4. Economic activity in Belgium

4.1 The Belgian economy proved robust, buoyed by services and domestic demand

In 2023, unlike in previous years, Belgian economic activity was not hampered by new large exogenous shocks. Since 2020, the Belgian economy had been affected by the outbreak of the Covid-19 pandemic, with successive waves up to 2021 ; disruptions to global supply chains following the health crisis ; and a surge in commodity prices, particularly energy, exacerbated by Russia's invasion of Ukraine, which caused gas and oil prices to soar to historically high levels in 2022.

In 2023, the situation gradually returned to normal. On the one hand, inflation declined rapidly thanks to falling energy prices, particularly gas prices, although they remained high in Europe by pre-crisis standards and compared with other regions of the world. On the other hand, the vast majority of Belgian companies no longer reported disruptions in their supply chains, such as shortages or extended delivery times. Health risks, for their part, had been contained by 2022.

GDP continued to rise in 2023

Quarterly GDP growth accelerated somewhat at the start of the year. It had lost momentum in the second half of 2022, following the sharp rise in energy prices. In 2023, it duly benefited from the fall in energy prices and the associated rise in confidence, which translated into GDP growth of 0.4 % in the first quarter. The automatic indexation of wages, which occurs in January for around one-third of private sector workers, also bolstered economic growth by considerably increasing the purchasing power of employees whose income had not yet been adjusted to reflect the significant rise in inflation seen in 2022.

Belgian economic growth subsequently proved surprisingly robust. Despite a gradual deterioration in the international environment and business confidence, quarterly GDP growth remained relatively stable, fluctuating between 0.3 % and 0.4 % over the next three quarters.

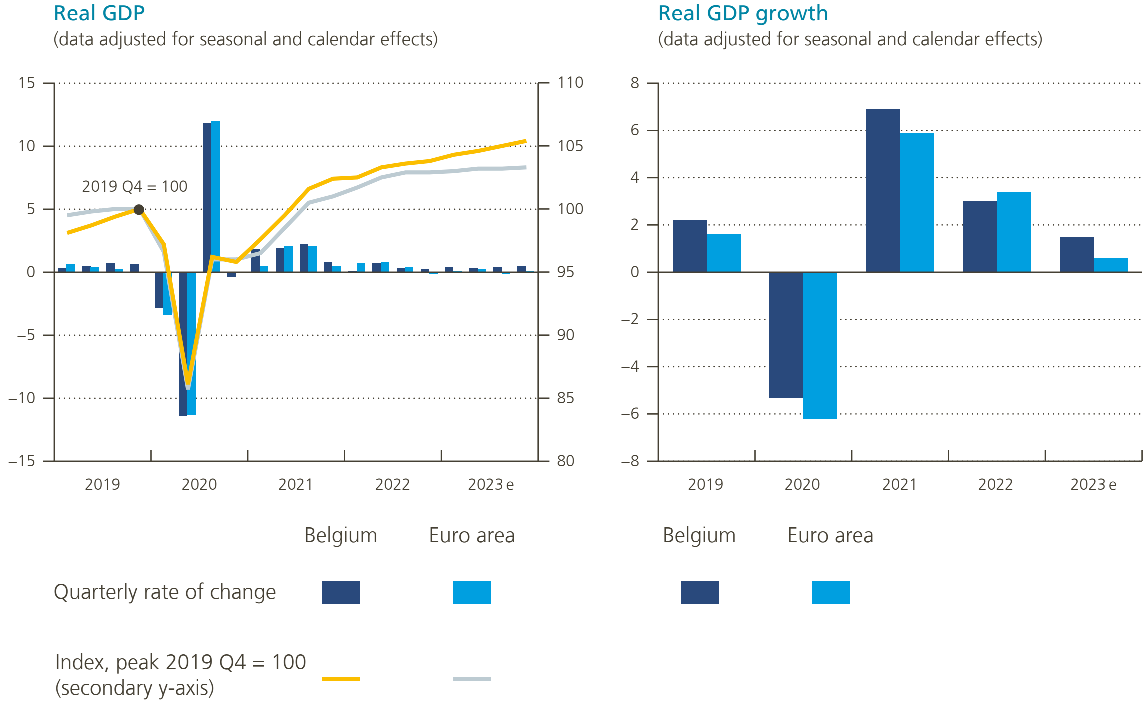
Overall, annual GDP growth came in at 1.5 % for 2023. Despite quarterly dynamics comparable to those of 2022, this represents a slowdown since annual growth was previously 3 %. The difference was mainly due to the fact that, in 2022, GDP growth continued to benefit substantially from the normalisation of activity following the Covid-19 pandemic.

Economic activity grew faster in Belgium than in the euro area. In the euro area, activity growth did not exceed 0.6 %. The growth differential in favour of the Belgian economy can be attributed to two main factors. First, automatic wage indexation in Belgium protects the purchasing power of households, even though this protection is not complete. Second, government support measures for businesses and households spared them the full impact of recent crises. At the end of 2023, Belgium's GDP was 5 % above its level in the fourth quarter of 2019, i.e. before the outbreak of the Covid-19 pandemic. For the euro area as a whole, GDP in Q4 2023 was 3 % above this reference level.

This chapter incorporates data available at the beginning of February and therefore does not take into account the statistics for the fourth quarter of 2023 published by the NAI at the end of February. Estimates for 2023 are, however, in line with the NAI statistics. It should be noted that the latter imply a shift from business investment to exports with no impact on GDP which is essentially attributable to temporary factors.

Figure 4.1

The pace of GDP growth remained stable in 2023, although annual growth slowed



Sources: ECB, NAI, NBB.

Market services remained the main driver of growth in 2023

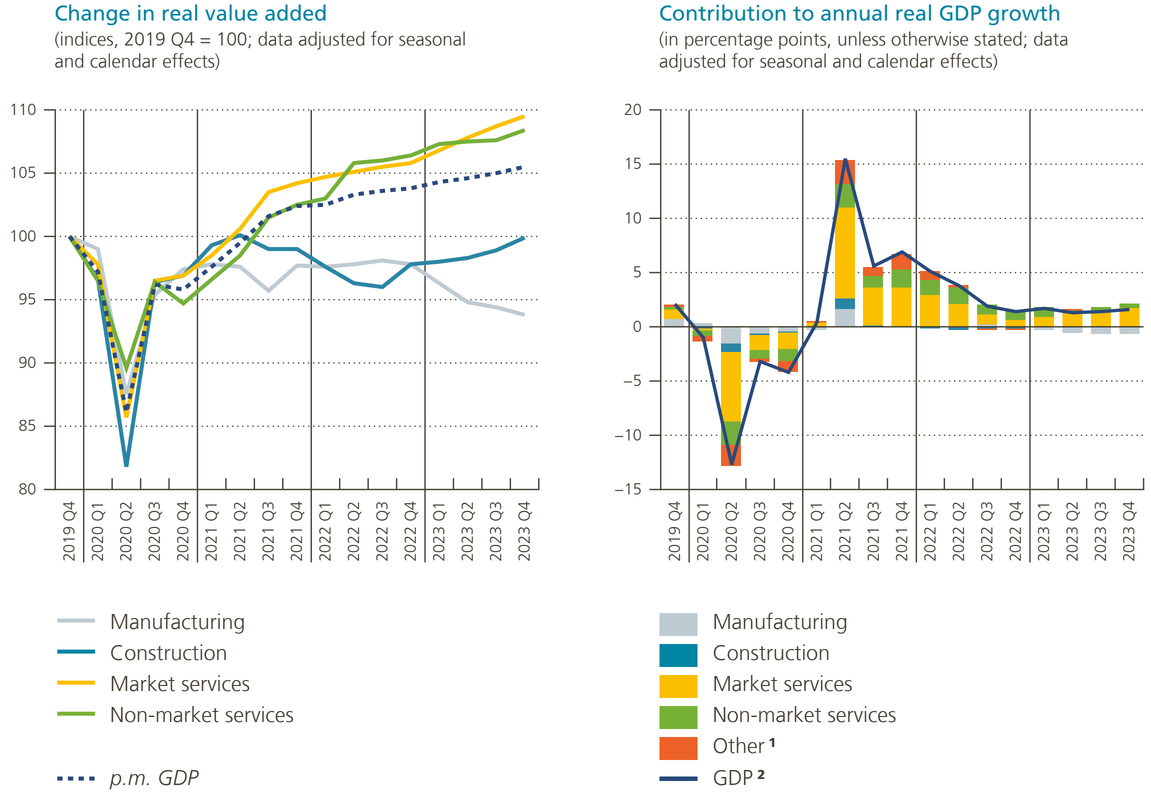
The different sectors of the Belgian economy were affected to varying degrees by the recent crises. While the Covid-19 pandemic hit the services and construction sectors somewhat harder in 2020, it was the manufacturing sector and – once again – construction that progressively fell victim to the supply shortages seen in 2021 as well as, and above all, to soaring costs in 2022.

