Article

Economic projections for Belgium : June 2024

NBB economic review

Provided in Cooperation with:
National Bank of Belgium, Brussels

Reference: (2024). Economic projections for Belgium : June 2024. In: NBB economic review (5), S. 1 - 18.
https://www.nbb.be/doc/ts/publications/economicreview/2024/ecorevi2024_h05.pdf.

NBB Economic Review

2024 No 5

Economic projections for Belgium – June 2024

National Bank of Belgium

Eurosystem

Economic projections for Belgium – June 2024

Introduction

The macroeconomic projections for Belgium set out in this article form part of the Eurosystem projections up to 2026 for the euro area. They are based on a set of technical assumptions and forecasts for the international environment drawn up jointly by participating institutions, namely the ECB and the national central banks of the euro area. The cut-off date for the Belgian projections was 22 May 2024. These projections were therefore unable to incorporate end-of-May data releases, such as the NAI release for employment, GDP and demand components for 2024Q1 and the Statbel/Eurostat release with the (flash) inflation figures for May. However, these new statistics were broadly in line with our projections.

This article discusses the baseline projections for Belgium in detail, with a risk assessment for the baseline provided in the last section. As usual, the projections take into account only government measures that have been – or are very likely to be – formally adopted and for which, on the cut-off date, implementing arrangements had been set out in sufficient detail.

1. The global economy remains resilient and appears on course for a soft landing

A number of exogenous shocks have significantly affected the global economy in recent years. After the pandemic, an inflationary surge eroded nominal household income and drove up firms' input costs. At the same time, public finances were strained (further) by efforts to cushion the impact, on both households and businesses, of a virtually unprecedented rise in energy prices in particular. While geopolitical risks remain high, the impact of these exogenous shocks has now waned and the focus has shifted to the policy stance. Monetary policies had to be tightened significantly in order to avoid an entrenchment of inflation; this tightening coincided with the unwinding of fiscal support measures in many countries. In this context, there were concerns that policy headwinds could derail the global economy.

However, it seems that the international economy is weathering the storm relatively well and remains on track for a soft landing. Inflation rates are now substantially lower in most countries while growth has held up well. In 2023, the global economy expanded by 3.5 %, significantly outperforming the estimates made by international organisations in the spring of that year. Job creation generally remained robust.

According to the current Eurosystem assessment, global growth should edge down somewhat in the projection period but remain comfortably above 3 %. Real income will be boosted by strong wage increases in an environment characterised by much lower inflation, as workers seek compensation for the loss of purchasing power in previous years. These dynamics should support domestic demand, even if employment growth softens somewhat.

Global trade has been much weaker than global GDP growth, partly reflecting a demand composition effect: post-pandemic consumption patterns were skewed towards less trade-intensive services. In addition, higher interest rates and sluggish manufacturing activity in many countries dented demand for more trade-intensive investment goods. However, the most recent data and indicators suggest that global trade is recovering and that the impact on supply chains of recent disruptions in the Red Sea remains contained. As of 2024, global trade (excluding the euro area) is expected to expand by around 3 %, a pace that is more in line with the growth rates for global activity.

As usual, the profile of world trade determines the outlook for euro area foreign demand and Belgian export markets, with the latter being an important factor for the medium-term macroeconomic projections for Belgium. Based on the common Eurosystem assumptions, Belgian export markets are expected to expand steadily as of early 2024, by about 0.8 % on average per quarter, following negative growth in 2023.

Table 1

The international environment

(annual percentage change)

	2022	2023	2024 e	2025 e	2026 e
World real GDP (excluding the euro area)	3.4	3.5	3.3	3.3	3.2
World trade (excluding the euro area)	5.6	1.0	2.6	3.3	3.3
Euro area foreign demand [1]	7.0	0.8	2.1	3.4	3.3
Relevant Belgian export markets [1]	7.6	–0.5	0.9	3.4	3.3

Source: Eurosystem.
1 Calculated as a weighted average of trading partner imports.

Turning to the technical and financial assumptions underlying the current Eurosystem projections, the exchange rate is assumed to remain constant throughout the projection period. The euro was trading at around $ 1.08 at the cut-off date.

As usual, assumptions concerning oil prices and interest rates are based on market expectations. At the cut-off date for the common Eurosystem assumptions (17 May), a barrel of Brent crude oil was priced at less than €80, with this price expected to trend gradually downwards to just below €70 by the end of 2026. Gas prices have risen somewhat since the start of the year but are still at lower levels than in 2023. At the cut-off date, future contracts indicated that gas prices should remain more or less flat throughout the projection period: they are expected to fluctuate near €30 per MWh, with small seasonal peaks during the winter.

As regards financial conditions, the three-month interbank deposit rate appears to have peaked, at 4 % at the end of 2023. The financial markets currently see it falling to 2.5 % on average in 2026. Likewise, the average interest rate on business loans should come down slightly, from over 5 % at the end of last year to just below 4 % by 2026. As for long-term market rates, the Belgian ten-year sovereign yield is hovering near 3 % throughout the projection horizon. It came down to 2.9 % in early 2024 but is expected to edge up by around 20 basis points by 2026. Against that backdrop, the average mortgage rate is also expected to rise further, to just below 4 % in 2026.

Table 2

Eurosystem technical assumptions

(annual averages ; in %, unless otherwise stated)

	2022	2023	2024 e	2025 e	2026 e
EUR/USD exchange rate	1.05	1.08	1.08	1.08	1.08
Oil price (US dollars per barrel)	103.7	83.7	83.8	78.0	74.5
Interest rate on three-month interbank deposits in euros	0.3	3.4	3.6	2.8	2.5
Yield on ten-year Belgian government bonds	1.7	3.1	2.9	3.0	3.1
Business loan interest rate	2.0	4.7	4.9	4.2	3.9
Household mortgage interest rate	2.1	3.6	3.7	3.8	3.9

Source : Eurosystem.

2. The euro area economy is expected to see continued growth

With a 0.3 % quarterly expansion of activity in the first quarter of 2024, economic growth in the euro area was clearly positive again after five consecutive quarters of near-stagnation. This was a positive surprise compared to the very slow recovery put forward in the ECB March projections. Going forward, the economy should continue to expand at more or less the same pace. Domestic demand is supported by increasing purchasing power, which is in turn tied to a recovery in real wages and a resilient labour market. At the same time, the rebound in foreign demand should provide support to euro area export growth as well. In annual terms, euro area GDP growth is expected to edge up to 0.9 % in 2024 and it should strengthen to 1.4 % in 2025 and 1.6 % in 2026, which is considered to be higher than potential growth.

