

# NBB Economic Review

## 2025 No 4

Economic projections for Belgium – June 2025



# Economic projections for Belgium

## June 2025

### Introduction

The macroeconomic projections for Belgium set out in this article form part of the Eurosystem projections for the euro area, covering the period up to 2027. 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 16 May 2025.

This article discusses the 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, at the cut-off date, implementing arrangements had been set out in sufficient detail.

### 1. The world economy faces high trade policy uncertainty

The global economy continued to perform solidly throughout 2024, but with clear differences in the major economies. Towards the end of the year, global PMI indices showed a cautious improvement in manufacturing confidence after at least two years of weaker performance relative to services. However, significant policy shifts have since occurred. The financial markets' initially enthusiastic response to the election of Donald Trump to a second term last November has reversed since he set a decidedly protectionist course in the spring. On 2 April, President Trump announced plans to significantly increase US tariffs on the rest of the world. By the cut-off date of these projections, some seven weeks later, exemptions had been introduced and implementation of the highest tariffs had been put on hold to allow for negotiations. Erratic and confusing policy announcements have led to trade tensions and unprecedented trade policy uncertainty, which is likely to weigh on the economic outlook, particularly for the manufacturing industry. The Eurosystem's baseline scenario for the current projections assumes that these negotiations will be successful and result in reciprocal tariffs of 10%, on top of the existing ones, as from the second quarter of 2025, with exemptions remaining in place and trade policy uncertainty gradually diminishing.

According to the Eurosystem's current assessment, global growth is expected to edge downwards somewhat in 2025 and 2026 but to remain fairly stable at close to 3%.

Meanwhile, global trade surprised on the upside in 2024 and the first quarter of 2025. This is considered partly attributable to the frontloading of international orders ahead of the potential imposition of US import tariffs. The outlook for global trade has been affected by tariff threats and trade uncertainty more than the outlook

for global growth, resulting in a clear downward revision of global trade growth forecasts for 2025 and, via a carry-over effect, for 2026, compared with the December projections.

As usual, the profile for world trade determines the outlook for global demand for both euro area and Belgian exports, with the latter being an important input in the medium-term macroeconomic projections for Belgium. Based on the common set of Eurosystem assumptions, Belgian export markets are expected to flatline in the near term, before rebounding in late 2025.

**Table 1**

**The international environment**

(year-on-year percentage change)

	2023	2024	2025e	2026e	2027e
World real GDP (excluding the euro area)	3.7	3.6	3.1	2.9	3.2
World trade (excluding the euro area)	1.3	4.2	3.1	1.7	3.1
Euro area foreign demand <sup>1</sup>	0.8	3.5	2.8	1.7	3.1
Relevant Belgian export markets <sup>1</sup>	-0.1	1.3	2.3	2.0	2.9

Source: Eurosystem.

<sup>1</sup> Calculated as a weighted average of trading partner imports.

Turning to the technical and financial assumptions underlying the current Eurosystem projections, the EUR/USD exchange rate is assumed to remain constant throughout the projection period. The euro was trading at around \$1.13 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 Eurosystem assumptions (mid-May), a barrel of Brent crude oil was priced slightly below €60, with this price expected to more or less stabilise over the projection horizon. Gas prices have again dropped somewhat, following a small uptick at the start of the year. At the cut-off date, futures contracts were indicating that gas prices should trend somewhat downwards over the projection period.

With regard to financing conditions, the three-month interbank deposit rate has declined further from its peak of 4% at the end of 2023. The financial markets currently expect it to fall to 1.9% on average in 2026 and to rebound slightly in 2027. Likewise, the average interest rate on business loans came down from over 5% at the end of 2023 to 4% in early 2025; it is expected to average out at 3.5% in 2026, before inching back up somewhat in 2027. As for long-term market rates, the Belgian ten-year sovereign yield edged up slightly at the start of 2025 and was just above 3% at the cut-off date. It is expected to rise further, to 3.6%, in 2027. Against this backdrop, the average mortgage rate is also expected to edge upwards, to reach 4% by the end of the forecast horizon.

**Table 2****Eurosystem technical assumptions**

(annual average; as a percentage, unless stated otherwise)

	2023	2024	2025e	2026e	2027e
EUR/USD exchange rate	1.08	1.08	1.11	1.13	1.13
Oil price (US dollars per barrel)	83.7	82.0	66.7	62.8	64.2
Interest rate on three-month interbank deposits in euros	3.4	3.6	2.1	1.9	2.2
Yield on ten-year Belgian government bonds	3.1	2.9	3.2	3.5	3.7
Business loan interest rate	4.7	4.9	3.7	3.5	3.7
Household mortgage interest rate	3.6	3.4	3.2	3.6	4.0

Source: Eurosystem.

## 2. The euro area economy is projected to see moderate growth

The euro area economy grew by 0.3% in the first quarter of 2025, according to Eurostat's flash estimate, presumably partly on account of frontloading of exports. GDP growth is expected to be more moderate in the next two quarters, as euro area exports in particular face headwinds from tariffs, trade policy uncertainty and the more expensive euro. However, with uncertainty expected to gradually fade and foreign demand to recover, euro area activity should be able to pick up again in the medium term. Eurosystem staff projections see a strengthening of euro area growth, from 0.9% in 2025 to 1.3% in 2027, on the back of solid domestic demand and a less negative contribution from net exports. The expected impact of recently announced measures related to additional defence and infrastructure spending among member states on euro area GDP amounts to 0.2 p.p. in cumulative terms over the projection horizon.

Euro area headline inflation came in slightly above 2% in the first quarter of the year, but it is expected to dip below that threshold as from the second quarter of 2025 and average out at exactly 2% for this year. Headline inflation is expected to slow down to 1.6% on average in 2026, before rebounding to 2% again in 2027, due to the introduction of ETS2 pushing up energy inflation. Core inflation is expected to remain slightly above 2% throughout 2025, before moderating to 1.9% on average in 2026 and 2027.

The euro area labour market is expected to remain resilient, even if employment growth is set to moderate. As of 2026, the employment creation should slightly exceed the expansion of the labour force, resulting in a further decline of the unemployment rate, to a new historic low of 6% in 2027.

The euro area budget deficit budget is expected to deteriorate, mainly in 2026, and to exceed 3% of GDP throughout the projection horizon. The government debt ratio edges up, reaching 90.3% in 2027.

Erratic trade policy and ongoing geopolitical issues constitute a significant source of uncertainty for the economic outlook. To illustrate the risks relating to US tariffs, the ECB has prepared two alternative scenarios. For the baseline scenario, risks to growth are considered to be on the downside in 2025-2026 and balanced for inflation.

