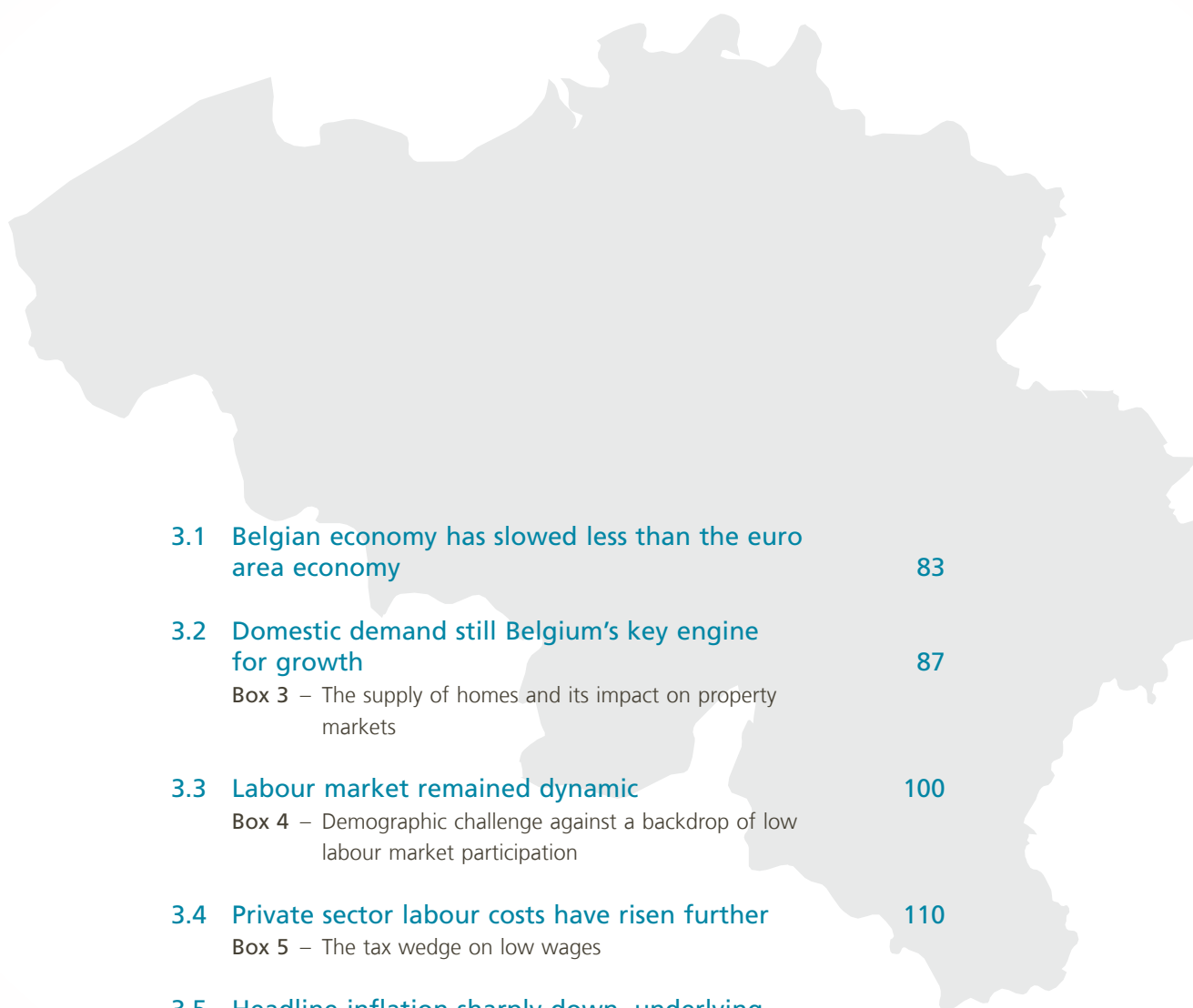






# 3. Economic developments in Belgium



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## 3.1 Belgian economy has slowed less than the euro area economy

### Economic activity was only slightly down, but economic agents' confidence contracted sharply

In Belgium, real GDP growth worked out at 1.4% in 2019, compared with 1.5% in 2018. The further upward trend in economic activity in the teeth of challenging economic conditions reflected an uninterrupted expansion since 2013. And although Belgium's economy has been feeling the pinch from a deteriorating business cycle across the world, it slowed more

moderately than the euro area as a whole and its neighbouring countries.

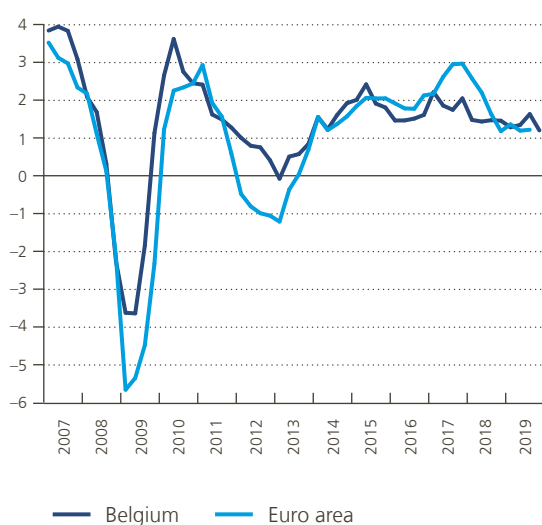
This relative resilience contrasts with the ongoing weakening of the economic sentiment indicator, which was first recorded at the start of 2018 and persisted into most of 2019. The latter dovetailed with trends in the euro area and particularly in some neighbouring countries. In Belgium, both consumers and business flagged a growing sense of uncertainty, although the Bank's surveys noted

Chart 22

### Belgium's GDP growth proved resilient, unlike economic sentiment

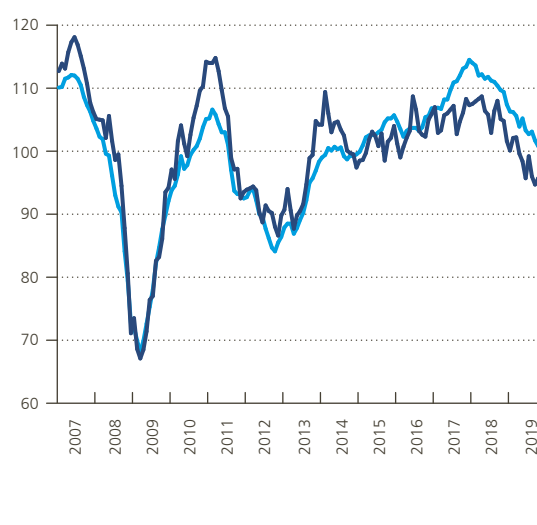
#### Real GDP growth

(percentage changes compared with the previous year, volume data adjusted for seasonal and calendar effects)



#### Economic sentiment indicator <sup>1</sup>

(seasonally adjusted monthly index figures, average 1990-2018 = 100)



Sources: EC, Eurostat, NAI.

<sup>1</sup> The indicator is constructed using surveys of companies (manufacturing, business services, trade and construction) and consumers

an incipient revival from October for both groups of respondents. By the end of the year, though, consumers had turned gloomier again.

The drop in the Bank's general synthetic business indicator as 2019 progressed was largely caused by manufacturing, which declined in the wake of the sharp contraction in industrial activity in Europe. In the fourth quarter of 2019, the synthetic indicator for manufacturing recovered. The synthetic indicators for business services and trade, which had slumped in 2018, declined more moderately thereafter. Construction companies reported a strong cyclical upturn in 2018, which implies that the sectoral confidence indicator remained above its historical average for most of 2019.

In manufacturing, it was chiefly the appraisal of total orders – and mostly export orders – that was

down, while demand and employment prospects fell less sharply. The production capacity utilisation rate, as measured by quarterly business surveys, also edged down somewhat in 2018 and 2019, but remained near its historical average of 79%.

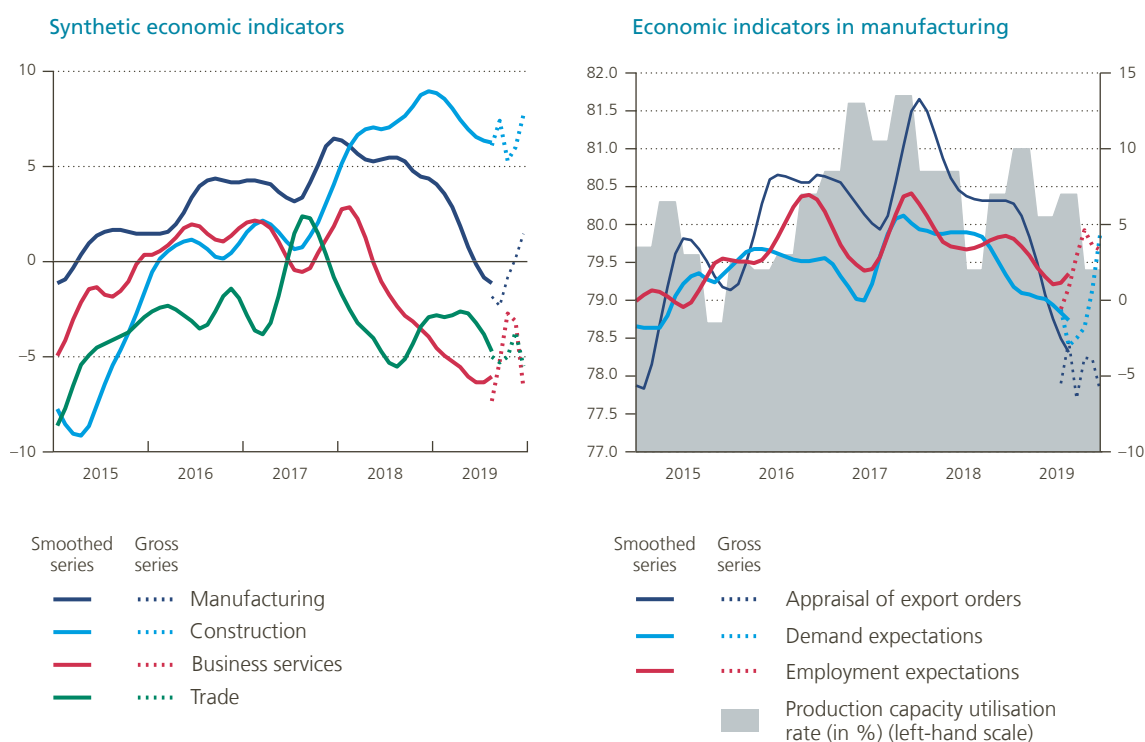
### Unlike other countries, Belgium did not see industrial activity fall back

While short-term indicators came down by about as much in Belgium as they did in the euro area and in Belgium's neighbouring countries, economic activity did not contract as sharply. In Belgian industry, in particular, the deterioration was less severe: the sector's value added grew by 0.4% in the first three quarters of 2019 compared with the corresponding period in 2018, whereas it averaged a drop of 2.2% in Belgium's three main neighbouring

Chart 23

#### Deteriorating global economic cycle eroded Belgian business confidence

(seasonally adjusted data; balance of replies to the Bank's surveys; based on average normalised results over the period 1995-2019, unless otherwise stated)



Source: NBB.

countries (Germany, France and the Netherlands). Manufacturing in Belgium made a very slightly positive contribution to GDP growth, while averaging a negative 0.4 percentage point in these three other countries. Of the three, Germany was the hardest hit.

In 2019, Belgian industry proved relatively resilient after having staged only a moderate recovery between 2015 and 2018. Its cyclical profile, which is less pronounced than that of its neighbouring countries, to some extent reflects its structure. In key sectors – such as chemicals and pharmaceuticals, which together account for one-quarter of industrial value added in Belgium and which are less cyclically volatile than euro area GDP growth – activity continued to stage robust growth over the year. Other sectors, by contrast, notably the manufacture of machinery and equipment, which account for less of Belgium's

value added, have a much stronger correlation with the international business cycle.

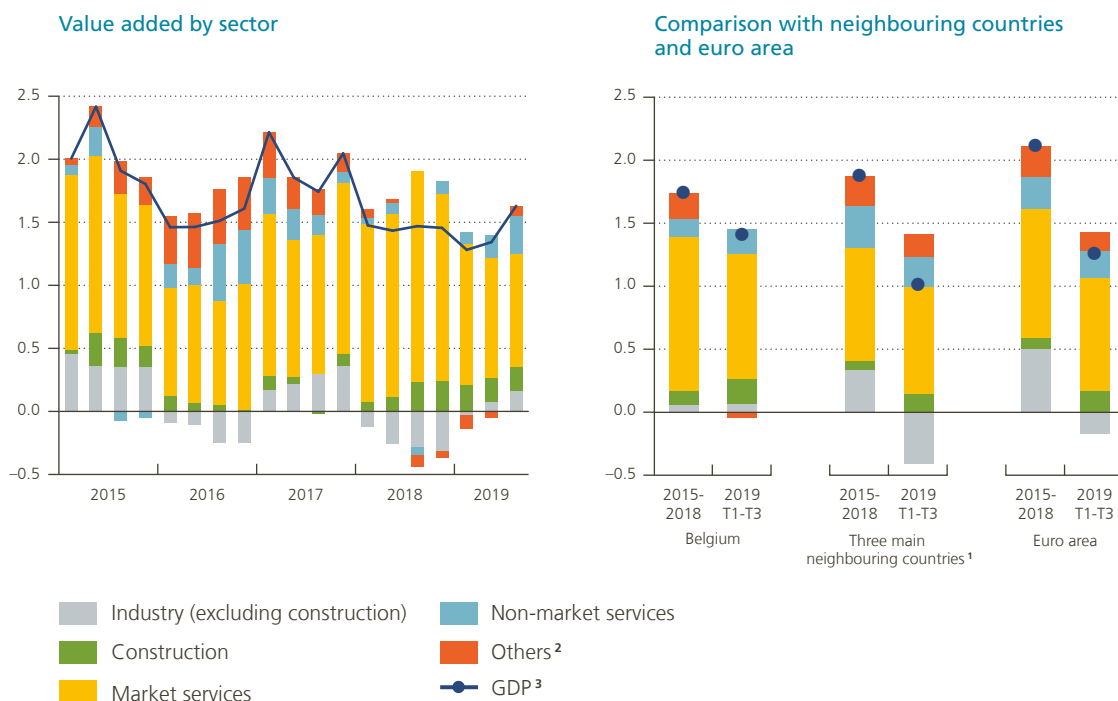
It is worth noting that industry accounts for around 14 % of Belgium's GDP, compared with 18 % for the euro area and 23 % for Germany – another reason why its contribution to the business cycle is limited in this country. In the Netherlands, industry has the same kind of weight as in Belgium, with the figure for France even a little lower (12 %).

