

2. Economic developments in Belgium

2.1 Stronger economic activity and robust job creation

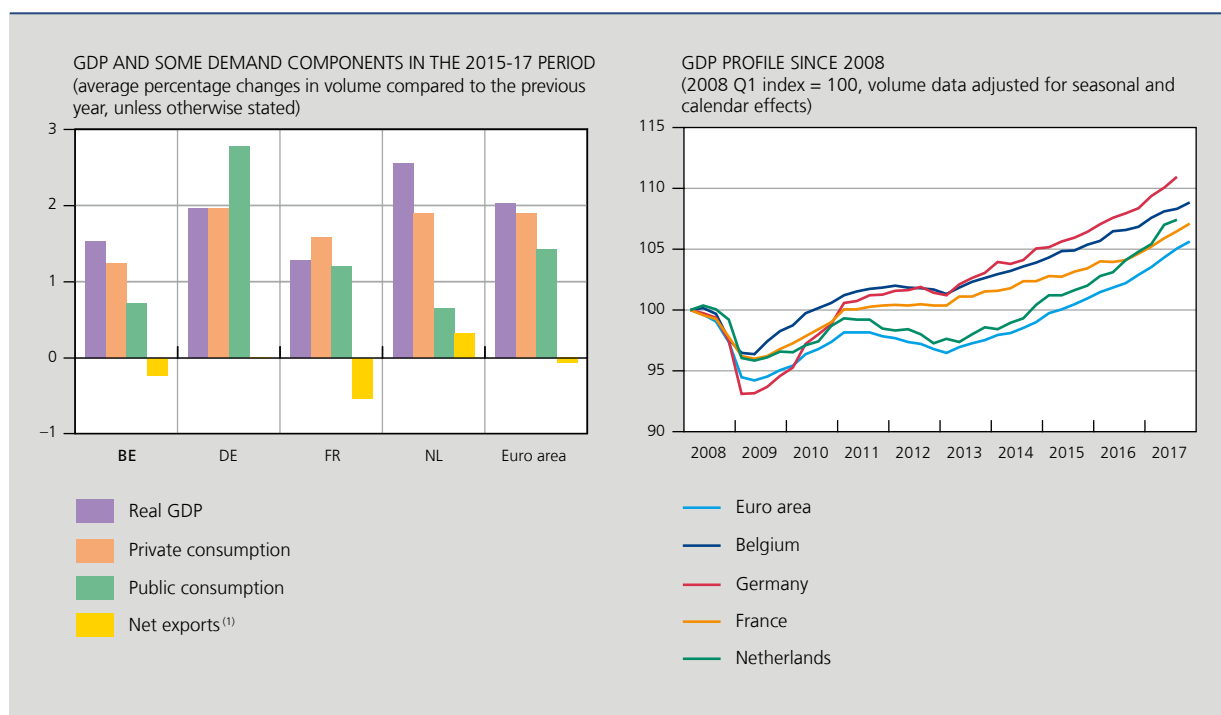
Economic recovery gathered momentum but remained less dynamic than in the euro area at large

Like its key European partners, Belgium saw its real GDP pick up in 2017, from an average of 1.4% in the three previous years to 1.7%. Economic activity advanced

strongly in the first six months, but slowed down somewhat in the second half. It was mainly supported by domestic demand, much like in Belgium's neighbouring countries and the euro area as a whole.

Economic activity trends may show a similar profile to other European countries, but Belgium's GDP growth rate was lower, as it had been in the two preceding years. Between 2015 and 2017, the difference averaged nearly

CHART 17 AT THIS POINT, THE PACE OF GROWTH IS SLOWER IN BELGIUM, EVEN IF GDP HAS RISEN MORE STRONGLY THAN IN THE EURO AREA OVER THE LONGER TERM



Sources: EC, Eurostat, NBB.

(1) Net exports contribution to real GDP growth in percentage points, with figures for Belgium adjusted for major specific transactions.

0.5 of a percentage point a year compared with the euro area and around 0.3 percentage point relative to neighbouring countries.

A note of caution is in order. For one thing, the recent rather more subdued recovery in Belgium follows a much less pronounced fall in GDP in the 2008-09 recession and greater resilience right into 2013, which saw the end of the euro area crisis. Between 2008 and 2017, Belgium's real GDP growth may have been slower than Germany's, but it was faster than that of the Netherlands, France and the euro area.

In addition, the slower dynamics reported in the past three years primarily reflected private and public consumption, which country-specific factors may well help to explain. In the Netherlands, for instance, private consumption was supported by wealth effects sparked by factors including the recovery in property prices following a prolonged slump in the Dutch property sector. In Belgium, by contrast, wage restraint measures in the private sector depressed household purchasing power, even if these bolstered corporate competitiveness and encouraged job creation over time. In a similar development, the index jump

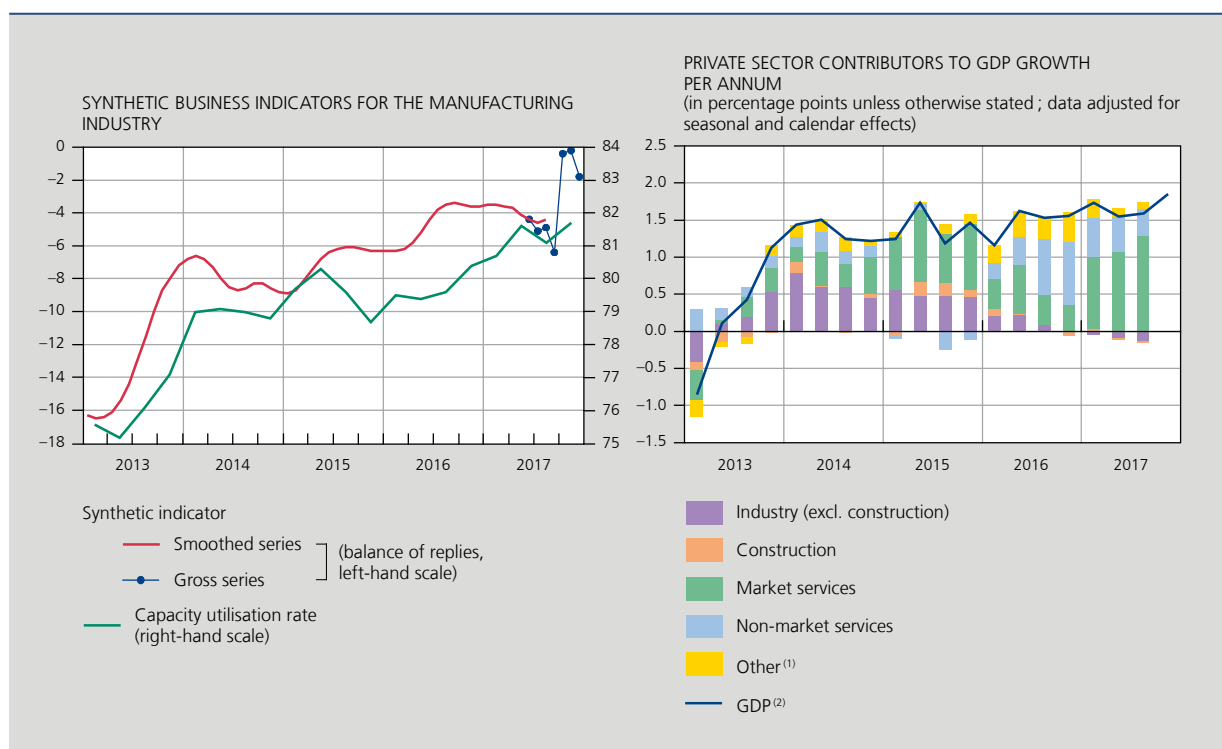
agreed in 2015 constrained pay trends in Belgium's public sector and social security benefits. Generally speaking, fiscal policies in Belgium were typically more restrictive than in its neighbouring countries. By contrast, Germany saw public consumption jump, mainly as a result of the efforts made to deal with the inflow of migrants.

Consumption differences were not offset by better foreign trade figures: the contribution of net exports to real growth was generally comparable to that of Belgium's neighbouring countries and below the euro area's.

Market services did well in 2017

In 2017, market services were the key contributor to GDP growth and its increase. This sector does not just account for a significant share of the economy (47% of GDP), its value added for the first nine months rose by 2.4% on the year-earlier period in 2016 – a rate of growth that had not been seen since 2011 and the trend continued to steadily pick up as the year progressed. In fact, economic activity within market services also evolved nicely, both in typically consumer-driven sectors such as trade, transport and the catering industry and in

CHART 18 VALUE ADDED GROWTH CHIEFLY SUPPORTED BY SERVICES



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.

more business-to-business services such as R&D, legal, accounting and management services.

By contrast, value added trends in the manufacturing industry, a key contributor to GDP growth in 2014 and 2015, have slowed since. The growth rate for the first three quarters of 2017 even turned negative compared with the same period in 2016. The business climate varied widely across the sector, though, with two branches of industry doing particularly badly – metallurgy and the manufacture of coke, refined petroleum products and nuclear fuel. Ignoring these, the industry sector would have reported an increase of 1.5% for the first three quarters of 2017 relative to the year-earlier period in 2016, with most branches recording positive growth. Against this backdrop of stronger activity, the capacity utilisation rate in the manufacturing industry has risen considerably within the space of one year, potentially boosting the need for capital spending. Meanwhile, manufacturing's synthetic business survey indicator – which is derived from the Bank's monthly surveys and reflects business confidence – was significantly above its historical average. The rather more specific indicators are pointing to a minor upturn in demand prospects for the fourth quarter, but also to a slight slowdown in anticipated export orders. Value added growth turned negative in the construction industry in 2017.

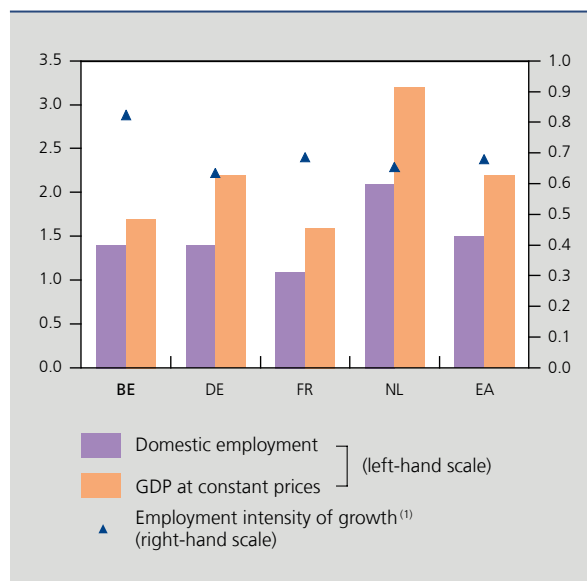
Robust job creation coincided with slowing productivity gains

Having already seen quite a large number of jobs created in the two preceding years, Belgium further bolstered its employment numbers in 2017. Domestic employment added 1.4%, i.e. the number of people in work grew by 66 000, which was 0.2 percentage point up on 2016. As in the previous year, economic growth in 2017 proved highly employment-intensive, with Belgium's economy creating more jobs for the same advance in GDP than it had in the past. While the increase in employment relative to economic activity growth worked out at over 0.5 prior to the great recession, it was well above 0.8 in 2017. During the same year, this employment-intensity ratio typically amounted to nearly 0.7 in the euro area and in Belgium's three main neighbouring countries.

These outcomes closely tie in with measures Belgium has taken in past years to both push back labour costs and ease fiscal and parafiscal pressures on income from employment. The labour-cost-cutting measures stimulate corporate demand for labour as this becomes more attractive, and slow its substitution by capital. Tax-easing measures increase the labour supply by making it

CHART 19 BELGIUM'S 2017 GROWTH WAS MORE EMPLOYMENT-INTENSIVE THAN IN ITS NEIGHBOURING COUNTRIES

(annualised percentage changes, unless otherwise stated)



Sources: EC, NBB.

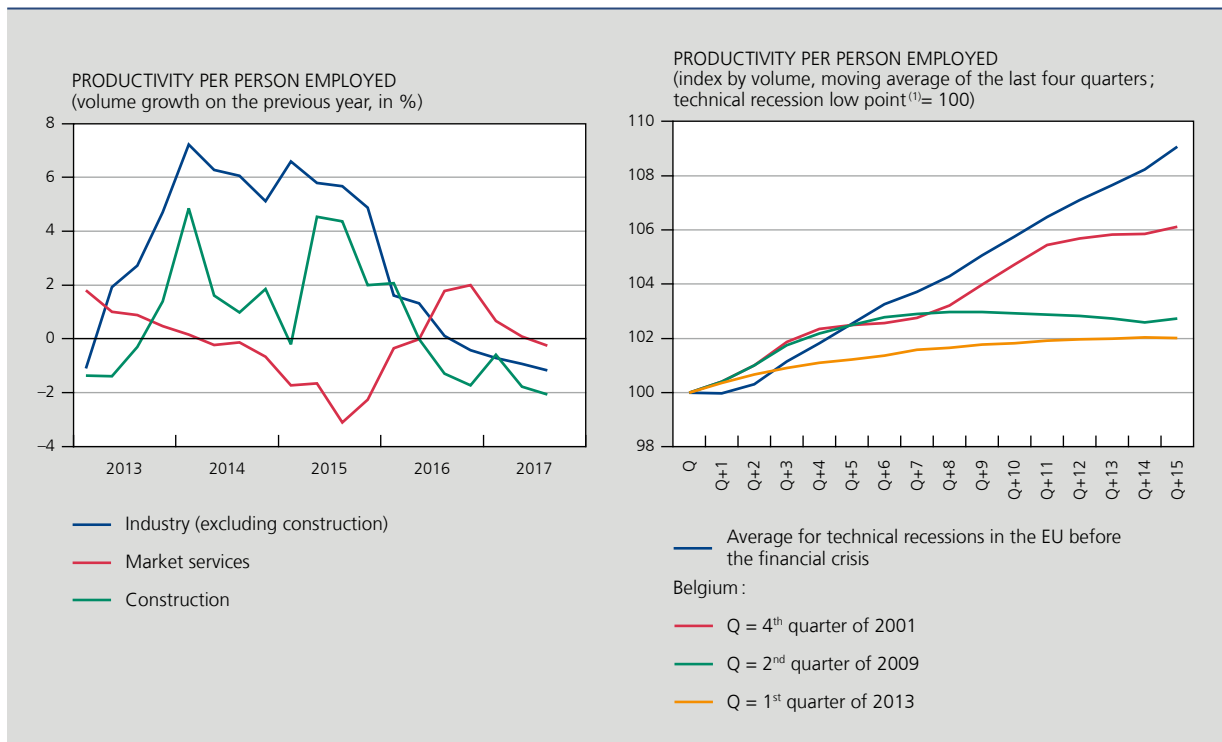
(1) Ratio of employment growth to GDP growth.

financially more attractive to work. In addition, measures tempting the unemployed or inactive back into the workforce also help boost labour supply.

