Even allowing for this specific factor, the improvements in exports since mid-2014 are not a typically Belgian phenomenon. The same was happening in Belgium's key European partners, reflecting the favourable effects of the depreciation in the euro effective exchange rate, in particular the fall against the US dollar. Wage moderation in the various countries may also have had a part to play.

CHART 27 FURTHER RECOVERY IN THE TRADE BALANCE AS A RESULT OF SUSTAINED EXPORT GROWTH AND POSITIVE TERMS OF TRADE

(in percentage points of GDP, unless otherwise stated)

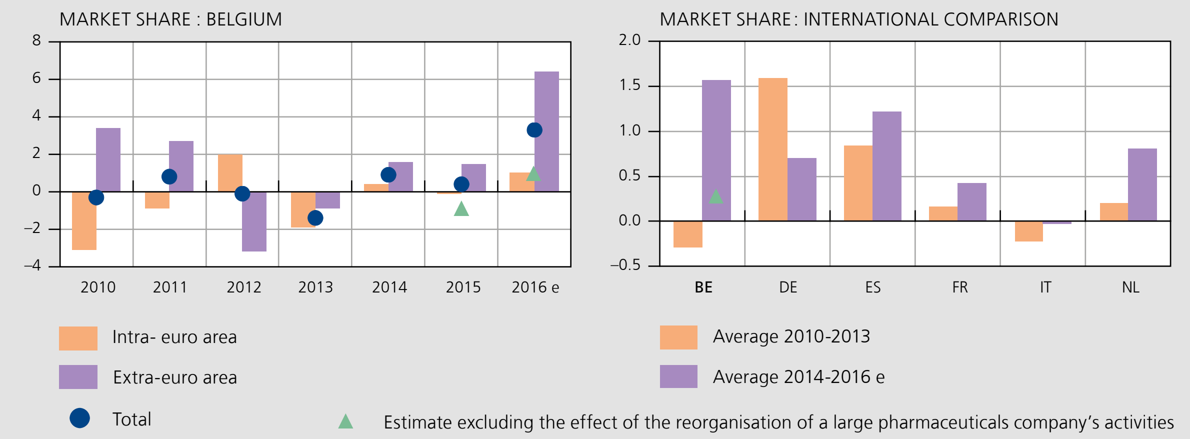


Sources: NAI, NBB.
(1) In % of GDP.
(2) In € billion.
(3) According to foreign trade statistics – mineral fuels, lubricants and related materials (SITC-3).

In contrast to its goods and services balance, Belgium saw its primary income surplus deteriorate further in 2016 in the wake of investment income continuing its downward trend at work since 2012. Various income categories making up this aggregate have deteriorated, in particular income from foreign direct investment and portfolio investment. Indeed, while the country's net external position is

CHART 28 INCREASED EXPORT MARKET SHARE (1)

(volume data adjusted for seasonal and calendar effects, average annual changes, in %)



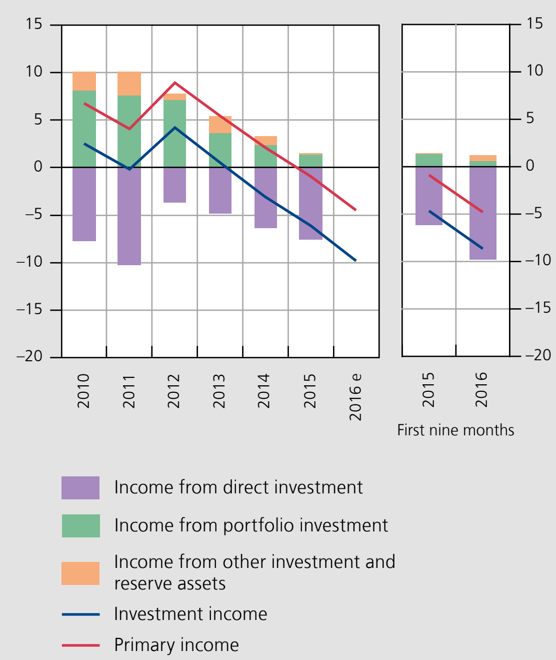
Sources: EC, ECB, NAI, NBB.