**Table 3**

**Eurosystem projections for the euro area**

(year-on-year percentage change, unless stated otherwise)

	2023	2024	2025 e	2026 e	2027 e
<b>Real GDP</b> (contributions in percentage points)	0.5	0.8	0.9	1.1	1.3
of which:					
Domestic demand (excluding changes in inventories)	1.0	0.7	1.2	1.3	1.3
Net exports	0.3	0.4	-0.6	-0.1	0.1
<b>Inflation (HICP)</b>	5.4	2.4	2.0	1.6	2.0
<b>Core inflation</b> <sup>1</sup>	4.9	2.8	2.4	1.9	1.9
<b>Domestic employment</b>	1.4	1.0	0.6	0.5	0.6
<b>Unemployment rate</b> <sup>2</sup>	6.5	6.4	6.3	6.3	6.0
<b>General government financing requirement (-) or capacity</b> <sup>3</sup>	-3.5	-3.1	-3.1	-3.4	-3.5
<b>Public debt</b> <sup>3</sup>	87.3	87.5	88.4	89.6	90.3

Source: ECB.

1 Measured by the HICP, excluding food and energy.

2 As a percentage of the labour force.

3 As a percentage of GDP.

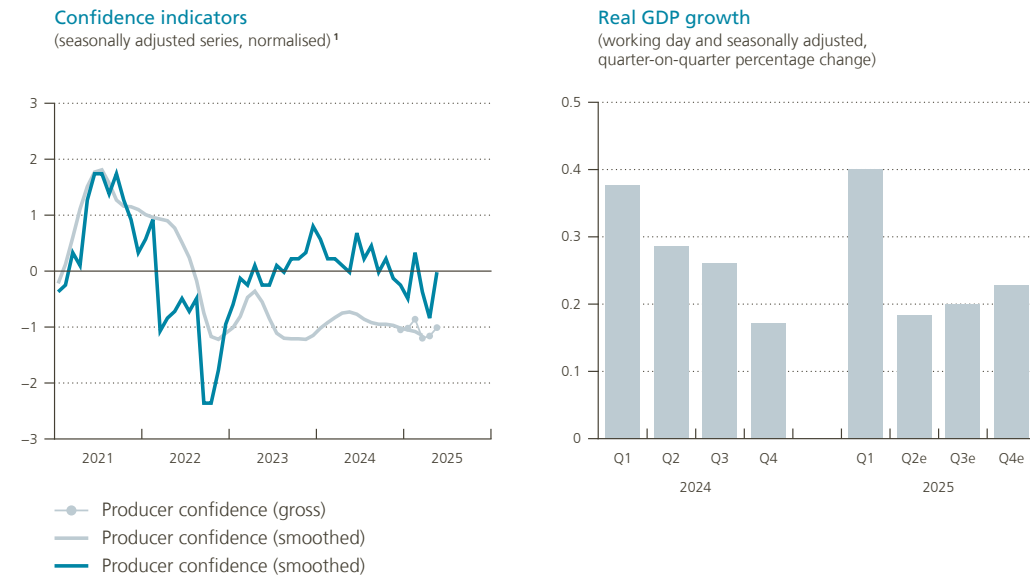
### 3. The Belgian economy is impacted by both domestic and foreign policies

The Belgian economy continued to grow moderately throughout 2024, at an average rate of 0.3% per quarter. In annual terms, GDP growth came in at 1% for the year. Growth surprised on the downside at the end of 2024 but proved stronger than expected in the first quarter of 2025, according to the NAI flash estimate. At the cut-off date for these projections, there was no information on the breakdown of growth for the first quarter, but the fact that the growth rate was higher than expected has been attributed to stronger consumption dynamics (as was already the case in the second half of 2024) and, to a more limited degree, some frontloading of export flows due to the announcement of US import tariffs.

Turning to the near-term outlook, sentiment indicators for Belgium seem to point to continued but more moderate growth. Producer confidence remains below average, while consumer confidence has proven volatile in recent months. Moreover, qualitative information gleaned from the NBB's business intelligence network confirms that business uncertainty is currently high, as set out in the most recent issue of the Bank's Business Echo published in early June. With the exception of some niche segments, sentiment is relatively downbeat in all sectors, as firms adopt a cautious stance and attempt to reinforce their buffers by cutting costs. Against this backdrop, the latest nowcast, discussed in more detail in the NBB's Business Cycle Monitor published on 5 June, points to 0.2% growth in the second quarter of 2025.

Figure 1

Short-term outlook: moderate growth



Sources: NAI, NBB.

<sup>1</sup> The balance of responses is normalised by deducting the long-term average and dividing by the standard deviation, calculated since 1990.

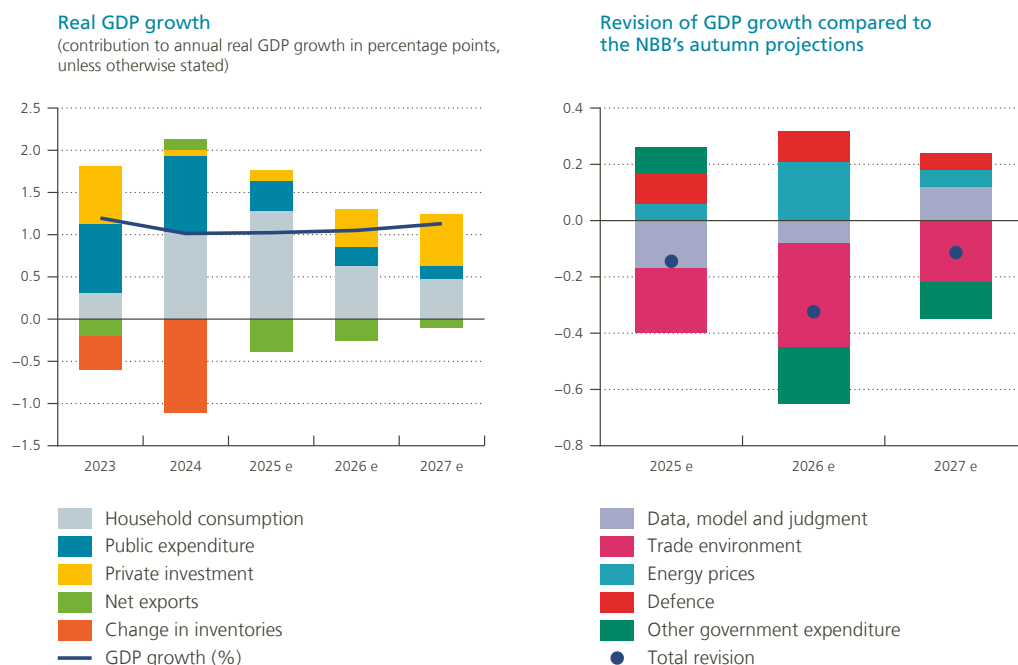
Net trade and – by extension – activity is expected to continue to be impacted by US tariffs and general trade uncertainty for at least the remainder of the year, which would leave the quarterly real GDP growth rate at approximately 0.2% over the rest of 2025, bringing annual growth to 1%.