The high employment intensity of economic growth happens to coincide with apparently lacklustre labour productivity showings, a business cycle factor that serves to accelerate the weakening productivity trend. On the whole, post-crisis productivity trends have been atypical, much as the recovery in economic activity has been.

The scale of the 2008-09 economic crisis meant that productivity per person employed continued to grow relatively slowly in the initial stages of the recovery. In Belgium, automatic stabiliser mechanisms – and particularly the option of temporary lay-offs – cushioned job losses during the recession, but also held back the recovery of productivity when economic activity started to pick up again. Besides, the economic upturn proceeded more tentatively than in previous recoveries and was quickly followed by a second dip, caused by the sovereign debt crisis in the euro area. As a result, productivity per person employed, after both the 2008-09 global financial crisis and the euro area crisis in 2012-13, rose significantly more slowly after four years than the averages recorded after the European Union's technical recession of 1996-2006 or the 2001-02 recession in Belgium.

CHART 20 WEAK GROWTH IN APPARENT LABOUR PRODUCTIVITY



Sources: Eurostat, NBB.
 (1) A technical recession is defined as two consecutive quarters of contracting GDP.

Ignoring business cycle development, productivity gains in the broader economy typically slow down when market services grow at the expense of industry in terms of employment or in total labour volume in the economy, as productivity gains tend to advance less steeply in services than in industry. These structural changes lasted well into 2014 and 2015, when rapid productivity growth in industry came hand in hand with a further contraction in labour volumes. By contrast, atypical sector-specific trends emerged from 2016, when productivity per person employed in industry began to slow markedly. Note that this was mostly down to weaker economic activity in metallurgy as well as in the manufacture of coke, refined petroleum products and nuclear fuel.

Unemployment steadily declined

Net employment creation was higher in 2017 than in previous years; it was comparable, in fact, with that in the boom years before the great recession – 65 000 additional jobs on average annually between 2005 and 2008. At that time, service vouchers contributed as much as 20 % to total employment growth, while they no longer accounted for even 3 % in 2017. Also, public administration and education had virtually stopped contributing

to salaried employment growth by 2017. They only accounted for a mere 5 % of salaried jobs created in net terms, compared with 17 % between 2005 and 2008. Just as in the preceding two years, most new jobs in 2017 were created in sectors sensitive to the business cycle (+39 000 in 2017), with the best performers in business services (+22 000) and trade, transport and the catering industry (+12 000). Unlike previous years, 2017 did not see any job losses in industry and construction.

Despite a higher activity rate and against the backdrop of a larger working-age population – albeit one growing less steeply than in the first decade of the 2000s – higher employment involved a fall in the number of unemployed job-seekers for a third year running. In real terms, these averaged 525 000 in 2017, 28 000 below the figure for 2016. The harmonised unemployment rate worked out at 7.3 %, still higher than it was before the great recession (7 % in 2008).

The number of unemployed job-seekers fell in Belgium’s three Regions, across all unemployment durations, age brackets and levels of education. Worth noting is the relatively steep drop in the number of low-skilled unemployed job-seekers since 2015, especially as this category had not

TABLE 2 LABOUR SUPPLY AND DEMAND
(in thousands of persons, unless otherwise stated)

	2013	2014	2015	2016	2017 e	Level 2017 e
Working-age population ⁽¹⁾	12	9	16	16	13	7 313
Labour force	9	33	21	32	38	5 326
Domestic employment	-15	20	40	58	66	4 724
Employees	-21	14	30	44	55	3 934
Sectors sensitive to business cycle ⁽²⁾	-25	-1	19	29	39	2 441
Public administration and education	3	8	2	2	3	815
Other services ⁽³⁾	1	7	9	13	12	679
Self-employed	6	6	10	13	11	789
Unemployed job-seekers	25	14	-19	-26	-28	525
<i>p.m. Harmonised unemployment rate^{(4),(5)}</i>	8.5	8.6	8.6	7.9	7.3	
<i>Harmonised employment rate^{(4),(6)}</i>	67.2	67.3	67.2	67.7	68.3	

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

(1) People aged 15-64.

(2) Agriculture; industry and energy; construction; trade, transport and catering industry; information and communication; financial activities and insurance; real estate activities; and business services.

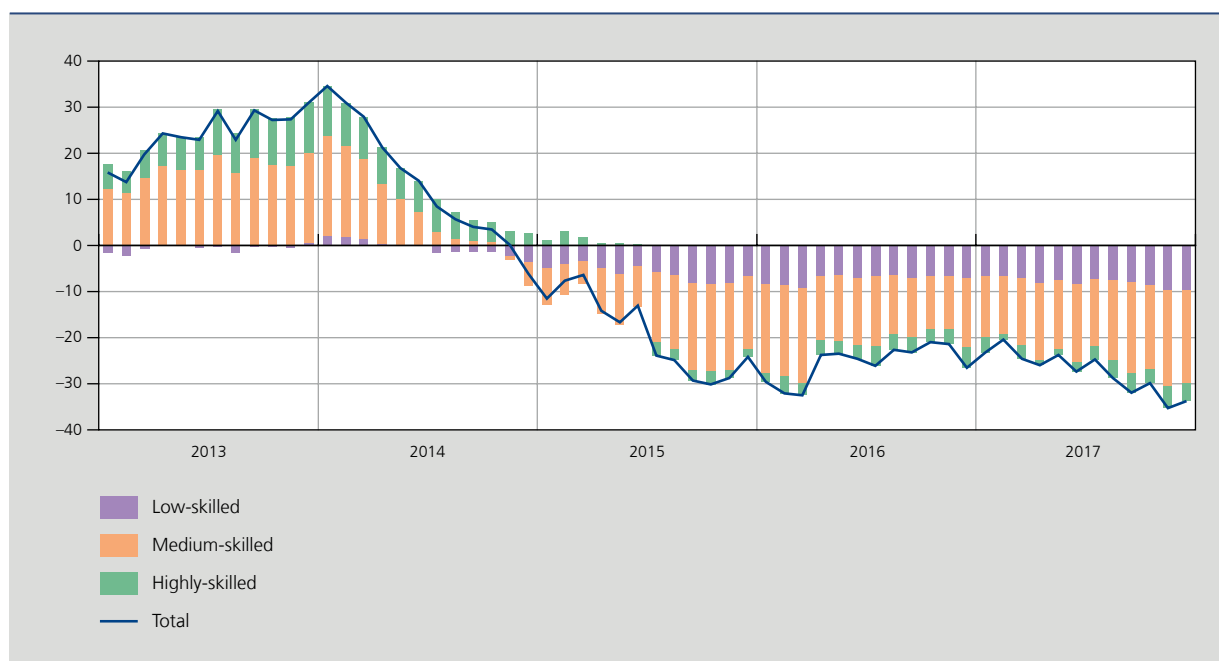
(3) Health care and social work; art, entertainment and leisure; other services; and households as employer.

(4) Based on data from the labour force survey. Following reforms to the labour force survey, notably including a rotating panel, its findings in 2017 are not entirely comparable with previous years. For more information, see <https://statbel.fgov.be>.

(5) Job-seekers as a percentage of the labour force between 15 and 64.

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

CHART 21 FALL IN THE NUMBER OF UNEMPLOYED JOB-SEEKERS, AT ALL LEVELS OF EDUCATION
(changes in thousands of persons compared with the same month of the previous year)



Source: NEO.

grown since the 2012 sovereign debt crisis, unlike other categories. By contrast, the number of highly-skilled unemployed job-seekers fell only slowly, whereas they had been hardest hit in previous years. A note of caution: the labour force survey revealed that a mere 29% of low-skilled job-seekers that dropped out of the unemployment category in 2016 actually found jobs. The other 71% left the labour market altogether and became inactive. These percentages were 59% and 41% respectively for the highly-skilled.

End-of-career scheme reforms have an impact on both employment and unemployment

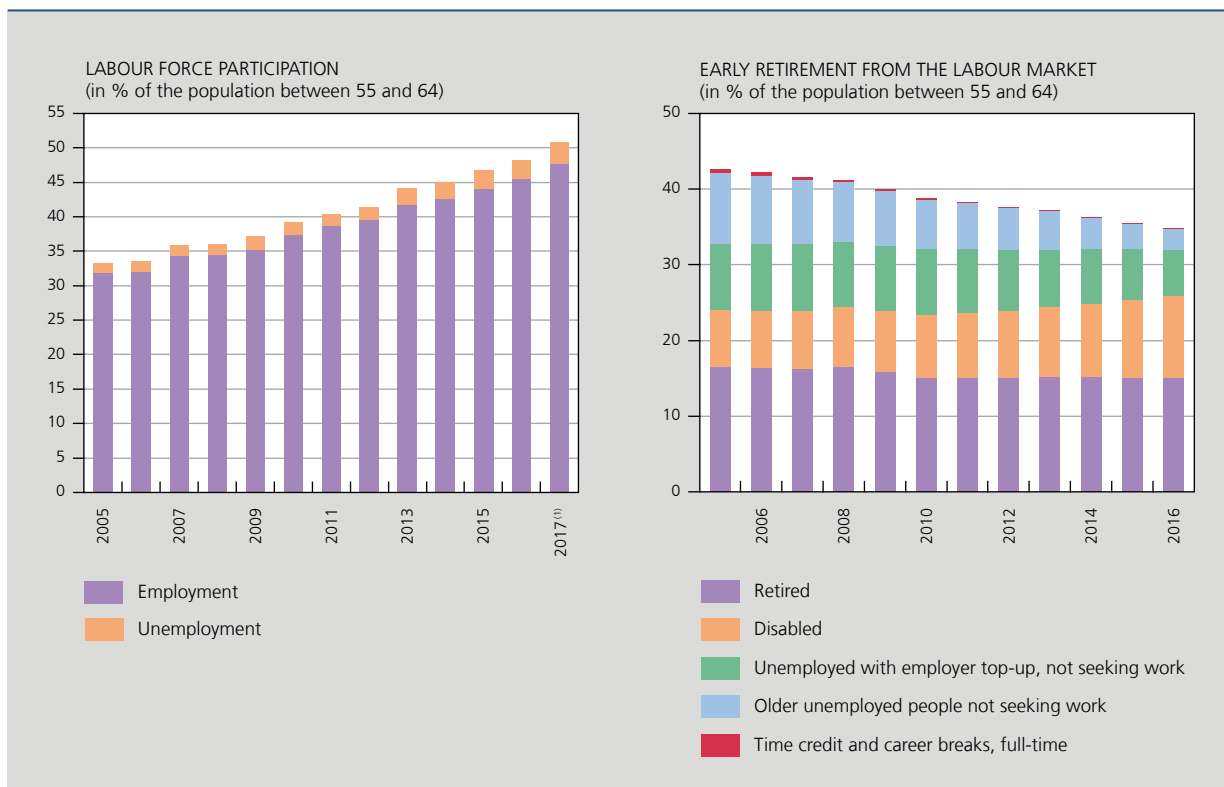
Population ageing in Belgium – though less marked than on average in the European Union – and the concomitant slower growth of the working-age population is presenting a real challenge for pension system funding since the dependency ratio – defined by the Study Committee for Ageing as the relationship between the number of people aged 67 and older and the number of people between the ages of 18 and 66 – rose from 23.8% in 2005 to 24.9% in 2015 and will keep rising in the years ahead.

A key challenge will be to activate everyone in the potential labour force, and particularly the over-55s. A number of measures have been taken to help achieve this.

On 1 January 2013, early retirement age qualifications began to be gradually tightened up. In 2012, people were still allowed to retire at age 60 and after a career spanning 35 years, but by 2017 these ages had been ratcheted up to 62.5 after a career spanning 41 years. The statutory age for early retirement will reach its maximum of 63 in 2018, with the career span requirement going up to 42 years in 2019. In addition, from 1 January 2015, all people who are fully unemployed – including those with employer top-up – have been required to register as job-seekers and be available for the labour market, irrespective of their age.

Coupled with changes made previously, these measures have boosted the employment rate of 55- to 64-year-olds to 47.7% in 2017 from 31.8% in 2005, with both men and women recording an increase. The employment rate for women between 55 and 64 (43%) is still some ten percentage points below their male counterparts (53%), but the difference has narrowed by half compared with 2005.

CHART 22 55- TO 64-YEAR-OLDS INCREASINGLY PART OF LABOUR FORCE



Sources: DGS, EC, FPS, NIHDI-INAMI-RIZIV, NEO.

(1) Average of the first three quarters. Following reforms to the labour force survey, which include, in particular, a rotating panel, its 2017 outcomes are not entirely comparable with previous years. For more information, see <https://statbel.fgov.be>.

While employment has been rising, there has been a massive fall in the number of people retiring early from the labour market. Over a decade ago, some 42 % of 55 to 64-year-olds had left the labour market, but this number had fallen to 35 % by 2016. Moreover, by 2014, the effective age for leaving the world of work had risen to 60 for men and 59.3 for women. These figures are still well below OECD averages of 64.6 for men and 63.1 for women. The demand for all types of early retirement schemes fell, with the exception of disability. A recent study by the Bank⁽¹⁾ suggests that the advance in disabled numbers recorded over the last decade largely reflects population ageing and higher activity rates. Only a small proportion of the higher disability claims – i.e. 10 % for men and 19 % for women – is attributable to other, non-observed factors, such as possibly less accessibility of other early retirement schemes.

Labour market tensions clearer after four years of robust job creation

The demand for labour, as measured by the number of vacancies posted by regional public employment services, has been growing in all three Regions since 2015.