(1) Based on the most recent projections for import demand from trading partners.

still exceedingly positive at over 60 % of GDP, 2016 net incomes were negative by around 2.3 % of GDP.

CHART 29 NEGATIVE NET INCOME FROM INVESTMENT

(balances according to the balance of payments, in € billion, unless otherwise stated)



Source: NBB.

Income from foreign direct investment, in particular, is deeply in deficit in net terms. In 2015, around € 7.6 billion net flowed abroad, some 1.9 % of GDP, while this net amount paid to the rest of the world rose to nearly € 9.8 billion in the first nine months of 2016. This outcome may be explained both by the relatively weak – and even negative – net external FDI position and the lacklustre returns that Belgium achieves on its direct investment abroad compared with those generated by foreign countries on investment in Belgium. A second explanation for the country's subdued investment income is its international investment position, which mostly comprises assets in portfolio investments and "other investment", made by the financial sector in particular. Against the broader backdrop of declining returns on investment products across the financial markets, net income on these two investment categories has been falling, partly because Belgium's payments abroad would appear less sensitive to market trends than income received from abroad. Tax considerations and composition effects – including duration – might explain why returns on these assets have deteriorated more than returns on liabilities.

Secondary income, which includes net government payments to the rest of the world and more specifically Belgium's contribution to the general budget of the European Union and other budgets for international cooperation, is also showing a shortfall, which in 2016 was slightly greater than in 2015 due to a larger contribution to the European budget. Belgium's higher

TABLE 5 BALANCE OF PAYMENTS AND NET LENDING TO THE REST OF THE WORLD

(balances; in € billion, unless otherwise stated)

	2012	2013	2014	2015	2016 e
1. Current account					
Goods and services	–3.1	0.2	1.7	9.3	15.9
Goods	–9.6	–6.6	–4.6	2.6	n.
Services	6.5	6.8	6.2	6.8	n.
Primary income	8.9	5.4	2.1	–0.9	–4.5
Compensation of employees	5.4	5.5	5.7	5.8	5.9
Investment income	4.2	0.5	–3.1	–6.1	–9.8
Other primary income	–0.6	–0.6	–0.5	–0.6	–0.6
Secondary income	–6.0	–6.9	–6.4	–6.7	–7.0
General government	–3.1	–3.9	–3.6	–3.9	–4.0
Other sectors	–2.9	–3.0	–2.8	–2.8	–3.0
Total	–0.2	–1.2	–2.7	1.8	4.4
p.m. Idem, in % of GDP	*–0.1*	*–0.3*	*–0.7*	*0.4*	*1.0*
2. Capital account	2.3	–0.4	–1.1	0.1	–0.7
3. Net lending to the rest of the world (1 + 2)	2.1	–1.7	–3.8	1.9	3.7
p.m. Idem, in % of GDP	*0.5*	*–0.4*	*–0.9*	*0.5*	*0.9*

Sources: NAI, NBB.

contribution reflects a regularisation of amounts due for the fiscal years from 2014 in keeping with the implementation, with retroactive effect, of the EU Council of Ministers' agreement on the 2014-2020 multiannual financial framework.

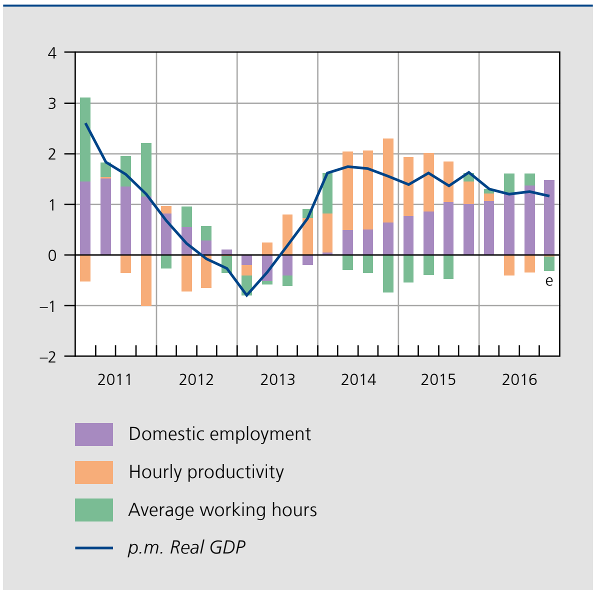
2.3 Significant labour market improvement in 2016