Headline inflation has been on a broadly stable path since the autumn of last year, reaching 2.6 % in May. Energy inflation turned less negative, due to base effects and higher oil prices, but this was partly compensated by a strong fall in food inflation and a gradual decline in core inflation. The latter is expected to slowly continue its disinflationary process and to reach 2 % on average in 2026. Relatively strong wage growth remains an important driver of higher-than-average core inflation, even if firms are expected to partially absorb higher wage costs through profit margins.

The labour market remains resilient, even if employment growth is set to moderate. Employment creation should still keep pace with the expansion of the labour force, resulting in a relatively stable unemployment rate, that even dips to a new historic low of 6.3 % in 2026.

The euro area budget deficit budget should continue to improve over the projection horizon, dropping below 3 % of GDP as of 2025. The government debt ratio is more or less stable as of 2024, at just above 88 % of GDP.

All in all, Eurosystem staff assesses risks to growth as balanced in the near term but slightly tilted to the downside later on, mostly due to geopolitical risks. Risks to the inflation projections are assessed to be slightly on the upside, inter alia related to the possibility of higher commodity prices, higher wage growth or less absorption of the latter through profit margins.

Table 3

Eurosystem projections for the euro area

(percentage change compared to the previous year, unless stated otherwise)

	2022	2023	2024 e	2025 e	2026 e
Real GDP (contributions in percentage points)	3.5	0.6	0.9	1.4	1.6
of which:					
Domestic demand (excluding changes in inventories)	3.1	0.8	0.9	1.4	1.5
Net exports	0.0	0.3	0.4	0.0	0.1
Inflation (HICP)	8.4	5.4	2.5	2.2	1.9
Core inflation [1]	3.9	4.9	2.8	2.2	2.0
Domestic employment	2.3	1.4	0.8	0.4	0.5
Unemployment rate [2]	6.7	6.5	6.5	6.5	6.3
General government financing requirement (–) or capacity [3]	–3.7	–3.6	–3.1	–2.8	–2.6
Public debt [3]	90.8	88.5	88.4	88.6	88.6

Source: ECB.
1 Measured by the HICP, excluding food and energy.
2 As a % of the labour force.
3 As a % of GDP.

3. Belgian economic activity is set to continue to grow steadily

The Belgian economy proved very resilient in 2023: activity growth clearly outpaced that of the euro area as a whole, although Belgian GDP growth was revised downwards slightly in the April NAI data release, leaving it at 0.3 % on average per quarter. According to the latest statistics [1], the economy maintained this pace in the first quarter of 2024. This is fully in line with the estimate set out in our December 2023 projections, which was marginally revised upwards in the March 2024 Business Cycle Monitor (to 0.4 %, based on the previous vintage of the quarterly statistics).

Turning to the near-term outlook, sentiment indicators seem to point to continued growth at roughly the same pace. Business sentiment remains somewhat subdued but has clearly bottomed out in recent months. Consumer confidence has been hovering above its long-term average for several months but has deteriorated lately. Households' unemployment expectations shot up in March and April, which is usually an early indicator of slower private consumption growth. However, in this case, it could reflect the media buzz surrounding the bankruptcy of an important company. A large number of workers were laid off but are very likely to find new jobs given the current labour market tightness. In this regard, it is reassuring that the Bank's monthly consumer survey shows that households' expectations of their own financial situation have held up well. All in all, a broad assessment based on qualitative information from the NBB's business intelligence network, as summarised in the Business Echo published on 29 May, suggests that a scenario of stable growth is the most plausible. While services

1 Please note that, at the cut-off date of these projections, only the NAI flash estimate for the first quarter of 2024 was available, with quarterly GDP growth at 0.26 %. At the end of May, it was revised up to 0.33 %.

activity could slow somewhat, the situation appears to be improving in the manufacturing industry. Against this background, these projections included 0.3 % growth in the second quarter of 2024. The NBB's Business Cycle Monitor, which was published on 5 June (after the cut-off date for these projections) points to 0.4 % growth as the most recent nowcast taking into account the latest data and indicators.

Figure 1

Short-term outlook: steady growth expected

Sources: NAI and NBB.
1 The balance of replies was normalised by deducting the long-term average and dividing by the standard deviation, calculated since 1990.

Beyond the near term, activity is expected to continue to grow at a broadly steady quarterly rate of around 0.3 % in the first years of the projection period. While domestic demand and, in particular, the contributions of business investment and government investment to growth are expected to slow somewhat (after the local elections), lower wage-cost growth should gradually improve the cost competitiveness of exporting firms. Net trade is expected to continue to drag down GDP growth throughout the projection period, but its contribution should turn somewhat less negative, as the loss in cost competitiveness accumulated over the course of 2022 and 2023 is expected to shrink. Towards 2026, growth is set to pick up slightly and to reach 0.4 % on a quarterly basis. In annual terms, growth is forecast to decline slightly, to 1.2 % in 2024 and 2025, before edging up again in 2026.

4. Domestic demand moderates, while net exports become less negative

Throughout 2023, Belgian activity growth was shored up by domestic demand, notably business investment. However, according to the most recent statistics, business investment plummeted in the last quarter of 2023. This drop was mainly due to an exceptional sale of investment goods abroad. The transaction had no net impact on GDP growth as it increased exports to the same extent. Similar transactions are likely to have affected investment and exports in the first quarter of 2024 and have been incorporated into these projections. Still, even after removing these exceptional transactions from the investment series, business investment clearly declined in volume terms in the last quarter of 2023. Information from our business intelligence network suggests that the very strong expansion of business investment is now behind us. One of the reasons is the tax incentives for the greening of company cars: as of 2024, favourable tax treatment of these cars is restricted to electric vehicles. This factor, which led to a rapid changeover of company car fleets, most likely accounted for part of the boost in business investment but will no longer fuel investment in 2024. All in all, business investment growth is expected to moderate significantly in 2024 before picking up very gradually in the two outer years of the projection period. While business investment will continue to grow as a share of GDP, the growth rate is expected to remain below its long-term average.