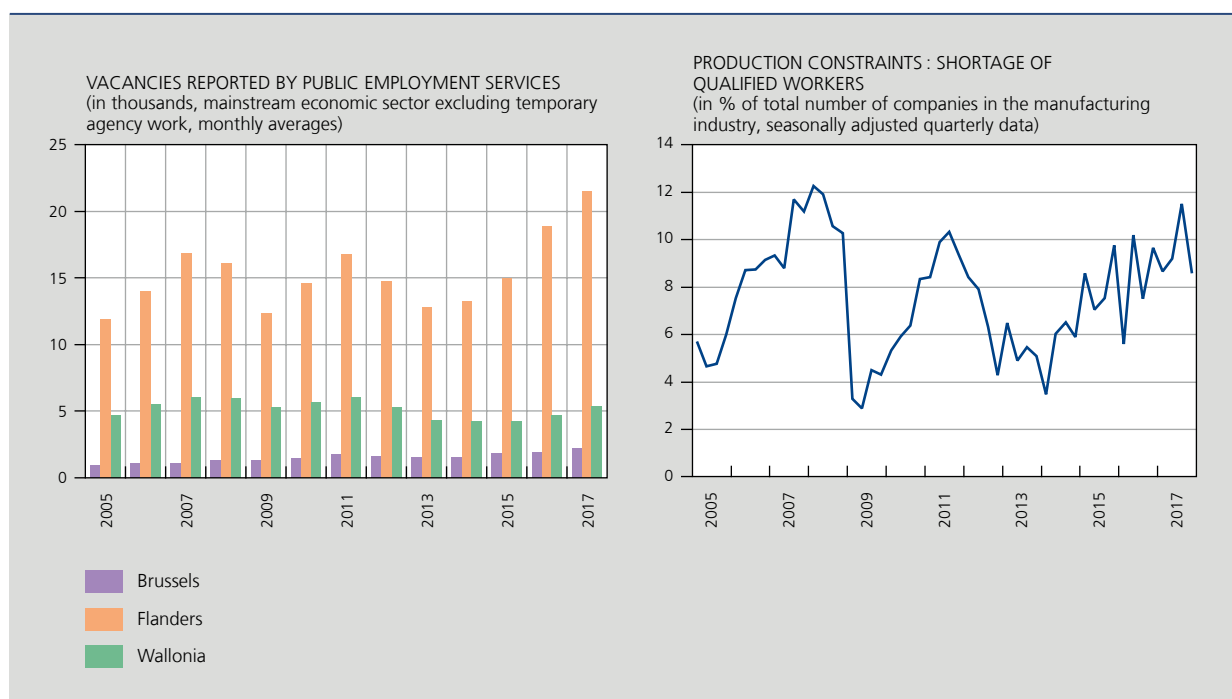
(1) See Saks Y. (2017), "A better understanding of developments in the numbers claiming disability insurance", NBB, *Economic Review*, September, pp. 55-68.

In 2017, these services were notified by companies of 29 200 vacancies per month on average (excluding temporary agency work), compared with 25 500 in 2016. Within that same timeframe, temporary agency workers have also clocked up higher performances, as expressed in total number of hours worked, by an average 6 %.

The number of job-seekers remains high. However, the Bank's business surveys reveal an upward trend in the number of companies reporting a shortage of qualified workers, which suggests that the large pool of available workers does not necessarily match companies' needs and requirements.

This mismatch between labour supply and demand is not a new phenomenon. In fact, this structural issue, which is discussed in greater detail in chapter 5 of this report, reflects a range of factors relating to the skills required by employers and those offered by workers. The problem is both one of basic training (level of education and field of study) and lifelong learning (lack of "transversal" competences or non-updated specific skills). What is more, Belgium has a relatively large number of long-term unemployed; in the first three quarters of 2017, 49 % of unemployed job-seekers had been out of work for a year or more, compared with an average 45 % in the European Union. These people are harder to bring back into active

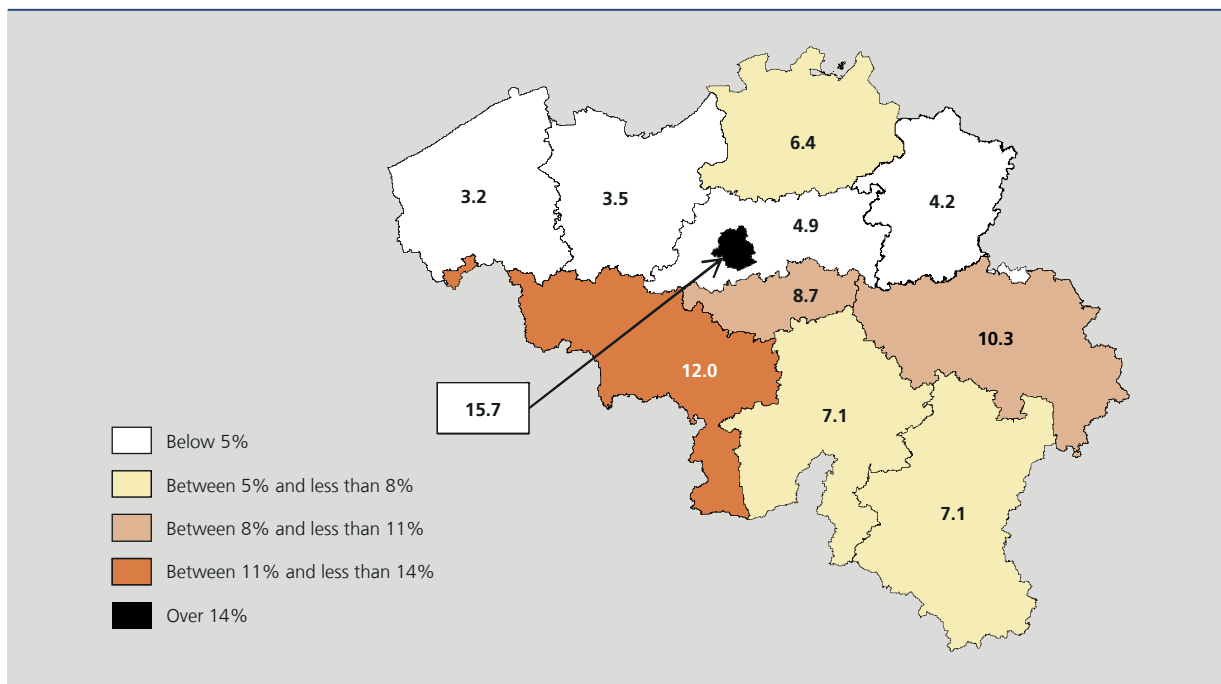
CHART 23 EMERGING LABOUR MARKET TENSIONS BECOMING CLEARER



Sources: Actiris, FOREM, VDAB, NBB.

CHART 24 LOW MOBILITY HIDES A MULTITUDE OF REGIONAL DIFFERENCES

(unemployment rate, in % of the labour force between 15 and 64; averages for the first three quarters of 2017)



Source: EC.

employment as they typically fail to meet the needs of the labour market. Lastly, low geographical mobility – despite major regional differences – does not help an exchange of workers between the Regions, which would be necessary to meet labour demand.

If hiring issues persist, the most affected sectors could well face upward pressure on wages. This could threaten to slow their labour demand, as it would increase the relative price of labour. Conversely, it would push up the opportunity costs of inactivity and might well attract new candidates that do meet employers' needs.

2.2 Higher inflation and stronger wage growth

Inflation accelerated in 2017, fuelled by energy prices

In 2017, headline inflation averaged 2.2%, compared with 1.8% in 2016. Contrary to 2015 and 2016, inflation-sparking factors were not specific to Belgium and mainly resulted from external developments, with other European economies also feeling the effects. Belgium's inflation gap with its neighbouring countries and the average for the

euro area – which had widened in 2015 and 2016 – narrowed as the year progressed but remained significant.

The 2017 headline inflation increase was down to the energy component in the harmonised index of consumer prices (HICP), as changes in energy prices moved from -0.6% in 2016 to 9.9% with the reversal of trends in oil products (fuels and heating oil) and gas. Compared with lower energy prices in 2016, these products turned a lot more expensive in 2017, in keeping with sharply higher Brent prices in the international markets. Annualised, the rise in the price of a barrel of Brent – which had dropped to €29 at the beginning of 2016 – was particularly marked in the first six months of 2017.

By contrast, the upward trend in electricity prices slowed from 28.3% in 2016 to 7.9% in 2017, as the effects of federal and regional electricity-related measures wore off in 2017. More specifically, in March 2016, Flanders had hiked the energy levy from around €3 to €100 per annum per average household, and then withdrew the free basic electricity package in May. These electricity measures had served to add 0.7 percentage point to headline inflation in 2016 (including the VAT increase to 21%, implemented in September 2015 as part of the tax shift), but only accounted for an effect of 0.2 percentage point in 2017. The Flemish

TABLE 3 HARMONISED INDEX OF CONSUMER PRICES

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

	2014	2015	2016	2017	Three main neighbouring countries
					2017
HICP	0.5	0.6	1.8	2.2	1.5
Energy	-6.0	-8.0	-0.6	9.9	4.1
Electricity	-9.6	11.9	28.3	7.9	1.2
Gas	-5.6	-5.4	-11.8	4.1	0.0
Fuels	-3.7	-12.8	-5.3	10.6	7.0
Heating oil	-7.1	-25.7	-17.5	18.7	12.1
Food	0.8	1.8	3.1	1.4	2.0
Underlying inflation	1.5	1.6	1.8	1.5	0.9
Services	2.2	2.4	2.2	1.9	1.1
Non-energy industrial goods	0.3	0.5	1.0	0.8	0.6
Contribution ⁽¹⁾ to total inflation:					
Regulated prices ⁽²⁾	0.3	0.4	0.3	0.3	0.1
Levies on energy and food ⁽³⁾	-0.1	0.4	1.0	0.4	-
<i>p.m. Health index</i> ⁽⁴⁾	0.4	1.0	2.1	1.8	-

Sources: DGS, Eurostat, NBB.

(1) In percentage points.

(2) Goods and services whose prices are fully or mainly determined by the government, according to Eurostat definitions.

(3) Excise duties on tobacco, fuels, alcoholic drinks and soft drinks, and tax on electricity.

(4) National consumer price index, excluding products considered to damage health, i.e. tobacco, alcohol and motor fuels.

energy levy was abolished from 1 January 2018, as the Constitutional Court ruled it to be invalid.

Other price index categories show slowing price increases in 2017

Services inflation came down to 1.9% from 2.2% in 2016 due to a range of factors, including the one-off nature of some past decisions. The October 2015 increase in tuition fees in Flanders – which had put around 0.2 of a percentage point on services inflation in 2016 – no longer made an impact in 2017, for instance. Neither did telecommunications companies raise the prices of their packages by as much as they had done in 2016, when this had pushed up services inflation by 0.2 percentage point. The June 2017 abolition of roaming costs for international mobile phone calls, meanwhile, also helped reduce services inflation.

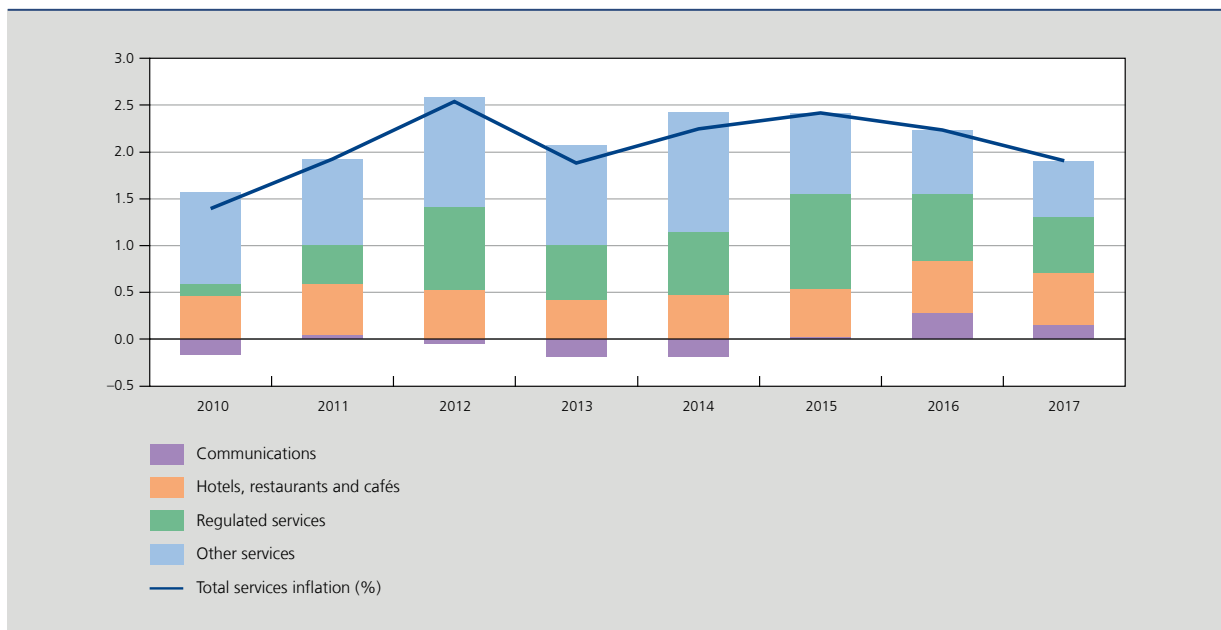
Accounting for over 40% of the household consumer basket in Belgium, services are typically key contributors to headline inflation. The government's role in setting prices for some of these – and hence in the level of

services inflation – is not a new phenomenon. Services with regulated prices have been a bigger factor in inflation since 2012, reflecting price increases in areas such as sewage, waste collection, out-patient and hospital services, social protection (mainly nursing homes) and education. In fact, in 2017, regulated services prices still accounted for nearly one-third of total services inflation, even if this has been coming down since 2015.

Services inflation is also driven by structural factors related, among other things, to inadequate competition. A report drawn up by the Bank, the Federal Planning Bureau and FPS Economy and presented to the Minister for the Economy in March 2017 showcases two sectors displaying unfavourable price trends compared with those in Belgium's three main neighbouring countries. These are catering services, with restaurants and cafés in Belgium recording steeper prices increases, and telecommunications, where prices are not falling as sharply. The report stresses the need to follow up these issues in a context where competition-enhancing measures have been taken, a recent example being the introduction in July 2017 of the Easy Switch procedure, making it easier to switch telecommunications providers.