In 2023, value added in manufacturing followed a clear downward trend. While rising wage costs clearly posed a challenge for labour-intensive sectors, manufacturing activity, which is usually more sensitive to cyclical variations, was particularly hard hit by the deterioration in the external environment and by energy prices. Although they have fallen significantly, energy prices remain high in Europe, both compared to the situation prior to the energy crisis and to the rest of the world. According to the results of a Bank survey published in December, [1] energy-intensive firms are concerned about the viability and structural competitiveness of some of their activities. In addition, some

1 See NBB (2023), *Economic activity may decelerate slightly with some tentative signs of an improvement early next year*, NBB Business Echo, December

Figure 4.2

The main sectors of economic activity once again performed differently in 2023



Source: NAI.
1 In particular the "agriculture, forestry and fishing" sector and taxes on production, excluding subsidies.
2 Annual rate of change.

manufacturers, particularly for non-food consumer goods, reported having to cope with more cost-conscious consumers who are spending a larger share of their household budget on services, to the detriment of durable goods. These factors were also reflected in the results of the Bank's business surveys, which showed a fall in confidence among business leaders in the manufacturing industry. Overall, real value added in manufacturing fell by 3.1 % in 2023.

Value added in the building industry rose in 2023. While residential building activity, on new constructions and renovation work, was hampered by rising interest rates and construction costs, the sector benefited from the electoral cycle. The latter generally leads to a particularly marked upsurge in investment by local authorities in the year prior to elections, which in turn results in an increase in public works. According to the Bank's business surveys, the confidence of business leaders active in the civil engineering sector improved over the year. Overall, real value added in the building industry climbed by almost 2 % in 2023.

Services continued to shore up growth in 2023. With a rise in value added of around 2.5 % compared with the previous year, services were the main driving force in the Belgian economy. Market services were boosted by strong domestic demand, from both households and businesses, while solid public sector employment consolidated the performance of non-market services. According to the Bank's above-mentioned survey, providers of business-to-business services were the most optimistic in 2023, particularly insofar as they benefited from the continued digitalisation and automation of the wider economy.

At the end of 2023, value added in certain sectors of the Belgian economy had yet to exceed its level from four years earlier. In particular, value added in the manufacturing industry, which was hard hit by recent crises, was almost 6 % below the peak reached in the fourth quarter of 2019. Activity in the building industry, in the meantime, returned to its pre-crisis level. However, it had already reached this level in the first half of 2021, before gradually feeling the effects of the aforementioned shocks. Finally, services, in particular market services, proved very resilient, with value added at the end of 2023 around 9 % higher than at the end of 2019.

Growth was mainly driven by business investment and household consumption expenditure

Overall, domestic demand shored up activity growth in 2023. Excluding changes in inventories, domestic demand contributed two percentage points to growth. Household consumption, which accounts for just over half of GDP in Belgium, continued to rise in 2023, albeit at a slower pace than in the previous two years, contributing 0.7 percentage points to the increase in activity. Nonetheless, the main driver of growth was gross fixed capital formation, more specifically corporate gross fixed capital formation. Thanks to a very strong rise, this factor contributed 1.5 percentage points to GDP growth. The decline in investment in housing (–5.4 %) and the rise in public investment (5.6 %), on the other hand, cancelled each other out, resulting in a virtually non-existent, albeit slightly negative, contribution to activity. The same applied to public consumption expenditure, which stabilised after two years of strong growth.

The contribution of net exports of goods and services to GDP growth turned negative in 2023. As a result of a decline in exports (–3.2 %), due in particular to a fall in exports of pharmaceutical products, more specifically vaccines and other treatments against Covid-19, which was more marked than the fall in imports (–2.3 %), the contribution was –0.8 percentage points. This was the first negative contribution since 2018. The change in inventories, on the other hand, made a positive contribution to GDP growth (0.2 percentage points).

Table 4.1

GDP and main expenditure categories

(real figures adjusted for calendar effects; annual rate of change, unless otherwise stated)

	2019	2020	2021	2022	2023 e
Private consumption	1.7	–8.2	6.3	3.2	1.5
Public consumption	2.2	–0.3	5.2	4.2	0.0
Gross fixed capital formation	5.1	–5.2	5.0	–0.2	5.6
Housing	5.1	–7.2	6.0	–3.2	–5.4
Businesses	5.6	–5.5	4.7	1.1	9.0
Government	1.9	1.1	4.7	–1.6	5.6
p.m. Final domestic expenditure [1]	*2.6*	*–5.6*	*5.7*	*2.6*	*2.0*
Change in inventories [2]	–0.7	–0.6	0.4	0.4	0.2
Net exports of goods and services [2]	0.4	0.9	0.9	0.1	–0.8
Exports of goods and services	2.4	–6.3	13.9	4.9	–3.2
Imports of goods and services	2.0	–7.4	13.0	4.9	–2.3
GDP	2.2	–5.3	6.9	3.0	1.5

Sources: NAI, NBB.
1 Excluding change in inventories.
2 Contribution to the change in GDP compared with the previous year, in percentage points.

BOX 3

The Belgian economy since the pandemic: a comparison with neighbouring countries and the euro area

The deep and swift recession triggered by the Covid-19 pandemic in 2020 and the associated shortages in goods and services quickly proved to be V-shaped. In the depths of the crisis, concerns were expressed about the scars that such a violent and sudden shock could leave on economies. This concern was heightened when the pandemic-related crisis gave way to energy price inflation in the second half of 2021, caused initially by the vigorous recovery and then Russia's invasion of Ukraine. Almost four years after the outbreak of the pandemic, the statistics available for GDP and its components allow us to assess the lasting traces left by these two major shocks on the economies of Belgium and its neighbours.

The graphs and descriptive analysis that follow cover several aspects. Firstly, they attempt to measure the aforementioned "scars" by comparing actual real GDP with real GDP in a counterfactual "no crisis" scenario for Belgium.[1] The latter is constructed on the basis of the last ESCB projections produced prior to the pandemic, i.e. those from December 2019. As these projections have a three-year horizon, the no-crisis scenario has been extended using the historical real GDP growth rate. This hypothetical trajectory is a simple approximation of the economy's equilibrium path. Secondly, comparison of the Belgian economy with that of its main trading partners, and with the euro area as a whole, shows that not all economies weathered the two recent consecutive storms with the same ease.[2] Thirdly, this analysis allows us to observe the rebalancing that has taken place within the demand components of GDP: (private and public) consumption, investment and the balance of trade.

The graph below shows that Belgium's real GDP had already caught up with the no-crisis counterfactual by the third quarter of 2021 and has since exceeded it, trending around one percentage point (p.p.) above this hypothetical level. This performance is quite remarkable compared with those of the country's main trading partners. The GDP of Germany, of France and of the euro area is still well below their own counterfactuals (not shown here for the sake of clarity), at 3.7, 3.1 and 2.0 p.p., respectively. The Netherlands clearly progressed from 2021 to 2022 but, hit by particularly severe inflation, entered recession in 2023. By the end of the year, cumulative growth in Belgian economic activity had caught up with that seen in the Netherlands.

