BELGIUM

SMOOTH SAILING FOR NOW, BUT WHERE TO NEXT?

Belgian growth fluctuated in the first half of this year, with a strong Q1 followed by a slowdown in Q2. Nevertheless, our nowcast for Q3 points to growth of 0.3% q/q, with renewed confidence among households and businesses. Export growth was subdued, hit by tariffs and the related uncertainty. However, the wage catch-up in neighbouring countries should improve Belgian's competitiveness (wages are now rising faster than inflation in comparable European countries). House prices continue to rise, but the low number of new homes makes them less affordable. The public debt ratio is increasing by 2 percentage points per year and increased commitments to NATO are widening the deficit. The government has no choice but to take difficult decisions to reduce it.

RESILIENT GROWTH

Growth slowed to 0.2% q/q just before the summer, after a strong showing in Q1 (0.4%). For Q3, our nowcast of 0.3% q/q suggests resilience. Household confidence is at its highest level in a year, coinciding with an increase in consumer spending and a gradual recovery in the property market. Business confidence has continued to improve across all sectors since April, with only the services sector still lagging somewhat. Based on our monthly analysis of anonymised financial transactions from a subset of Belgian companies, we are seeing a sharp increase in activity levels.

In the longer term, we see favourable prospects abroad thanks to Germany's budgetary spending, which could be offset by stronger fiscal consolidation at national level. As a result, we forecast annual growth of 1.1% for both 2025 and 2026.

Internal geographical disparities are expected to widen, with the north (Flanders) outperforming the Brussels-Capital Region and southern Wallonia. A key driver is the large share of market services in the Flemish economy. In addition, a recent simulation by the Belgian Federal Planning Bureau points out that the number of workers from Brussels and Wallonia commuting to Flanders will increase, further cementing the latter's economic dominance.

GROWTH AND INFLATION (YEARLY AVERAGE)

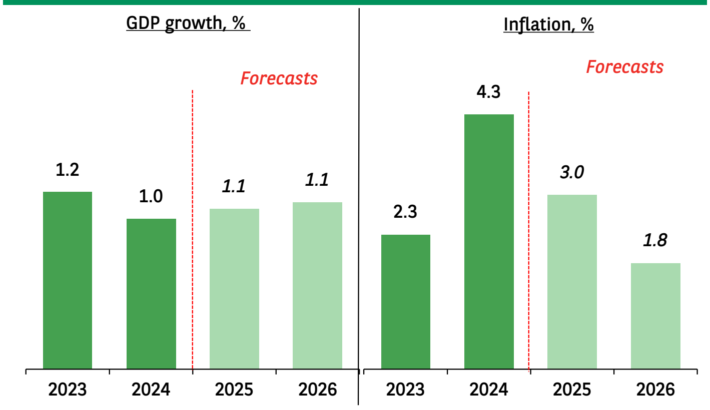

CHART 1 SOURCE: FORTIS, BNP PARIBAS

LABOUR MARKET: SOFT LANDING, EPISODE 241

The unemployment rate has been hovering slightly above 6% since the start of the year, after reaching its lowest level during the pandemic at 5%. Leading indicators have been pointing towards a slowdown for a while now. The private sector job vacancy rate, which peaked at 6% in 2022, has now fallen back to 4.8%, although this is still high. Fear of unemployment, a sub-indicator of household sentiment, has been rising since 2024.

Recently however, this fear has subsided. In fact, total employment growth has been speeding up somewhat since the start of the year. While job creation has recently been dominated by non-market services, and fiscal consolidation efforts are expected to put an end to this trend, the significant uptick in self-employment, with a growth rate almost double its pre-pandemic average, is a welcome boost. We expect the unemployment rate to rise slightly further but then stabilise before reaching 7%. Meanwhile, policy support for the labour market could help speed up total job creation, but not as much as the current federal government hopes (see below).

INFLATION: NORMALISATION OF CORE INFLATION

After experiencing the highest inflation in the EU (together with Romania) for most of 2024, growth in the Belgian harmonised index slowed from 4.4% y/y in January to 2.6% in August. Over the same period, core inflation also stabilised at 2.2%, in line with a slowdown in wage growth (indexed to inflation). The latter is expected to remain at this level, as the maximum margin for growth in collectively negotiated real wages for the period 2025-2026 was recently set at zero, according to the National Bank of Belgium.

