

## Belgium: searching for a glimmer of hope amid weak growth

Like the eurozone, the Belgian economy is experiencing relatively weak growth, falling short of its potential. An acceleration in the short term seems unlikely due to a lack of competitiveness and increasingly less accommodating fiscal policies



Alexander De Croo, Prime Minister of Belgium (left) and Bart De Wever, the Mayor of Antwerp and the leader of the New Flemish Alliance, are leading the negotiations to form a new government

### Contrasting trajectories

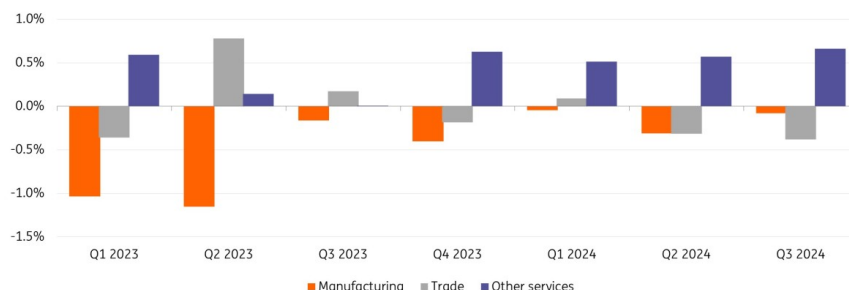
Although fourth-quarter data is not yet available, we can provide a preliminary assessment for 2024. While GDP growth in Belgium was positive at around 1.0%, it remained below the economy's potential, estimated at approximately 1.3%. This growth, however, conceals varying trends: the manufacturing sector has been in recession for seven consecutive quarters from early 2023 to the third quarter of 2024. The retail sector also entered a recession in 2024. In contrast, the service sector has performed better, supporting overall economic growth (though part of this is semi-public services, which might be impacted by budgetary consolidation measures in 2025 – see below).

On the demand side, household consumption continues to be a key driver of economic activity. This is due to two main factors: nominal household disposable income increased by an average of 2.2% year-on-year in the first three quarters of 2024, and the household savings rate slightly decreased from its particularly high level in 2023. These factors have enabled household consumption expenditure to grow by over 3% in nominal terms in 2024 (1.7% in real terms).

Conversely, foreign trade contracted sharply, with exports falling by more than 10% in volume since 2022, largely due to the weakness of European manufacturing activity.

## Only services are supporting economic growth

(non-annualised quarterly growth of the main components of GDP)



Source: NBB, Datastream, computation: ING

## Mixed forecasts

Looking ahead, it is highly likely that the Belgian economy will continue to grow at a sluggish pace. The geopolitical context and potential protectionist policies from the Trump administration are not expected to support a recovery in the manufacturing sector, which will continue to weigh on overall economic activity. Additionally, while the labour market remained buoyant until 2023, it has slowed. Job creation remained almost nil in the second and third quarters. This situation is set to continue into 2025, weighing on household incomes.

It should also be noted that the legal pension age has been raised from 65 to 66 as of January 2025. As a result, many workers will stay on the job for another year, limiting the number of retirements this year and probably causing unemployment to rise. Beyond their direct impact on household incomes, these factors will weigh on consumer confidence, encouraging them to maintain a high savings rate. In other words, the capacity for consumption growth will remain limited.

## Public finances in the fog

In addition, fiscal policy will inevitably have to become more restrictive to reduce the public deficit. According to the latest data, the budget deficit reached 4.6% of GDP in 2024 and, on an unchanged policy basis, is set to rise to 4.8% this year and exceed 6% in 2027. The European Commission, which placed Belgium under the Excessive Deficit Procedure last July, expects a corrective trajectory by next April at the latest.

Following the general elections in June 2024, the five winning parties (N-VA, the Flemish nationalists; CD&V, the Flemish Christian Democrats; Vooruit, the Flemish socialists; Les Engagés, the French-speaking centrists; and MR, the French-speaking liberals) decided to negotiate a government agreement aimed in particular at undertaking the structural reforms essential to a return to growth, improved competitiveness and fiscal sustainability. Nevertheless, the ambitions of the first weeks of negotiations gave way to classic political wrangling, a lack of trust between negotiators and, ultimately, a questioning of the initial ambitions.

To date, no agreement has been reached. It's due for release at the end of January. However, if

disagreements remain at this point, the political crisis could take a completely different turn. In any case, the extent of fiscal consolidation remains uncertain, as does the medium-term impact of the measures to be taken on economic growth and employment. But it is clear that, at least initially, higher taxation and/or lower spending will work against a strong economic recovery.

At the regional level, governments have been set up in Wallonia and Flanders. On the other hand, the political situation in the Brussels Region remains completely frozen. Unblocking this situation is both an economic challenge, as the Brussels Region has the worst public finances and needs to make major restructuring efforts, and a political challenge, as the decaying political situation in Brussels could weigh on federal negotiations.

## Sticky inflation

In 2024, Belgian inflation hovered around 3.5%, ending the year at 3.2% – still far too high. While the exceptional measures taken in response to the energy price crisis and their statistical treatment in the measurement of inflation continued to disrupt the inflation figures, these factors don't explain everything.

On the one hand, the recent rise in gas prices has pushed inflation higher. In December 2024, the price of the gas bill included in the price index was up by more than 56% year-on-year. In the case of electricity, the increase is 12.6%. What's more, the recent rise in oil prices is also likely to push up fuel prices, further fuelling the rise in the "energy" component of the consumer price index.

On the other hand, food prices, which were temporarily down in 2024, have also started to rise again (+1.8% in December 2024), helping to keep inflation too high.

Lastly, prices for other categories of goods and services are struggling to return to normal growth. At the end of last year, prices in bars, hotels and restaurants were still up 4.1% year-on-year, while leisure and culture prices were up 2.8% over the same period. This may be due to the indirect effects of the above-mentioned factors, but also to the sharp rise in wage costs through automatic wage indexation. Since the beginning of 2021, wages have risen by over 20% as a result of automatic wage indexation.

## To conclude...

So, once again, 2025 may not be a vintage year for the Belgian economy. After GDP growth of around 1% in 2024, it is likely to be limited to 0.9% this year. As a result, job creation will remain subdued at best. Inflation, meanwhile, is set to fall slowly over the year, but could remain close to 2.5% on average for the year as a whole, due to renewed upward pressure from abroad and the delayed effects of wage indexation.

## The Belgian economy in a nutshell (%)

	2023	2024F	2025F	2026F
GDP	1.3	1.0	0.7	1.1
Private consumption	0.6	1.7	1.2	1.2
Investment	3.5	1.0	1.0	1.4
Government consumption	3.2	3.9	1.8	1.6
Net trade contribution	-0.2	0.0	-0.1	0.0
Headline CPI	4.1	3.0	2.5	2.0
Unemployment rate (%)	5.5	5.7	5.7	5.6
Budget balance as % of GDP	-4.4	-4.6	-4.8	-4.9
Government debt as % of GDP	103.1	104.7	106.5	108.0

Source: Thomson Reuters, all forecasts ING estimates

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