The post-Covid recovery was characterised by a substantial rebalancing of the demand components of GDP. In Belgium, there was an increase in the contributions of public consumption and net exports to growth, while those of private consumption and residential investment declined. By the end of 2020, business investment had almost returned to the level expected before the pandemic; it then slowed, before picking up again very dynamically in the second half of 2022.

1 In the graph showing the change in real GDP, only the counterfactual scenario for Belgium is featured, for the sake of clarity. For most countries, the counterfactual scenario is not very different, with the notable exception of the Netherlands, for which it is characterised by more robust potential growth.

2 Figure 1.13 in the first chapter of this report provides a more global overview, showing a comparison of cumulative growth since 2019 for all euro area countries.

Belgium's net exports benefited considerably from a "Covid vaccine" effect in 2021, thanks to the establishment of a production line by a multinational pharmaceutical company, one of whose products helped reduce the mortality rate from infections to almost zero. Starting in 2022, the exceptional contribution of this component to growth began to fade away, until it eventually coincided with that of the euro area as a whole, which is still much higher than that of Germany or France.

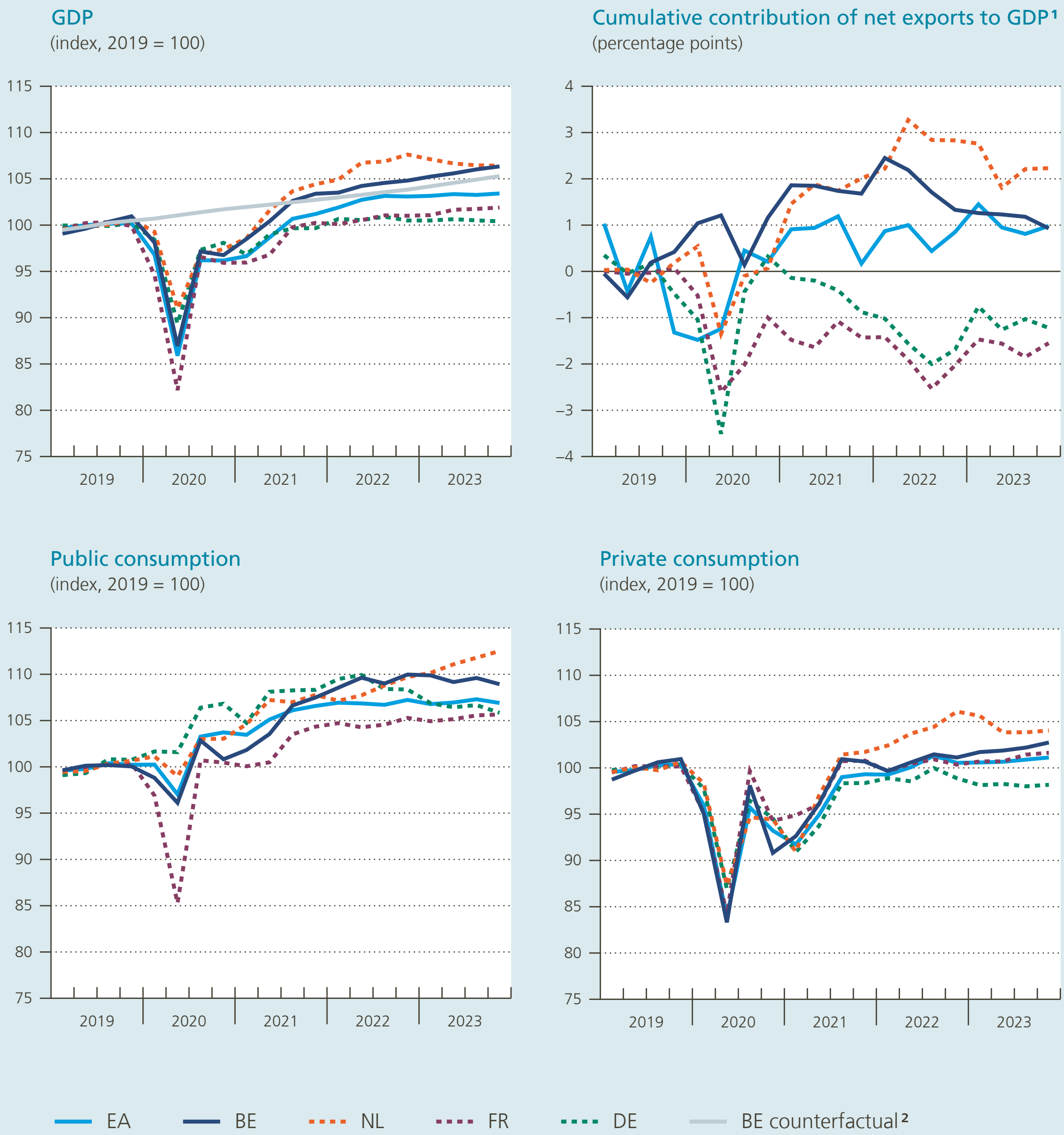
The trends in public consumption illustrate the increase in healthcare spending in the five selected economies, as well as the use of substantial countercyclical policies during and after the pandemic. In all five economies, public consumption grew significantly faster than GDP between 2019 and 2021. Over the entire period under consideration, Belgium, along with the Netherlands, was one of the five economies with the most vigorous cumulative growth in public consumption. However, its cumulative growth differential in relation to GDP was the smallest, at 2.6 p.p., compared with 3.5 p.p. for the euro area, 3.8 p.p. for France, 5.4 p.p. for Germany and 6.1 p.p. for the Netherlands.

Cumulative growth in Belgian private consumption since 2019, at 2.7 %, was less than half that of domestic product, which stood at 6.3 %. Automatic wage indexation in Belgium certainly helped shore up real household disposable income in 2023 after the decline seen in 2022. However, intertemporal consumption smoothing, high uncertainty and rising interest rates encouraged households to save more, meaning that, since the start of the energy crisis, private consumption has not grown significantly more in Belgium than in neighbouring countries. This can also be explained by the fact that, at the height of the crisis, other countries also adopted measures to protect household purchasing power.

Residential investment was impacted, firstly, by disruptions to supply chains and a concomitant rise in the cost of building materials and, secondly, by an increase in the cost of borrowing. Of the five economies examined here, Belgium saw the sharpest drop in this component of GDP, which fell 10 % from its 2019 level.

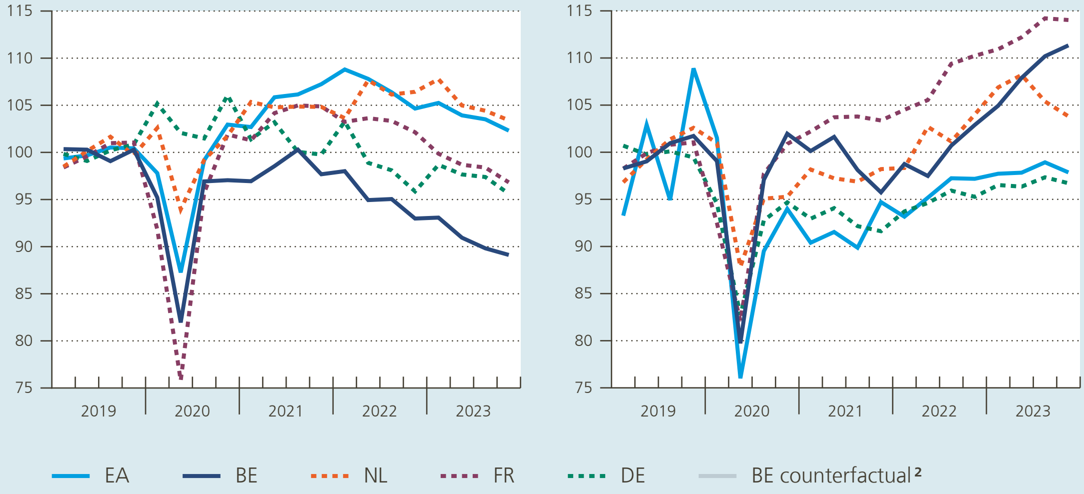
Even though net exports and public consumption have not sustained growth since 2022, Belgian economic activity weathered the recent energy crisis well, posting a growth rate close to its historical average. This good performance was due to the surprisingly dynamic growth in business investment seen since the second half of 2022. This is particularly remarkable in the context of rising interest rates. One possible explanation is the historically high share of gross operating surplus in GDP in 2021 and 2022, which would have made it easier for companies to finance their investment projects internally rather than through bank loans. This upturn in investment bodes well for future competitiveness and growth.