Robust job creation in face of uncertainty

Despite subdued economic growth and uncertainty resulting from the terrorist attacks, Brexit and collective redundancies announced in the third quarter, the labour market had another dynamic year. Employment in terms of numbers of people and, even more so, in terms of labour volume grew more than GDP. Average working time per worker increased after three consecutive years of declines. This may be attributable to the introduction of flexible jobs allowing employees to do some extra work in hotels, cafés and restaurants, effectively boosting labour volumes without increasing the number of employed people. Apparent labour productivity, by contrast, decelerated in 2016 after having gradually revived as is usual in the first stage of a recovery.

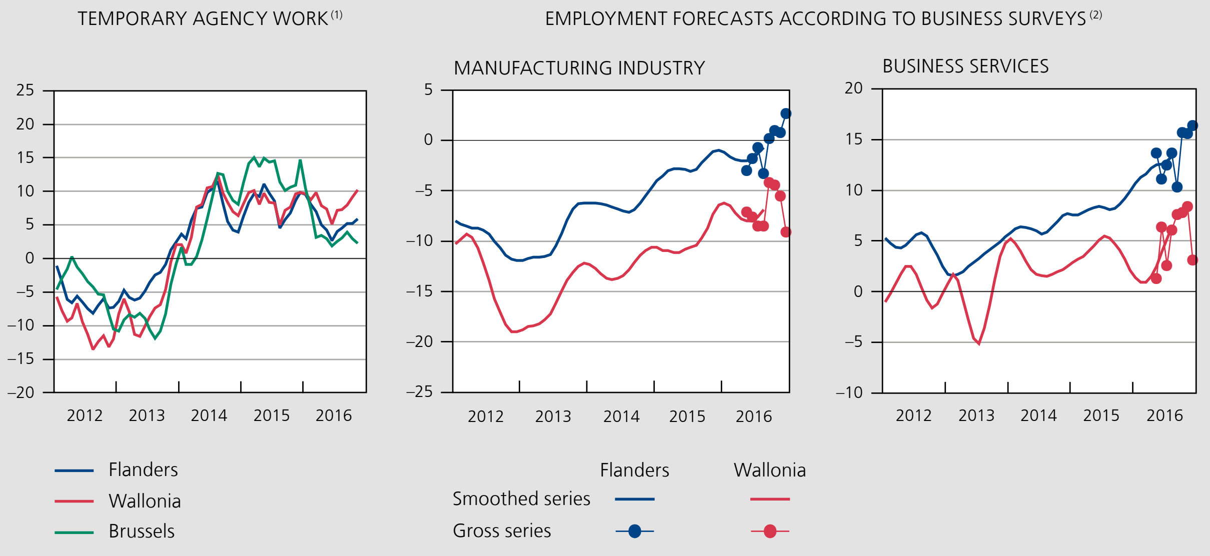
CHART 30 EMPLOYMENT RISES WHILE PRODUCTIVITY FALLS

(percentage changes compared with the corresponding quarter of the previous year, calendar adjusted data)



Sources: NAI, NBB.

CHART 31 TERRORIST ATTACKS' TEMPORARY EFFECTS ON LABOUR MARKET DYNAMICS AT THE BEGINNING OF THE YEAR



Sources: Federgon, NBB.
(1) Year-on-year growth of hours worked per day; monthly data, three-month moving average.
(2) Balance of replies, seasonally adjusted data.