Real GDP growth is expected to increase only moderately as from 2026, in both quarterly (0.3% on average) and annual (1.1% in 2026 and 2027) terms.

The growth outlook has been downgraded by 0.6 percentage points since the December projections. Most of this downward pressure stems from the less favourable international and trade climate as well as the incorporation of measures announced by the new federal government. These measures have both a direct impact, through lower public consumption growth, and an indirect impact, through their effect on purchasing power and hence private consumption growth. The government also intends to spend more on defence, which has raised the outlook for public investment; however, a substantial share of this investment is likely to be imported and thus to have a limited impact on GDP growth. Lower energy prices than assumed in the autumn are also expected to support GDP growth somewhat.

Figure 2

Annual real GDP growth in Belgium remains close to 1% over the projection horizon



Sources: NAI, NBB.

#### 4. Private domestic demand is set to remain steady, while net exports continue to weigh on growth

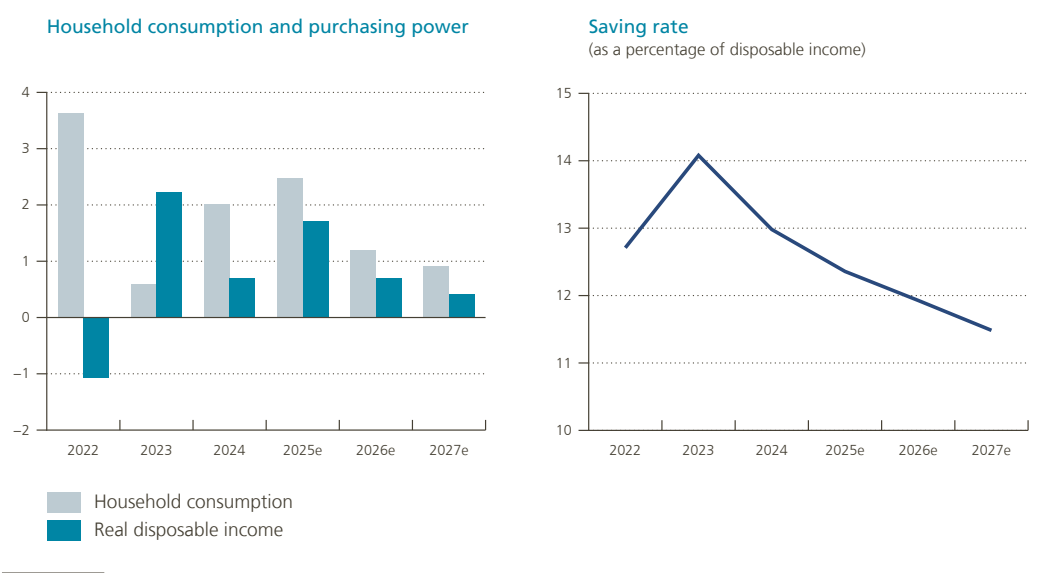
Household consumption growth was surprisingly strong in the second half of 2024, despite relatively stable consumer confidence and more moderate real income growth than in the preceding year. As a result, the saving rate dropped markedly, coming in at 13% on average for 2024.

Detailed statistics for the first quarter of 2025 were not yet available at the cut-off date of these projections, but we attributed part of the strong growth in activity to continued strong consumption dynamics. This was confirmed by the National Accounts Institute's statistical release at the end of May. However, with general uncertainty mounting and consumer confidence edging downwards in March and April, it is reasonable to expect household consumption growth to lose some pace in the near term. It is forecast to remain close, yet slightly below, its long-term average pace for the coming quarters. Private consumption growth is set to lose further pace in the second half of the projection horizon as purchasing power growth decreases further.

Real disposable income growth is expected to average out at 0.9% per year over the projection horizon, or 0.6% per capita, but purchasing power growth is forecast to drop markedly between 2025 and 2027. As indicated in previous projections, application of the wage norm continues to limit wage growth until 2027. Additionally, the new federal government measures are expected to weigh on purchasing power growth in the outer years of the projection horizon, mainly through the capping of unemployment benefits after two years

and pension reform. Household consumption is currently expected to grow at a slightly higher rate than income, implying that there will be some drawing on savings. The saving rate is projected to decline to 11.5% by 2027.

**Figure 3**  
**Household consumption, purchasing power and saving rate**  
(volume data, <sup>1</sup> year-on-year percentage change, unless stated otherwise)



Sources: NAI, NBB.  
<sup>1</sup> Data are deflated by the household consumption expenditure indicator.

Residential investment has been on a downward path since 2022, due to both higher mortgage rates and more expensive building materials. The recovery has already been postponed a few times, but business intelligence gathered from the building industry suggests that a turning point may have been reached. Nonetheless, with the number of building permits at rock bottom and household mortgage rates expected to again edge up somewhat over the forecast horizon, these projections incorporate only a cautious and incomplete turnaround. By the end of the projection horizon, residential investment will still be around 10% below its pre-pandemic level. This gap is quite remarkable given the need to renovate the existing housing stock to meet climate-related energy-efficiency obligations. Moreover, demographics indicate a need to increase the housing supply to avoid a worsening of housing affordability.

Business investment showed strong growth in 2022 and 2023, despite the high-interest rate environment, but rapidly moderated in 2024. The investment boom and the crisis in the European manufacturing industry have left the manufacturing capacity utilisation rate at a very low level, signalling less need for investment in capacity expansion in the sector. The less benign outlook for global growth and trade and a larger-than-usual degree of uncertainty are also contributing to the less favourable investment climate, as confirmed in the latest Business Echo. Current projections suggest modest business investment growth with rather limited quarterly growth rates in 2025 and early 2026. As uncertainty is expected to dissipate, business investment growth should gradually return to its long-term average starting in the second half of 2026.

All in all, private domestic demand growth is forecast to remain relatively steady on a quarterly basis. Public expenditure shows more fluctuations. Following a particularly strong boost in 2024, in line with the usual local



election cycle (and due to a number of major investment programmes), public investment growth is forecast to moderate over the projection horizon, from 2.6% in 2025 to 0.7% in 2027. Compared to the NBB's December projections, the outlook for public investment growth has clearly been revised upwards, mostly due to the announcement by the federal government of increased defence spending. A substantial share of this investment is likely to be imported and, thus, may ultimately have a limited upward impact on GDP growth.