Although accounting for less than 5 % of economic activity, construction in Belgium made a sizeable contribution to GDP growth in the first nine months of 2019. In fact, its contribution was bigger than in the four previous years and slightly larger than in the observed reference areas. The low interest rate environment and investors' preference for real

**Chart 24**

### Growth in services and construction supports feeble value added growth in industry

(percentage point contributions to annualised real GDP change, unless otherwise stated; data adjusted for seasonal and calendar effects)



Sources: Eurostat, NAI, NBB.

<sup>1</sup> Weighted average for Germany, France and the Netherlands.

<sup>2</sup> Notably the agriculture, forestry and fisheries sector and taxes on products minus subsidies on products.

<sup>3</sup> Percentage changes compared with the previous year.

estate continued to boost economic activity in construction, causing it to grow by 4.3 %.

Value added in market services grew slightly less, recording an annualised increase of 2 % in the first nine months of 2019. Because of this still robust growth and the large share of services in the economy (50 % of GDP), the sector once again contributed the most to GDP growth. In addition to real-estate-related services, which followed the surge in construction, some mostly business-oriented services – such as IT,

and administrative and support services – proved dynamic, whereas the value added of rather more consumer-oriented services, such as trade and the hotels, restaurants and cafés sector, grew roughly in tandem with GDP.

In non-market services, by contrast, value added rose by 0.9 % in the first nine months of 2019. Although slightly better than in previous years, this was below the figures for Belgium's neighbouring countries.

## 3.2 Domestic demand still Belgium's key engine for growth

Just as in 2018, weaker foreign markets in 2019 dampened Belgian exports. With imports growing a little more rapidly, foreign trade made a slightly negative contribution to GDP growth (–0.1 percentage point). Change in inventories also curbed GDP growth, by 0.2 percentage point.

Belgium's economy, then, was supported by domestic demand, which in its turn was boosted primarily by

business and household investment. General government expenditure tailed off somewhat in 2019 following a strong run in the previous year on the back of the peak in the local electoral cycle and larger road infrastructure works at regional level. General government consumption growth, by contrast, picked up to 1.8% in 2019 from 0.9% in 2018, as the increase in health care spending was no longer as tightly controlled as in previous years. Private consumption continued to slow.

Table 2

### GDP and main expenditure categories

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

	2015	2016	2017	2018	2019 e
Private consumption	1.6	1.9	1.8	1.5	1.1
General government consumption	0.3	0.4	0.3	0.9	1.8
Gross fixed capital formation	3.7	3.8	1.3	4.0	3.1
Housing	–0.1	2.4	0.1	1.0	5.9
Enterprises	5.5	5.0	1.6	3.9	3.0
<i>p.m. Excluding major specific transactions<sup>1</sup></i>	5.5	5.7	4.8	3.9	3.0
General government	1.0	–0.7	1.1	10.6	–2.2
<i>p.m. Final domestic expenditure<sup>1</sup></i>	1.8	2.0	1.3	1.9	1.8
Change in inventories <sup>2</sup>	0.4	0.2	–0.1	0.3	–0.2
Net exports of goods and services <sup>2</sup>	–0.1	–0.7	0.7	–0.7	–0.1
Exports of goods and services <sup>3</sup>	3.7	6.5	5.3	1.2	0.9
Imports of goods and services <sup>3</sup>	3.9	7.5	4.4	2.1	1.1
GDP	2.0	1.5	2.0	1.5	1.4
<i>p.m. Nominal GDP (in € billion)</i>	416.7	430.4	446.4	459.8	472.7

Sources: NAI, NBB.

1 In previous years, significant specific transactions (for instance, certain investments abroad or a multinational's business restructuring), while hardly affecting economic activity in Belgium, increased volatility in certain components of GDP.

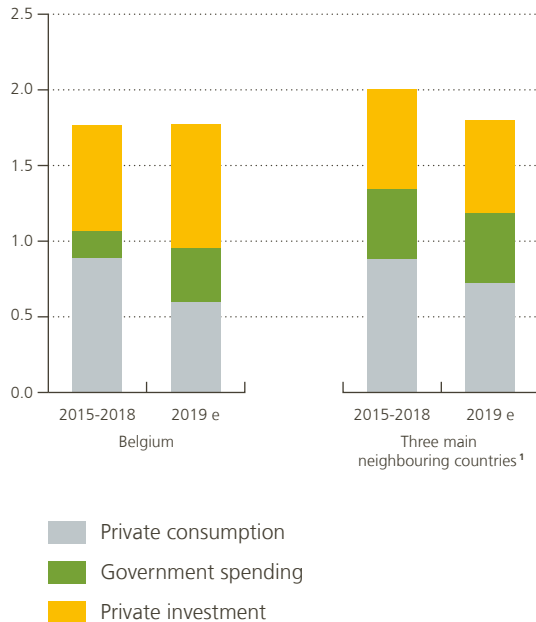
2 Excluding the change in inventories.

3 Contributions to the change in GDP compared with the previous year, in percentage points.

Chart 25

### Private investment strongly boosts domestic demand

(contributions to annualised growth in domestic demand volumes excluding inventories, in percentage points)



Sources: Eurostat, NAI, NBB.

1 Weighted average of Germany, France and the Netherlands.

Domestic demand is not just Belgium's main engine for growth: it plays the same role in Belgium's three main neighbouring countries and the euro area at large. That said, Belgium stands out for its unique private investment dynamics and moderate private consumption growth.

### Exports slowed on weak foreign demand

Belgium was unable to sidestep the cyclical downturn across the world and in Europe, which hit international trade, and foreign demand heavily impacted the Belgian economy. Belgian export volume growth of goods and services, which had already slowed markedly in 2018, fell further in 2019, to 0.9 %, reflecting the country's weakening foreign markets.

Just as in 2018, export growth lagged behind the – albeit slower – growth of the markets. Loss of market share is put at a little below 1 %, and it looks like the Belgian economy's mixed external performance will continue, since the 2015-18 period saw losses averaging around 0.9 %. Admittedly, the losses in 2019 were less bad than in the previous period, but still a lot bigger than those recorded by Belgium's neighbouring countries.

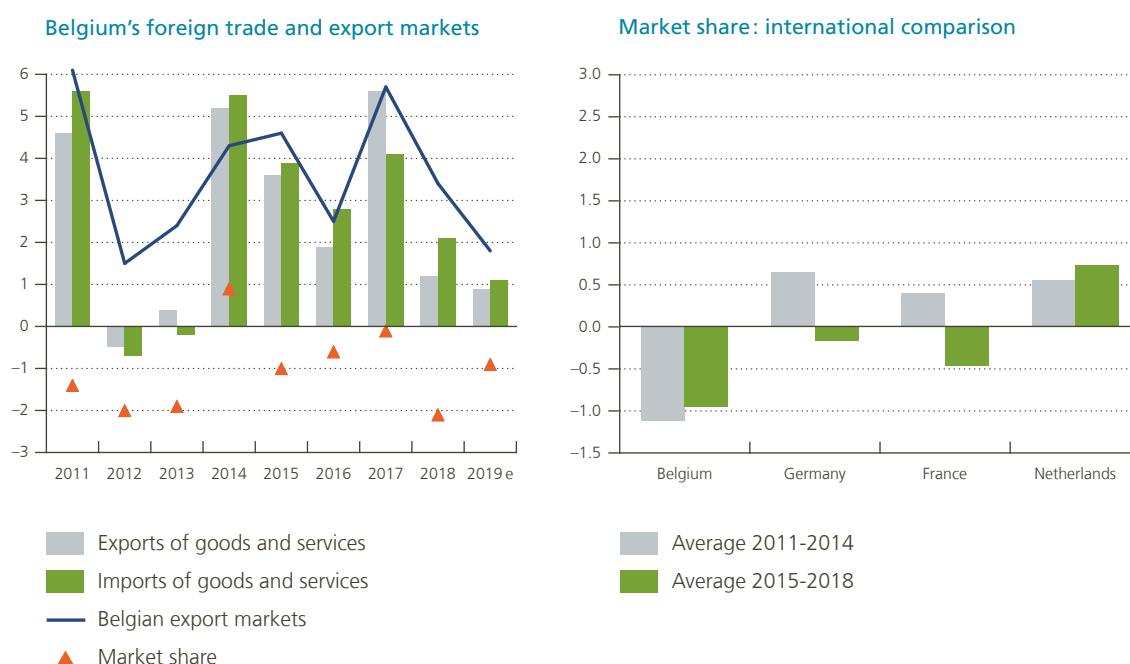




Chart 26

# Exports dampened by slowing domestic demand and loss of market shares<sup>1, 2</sup>

(annual percentage changes, volume data adjusted for seasonal and calendar effects)



Sources: ECB, NAI, NBB.

1 Export markets are determined based on the most recent projections for import demand from trading partners.

2 Excluding the effect of the reorganisation of a pharmaceuticals company's activities in 2016 and 2017.

A degree of caution is warranted when making international comparisons of gross import and export flows, as their actual links to the creation of value added and employment in the observed economy may be influenced by the size of global value chains or by optimisation moves – for tax reasons, for instance – within multinational corporations. Insofar as distinct moves could be identified, they were factored out of Belgium's data towards the analysis of market shares and the comparison with its three main neighbouring countries. This chiefly concerned the reorganisation of the activities of a company in the pharmaceuticals sector, which influenced the data for 2016 and 2017. However, lack of information makes it impossible to adjust the data for other countries, where similar moves may have taken place.

None of this changes the fact that Belgian exports of goods and services as calculated recorded an

*Export volume growth was lower than the average for neighbouring countries*

average annual growth in volume terms of 3.1 % in the 2015-18 period, compared with 3.8 % for Belgium's three main neighbouring countries as a whole. Considering only the main categories of exports, this negative gap derives from less dynamic foreign sales for machinery and transport equipment, and manufactured goods – particularly steel and glass products, and building materials – as well as travel and transport services. Conversely, chemicals and related products – which include pharmaceuticals – helped to narrow the gap, as their sales accelerated faster and as the category accounts for a large proportion of total Belgian exports.

A broader analysis rather than the limited comparison with Belgium's three main neighbouring countries reveals sustained global demand for chemicals and pharmaceuticals, as well as for machinery and transport equipment over the period 2015-2018. Belgium



was able to take advantage of this for chemicals and pharmaceuticals, in which it specialises and for which the rate of growth of its sales abroad exceeds that of demand. The same cannot be said for machinery and transport equipment: Belgian sales lagged behind market growth and their weight in Belgian exports is smaller than in global trade.

As exports incorporate a large share of imported goods and services, their slowdown had a big spill-over effect on import trends. In 2019, import volumes grew by only 1.1 % compared with 2.1 % in the previous year. In the end, the marked weakening of foreign trade had only a limited net effect on GDP developments.

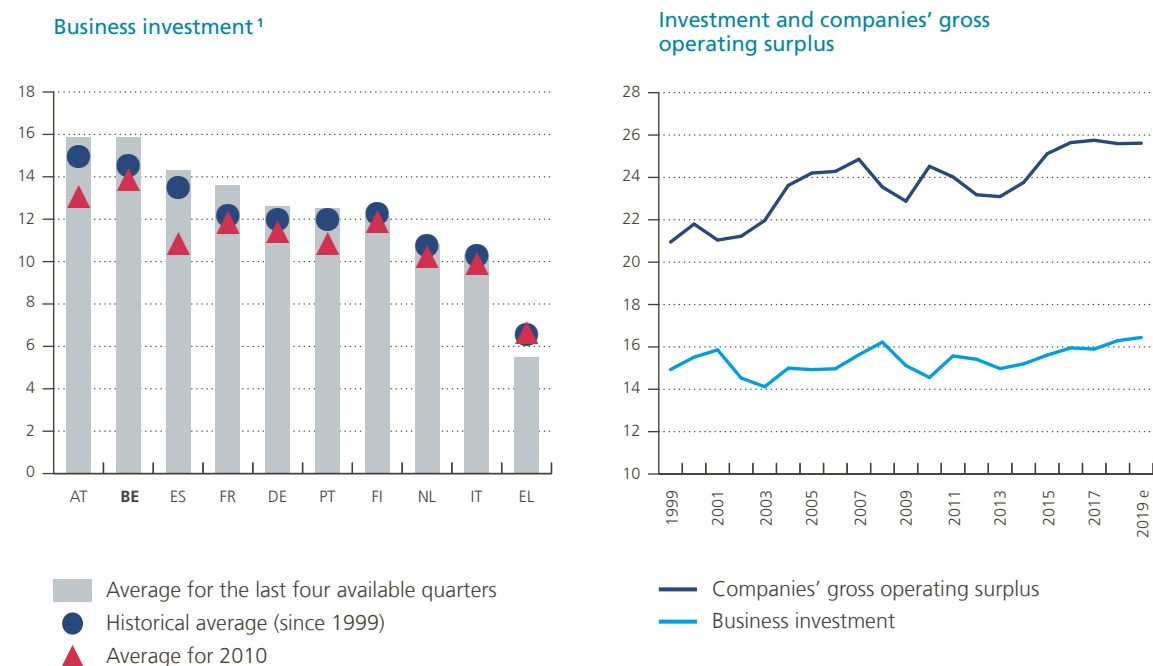
## Continued robust growth in business investment

Significantly reduced foreign demand and major uncertainty would seem to have had only a subdued effect on business investment in 2019. Ignoring a few specific transactions, it shot up by 3.0 %, staging markedly stronger growth than GDP. Investment in the market services sector was dynamic in the year, while investment in manufacturing picked up further after years of decline. Purchases of machinery and equipment and computer hardware have been on the rise since 2016, with both investment categories

Chart 27

### Business investment's historically heavy weight in Belgian GDP has recently grown even more

(in % of GDP)



Sources: Eurostat, NAI, OECD, NBB.