The labour market remained generally lively throughout the year, albeit that the March terrorist attacks slowed the demand for agency workers, particularly in Brussels. However, business leader sentiment on employment prospects subsequently picked up, particularly in Flanders, in both manufacturing and services. Restructuring programmes announced in September and October had no impact on the year's employment figures: due to Belgium's lengthy collective redundancy procedures, their potential effects are unlikely to become visible before 2017. In fact, robust employment growth combined with emerging shortages in some parts of the

TABLE 6 LABOUR SUPPLY AND DEMAND
(in thousands of people, unless otherwise stated)

	2012	2013	2014	2015	2016 e	Level 2016 e
Working-age population (15-64 years)	22	12	9	16	18	7 302
Labour force (1)	35	9	32	22	34	5 291
Domestic employment	20	−15	19	42	59	4 661
Self-employed	8	6	7	11	15	782
Employees	12	−21	12	31	45	3 879
Sectors sensitive to business cycle (1)	−4	−25	−1	16	28	2 398
Public administration and education	2	3	6	1	1	807
Other services (2)	15	1	7	14	16	674
Unemployment (3)	14	25	14	−19	−26	553

Sources: DGS, FPB, NAI, NEO, NBB.
(1) All activities not included in the other items, the most important of which are agriculture, industry, construction, trade, accommodation and food service activities, financial services and business services.
(2) Health care and social work; art, entertainment and leisure; other services; and households as employer.
(3) Unemployed job-seekers.

labour market should keep the net effect limited as these are highly-skilled employees who should find employment elsewhere.

The demand for labour received fundamental support from continued economic activity growth, wage moderation and reduced wage costs resulting from the tax shift. At the same time, the supply of labour was boosted by the tax shift in the shape of lower fiscal and parafiscal pressure for those in work, unemployment insurance reforms and end-of-career measures.

In 2016, a total of 59 000 additional jobs were created, as against 42 000 in 2015. Salaried employment in business-cycle-sensitive sectors (including manufacturing and business services) and in "other services" made significant advances, confirming the recovery that got under way in 2014. Stabilisation of the number of manufacturing jobs in 2016 constituted a clear break with the downward trend previously seen in the sector, as in agriculture and the financial sector too. The employment gains of the past two years have been fuelled by wage-earners in business-cycle-sensitive sectors (43 %), by other services, particularly health care and social services (30 %), and also by the self-employed (25 %). Public administration and education, by contrast, have seen virtually no increase in employee numbers, mainly because of government cost-cutting.

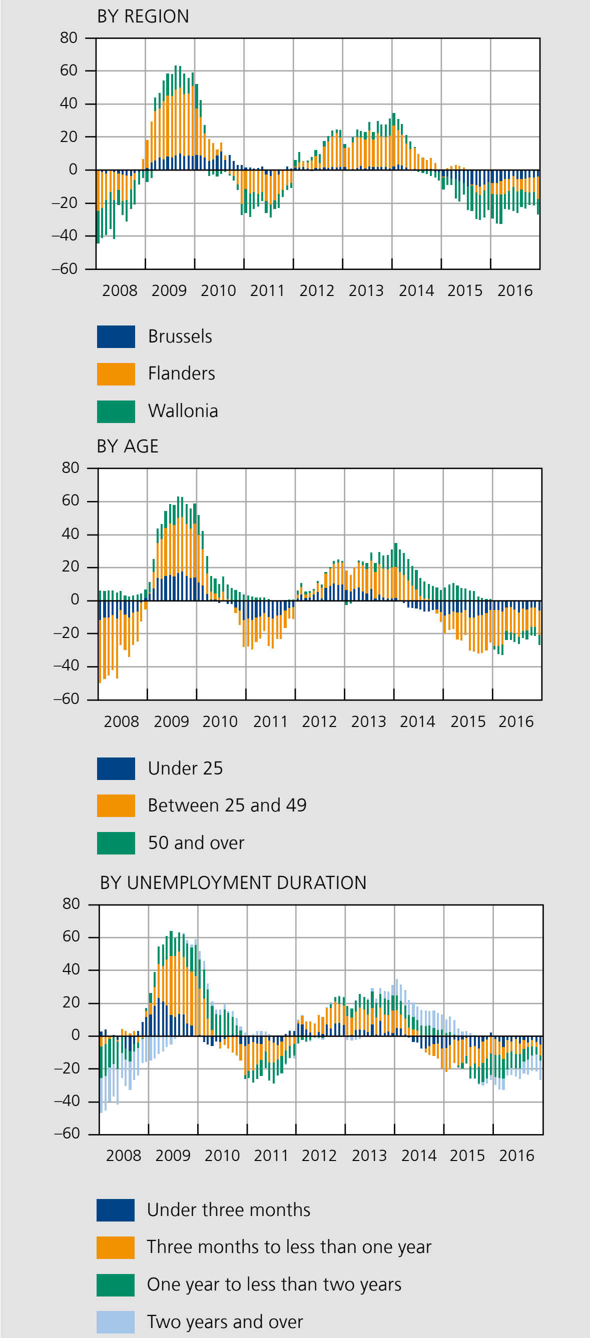
Self-employment dynamics and their determinants are best studied using detailed information collected by the country's National Institute for the Social Security of the Self-employed (NISSE), as it registers everyone in Belgium with self-employed status, whether it be as their principal occupation, secondary occupation or even after retirement. Being self-employed turns out to have greater appeal for women and younger people, and the relaxation of the rules allowing a combination of pension benefits and professional income has also had its effect, as this makes it easier for retired people to continue working. Being self-employed in a secondary occupation is likewise very popular, enabling employees to lock in all the advantages of their employee status – e.g. time credit, parental leave – while making extra money on the side. Combining the two reduces income risk compared with entrepreneurship as a principal activity. Self-employment also provides direct access to the labour market for many finding it hard to find jobs as employees.