CHART 25 BREAKDOWN OF SERVICES INFLATION IN BELGIUM

(in percentage points, unless otherwise stated)



Source: Eurostat.

As it turns out, services prices were little moved by past years' wage moderation efforts and constantly stayed close to their long-term average growth of 2.1%. In 2015 and 2016, when unit labour costs were falling, profit margins widened, whereas they did not in 2017 when unit labour costs rose. This explains why services inflation remains relatively stable.

Inflation of non-energy industrial goods slowed to 0.8% from 1% in 2016, possibly contained by the recent appreciation of the euro. The effect of a higher euro on the prices of these goods is that it makes importing intermediate inputs and finished goods from non-euro area countries less expensive. Lower inflation in this category in 2017 also reflected the disappearance of the upward effect of, first, new European emission standards – in place since the end of 2015 – on the purchase price of cars, and second, Flanders raising the one-time vehicle registration tax in January 2016.

Underlying inflation, which comprises trends in both services and non-energy industrial goods prices, declined from 1.8% in 2016 to 1.5% in 2017.

Slower increases in food prices, from 3.1% in 2016 to 1.4% in 2017, served as much more of a brake on headline inflation than did underlying inflation. In fact, the steep falls in fruit and vegetables prices even triggered

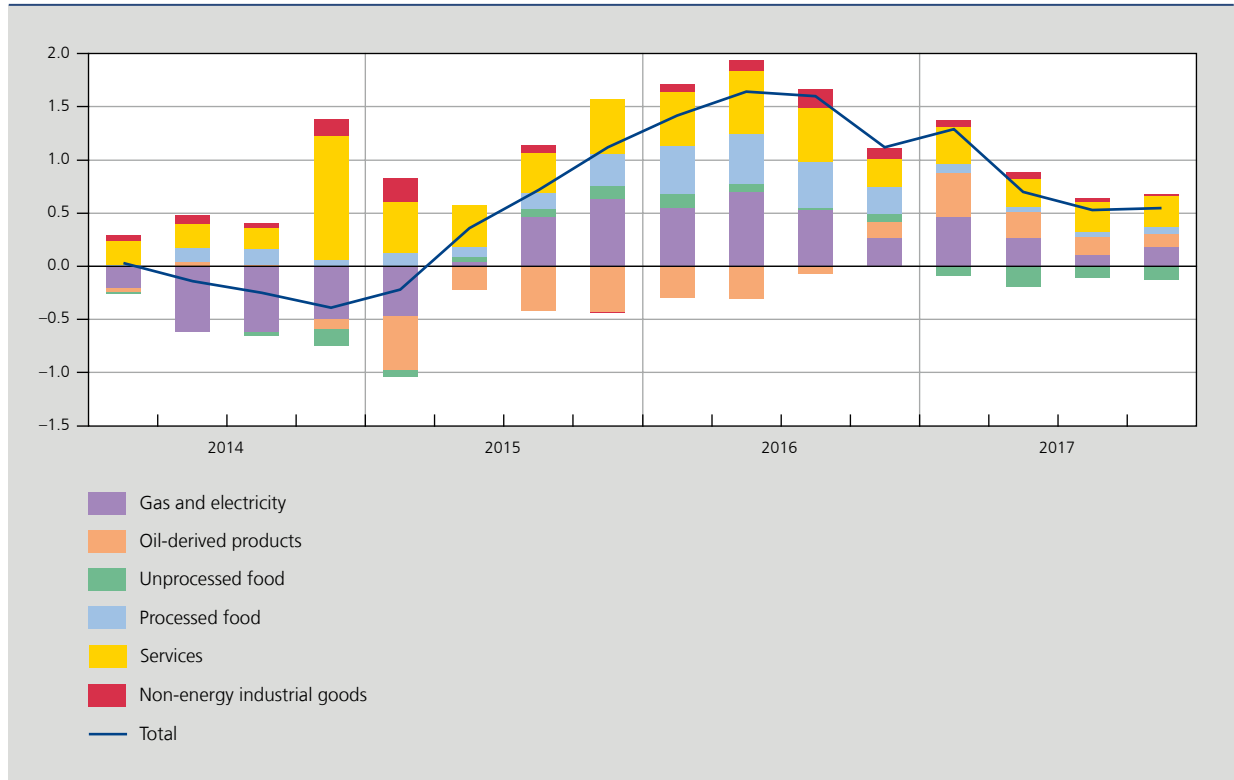
an overall price drop in the unprocessed food category. Meanwhile, processed food returned to a more normal pace of price rises, after having been bumped up in 2016 by higher excise duties on alcohol and tobacco, and by the introduction of excise duties on soft drinks containing sugar agreed under the tax shift. While virtually all components showed lower inflation figures or only slightly higher inflation, the price of butter shot up, peaking at 26% in November, as demand for the product grew both in Belgium and worldwide – more specifically in Asia, against a backdrop of declining production and falling demand for vegetable oils.

Inflation gap narrows in 2017 relative to neighbouring countries

With inflation in Belgium staging less of an increase in 2017 than in its three neighbouring countries, the inflation gap that had widened in the two previous years narrowed, from an average 1.4 percentage points in 2016 to 0.8 percentage point in 2017; it stabilised at around half a percentage point in the second half.

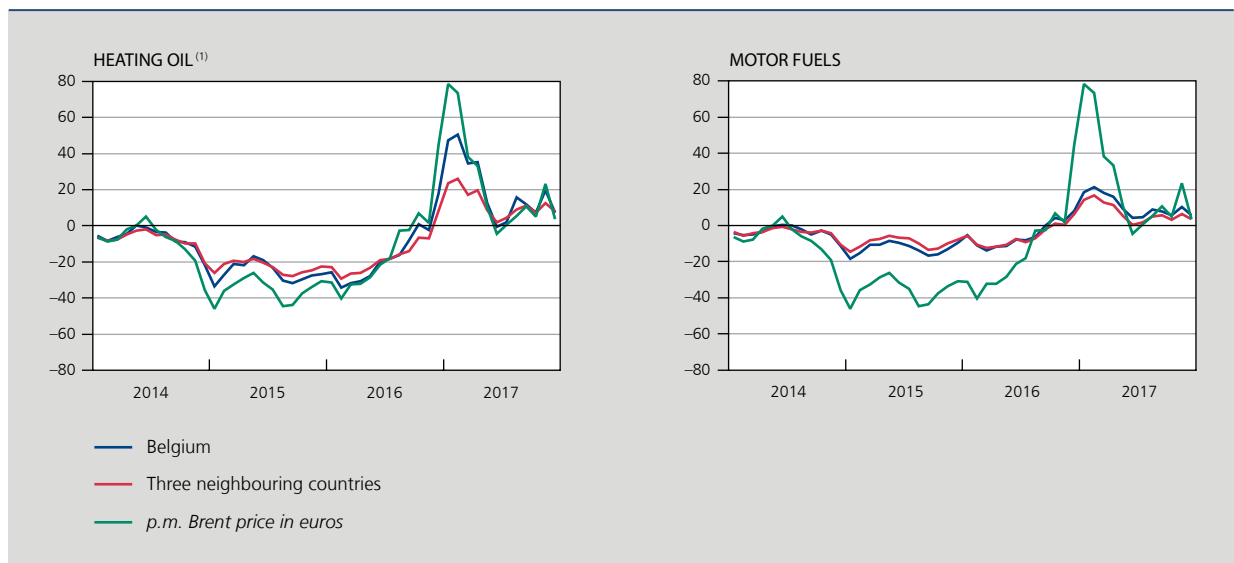
In the first six months of 2017, energy was the key contributor to Belgium's headline inflation, as energy-based product prices are more highly exposed to global oil price fluctuations, mainly due to very low excise duties on heating oil. Due to its small proportion in prices, this

CHART 26 FALL IN INFLATION GAP BETWEEN BELGIUM AND ITS THREE MAIN NEIGHBOURING COUNTRIES
(quarterly average, in percentage points)



Source: Eurostat.

CHART 27 IN BELGIUM, CONSUMER PRICES FOR SOME OIL-DERIVED PRODUCTS ARE MORE SENSITIVE TO TRENDS IN INTERNATIONAL PRICES THAN IN ITS THREE MAIN NEIGHBOURING COUNTRIES
(annual percentage changes)



Sources: Eurostat, Thomson Reuters.

(1) In the Netherlands, heating oil is not included in the price index.

flat-rate tax dampens the transmission of crude oil price swings to consumer prices much less than in neighbouring countries. In addition, in Belgium, heating oil accounts for a greater share of energy consumption and also thus makes up a larger part of the consumer price index basket (14% of energy usage compared with an average 8% in neighbouring countries). These factors, which had helped to narrow the inflation gap between Belgium and its neighbours in times of falling oil prices – e.g. in 2015 – served to widen it at the beginning of 2017.

The headline inflation gap with Belgium's three main neighbouring countries may have narrowed, but remains

quite significant, one factor being that services prices in Belgium continue to rise faster. In 2017, telecoms services and restaurants and cafés were still largely responsible for the services inflation gap between Belgium and its neighbours, followed by spending related to nursing homes, day nurseries for children and hospital services.

The inflation gap for the other categories – which had served to ratchet up the difference with Belgium's main neighbouring countries in 2016 – significantly shrank in the course of 2017, as measures that had previously made it larger no longer came into play, such as measures to fund the tax shift that had affected food products and higher tax on electricity.

Box 3 – Energy prices for households in Belgium and its three main neighbouring countries

How much households pay for what types of energy varies greatly between Belgium and its neighbours. To some extent, these differences are down to tax policies, which for Belgium showed up in the level of tax levied on energy.

In terms of oil products, Belgium's excise duties on diesel are among the highest in the European Union. It has not always been that way. As part of the tax shift, Belgium reintroduced a ratchet system in November 2015. To raise diesel prices relative to petrol prices, the government put a system in place pulling in two different directions for petrol and diesel. 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 if they result from lower prices on the Rotterdam wholesale markets 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, with the mechanism ending as soon as government-targeted levels are reached. Under this policy, excise duties on diesel have been raised multiple times since 2015. Since the increase in March 2017, consumers have been paying more for diesel in Belgium than in its main neighbouring countries. Overall, excise duties on diesel have risen from an average € 0.48 per litre in 2016 to € 0.53 in 2017, accounting for 42% of the total price (inclusive of VAT).

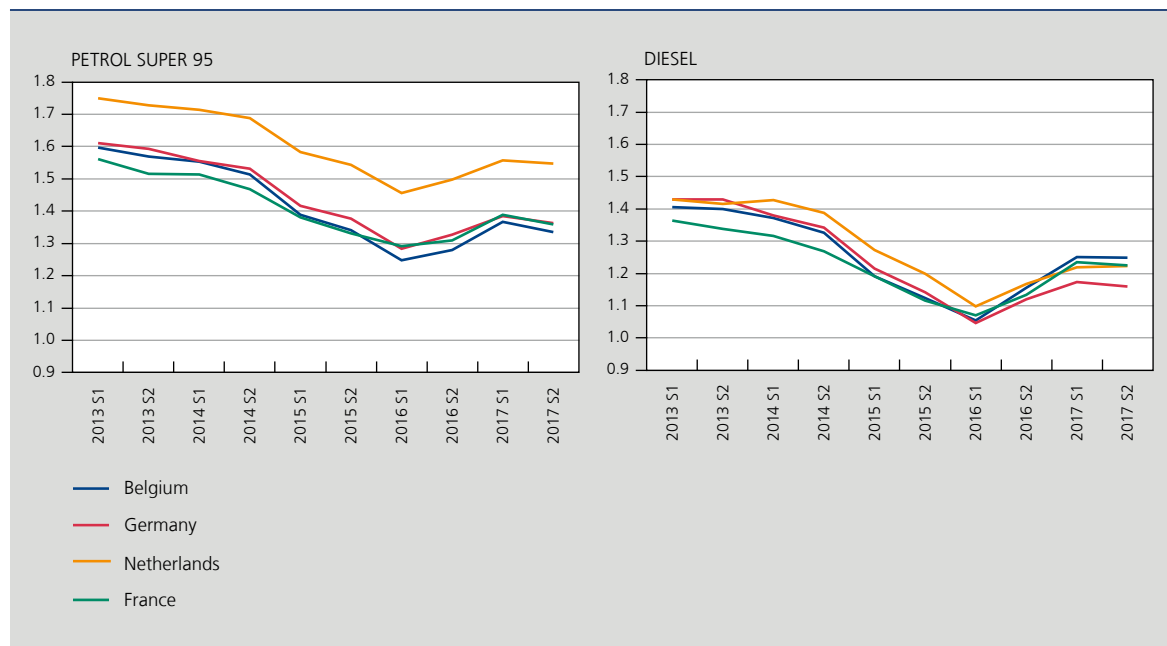
At 45% of prices at filling stations, excise duties on petrol still exceed those for diesel, although they have come down very slightly, from an average € 0.62 per litre in 2016 to € 0.61 in 2017 for Super 95. This is less than the excise duties being paid in Belgium's three main neighbouring countries. Although petrol prices excluding all taxes have been pretty similar between Belgium and its main neighbours in the past few years, they are significantly higher when all taxes are included in the Netherlands, with 2017 total prices lowest in Belgium on average.

Tax levels are also a determining factor in electricity prices. On data gathered by the Commission for the Regulation of Electricity and Gas (CREG), the federal regulator of the gas and electricity market in Belgium, the cost of the actual energy component of electricity is fairly similar for average users in Belgium and the three main neighbouring countries (around € 0.06 per kilowatt hour). In Belgium, this was only one-quarter of the total price charged in 2017: 60% is taken up by network fees for transmission and distribution, levies and surcharges, with the remainder made up of VAT. The tax component in Belgium has recorded major swings, as VAT on electricity was first cut to 6% in April 2014, followed by a return to 21% in September 2015, and as



FUEL PRICE TRENDS AT FILLING STATIONS

(half-yearly average of weekly prices, in € per litre, including all taxes)



Source: EC.