Change in the level of real GDP and its components – a comparison between Belgium and its main trading partners



Residential investment
(index, 2019 = 100)

Business investment
(index, 2019 = 100)



Sources: Eurostat and own calculations.

1 For each economy, the contribution of net exports to GDP is calculated as the percentage difference between the level of GDP shown in the first figure and that obtained for the same economy but with the growth rate reduced by the contribution of the trade balance from 2019 onwards. It thus represents the cumulative contribution of net exports to GDP growth.

2 The "BE counterfactual" corresponds to the December 2019 projection of Belgium's real GDP, as explained in the second paragraph of this box.

4.2 Household purchasing power supported consumption, while household investment in housing fell sharply

Automatic wage indexation preserved household purchasing power

Despite the successive crises of recent years, the purchasing power of Belgian households has on the whole been well protected. Indeed, the introduction of support measures such as more widely available furlough schemes and the bridging allowance for the self-employed during the Covid-19 crisis and, more recently, energy aid, particularly for the lowest-income households, helped maintain growth in real household disposable income. Real disposable income, which is the macroeconomic indicator of household purchasing power, also benefited from indexation, rising by 4.4 % in total between 2019 and 2022. However, the exceptional surge in prices in 2022, coupled with the lag in indexation mechanisms, led to a temporary fall in real disposable income.

In 2023, household purchasing power rose by 3.4 %. This increase was essentially attributable to the deceleration of inflation and a sharp rise in household gross disposable income in nominal terms (9 %). The latter obviously benefited from growth in earned income, which was boosted mainly by the automatic indexation of wages and an increase in hours worked. It should be recalled that around one-third of private-sector workers benefit from automatic wage indexation only once a year, in January, meaning their income was only adjusted at the beginning of 2023 to take into account the sharp acceleration in inflation observed in 2022. Gross operating surplus and gross mixed income continued to rise in 2023, by a total of almost 8 %. The latter was due to the rapid growth in rent from which households benefitted. Moreover, other income from assets continued to increase against the backdrop of rising interest rates, albeit at a slightly slower pace than in 2022, in line with slower growth in dividends received. General government transfers, on the other hand, grew slightly less rapidly than household transfers (which consist mainly of taxes).

Purchasing power, defined in macroeconomic terms, can be sensitive to methodological aspects of national accounting and the measurement of changes in consumer prices. This is notably the case for the inclusion in the consumer price index of only new contracts for gas and electricity, to the exclusion of existing contracts, which led *de facto* to an underestimation of energy expenditure in 2023, since energy prices fell while households were bound by contracts concluded when prices were much higher. As a result, measured inflation might have been lower than the true rise in the cost of living, and the increase in purchasing power could have been somewhat overestimated. It should be noted that the exact opposite happened in 2022, for the same reasons, with inflation estimated to be higher than it was in reality.

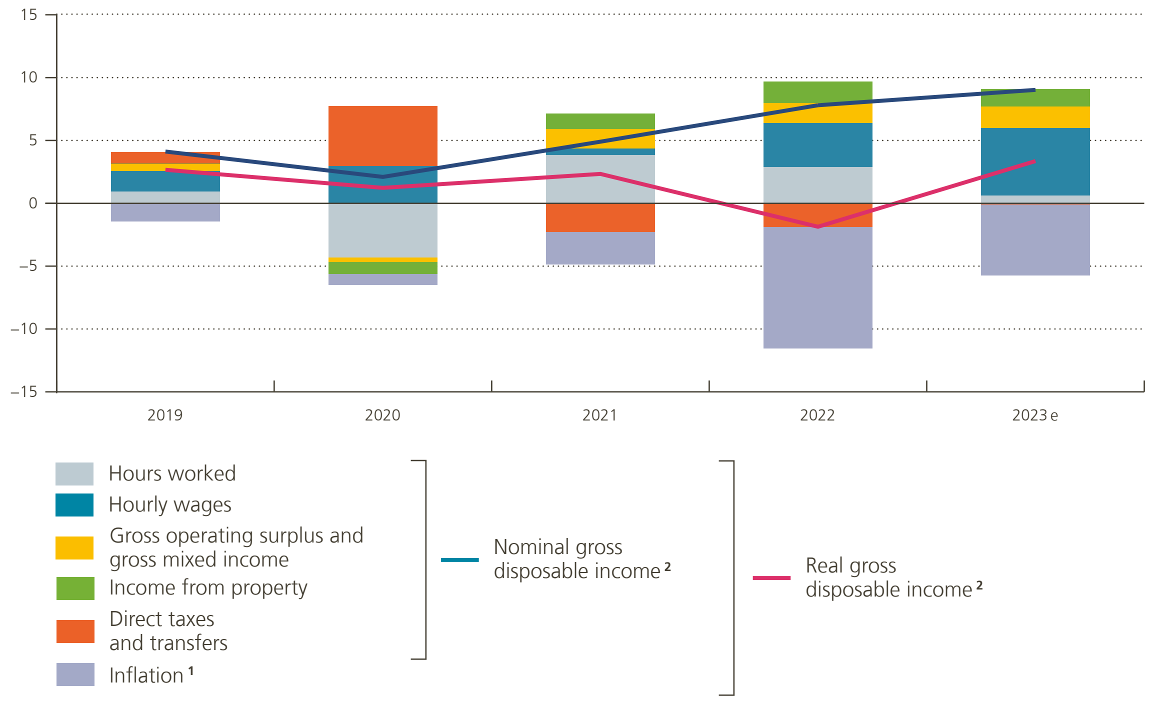
Households consumed more, while their investment in housing fell sharply

Private consumption continued to rise in 2023. However, with growth of 1.5 % over the year as a whole, it was only about 2 % higher than before the Covid-19 pandemic four years earlier. This component of demand was indeed severely affected

Figure 4.3

Automatic wage indexation boosted purchasing power

(contribution to annual growth in gross disposable income, unless otherwise stated)



Sources: NAI, NBB.
1 Final household consumption expenditure deflator, reversed in sign.
2 Annual rate of change.

by the exogenous shocks Belgium has experienced since 2020. In 2023, household consumption expenditure was notably boosted by an increase in household income and, consequently, purchasing power, due in part to the indexation of wages.

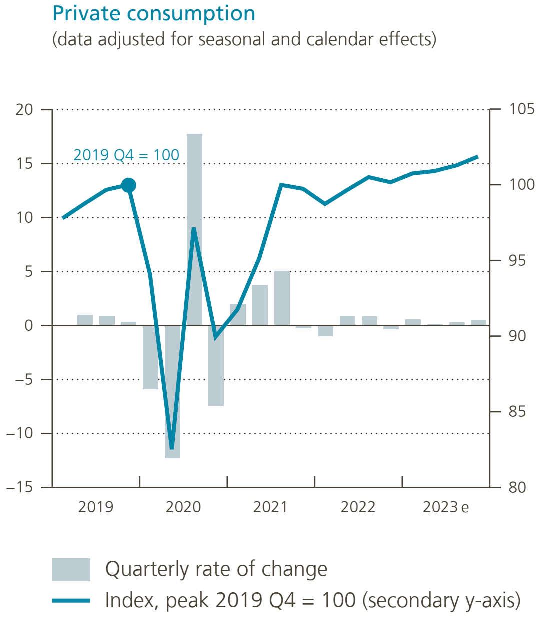
Although households continued to consume more in 2023, private consumption growth slowed markedly. In 2022, in order to offset – at least in part – the contraction of their purchasing power, households drew on their savings, which were particularly high after two years marked by the effects of the Covid-19 pandemic. The saving rate fell by just over four percentage points to 13 %, bringing it back to a level comparable to that recorded in the years prior to the health crisis. In 2023, private consumption grew less rapidly than the real gross disposable income of households, with the latter appearing somewhat reluctant to allocate this increase entirely to spending, preferring instead to save more. In fact, although the consumer confidence indicator gradually recovered over the course of the year, this increase was mainly attributable to more optimistic assessments by households of their financial situation and, above all, to higher anticipated saving. All in all, the saving rate rose by just under 1.5 p.p. in 2023, to almost 14.5 %. This level is still high, though, compared with the situation prior to the outbreak of the health crisis in 2020.