<sup>1</sup> The international comparison does not include investment by self-employed people.

Table 3

**Determinants of companies' gross operating surplus<sup>1</sup>, at current prices**

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

	2015	2016	2017	2018	2019 e
<b>Gross operating margin per unit of sales<sup>2</sup></b>	<b>4.6</b>	<b>0.4</b>	<b>0.8</b>	<b>0.6</b>	<b>1.5</b>
Unit selling price	-2.4	-0.4	2.1	2.3	0.9
On the domestic market	0.6	1.1	2.1	2.0	1.2
Exports	-2.8	-1.1	2.2	2.1	0.7
<b>Unit sales costs</b>	<b>-3.7</b>	<b>-0.6</b>	<b>2.4</b>	<b>2.6</b>	<b>0.8</b>
Imported goods and services	-3.8	-1.7	2.8	3.2	0.5
Costs of domestic origin per unit of output <sup>2,3</sup>	-1.3	1.3	1.2	1.4	1.7
of which :					
Unit labour costs <sup>4</sup>	-1.8	0.2	1.4	1.7	2.2
Unit net indirect taxes	-0.7	6.6	1.8	2.1	0.0
<b>Final sales at constant prices</b>	<b>4.5</b>	<b>5.1</b>	<b>3.3</b>	<b>1.8</b>	<b>1.4</b>
<b>Companies' gross operating surplus</b>	<b>9.3</b>	<b>5.4</b>	<b>4.2</b>	<b>2.4</b>	<b>2.9</b>

Sources: NAI, NBB.

1 Private and public companies.

2 Including the change in inventories.

3 In addition to wages, this category includes indirect taxes less subsidies, and gross mixed income of self-employed people.

4 Unit labour costs are expressed in units of value added of the business sector and are not calendar adjusted.

enjoying a gradual revival after being hit hard by the financial crisis and the great recession of 2008-09.

Business investment's major contribution to GDP growth in Belgium reflects the combined effect of its traditional importance – a structural feature of the Belgian economy – and its more recent dynamics. Investment by Belgian companies in the last four available quarters (from the third quarter of 2018 up to and including the second quarter of 2019) accounted for virtually 16 % of GDP, which is very high in the league table of euro area countries. Historically, business investment has always been rather high in Belgium, incidentally.

Furthermore, business investment has risen more robustly than GDP in recent years, with the investment ratio of Belgian companies gradually picking up, from 14.6 % in 2010 to 16.4 % in 2019.

During this time, business investment has been supported by generally stronger economic activity, low costs of external funding and improved internal financing capacity.

In 2019, companies' funding costs were fairly subdued and only a small number of those surveyed on borrowing conditions mentioned credit constraint as a factor hampering production in the year.

Up to and including 2016, income generated by business activity accelerated faster than GDP, and it has since stabilised at a high level. In 2019, companies' gross operating surplus was up 2.9 %, i.e. by about as much as nominal GDP and by more than the 2.4 % growth of gross operating surplus registered in 2018. Sales volumes may not have advanced as strongly as in previous years – mainly due to slower exports – but this effect was amply offset by wider margins per unit of sales, particularly as unit selling prices did not fall as much as unit sales costs. The costs of imported goods and services were up in 2019 but by as little as 0.5 % compared with 3.2 % a year earlier, with energy price trends the main cause. Domestic origin costs, by contrast, picked up slightly faster in the wake of higher wage costs, although this was offset by the stability of net indirect taxes per unit, especially value added tax and excise duties.

## Investment in housing shot up

It was not just business investment that powered ahead in 2019, but investment in housing did too, by 5.9%. That said, the recovery failed to push this category of spending back to pre-crisis levels seen before 2008. The uptick was driven by significantly higher household purchasing power in 2019, coupled with continued low mortgage rates, prompting

existing and future homeowners to invest in building or renovating their homes. As countless financial assets generate little in the way of returns, more and more investors are focusing on the market for new builds in their search for higher returns. In addition, the *woonbonus* mortgage interest relief scheme in Flanders, announced at the end of September but only effective from January 2020, may well have boosted household investment somewhat in the fourth quarter of 2019.

### BOX 3

## The supply of homes and its impact on property markets

Like many other European countries, Belgium has seen property prices shoot up in the past few decades, a virtually uninterrupted trend that proved very robust in the first decade of the 2000s. Since they reached a historical low in the mid-1980s, property prices have more than tripled in real terms. Only two periods of falling prices have been recorded since reliable data were first kept: one in the early 1980s and a second, shorter period at the time of the economic and financial crisis of 2008-2009.

Asset prices are typically determined by supply and demand. But these can be influenced – upwards or downwards – by a whole host of factors. The same is true for the housing market. Previous analyses<sup>1</sup> have established that, over the past few decades, the demand for residential property has largely been driven by a range of factors. One of them was easier access to mortgage loans on the back of both higher household disposable incomes and lower mortgage rates. At the same time, the tax framework was conducive for mortgage loan demand as well as the purchase of residential properties, until the Regions started taking measures from 2015 under their new authority under the sixth State reform and related to tax relief for specific expenditure on housing. Lastly, a growing population combined with a gradual fall in average household size has boosted the need for homes.

On the supply side, the estimated value of its long-term price elasticity – i.e. the extent to which supply reacts to any price changes – is fairly low in Belgium. According to an OECD estimate for the 1980-2017 period, it amounts to a mere 0.46, implying that a 1 % rise in real estate prices will only add an average 0.46 % to investment in residential property. By comparison, the price elasticity of housing supply is six and four times higher in the US and Sweden respectively<sup>2</sup>. Low price elasticity of supply implies that demand shocks primarily lead to price adjustments and, to a lesser extent, fluctuations in economic activity.

1 Warisse Ch. (2017), "Analysis of the development in residential property prices: Is the Belgian market overvalued?", NBB, *Economic Review*, June, pp. 61-77.

2 Reusens P. and Ch. Warisse (2018), "House prices and economic growth in Belgium", NBB, *Economic Review*, December, pp. 81-106.





The housing supply can come up against two types of constraint. First, there are physical limits to the amount of land available for new builds, with scarcity of building land playing a key part. Together with the Netherlands, Belgium has the greatest scarcity of land potentially suitable for development out of all the OECD countries. In 2015, no less than 11 % of Belgian land suitable for development was built-up – considerably above the average for the euro area (3 %) and the OECD (0.9 %). This reflects the country's particularly high population density, of course, which happens to display a negative correlation with the price elasticity of housing supply: densely populated countries obviously find it harder to widen real estate supply as soon as demand increases.

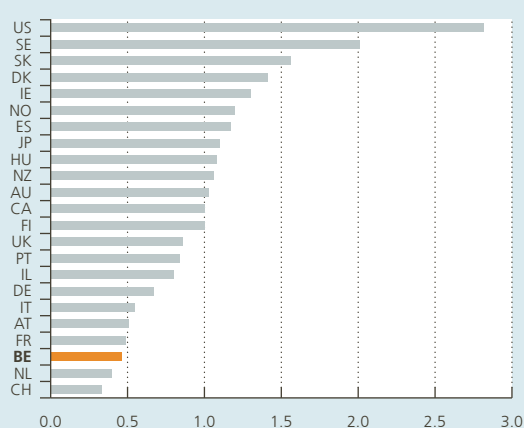
In addition, too rigid or badly coordinated rules and regulations – governing land use and land cover among other matters – can restrict opportunities for new building or expanding existing housing, hampering an appropriate construction response to higher demand. Empirical research shows up a negative correlation between the price elasticity of housing supply and the time needed to secure a building permit. In countries with longer waiting times – as rather appears to be the case in Belgium – real estate supply responds less robustly and/or more slowly to fluctuations in demand. We cannot judge solely on the basis of these statistics whether or not the rules on land use and cover are too rigid. Besides, the competent Regions have been looking to ease and simplify such rules, as is evident from Wallonia's reforms of its *Code du Développement Territorial* from 2017 and from the Brussels spatial planning code introduced in 2018<sup>1</sup>.

All that said, most statistics are pointing to a recent expansion of Belgium's housing supply. Growth in the number of residential properties has strengthened since 2016 and in 2018 the figures became once

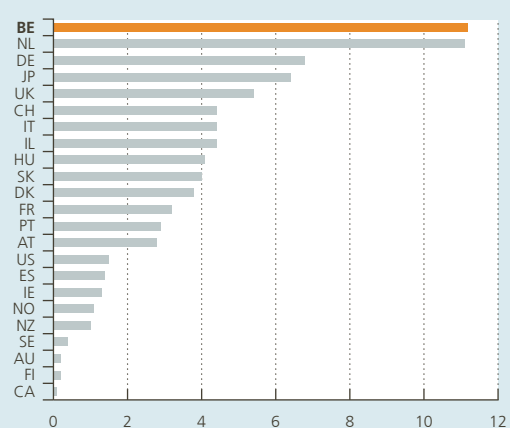
<sup>1</sup> Reusens P. and Ch. Warisse (2018), "House prices and economic growth in Belgium", NBB, *Economic Review*, December, pp. 81-106.

## Fairly low price elasticity of housing supply in Belgium

Long-term price elasticity of housing supply



Share of developed land  
(in % of total developable land)



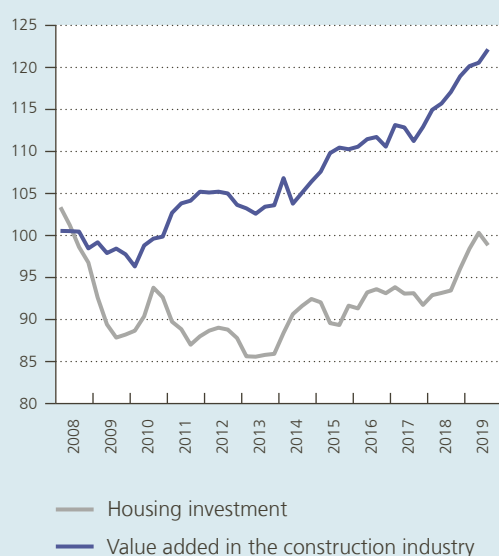
Source: OECD.



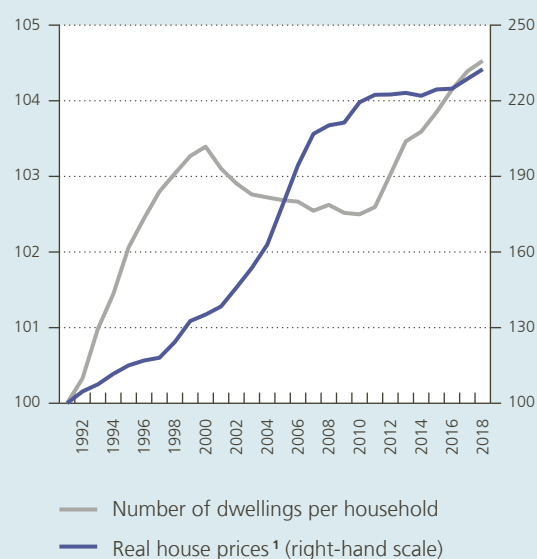
again comparable to the very pronounced rate of growth last recorded in the 1990s. A very strong upsurge in issued building permits sparked a sharp recovery in housing investment – mostly new builds, as well as renovation and refurbishment projects – at the end of 2018, which was also accompanied by steeply higher value added in construction in 2018 and 2019. The chart below captures the evolution of real estate prices and relative housing supply, with the latter variable defined as the number of dwellings per household and relating the housing stock to housing needs. Although supply in Belgium seems to have more or less adjusted to requirements – housing stock grew faster than population in the long run, by 28 % between 1991 and 2018, compared with 23 % in the same period – this has not always been the case. Particularly in the first decade of the 2000s, relative supply contracted, suggesting that housing supply was inadequate or unsuitable, whereas real estate prices were sharply up. After this decade, housing supply returned to rising faster than the number of households, apparently slowing upward pressure on real estate prices, as these have virtually stabilised in real terms since. This would seem to suggest that, in addition to the demand-supporting factors outlined above, housing supply also had an impact on residential property prices and contributed to the surge in prices of the previous decade. The recent revival in housing investment – and in construction activity in general – could curb a fresh upturn in real estate prices. However, if supply continues to pick up on the back of growing private debt and if it does not match demand, this might constitute a risk to developments in the real estate market in future.

### Housing supply showing recent gains

**Construction activity and housing investment**  
(volume data, indices : 2008 = 100)



**House prices and housing supply**  
(indices : 1991 = 100)



Sources : Statbel, NBB.

1 Deflated by the private consumption deflator.

## Household consumption slowed

Belgian households' growing desire to build or renovate their own homes sharply contrasts with their somewhat austere consumption. In fact, consumption volume growth slowed in 2019 to an annualised 1.1 % on average, the weakest growth figure in the last five years.

The slowdown was partly due to the consumption of durable goods, which grew at a slower pace (by 1.8%) in the first three quarters of 2019 than in the corresponding period of 2018. A key reason was the drop in new car registrations in the first half of the year, following the adoption, in September 2018, of new type-approval procedures for vehicles. This would appear to have had a temporary effect only, as confirmed by consumer surveys and available data

*Private individuals save large proportion of their income*

on durable goods consumption in the third quarter. Incidentally, the period from the second half of 2017 through to early 2019 saw a gradual slowdown in the growth of consumption excluding durable goods, but this picked back up as the year progressed.