Surprisingly buoyant real growth in public consumption in 2024 generated a strong carry-over effect into 2025, leading to an upward revision of the public consumption growth forecast for the year, compared with the December 2024 projections. As from 2026, the outlook for public consumption growth has been revised downwards due to the impact of fiscal consolidation measures. All in all, public consumption is expected to expand by around 0.6% on average in real terms in 2026 and 2027. However, in quarter-on-quarter terms, public consumption growth appears to accelerate temporarily in 2026, due to the strong carry-over effect from 2024, with no additional growth required throughout 2025 to reach an annual growth rate of 1.1%. This is among the reasons for the rise in quarterly GDP growth to 0.3% in 2026.

Belgian exports recorded huge declines in 2023 and into 2024, while foreign demand had started to pick up again. These drops led to comparatively large losses of market share, which are probably attributable not only to the wage gap that had previously developed between Belgium and its neighbours but also to the disappearance of specific trade flows related to the pharmaceutical industry (i.e. vaccines produced during the Covid-19 pandemic). As discussed in Section 1, the near-term outlook for Belgian export market growth is weak but is forecast to improve over the projection horizon. In addition, the cost competitiveness of Belgian firms is expected to recover gradually as the wage gap with the country's main neighbours, which accrued over the period 2022-23, narrows. This should lead to smaller losses of market share towards the end of the projection period. Against this backdrop, growth in exports is expected to pick up. However, considering the usual import content of the various demand components, import growth is still projected to outpace export growth slightly as a result of robust domestic demand. This is particularly the case in 2026 when investment in defence could trigger additional imports. Overall, the contribution of net exports to GDP growth is set to remain negative in every year of the projection period, albeit to a lesser degree in 2027.

**Table 4**

**GDP and main expenditure categories**

(seasonally adjusted volume data; year-on-year percentage change, unless stated otherwise)

	2023	2024	2025e	2026e	2027e
Household consumption expenditure	0.6	2.0	2.5	1.2	0.9
General government final consumption expenditure	2.9	2.6	1.1	0.7	0.6
Gross fixed capital formation	3.5	1.4	0.8	2.1	2.6
General government	5.4	9.8	2.6	2.2	0.7
Housing	-2.5	-4.8	-3.2	1.5	3.1
Businesses	5.1	1.8	1.6	2.3	2.8
<i>For reference: Domestic expenditure, excluding change in inventories<sup>1</sup></i>	<i>1.8</i>	<i>2.0</i>	<i>1.8</i>	<i>1.3</i>	<i>1.2</i>
Change in inventories <sup>1</sup>	-0.4	-1.1	-0.3	0.0	0.0
Net exports of goods and services <sup>1</sup>	-0.2	0.1	-0.4	-0.3	-0.1
Exports of goods and services	-7.1	-3.4	0.0	1.5	2.4
Imports of goods and services	-6.8	-3.5	0.4	1.9	2.5
Gross domestic product	1.2	1.0	1.0	1.1	1.1

Sources: NAI and NBB.

<sup>1</sup> Contribution in percentage points to the change in GDP compared with the previous year.

## 5. The labour market is a specific focus area for the new government

Job creation has moderated since 2023 and slowed further in 2024, even showing net job losses in sectors sensitive to the business cycle and those exposed to international trade in certain quarters. The latest employment data suggest that there was a cautious turnaround in the last quarter of 2024, with job creation picking up somewhat compared to the third quarter and all main sectors contributing to the expansion.

The leading indicators are, however, still weak. The NBB's producer survey, for example, shows expectations for employment are worsening and falling below their historical average in the four largest sectors. Media reports point to an increase in bankruptcy-related job losses, while the number of young jobseekers receiving unemployment benefits is trending upwards. Moreover, in the face of high uncertainty and the expectation of somewhat weaker activity growth, employment creation is expected to be very limited in the short term.<sup>1</sup>

Job creation is forecast to pick up again towards the end of 2025 and to gain pace in 2026. On the one hand, this goes in parallel with a broader strengthening of the economy. On the other hand, the new federal government has announced several measures specifically aimed at increasing the employment rate and which should have a positive impact during the projection period. The two most important measures in this regard are a two-year limit on unemployment benefits – with an even shorter period for individuals whose employment record in the last five years is deemed too weak – and a reform of the pension system. The latter measure is aimed at limiting public pension expenditure and at encouraging longer careers with more periods of effective employment; the effects are, however, primarily expected to materialise after 2027. Additional structural reforms are intended to stimulate the reintegration into the workforce of people on long-term sick leave and encourage flexible employment, but their short- and medium-term effects on employment are expected to be limited.

According to the information available at the cut-off date for these projections, people who have been unemployed for more than two years will lose their benefits entitlement as from 1 January 2026.<sup>2</sup> It is expected that over 110 000 jobseekers will be affected by this reform; a cautious assumption is that around one-quarter will, all other things being equal, be able to find a job in the course of 2026-27 (with some mild anticipation effects already visible at the end of 2025).<sup>3</sup>

All in all, the current projections show a gradual increase in jobs over the projection horizon. In annual terms, growth in domestic employment is set to come in at 0.4% (2025), 0.7% (2026) and 0.9% (2027), leading to the creation of around 100 000 jobs over the projection horizon. This is slightly stronger than our December 2024 projections suggested, despite weaker activity growth, as it is assumed that productivity growth will be somewhat weaker due to the (re-)entry into the workforce of long-term unemployed persons and that GDP growth will be more job-intensive. These measures could also lead to an increase in part-time jobs or a decrease in hours worked per person.