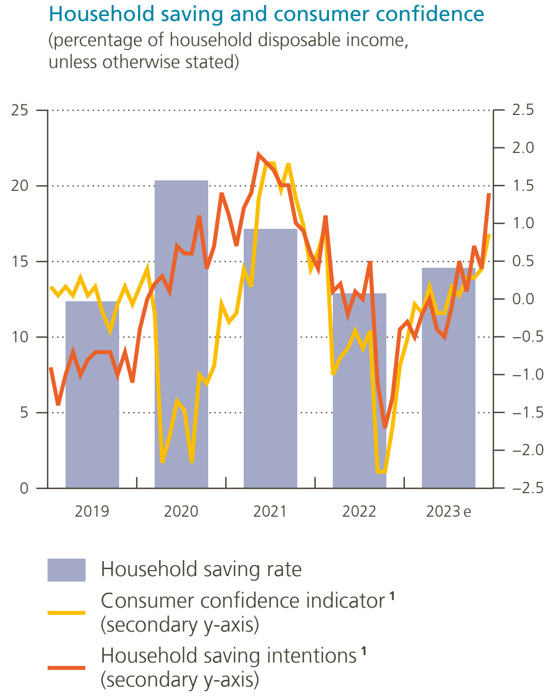
Investment in housing continued to fall in 2023. Down 5.4 % from the previous year, the decline has been accelerating since 2021. Compared with the level observed before the health crisis, investment in housing was 12 % lower at the end of 2023.

Higher mortgage interest rates and rising construction costs dampened residential

Figure 4.4

Household consumption and the household saving rate both rose in 2023





Sources: NAI, NBB.
1 Standardised net responses.

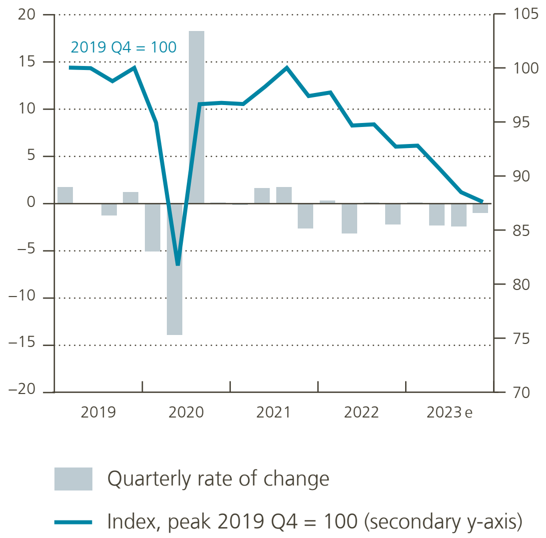
investment. In fact, both the number of transactions in existing homes – for which registration duties are recorded using the national accounts methodology – and the volume of building permits granted for new constructions and renovation work fell in 2023. On the one hand, due to the continued tightening of monetary policy in the euro area in 2023, the average interest rate for new mortgage loans rose from 3.2 % in January to 3.9 % in December. All other things being equal, this weakened the capacity of households to repay a new mortgage (see chapter 7 for more information on this subject). On the other hand, the cost of building materials, which rose by 5 % in 2023 from the previous year, remained at a particularly high level.

Figure 4.5

Investment in housing fell again

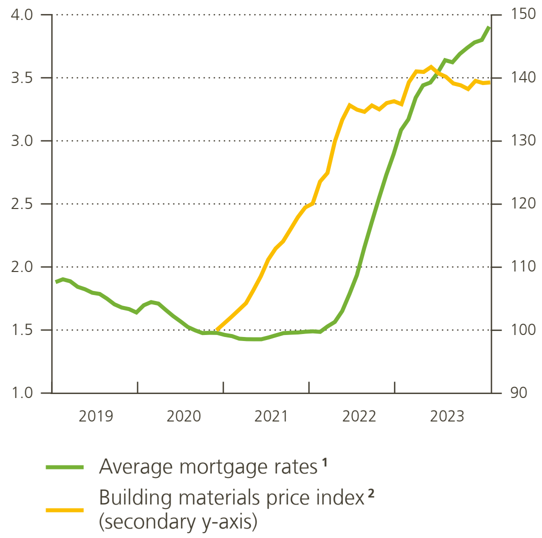
Investment in housing

(data adjusted for seasonal and calendar effects)



Mortgage rates and construction costs

(percentage, unless otherwise stated)



Sources: Arch-index, NAI, NBB.
1 For new mortgage loans.
2 Index, November 2020 = 100.

4.3 Despite pressures on profitability, firms continued to invest significantly

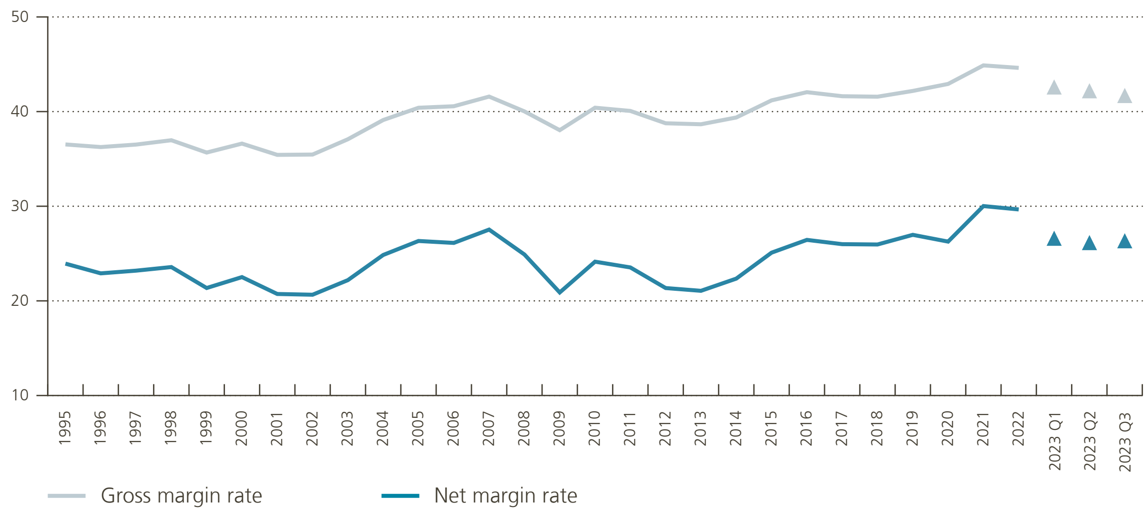
Rising costs squeezed margins for non-financial corporations

The profit margins of Belgian firms remain high, despite having fallen since 2022. The gross profit margin of Belgian firms represents the proportion of gross value added that remains available to make investments and remunerate capital after the deduction of the cost of labour but before corporate taxes. This share, which has grown since 2014, displays an upward trend over the long term, across all main sectors of economic activity. Part of this increase in the margin, calculated at macroeconomic level, can be attributed to higher capital depreciation over time. This has indeed increased as a result of a decline in the share of long-lived assets in the capital stock – to the detriment in particular of IT and transport equipment which has a shorter service life – which requires greater capital depreciation that must be financed by gross margins. However, the net margin rate, i.e. excluding capital depreciation, has also risen in recent years.

Figure 4.6

Corporate profit margins rose considerably in recent years but have since fallen back slightly, partly due to rising costs

(non-financial corporations, operating surplus as a percentage of value added)



Sources: NAI, NBB.