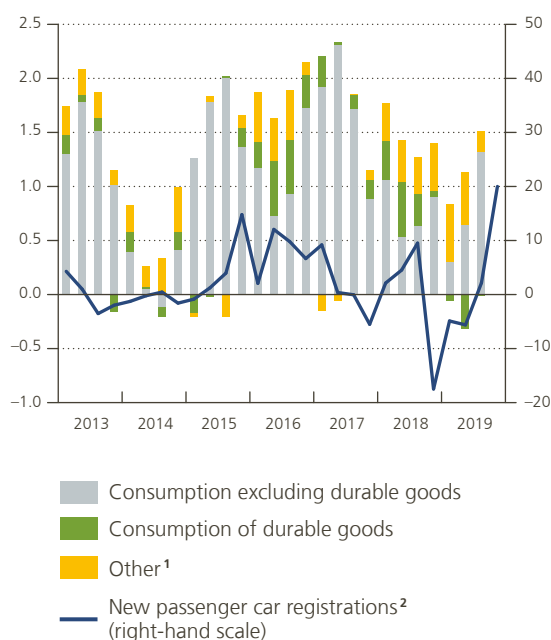
Slower private consumption in 2018 and 2019 coincided with more subdued household confidence. The consumer confidence indicator which had risen sharply between 2013 and 2017, dipped temporarily below its historical average in 2019 mostly in the wake of more pessimistic outlook for the economy and unemployment. In the fourth quarter, by contrast, the indicator staged a partial recovery.

Uncertain economic conditions may have prompted some caution on the part of households, with consumption in 2019 rising less robustly than the

Chart 28

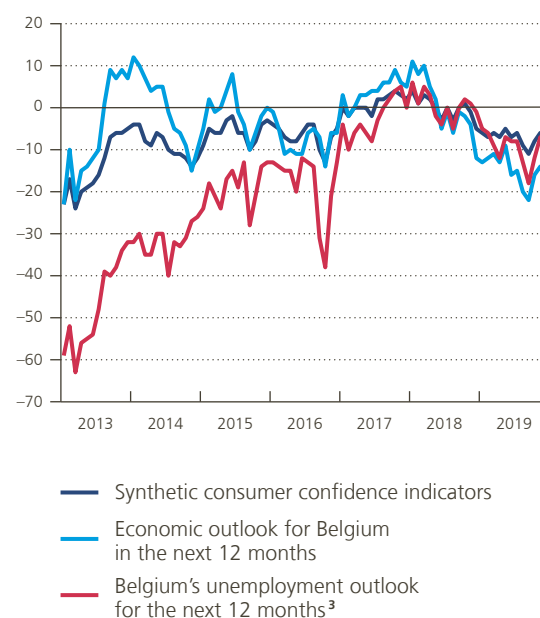
### Durable goods slow private consumption

**Contribution to household consumption growth**  
(quarterly volume data; in percentage points compared with the previous year, unless otherwise stated)



**Consumer confidence indicator**

(balance of replies to monthly survey, calendar adjusted data)



Sources: NAI, OECD, NBB.

1 The 'Other' category includes Belgian tourists' expenditure abroad less foreign tourists' expenditure in Belgium, as well as consumption by non-profit institutions serving households.

2 Percentage changes compared with the previous year.

3 Reverse of the indicator released by the NBB.

sizeable increase in their purchasing power. In real terms, i.e. ignoring the impact of prices, household disposable incomes advanced by 2.5 %, double the increase in consumption. In other words, households saved a larger proportion of their incomes and, as noted previously, used those savings towards investment in residential property or financial assets. This trend significantly enhanced their savings ratio, to 12.9 % in 2019, after it had fallen to 11.8 % following a decade of steady decline. From a more structural perspective, uncertainty over future income and expenditure – when to expect tax rises, for instance or income constraints – may have prompted some households to accumulate precautionary savings.

### Higher hourly wages continued to push up household pay

The 2.5 % increase in purchasing power in 2019 was the biggest since 2007. It was also a much faster rate

of growth than the 1.1 % observed in 2018. The difference between these two most recent years is down to falling inflation and the rise in disposable income at current prices. In nominal terms, household gross disposable income surged by 3.9 %, compared with a 3.0 % increase in 2018.

Earned income is one of the key determinants. In 2019, this added 3.6 % in nominal terms, almost the same percentage as in the two previous years. This masks a shift, though: while the rise in hourly wages gathered momentum – as it had done in previous years, and by as much as 2.5 % in 2019 – growth in the total number of hours worked in the economy slowed.

In their turn, transfers from households to other sectors, mainly comprising taxes, were directly influenced by personal income tax cuts, as part of the tax shift approved in 2015. With the tax burden on labour already alleviated in 2016 and 2018, the third stage of the tax shift came into force in January 2019. As

Table 4

#### Determinants of household gross disposable income, at current prices

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

	2015	2016	2017	2018	2019 e	p.m. In € billion 2019 e
Gross primary income <sup>1</sup>	1.2	2.2	3.7	3.1	3.1	268.0
Gross wages	1.0	3.1	3.7	3.7	3.6	181.0
Volume of labour of employees	0.6	1.4	2.0	1.6	1.1	–
Gross wages per hour worked <sup>1</sup>	0.4	1.6	1.7	2.1	2.5	–
Gross operating surplus and gross mixed income	3.4	1.9	3.3	2.8	2.8	60.1
Capital income <sup>2</sup>	–2.1	–2.8	4.5	–0.7	0.6	26.9
Current transfers received	2.3	2.4	3.6	2.4	3.5	104.1
Current transfers paid <sup>1</sup>	1.4	–0.1	3.5	2.7	1.2	96.1
Gross disposable income	1.5	3.1	3.7	3.0	3.9	276.1
p.m. In real terms <sup>3</sup>	0.7	1.7	1.8	1.1	2.5	–
Savings ratio <sup>4</sup>	12.4	12.2	12.0	11.8	12.9	–

Sources: FPB, NAI, NBB.

<sup>1</sup> Wages and salaries received, or current transfers paid, not including contributions paid in by employers.

<sup>2</sup> These are net amounts, i.e. the difference between income or transfers from other sectors and those paid to other sectors.

<sup>3</sup> Data deflated by the household final consumption expenditure deflator.

<sup>4</sup> In % of disposable income in the broad sense, i.e. including changes in households' supplementary pension entitlements accruing as a result of an occupational activity.



a result, transfers from households rose significantly less rapidly than did their income. Transfers received picked up on the back of pension payments to an increasing number of beneficiaries in an ageing population and higher child benefit in Flanders.

### The domestic sectors of the economy recorded a borrowing requirement

In 2019, much like the previous year, income and expenditure transactions by the various sectors in the Belgian economy made investment grow faster than savings, with the difference – at the end of the day – financed abroad. Altogether, though, Belgium's net borrowing requirement remained relatively stable relative to 2018, at around 1 % of GDP. This compares with a financing surplus with the rest of the world of a little over 1 % of GDP between 2012 and 2017.

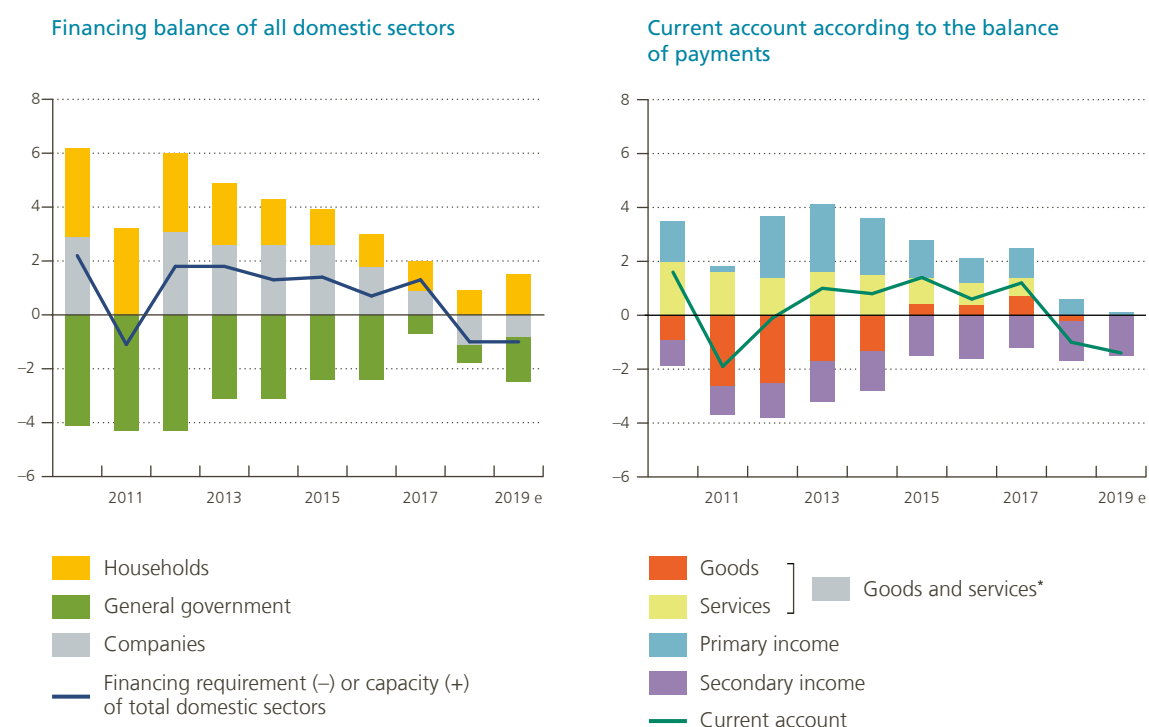
This state of play emerges from the fact that companies have been recording a borrowing requirement since 2018, driven in the main by ever faster sustained investment since 2014 and, in the past two years, by sizeable net dividends either paid out to shareholders or reserved in company balance sheets. These trends were compounded by the return to a widening general government deficit in 2019, while households' financing capacity expanded as their savings have outpaced the increase in their investment in housing.

In terms of transactions with the rest of the world as recorded in the balance of payments, this transition from a net financing surplus for all sectors of the Belgian economy, up to and including 2017, to a borrowing requirement in the past two years took the shape, from 2018, of the disappearance of Belgium's current account surplus. The current account deficit for 2019 is estimated to work out at around 1.4 % of GDP.

Chart 29

#### Belgium's current account with the rest of the world in deficit

(in % of GDP, unless otherwise stated)



Sources: NAI, NBB.

\* No separate 2019 breakdown is available for goods and services.

## Net investment income still negative

The deteriorating current account balance with the rest of the world primarily reflects incoming and outgoing income flows to and from abroad, the balance of which contracted further in 2019. Total primary income still recorded a very minor surplus of 0.1 % of GDP (€ 0.3 billion). Income originating from labour received from the rest of the world by Belgian residents continued to grow faster than wages paid abroad by Belgium, in particular because of civil servants' remuneration paid by international institutions established in Belgium. By contrast, net investment income and net other primary income shrank further, mainly caused by a faster increase in interest and dividends paid to the rest of the world in the context of direct investment, while interest and dividends received from abroad remained more subdued. Net income from portfolio investment remained negative, a continuation of the situation since 2015.

The net secondary income deficit – primarily transfers from households and general government to the rest of the world – widened somewhat in 2019, particularly as Belgium paid in a slightly bigger contribution to the EU budget than in 2018.

## Near balance in goods and services

While net incomes fell, net goods and services, which had recorded a deficit in 2018<sup>1</sup> (0.2 % of GDP or

€ 800 million), staged a slight recovery in 2019 and ended up at a level close to balance – mainly thanks to the terms of trade somewhat improving after getting slightly worse in 2017 and 2018. The improvement in the terms of trade in 2019 was driven by factors such as the steady fall in energy prices across international markets. In volume terms, exports of goods and services grew slightly less (0.9 %) than imports (1.1 %).

Belgium's international goods trade recorded a growing surplus between 2015 and 2017. This reversed into a deficit in 2018 in the wake of a higher net energy bill, due to the rise in oil prices and electricity imports, which had weighed down the transactions balance. Meanwhile, the services-derived surplus gradually leached away until reaching a near-equilibrium in 2018.<sup>1</sup> The contraction in the services balance was mostly down to the higher 2018 deficit for "transport" and "travel", as well as the eroding surplus in "other business services" – which include R&D and consultancy among other services. These downtrends were insufficiently balanced by the upward-moving surplus in other services categories, including "communication and information services".

<sup>1</sup> The methodological changes made in the balance of payments data since 2015 have caused breaks that are making it difficult to analyse trends before and after that year. For one thing, there has been a change in the method for valuing services in goods transport (from a "CIF/FOB" to a "FOB/FOB" calculation), which has served to push down the balance of transport services and had an upward impact on the goods balance without affecting the current account balance. For more information, see [https://www.nbb.be/doc/dq/e\\_method/bop300919\\_e.pdf](https://www.nbb.be/doc/dq/e_method/bop300919_e.pdf).



Table 5

**Current account according to the balance of payments**

(balance; in € billion, unless otherwise stated)

	2015	2016	2017	2018	2019 e
<b>Goods and services</b>	5.9	5.1	6.2	-0.8	-0.1
Goods	1.7	1.8	3.2	-0.7	n.
Services	4.2	3.4	3.0	0.0	n.
<b>Primary income</b>	5.9	4.1	4.8	3.0	0.3
Compensation of employees	6.3	6.5	6.9	7.0	7.3
Investment income	0.5	-1.2	-0.8	-2.7	-5.6
Other primary income	-0.9	-1.2	-1.3	-1.4	-1.4
<b>Secondary income</b>	-6.0	-6.8	-5.6	-6.8	-7.0
General government	-3.9	-4.3	-3.1	-3.8	-3.8
Other sectors	-2.1	-2.5	-2.4	-3.0	-3.1
<b>Total</b>	5.8	2.4	5.5	-4.6	-6.8
<i>p.m. Idem, in % of GDP</i>	1.4	0.6	1.2	-1.0	-1.4

Sources: NAI, NBB.

