1. BELGIUM

Growth to slow down, rising public deficit

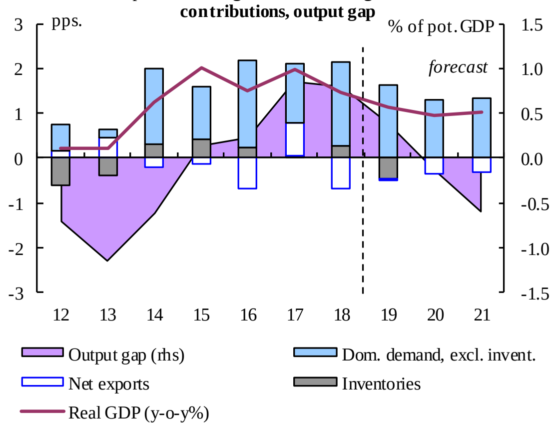
Economic growth in Belgium is set to slow down and broadly stabilise over the forecast horizon. Domestic demand is projected to continue driving growth, as the weakening of investment growth is partially offset by the momentum of private consumption. The contribution to growth of net trade is expected to be neutral in 2019 and turn negative in 2020. Inflation is forecast to decrease in 2019 and rise slightly thereafter. The headline general government deficit is projected to deteriorate markedly.

Economic growth set to weaken and remain driven by domestic demand

Economic growth slowed to 1.1% in the first half of the year and is expected to stabilise in the rest of 2019. Weaker household consumption growth and negative change in inventories are forecast to weigh on GDP growth, which should decline compared to 2018. However, rising disposable income should support household consumption growth from 2020 onwards, paving the way for domestic demand to become the sole growth engine over the forecast horizon.

Soft and hard indicators have deteriorated steadily in 2019, suggesting that Belgium's economic growth will continue to soften. Overall, real GDP growth is expected to fall from 1.5% in 2018 to 1.1% in 2019 and 1.0% in both 2020 and 2021.

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



Private consumption to pick-up, underpinned by low unemployment and rising income

The job market should continue developing favourably thanks to recent measures to lower labour costs. Employment growth is forecast to remain strong at 1.3% in 2019 and decelerate gently to 0.9% in 2020 and 0.8% in 2021. The unemployment rate is expected decrease to 5.5% in 2019 and to 5.3% in 2021. Rising disposable income, thanks to personal income tax cuts and wage indexation, is expected to underpin stronger private consumption growth in 2020 and 2021. Still, deteriorating household confidence suggests that part of the rise in disposable income will likely go towards savings, particularly in 2019 and 2020.

Investment to slow down, while net trade turns negative

The contribution of investment to growth is forecast to moderate over the next two years, following sustained growth in 2018 and 2019. Business investment is set to lose momentum in 2020 amid markedly weaker confidence and lower pressure to increase capacity. Housing investment growth is also expected to decelerate, amid tightening lending standards. Public investment is projected to slow down in 2019, in line with the electoral cycle, and accelerate slightly from 2020. Total investment growth is forecast to fall from 3.4% in 2019 to 1.7% and 1.6% in 2020 and 2021, respectively.

The contribution of net exports to GDP growth is projected to be neutral in 2019 and turn negative in 2020. While subdued world trade growth will weigh on exports, imports are expected to be bolstered by stronger domestic demand.

Downside risks to the outlook include potential impacts from a higher-than-expected slowdown in trading partners to which Belgium could be particularly exposed. On the upside, private consumption could rise more than expected if consumers spend more of their increase in disposable income.

Inflation to decline towards euro area average

Headline HICP inflation is forecast to decrease from 2.3% in 2018 to 1.3% in 2019, driven by lower energy and food prices. Headline inflation is expected to rise gently to 1.4% in 2020 and 2021, reflecting increasing food and services prices. This should support core inflation, which is projected to edge up.

Deficit expected to edge up again

In 2018, the headline deficit reached 0.7% of GDP, broadly unchanged from its 2017 level. In 2019, the headline deficit is expected to significantly widen to 1.7% of GDP driven both by a decrease in revenue of 0.9% of GDP and an increase in expenditure of around 0.2% of GDP. A number of tax reforms adopted in recent years are expected to weigh heavily on revenues. Corporate income tax (CIT) revenue is expected to decrease in 2019 as it reverts to trend, after a temporary peak in 2017 and 2018 due to a reform incentivising advanced payments. In addition, a cut in personal income tax (PIT) takes effect as part of measures to shift taxation away from labour. Finally, deteriorating macroeconomic conditions weigh on the collection of direct taxes. On the expenditure side, rising social benefits and transfers in kind, notably due to higher pensions and health expenditure, further worsened the headline deficit. Once netted off from temporary and cyclical factors, the structural balance is projected to deteriorate from around -1¾% of potential GDP in 2018 to -2% in 2019.