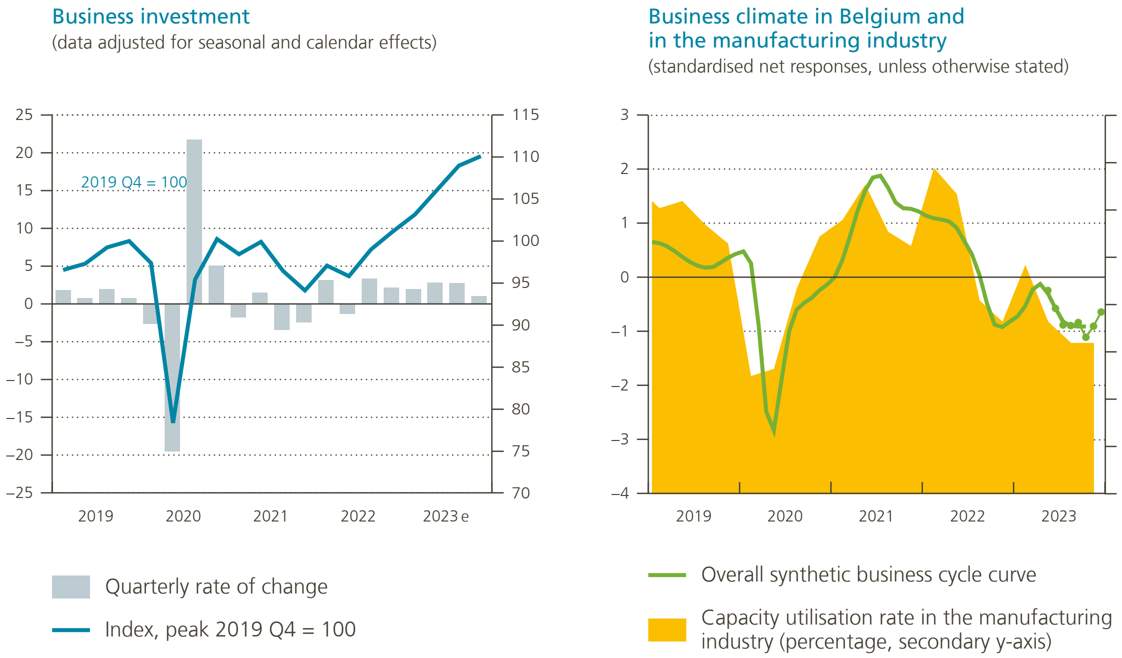
The rise in margin rates over the last decade is attributable in part to a composition effect but is also due to the fact that labour costs have risen much less than labour productivity further to the adoption of measures to improve firms' cost-competitiveness. As a result, industries with higher profit margins have seen their relative share of GDP gradually increase, which has raised the aggregate margin rate of firms in the Belgian economy. In addition, various measures aimed at improving the cost-competitiveness of Belgian firms, through both the wage growth ceiling (or "wage norm") and ad hoc measures introduced after 2014, such as the temporary suspension of indexation mechanisms and reductions in employer social security contributions, have resulted in labour costs growing significantly less than labour productivity. This has coincided with a decline in the wage share of national income. In fact, Belgian unit labour costs are now close to the level of the Netherlands, but well below those of France and Germany. This contrasts with the pre-2014 period, when unit labour costs in Belgium were significantly higher than in neighbouring countries. However, the gap widened again slightly in 2023, due to the still pronounced effect of automatic wage indexation.

Firms continued to invest significantly

Business investment jumped by 9 % in 2023, notwithstanding the tightening of financing conditions. This development cannot be entirely dissociated from the particularly robust level of corporate profit margins recorded in previous years, as mentioned above. According to Bank studies, many firms – especially larger ones, which account for the

Figure 4.7

Business investment became the main driver of growth



Sources: NAI, NBB.

bulk of fixed capital formation – have sufficient cash reserves and internal financing possibilities to mitigate the impact of tighter financing conditions, particularly higher interest rates. The increase in investment is moreover expected to be spread across the main sectors of the Belgian economy. Business leaders also indicated a marked trend towards investment in the automation and digitalisation of activities with a view to improving productivity. This is related to the structurally tight labour market and the deterioration in the competitiveness of Belgian firms due to significant increases in nominal wages. Investment in new products and the greening of production processes were also factors supporting fixed capital formation. However, growth in fixed capital formation moderated somewhat at the end of the year, in tandem with a slight deterioration in business confidence. At the same time, the capacity utilisation rate in the manufacturing industry fell back, suggesting no new expansion investment. Overall, at the end of 2023, business investment was 10 % higher than the level seen in the fourth quarter of 2019, i.e. before the outbreak of the Covid-19 pandemic. Moreover, it was the main driver of GDP growth in 2023.

4.4 Despite economic shocks, the Belgian economy proved robust in relation to the rest of the world

Net exports of goods and services shored up growth before gradually contracting

After three years characterised by strong swings yet a positive contribution to economic growth in Belgium, foreign trade contracted sharply and made a negative contribution to growth in 2023. Belgium's trade relations with the rest of the world mirrored the development of economic growth and world trade in recent years. Thus, after a fall in the volume of imports and exports of goods and services following the outbreak of the global pandemic in 2020 and the significant rebound observed the following year, the slowdown in activity, and hence in world trade, in 2022 weighed on the development and contribution of trade flows to economic growth in Belgium. Both exports and imports grew by only 4.9 % in volume terms in 2022, causing net exports of goods and services to have only a marginal effect on economic growth. In 2023, its contribution to activity growth in Belgium eroded