Unemployment decline spreads

While employment has grown, the number of unemployed job-seekers fell in 2016 for the second year in a row, by 26 000. Yet the number of unemployed job-seekers still

CHART 32 UNEMPLOYED JOB-SEEKER NUMBERS DOWN BY REGION, AGE AND UNEMPLOYMENT DURATION

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



Source : NEO.

averaged 553 000 in the year, significantly higher than the pre-great-recession numbers (500 000 in 2008).

In 2016, the number of unemployed job-seekers declined in all three of the country's Regions, in all age brackets and for all unemployment durations.

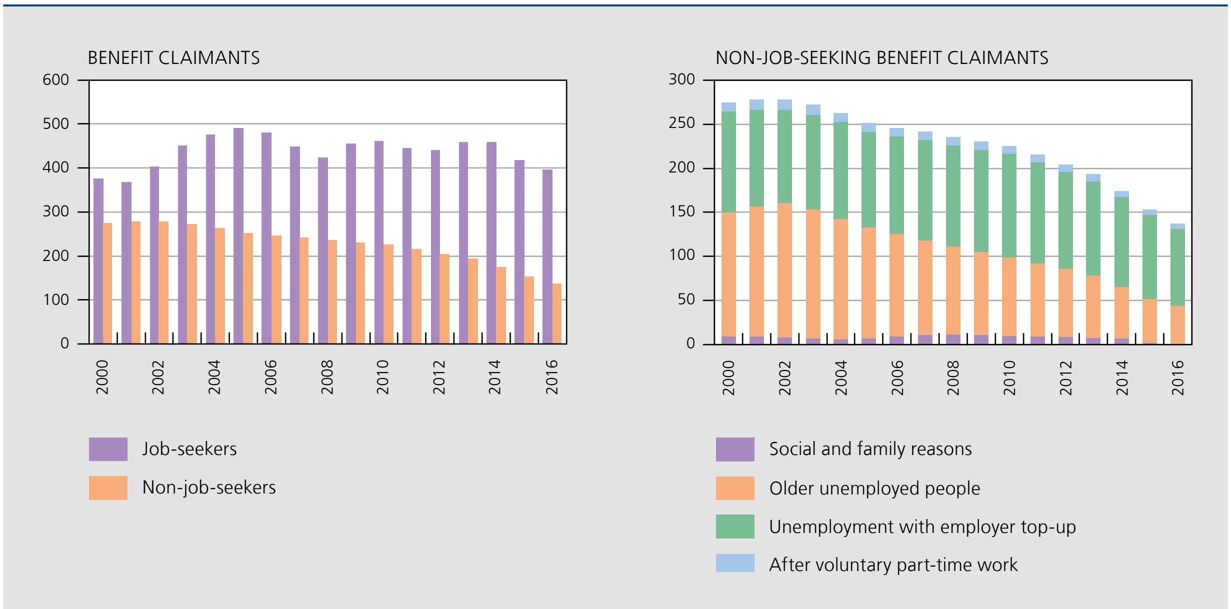
In Wallonia, this figure has been falling more rapidly than in the other two Regions for the past two years, but the unemployment rate remains a lot lower in Flanders, where it averaged 5.1 % in the first three quarters of 2016, compared with 10.8 % in Wallonia and 17.2 % in Brussels.