## 3.3 Labour market remained dynamic

### Employment creation was significant and unemployment continued to fall, much as in previous years

Despite slightly slowing economic activity and numerous uncertainties having a negative impact on the economic environment, Belgium once again recorded clear growth in employment in 2019, with net job creation of 74 000 people, a bigger increase than in the previous year.

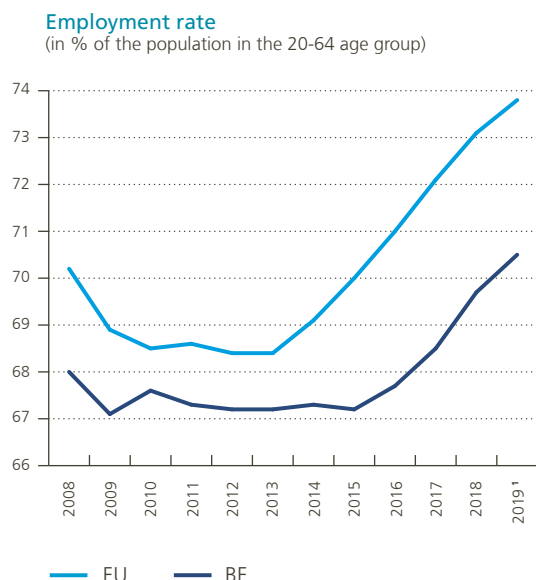
In fact, the employment rate – i.e. the number of people in the 20-64 age group in work – rose from 67.2 % in 2015 to 70.5 % in the first nine months

of 2019, after hovering slightly around 67 % in the preceding decade. It is worth noting that Belgium's employment rate started its ascent two years after the EU at large, but it has been moving in parallel since. That said, Belgium is still trailing the EU significantly, with the gap at 3.3 percentage points in 2019. And the country's stated target of 73.2 % by 2020, set down in its Europe 2020 strategy a decade ago, remains far off.

Ample employment creation in 2019 coincided with a further drop in the number of unemployed job-seekers (–19 000), even this was less steep than in 2018 (–30 000). The average number of unemployed

Chart 30

#### Employment rate up and unemployment rate down



Source: Eurostat.

1 Average of the first three quarters.

2 Unemployed for a year or more.



job-seekers came to 476 000 (annualised) in 2019, 24 000 fewer than before the 2008 crisis. The number of jobless people recorded a clear fall in the three Regions, for all lengths of unemployment and for all age categories.

The drop in the number of unemployed job-seekers is also reflected in the ongoing fall in the harmonised unemployment rate since the end of 2015. In 2019, this stood at 5.4 %, an unprecedented level since 1983, the first year for which data from the labour force survey are available. Long-term unemployment, defined as unemployment of twelve months or over and considered more structural in nature, followed the same pattern; in the first nine months of 2019, the long-term unemployment rate was 2.4 %.

### Past years' reforms have improved how the labour market operates

Against the backdrop of positive if moderate growth in economic activity, this labour market revival is not just the consequence of measures seeking to encourage companies' demand for labour by making the relative cost of labour more attractive. The easing of fiscal and parafiscal pressure on workers' incomes to support labour supply also played a part. And the reforms were supplemented by measures aiming to extend careers and to encourage the jobless and inactive more strongly, on top of measures on work organisation and training for employees.

All these actions contribute to a more smoothly operating labour market, as shown by an analysis of the Beveridge curve. This curve links the job vacancy and unemployment rates and reflects the extent to which labour demand and supply coincide. Of course, the business cycle impacts the curve, with more robust economic activity at a time of recovery boosting company demand for workers, pushing down the unemployment rate and boosting job vacancy rates. The reverse applies at times of recession. But the positioning of the curve itself may be changed by structural elements. For one thing, the curve returns to the origin of its axes when there is better matching between labour supply and demand. This may be encouraged by boosting employment stimuli, improving the employability of job-seekers in the labour market,

and raising educational attainment levels among the potential labour force.

Since 2016, the unemployment rate has come down sharply thanks to a favourable economic cycle, among other factors. However, since mid-2017, this decline – by about two percentage points – has no longer gone hand in hand with higher vacancy rates, which suggests that the past years' reforms have ushered in a sustainable improvement in how the labour market operates. Some caution is called for when drawing this conclusion: an analysis of the Beveridge curve may point to an improvement in the way the labour market operates, but it does not enable identification of the exact causes, nor any quantification of its impact.

### Job creation involved both employees and the self-employed

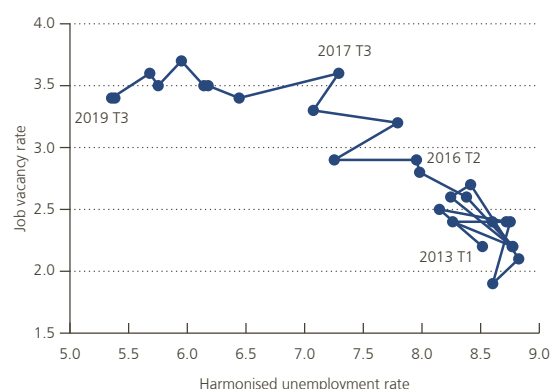
The resilience of job creation in 2019 was particularly notable, as wage growth accelerated and economic activity weakened. The employment

### Unemployment rate at lowest level ever

Chart 31

#### Unemployment rate falling since 2016 without pushing up job vacancy rate

(Beveridge curve<sup>1</sup>)



Source: Eurostat.

1 Harmonised unemployment rate as a percentage of the labour force between 15 and 64. This is based on the unemployment rate from the labour force survey, which uses the ILO definition – i.e. unemployed available and actively looking for work, irrespective of being registered as unemployed job-seekers with public employment services or receiving benefits as such. The job vacancy rate is defined as the relationship between the number of vacancies and labour demand – i.e. the sum of jobs taken and vacant).

intensity of economic growth – i.e. the relationship between the growth of employment in persons (1.5 % in 2019) and that of real GDP (1.4 %) – had been quite substantial in previous years and kept rising in 2019. On forecasts released by the Bank in December 2019, this ratio has now peaked: employment growth, which typically takes some time to respond to movements in activity, looks set to slow in 2020 and beyond. High employment intensity, incidentally, curbed productivity gains in 2019.

In 2019, the numbers of both employees and self-employed people increased. Moreover, self-employed status, which enjoyed a popularity not seen since the great recession, turns out to be quite impervious to the economic slowdown. This reflects the robust growth of the liberal professions,

### *Employment grew most in business-cycle-sensitive branches*

a growing interest in the flexibility afforded by self-employed status, and opportunities for the retired to combine their pensions with independent paid work. For some people who, despite their skill sets and active search for work, have a hard time finding a job as an employee, self-employed status serves as a gateway into the labour market.

For employees, the economic slowdown did not affect the dynamic employment creation of the past years. As has been the case since 2015, most jobs were created in business-cycle-sensitive branches of activity, with those contributing the most being trade, transport and hotels and restaurants, business services and health care. Only the financial services and insurance branches saw their workforces shrink further.

**Table 6**

#### **Labour supply and demand**

(year-on-year changes in thousands of people, unless otherwise stated)

	2015	2016	2017	2018	2019 e	Level 2019 e
<b>Total population</b>	59	57	54	55	54	11 457
<b>Working-age population<sup>1</sup></b>	16	16	12	13	13	7 338
<b>Labour force</b>	21	33	49	36	55	5 450
<b>Domestic employment</b>	40	58	76	66	74	4 891
<b>Employees</b>	30	46	64	53	58	4 072
Branches sensitive to the business cycle <sup>2</sup>	19	28	38	37	38	2 528
Public administration and education	0	2	9	4	5	834
Other services <sup>3</sup>	12	16	17	11	15	710
<b>Self-employed</b>	10	12	12	13	16	819
<b>Unemployed job-seekers</b>	-19	-26	-28	-30	-19	476
<i>p.m. Harmonised unemployment rate<sup>4,5</sup></i>	8.6	7.9	7.1	6.0	5.4	–
<i>p.m. Harmonised employment rate<sup>4,6</sup></i>	67.2	67.7	68.5	69.7	70.6	–

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

1 People aged 15-64.

2 Agriculture; industry; energy and water; construction; trade; transport; catering industry and communication; financial activities; real estate activities and business services.

3 Health care and social work; collective social, personal and household services.

4 Based on data from labour force survey.

5 Job-seekers as a percentage of the labour force aged 15-64.

6 People in work as a percentage of the working-age population between 20 and 64.

## Varying structural trends in non-standard employment

Non-standard employment – i.e. types of employment beyond that of the traditional full-time wage earner on a permanent employment contract – show a variety of structural trends depending on the type of employment observed (self-employed, temporary contract or part-time worker).

For one thing, the proportion of self-employed people in the total employment figures edged up between 2010 and 2018 (latest available figures). This slight gain by 1 percentage point to 17 % nonetheless contrasts with the EU at large, where self-employment is losing ground to salaried work.

Temporary employment agreements account for 11 % of all contracts with employees in Belgium, a share that has been rising since 2014 (+2 percentage points). Numerous employers reacted to that year's scrapping of a legal probationary period by offering temporary contracts enabling them to test workers in real-life work situations. This upward trend slowed in 2018, possibly related to that year's reform of the notice period for employees with a permanent contract: for workers in service for less than three months, notice was cut to a week. It is the young that are typically hired on a temporary

contract, and despite the increase in the last few years, the percentage of temporary employment agreements in Belgium remains below the European average (14 %).

Part-time workers, by contrast, are relatively more numerous in Belgium than in the EU. One in four Belgian employees works part-time – some 80 % of them women – compared with one in five in the EU. Following a sizeable increase in previous decades, this figure has remained fairly stable since 2010. Belgium has relatively fewer wage-earning involuntary part-time workers who would prefer to work full-time. This group accounts for 2 % of salaried employment, compared with 5 % in the EU as a whole. Young people and women suffer from this problem most<sup>1</sup>.

## Turning point in labour market tensions

Although net job creation has not yet weakened, in 2019, there was no increase in the tensions that had been gradually emerging in the labour market.

Since the spring of 2018, for example, agency work had been coming down, but it has remained at high levels. In view of its flexibility, temporary agency work serves as a leading indicator of future trends in traditional employment. In the past years, agency work volumes have been impacted by companies' need for greater flexibility and the fact that the probationary period for permanent contracts was scrapped.

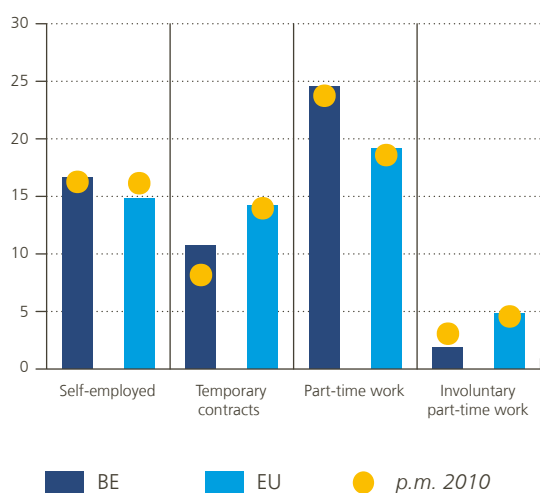
Temporary unemployment trends would appear to present the reverse image of temporary agency work, as temporary unemployment falls at the top of the economic cycle when companies have to mobilise all available resources, while it goes back up when the need for workers declines but it is too soon to fire employees. The fall in temporary unemployment for economic reasons, which had started in 2013, began to slow in 2018 and ground to a halt in 2019.

According to Statbel figures, vacancies averaged 142 500 in the first nine months of 2019, taking

Chart 32

### Non-standard employment

(2018, in % of corresponding employment)

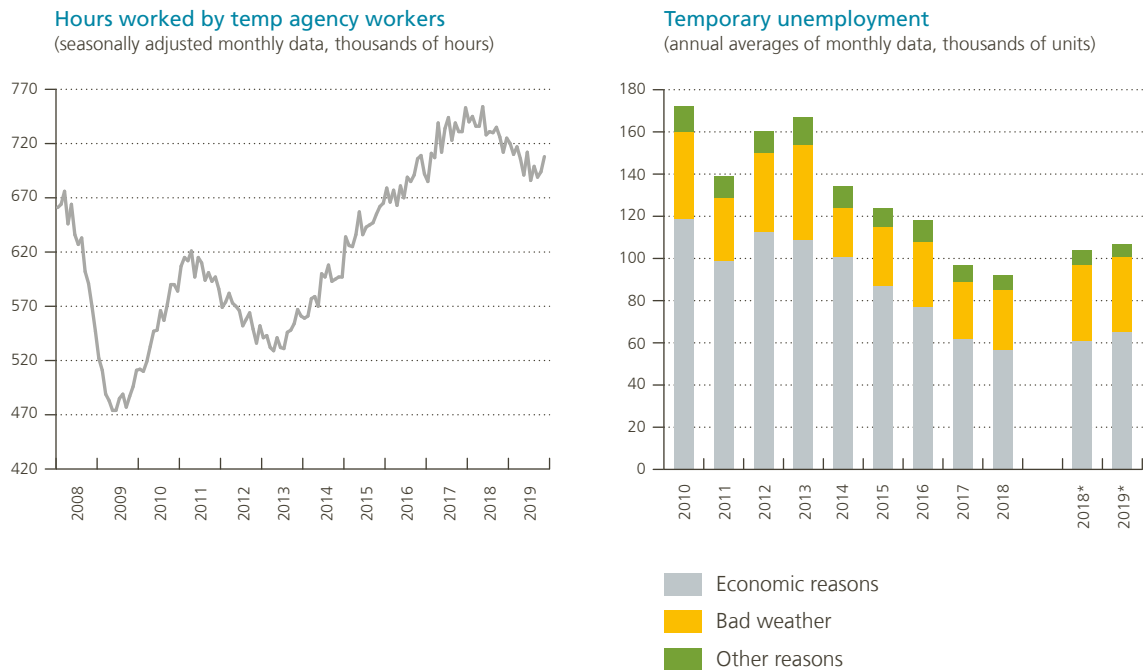


Sources: Eurostat, NAI.