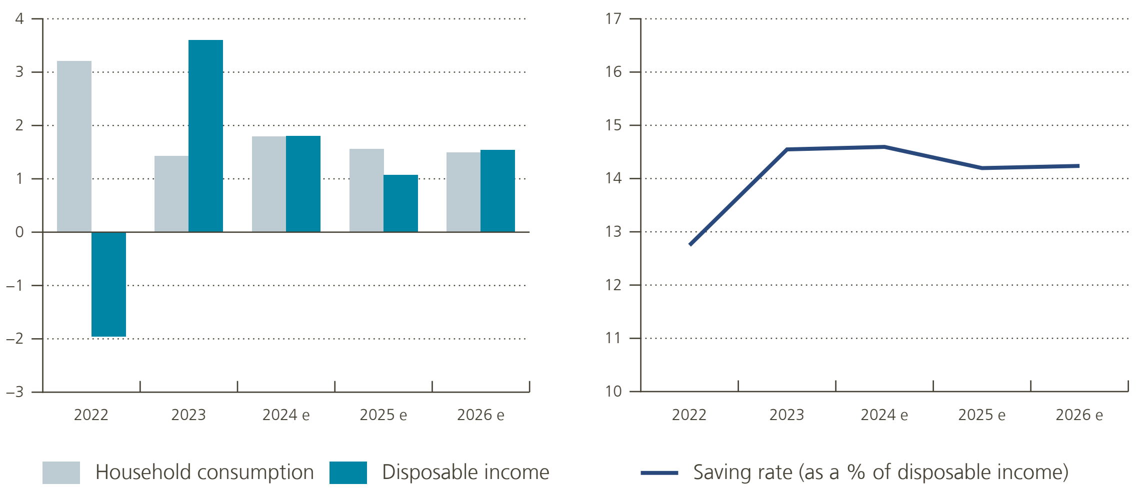
Household consumption expanded quite strongly throughout 2023, supported by the substantial rebound in household purchasing power that year. The latter was largely due to the delayed impact of automatic indexation which pushed up wage growth at a time when actual inflation was already falling rapidly. Consumer confidence has hovered above its long-term average since the summer of 2023, but has worsened somewhat lately, with more detailed sub-indicators revealing that households are increasingly worried about employment prospects. As indicated, this should be interpreted against the backdrop of the bankruptcy of a large company and the ensuing lay-offs. However, the fundamentals remain solid and household income should continue to grow.

Following exceptionally strong disposable income growth in 2023 (3.6 % in real terms), household income will expand more slowly as from this year, by 1.5 % on average per year, or 1.2 % on average in per capita terms if population growth is taken into account. Consumption is expected to remain an important driver of economic activity, growing at a pace close to its long-term average. The saving rate is set to decline somewhat over the projection horizon, but to remain close to 14 % and therefore above pre-pandemic levels. With interest rates on the rise, incentives to save have become stronger and the share of capital income – which is typically saved more – in total household income has increased.

Figure 2

Household consumption, purchasing power and saving rate

(volume data,[1] percentage change compared with the previous year, unless stated otherwise)



Sources: NAI and NBB.
1 Data are deflated by the household consumption expenditure indicator.

Rising mortgage rates and substantial increases in the prices of building materials have been weighing on residential investment since 2022. Following further negative data surprises in the second half of last year, we now expect residential investment to continue to contract in 2024. At the end of this year, the volume of residential investment is set to be 16 % below its pre-pandemic level. Residential investment growth is projected to recover gradually and only incompletely by the end of the projection horizon. This is quite remarkable given the need to renovate the dwelling stock to meet climate-related energy-efficiency obligations, as well as to increase dwelling supply with a view to avoiding a further worsening of housing affordability.

Turning to public expenditure, public consumption is projected to continue to expand over the projection horizon, at approximately 1 % on average per year, based on current policy trends. Public investment growth looks more volatile throughout the projection period as it follows the regular local election cycle with a particularly strong boost in 2023 and 2024 (due as well to specific investment programmes) and a decline thereafter.

As discussed in Section 1, world trade is now recovering and Belgian export markets should continue to grow throughout the projection period. In addition, the cost competitiveness of Belgian firms is gradually improving as the wage gap with the main neighbouring countries attributable to relatively high wage-cost growth in 2022-23, is narrowing. This should lead to smaller losses in market share towards the end of the projection period. Against this backdrop, growth in exports will pick up. However, taking into account the usual import content of the various demand components, import growth should still slightly outpace export growth as a result of robust domestic demand. All in all, the contribution of net exports to GDP growth is set to be negative in all years of the projection period, but less so in the outer years.

Table 4

GDP and main expenditure categories

(seasonally adjusted volume data ; percentage changes compared to the previous year, unless otherwise stated)

	2022	2023	2024 e	2025 e	2026 e
Household consumption expenditure	3.2	1.4	1.8	1.6	1.5
General government final consumption expenditure	4.5	1.6	0.9	1.0	1.1
Gross fixed capital formation	−0.2	3.6	2.2	2.3	2.5
General government	−2.3	6.3	9.7	−3.3	0.0
Housing	−3.2	−5.7	−5.7	0.6	2.7
Businesses	1.1	6.0	3.1	3.7	2.8
p.m. Domestic expenditure, excluding the change in inventories [1]	2.6	2.0	1.7	1.6	1.6
Change in inventories [1]	0.3	0.0	0.2	0.0	0.0
Net exports of goods and services [1]	0.1	−0.6	−0.6	−0.4	−0.3
Exports of goods and services	4.9	−3.3	−2.1	1.8	2.5
Imports of goods and services	4.9	−2.6	−1.4	2.2	2.7
Gross domestic product	3.0	1.4	1.2	1.2	1.4

Sources : NAI and NBB.
1 Contribution in percentage points to the change in GDP compared with the previous year.

5. Job creation has slowed but should gradually recover

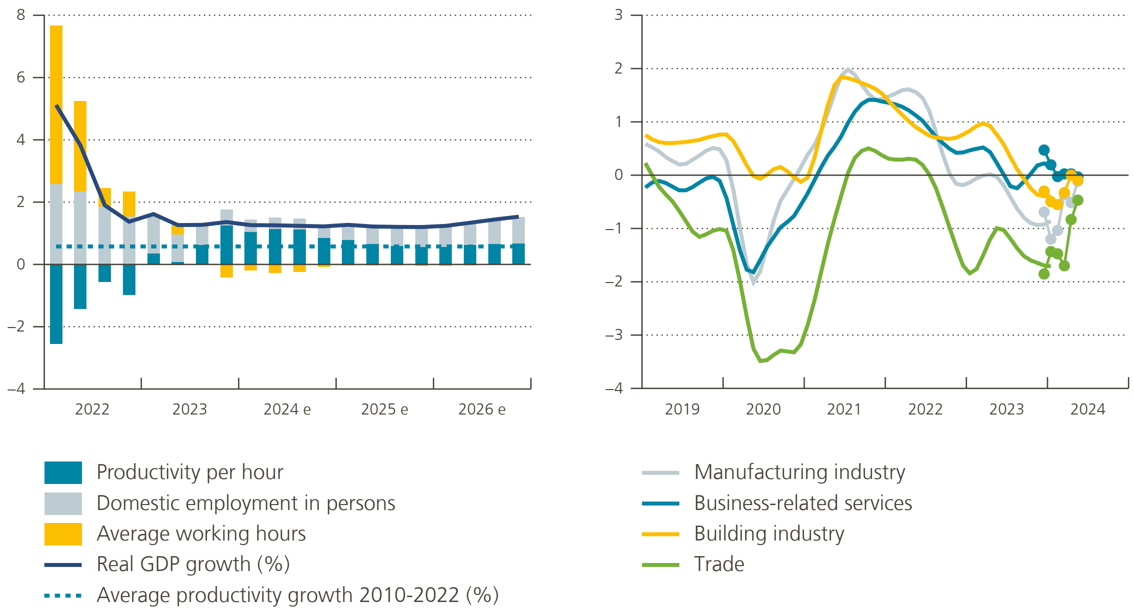
As expected, employment growth clearly declined in 2023, after the substantial increases observed in the post-pandemic period. Total domestic employment nonetheless expanded by 0.8 % or some 41 000 jobs, but more than half of these were in government and non-market services, which is clearly in line with the increasing importance of these sectors in total employment over the past years. In addition, current statistics suggest that the slowdown in job creation was somewhat stronger than anticipated. In the last quarter of 2023, employment growth nearly came to a standstill as salaried employment in sectors sensitive to the business cycle fell. Self-employment and employment in other services continued to expand but total domestic employment increased only marginally in that quarter.