The decline in numbers of unemployed job-seekers is mostly the result of lower medium-term and long-term unemployment, i.e. periods of between three months and two years. Very long-term unemployment, which is defined as lasting two years or longer, also came down in 2016, a trend that started at the end of 2015 and lasted throughout the year. The long-term unemployed are typically the least connected to the labour market and the hardest to re-employ, and measures taken by public employment services to activate and educate this particular group of unemployed people have helped some get back into work. Yet, the fall in their numbers chiefly reflects the three-year cap on unemployment benefits since 1 January 2012, leading to the exclusion of unemployed people after three years out of work. Those people then have the possibility of claiming social benefits from a public social assistance centre. Since January 2015, when the effects of the reform measures first became visible, there has been a clear increase in the number of subsistence benefit claimants. Those who wish to qualify for this scheme must re-register as job-seekers, but a proportion of the unemployed whose rights lapse disappear from the workforce : they simply cease to be among those in work or seeking work.

Also, all age brackets have seen joblessness fall, but while for people under the age of 24 it started to come down from 2014, the next bracket up – i.e. unemployed job-seekers between 25 and 49 – did not join the trend until a year later. At the beginning of 2016, the number of unemployed job-seekers in the 50+ bracket clearly fell for the first time since 2000 : even when unemployed job-seeker numbers veered sharply down in 2008 or, to a lesser extent also in 2011, unemployment among people over the age of 50 continued to swell. This was the outcome of a series of consecutive changes in the rules governing early retirement. From now on, all jobless people, including those with an employer top-up and irrespective of their age, are required to be available for work and actively look for employment. However, some exemptions, transition measures and an "adjusted availability" option were implemented. Conditions

CHART 33 SIGNIFICANT DROP IN BENEFIT CLAIMANTS EXEMPT FROM LOOKING FOR WORK

(in thousands of people)



Sources : NEO.

were also tightened for those seeking exemptions for social and family reasons. The reforms have contributed to a drop in the number of unemployed exempted from seeking work, and have expanded the supply of labour.

The declines in joblessness reflect the effectiveness of the measures that were needed to boost the labour force, as the working-age population was beginning to show contracting growth. In fact, the most recent demographic projections suggest that the working-age population will actually shrink from 2019.

