# BELGIUM

**Economic growth, which has been subdued, is projected to strengthen in 2017 and 2018. Private investment will be the main driver of growth, in response to high capacity utilisation and favourable financial conditions. A pick-up in international trade will support exports. Private consumption, however, will be moderated by still subdued real wage growth. Tighter labour and product markets will push up inflation in 2018.**

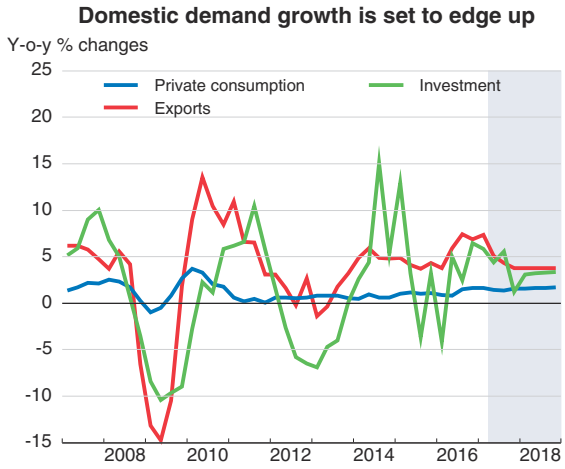
**The fiscal stance is projected to be broadly neutral this year and accommodative in 2018 due to planned labour tax reductions. The recent reform of the wage-setting system holds the promise of enhanced international cost competitiveness. Improving educational outcomes of socio-economically disadvantaged groups and increasing training for the low-skilled would make growth more inclusive.**

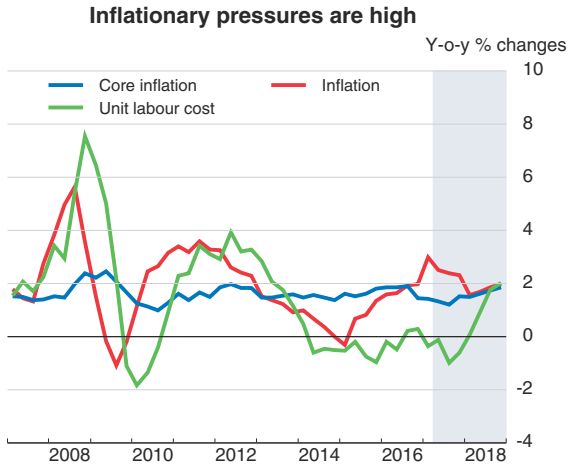
**Belgium is a very open economy with production deeply embedded in global value chains. However, the gains from globalisation have not been evenly shared. Geographical disparities in unemployment are large, and educational and labour market outcomes of immigrants and their children are poor. Improved transport infrastructure and lower transaction costs for buying a house would boost spatial mobility in the labour market.**

### *The recovery has failed to gather pace*

Economic activity has been subdued, although labour tax cuts and wage moderation have boosted employment. Low wage growth and an increase in indirect taxes have held back household consumption. Private investment has been moderate despite strong profits, high capacity utilisation and favourable financial conditions. However, moderation in unit labour cost growth has supported exports. Inflation is significantly higher than in neighbouring countries, with roughly half the differential in 2016 stemming from increases in indirect taxes. Price increases in certain market services are also elevated.

**Belgium**




*Source:* OECD Economic Outlook 101 database.