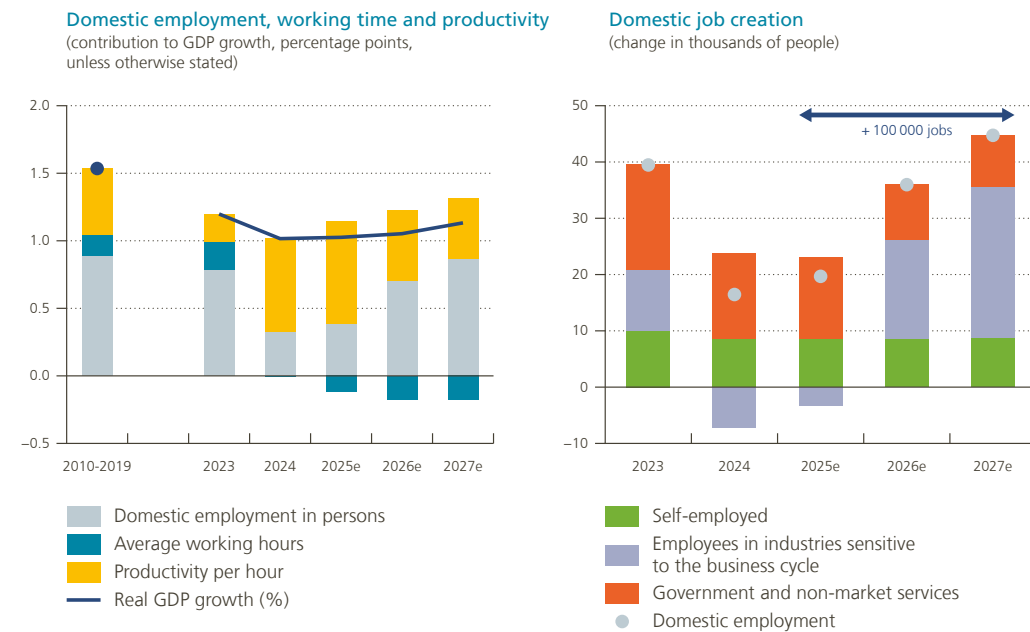
<sup>1</sup> The end-of-May publication by the National Accounts Institute showed a surprisingly strong increase in the number of jobs in the first quarter of 2025, but this information was only available after the cut-off date for these projections and couldn't be incorporated.

<sup>2</sup> According to media reports appearing after the cut-off date for these projections, the federal government is considering a more gradual introduction of the two-year cap on unemployment benefits over the course of 2026 and may allow for a greater number of exemptions.

<sup>3</sup> It is estimated that around one-third are eligible for social assistance, which will lead to higher costs for local public social welfare centres. The remainder will lose access to benefits (e.g. due to co-habitation, having other sources of income, etc.).

Figure 4

### GDP growth is becoming more job-intensive



Sources: NAI, NBB.

New demographic projections from the Federal Planning Bureau suggest a larger increase in the working age population in 2025 and 2026, notably due to the prolonged stay of Ukrainian refugees. This revision has led to a higher number of unemployed jobseekers, although the unemployment rate remains relatively stable at around 6% over the projection horizon.

The employment rate is set to continue to increase gradually, driven in part by older workers retiring later due to earlier reforms (e.g. the abolishment of early retirement schemes and the raising of the statutory retirement age in January 2025). The upward trend in the employment rate is expected to persist, supported by new labour market reforms aimed at better incentivising employment. The employment rate in Belgium still lags behind the European average, with significant room for improvement, particularly in Wallonia and Brussels.

Table 5

**Labour supply and demand**

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

	2023	2024	2025e	2026e	2027e
Total population	81	59	50	46	43
Working age population <sup>1</sup>	46	27	16	11	6
Labour force	74	50	45	38	39
Domestic employment	40	17	20	36	45
Employees	30	8	11	27	36
Industries sensitive to the business cycle <sup>2</sup>	11	-7	-3	17	27
Government and non-market services <sup>3</sup>	19	15	14	10	9
Self-employed	10	9	9	9	9
Unemployed job seekers	35	34	26	2	-6
Harmonised unemployment rate <sup>4,5</sup>	5.6	5.8	6.1	6.1	6.0
Harmonised employment rate <sup>4,6</sup>	72.1	72.3	72.7	73.1	73.6

Sources: FPB, NAI, NEO, Statbel, 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 Administration and education; health, welfare, community, public social services, personal services and domestic services.

4 Based on data from the labour force survey.

5 Jobseekers as a percentage of the labour force aged 15-64 years.

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

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

### 6.1 Wage cost growth is moderating

After exceptional growth in 2023, wage growth slowed sharply in 2024; it is expected to pick up slightly in 2025, before moderating again in 2026 and 2027. As in recent years, inflation is foreseen to remain the main driver of wage growth through the effect of indexation.

Other wage increases could stem from several sources, the first of which are collective negotiations. However, according to the secretariat of the Central Economic Council (CCE), Belgium's wage gap with the group of benchmark countries, though down from its peak in 2023, still amounted to 1% at the end of 2024. Hence, it has announced that the maximum margin for growth in collectively negotiated real wages over the period 2025-2026 should once again be zero. We assume it will remain zero in 2027. According to the Eurosystem's latest projections, Belgian hourly wage growth is expected to be slower than that of

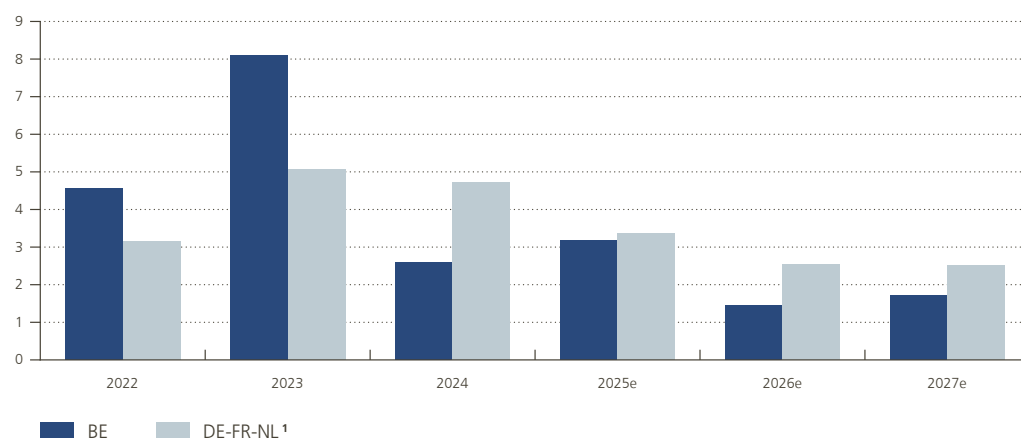
the benchmark countries in the coming years, which could lead to the closing of the wage gap by the end of the projection horizon.

Strictly speaking, however, negotiated real wage growth is near, but not exactly at, zero due to a decision to increase the minimum wage, which formed part of the 2021-2022 interprofessional agreement. The guaranteed average minimum monthly income has already been raised twice. A third increase is set to follow in April 2026.

**Figure 5**

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

(year-on-year percentage change)



Sources: Eurosystem, NAI, NBB.

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

Other wage increases can also stem from so-called “wage drift”. Sectors and companies seeking to boost salaries often make use of various benefits that are explicitly excluded when calculating the wage norm. These include various forms of remuneration which qualify for favourable tax treatment, such as meal vouchers, purchasing power bonuses or results-linked bonuses.<sup>4</sup> In 2023, companies made widespread use of the temporary possibility to grant purchasing power bonuses to their employees. Over the projection period, it is assumed that recourse to these types of benefits will be reasonably limited as labour market shortages ease. Wage drift may also be affected by changes to the composition of the labour force: on the one hand, the (re-)integration of long-term unemployed persons into the labour market could exert downward pressure on wage drift over the projection period. On the other hand, the ageing workforce remains a structural factor that exerts an upward compositional effect on wage drift.