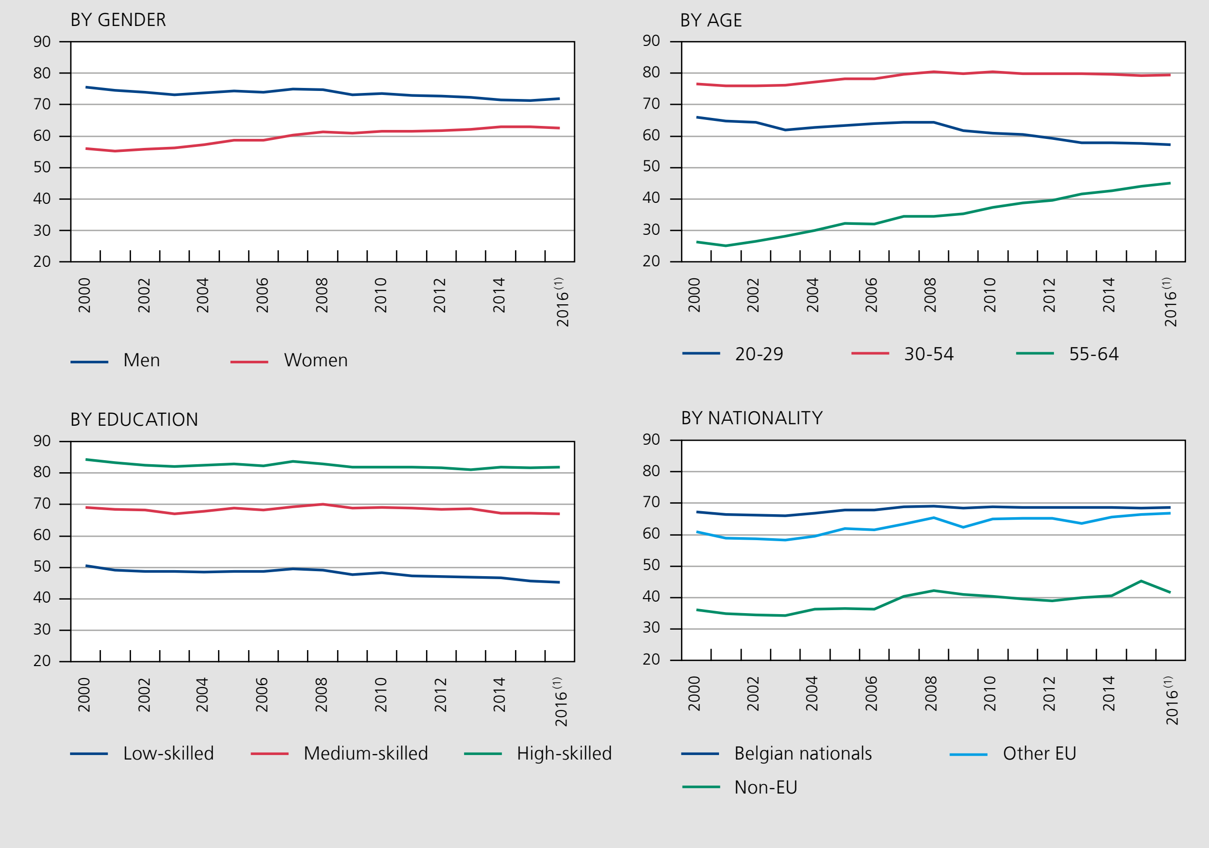
Migration flows in the second half of 2015 temporarily curbed the slowdown in the working-age population growth: in that year, Belgium received 44 800 asylum applications, compared with 17 000 in 2014 and 18 700 in 2016. In 2016, the refugee effect on the labour force was very minor indeed, as there is a time lag before this group enters the labour market.

Limited increase in employment rate despite faster job creation

While the number of people in work rose by nearly 550 000 between 2000 and 2016, the employment rate hardly moved (from 65.8 % to 67.4 %) owing to the concomitant increase in the working-age population. Also, while job creation has clearly improved in the past two years, it has not quite healed the labour market pains that followed the great recession and the slump Europe suffered in its aftermath: in 2008, the employment rate had stood at 68 %.

The employment rate's modest but persistent improvement is primarily attributable to the ongoing rise in the number of women entering the workforce, whereas men have been facing a drop in employment since 2008. At the same time, 55-64-year-olds have also seen a rise in their employment rate in the past 15 years, from 26 % in 2000 to 44 % in 2015.

CHART 34 EMPLOYMENT RATE BY GENDER, AGE, EDUCATION AND NATIONALITY
(in % of the corresponding population aged 20 to 64)



Source: EC.
(1) Average of the first three quarters.

In the 55-plus bracket, the many changes introduced since 2000 to Belgium's numerous early retirement mechanisms have conspired with the raising of the statutory retirement age for women to cause a step change in labour market exits. The numbers of these are rapidly falling across all age backets and under all schemes, disability excluded. Indeed, employees over the age of 50 show a surge in the number of disability claimants, of around 33 % between 2010 and 2015, while the self-employed report half as many. In 2015, there were a total 218 000 50-64-year-olds in this scheme, compared with 112 000 in 2000.