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Belgium: **Demand, output and prices**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| | Current prices EUR billion | Percentage changes, volume (2014 prices) | | | | |
| **GDP at market prices** | 391.7 | 1.6 | 1.5 | 1.2 | 1.6 | 1.7 |
| Private consumption | 204.4 | 0.6 | 1.1 | 1.2 | 1.5 | 1.6 |
| Government consumption | 95.9 | 1.5 | 0.3 | -0.1 | 0.0 | 0.0 |
| Gross fixed capital formation | 86.9 | 5.0 | 2.5 | 1.9 | 2.6 | 3.3 |
| Final domestic demand | 387.3 | 1.8 | 1.2 | 1.0 | 1.4 | 1.6 |
| Stockbuilding[1] | 0.0 | 0.4 | 0.3 | 0.1 | 0.4 | 0.0 |
| Total domestic demand | 387.3 | 2.2 | 1.5 | 1.1 | 1.7 | 1.6 |
| Exports of goods and services | 320.5 | 5.1 | 4.3 | 6.0 | 5.1 | 3.8 |
| Imports of goods and services | 316.0 | 5.9 | 4.3 | 6.0 | 5.3 | 3.7 |
| Net exports[1] | 4.5 | -0.6 | 0.0 | 0.1 | 0.0 | 0.2 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 0.7 | 0.9 | 1.6 | 2.1 | 1.6 |
| Harmonised index of consumer prices | _ | 0.5 | 0.6 | 1.8 | 2.5 | 1.8 |
| Private consumption deflator | _ | 0.7 | 0.3 | 1.6 | 2.4 | 1.7 |
| Unemployment rate | _ | 8.6 | 8.5 | 7.9 | 7.2 | 6.6 |
| Household saving ratio, net[2] | _ | 4.5 | 3.9 | 3.8 | 3.1 | 3.8 |
| General government financial balance[3] | _ | -3.1 | -2.5 | -2.6 | -1.9 | -1.9 |
| General government gross debt[3] | _ | 129.8 | 126.9 | 127.7 | 125.9 | 124.6 |
| General government debt, Maastricht definition[3] | _ | 106.7 | 106.0 | 106.0 | 104.3 | 102.9 |
| Current account balance[3] | _ | -0.7 | 0.4 | -0.4 | -0.3 | -0.3 |

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

*Source:* OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933505733

### *The tax shift will support economic activity*

Fiscal policy is projected to be broadly neutral this year and slightly expansionary next year. Measures have been put in place to curb health care spending, but reductions in personal income tax and employers' social security contributions will widen the underlying deficit in 2018. The authorities could make better use of unusually low interest rates to increase investment, supporting aggregate demand in the short term and enhancing potential growth in the long term. The recent approval of several key transport infrastructure projects should help relieve some of the bottlenecks that remain prevalent around big cities.

Taxes are being shifted from labour to excise duties and environmental taxes, which will make economic activity greener and more inclusive. A new toll on heavy vehicles, increased excise duty on diesel and lower tax deductions on company cars will dampen polluting activities. Lower labour taxation will improve the chances of low-skilled workers to get a job. Taxation could be made still less distortionary by extending road pricing and further increasing taxation on company cars. In spite of recent progress, Belgium will continue to have one of the highest rates of labour taxation in the OECD, suggesting that further reductions are warranted. The corporate tax regime, with its relatively high statutory rate and many exemptions, would also benefit from reform. In addition,

the authorities could broaden the capital income tax base by introducing a federal capital gains tax, as part of a balanced, broader reform of household savings taxation.

A recent reform should make the wage-setting system more effective in ensuring that wage settlements do not undermine international competitiveness, on which Belgium, as an intensive trading country, relies. Wages have outpaced both domestic productivity and wage increases in key trading partners in the past. However, the system is new, and the authorities should therefore monitor its performance and make adjustments if needed.

### *Growth is projected to pick up*

Domestic demand will accelerate through 2018, while a pick-up in international trade will boost exports. Employment growth will remain solid and lead to further declines in the unemployment rate. The past increase of energy prices will push up headline inflation in 2017, but core inflation will slow due to labour tax reductions and a waning inflationary impact of other measures. Lower unemployment and continued tight capacity utilisation will push up core inflation in 2018.

Economic activity could be stronger if tax reductions, labour market tightening and renewed wage growth boost private consumption more than anticipated. Political uncertainty in the EU, including regarding the course of Brexit, clouds the outlook. House prices have more than doubled in nominal terms since 2000, with household debt increasing steadily over the same period. A sharp drop in house prices would damp household consumption and weaken banks. The risk to banks is mitigated by recent macro-prudential measures.