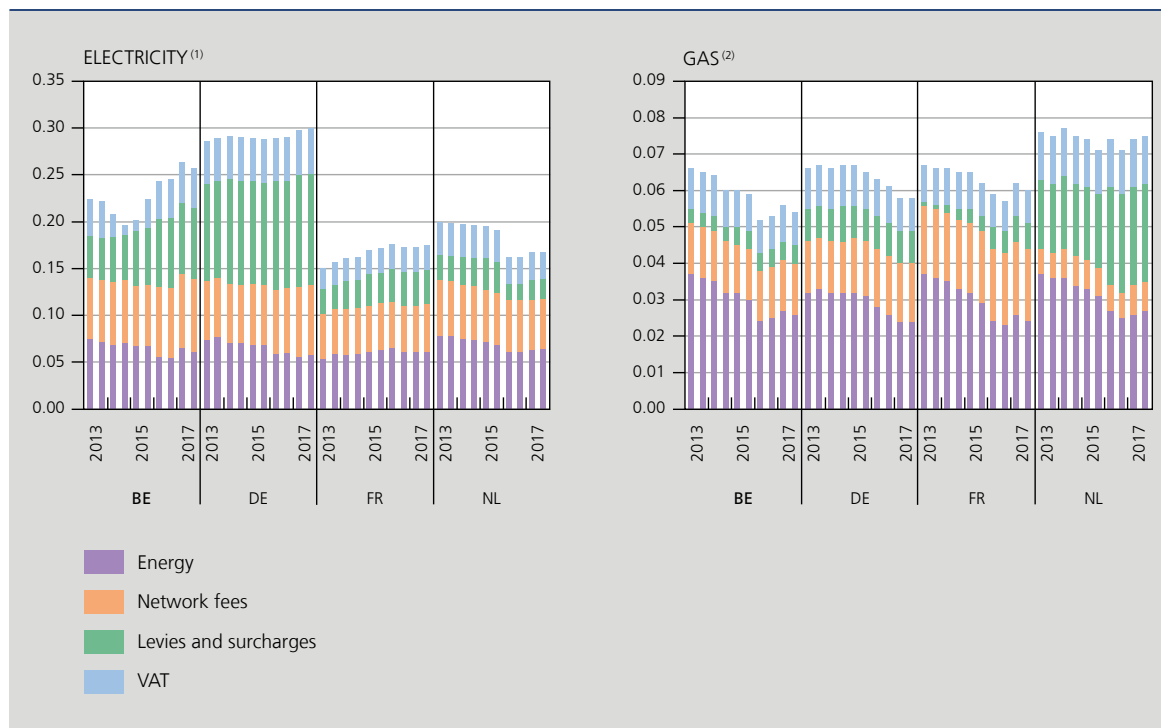
the Regions levied taxes like the energy levy imposed by Flanders in March 2016 (and cancelled in early 2018). However, retail power consumption is taxed most heavily in Germany, largely to help finance renewable energy – levies (excluding VAT) account for 40% of electricity consumer prices. Constant price increases charged to Belgian households since 2015 have opened up an ever greater price gap relative to France and the Netherlands, where prices are less affected by various taxes. Belgian prices are getting increasingly closer to German levels, though.

As for natural gas prices, the value of the energy component has been falling across the board over the period and is currently at similar levels in all four countries (around € 0.025 per kilowatt hour). Lower overall prices in Belgium compared with Germany and France are explained by higher levies in Germany and higher network fees in France. The Netherlands extracts its own natural gas but its consumers do not benefit from lower prices, as the government imposes a high regulatory energy tax to encourage energy savings and carbon emission reductions.

When introducing its safety net mechanism in 2012, the Belgian government was looking to prevent electricity and gas prices for households and SMEs from rising above the average in neighbouring countries. This mechanism was discontinued on 31 December 2017. CREG notes that the mechanism has made the information available to the various market players more transparent, particularly as contracts were obliged to use price indexation parameters linked to market prices for electricity and natural gas. Some aspects of the safety net mechanism will remain in place, including monitoring by CREG, which will keep up to date the database of all products aimed at households and SMEs and which will also continue to draw up international comparisons. With the mechanism's discontinuation, some of CREG's monitoring and control duties will also cease, including those related to the quarterly indexations – mainly intended to address the issue of energy price volatility in Belgium.

LEVEL AND COMPOSITION OF ELECTRICITY AND NATURAL GAS PRICES

(half-yearly averages, € per kilowatt hour)



Source: CREG.

(1) Consumption of 3 500 kWh per annum with normal meter.

(2) Consumption of 23 260 kWh per annum.

Wages back up in 2017 after a spell of moderation

Having grown only very little for two years – by 0.2 % in 2015 and 0.7 % in 2016 – gross hourly wages in the private sector recorded a sizeable upturn of 2 % in 2017. Hourly labour costs also shot up, by 1.7 %, compared with a 0.8 % fall in 2016 and a virtually negligible rise in 2015. Clearly, 2017 brought a reversal in the lengthy post-2009 period of wage moderation and labour cost-cutting, the outcome of a range of measures whose most notable effects had percolated through in the two previous years. These measures might well have something to do with the fact that economic growth has recently turned more employment-intensive.

Gross wages are rising faster mostly as a result of index-linking based on consumer prices. This mechanism, which is likewise applied to government workers' pay

and social security benefits, was suspended by the Belgian government in April 2015. It blocked its indexation gauge, i.e. the average of the health index in the previous four months, until it reached a level of +2 %, meaning that automatic indexation mechanisms were suspended until April 2016. How exactly the gauge influences wages is determined at the level of private sector joint committees, and time spans to the point when wages are adjusted can be shorter or longer. The index jump had a partial impact in 2015, but mainly in 2016 and even into March 2017 for joint committees applying annual indexation in the month of March. As mechanisms returned to normal after the index jump, average wage indexation in the private sector contributed 1.6 % to the increase in gross wages.

Gross wage trends have also been on the rise as a result of collectively-agreed wage increases, negotiated at sector

TABLE 4 PRIVATE SECTOR LABOUR COSTS

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

	2013	2014	2015	2016	2017 e
Labour costs in the private sector					
Gross hourly wages	2.5	1.2	0.2	0.7	2.0
Collectively-agreed wages ⁽¹⁾	2.0	0.8	0.1	0.6	1.8
Real agreed adjustments	0.1	0.0	0.0	0.0	0.2
Indexation	1.9	0.8	0.1	0.6	1.6
Wage drift ⁽²⁾	0.5	0.4	0.1	0.1	0.1
Employers' social contributions ⁽³⁾	-0.1	-0.1	-0.1	-1.5	-0.3
Social security	0.0	0.0	-0.1	-1.2	-0.3
of which: Impact of reductions in social security contributions	0.0	-0.1	0.0	-1.0	-0.3
Other contributions ⁽⁴⁾	-0.1	-0.1	0.0	-0.4	0.0
Hourly labour costs	2.4	1.1	0.2	-0.8	1.7
<i>p.m. Hourly labour costs, economic concept⁽⁵⁾</i>	2.4	1.0	0.1	-0.7	1.9
Hourly labour costs in the public sector	3.4	1.2	0.6	2.8	2.7
of which: Indexation	2.3	0.0	0.0	1.0	2.0
Hourly labour costs in the economy as a whole	2.7	1.1	0.3	0.1	1.9

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.

(4) Actual social contributions not paid to the government, including premiums for group insurance, pension funds or occupational pension institutions, and imputed contributions, including redundancy pay.

(5) Labour costs based on the economic concept do not match national accounts data, as they also include reductions in social security contributions for the relevant target groups as well as wage subsidies, resulting in a more accurate reflection of the labour costs that companies face.

level and based on the 2017-18 interprofessional agreement by the social partners at national level. The wage benchmark was agreed at 1.1 % for both years together, up on the three previous two-year figures, when it had languished at around zero. Sectoral negotiations in 2017 resulted in collective wage increases that remained very subdued and did not exceed 0.2 %.

Lastly, there is a whole host of other elements that come into play with wage cost increases: wage agreements at company level, individual pay rises as well as other factors that impact the wage structure. Between them, the sum total of these factors would appear to have had barely any impact in 2017: the wage drift is estimated at 0.1 %. Although it is not possible to quantify each of these factors separately, it may safely be assumed that labour market tensions – which are becoming increasingly visible in some companies – may prompt employers to start raising wages in the future. This might undermine employment opportunities if it turns into a general trend and also reaches sectors, companies or regions in less favourable circumstances.

Wage rises can also accelerate when the employment structure changes, e.g. through an increase in educational levels, in age or in seniority in a labour market with older workers staying in service for longer. By contrast, more hiring of low-skilled people could have the reverse effect.

In addition to wage moderation, reductions in employers' social contributions have also served to curb labour costs. This aspect of the tax shift – which includes a proportion of the measures taken previously under the Competitiveness Pact – had its biggest effects in 2016 but is scheduled for additional phases running well into 2020. Having curbed labour costs by 1 % in 2016, these measures had an additional impact of 0.3 % in 2017, mainly reflecting the full-year impact of a general reduction in social security contributions that started in April 2016 and that amounted to an additional cut of € 255 million in 2017. On top of this, a new measure aimed at reducing contributions for first hires involved an additional reduction of around € 40 million in 2017. As well as cutting employers' social contributions, the

tax shift also involves an easing of personal income tax in the 2016-19 period.

The sixth State reform put the Regions in charge of setting the conditions and rules that govern the allocation of cuts in contributions for target groups. In each of the Regions, hiring young people, older workers or the long-term unemployed may bring benefits, and these targeted cuts are recognised in the national accounts as wage subsidies. Disregarding these targeted reductions, though, the importance of wage subsidies has fallen in 2017, due mainly to the conversion from the general exemption for employers from paying 1% payroll tax into lower basic rates for employers' social contributions. In the economic concept, which also incorporates the impact of subsidies, hourly labour costs in the private sector rose by 1.9% in 2017.

At 2.7%, 2017 hourly labour costs in the public sector again outpaced those in the private sector, as indexation had a greater effect (the trigger index figure was passed in May, a year after its previous breach) and the wage drift was much more marked. Apparently a structural phenomenon, the wage drift in the public sector may reflect hires with superior qualifications, while retirement-related outflows featured more lower-skilled personnel. Another factor may have been the increase in the number of contract workers in the public sector, but it is worth noting that the wage drift also reflects errors and omissions in various statistical series and has shown very volatile trends in the past.

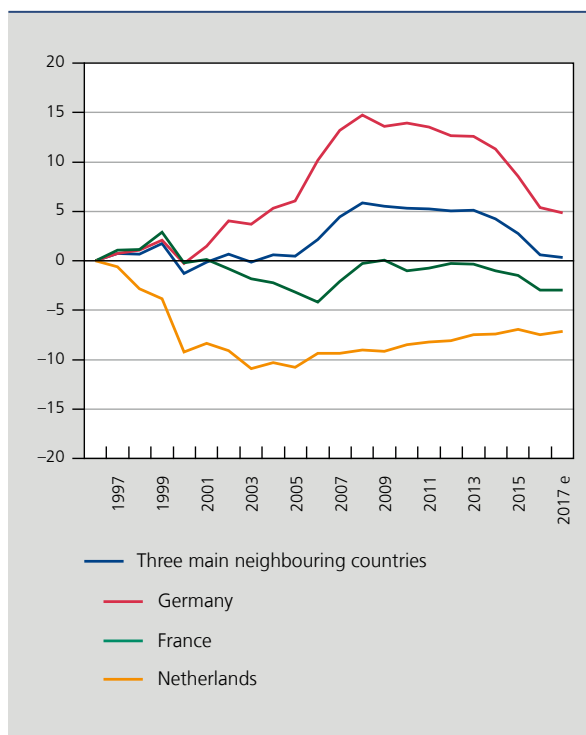
Labour costs in 2017 rose slightly less than for Belgium's main trading partners

Estimates by the Central Economic Council (CEC) suggest that in 2017 its three main trading partners saw labour costs in the private sector climb a little higher than in Belgium. The minor gap is the outcome of more dynamic growth in hourly labour costs in Germany, a similar trend in France and a weaker upturn in the Netherlands. Recent trends, then, match the outlook posited by the 2017-18 interprofessional agreement.

The agreement was the first to be compliant with the new rules as announced on 19 March 2017 to revise the 1996 Employment and Competitiveness Law. To determine the maximum available negotiating margin, the new Law, like the old one, draws on expected labour cost trends in the three main neighbouring countries, i.e. Germany, France and the Netherlands, as well as on inflation projections for Belgium. The Law also specifies that wage gap calculations may not take account of reductions in contributions agreed under the tax shift for

CHART 28 BELGIUM'S WAGE GAP REMAINED VIRTUALLY CLOSED IN 2017

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



Source: CEC.