In the youngest age bracket, employment rates have fallen since 2008, as study periods have generally lengthened. The financial crisis may have persuaded most youngsters that further education is key to gaining entry to the labour market, but it may well have discouraged others from looking for work in the first place. By continuing with their education, young people invest in their future, which is a good thing provided they pick courses that reflect what the labour market needs.

The problems non-European workers face when entering the labour market require special attention, with barriers including insufficient knowledge of one of Belgium's national languages, problems with getting qualifications and skills recognised, administrative hurdles, discrimination and often lower levels of education. In 2015, 45.2 % of the country's non-EU nationals were in work, compared with 68.5 % of Belgians. Unlike in neighbouring countries, second-generation workers in Belgium would appear not to do any better than first-generation immigrants.

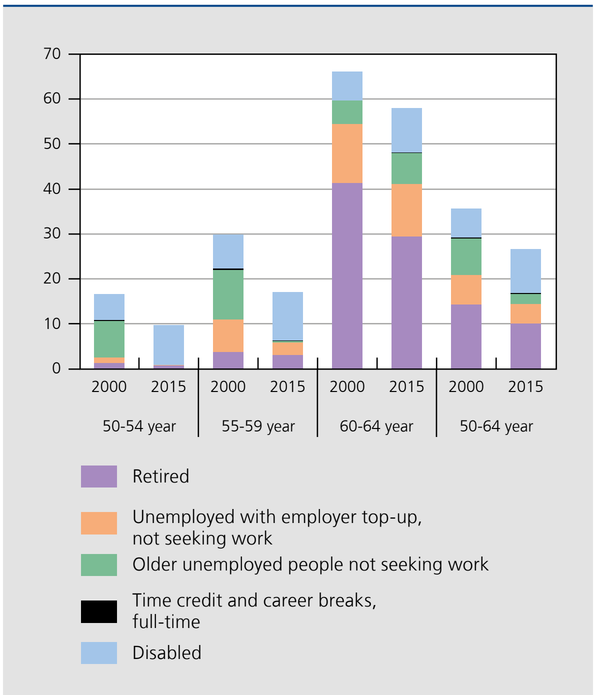
People's level of education is key both in this case and more generally for all categories of the population, with the employment rate gap between the highly-skilled and the low-skilled working out at 36.2 percentage points in 2016. On the one hand, stiffer competition with medium-skilled workers as the labour market polarises, and, on the other hand, the higher skill requirements on the labour market have done nothing to improve the position of the lowest-skilled, who have seen their employment rate fall by 3.5 percentage points since the great recession. This group often finds it harder to adapt to changes and new requirements, frequently resulting in unstable jobs and related loss of income.

The sixth State reform shifted responsibility for a large proportion of employment support measures to the Regions, which are now able to define their target groups on the basis of the specific features of their own labour markets. Chapter 3 will describe the reforms carried out by the Flemish Region, which is targeting younger and older workers, while Wallonia and Brussels have retained their focus on the long-term unemployed, older unemployed people and low-skilled youngsters.

In December 2016, the government approved a draft Law on Feasible and Manageable Work with the aim of injecting more flexibility into the labour market. This large-scale reform project allows employers, after sectoral consultations, to calculate average working time per week on an annual rather than quarterly basis, provides for simplified part-time work arrangements, and allows employees to save days off in a "career account". The new legislation envisages an extension of palliative leave and motivated time credit, and introduces the possibility of employees donating days off to colleagues with a sick child who have exhausted all leave schemes. Temporary workers have the possibility of signing permanent contracts, thus ensuring continued payment between two assignments. With regard to continuous training, employees will be entitled to five days of training per full-time equivalent on average, while individual training accounts could be implemented. The reforms target both employers, enabling them to bolster their competitiveness, and employees, whose careers will gradually lengthen on the back of these measures addressing labour conditions and the work-life balance.

CHART 35 REDUCED EARLY RETIREMENT FROM THE LABOUR MARKET AMONG 50-64-YEAR-OLDS

(in % of the corresponding population)



Sources: DGS, FPB, NIHDI-INAMI-RIZIV, NEO, PSPS.