To obtain a complete picture of the expected development of firm labour costs, changes to employer social security contributions must also be taken into account. While the elimination of a temporary reduction in employer social security contributions<sup>5</sup> led to positive growth in 2024, the measures announced by the new federal government, such as the introduction of a ceiling on social contributions and targeted reductions in the wage bill through lower social contributions, should contribute to reducing employer contributions and therefore labour costs over the projection horizon.

<sup>4</sup> Under Collective Labour Agreement (CLA) No 90, non-recurring benefits linked to results could be granted.

<sup>5</sup> The government granted companies a reduction in employer social security contributions for the first two quarters of 2023. This measure represented an exceptional 7.07% reduction in contributions, designed to cushion the impact of soaring labour and input costs.

Table 6

**Cost and price indicators**

(year-on-year percentage change, unless stated otherwise)

	2023	2024	2025e	2026e	2027e
Hourly labour cost in the private sector	8.1	2.6	3.2	1.5	1.7
Gross hourly wages	8.6	2.4	3.3	1.6	1.8
Indexation	8.0	2.4	3.1	1.4	1.6
Other increases <sup>1</sup>	0.6	0.0	0.2	0.2	0.2
Employer social security contributions <sup>2</sup>	-0.6	0.2	-0.1	-0.2	-0.1
<i>For reference: Hourly labour cost based on the economic definition<sup>3</sup></i>	8.1	2.8	3.2	1.5	1.7
Labour productivity <sup>4</sup>	-0.1	0.8	0.9	0.5	0.5
Unit labour cost	8.2	1.8	2.3	0.9	1.2
Total inflation (HICP)	2.3	4.3	2.6	1.3	1.9
Core inflation <sup>5</sup>	6.0	3.4	2.1	1.8	1.8
Services	6.3	4.3	3.5	2.4	2.2
Non-energy industrial goods (NEIG)	5.4	1.7	-0.3	0.9	1.0
Energy	-28.4	9.7	2.7	-3.5	2.8
Food	12.7	5.0	4.3	1.8	1.9
<i>For reference: Inflation according to the national consumer price index</i>	4.0	3.1	2.1	1.1	2.0
Health index <sup>6</sup>	4.3	3.3	2.3	1.2	1.8

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

1 Wage increases defined by joint committees; increases and bonuses granted by firms above those provided for by collective agreements concluded at inter-professional or sector level; wage drift due to changes in the structure of employment and measurement errors; contribution to the change in wage costs, in percentage points.

2 Contribution to the change in wage costs due to modifications in the implicit social security contribution rates, in percentage points.

3 Including the effects of wage subsidies and measures related to Covid-19.

4 Real value added per hour worked for employees and the self-employed.

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

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

## 6.2 Although food and core inflation should continue to decelerate in 2025, they are expected to remain significantly above their historical averages

At the start of 2025, energy prices rose sharply on the oil, gas and electricity markets. Brent crude prices surged by around 10%, surpassing \$80 a barrel, fuelled by strong global energy demand and a favourable economic outlook, among other factors. Gas prices spiked as Europe was forced to draw heavily on its reserves during an early cold snap. Meanwhile, electricity costs climbed due to rising network and distribution charges, combined with higher consumption as a result of cold weather and weak renewable energy production.

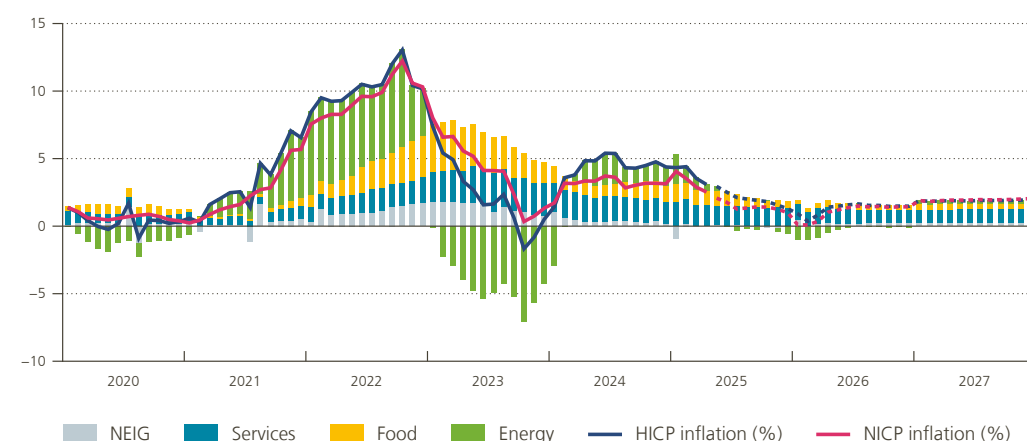
However, energy prices began to decline rapidly in March 2025. This downward movement has been accelerated by the protectionist bent of the new Trump administration, which has triggered uncertainty and fears of a recession. Furthermore, a push to boost US energy production has contributed to an overall easing of global supply conditions. The appreciation of the euro – partly in response to US policy shifts – has also made Brent crude relatively cheaper for the euro area. In addition, OPEC announced that oil production would be ramped up starting in May 2025, which is expected to help keep oil prices near their lowest levels since 2021 – below €60 per barrel – throughout 2025.

All in all, energy inflation is expected to decelerate in 2025 and even turn negative in 2026, before becoming positive again in 2027, driven by the introduction of EU ETS2. As in the December 2024 projections, we assume that the pass-through of EU ETS2 to inflation will be incomplete.

**Figure 6**

### Inflation and contributions

(contribution 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 NIPC (in red) inflation over the projection period.

Food inflation is still an important driver of the high levels of inflation in Belgium and is currently much higher than in the euro area as a whole. After hitting historical highs in the recent past, peaking at 17% on average in the first quarter of 2023, food price rises have moderated but remain above their long-term average. While food inflation was driven higher in 2024 by a sharp increase in tobacco prices following a significant rise in excise duties in January 2024, and continues to be influenced upwards in 2025 due to base-effects, it is also bolstered by above-average inflation for processed foods, excluding tobacco and alcohol, in 2025. Food inflation is still expected to remain above its long-term average in 2025 and should moderate gradually, with processed food inflation declining more slowly than that of unprocessed foods.

