

1. BELGIUM

Domestic demand drives sustained growth

Economic growth is expected to strengthen in 2017 (1.5%) and 2018 (1.7%), from 1.2% in 2016, on the back of an improved labour market and investment climate. Overall, benign external conditions, including the monetary policy stance and the pickup in world trade, should support steady growth and lower unemployment (below 7.5% in 2018). Inflation peaked at 3.0% in 2017-Q1 and is expected to average 2.3% in 2017 and 1.5% in 2018. The fiscal deficit is expected to fall below 2.0% of GDP in 2017.

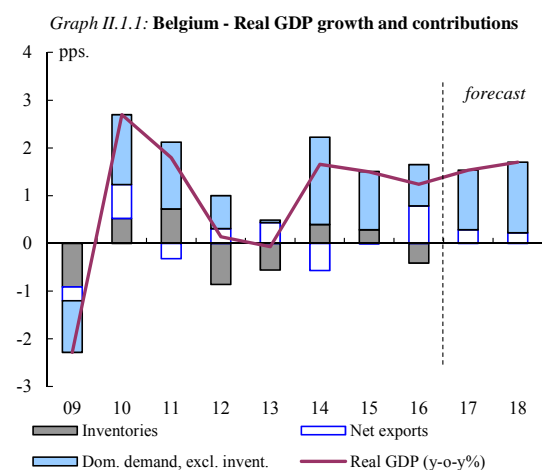
Economic growth rose to an annualised 1.5% in 2017-Q1 (from 1.2% in 2016-Q4), in line with progress in expectations, business climate, and leading indicators. Improved labour market conditions, both real wage and employment growth, and a favourable investment climate are paving the way for domestic demand to further support growth. Risks to the outlook are mainly external and include the impact of the uncertainty related to the process of the UK leaving the EU,

acting as net lenders for the rest of the economy in 2017, with limited improvement taking place in 2018.

Private investment to remain robust

The business and investment climate is expected to remain supportive throughout 2017 and should continue into 2018. The positive external environment is also expected to remain in place, including a supportive monetary policy stance characterised by low interest rates and non-standard policy measures. Moreover, measures taken by the Belgian authorities to improve overall competitiveness should continue to benefit the overall economy, particularly the corporate sector, keeping total investment above 23% of GDP in 2017 and 2018.

Belgium's relative specialisation in goods which face significant international competition will continue to present a limitation for exporters to retain their market shares in 2017 and 2018, compared to the import growth in its main trading partners. Moreover, although the UK's Article 50 TEU notification has so far not led to any observable impact on Belgian exports, some weakening is expected over the forecast horizon.



Wage increases to accompany employment growth in 2017

Previous competitiveness gains, achieved via significant and prolonged wage restraints, are expected to continue supporting employment growth of close to 1% in both 2017 and 2018. As a result, unemployment in Belgium is projected to fall below 7.5% in 2018.

Real wage gains are expected to remain limited in 2017. Together with slight tax increases, households' real disposable income growth in 2017 is likely to be low. Consequently, private consumption growth is expected to come from a further drop in the overall household savings rate. As a result, households are expected to cease

Inflation to condition the overall policy stance

The high rate of inflation observed in 2017-Q1 (HICP at 2.9%) was the result of a number of factors that widened the inflation differential between Belgium and the euro area. These include the particularities of how fossil fuel prices feed into retail energy prices in Belgium, administrative measures, and the lack of competition in several business and professional services sectors.

By the last quarter of 2018, inflation in Belgium is expected to slip back to 1.3%, in line with the levels of 2015-Q4.

Debt to fall as deficit narrows

The general government deficit crept up from 2.5% of GDP in 2015 to 2.6% in 2016. The expenditure-to-GDP ratio decreased by 0.6 pps. thanks to the further decline in interest costs and limited growth for government consumption, notwithstanding higher spending on security and asylum seekers. Public sector wage growth was kept in check despite cost-of-living adjustments. Lower overall spending, however, did not prevent a widening of the deficit, as the revenue-to-GDP ratio fell by 0.7 pps. Taxes on labour income and social contributions were reduced in 2016. Higher taxes on consumption and financial income were planned to partly offset these tax cuts. However, several discretionary measures fell notably short of government targets. Despite the higher nominal deficit, the structural balance improved slightly in 2016, mainly because of higher one-off expenditures in comparison to 2015.

