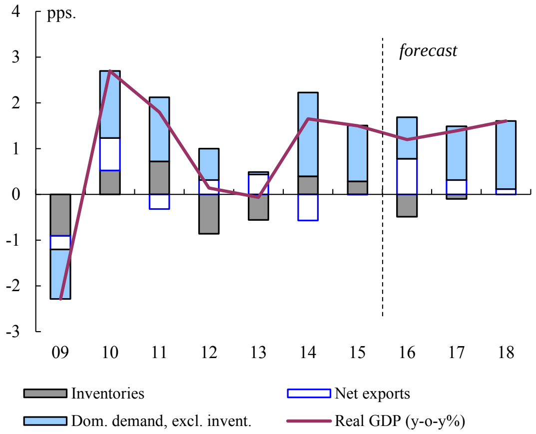
1. BELGIUM

Economy continues to grow steadily

Belgium's economy is expected to grow by approximately 1.5% in 2017 and 2018. Domestic demand is projected to strengthen gradually, leading to a diminishing contribution to growth from net trade. Unemployment is forecast to continue decreasing steadily, falling to 7.6% in 2018. Inflation is set to hit 2% in 2017 and 1.8% in 2018. The fiscal deficit is estimated to have widened to 2.9% of GDP in 2016 and is expected to diminish to 2.2% in 2017 with public debt having peaked in 2016 at 106.8% of GDP.

The Belgian economy grew by an annualised 1.1% in 2016-Q4, just below the overall growth rate of 1.2% last year. Domestic demand and net exports both contributed notably to GDP growth, while changes in inventories were a drag on growth. In 2017 and 2018, economic growth is forecast to reach 1.4% and 1.6% respectively. Although the outlook for overall growth remains fairly stable, the underlying driver of growth is expected to shift increasingly towards domestic demand, particularly private consumption and investment spending. Risks to the outlook are mainly external. In particular, any potential shift to a less trade-friendly global environment would have negative repercussions for the export sector. Belgium has tight trade links with the UK.

Graph II.1.1: **Belgium - Real GDP growth and contributions**



Wage and job growth underpin consumption

Growth in household consumption is expected to rise to 1.4% in 2017 and 1.5% in 2018, doubling from 2016. Following a period of low wage growth due to a freeze of wage indexation and limited real wage increases, wages started to pick up in 2016 with salaries again being adjusted for inflation. The combination of these cost-of-living adjustments and the 2017-2018 margin for real wage increases agreed between social partners (the highest since 2010) implies that compensation per employee is set to rise by around 2% in both 2017 and 2018, while being flat in 2015-2016.

Purchasing power is further supported by income tax cuts in 2016 and 2018. The effect on household consumption is compounded by the good performance of the labour market, with 59,000 net new jobs in 2016. At around 42,000, net annual job creation in 2017-2018 is projected to allow for a steady reduction in the unemployment rate. It is expected to fall to 7.8% in 2017 and to 7.6% in 2018, which would be the lowest level since 2011.

Comprehensive investment growth

Investment is forecast to grow by 2.3% in 2017, the same as last year, and to increase by 2.9% in 2018. Business investment performed well in 2016, also when considering that exceptional, large transactions in 2015 distort annual growth figures. Strong corporate investment spending is in line with the upward trend of the profit share of non-financial companies, a result of wage moderation and the reductions in social security contributions.

Though wage growth is set to pick up over the forecast period, additional reductions in employers' social security contributions are planned. The relative competiveness of Belgian exporters is therefore expected to improve further, which, together with favourable financing conditions and rising external demand, bodes well for equipment investment. Construction investment has been dynamic too, both for housing and public infrastructure. For 2018, the projections include an upturn in public investment, which is typical ahead of local elections.

Inflation to rise further and hit 2% in 2017

Consumer prices rose by 1.8% in 2016, compared with 0.6% in 2015 and 0.2% in the euro area at large. They are forecast to rise by 2% in 2017 and by 1.8% in 2018. Price pressures remain entrenched, reflecting crude oil price developments, the temporary rise in unprocessed food prices due to poor weather, and picking up wage growth being passed on to service inflation.

Deficit to fall from 2.9% in 2016 to 2.2% in 2017

The general government deficit is estimated to have widened from 2.5% of GDP in 2015 to 2.9% in 2016. Total expenditure decreased by 0.3 pps. of GDP thanks to a further decline in interest expenditure by 0.4 pps. of GDP. By contrast, primary expenditure is estimated to have risen slightly, in spite of the government's attempts at spending restraint. Temporary costs related to asylum seekers and security amounted to around 0.2% of GDP in 2016. The revenue-to-GDP ratio fell by 0.7 pps. with lower than expected tax collection. The main shortfalls were for withholding tax, VAT and the new system of fiscal regularisation. The structural balance is estimated to have remained broadly unchanged in 2016 as the higher headline deficit is offset by the combination of lower one-off revenues and higher one-off expenditures in comparison to 2015.