Figure 3

A deep or long-lasting slump in the labour market appears unlikely

Domestic employment, working time and productivity
(contribution to year-on-year GDP growth, percentage points, unless otherwise stated)

NBB business survey employment expectations
(seasonally adjusted series, normalised)[1]



Sources: NAI and NBB.
1 The balance of replies was normalised by deducting the long-term average and dividing by the standard deviation, calculated since 1990.

While various factors could account for the somewhat faster slowdown in job creation, it is likely mostly demand-driven. The combination of strong increases in wage costs, an uncertain demand outlook and the expected recovery of labour productivity (which was boosted by solid increases in business investment) clearly cooled demand for additional workers in many firms. According to interviews conducted for the May 2024 issue of the NBB Business Echo, companies have discontinued flexible contracts for the most part and reduced net hiring.

At the same time, a deeper or long-lasting slump in the labour market seems unlikely. First, employment expectations, according to the NBB's producer survey, seem to have bottomed out, which is corroborated by the Business Echo: only a minority of firms indicated that they plan to cut their permanent workforce. Firms prefer to avoid high severance costs and re-hiring challenges in case of a pick-up in activity. Indeed, the labour market is still tight, and structural skills mismatches persist for a significant number of jobs. The unemployment rate is still very low and the vacancy rate may have come down somewhat but is still extremely high. Second, the boost in labour productivity growth is likely to be temporary: to the extent that business investment decelerates, labour productivity growth should gradually lose some traction as well and return to its historical average.

All in all, job creation should gradually pick up pace again as from 2024. Much more moderate wage growth and the normalisation of productivity growth will likely fuel labour demand. This year should see only about 20 000 jobs created, but employment growth is projected to gradually edge up. In the period 2024-2026, total net job creation should be just above 90 000. While this is significantly lower than in previous years (and the working-age population has been revised upwards in the FPB's latest demographic projections), [2] it is still sufficient to keep the unemployment rate at a historically low level, below 6 %.

The employment rate is expected to increase further and should exceed 73 % at the end of the projection horizon. This mostly reflects cohort effects as, at any given age, labour market participation is typically higher for later cohorts, notably for the female population.

Table 5

Labour supply and demand

(seasonally adjusted data; change in thousands of persons, unless otherwise stated)

	2022	2023	2024 e	2025 e	2026 e
Total population	97	77	55	37	33
Working age population [1]	51	41	19	6	2
Labour force	93	76	53	36	39
Domestic employment	104	41	20	31	40
Employees	86	31	10	21	30
Industries sensitive to the business cycle [2]	62	11	–3	10	19
Government and non-market services [3]	24	20	13	10	11
Self-employed	18	9	9	10	10
Unemployed job seekers	–11	35	34	5	0
p.m. Harmonised unemployment rate [4, 5]	*5.6*	*5.6*	*5.7*	*5.8*	*5.7*
Harmonised employment rate [4, 6]	*71.9*	*72.1*	*72.5*	*72.8*	*73.4*

Sources: FPB, NAI, NEO, Statbel and NBB.

1 Population aged 15-64 years. Note that the retirement age will increase from 65 to 66 in 2025. However, for comparison purposes the population aged 15-64 years is used for the entire period.

2 Agriculture, industry, energy and water, construction, trade, hotels and restaurants, transport and communication, financial activities, property services and business services.

3 Health, welfare, community services, public social services, personal services and domestic services.

4 Based on data from the labour force survey.

5 Job seekers in % of the labour force aged 15-64 years.

6 Persons in work in % of the total population of working age (20-64 years).

2 Compared with the previous projections, the new demographic projections from the Federal Planning Bureau led to an upward revision of the working-age population over the period 2023 to 2025. In recent years, population growth in Belgium has been driven by positive net migration, mostly Ukrainians refugees, who are now expected to stay longer.

6. Core inflation will continue to fall as wage cost growth moderates

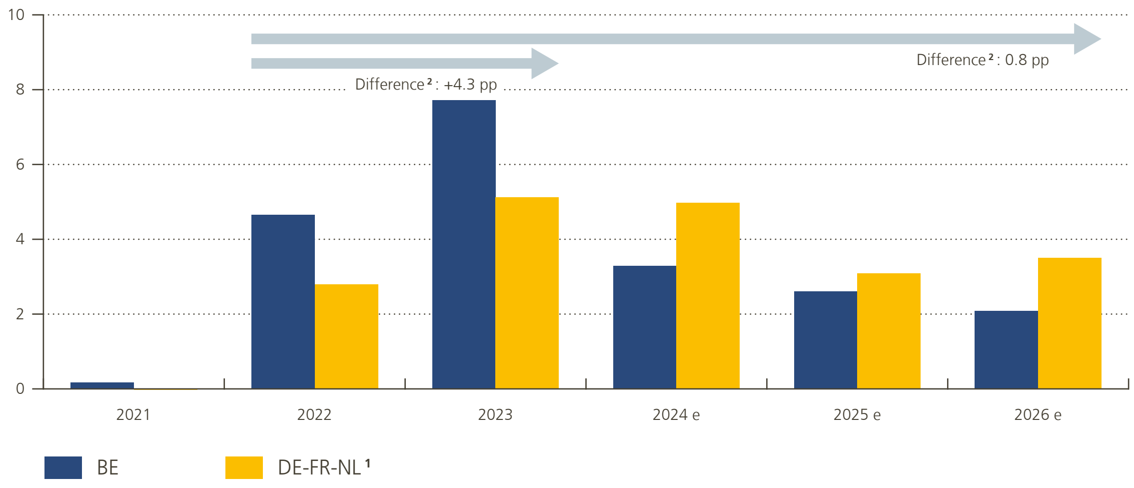
6.1 Growth in wage costs has reached record levels but is now moderating