Core inflation peaked in mid-2023 and is now steadily declining, although it is projected to stay slightly above its pre-pandemic average of 1.5% throughout the forecast horizon.<sup>6</sup> Goods are seeing a more rapid decline in inflation than services.

<sup>6</sup> The long-term average in this section refers to the period 1997-2019.

In year-on-year terms, goods inflation is expected to continue to decline in 2025, entering negative territory on average for the year. This is due, in particular, to the “clothing and footwear” component. The Belgian Price Observatory<sup>7</sup> has pointed out that clothing collections are typically purchased a long time in advance, meaning that changes in input costs are passed on to consumers with a time lag. This lag may explain the strong contribution of this component to goods inflation in 2024, keeping it above its long-term average. The situation is expected to reverse in 2025, with this component likely contributing to negative inflation. The decline in energy prices, the downward revision of GDP growth, and the appreciation of the euro against the dollar following the announcement of US import tariffs have also been factored into the short- and medium-term inflation outlook. Towards the end of the projection horizon, goods inflation is expected to normalise and be in line with the long-term average.

Services inflation, in contrast, is more persistent. Even though recent strong increases in wages and costs have already been partially passed on to prices, informal indexation mechanisms based on past inflation are contributing to the stickiness of inflation. In addition, new measures introduced by the federal and regional governments, such as a higher personal contribution for service vouchers,<sup>8</sup> increased public transport costs, and a rise in airline taxes, have contributed to an overall increase in the prices of services. As a result, services inflation is expected to decline more gradually, remaining above its long-term average over the projection horizon.

Turning to the NICP, the decrease in the national index is expected to be more moderate in 2025, due to differences in the relative weights of the individual components of inflation, in particular energy and tobacco, 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 March 2026 and April 2027, which will trigger an indexation three months later.

## **7. The general government deficit is still expected to worsen and the debt ratio to rise**

Compared to last autumn’s projections, the current forecasts integrate the expected impact of fiscal policy measures featured in the federal government coalition agreement. They also take into account the increase in defence spending agreed in the Easter Accord, which aims to ensure that Belgium meets the NATO target of 2% of GDP from 2025 onwards. The impact of measures has been included to the extent the measures are sufficiently detailed and/or likely to be implemented. This approach also applies to agreed regional measures.

The budget deficit, which stood at 4.5% of GDP in 2024, is expected to widen to 5.2% of GDP in 2025. This deterioration is larger than had been expected in the autumn projections. Indeed, the return on federal austerity measures is expected to remain limited in 2025, while defence spending is already assumed to increase by over 0.5% of GDP. Aside from the increase in defence spending, a fall in the revenue-to-GDP ratio and an increase in interest expense are forecast to affect the balance negatively.

<sup>7</sup> Annual Report 2023 of the Price Observatory.

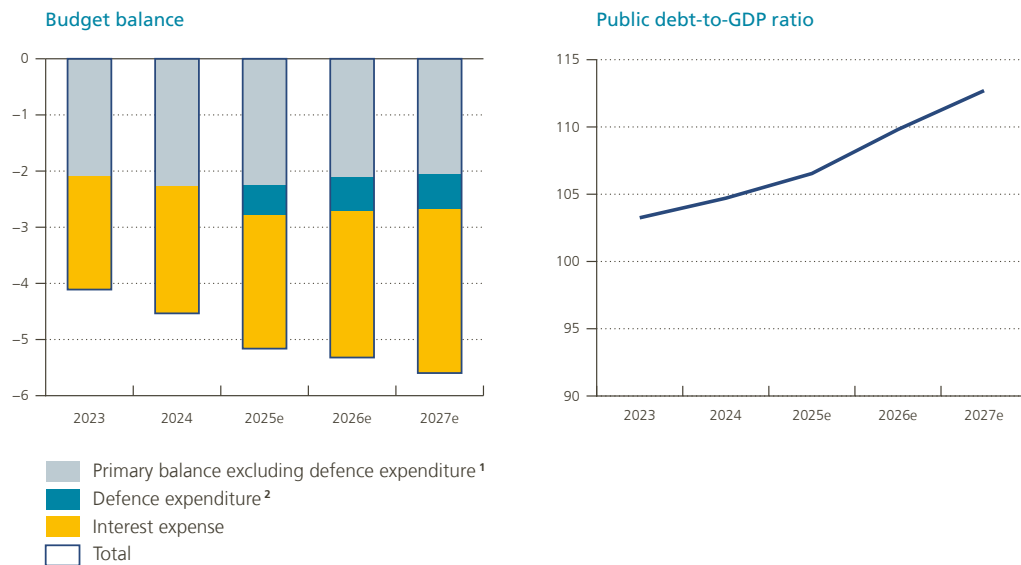
<sup>8</sup> The service voucher scheme is a government-backed system designed to regulate household and domestic services. It was introduced to reduce black-market employment, boost job creation, and provide citizens with affordable help for everyday household tasks.



Figure 7

### Budget deficit and debt-to-GDP ratio

(as a percentage of GDP)



Sources: NAI, NBB.

1 Primary balance excluding the additional defence spending agreed in 2025.

2 Additional defence spending agreed in 2025 which could be taken into account in the evaluation of the European fiscal rules.

The decline in the revenue ratio in 2025 has several causes. Corporate tax revenue, which peaked in 2024, is projected to normalise gradually. Indeed, the sharp increase in advance tax payments in 2023 and 2024 is expected to have a negative impact on assessments from 2025 onwards. Indirect tax revenue is also forecast to drop due to the planned reduction in registration duty on houses in Flanders and Wallonia, the regression of the tax contribution from the nuclear sector, and lower revenue from the European Emission Trading System. Furthermore, the growth of revenue from taxes on earned income is expected to be constrained by moderate growth in gross wages. Primary expenditure, for its part, should fall slightly, relative to GDP, when excluding additional defence spending. The abolition of the welfare envelope, the raising of the retirement age from 65 to 66 and a relatively low automatic indexation compared to the GDP deflator are deemed just insufficient to stabilise social benefits, which are pushed up sharply by ageing. However, we anticipate that austerity measures affecting other spending categories at both regional and federal levels will further depress expenditure.

In 2026, the deficit is predicted to rise slightly, to 5.3% of GDP. While the primary balance should show marginal improvement, interest expense is expected to increase by 0.2% of GDP. A modest decrease in the revenue ratio is forecast due to the further normalisation of corporate tax revenue, the reduction in social security contributions included in the federal government's coalition agreement, and the reduced contribution of the financial sector to the deposit guarantee fund. Federal measures increasing direct tax revenue from households, including the capital gains tax, and corporations are expected to only partially offset this decline. Consequently, the presumption is that any improvement in the primary balance will be entirely due to a fall in the primary expenditure ratio. Social spending should stagnate, despite the impact of population ageing, due to savings on pension spending and the first phase of the reduction in the duration of unemployment benefits. A range of regional and federal savings pertaining to public administration and transfers to households and corporations is projected to put a brake on expenditure growth, which is, however, partly countered by a strong increase in the GNI contribution to the European Union.

