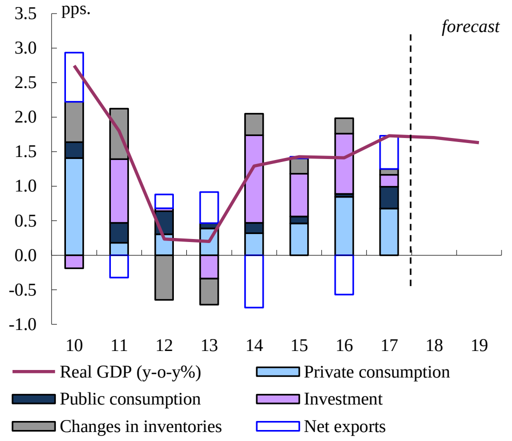
2.1. BELGIUM

GDP growth abated slightly in 2018-Q1 to 0.3% (q-o-q) due to slower private sector investment growth and a fall in inventories. Soft indicators have deteriorated in recent months, suggesting that this soft patch may have continued in 2018-Q2. However, confidence indicators remain high, suggesting that growth should pick up again in the second half of the year.

For 2018 as whole, Belgium's GDP growth is forecast to remain stable at 1.7% driven by sustained private demand amid improving labour market and investment conditions. In 2019, growth is forecast to ease to 1.6%, as investment growth is expected to weaken gradually.

Graph 2.1: **Belgium - Real GDP growth and contributions**



The contribution of private investment to growth is expected to increase in 2018 but weaken from 2019. Household investment is projected to rise moderately as interest rates are expected to remain low. Business investment is also expected to increase, amid favourable financing conditions, improved profitability and elevated capacity utilisation rates. Public investment is expected to continue growing in 2018, driven by infrastructure and defence projects and by the local election investment cycle. However, its contribution to growth is set to reduce slightly from 2019, in line with contained public expenditure. Net exports contributed positively to growth in 2017, but should be neutral over the forecast horizon.

After having picked up to 2.2% in 2017, inflation (HICP) is expected to decline to 1.9% in 2018 and 1.6% in 2019. The upwards revision to the inflation forecast since the spring is mostly due to the recent increase in oil prices, which should have its main impact in the second half of 2018. Core inflation is expected to remain close to its 2017 level of 1.6% over the forecast horizon. Nominal wage growth is projected to rise moderately through indexation, although labour cost growth should be contained thanks to cuts in labour taxation. The inflation gap with the euro area is expected to close in 2019.