

Mixed performance by the economy

After the weak start to the year - which was partly linked to security threats - the economy recorded a modest rebound in Q2, with GDP growth rising 0.5% quarter-on-quarter and 1.4% year-on-year. Growth was primarily driven by stronger household consumption and investment growth, but net trade is still a drag on growth. The contribution from government spending remains subdued.

Confidence levels dip in Q3

The consumer confidence index produced by the National Bank of Belgium (NBB) fell sharply in September, dropping from minus 4.0 points in August to minus 10.0 points. There has been a sharp dip in employment expectations in recent months, following a raft of corporate restructuring plans and redundancies by large firms such as ING, AXA and Caterpillar, which has undermined confidence. Consumer spending is now forecast to increase by just 0.9% in 2016.

Business confidence levels were near a five-year high at the end of Q2, with the government's reform efforts to reduce unit labour costs, low oil prices and very accommodative monetary policy helping boost profit margins and investment. Confidence levels have fallen steadily since then, however, with the Brexit vote having a notable impact. Manufacturing firms have become less positive about their future order pipeline, while retailers and services firms have been hit by lower demand.

Stable outlook but several challenges ahead

Overall, the outlook for the economy is generally stable, with growth forecast to average 1.5% a year in 2016-19, although this will be well below the pre-crisis average of 2.3%. Several challenges remain, however, which have the potential to undermine growth. Domestic demand is expected to be hampered by still high levels of public debt and rising inflation. Labour market reforms are ongoing but progress is slow and there is still a long way to go before the deeper structural issues in the labour market are fully addressed. The Brexit vote has cast a shadow on Belgium's economic outlook, with the UK one of Belgium's most important trade partners, while the countries also share important financial ties.

MARKET INDICATORS

Market Outlook

GDP:	Steady growth of 1.5% p.a. over the medium term, but several downside risks to growth remain.	▼
Inflation:	Public sector wage indexation has led to a rise in wages in Q3, with inflationary pressures building.	▼
Interest rate:	The ECB is committed to its ultra-loose monetary policy and further interest rate cuts are possible.	▲
Employment:	Employment is still slowly rising, but expectations of future job growth have weakened.	▼

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015 ^E	2016 ^F	2017 ^F
GDP Growth	0.0	1.3	1.4	1.5	1.6
Consumer Spending	0.9	0.4	1.3	0.9	1.6
Industrial Production	1.0	0.9	0.0	3.8	1.4
Investment	-1.7	7.0	2.3	3.6	3.1
Unemployment rate (ILO%)	8.5	8.6	8.5	8.2	8.0
Inflation	1.1	0.3	0.6	2.0	1.8
USD/EUR (average)	1.33	1.33	1.11	1.12	1.09
USD/EUR (end-period)	1.38	1.21	1.09	1.12	1.07
Interest Rates: 3-month (%)	0.6	0.2	0.1	0.0	0.0
Interest Rates: 10-year (%)	2.4	1.7	0.9	0.4	0.7

NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	11.3 million (2015)
GDP	US\$ 454.2 billion (2015)
Public Sector Balance	-2.7% of GDP (2015)
Public Sector Debt	126.7% of GDP (2015)
Current Account Balance	0.4% of GDP (2015)
Parliament	Four-party coalition government of MR, CD&V, N-VA and Open VLD.
Head of State	King Philippe I
Prime Minister	Charles Michel
Election Dates	May 2019 (federal and regional)

Economic Activity