In 2020, under a no-policy-change assumption, the headline deficit is expected to further widen to 2.3% of GDP, with the structural deficit forecast to deteriorate by 0.3% of potential output. The decrease in revenue of 0.2% of GDP in 2020 is expected to result, among others, from a cut in corporate tax rates, amid a broader reform of corporate taxation launched in 2018. Other elements – e.g. a reduction in employers' social contributions as a part of the last phase of the tax shift– will also play a role. The expenditure-to-GDP ratio is projected to increase by 0.3% of GDP, driven by rising social benefits and social transfers in kind, in continuation of the trend observed in previous years.

In 2021, under a no-policy-change assumption, the headline deficit is expected to further widen to 2.6% of GDP, due to several factors including the slowing economic activity, the end of temporary revenue measures and increasing social spending.

Starting from 100.0% in 2018, Belgium's debt-to GDP ratio is projected to decrease to 99.5% in 2019 mainly due to a fall in interest spending. It is forecast to rise again to 99.6% in 2020 and back to 100% in 2021 due to increasing deficit projections and relatively high stock-flow adjustments.

Table II.1.1:

Main features of country forecast - BELGIUM

		2018		Annual percentage change						
	bn EUR	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP		459.8	100.0	1.7	1.5	2.0	1.5	**1.1**	**1.0**	**1.0**
Private Consumption		237.2	51.6	1.4	1.9	1.8	1.5	**1.0**	**1.2**	**1.3**
Public Consumption		106.1	23.1	1.5	0.4	0.3	0.9	**1.2**	**1.2**	**1.2**
Gross fixed capital formation		109.6	23.8	2.1	3.8	1.3	4.0	**3.4**	**1.7**	**1.6**
of which: equipment		37.1	8.1	1.2	14.3	-3.1	5.1	**3.4**	**1.5**	**1.2**
Exports (goods and services)		379.7	82.6	3.3	6.5	5.3	1.2	**0.6**	**1.2**	**1.5**
Imports (goods and services)		380.4	82.7	3.3	7.5	4.4	2.1	**0.6**	**1.6**	**1.9**
GNI (GDP deflator)		462.8	100.6	1.7	1.0	2.1	1.0	**1.2**	**1.0**	**1.0**
Contribution to GDP growth:	Domestic demand			1.5	1.9	1.3	1.9	**1.6**	**1.3**	**1.3**
	Inventories			0.1	0.2	-0.1	0.3	**-0.5**	**0.0**	**0.0**
	Net exports			0.1	-0.7	0.7	-0.7	**0.0**	**-0.3**	**-0.3**
Employment				0.9	1.3	1.6	1.4	**1.3**	**0.9**	**0.8**
Unemployment rate (a)				7.8	7.8	7.1	6.0	**5.5**	**5.4**	**5.3**
Compensation of employees / head				2.4	0.6	1.8	1.9	**1.7**	**1.8**	**2.1**
Unit labour costs whole economy				1.5	0.3	1.5	1.8	**1.8**	**1.7**	**1.9**
Real unit labour cost				-0.2	-1.4	-0.2	0.3	**0.2**	**-0.2**	**-0.1**
Saving rate of households (b)				16.1	12.2	12.0	11.8	**12.4**	**12.4**	**12.3**
GDP deflator				1.7	1.7	1.7	1.5	**1.6**	**1.9**	**2.0**
Harmonised index of consumer prices				2.0	1.8	2.2	2.3	**1.3**	**1.4**	**1.4**
Terms of trade goods				-0.4	0.3	-1.0	-1.3	**0.1**	**0.1**	**0.1**
Trade balance (goods) (c)				1.2	0.4	0.7	-0.2	**-0.1**	**0.0**	**0.0**
Current-account balance (c)				3.1	0.6	1.2	-1.0	**-0.8**	**-0.9**	**-1.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.1	0.7	1.3	-1.0	**-0.8**	**-0.9**	**-0.9**
General government balance (c)				-2.0	-2.4	-0.7	-0.7	**-1.7**	**-2.3**	**-2.6**
Cyclically-adjusted budget balance (d)				-2.1	-2.5	-1.2	-1.2	**-2.0**	**-2.2**	**-2.2**
Structural budget balance (d)				-	-2.5	-1.7	-1.8	**-2.1**	**-2.4**	**-2.2**
General government gross debt (c)				101.0	104.9	101.8	100.0	**99.5**	**99.6**	**100.0**

(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.