The recent surge in inflation was passed on more rapidly to wage costs in Belgium than elsewhere due to the automatic indexation of nearly all income. Hourly wage costs in the private sector rose at an unprecedented rate of more than 12 % over the period 2022-2023. This led to a cumulative wage cost gap[3] between Belgium and its three main neighbouring countries (which serve as the reference for the Competitiveness Act). In the span of two years, growth in Belgian hourly private-sector wage costs has exceeded that of neighbouring countries by more than four percentage points. This is less than initially feared thanks to rapid disinflation but still constitutes a significant erosion of cost competitiveness for Belgian exporters.

Figure 4

Hourly wage growth in the private sector: Belgium versus its main trading partners

(percentage change compared with the previous year, cumulative wage gap since 2021)



Sources: Eurosystem, NAI and NBB.

1 Weighted average wage cost growth in neighbouring countries, based on current Eurosystem projections.

2 The difference in wage cost growth between Belgium and neighbouring countries shown here is not necessarily identical to the official assessment by the Central Economic Council.

For 2024, collectively negotiated increases in pay scales are, in principle, explicitly set at zero pursuant to the nationwide wage norm adopted in May 2023. In its February 2024 report, the Central Economic Council estimated that, by the end of 2024, the official wage-cost gap will still amount to 1.8 %. Against this backdrop, the current projections assume, in accordance with the existing regulatory framework, that there will be no collectively negotiated wage increases in the period 2025-2026 either.

This implies that, over the projection period, Belgian wage cost growth will continue to be primarily driven by automatic indexation. Given the existing tightness in the labour market, wage drift, which bumped up wage costs by 0.3 % in 2023, is likely to remain somewhat higher than usual as well. This factor takes into account bonuses and other pay components not included in collectively negotiated wage increases, as well as the impact on payroll of changes in the composition of the workforce. The impact of wage drift tends to be slightly positive due to structural trends, such as increasing education levels and age of the workforce. However, the slightly higher level

3 This is an estimate based on current Eurosystem projections and is not identical to the official assessment by the Central Economic Council. Our calculation notably uses 2021 as its starting point, whereas the official CEC wage gap is calculated as from 1996.

observed in 2023 is also likely to reflect more frequent use of promotions or alternative forms of remuneration to compensate for zero real wage growth. The positive drift observed in 2023 notably includes the possibility given to employers to grant a "purchasing power bonus", which is subject to advantageous tax treatment. In addition, wage costs in 2024 are also pushed up by the unwinding of the temporary cut in employer-paid social contributions that was introduced in the first half of 2023 to partly offset the impact on firms of higher input costs.

Overall, wage cost growth in the private sector is set to slow sharply over the projection period, to an annual average rate of just 2.7 %. The rebound in labour productivity growth will limit unit labour cost increases to around 2 % per year on average. According to Eurosystem projections, hourly wage costs are now increasing more rapidly in Belgium's three main neighbouring countries. Based on the current outlook, the aforementioned wage cost gap should gradually narrow.

Table 6

Price and cost indicators

(percentage changes compared to the previous year, unless otherwise stated)

	2022	2023	2024 e	2025 e	2026 e
Private sector labour costs [1]:					
Labour costs per hour worked	5.1	7.8	3.3	2.7	2.1
of which:					
Real conventional wages	0.4	0.1	0.0	0.0	0.0
Wage drift and other factors	−0.9	0.3	0.4	0.3	0.3
Indexation	5.4	8.0	2.3	2.3	1.8
Social security contributions	−0.2	−0.7	0.5	0.0	0.0
Wage subsidies	0.4	0.1	0.1	0.1	0.0
p.m. Labour cost per hour worked according to the national accounts concept [2]	*4.6*	*7.7*	*3.3*	*2.6*	*2.1*
Labour productivity [3]	−1.8	0.5	0.9	0.6	0.6
Unit labour costs [1]	7.0	7.2	2.4	2.0	1.5
Total inflation (HICP)	10.3	2.3	3.9	2.4	1.2
Core inflation [4]	4.0	6.0	3.0	1.8	1.6
Services	3.8	6.3	4.0	2.4	1.9
Non-energy industrial goods (NEIG)	4.2	5.4	1.2	0.7	0.9
Energy	57.9	−28.4	9.7	4.1	−2.5
Food	8.3	12.7	4.1	3.4	2.0
p.m. Inflation according to the national consumer price index	*9.6*	*4.0*	*2.6*	*1.9*	*1.4*
Health index [5]	9.3	4.3	2.7	2.0	1.5

Sources: EC, FPS Employment, Labour and Social Dialogue, Statbel, NAI and NBB.

1 Labour cost is defined here not according to the national accounts concept but rather according to a broader definition which includes reductions in social security contributions for target groups and wage subsidies. This concept provides a better picture of the true labour cost for firms.

2 Excluding wage subsidies and reductions in social security contributions for target groups.

3 Value added in volume per hour worked by employees and the self-employed.

4 As measured by the HICP, excluding food and energy.

5 As measured by the national consumer price index, excluding tobacco, alcoholic beverages and motor fuels.

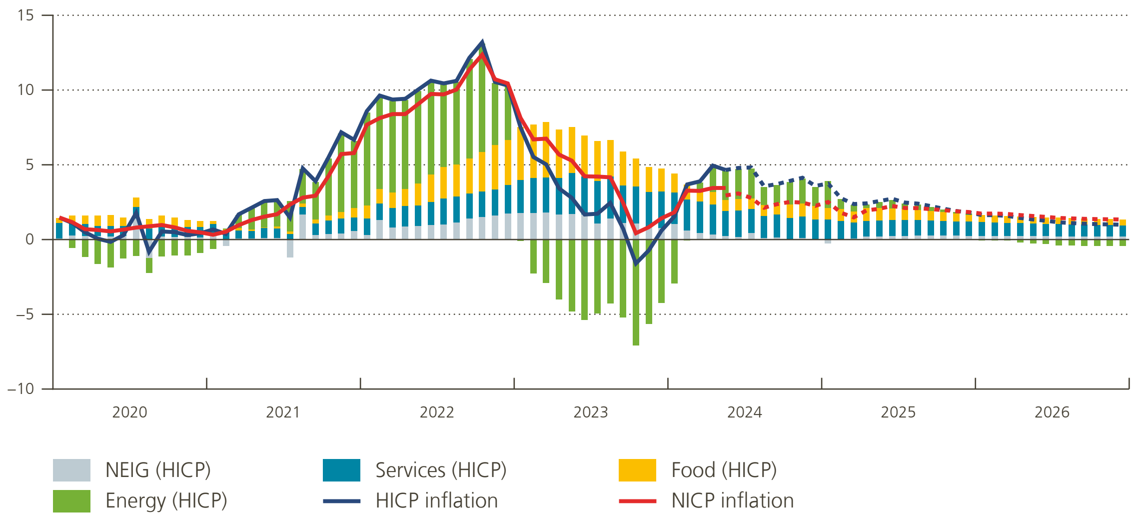
6.2 Energy inflation drives up headline inflation while core inflation is subsiding slowly