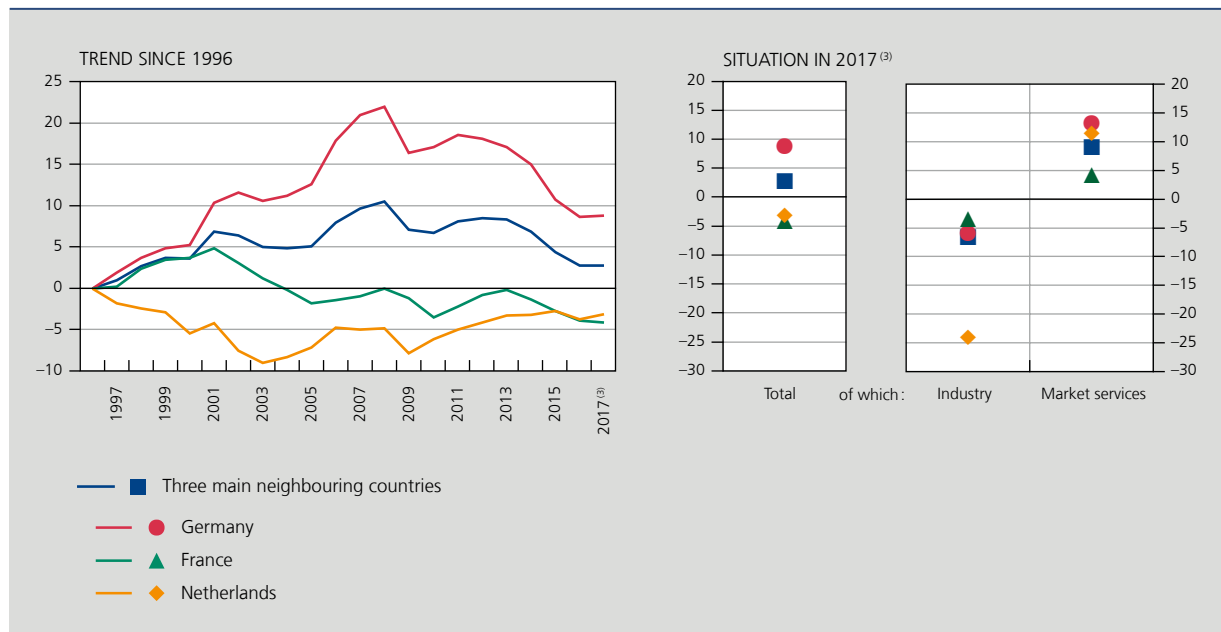
(1) In keeping with the calculation methodology as set down in the amended Employment and Competitiveness Law. A positive sign implies a competitiveness gain for the relevant economy compared with Belgium.

the 2016-20 period and that only half of any fresh post-tax-shift contribution reductions may be factored in. Ignoring cuts in contributions, reference hourly labour costs in the private sector in 2016 turned out 0.8 of a percentage point higher than national accounts-based estimates; the figure for 2017 was 0.3 percentage point.

In future, any calculation of the maximum available negotiating margin also has to include corrective mechanisms as well as a safety margin ensuring that wage differences benefiting Belgium are partially put towards eradicating the historical wage gap, i.e. the one already there before the 1996 Law came into force. The CEC has yet to estimate the actual level of this gap.

Comparing the rise in hourly labour costs in Belgium with that of its main trading partners is a relevant exercise in gauging relative labour cost trends in Belgium, but it fails to take account of developments in productivity. The revised Law also stipulates that, to complement information available to the social partners at the interprofessional

CHART 29 STABLE GAP TRENDS⁽¹⁾ FOR UNIT LABOUR COSTS COMPARED WITH THREE MAIN NEIGHBOURING COUNTRIES
(cumulative differences since 1996 for the business sector⁽²⁾, in %)



Source: Eurostat.

(1) A positive sign implies a competitiveness gain for the relevant economy compared with Belgium.

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

(3) First three quarters.

negotiations, the CEC should report on three other measures of Belgium's pay gap: the absolute wage gap, the absolute wage gap factoring in productivity levels and, lastly, the gap in labour costs built up since 1996, adjusted for the reductions in employers' social security contributions as well as for wage subsidies in Belgium and its three main trading partners.

Belgium's competitiveness can be judged by the official wage gap as calculated by the CEC, ignoring or "neutralising" cuts in contributions agreed under the tax shift. It can also be measured by the wage gap in terms of unit labour costs, a measure that will show a neutral development if a more rapid increase in labour costs coincides with a stronger acceleration in productivity.

In principle, hourly labour cost trends should not deviate from those for labour productivity for any length of time. As discussed in section 2.1, Belgium's labour-intensive growth of the past few years in part reflects increased participation by the low-skilled or workers whose productivity growth lagged the average, hampering a revival in productivity. Trends in the unit labour costs gap match those for the hourly labour costs gap, albeit that productivity in Belgium has risen less sharply

in the past two years. Broken down by sectors, Belgium proves relatively weak in market services, a sector, incidentally, that is becoming increasingly important to the economy.

2.3 Domestic demand, cornerstone of Belgium's growth

Enhanced economic activity in Belgium in 2017 was largely underpinned by business investment⁽¹⁾ and exports. Both have a high import content and imports also staged significant growth as a result, with net exports making only a minor contribution to GDP growth. Overall public spending on consumption and investment also grew faster than in 2016. However, the rate of growth in general government consumption stayed below GDP growth.

(1) An analysis of the various demand components is affected by significant specific transactions that do not, however, directly affect economic activity in Belgium. Examples are changes in the international set-up of distribution channels at multinational companies – affecting both gross exports and gross imports – or purchases abroad (ships or patents), which are recognised as both gross fixed capital formation and imports. The analysis stripped out these transactions insofar as they could be traced.

TABLE 5 GDP AND MAIN EXPENDITURE CATEGORIES

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

	2013	2014	2015	2016	2017 e
Private consumption	0.7	0.6	0.9	1.7	1.1
General government consumption	0.3	0.7	0.5	0.5	1.1
Gross fixed capital formation	-1.5	6.0	2.7	3.6	1.2
Housing	-3.9	5.7	1.0	2.6	-0.2
Enterprises	-0.2	6.4	3.5	4.9	1.3
<i>p.m. Excluding major specific transactions</i>	-0.2	2.9	2.7	5.0	5.5
General government	-4.3	3.6	1.0	-3.1	3.1
<i>p.m. Final domestic expenditure</i> ⁽¹⁾	0.1	1.8	1.2	1.8	1.2
Change in inventories ⁽²⁾	-0.4	0.3	0.2	0.2	0.3
Net exports of goods and services ⁽²⁾	0.5	-0.8	0.0	-0.6	0.3
<i>p.m. Excluding major specific transactions</i> ⁽²⁾	0.5	-0.2	0.2	-0.6	-0.3
Exports of goods and services	0.9	5.2	3.3	7.5	4.5
<i>p.m. Excluding major specific transactions</i>	0.9	5.2	3.3	2.9	3.7
Imports of goods and services	0.3	6.2	3.3	8.4	4.2
<i>p.m. Excluding major specific transactions</i>	0.3	5.5	3.1	3.8	4.2
GDP	0.2	1.4	1.4	1.5	1.7

Sources: NAI, NBB.

(1) Excluding the change in inventories.

(2) Contributions to the change in GDP compared with the previous year, in percentage points.

Private consumption softens, particularly of durable goods

Because of its sheer size, private consumption remained a significant contributor to GDP growth, if to a lesser degree in 2017. A slowdown emerged at the year's mid-point, when the robust base effects of the temporarily stronger dynamics a year previously faded, despite very favourable showings for consumer confidence. This latter indicator, which has far exceeded its historical average for the past two years, continued to rise gradually during 2017 – mainly thanks to the more favourable employment outlook – and reached its highest level in over 16 years.

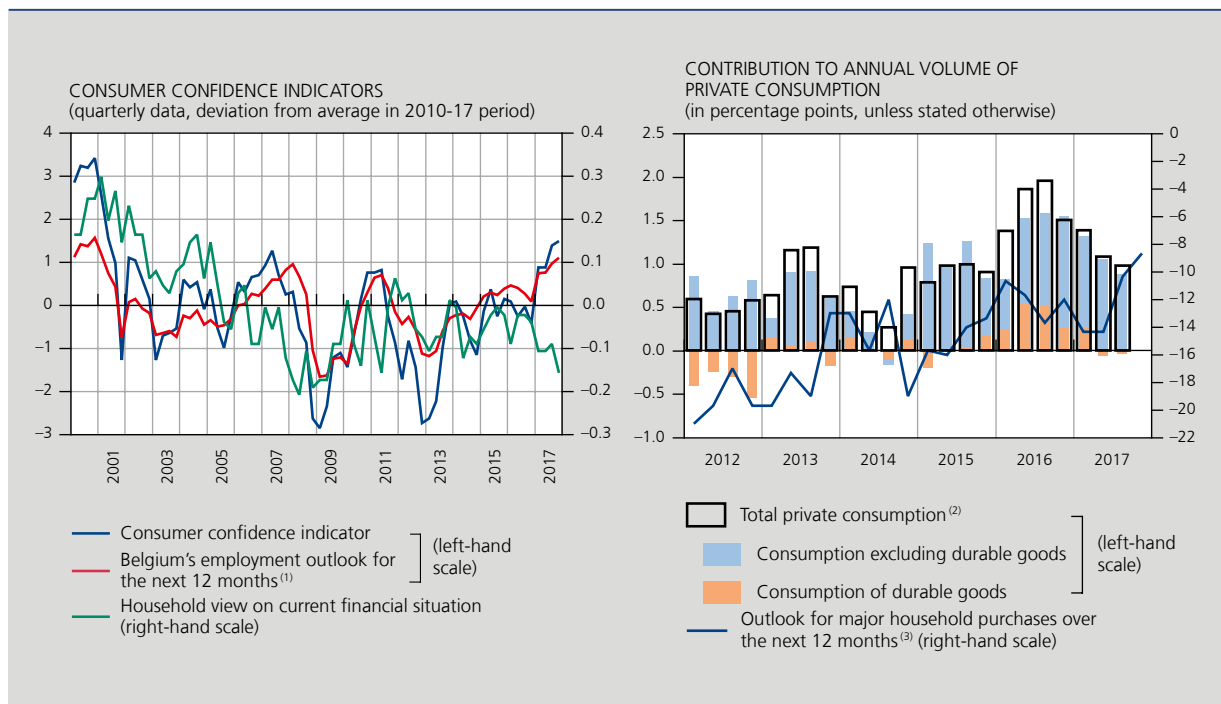
The robust upturn in household consumption at the beginning of 2016 partly reflected trends in durable goods sales. NAI statistics on durable goods consumption first released in 2017 reveal a wave of big-ticket purchases in 2015 and early 2016 of goods with an estimated useful life of over three years (for instance major appliances or vehicles). At that time, households were looking at an improved outlook for labour market conditions and their own incomes, as well as at receding economic

uncertainty, which may have prompted some to step up their demand for goods, and for durable goods in particular. Other temporarily conducive factors included the low interest rate environment, greater purchasing power on the back of low oil prices, and pent-up demand for these goods.

The slowdown in durable goods consumption from the third quarter of 2016, which ended in negative annualised growth in the second and third quarters of 2017, coincided with a falling indicator from the household consumption survey for major purchases in the next twelve months. The cycle of durable goods purchases – which requires no repeat purchase in the short term – contributed to relatively weak consumption in 2017. This is not the only explanation, as private consumption also edged down when durable goods are excluded.

Renewed confidence on the part of households would appear to reflect less fear of unemployment. However, general confidence indicator calculations do not factor in the sub-indicators capturing households' views of their current financial situation. Against a backdrop

CHART 30 CONSUMER SPENDING SLOWS AFTER DURABLE GOODS PURCHASING PEAK AND REFLECTS HOUSEHOLDS' VIEWS ON THEIR FINANCIAL SITUATION MORE CLOSELY



Sources: NAI, NBB.

(1) Reverse of the indicator released by NBB.

(2) Percentage changes compared with previous year.

(3) Balance of replies to monthly survey, calendar adjusted data.

of – until recently – subdued or even negative growth in real wages, households continued to take a relatively dim view of their financial situation in 2017. The rather looser link between the confidence indicator and consumption profiles might well be explained by this unusual dichotomy between households' sanguine unemployment expectations and stagnating views of their financial situation.

Investment in housing shows a similar pattern to durable goods consumption: after growing robustly for three years, housing investment even turned negative in 2017, despite historically low mortgage rates. It is worth noting, though, that both areas of spending are still at high levels after the brisk clip of the previous years, both durable goods consumption and investment in housing.

Higher household disposable income encouraged both consumption spending and saving

Household disposable income recorded robust growth in 2017, climbing by 1.3% in real terms compared with

0.9% in 2016 and an average 0.4% in the three previous years. The upturn was mainly down to higher labour income on the back of robust employment creation, among other factors. Meanwhile, gross wages per hour worked (excluding employers' social security contributions) rose from 0.2% in current prices in 2015 to 1.2% in 2016, and even to 2% in 2017. Taking account of the rise in prices measured by the household consumption expenditure deflator, hourly wages inched up by only 0.2% in 2017, compared with falls of around 0.3% a year in 2015 and 2016. In that time, the index jump first made itself felt in 2015 and then had a major impact in 2016, with its effect weakening in 2017. Meanwhile, collectively-agreed wages for 2017 fuelled a rise in real wages in the private sector – albeit a minor one – after a two-year wage freeze.

Other income categories also chipped in to accelerating purchasing power. Buoyed by a favourable business cycle, self-employed people saw total gross operating surplus and gross mixed income stage a remarkable improvement in 2017. In contrast to the three preceding years, households even saw their capital income pick

TABLE 6 DETERMINANTS OF HOUSEHOLD GROSS DISPOSABLE INCOME, AT CURRENT PRICES

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

	2013	2014	2015	2016	2017 e	<i>p.m.</i> <i>In € billion</i> 2017 e
Gross primary income ⁽¹⁾	1.2	1.0	0.6	1.5	3.6	242.9
Gross wages	1.8	1.5	0.8	2.5	3.4	163.6
Volume of labour of employees	-0.7	0.2	0.6	1.2	1.4	
Gross wages per hour worked ⁽¹⁾	2.6	1.3	0.2	1.2	2.0	
Gross operating surplus and gross mixed income	-0.1	3.3	1.5	0.9	3.0	51.6
Capital income ⁽²⁾	0.2	-5.1	-2.5	-2.9	5.3	27.7
Interest received	-31.4	-33.5	-17.4	-22.2	-41.3	1.4
Interest paid	-30.6	-4.3	2.0	-17.3	-51.1	1.0
Dividends received	11.4	3.0	3.6	-0.4	3.8	15.9
Other	1.0	-0.9	-4.6	-4.1	7.9	11.2
Net current transfers ⁽¹⁾	-2.5	5.7	20.3	49.9	-13.0	5.7
Current transfers received	3.4	1.6	1.7	2.4	2.4	98.1
Current transfers paid ⁽¹⁾	3.7	1.5	0.9	0.0	3.5	92.5
Gross disposable income	1.2	1.1	0.9	2.4	3.1	248.5
<i>p.m. In real terms</i> ⁽³⁾	0.3	0.5	0.3	0.9	1.3	
Savings ratio ⁽⁴⁾	12.5	12.3	11.9	11.2	11.3	

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) 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.

up in 2017, thanks in part to companies paying out higher dividends.