<sup>1</sup> For more details, see Nautet M. and C. Piton (2019), "An analysis of non-standard forms of employment in Belgium", NBB, *Economic Review*, June, 1-28.

Chart 33

### Agency work and temporary unemployment trends appear to point to cyclical reversal



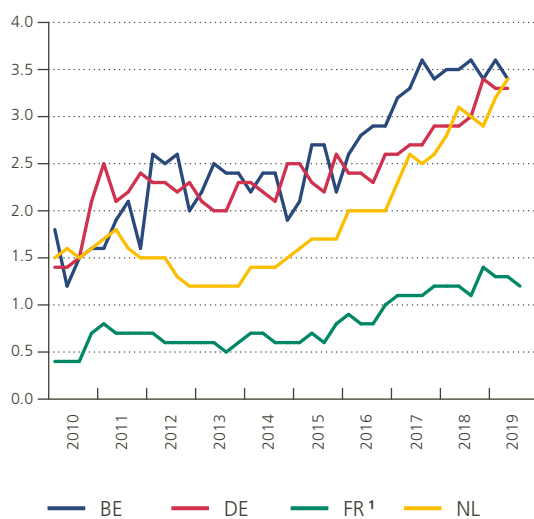
Sources: Federgon, NEO.

\* Average in the first seven months.

Chart 34

### Job vacancy rate stabilised after sharp rise

(in % of labour demand; unadjusted quarterly data for all companies, unless otherwise stated)



Source: Eurostat

<sup>1</sup> For companies with more than ten employees.

the job vacancy rate – the relationship between the number of vacancies and the total number of available jobs (i.e. the sum of jobs taken and vacant) – to 3.5 % in this period. Though still very high by international standards, Belgium's vacancy rate has been stable since 2018.

### Labour market participation remains too low

Although the working-age population has been slowly going up since 2012, the year 2019 saw another robust expansion in the labour force on the back of a higher activity rate, particularly among people over the age of 55. This latter group has been encouraged to remain active by a whole host of measures to extend careers taken since the early 2000s.

Despite these positive developments, labour market participation remains relatively subdued, with the Belgian activity rate below the European average and way behind the best-performing countries, including



Sweden. In 2018, 31 % of people of working age (15-64 years old) were inactive in Belgium – nearly one-third. This applies to all three of the country's Regions, although the activity rate is clearly higher in Flanders (71.8 %) than in Brussels (65.5 %) and, especially, Wallonia (63.8 %).

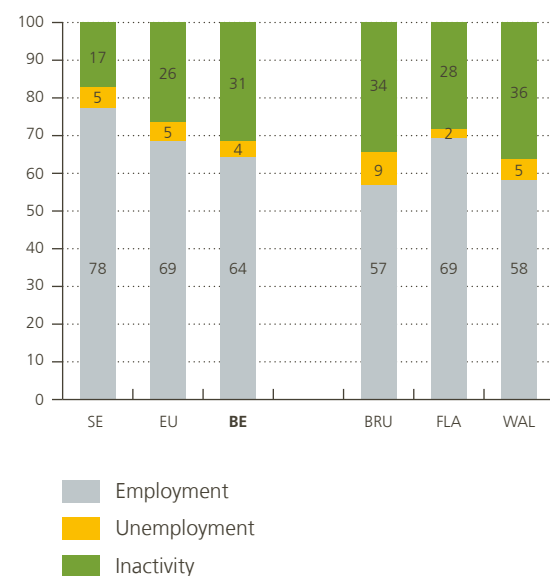
Inactive respondents list education (41 %), illness (19 %) and – mostly women – family responsibilities (21 % of total number of inactive people, but 32 % of all inactive women) as their main reasons for not working or looking for a job. Other reasons given include caring for children or for adults unable to work (5 % of inactive people, only women), being retired (4 %), feeling that there are no jobs available (3 %) or unspecified (19 %).

As observed year after year, certain groups are particularly under-represented in the Belgian labour market, some more than others depending on the Region. These groups include citizens of non-EU countries, the low-skilled, the 15-24 and 55-64 age groups, although the latter has been staging a clear rise since the 2000s.

**Chart 35**

### High percentage of inactive people

(working-age population by socio-economic status, in % of 15-64 age group, 2018)



Source: Eurostat.



Table 7

**Activity rate by age, gender, educational attainment and nationality in 2018**

(in % of the corresponding population aged between 15 and 64 years)

	Belgium	Brussels	Flanders	Wallonia	p.m. EU
<b>Total</b>	<b>68.6</b>	<b>65.5</b>	<b>71.8</b>	<b>63.8</b>	<b>73.7</b>
15-24 years	29.6	22.4	33.9	24.9	41.7
25-54 years	85.0	78.8	88.6	80.7	85.9
55-64 years	52.6	55.4	54.1	49.1	61.9
Men	72.8	71.6	75.5	68.5	79.2
Women	64.3	59.5	68.2	59.2	68.2
Low-educated	41.0	43.9	43.2	36.8	53.6
Medium-educated	70.9	61.6	73.6	68.1	76.5
Highly-educated	86.4	84.4	88.0	84.1	88.2
Nationals	69.0	63.4	72.2	64.4	73.8
EU citizens	71.7	76.8	73.1	64.0	79.8
Non-EU citizens	53.9	54.1	57.6	47.7	66.9

Sources: Eurostat, Statbel.

The activity rate of the 55-64 age group rose from 27.1 % in 2000 to 52.6 % in 2018 and resulted in a nearly equally sizeable upturn in their employment rate, from 26.3 % in 2000 to 50.3 % in 2018. This is the outcome of a range of measures aimed at extending people's careers – specifically, tighter conditions for access to the system of unemployment via employer top-up and job-seeking exemptions, followed by the scrapping of the status of “exempt older unemployed person” – which had initially targeted the youngest in this age group and were gradually extended to include its older members too. And so, the activity rate of the 55-59 age group rose from 39 % to 71 % between 2000 and 2018, while that for 60-64-year-olds also picked up, from 13 % to 32 %. Still, the latter percentage remains at a lower level.

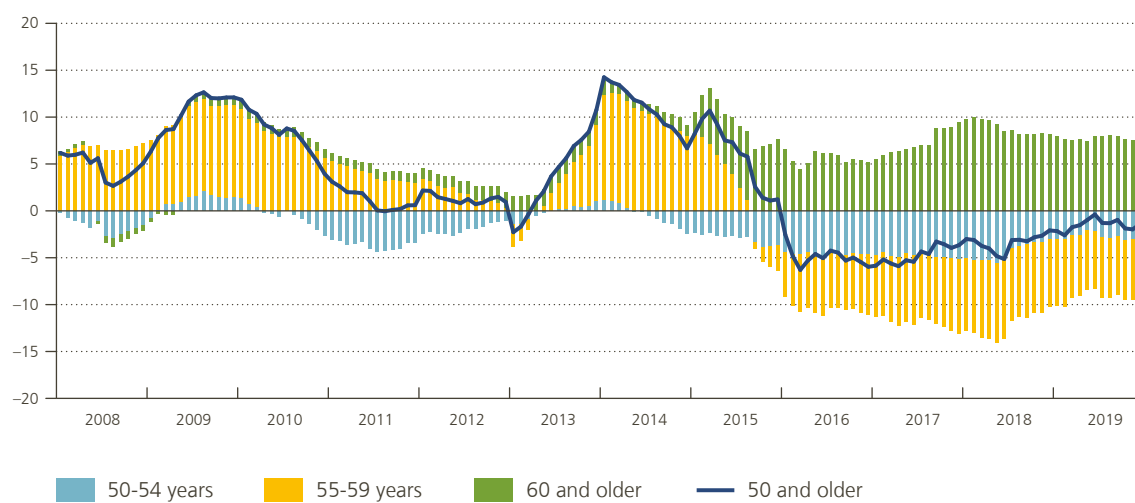
### *Reforms of end-of-career schemes finally bear fruit*

At the same time, there has been a shift in unemployment in the broader sense, more specifically from the group of unemployed people exempt from seeking a job to the group of job-seekers. Whereas, in 2008, barely 15 % of fully unemployed benefit claimants between the ages of 55 and 64 were registered as job-seekers, this proportion rose to 59 % in 2019. An analysis of the over-50s reveals highly divergent situations depending on the sub-group reviewed. The fall in the number of unemployed job-seekers, which has become visible since 2016, is driven solely by people in the ages between 50 and 59, whereas the number of unemployed job-seekers aged 60 and over has risen. Previously, this age group hardly featured in the unemployment data as they had already left the labour force by taking advantage of one or more of the various schemes mentioned above.

Chart 36

### Unemployed job-seekers aged 60 years and older: numbers on the rise

(changes in thousands of people compared with the corresponding month of the previous year)



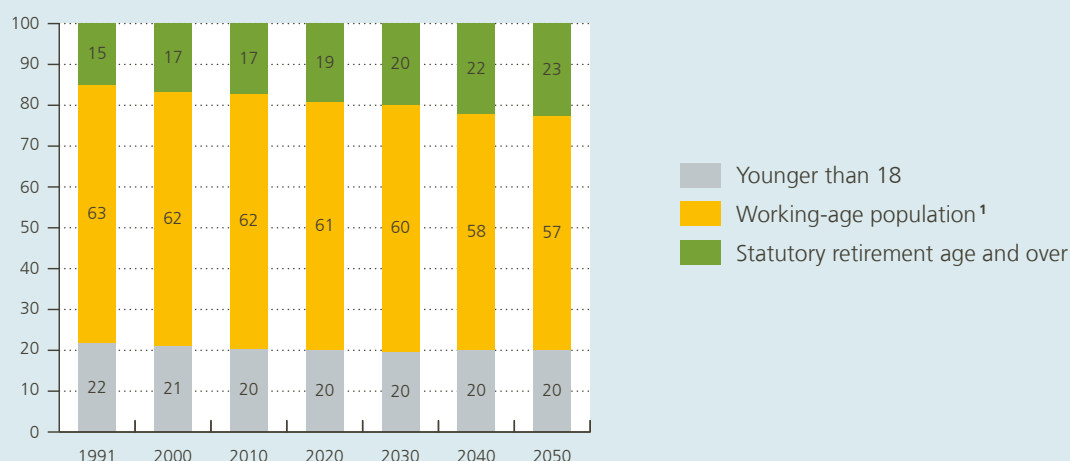
Source: NEO.



## Demographic challenge against a backdrop of low labour market participation

### Share of working-age population set to decline over time

(breakdown of population by large age groups, in %)



Source: FPB.

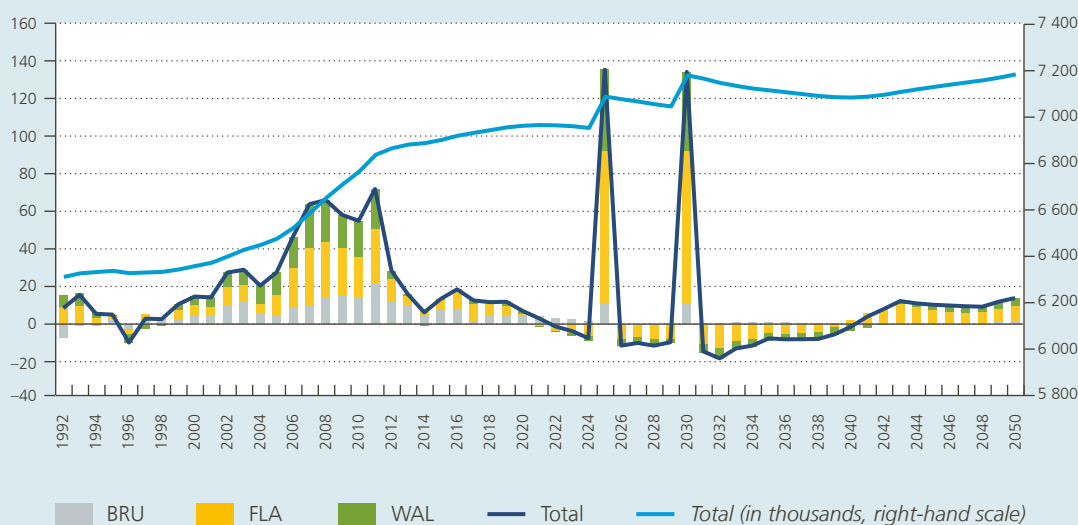
<sup>1</sup> In line with the increase in the statutory retirement age, this group has been defined as the 18-64 age group up to and including 2024, as the 18-65 age group between 2025 and 2029, and as the 18-66 age group from 2030.

The numbers clearly reveal that the population is ageing, i.e. the group of people reaching retirement age is growing faster than the working-age population (the latter group being defined as people between 18 and the statutory retirement age, which will rise in two stages from 65 to 67). This trend will become all the more marked, as large swathes of baby boomers will be retiring in the coming years. The dependency ratio – defined as the relationship between the number of people of retirement age and older and the number of people between the ages of 18 and statutory retirement age – still stood at 0.31 in 2018, but will rise to 0.33 in 2030 – despite the rise in the statutory retirement age from 65 to 67 between these two years – and to 0.40 in 2050. The ratio increase reflects the expansion of the retired population and the contraction of the working-age population.



