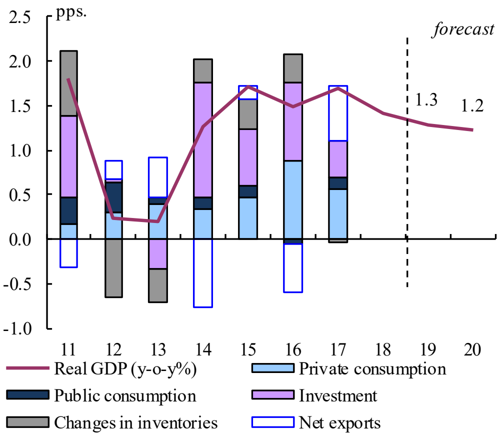
2.1. BELGIUM

GDP growth eased in 2018 to 1.4%, from 1.7% in 2017, mainly due to slower private consumption and private investment growth. As in 2017, sustained net exports made a positive contribution to growth. Economic sentiment has deteriorated throughout the year across most sectors, although most confidence indicators remain above their long-term averages. Survey data point to expectations of weaker order books and slower employment growth.

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



Domestic demand is forecast to be the main growth driver. Private consumption is expected to strengthen gradually as disposable income growth is supported by sound labour market conditions and personal income tax cuts. After a marked slowdown in 2018, private investment is set to pick up again but remain moderate. Household investment is projected to rise gently as interest rates are assumed to remain low. Business investment is also expected to continue growing amid favourable financing conditions and sound profitability, though more slowly than in recent years. Public investment should slow down in 2019, in line with the electoral cycle.

Despite sustained domestic demand, GDP growth is forecast to ease to 1.3% in 2019 and 1.2% in 2020. The contribution of net exports to GDP growth is forecast to weaken markedly in 2019 and even turn negative in 2020. While the expected slowdown in world trade is likely to weigh on exports, imports should find support from the strength of domestic demand. Downside risks are related to weaker-than-expected growth in Belgium's main trading partners, which could negatively affect investment and net exports.

Headline inflation remained high at 2.3% in 2018, driven by factors such as higher fossil fuel and wholesale electricity prices and rising food prices. Headline inflation is expected to ease to 1.9% in 2019 and 1.7% in 2020, reflecting the assumption of lower oil prices and lower expected increases in food prices. Weak competition in some business and professional services sectors is expected to contribute to slightly higher core inflation in 2019 and 2020, which will be reflected in automatic wage indexation. The inflation gap between Belgium and the euro area is projected to narrow gradually until 2020.