Furthermore, new measures announced by the federal government, such as a cap on social security contributions, are expected to reduce employer contributions and, in turn, labour costs. Energy inflation is expected to fall initially due to improved supply conditions and the weak US dollar, before rising again in 2027 with the introduction of the EU ETS2 system.

FISCAL POLICY: EVERYONE HAS A PLAN...

The budget deficit stood at 4.5% of GDP in 2024. After lengthy negotiations to form a government, Prime Minister Bart De Wever reaffirmed his party's goal of reducing the deficit. However, reality quickly undermined these ambitions, as increased NATO spending commitments and higher interest expenditure – which is expected to rise by 0.3pp of GDP every year for the foreseeable future – make this goal more difficult to achieve. Furthermore, the government's strategy was based in part on higher employment in order to bolster revenues and reduce social spending. But the goal of creating more than 500,000 jobs in four years is difficult to achieve under current conditions. Consequently, the deficit is expected to increase further, with public debt rising by more than 2pp of GDP per year over the forecast period.

The government has taken measures that should help to achieve fiscal consolidation in the longer term, including reducing civil servants' pensions, which will help to limit the increase in age-related expenditure.

HOUSE PRICES ARE UP, IF YOU CAN AFFORD IT

The issue of housing affordability is becoming increasingly pressing, with the Belgian property market falling victim to its own success. Since mid-2022, property prices have risen faster than those in France and Germany, reaching the same level as those in the Netherlands. This has fuelled the expectation of further price increases, supported by strong fundamentals.

However, price is only one part of the story. The transaction volumes on the secondary market fell by 15% in the quarters following the first rate hikes. Although the situation appears to have improved recently, the number of new builds continues to decline. New builds are an important means of increasing the housing stock. Yet the number of new build permits continues to fall and is now 35% below its 2022 level. A New-builds are only affordable for a minority of households.

As we expect property prices to continue to rise by 2% per annum over the next few years, new initiatives to promote home ownership are urgently needed.

NET EXPORTS WEIGHING ON THE ECONOMY

Belgium's trade surplus improved in the first half of 2025, compared with the first half of 2024. This result is largely due to anticipated exports to the US in the first months of this year. However, taking a step back, it is clear that net exports have been a drag on growth and that this situation is unlikely to change any time soon.

Looking ahead, the decline in trade flows linked to COVID-19 and the loss of competitiveness during the 2022-2023 wage indexation cycle will continue to weigh on exporters. That said, Belgium's wage disadvantage should ease as neighbouring countries catch up, creating opportunities to regain lost export market share. France, Germany and the Netherlands remain the most important trade partners, so an uptick in economic growth due to fiscal spending (Germany, most notably) could also help reverse the situation.

Article completed on 5 September 2025

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BELGIUM: LABOUR MARKET: UNEMPLOYMENT RATE AND SENTIMENT

CHART 2

SOURCE: NATIONAL BANK OF BELGIUM

BELGIUM: REAL ESTATE MARKET CONDITIONS

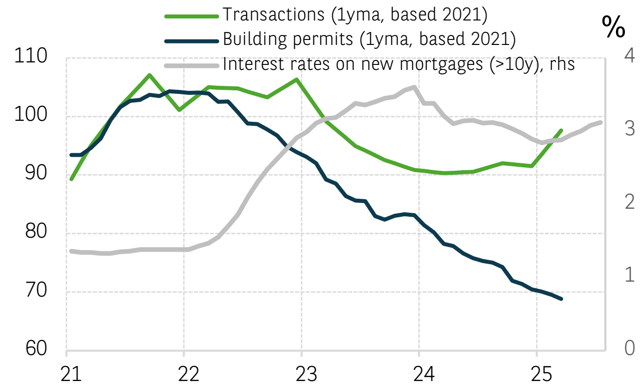

CHART 3

SOURCES : NATIONAL BANK OF BELGIUM, STATISTICS BELGIUM