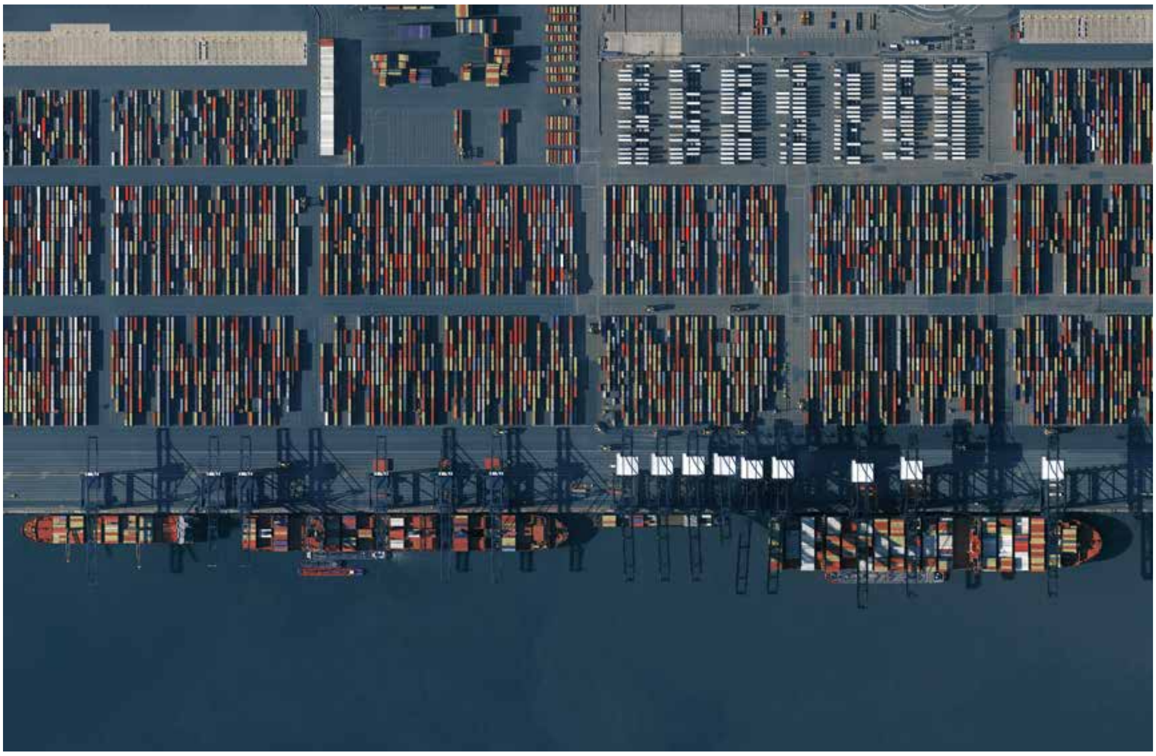
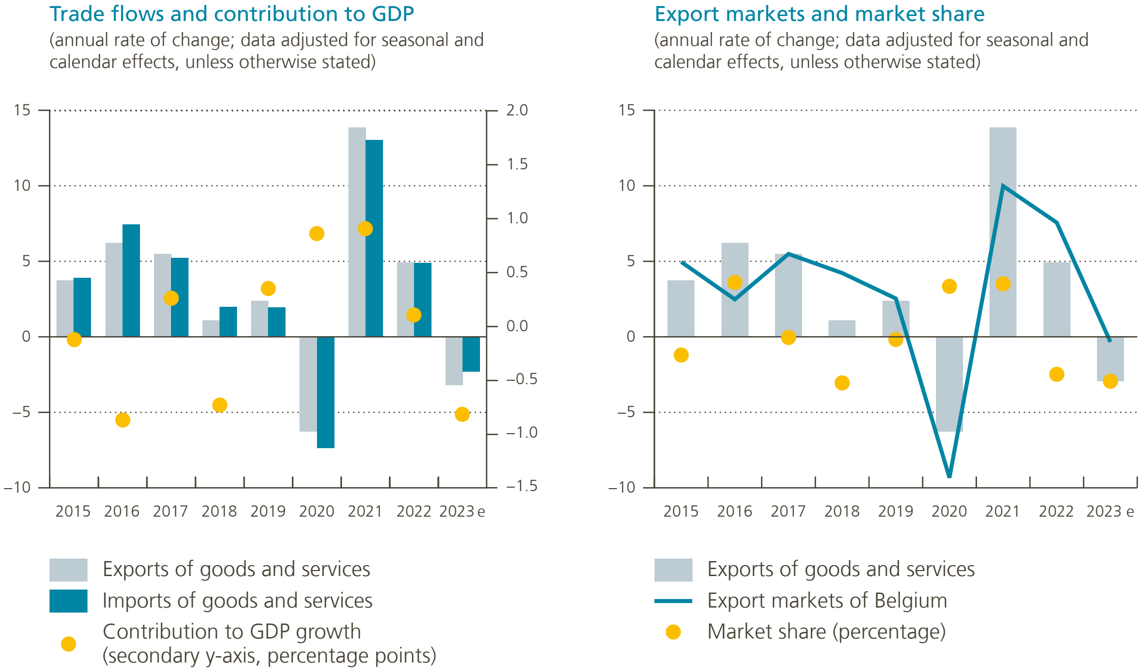


Figure 4.8

The contribution of net exports to economic growth fell and turned negative



Sources: ECB, NAI.

even further, turning negative, coming in at around –0.8 percentage points. On the one hand, Belgian export growth is largely determined by foreign demand, which turned out to be slightly negative over the last year. On the other hand, the deterioration in the cost competitiveness of Belgian firms, linked in particular to high growth in labour costs, contributed to losses of export market share, while gains could be made in 2020 and 2021 as a result of the massive export of pharmaceutical products, in particular vaccines, to combat the Covid-19 pandemic. Imports, for their part, also posted negative growth in 2023, due in part to less buoyant domestic demand.

The terms of trade gradually recovered and are less unfavourable than in previous years

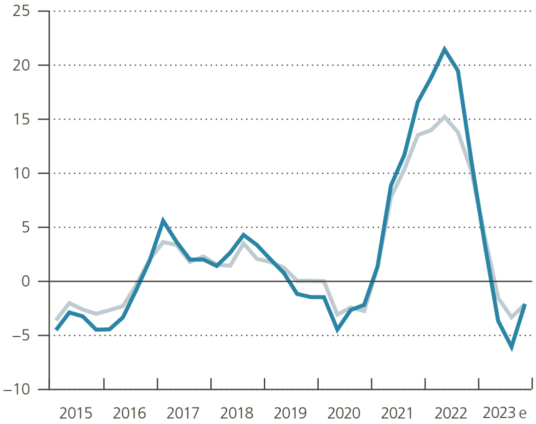
Following the sharp rise over the last two years which considerably impoverished the Belgian economy, import prices contracted in 2023, giving way to more favourable terms of trade with the rest of the world, although still less advantageous than before the outbreak of the war in Ukraine. Substantial rises in the prices of certain raw materials, including natural gas and oil, resulting initially from the robust economic recovery in 2021 and then from Russia's invasion of Ukraine at the end of February 2022, significantly impoverished the Belgian economy by sharply worsening its terms of trade with other countries. These price rises indeed pushed up import prices to record highs, and in a much more pronounced manner than export prices. In 2023, while this price pressure was still very much in evidence, import prices fell year-on-year, mainly due to lower energy prices. Thus, after the sharp decline recorded in 2021 and an even greater fall in 2022, Belgium's terms of trade recovered again, by around 1.4 %, in 2023.

Compared with neighbouring countries, Belgium had sustained a larger loss of income with respect to the rest of the world, but this loss was

Figure 4.9

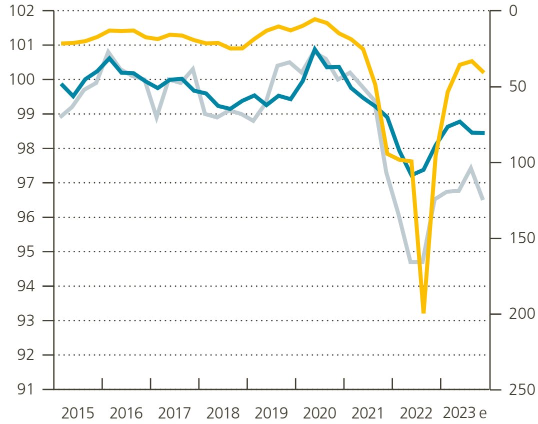
Following a substantial deterioration in previous years, the terms of trade turned less unfavourable

Trade deflators
(annual rate of change; data adjusted for seasonal and calendar effects)



Export prices
Import prices

Terms of trade and gas and oil prices



Terms of trade (y-axis; index, 2010 Q1 = 100)
Oil prices (inverted secondary y-axis, price of a barrel in euros)
Gas prices (inverted secondary y-axis, price / MWh in euros)

Sources: NAI, LSEG.

gradually absorbed in 2023. The year 2022 was marked by a negative income effect, i.e. a significant transfer of purchasing power from Belgium to the rest of the world, generated by the deterioration in its terms of trade. This phenomenon, which could also be observed in the euro area as a whole and among the country's main trading partners, affected all countries that import energy and do not produce it. However, the loss of wealth was greater in Belgium, mainly due to the higher energy content of its imports and higher average consumption of fossil fuels. However, this impoverishment of the Belgian economy gradually diminished as a result of the fall in energy prices on international markets as from the end of 2022 and disappeared in 2023, in line with the more favourable terms of trade.