By contrast, there was a drop in the net total amount in transfers from other sectors and those paid to other sectors in 2017, which slightly chipped away at the higher household disposable income. Here, too, a more robust economy was a factor. By supporting the total wage bill, increased employment creation did not just generate higher income tax receipts, it also reduced unemployment and with it the total amount paid in unemployment benefit. Also, tax shift-inspired measures to boost purchasing power had a negligible effect on household income in 2017, unlike in 2016, when the first stage of the tax shift was implemented.

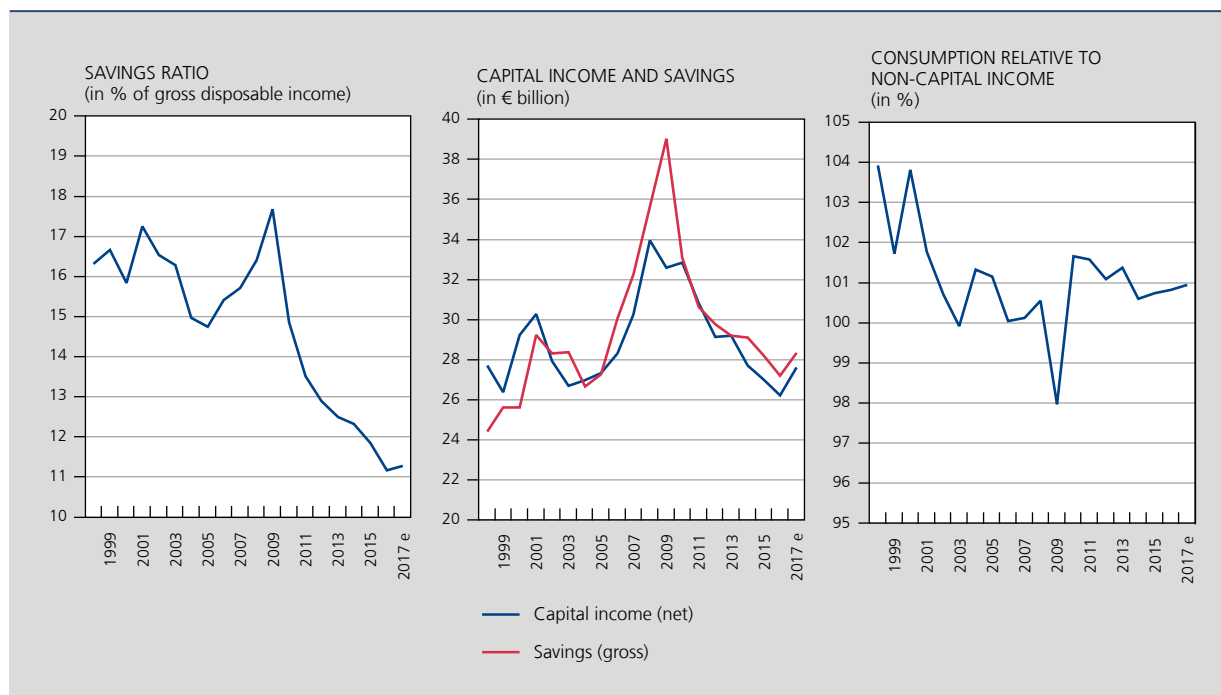
Consumer spending grew by 1.1% in real terms, just slightly less than disposable incomes. As a result, the savings ratio inched up very tentatively in 2017, after

recording falls for several years. In 2009, households in Belgium still saved 17.7% of their disposable incomes, but the ratio declined to 11.2% in 2016 and ended up at 11.3% in 2017. However slight, the increase in the savings ratio in 2017 was supported by higher capital income, as households typically save a large proportion of this type of income.

Businesses continued to invest heavily

Improved economic conditions and, by extension, optimism on the part of most business leaders did not merely generate employment in 2017, it also made for vigorous business investment, just as in 2016. In net percentage terms, business investment may have staged only a moderate rise of 1.3%, but this was held back by the fact that 2016 had seen a number of specific major purchases and sales outside Belgium, with only limited effect on the economy. Disregarding

CHART 31 SAVINGS RATIO STABILISING



Sources: NAI, NBB.

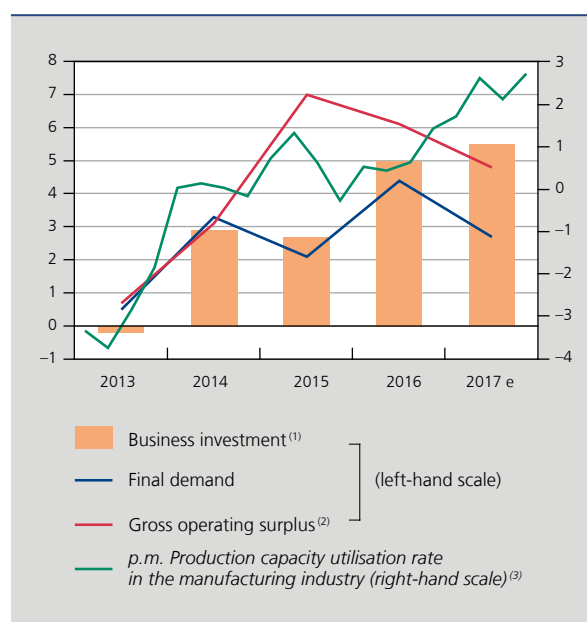
the impact of specific transactions, business investment would have grown by 5.5%, even more than its 2016 performance (already quite a dynamic year in terms of capital spending) and well over the average in the 2013-15 period.

In manufacturing, brisker economic activity was particularly visible in a significant increase in capacity utilisation rates, including recourse to physical capital. By October 2017, capacity utilisation was 1.3 percentage points up on the year-earlier figure, amounting to 81.7%, its highest level since 2008. Although the increase was more or less across the board, it was more pronounced in the production of consumption goods and intermediate goods. Incidentally, capital spending dynamics were not limited to manufacturing, as market and non-market services also contributed to investment growth, according to VAT returns in the first three quarters of 2017. Only construction businesses were more reticent about capital spending.

In 2017, businesses enjoyed ample funding options in the shape of both internal and external funds, to the benefit of capital spending. External funding was supported by accommodating monetary policies, keeping borrowing costs low. At the same time, businesses typically had access to internal resources, despite higher unit sales costs for the

CHART 32 BUSINESS INVESTMENT SOLIDLY BASED

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



Sources: NAI, NBB.

(1) Data adjusted for major specific transactions.

(2) Nominal data.

(3) Deviation from the historical average in percentage points.

TABLE 7 DETERMINANTS OF THE GROSS OPERATING SURPLUS OF COMPANIES⁽¹⁾, AT CURRENT PRICES

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

	2013	2014	2015	2016	2017 e
Gross operating margin per unit of sales ⁽²⁾	0.3	-0.7	4.3	1.1	1.6
Unit selling price	0.0	-0.8	-1.4	-0.4	1.9
On the domestic market	0.9	0.5	0.4	1.1	1.7
Exports	-0.3	-1.9	-3.0	-1.6	1.3
Unit sales costs	0.0	-0.8	-2.4	-0.7	1.9
Imported goods and services	-0.6	-2.1	-3.8	-2.3	1.7
Costs of domestic origin per unit of output ^{(2),(3)}	1.2	0.3	-1.0	0.6	1.7
of which:					
Unit labour costs ⁽⁴⁾	1.5	0.1	-1.3	-0.6	1.6
Unit net indirect taxes	0.0	0.6	-0.6	6.2	2.4
Final sales at constant prices	0.4	3.8	2.6	5.0	3.1
Gross operating surplus of companies	0.7	3.1	7.0	6.1	4.8

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.

first time since 2013. Their gross operating surplus – i.e. revenues from operating activities – grew by 4.8 % in nominal terms in 2017, a growth rate below the average in the three previous years, but still above GDP growth.

In 2017, sales volumes grew apace, by 3.1 %. Businesses saw their gross operating margins per unit of sales add 1.6 % on the back of a stable margin rate that saw sales prices and unit sales costs rise in tandem – by 1.9 %, a rate not seen since 2012. Unlike the years between 2014 and 2016, unit sales rose, as prices of imported goods and services advanced (particularly oil products) and as labour costs increased on the back of positive labour market developments. Higher unit sales costs also reflect a 2.4 % rise in unit net indirect taxes (which was actually a lower increase than in 2016).

The current account balance with the rest of the world remained close to equilibrium

Just as in 2016, the Belgian economy's financing capacity edged up in 2017 and remained slightly positive. The national accounts suggest it reached nearly 0.4 % of GDP, compared with 0.2 % in 2016. The figures primarily reflect general government's lower borrowing requirement, while private individuals likewise boosted their financing capacity in 2017, thanks to stabilising savings and slower

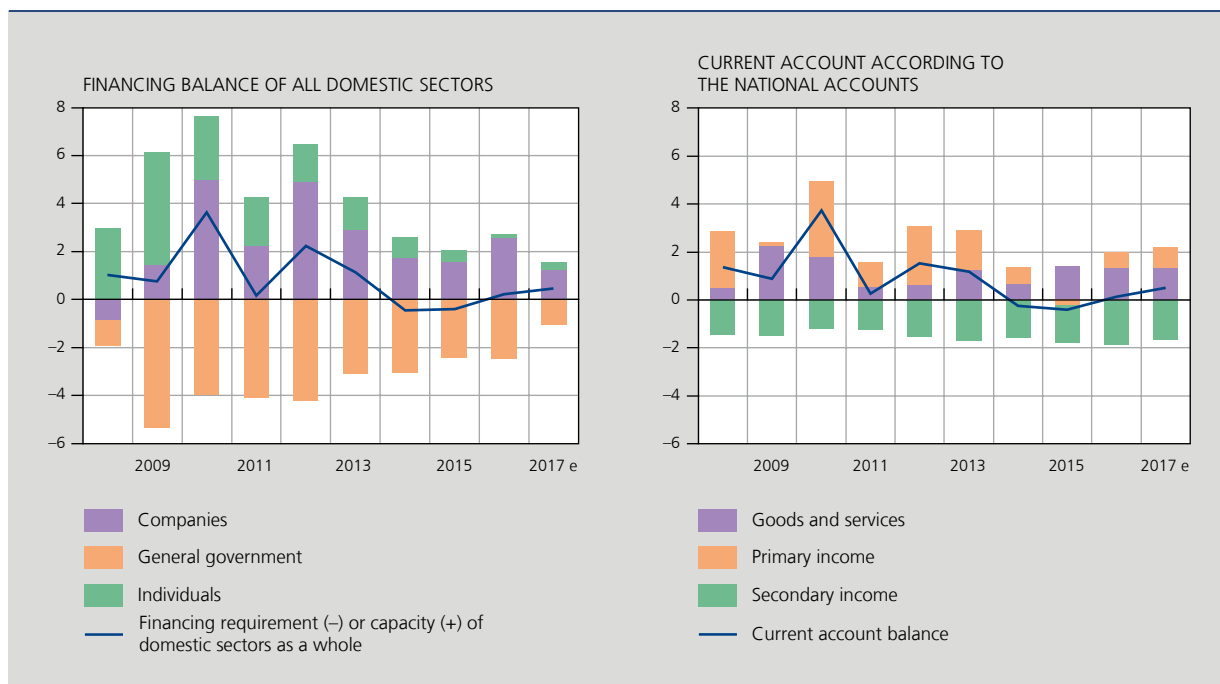
investment in housing. That said, their financing capacity remained subdued relative to levels previously enjoyed. Corporate funding surpluses, by contrast, were eroded by dynamic business investment.

Underpinning the favourable financing capacity trends in Belgium's broader economy are improved net income flows with the rest of the world. The goods and services transactions surplus was stable in 2017. At 4.5 %, export volumes may have grown a little more than did imports (4.2 %), but the terms of trade deteriorated by nearly 0.4 % as export price increases trailed those for imports. One cause was the rise in energy prices, which hit imports faster and harder than exports because of the heavier weighting of energy products in imports, pushing up the net bill for energy. The higher euro only partially offset higher energy prices in 2017.

Since 2016, the reorganisation of the trading activities of a multinational pharmaceuticals company, whose transactions are carried out more widely through its Belgium-based subsidiaries, has considerably boosted Belgium's exports and imports. In net terms, the overhaul has no effect on Belgian GDP, as it affects trade flows in both directions and to the same degree, but it does complicate the assessment of Belgium's export results. Stripping this effect from the statistics, Belgium's exporting companies would not have lost market share in 2016; in 2017, by

CHART 33 CURRENT ACCOUNT BALANCE REMAINS CLOSE TO EQUILIBRIUM

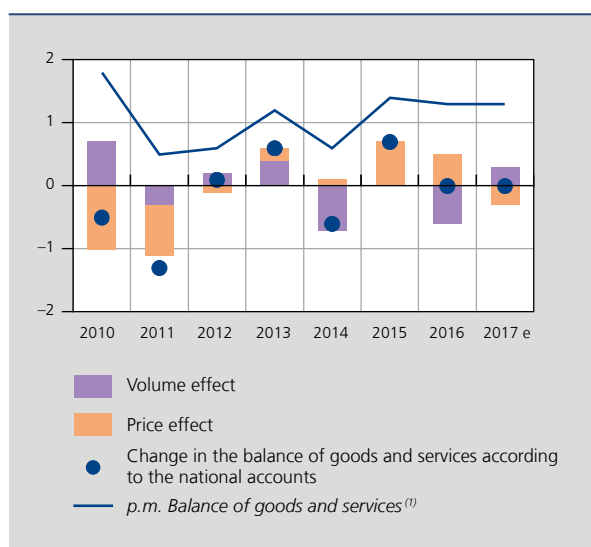
(in % of GDP)



Sources: NAI, NBB.

contrast, their foreign sales would have grown less than import demand from its main trading partners.

CHART 34 TRADE SURPLUS STABILISES
(in percentage points of GDP, unless otherwise stated)



Sources: NAI, NBB.