## Statutory retirement age reforms cushion fall in working-age population

(projections by Region of the working-age population; annualised changes in thousands of persons, unless otherwise stated)



Source: FPB.

The working-age population, which has been growing a lot more slowly, looks set to shrink from the first half of the next decade. The contraction is expected to start in Flanders from 2021 and take hold in Wallonia from 2022 and is predicted to continue into the 2040s. In Brussels, the working-age population is not predicted to decline. The increase in the statutory retirement age, in both 2025 and 2030, will cause a one-off increase in the working-age population, and neutralise its contraction. However, the share of the oldest age group in the labour force also stands to grow as a result; this group's low activity rate will push down the total activity rate.

While debates may rage over the speed or the extent of the phenomenon of population ageing, it has now become an incontrovertible fact, which is posing a whole host of challenges in terms of organising society but also in terms of the availability of workers and funding of social security. If Belgium does not succeed in getting a larger proportion of the working-age population into work, this demographic effect will slam the brakes on the economy's growth potential.

## 3.4 Private sector labour costs have risen further

Favourable labour market conditions and scarcity-induced tensions are beginning to percolate through to wages. In 2019, gross hourly wages in the private sector added 2.6 %, continuing the upward trend of the past few years. While wage growth was largely due to indexation, the acceleration compared with 2018 was prompted by real agreed wage increases.

### Real negotiated wage growth accelerates, but wage drift remains subdued

At the end of February 2019, the country's social partners arrived at a draft interprofessional agreement to

cover the 2019-20 period, although not all social partners ended up endorsing it. Nonetheless, the margin set down in the draft agreement, specifying by how much labour costs will be allowed to rise – a maximum 1.1 % on top of indexation – was endorsed by Royal Decree and came into force in April 2019. The index of collectively agreed wages drawn up by Federal Public Service Employment, Labour and Social Dialogue (FPS ELSD) suggests that this margin fairly rapidly translated into collective labour agreements at sector level. FPS ELSD puts the impact of permitted real negotiated pay raises at 0.7 % in 2019, meaning that the bulk of the margin was allocated in the first year of the agreement. This is a break with the past: the real negotiated increase

Table 8

#### Labour costs

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

	2015	2016	2017	2018	2019 e
Hourly labour costs in the private sector	0.2	-0.4	1.4	1.5	2.4
Gross hourly wages	0.4	1.3	1.6	2.3	2.6
Real agreed adjustments <sup>1</sup>	0.0	0.0	0.2	0.4	0.7
Indexation	0.1	0.5	1.6	1.7	1.8
Wage drift <sup>2</sup>	0.3	0.8	-0.2	0.2	0.1
Employers' social contributions <sup>3</sup>	-0.3	-1.7	-0.3	-0.8	-0.2
Hourly labour costs in the public sector	0.9	2.5	2.1	2.2	1.5
of which: Indexation	0.0	1.0	2.0	1.5	1.5
Hourly labour costs in the economy as a whole	0.3	0.3	1.5	1.6	2.1

Sources: FPS ELSD, NAI, NSSO, NBB.

<sup>1</sup> Wage increases fixed by joint committees.

<sup>2</sup> Increases and bonuses granted by companies over and above those under interprofessional and sectoral collective agreements; wage drift resulting from changes in the structure of employment, and errors and omissions; contribution to the change in labour costs, in percentage points.

<sup>3</sup> Contribution to the change in labour costs resulting from changes in implicit social security contribution rates, in percentage points.



used to be bigger in the second year of such an agreement, simply because of the time it took to agree at sector level.

As a result, real negotiated adjustments in 2019 turned out as big as those of the previous two years together. The 2017-18 interprofessional agreement had also set a wage margin of 1.1 %, but the FPS ELSD index shows that this had only partially been used at sector-level negotiations. Although real negotiated wages advanced only slightly in this period, the agreement did end a series of years in which virtually no real negotiated pay rises were granted. That said, the way that wage negotiations are set up in Belgium does make it possible that the proportion of the margin not granted by the joint committee is still being used in company-specific agreements – but this is not recorded as a real negotiated wage increase but rather as wage drift.

The same is true for a raft of benefits that are not covered by sector-specific negotiated increases and which were frequently used while real wage growth was subdued – e.g. types of more tax-friendly compensation, such as eco-vouchers, meal vouchers or group insurance. Some of these benefits could be part of what is known in Belgium as a “cafeteria plan”, which allows employees to partly put together their own compensation through a selection of fringe benefits.

The wage drift also reflects the impact of changes to the structure of employment. Recent research by the ESCB Wage Expert Group<sup>1</sup> found that, after the great recession, the wage drift in Belgium was pushed up by the larger proportion of higher-skilled and older employees, who receive relatively higher pay because of their greater productivity and/or seniority-related compensation levels. The changing employment structure has both structural and cyclical causes. For one thing, the labour force’s educational attainment level is trending upwards, while the rewards are emerging of measures to keep people in paid work longer. The cyclical effects in their turn are that a recession invariably sees agency work, young people and low-skilled jobs in the

labour market come under pressure, reducing their share in the total wage bill and ratcheting up wage drift. In 2019, the changing employment structure once again caused the wage drift to exert a slightly positive effect on hourly labour costs.

### **Indexation remains the key determining factor for hourly labour costs**

Although real negotiated wage increases were higher in 2019 than in previous years, automatic wage indexation remained the biggest contributor to the increase in gross hourly wages in the private sector. This was also the case in 2017 and 2018, as it followed two years in which indexation had little effect on wage trends – because wage indexation was temporarily shelved from March 2015 until the impact of the indexation freeze had reached 2 %. Wage indexation is based on the way the health index develops, although various sectors use a wide range of indexation schemes. Its application pushed up gross wages in 2019 by 1.8 %, which was slightly more than in 2017 and 2018.

Incidentally, public sector wage indexation is linked to the trigger index figure exceeding 2 %, two months after which civil servants’ pay is adjusted. In 2019, this trigger index was not exceeded, but the effect of the August 2018 overshoot was still being felt and gross wages in the public sector rose by 1.5 % due to indexation. The developments in the various real wage components more or less balanced each other out, and total hourly labour costs rose by around the same percentage as the indexation.

### **Limited impact of reductions in social security contributions**

More so than just gross wages, total labour costs shouldered by companies should be considered as one of the factors that determine their competitiveness – which is where the trend in employers’ social contributions comes in. In the past few years, this trend was influenced by the tax shift, and especially so in 2016 and 2018: in those two years, the tax-shift-derived reductions in social security

<sup>1</sup> Jonckheere J. and Y. Saks (2019), “Low wage growth in the euro area: main conclusion from the ESCB Wage Expert Group with a focus on Belgium”, NBB, *Economic Review*, December, 1-13.

contributions cut hourly labour costs by 1.7 and 0.8 percentage points respectively. During that time, a number of measures were phased in, and these have had a major impact on labour costs. For one thing, the base rate for employers' social contributions was cut: since 2018, it has been at 25 % including the wage restraint levy, compared with 32.4 % before the tax shift. On the other hand, the structural reduction in social security contributions was lessened, with most of this now targeting low wages.

In 2019, the structural reduction in social security contributions for low wages was raised and the scope of the measure also expanded (see box 5 for an in-depth analysis of the fiscal and parafiscal burden on low wages). The structural contribution reduction again

edged up as a result. However, the downward impact of employers' social contributions on labour costs was limited at -0.2 percentage point.

All in all, hourly labour costs in Belgium's private sector grew by 2.4 % in 2019, i.e. nearly 1 percentage point more than the previous year. Note that its neighbouring countries also reported an acceleration, though. Wage gap developments had not yet been estimated when this Report went to press; this gap reflects, as set out in the Law as amended in March 2017, cumulative labour costs (since 1996) in Belgium compared with those in the three main neighbouring countries. Belgium's official wage gap is calculated annually by the Central Economic Council (CEC). The 2019 estimate was not yet available at time of writing, so no final pronouncements can be made.

## BOX 5

### The tax wedge on low wages

The difference between employers' total labour costs and take-home wages for employees impacts both labour supply and demand. According to OECD figures, that difference – known as the tax wedge – for a single person without children, irrespective of wage level, is bigger in Belgium than in its neighbouring countries.

However, the tax shift of the past few years has helped to reduce the tax wedge for all wage levels in Belgium by cutting employers' social security contributions and reforming personal income tax. As intended, its impact was the greatest for low wages. The OECD has worked out that the tax wedge in the 2015-18 period came down by 3.3 percentage points for a single person without children earning 67 % of the average wage, whereas the reduction worked out at 2.6 percentage points for that same person on an average wage. People in the same household situation but on a higher income (167 % times the average wage) saw a cut by 1.7 percentage points. It is worth noting that, even before the tax shift, there were measures in place – such as social and tax work bonuses – to help make the lowest-paid jobs more attractive.

All these measures have combined to lower the tax wedge for the lowest wages, but there is still a difference between employers' total labour costs and take-home pay for employees. To show what this looks like, a simplified scenario has been put together for a single, white-collar worker earning the guaranteed average minimum monthly income (GAMMI) (a gross monthly income of € 1 593.81 at the end of 2019). This GAMMI, which is set by the National Labour Council (NLC), is the legal minimum



wage in Belgium and the absolute floor in the private sector pay scale. The tax wedge for this wage level was estimated at 15.5 % in 2019.

If target group policies are factored in – which, by way of wage subsidies, reduce or even cut to nil employers' social contributions – the tax wedge turns out smaller. Since the sixth State reform, this has mainly become a regional competence and the various Regions have opted for different priorities. If, for example, calculations take on board the target group reduction for low-skilled young people in the Flemish Region – a profile typically earning a wage close to the minimum wage – we are looking at an estimated tax wedge of 4.5 %. The other two Regions have opted to replace this target group reduction with other policy options.

The outlined measures taken to make work more attractive or to create low-skilled jobs have led to a clearly lower tax wedge for the lowest wages than for higher pay. So, our single, white-collar worker earning 67 % of the average wage was looking at a tax wedge of 45.4 % in 2019, compared with 52.3 % for the average wage.

#### Indicative tax wedge for the minimum wage in 2019<sup>1,2</sup>

(annualised data)

	Minimum wage	Factoring in target group reduction for low-skilled young workers in the Flemish Region <sup>3</sup>
Total labour costs for the employer (in €)	21 598.57	19 125.72
<i>p.m. Gross wage (= 12 × GAMMI) (in €)</i>	19 125.72	19 125.72
Net wage (euros)	18 257.95	18 257.95
Tax wedge (in %) <sup>4</sup>	15.5	4.5
of which:		
Share of personal income tax <sup>5</sup>	4.1	4.1
Share of employees' social security contributions <sup>5</sup>	0.4	0.4
Share of employers' social security <sup>6</sup>	11.4	0.0

Sources: NSSO administrative instructions 2019 Q1, FPS Finance, NLC, OECD, own calculations.

1 Calculated for a simplified base scenario, i.e. a single, white-collar worker without children working full-time and living in the Flemish Region. Their gross wage equals the GAMMI and does not therefore include any premiums or fringe benefits.

2 Personal income tax due was calculated based on tax deducted at source, social security contributions are calculated in line with the NSSO's administrative instructions for the first quarter of 2019.

3 When hiring a low-skilled young person (under the age of 25) earning a wage in the quarter below a certain threshold, employers in the Flemish Region will be fully exempt from basic employers' contributions (including wage restraint) for a period of eight quarters. As the impact of the various employers' contributions is very limited, this analysis assumed, for the sake of simplicity, that no employers' contributions are due.

4 Calculated as  $100 \times (1 - (\text{net wage} \div \text{total labour costs for employer}))$ .

5 Calculated as the share in the gross wage, in %.

6 Calculated as the share in total labour costs, in %.

## Unit labour costs also up

Although hourly labour cost trends form the cornerstone of wage negotiations, their outcome must also reflect apparent labour productivity – the two variables that together determine unit labour costs. To ensure the competitiveness of Belgian companies, trends in these two variables should not deviate for any length of time. That said, the 2019 uptick in hourly labour costs was accompanied by only a slight increase in productivity growth, making for a further rise in unit labour costs in Belgium.

## Labour costs in Belgium are high, but are partially offset by robust productivity

Since 1996, the cumulative trends of Belgium's hourly labour costs have, by law, been aligned with the same trends in its three main neighbouring countries. Despite the measures taken to reduce labour costs in the past five years – e.g. the tax shift and index jump – average labour costs per hour worked are still higher

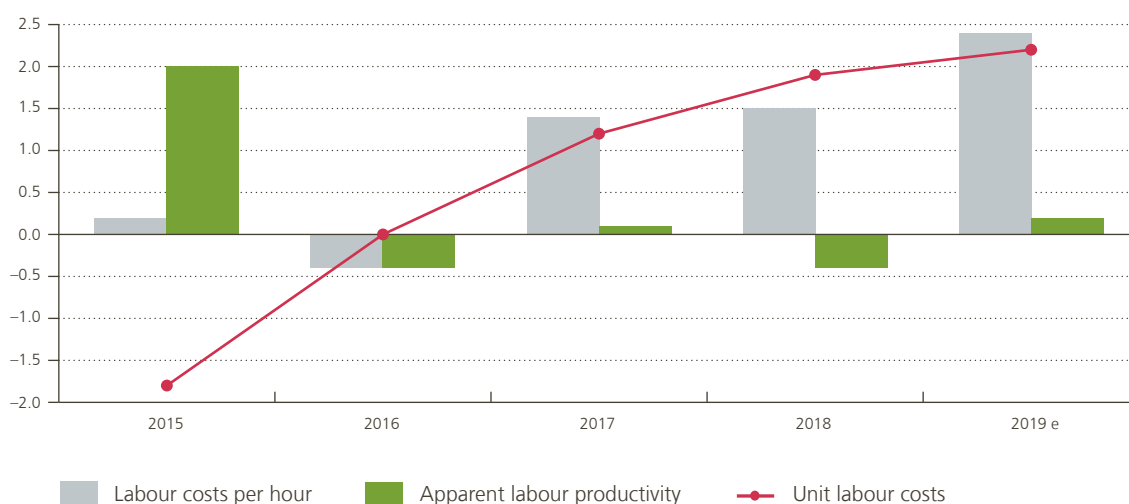
in Belgium. In the business sector, labour costs in 2018 averaged around € 38 per hour in Belgium, compared with around € 34 in Germany, € 35 in France and € 33 in the Netherlands. Both in manufacturing and in market services, Belgian hourly labour costs exceeded the figures for neighbouring countries.