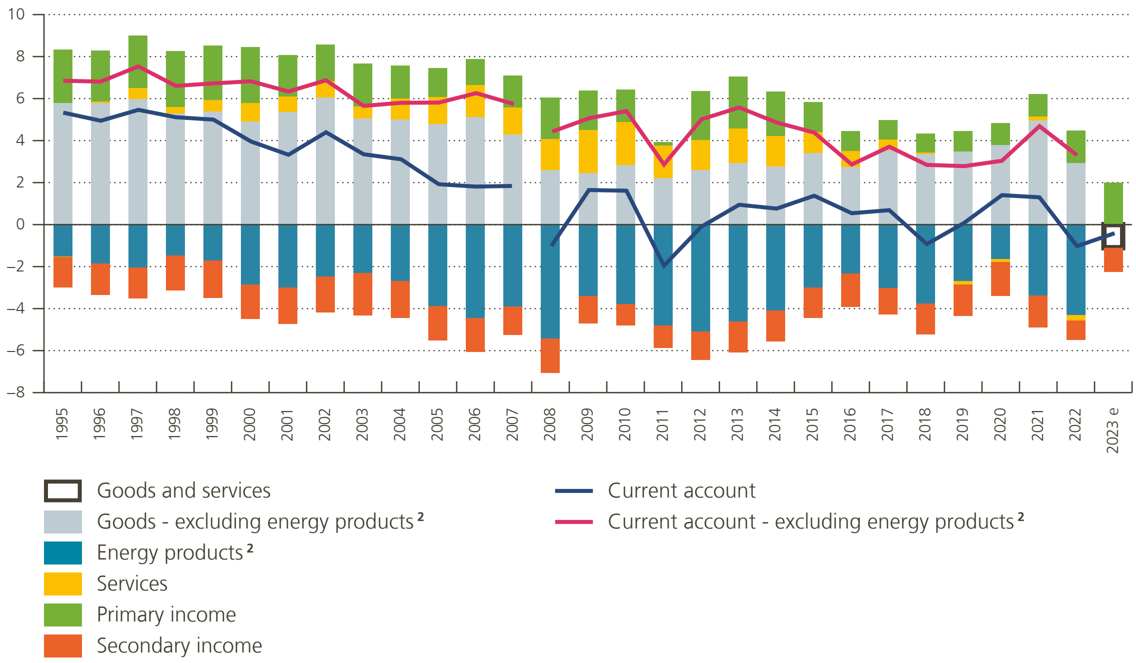
The current account balance only marginally contracted in recent years and shows a limited deficit, meaning the Belgian economy has a modest borrowing requirement

There has not been a sharp contraction in the Belgian current account since the 2008 financial crisis, thanks in particular to the efforts made to improve cost-competitiveness. Since 2008, the current account has almost been in balance, albeit at a lower level than before, despite the myriad exogenous shocks of late. On average, the trade balance, especially excluding energy products, helped to maintain a limited current account surplus in recent years. The policies pursued over the past decade to improve the cost-competitiveness of the Belgian economy appear to have contributed to the relative stability of the current account, notwithstanding the major economic disruptions of recent years.

Figure 4.10

Belgium's current account has recorded limited fluctuations, despite exogenous economic shocks, and has remained almost in balance

(percentage of GDP, according to balance of payments statistics)[1]



Sources: NAI, NBB.
1 According to the BPM5 methodology for the period 1995-2007; according to the BPM6 methodology for the period 2008-2023.
2 Data for energy goods based on foreign trade statistics, SITC-3, data as per national concepts.

Despite the pandemic and the energy price shock, the current account balance, excluding energy products, maintained a surplus. During 2019 and 2020, years marked by the Covid-19 pandemic which led to a significant slowdown in the global economy and international trade, Belgium's current account balance held steady and was even in surplus, due in particular to a growing trade surplus. Belgium benefited from the presence on its territory of a large pharmaceutical sector which, as from the end of 2020, exported medicinal products on a large scale, particularly Covid-19 vaccines. This trend continued, offsetting the significant rise in energy prices recorded from the second half of 2021 which led to a considerable increase in the net import bill for such goods. In 2022, however, Belgium recorded a trade deficit, mainly due to deterioration in net trade in "transport equipment", combined with an ever-growing net energy bill with foreign countries. The latter continued to rise as a result of ever-increasing prices on international markets, despite falling energy consumption in Belgium. The increase in the surplus generated by trade in chemical and pharmaceutical products was no longer sufficient to make up for developments in these two categories of goods. Net trade in services, with the exception of 2021, a year still marked by travel restrictions due to the global pandemic which had had the effect of reducing the deficit in travel-related and transport services, did not, moreover, support Belgium's trade balance. The latter remained in deficit in 2023. The surplus in trade in chemical and pharmaceutical products indeed fell slightly as a result of a drop in exports, particularly vaccines and other Covid-19 medications, thereby offsetting the smaller deficit in energy imports. The trade deficit in services continued to widen, influenced by, among other factors, higher spending on travel-related services, with foreign spending by Belgian residents returning to a level higher than that seen before the Covid-19 crisis.

Net primary and secondary income helped support Belgium's current account. While relatively stable in recent years, net primary and secondary income with the rest of the world saw, respectively, their surplus increase and deficit shrink from 2022 onwards. In fact, in 2022, net primary income with the rest of the world increased considerably, mainly driven by net investment income due to the rise in market rates. This trend continued in 2023. The net secondary income deficit narrowed in 2022, as a result of specific transactions carried out over the year, before increasing again somewhat in 2023, but at a lower average rate, expressed as a percentage of GDP, than that observed previously.

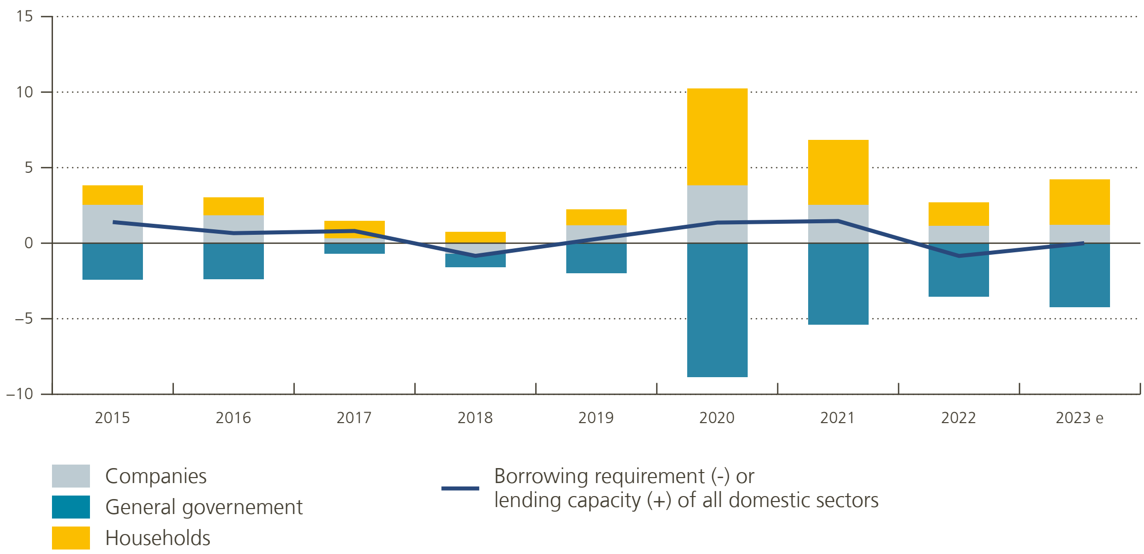
In line with the current account balance, Belgium's financing balance with the rest of the world remained relatively stable in recent years, despite significant fluctuations within its various components. Between 2020 and 2022, however, the lending capacity of the Belgian economy gradually shrank, resulting in a borrowing requirement of just under 1 % of GDP in 2022. Over this period, the financing capacity of firms gradually deteriorated due to the fact that investment spending, expressed in nominal terms, grew faster than income from their operations. The lending capacity of households also came under pressure as a result of a gradual decline in the household saving rate. In fact, household expenditure, boosted by high inflation, increased significantly more than household disposable income. This trend, combined with a further increase in investment (mainly in housing), gradually squeezed household financing capacity. Finally, the general government borrowing requirement, which had risen sharply in 2020 as a result of the fiscal measures adopted to help firms and households cope with the Covid-19 crisis and the contraction in economic activity, gradually fell over the period. It should be noted that 2020 was marked by large swings in income and expenditure between the different domestic sectors of the economy due to large transfers from general government to firms and households.

In 2023, the lending capacity of firms and households increased again somewhat, making it possible to reduce the borrowing requirement of the Belgian economy. While firms saw their investment expenses increase, their disposable income

Figure 4.11

A lower borrowing requirement with the rest of the world

(percentage of GDP)



Source: NAI.

remained substantial and they recorded a downward trend in change in inventories, which had reached a historically high level in 2022. Households, on the other hand, saw their level of savings rise again due to an increase in disposable income which was only partially consumed. General government, for its part, saw its borrowing requirements rise over the past year, due to a worsening primary deficit and higher interest expenses.