As indicated in the Bank's December 2023 projections, headline inflation increases in 2024. This should not be viewed as the start of a second wave of inflation as it mostly reflects the turnaround in energy prices. Negative energy inflation was the main driver of the rapid decline in inflation observed throughout most of 2023. However, the substantial price falls (including targeted government measures to lower household energy bills)[4] have now gradually disappeared from the inflation figures. In addition, the price of Brent crude oil increased at the beginning of 2024 due to rising geopolitical tensions in the Middle East and OPEC production cuts in the first quarter of 2024, thereby pushing up prices for motor fuels and heating oil. Adding to this upwards pressure is the fact that wholesale prices for gas and electricity are also expected to rise again, albeit very slightly compared with the period 2021-2022. Taking into account the common Eurosystem assumptions, energy inflation is expected to decelerate in 2025 and should even turn negative in 2026 as wholesale prices for oil, gas and electricity are all expected to come down again based on current future contracts.

Figure 5

Inflation and contributions

(contributions to HICP inflation in percentage points, unless stated otherwise)



Sources: Eurostat , Statbel and own calculations.
Note: The dotted lines correspond to HICP (in blue) and NICP (in red) inflation over the projection period.

After being historically high over the past two years, peaking at 17 % on average in the first quarter of 2023, food price rises are expected to be more moderate over the projection period. While food inflation, excluding alcohol and tobacco, is clearly on a downward trend, it is still being pushed up by the considerable hike in excise duties on tobacco in January 2024. As a result, total food inflation for 2024 and 2025 remains higher than its long-term average. More generally and unlike energy prices, food inflation has not turned negative: prices, for

4 The "basic package" for gas and electricity implied a reduction in household energy bills of €135/month for gas and €61/month for electricity from November 2022 to March 2023. Each monthly transfer was spread over 12 months in the consumer price index, meaning that, for example, the (last) transfer, from March 2023, was included in the index from March 2023 to February 2024. In other words, the disappearance of the basic package from the index caused energy inflation to progressively increase from December 2023 until March 2024.

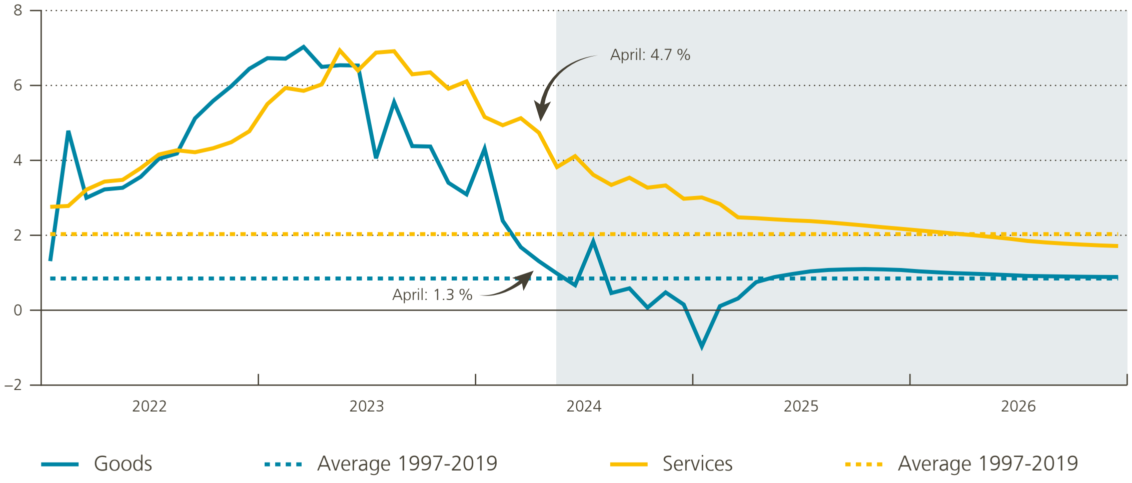
processed foods in particular, remain at very high levels. This could partly explain why the subjective assessment of inflation (that is more closely linked to everyday purchases) can remain higher than the actual inflation.

Core inflation peaked in mid-2023 and is now falling, broadly in line with previous projections. As of next year, it should be below 2 % on average but is projected to remain slightly above its pre-pandemic average of 1.5 %.[5] Disinflation is taking place much faster for goods than for services. The prices of non-energy industrial goods have in fact already declined the past couple of months (measured on a month-on-month basis), as supply chain problems have mostly disappeared and input prices have come down. In year-on-year terms, goods inflation should continue to fall until the beginning of 2025. However, as the impact of the normalisation of supply chains unwinds, goods inflation is expected to pick up slowly again, reaching a level closer to its long-run average. Services inflation is more persistent. Even though the recent strong increase in wages and costs has already been partially passed on to prices, informal indexation mechanisms based on past inflation, which exist in many services industries, are contributing to the stickiness of inflation. However, as wage costs moderate over the projection period, services inflation should continue to fall gradually as well, to slightly below its long-term average by 2026.

Figure 6

Inflation of services and non-energy industrial goods

(year-on-year percentage change, HICP)



Source: Statbel.

Turning to the NICP, the increase in the national index is expected to be more moderate for 2024 (+2.6 % versus 3.9 % for the HICP) and part of 2025, which can be explained by differences in the relative weights of each component of inflation, in particular energy, as well as other methodological differences. Taking into account the evolution of the health index, the threshold for the indexation of public-sector wages and benefits is currently projected to be exceeded in April 2025 and August 2026.