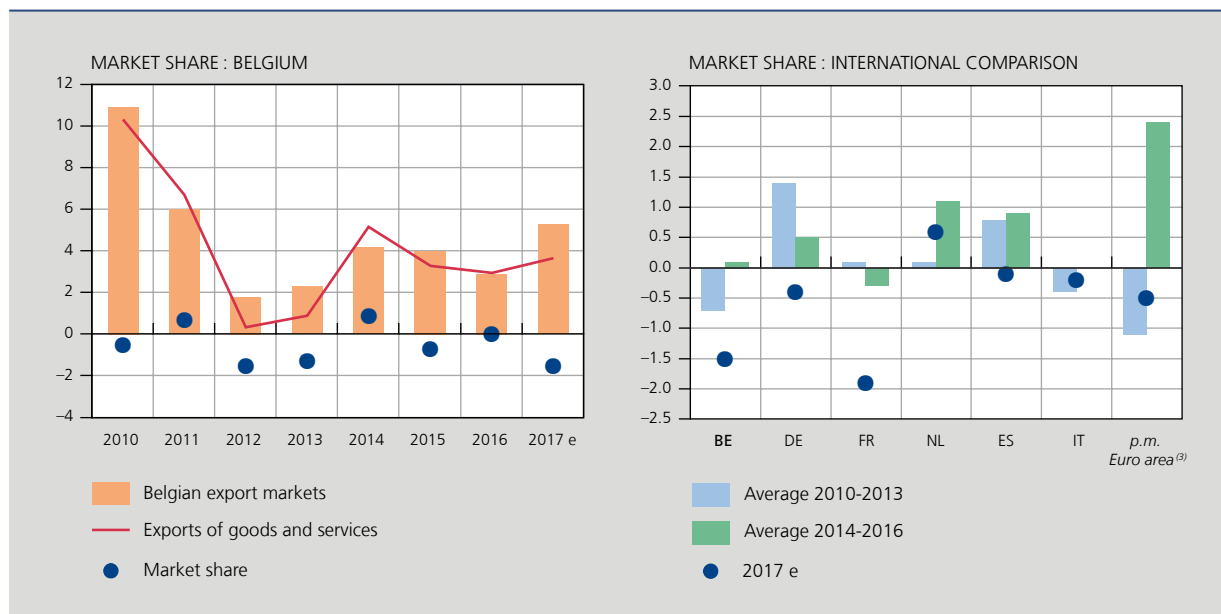
(1) In % of GDP.

Belgium's loss of market share in 2017 does not change the fact that it remained stable in the 2014-16 period, following an average loss of 0.7% a year immediately after the financial crisis, i.e. between 2010 and 2013. This improvement is not exclusive to Belgium: similar trends were visible in other euro area countries, which all benefited from a lower euro, while some were also boosted by wage moderation measures. There was no improvement for Germany, though, where market share gains declined between the two periods, nor in France, which recorded a minor loss of market share in the 2014-16 period. Belgium's cost competitiveness relative to its euro area rivals has also improved in the past few years and this change in unit labour costs would appear to have been largely passed on to export prices in the most recent period.

All that said, Belgium's export results do lag behind its partners. Wage moderation and labour cost cuts have helped it narrow the gap, but this is only gradually and partially filtering through to exports, for a variety of reasons. First, the price elasticity of Belgium's exports is relatively low, as its total goods exports comprise a higher percentage of intermediate goods. After all, in the world's global value chains, Belgian exporters typically export the types of goods whose prices tend not

CHART 35 WEAKER EXPORT PERFORMANCE THAN THAT OF OUR EUROPEAN NEIGHBOURS^{(1), (2)}

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



Sources: ECB, NAI, NBB.

(1) Belgian exports excluding the effect of the reorganisation of a large pharmaceuticals company's activities.

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

(3) Excluding intra-euro area trade.

to be a crucial issue, at least not in the short term. It is indeed not easy to rapidly change an existing value chain, particularly where intra-group transactions are involved – a phenomenon typical of Belgium. On the other hand, comparison of production costs is a major factor in choosing the location of production units within these chains. What is more, high-technology goods account for a large share of Belgium's exports, as they do in its three main neighbouring countries. Goods requiring a lot of research and development – e.g. pharmaceuticals products – are less sensitive to price changes than goods based on more standardised technologies. Lastly, the impact of Belgium's cost competitiveness on net exports and economic growth remains limited as the import content of its exports is relatively higher – in other words, because its domestic value added is smaller. However, exported value added is still significant in view of exports' share of the Belgian economy.

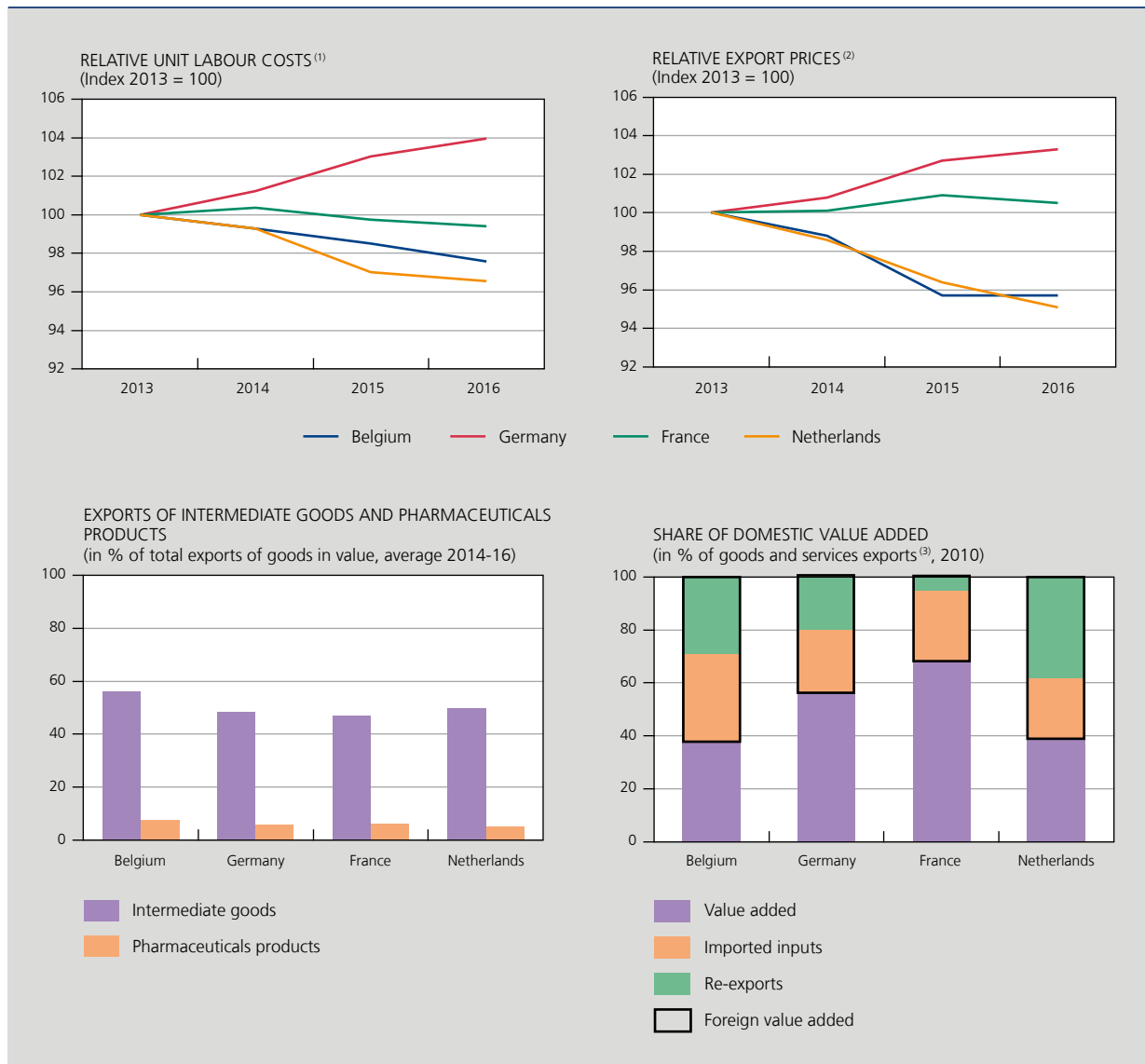
The evolution of the financing capacity of the Belgian economy as a whole is broadly reflected in the balance of payments data. These statistics suggest that, at -0.2% of GDP, the current account balance stayed close to equilibrium in 2017, much as it had done in the two previous years, compared with a deficit of 0.9% of GDP in 2014.

In contrast with the goods and services surplus, which on balance of payments data fell to $\text{€}2.7$ billion from $\text{€}5.6$ billion, net primary incomes rose from nearly $\text{€}2.7$ billion in 2016 to around $\text{€}3.6$ billion in 2017. This improvement was largely due to a smaller deficit in Belgium's net investment income relative to the rest of the world. This negative investment income balance sits rather oddly with the country's net external position, which is still at a hefty surplus of nearly 50% of GDP.

Between 2012 and 2016, Belgium's investment income deteriorated in line with a broader fall in market returns on investment products. This trend typically benefits countries whose foreign liabilities exceed their foreign assets (Italy, Spain) rather than net creditor countries such as Belgium, Germany or the Netherlands. That said, Belgium's investment income deficit is relatively large when compared with some other euro area countries.

Belgium's negative net investment income can be explained by both a composition effect of its net external position and by a returns effect. Its net foreign assets, for instance, take the shape of key positions in "portfolio investment" and "other investment" (which include

CHART 36 EXPORT RESULTS DO NOT RELY SOLELY ON IMPROVING COST COMPETITIVENESS



Sources: EC, NAI, NBB.

(1) Relative change in the country's nominal unit labour costs relative to the average of all euro area countries, weighted by its goods exports to the countries making up the selected group.

(2) Relative change in the country's deflator of goods and services exports relative to the average of all euro area countries, weighted by its goods exports to the countries making up the selected group.

(3) According to the national accounts.

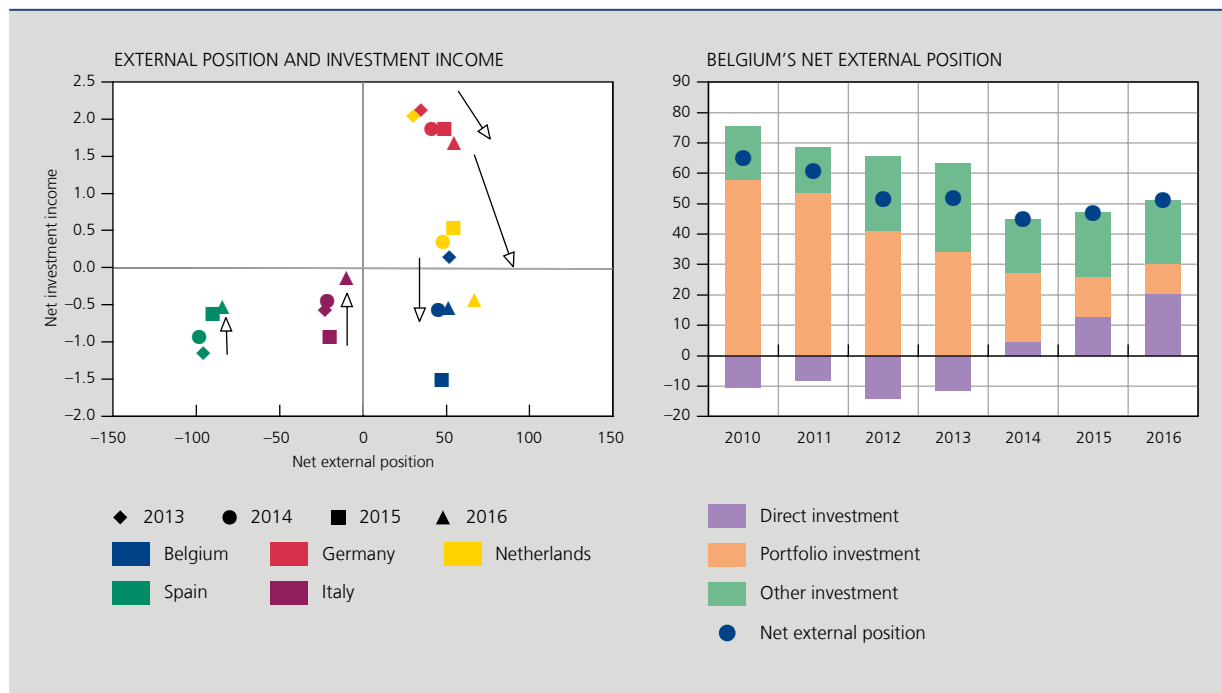
deposits and loans from various sectors including banking, trade credit, etc.). This latter category appears to have gained in importance, although it is precisely the investment with the lowest implicit return. What is more, these investment categories would seem to be looking at implicit returns on external assets below those on liabilities, specifically in the "other investment" category. Tax considerations might explain this, as Belgium's direct investment mainly takes the form of (intra-group) loans and not shareholdings. Against the general backdrop

of falling investment product returns in the financial markets, implicit returns would appear to have dropped harder in "portfolio investment" and "other investment" for external assets than for liabilities. This may reflect a different breakdown of assets and liabilities, particularly in terms of maturities.

Lastly, in 2017, the secondary income deficit shrank when compared with 2016, reflecting a smaller Belgian contribution to the EU budget among other factors.

CHART 37 NEGATIVE NET INVESTMENT INCOME DESPITE POSITIVE NET EXTERNAL POSITION

(in % of GDP)



Sources: EC, NAI, NBB.

TABLE 8 CURRENT ACCOUNT ACCORDING TO THE BALANCE OF PAYMENTS

(balance; in € billion, unless otherwise stated)

	2013	2014	2015	2016	2017 e
Goods and services	0.2	0.1	6.8	5.6	2.7
Goods	-6.6	-5.3	1.4	1.1	n.
Services	6.8	5.4	5.4	4.5	n.
Primary income	5.4	2.8	-0.9	2.7	3.6
Compensation of employees	5.5	5.7	5.9	6.1	6.3
Investment income	0.5	-2.3	-6.2	-2.3	-1.2
Other primary income	-0.6	-0.6	-0.7	-1.1	-1.5
Secondary income	-6.9	-6.4	-6.4	-7.9	-7.3
General government	-3.9	-3.6	-3.9	-4.3	-3.4
Other sectors	-3.0	-2.8	-2.6	-3.6	-3.8
Total	-1.3	-3.5	-0.6	0.4	-0.9
<i>p.m. Idem, in % of GDP</i>	-0.3	-0.9	-0.1	0.1	-0.2

Sources: NAI, NBB.