The headline balance is expected to narrow to 2.2% of GDP in 2017. Interest expenditure is projected to decline further, contributing 0.2 pps. of GDP to the overall deficit reduction. Primary expenditure growth should be limited by the fading of the aforementioned temporary expenditure increases. Government measures to curb the growth of health care spending and to limit the welfare adjustment of social benefits are expected to contribute to a decrease in the expenditure-to-GDP ratio of 0.7 pps. of GDP as compared to 2016. On the revenue side, the main measures included in the Commission forecast are a further increase in the standard financial withholding tax, higher indirect taxation and the introduction of a fixed levy on company fuel cards imposed on employers. Smaller measures that contribute to the overall consolidation of public finances relate to improved tax collection and a widening of the scope of the stock exchange transaction tax. The structural balance is projected to improve by about ½ pps. of GDP in 2017.

Under a no-policy-change assumption, the deficit is set to increase slightly, to 2.3% of GDP in 2018, with the structural balance deteriorating by around ¼ pps. of GDP as the additional tax cuts in 2018 and beyond are not yet fully financed.

Public debt is estimated to have increased to 106.8% in 2016 due to the primary deficit and stock-flow adjustments stemming from regional loans and interest rate swaps. Debt is expected to start declining as of 2017 and reach around 106% of GDP in 2018.

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**	**1.4**	**1.6**
Private Consumption		210.2	51.2	1.4	0.7	0.6	1.1	**0.7**	**1.4**	**1.5**
Public Consumption		98.1	23.9	1.6	0.1	1.4	0.5	**0.0**	**-0.2**	**0.3**
Gross fixed capital formation		94.4	23.0	2.2	-1.5	5.1	2.4	**2.3**	**2.3**	**2.9**
of which: equipment		31.2	7.6	1.9	-1.4	8.5	0.7	**2.4**	**2.9**	**3.0**
Exports (goods and services)		340.3	82.9	4.3	0.8	5.1	4.3	**5.5**	**3.9**	**4.3**
Imports (goods and services)		333.4	81.3	4.1	0.3	5.9	4.3	**4.7**	**3.6**	**4.3**
GNI (GDP deflator)		410.5	100.0	1.9	-0.8	0.5	1.0	**1.2**	**1.3**	**1.6**
Contribution to GDP growth:	Domestic demand			1.6	0.1	1.8	1.2	**0.9**	**1.2**	**1.5**
	Inventories			0.1	-0.6	0.4	0.3	**-0.5**	**-0.1**	**0.0**
	Net exports			0.3	0.4	-0.6	0.0	**0.8**	**0.3**	**0.1**
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	**8.0**	**7.8**	**7.6**
Compensation of employees / head				2.6	2.5	1.0	0.0	**0.1**	**2.0**	**1.9**
Unit labour costs whole economy				1.7	2.2	-0.2	-0.5	**0.2**	**1.5**	**1.2**
Real unit labour cost				0.0	1.0	-0.8	-1.4	**-1.4**	**-0.1**	**-0.6**
Saving rate of households (b)				15.8	12.3	12.1	11.7	**12.6**	**12.2**	**12.2**
GDP deflator				1.8	1.2	0.7	0.9	**1.6**	**1.7**	**1.8**
Harmonised index of consumer prices				2.1	1.2	0.5	0.6	**1.8**	**2.0**	**1.8**
Terms of trade goods				-0.6	0.4	1.0	1.8	**0.3**	**-0.3**	**-0.1**
Trade balance (goods) (c)				1.7	-0.7	-0.7	0.3	**0.5**	**0.3**	**0.4**
Current-account balance (c)				3.5	1.1	-0.1	0.2	**1.0**	**1.2**	**1.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.5	1.0	-0.4	0.2	**1.0**	**1.3**	**1.4**
General government balance (c)				-1.7	-3.0	-3.1	-2.5	**-2.9**	**-2.2**	**-2.3**
Cyclically-adjusted budget balance (d)				-1.9	-2.1	-2.6	-2.3	**-2.6**	**-1.9**	**-2.2**
Structural budget balance (d)				-	-2.7	-2.9	-2.6	**-2.5**	**-2.0**	**-2.2**
General government gross debt (c)				102.8	105.4	106.5	105.8	**106.8**	**106.5**	**106.1**

(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.