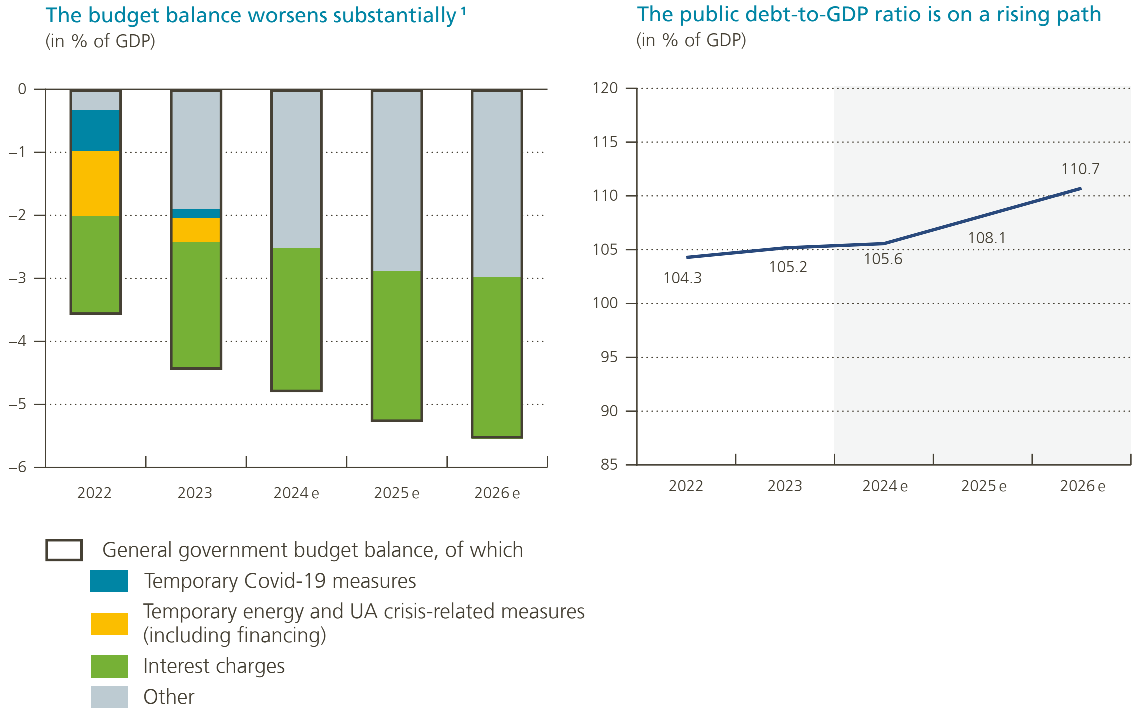
5 The long-term average in this section refers to the period 1997-2019.

7. The general government deficit is expected to worsen substantially and the debt ratio to rise

After sharply deteriorating in 2023, the general government budget balance will continue to worsen substantially over the projection horizon. In 2024, the deficit is expected to increase to 4.8 % of GDP. Thereafter, it will further deteriorate steadily to reach 5.5 % of GDP in 2026.

Figure 7

Budget deficit and public debt-to-GDP ratio



Source: NAI and NBB.

1 These figures do not take into account the implicit deficit of, on average, 0.4% of GDP annually over the period 2021-2026 due to debt-financed grants to EU Member States from the NGEU programme.

In 2024, the net budgetary cost of the temporary measures related to the energy crisis and Russia's invasion of Ukraine will be reduced to zero. This will improve the balance by around 0.4 % of GDP [6]. On the revenue side, this is demonstrated by an increase in social security contributions due to the reversal of the temporary reduction in employer social contributions in the first two quarters of 2023. On the expenditure side, this is mainly reflected by a decrease in transfers to households resulting from the unwinding of the basic energy package, which was still in place in the first quarter of 2023.

Notwithstanding the favourable impact of the unwinding of temporary energy measures, the budget balance in 2024 is expected to deteriorate by 0.3 % of GDP, for several reasons. Two factors are driving up the deficit

6 It should be noted that over the projection horizon, corporate tax revenue is set to increase as a result of returns related to Russian assets held at Euroclear further to the imposition of international sanctions. These receipts should be transmitted in full by the Belgian government to Ukraine as capital transfers, meaning they will be budget neutral for the projection period.

in a structural manner. Firstly, costs linked to population ageing will continue to rise steadily. This is reflected in an increase in pension spending (0.3 % of GDP) and a rise in health expenditure (0.2 % of GDP). Secondly, interest expenses on public debt will also continue to climb slightly, by 0.2 % of GDP. On top of this, the automatically indexation of government spending will outweigh the indexation of private sector wages in 2024, leading to a significant worsening of the general government deficit. In addition, local government investment is expected to peak given that 2024 is an election year.

In 2025, the deficit will worsen further, reaching 5.3 % of GDP, again mainly due to the above-mentioned structural factors : interest expenses and social benefits are expected to rise ; the latter mainly due to an uptick in healthcare spending. The growth in pension costs will be temporarily halted in 2025 as the statutory retirement age is being lifted from 65 to 66. Another factor driving the significant increase of the government deficit in 2025 is an expected decrease in dividends, reflecting the downside of the interim dividend from Belfius bank in 2024 which brought forward revenue. On the spending side, transfers to the rest of the world will increase markedly after a drop in 2024. This is due to a pronounced change in the estimated GNI contribution to the European budget : the significant drop in 2024 was temporary and will be more than offset by an increase in 2025. On the other hand, local investment is forecast to return to a normal pre-election level, improving the general budget balance by around 0.1 % of GDP.

In 2026, interest expenses will increase again, this time by 0.2 % of GDP, leading to a further deterioration of the deficit to 5.5 % of GDP. The primary balance will grow only slightly worse, despite the lasting structurally increasing ageing related costs. This is mainly due to the fact that the indexation rate of items of government expenditure subject to automatic indexation is lower than the automatic indexation of private wages, the opposite of what is expected to occur in 2024.

The public debt ratio is expected to rise to 105.6 % of GDP in 2024, despite still favourable, although declining, interest rate growth dynamics (also known as the “snowball effect”). In subsequent years, the steady rise in the implicit interest rate on outstanding public debt will further depress the currently favourable debt-reducing impact of the snowball effect. The favourable impact of the interest rate-growth differential will be insufficient to offset the debt-increasing dynamics of the large primary deficits which are forecast. Consequently, the gross public debt ratio is on a structural upward trajectory : at the end of the projection horizon, a debt-to-GDP ratio of just below 111 % is expected.