In 2027, the budget balance is forecast to deteriorate to –5.6% of GDP. This worsening, by 0.3% of GDP, can be fully attributed to an increase in interest expense. Over the period 2025-2027, this item is expected to increase by almost 0.7% of GDP as debt is gradually (re)financed at higher interest rates. The primary balance should then stabilise in 2027. Expiry of the Next Generation EU programme is anticipated to exert downward pressure on both primary expenditure and revenue. Substantial foreseen savings on social spending, including from the further roll-out of the unemployment benefits duration cap, are predicted to be just about sufficient to stabilise the social spending ratio in 2027. Other cost-saving measures should contribute to a slight decline in expenditure. The modest decrease on the revenue side is due to the drop of the exceptional dividend from Belfius bank (in 2025 and 2026) and the further normalisation of corporate tax revenue. Additional federal revenue measures are effectively assumed to balance themselves out that year. Note that these revenue projections do not include the expected EU ETS2 cash revenues in 2027, since these will only be recorded in government accounts from 2028 onwards.

The public debt is projected to increase from 105% of GDP in 2024 to 113% of GDP in 2027. The annual increase in the debt ratio of 2% to 3% of GDP may be attributed to the contribution of the primary budget deficit to debt dynamics. It is also notable that the favourable interest rate growth dynamics that pushed the debt ratio downwards over the past decade are forecast to disappear from 2026 onwards. Indeed, the average interest rate on outstanding debt will no longer be lower than the expected rate of nominal GDP growth.

**Table 7**

**General government accounts**

(as a percentage of GDP)

	2023	2024	2025e	2026e	2027e
<b>General government</b>					
Revenue	49.2	50.0	49.6	49.4	49.2
of which: taxes and social security contributions	42.0	42.7	42.3	42.2	42.1
Primary expenditure	51.3	52.2	52.4	52.1	51.8
Current expenditure	47.5	48.2	48.4	48.1	47.9
Capital expenditure	3.8	4.0	4.0	4.0	3.9
Primary balance	–2.1	–2.3	–2.8	–2.7	–2.7
Interest expense	2.0	2.3	2.4	2.6	2.9
Financing requirement (–) or capacity <sup>1</sup>	–4.1	–4.5	–5.2	–5.3	–5.6

Sources: NAI, NBB.

<sup>1</sup> 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 under the NGEU programme. This debt will have to be reimbursed from 2028 onwards.

## 8. Trade policy uncertainty is at a record high

The global economic policy uncertainty index began to climb at the start of 2025. This does not necessarily stem from geopolitical risk (despite numerous sustained or intensified conflicts around the world) but rather appears attributable to trade policy uncertainty, which has been on the rise since the election of Donald Trump to a second term in November 2024. In April 2025, the trade policy uncertainty index shot up to unprecedented levels, following the announcement of sweeping US import tariffs on so-called “Liberation Day”.

Trade sanctions and trade policy volatility in particular have sparked fears among investors, which in turn have exerted downward pressure on the dollar and on energy prices. Currently, futures contracts suggest a stable path for oil prices and a very gradual decline in gas prices over the projection horizon. As usual, the exchange rate is assumed to remain stable throughout the forecast period.

A scenario assuming a successful outcome from trade negotiations has been used as the baseline, but erratic and seemingly impulsive policymaking renders forecasting much more uncertain, with risks running in both directions. This was once again made apparent shortly after the cut-off date, on 23 May, when President Trump threatened to impose 50% tariffs on EU goods imported into the US as from June. Only a few days later, he suspended these plans until 9 July to allow more time for negotiations. In its projections for the euro area, the ECB has considered both a mild and a more severe scenario, which provide a wide range of possible outcomes.

When it comes to domestic policy, there are still unknown factors relating to the practical implementation of certain new government measures, and a number of crucial assumptions have had to be made. These assumptions affect not only the projections for public finances but also the outlook for the labour market, for example. These projections currently depend on the number of long-term unemployed jobseekers who will be impacted by the discontinuation of unemployment benefits, on the one hand, and the share thereof that finds a job within the forecast horizon, on the other. Both numbers are still subject to uncertainty.

## Annex

### Projections for the Belgian economy: summary of the main results

(year-on-year percentage change, unless stated otherwise)

	2023	2024	2025e	2026e	2027e
<b>Growth (calendar adjusted data)</b>	1.2	1.0	1.0	1.1	1.1
Real GDP					
Contributions to growth:					
Domestic expenditure, excluding change in inventories	1.8	2.0	1.8	1.3	1.2
Net exports of goods and services	-0.2	0.1	-0.4	-0.3	-0.1
Change in inventories	-0.4	-1.1	-0.3	0.0	0.0
<b>Prices and costs</b>					
Harmonised index of consumer prices	2.3	4.3	2.6	1.3	1.9
Health index	4.3	3.3	2.3	1.2	1.8
Core inflation	6.0	3.4	2.1	1.8	1.8
GDP deflator	4.5	1.9	3.0	1.3	1.5
Terms of trade	1.2	0.6	1.3	-0.1	-0.4
Unit labour cost in the private sector <sup>1</sup>	8.3	2.0	2.3	1.0	1.2
Hourly labour cost in the private sector <sup>1</sup>	8.1	2.8	3.2	1.5	1.7
Hourly productivity in the private sector	-0.1	0.8	0.9	0.5	0.5
<b>Labour market</b>					
Domestic employment (annual average change in thousands of persons)	39.6	16.5	19.7	36.1	44.8
Total volume of labour <sup>2</sup>	1.0	0.3	0.3	0.5	0.7
Harmonised unemployment rate (as a % of the labour force aged 15 years and over)	5.6	5.8	6.1	6.1	6.0
<b>Household incomes</b>					
Real disposable household income	2.2	0.7	1.7	0.7	0.4
Saving rate (as a % of disposable income)	14.1	13.0	12.4	11.9	11.5
<b>Public finances (as a % of GDP)</b>					
Primary balance	-2.1	-2.3	-2.8	-2.7	-2.7
Budget balance	-4.1	-4.5	-5.2	-5.3	-5.6
Public debt	103.2	104.7	106.5	109.8	112.7
<b>Current account (according to the balance of payments, as a % of GDP)</b>	-0.7	-0.9	0.1	-0.3	-0.8

Sources: EC, NAI, Statbel, 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.

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