The headline balance is expected to narrow to 1.9% of GDP in 2017. Lower interest expenditure is projected to contribute 0.2 pps. of GDP to the overall deficit reduction. Primary expenditure growth should be limited by the fading of temporary spending linked to refugees and

security. In addition, measures to limit the growth of health care spending and the welfare adjustment of social benefits should contribute to a decrease in the expenditure-to-GDP ratio of 0.6 pps. compared to 2016. The revenue-to-GDP ratio is projected to remain broadly stable in 2017. The main measures included in the forecast are a further increase in the financial withholding tax, higher indirect taxation on tobacco and energy, a levy on company fuel cards, the extension of the stock market transaction tax, the new system of fiscal regularisation, and the additional impact of a kilometre charging for trucks. The structural balance is projected to improve by about ½ pps. of GDP in 2017.

In 2018, the deficit is set to increase slightly under a no-policy-change assumption, to 2% of GDP. The structural balance should deteriorate by around ¼ pps. of GDP given further tax cuts.

Public debt stabilised at around 106% of GDP in 2016. Debt is expected to decline towards 105% of GDP by 2018. While the primary surplus and the reverse snowball effect bring down debt, upward stock-flow adjustments soften these dynamics. ⁽³⁸⁾

⁽³⁸⁾ Projections do not include the partial divestment from BNP Paribas, which would reduce debt by around 0.5 pps. of GDP, provided proceeds are fully used for debt reduction.

Table II.1.1:

Main features of country forecast - BELGIUM

	2015			Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	410.4	100.0		1.9	-0.1	1.7	1.5	1.2	1.5	1.7
Private Consumption	210.2	51.2		1.4	0.7	0.6	1.1	0.7	1.4	1.4
Public Consumption	98.1	23.9		1.6	0.1	1.4	0.5	0.2	0.2	0.4
Gross fixed capital formation	94.4	23.0		2.2	-1.5	5.1	2.4	2.1	2.1	3.0
of which: equipment	31.2	7.6		1.9	-1.4	8.5	0.7	2.4	2.1	3.4
Exports (goods and services)	340.3	82.9		4.3	0.8	5.1	4.3	6.1	3.8	3.7
Imports (goods and services)	333.4	81.3		4.1	0.3	5.9	4.3	5.3	3.6	3.6
GNI (GDP deflator)	410.5	100.0		1.9	-0.8	0.5	1.0	1.0	1.5	1.8
Contribution to GDP growth:		Domestic demand		1.6	0.1	1.8	1.2	0.9	1.3	1.5
		Inventories		0.1	-0.6	0.4	0.3	-0.4	0.0	0.0
		Net exports		0.3	0.4	-0.6	0.0	0.8	0.3	0.2
Employment				1.0	-0.3	0.4	0.9	1.3	0.9	0.9
Unemployment rate (a)				7.9	8.4	8.5	8.5	7.8	7.6	7.4
Compensation of employees / head				2.6	2.5	1.0	0.0	0.1	2.0	1.7
Unit labour costs whole economy				1.7	2.2	-0.2	-0.5	0.2	1.3	0.9
Real unit labour cost				0.0	1.0	-0.8	-1.4	-1.4	-0.5	-0.7
Saving rate of households (b)				15.8	12.3	12.1	11.7	12.2	11.2	11.5
GDP deflator				1.8	1.2	0.7	0.9	1.6	1.8	1.6
Harmonised index of consumer prices				2.1	1.2	0.5	0.6	1.8	2.3	1.5
Terms of trade goods				-0.6	0.4	1.0	1.8	1.4	-0.2	0.0
Trade balance (goods) (c)				1.7	-0.7	-0.7	0.3	1.5	1.5	1.6
Current-account balance (c)				3.5	1.1	-0.1	0.2	1.2	1.5	1.7
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.5	1.0	-0.4	0.2	1.3	1.7	1.8
General government balance (c)				-1.7	-3.1	-3.1	-2.5	-2.6	-1.9	-2.0
Cyclically-adjusted budget balance (d)				-1.9	-2.1	-2.5	-2.2	-2.3	-1.7	-1.9
Structural budget balance (d)				-	-2.8	-2.8	-2.3	-2.2	-1.6	-2.0
General government gross debt (c)				102.9	105.6	106.7	106.0	105.9	105.6	105.1

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.