Table 7

General government accounts

(in % of GDP)

	2022	2023	2024 e	2025 e	2026 e
General government					
Revenue	**49.7**	**50.1**	**50.5**	**50.3**	**50.2**
of which : taxes and social security contributions	42.7	43.0	43.3	43.2	43.1
Primary expenditure	**51.7**	**52.6**	**53.0**	**53.2**	**53.1**
Current expenditure	48.1	48.7	48.8	49.1	49.2
Capital expenditure	3.6	3.9	4.3	4.1	4.0
Primary balance	**−2.0**	**−2.4**	**−2.5**	**−2.9**	**−3.0**
Interest charges	**1.6**	**2.0**	**2.3**	**2.4**	**2.5**
Financing requirement (−) or capacity [1]	**−3.6**	**−4.4**	**−4.8**	**−5.3**	**−5.5**

Sources : NAI and NBB.

1 These figures do not take into account the implicit deficit of, on average, 0.4 % of GDP annually over the period 2021-2026 due to debt financed grants to EU Member States from the NGEU programme.

8. The baseline projections are still subject to considerable uncertainty

Now that the pandemic, the outbreak of a major war in Europe and spectacular increases in energy prices are behind us, global economic activity and inflation are much less affected by exogenous shocks. This more stable, inherently more predictable economic environment makes it easier to formulate a baseline path for the economy. However, this does not mean that there is less uncertainty surrounding the baseline outlook for growth, inflation, employment, etc. The latter also depends on the incidence of risks which, if they were to materialise, could cause the economy to move in a different direction.

In this regard, the current geopolitical environment remains an important risk factor. New conflicts have erupted and, apart from terrible human suffering, have led to disruptions in shipping routes and supply chains. According to most analyses, the overall economic impact of these disruptions is limited for the time being. However, uncertain geopolitical developments could also affect energy prices again. More generally, the prices of future contracts, typically used for Eurosystem projections, are highly uncertain. Compared with the December 2023 common Eurosystem assumptions, for instance, current prices are higher for oil and lower for natural gas. Finally, it seems highly likely that major central banks, including the ECB, will start easing monetary policy after the cut-off date of these projections. The current Eurosystem interest rate assumptions are based inter alia on the monetary policy changes expected on average by market participants. However, recent experience has shown, particularly in the US, that market participants can be wrong and interest rates could turn out to be higher or lower than currently assumed.

Another specific risk pertains to policy developments. Crucial elections will be held this year in key economies that are also important trading partners for Belgium and the euro area, e.g. the US and the UK, to name but two. Future government policies may be different than current ones. In this respect, trade policy is an important concern. There are clear indications – based on recent announcements by the two main presidential candidates – that US economic policy could become more protectionist in the near future. However, as it cannot be quantified, this factor is not taken into account in the baseline projections; hence, the trade outlook could be quite different from what is assumed here.

Shortly after these projections are published, elections for the European Parliament, as well as federal and regional elections in Belgium, will be held. In this respect, it should be reiterated that, in accordance with Eurosystem rules, the current public finance projections include only government measures that are already known or are sufficiently specified and very likely to pass the legislative process. As Belgium does not have a strong track record when it comes to medium-term budget planning, this means that the projections for the outer years of the period very much reflect unchanged policies. At the same time, this is most likely not the most plausible outcome as it seems clear that there will be increasing pressure, not least from the European governance framework, to consolidate the country's public finances. By definition, both the extent and the impact of future fiscal consolidation are unknown. With respect to the extent, the FPB's recent costing of the proposals advanced by various political parties revealed a wide range of budgetary outcomes, some better and some worse than those based on the current projections. As regards impact, different tax or spending measures can obviously affect the economy in very different ways.

Recent NBB projections for the key macroeconomic variables have been very accurate. In addition, the current outlook remains close to that used for the December 2023 projections, with the exception of a somewhat weaker outlook for the labour market. That being said, readers should note existing risks to the baseline. In this regard, it should be emphasised that, based on a novel indicator of uncertainty, an upcoming article in the NBB Economic Review (Geraci and Mohimont, 2024) finds that while macroeconomic uncertainty in the euro area may have decreased from its peak, it remains above its long-term average. This implies that establishing economic projections for euro area countries remains a challenging exercise.

Annex

Projections for the Belgian economy: summary of the main results

(percentage changes compared with the previous year, unless otherwise stated)

	2022	2023	2024 e	2025 e	2026 e
Growth (calendar adjusted data)	3.0	1.4	1.2	1.2	1.4
Real GDP					
Contributions to growth:					
Domestic expenditure, excluding change in inventories	2.6	2.0	1.7	1.6	1.6
Net exports of goods and services	0.1	−0.6	−0.6	−0.4	−0.3
Change in inventories	0.3	0.0	0.2	0.0	0.0
Prices and costs					
Harmonised index of consumer prices	10.3	2.3	3.9	2.4	1.2
Health index	9.3	4.3	2.7	2.0	1.5
Core inflation	4.0	6.0	3.0	1.8	1.6
GDP deflator	5.9	4.1	2.2	1.8	1.7
Terms of trade	−3.7	1.3	0.1	−0.1	0.4
Unit labour costs in the private sector [1]	7.0	7.2	2.4	2.0	1.5
Hourly labour costs in the private sector [1]	5.1	7.8	3.3	2.7	2.1
Hourly productivity in the private sector	−1.8	0.5	0.9	0.6	0.6
Labour market					
Domestic employment (annual average change in thousands of persons)	103.7	40.7	19.5	30.7	39.7
Total volume of labour [2]	4.4	0.8	0.2	0.6	0.7
Harmonised unemployment rate (in % of the labour force aged 15 years and over)	5.6	5.6	5.7	5.8	5.7
Household incomes					
Real disposable household income	−2.0	3.6	1.8	1.1	1.5
Saving rate (in % of disposable income)	12.7	14.5	14.6	14.2	14.2
Public finances (in % of GDP)					
Primary balance	−2.0	−2.4	−2.5	−2.9	−3.0
Budget balance	−3.6	−4.4	−4.8	−5.3	−5.5
Public debt	104.3	105.2	105.6	108.1	110.7
Current account (according to the balance of payments, in % of GDP)	−1.0	−1.0	−1.1	−1.6	−1.6

Sources: EC, NAI, Statbel and NBB.
1 Including wage subsidies (mainly payroll tax reductions) and targeted reductions in social security contributions.
2 Total number of hours worked in the economy.

National Bank of Belgium
Limited liability company
Brussels RLP – Company number: 0203.201.340
Registered office: boulevard de Berlaimont 14
BE-1000 Brussels
www.nbb.be

Publisher

Pierre Wunsch
Governor

National Bank of Belgium
Boulevard de Berlaimont 14 – BE-1000 Brussels

Contact for the publication

Dominique Servais
Head of General Secretariat and Communication

Tel. +32 2 221 21 07
dominique.servais@nbb.be

Cover and layout: NBB CM – Prepress & Image

Published in 2024