Belgium: Defying the laws of economics

The Belgian economy is holding up well, with domestic demand so far having offset external trade weakness. Nevertheless, the first half of the year is likely to be difficult, and we're still awaiting a recovery in the manufacturing sector

The economic outlook's still a bit cloudy for the Belgian PM, Alexander De Croo, pictured with the EC's Ursula von der Leyen

There are some cloudy skies

Let's start with the not so great news news. As elsewhere, and certainly in Germany, the industrial sector is suffering from weak demand and very high inventories of manufactured goods. As a result, the manufacturing sector has already lost 3.9% of activity since mid-2022. It is, therefore, hardly surprising that Belgian exports have fallen by more than 6% over the same period. Restrictive monetary policy has led to a sharp slowdown in activity in the residential construction sector, with household investment in housing down by more than 11.5% since mid-2021. And let's not forget that in recent years, the economy has continued to be shaken by the turmoil of the pandemic, problems in supply chains, the sharp rise in the price of energy and most commodities, and growing geopolitical uncertainty. Considering that the Belgian economy is one of the most open in the world, you have all the ingredients for an economic downturn.

A surprising resilience

And yet, the Belgian economy continues to defy the laws of economics. Although the figure for the fourth quarter of 2023 is not yet available, GDP is expected to have grown by 1.4% in 2023, which is probably close to its potential. This is all the more astonishing given that Germany's GDP contracted by 0.3% in 2023. At other times, such poor health in Belgium's main trading partner would have caused a negative shock to its economy. So, what on earth is going on?

Against expectations, business investment is growing strongly

Several factors are contributing to the resilience of the Belgian economy: first, the automatic indexation of incomes has maintained household purchasing power more than elsewhere. In fact, private consumption is a main driver of the economy. It is expected to have grown by 1.3% in 2023. Second, against all expectations, business investment has been growing strongly. This alone should contribute 1.4 percentage points to GDP growth in 2023. So it seems that, despite the weakness of activity in the industrial sector, companies are investing to prepare for their digital and climate change transition. Third, fiscal policy in Belgium remains very accommodating overall. Admittedly, this has resulted in the largest public deficit in the eurozone, but since it has not led to any consequences so far (apart from a few reprimands from the European Commission), no major overhaul of public finances is planned for the time being.

No perfect immunisation?

Despite the lacklustre backdrop, domestic demand seems sufficiently solid to support activity. The question is, how long can this situation last? We believe that the weakness of industry, compounded by the loss of competitiveness caused by automatic wage indexation, will eventually weigh on growth in the first part of 2024. Although the construction sector has so far been able to offset the weakness in residential activity with other activities, business confidence here has plummeted in recent months.

Although employment trends have so far remained positive, the momentum is slowing, and the number of jobseekers is already up by more than 10% year-on-year. Add to all that the uncertainty surrounding the international geopolitical environment and the tense political climate in Belgium just a few months ahead of federal and regional elections that are crucial for the country's future could weigh on consumers and business leaders' confidence. So, we expect growth to be weak in the first half of the year. It is only in the second half of 2024, thanks to a global recovery in the industrial sector (when the inventory correction will be over), that growth is likely to return to a level close to its potential. For the whole of the year, we expect 0.8% GDP growth.

While inflation rates in Belgium are now below the eurozone's average, this is only a temporary phenomenon. As a matter of fact, energy price trends have a stronger than average impact on the country's inflation. However, the favourable energy base effect will peter out in the course of the year. Underlying inflation is clearly above the eurozone's average on the back of the automatic wage indexation. Therefore, average headline inflation is likely to come in at 3.2% for the year, compared with 4% in 2023.

The Belgian economy in a nutshell

	2022	2023	2024F	2025F
GDP	3.0	1.4	0.8	1.4
Private consumption	3.2	1.3	0.9	1.2
Investment	-0.2	5.1	2.1	1.5
Government consumption	4.2	-0.2	1.1	1.6
Net trade contribution	0.1	-0.9	-0.4	-0.3
Headline CPI	9.6	4.0	3.2	2.1
Unemployment rate (%))	5.6	5.5	5.7	5.7
Budget balance as % of GDP	-3.9	-4.8	-5.0	-5.0
Government debt as % of GDP	105.2	104.6	106.1	107.5

Source: Thomson Reuters, all forecasts ING estimates

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