Higher labour costs per hour may be justified for employees working at adequate-to-high productivity levels, but high wages across the board can push or keep out of the labour market employees whose productivity is not up to scratch. Adjusted for productivity levels, labour costs are still highest in Belgium, but the gap clearly narrows. In the Belgian business sector, unit labour costs came to 0.64 in 2018, compared with 0.62, 0.63 and 0.59 for Germany, France and the Netherlands respectively. Belgian manufacturing labour costs adjusted for productivity were lower than those in Germany and France, but still higher than in the Netherlands. In market services in Belgium, by contrast, higher hourly labour costs were not fully offset by higher labour productivity, making for higher unit labour cost levels than in any of its neighbouring countries.

Chart 37

### Unit labour costs<sup>1</sup> rose further

(percentage changes compared with the previous year, private sector)



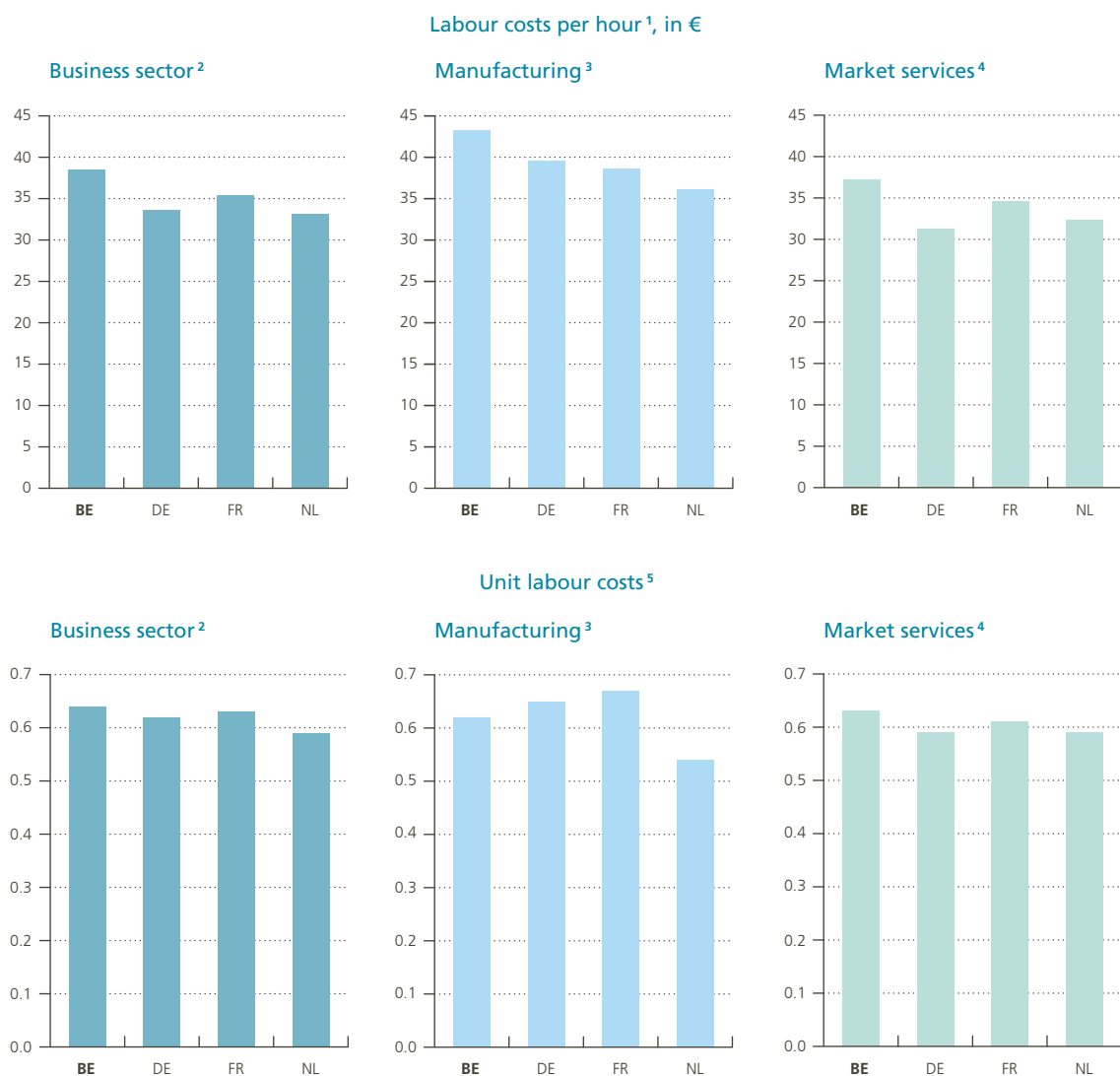
Sources: NAI, NBB.

<sup>1</sup> Unit labour costs are calculated by dividing the labour costs per hour by the apparent labour productivity, which in turn is calculated as the real value added divided by the number of hours worked by employees and self-employed.

Chart 38

## Labour costs per hour are higher in Belgium, but the unit labour cost gap is much narrower

(level, 2018)



Sources: Eurostat, NAI.

1 Calculation based on the national accounts: labour costs (D1) divided by the number of hours worked by employees.

2 The business sector comprises NACE categories B to N and includes industry, construction and market services, serving as a proxy for the private sector.

3 Manufacturing concerns NACE sector C.

4 Market services comprise trade, transport, hospitality industry, information and communication, financial activities, professional activities and administrative and support services (NACE categories G to N).

5 Calculated as labour costs per hour divided by apparent labour productivity, in its turn calculated as the nominal value added divided by the number of hours worked by employees and the self-employed.

Belgium may still boast very high productivity levels, but these have clearly not been rising as much over the past few years. One reason is that more lower-skilled people are now in work, a trend encouraged in the past few years through the system of service vouchers and measures such as reduced social security contributions due on low wages. Slowing productivity increases are noted elsewhere as well, but the trend is more pronounced in this country. In recent reports, both the OECD<sup>1</sup> and the National Productivity Council<sup>2</sup> have flagged up the danger of slowing productivity growth for the Belgian economy's competitiveness. It is imperative for the country to take the necessary steps to get productivity growth back on track (see 6.2). The wage negotiation framework also needs to take on board productivity trends, which can vary between sectors, geographic location and individual companies.

### *Wage developments must factor in productivity trends*

It should not be forgotten that Belgium has a centralised system of wage-setting, which imposes a maximum wage growth on the private sector by way of the wage margin, while sector-level agreements set a minimum wage increase for all companies involved. Companies can use the margin between this minimum and maximum to differentiate wage growth depending on productivity gains or in keeping with any scarcity they encounter. Following a period of rigorous wage restraint, companies had very little scope to bargain under the latest central agreements. Companies with the necessary resources can consider pay rises that fall outside these margins or apply tax-efficient remuneration alternatives to maximise the effect on employees' purchasing power. That said, the possibilities to do this are finite and downward differentiation is even harder. Companies only rarely trigger the opt-out clause that allows them not to follow a sector agreement provided they observe the conditions as set down in a collective labour agreement. In Germany, by contrast, which does not impose a formal ceiling on wage growth and where wage negotiations are also conducted at sector level, opt-out and deviation clauses are frequently brought into play, providing greater scope to the process of wage-setting at company level.

1 OECD (2019), In-Depth Productivity Review of Belgium, OECD publishing, Paris.

2 Nationale Raad voor de Productiviteit, Jaarverslag 2019, [https://www.cnp-nrp.belgium.be/publications/publication\\_det.php?lang=nl&KeyPub=456](https://www.cnp-nrp.belgium.be/publications/publication_det.php?lang=nl&KeyPub=456)





## 3.5 Headline inflation sharply down, underlying inflation slightly up

Headline inflation slowed in 2019. After nudging slightly over 2 % a year in the previous two years, consumer prices slowed in 2019 to 1.2 %. Lower inflation was attributable to the energy and food components. Underlying inflation, which excludes these volatile components and comprises the services and non-energy industrial goods categories, picked up a little, from 1.3 % in 2018 to 1.5 %, driven by stronger price upturns in both these categories. Meanwhile, the health index, which in Belgium is used as a benchmark for index-linking wages, benefits and rents, rose by 1.5 % in 2019, compared with 1.8 % in the previous year.

### Energy and food inflation sharply down

Total inflation went sharply down as 2019 progressed, from nearly 2 % at the beginning of the year to an average 0.5 % in the final three months. This mirrors the way energy prices moved in the year: while still at an annualised 9 % in March, energy inflation then fell sharply and turned negative from June, to end up at –9 % in October. This can mainly be traced back to declining Brent oil prices, which caused inflation from fuels and liquid fuels to drop sharply. At the same

Table 9

#### Harmonised index of consumer prices

(year-on-year changes in %, unless stated otherwise)

					<i>p.m. Weight in consumer basket</i>	Three neighbouring countries
	2016	2017	2018	2019	2019	2019
<b>Total</b>	1.8	2.2	2.3	1.2	100.0	1.5
<b>Underlying inflation</b>	1.8	1.5	1.3	1.5	68.8	1.1
Services	2.2	1.9	1.6	1.8	42.1	1.5
Non-energy industrial goods	1.0	0.8	0.8	1.0	26.7	0.6
<b>Food</b>	3.1	1.4	2.7	1.3	21.5	2.5
<b>Energy</b>	–0.6	9.9	8.9	–0.8	9.7	2.0
Electricity	28.3	7.9	2.2	1.6	3.2	4.3
Gas	–11.8	4.1	9.6	–5.8	1.7	3.9
Fuels	–5.3	10.7	10.7	0.0	3.5	–0.6
Heating oil	–17.5	18.7	19.4	–1.6	1.3	2.3
<i>p.m. Health index</i> <sup>1</sup>	2.1	1.8	1.8	1.5	–	–

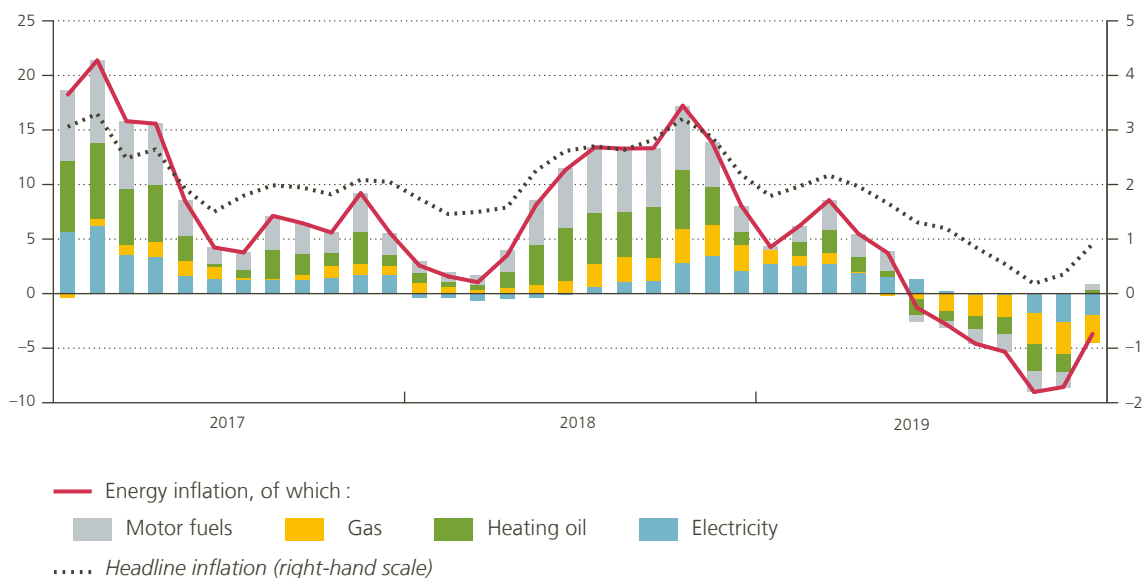
Sources: Eurostat, Statbel.

<sup>1</sup> National consumer price index, excluding motor fuels, alcohol and tobacco.

Chart 39

### Total inflation movements sharply influenced by energy inflation

(HICP; annual percentage changes for total and energy inflation, and contributing factors to change in energy inflation, in percentage points)



Source: Eurostat.

time, gas prices were also significantly below 2018, reflecting a more ample global supply. And electricity price rises were subdued in the wake of average falls in power distribution rates.

At 1.3 %, food inflation in 2019 came in at only half of what it had been the year before. The smaller increase is partly explained by the excise duties levied on these products. On tobacco, for instance, excise duties were raised much less steeply than in 2018 and January 2019 saw the effect of the increase in the sugar tax a year earlier stripped out, a levy introduced early in 2016 as part of the tax shift.

### *Inflation sharply down on trends in energy and food prices*

### Underlying inflation lower than macroeconomic indicators would suggest

Underlying inflation moved up slightly in 2019, but, at 1.5 %, remained subdued – as it had been in 2017

and 2018 – despite rising unit labour costs, a significant cost to companies and a key determining factor in pricing. In services, in particular (at 60 % the most important component of underlying inflation), labour costs sit heavily: in 2010, they accounted for around 40 % of total costs of final household consumption spending on services, whereas the figure is below one-third for all spending categories together.

The past three years' low levels of underlying inflation despite higher labour costs follow a stretch in which underlying inflation

was persistently high against a backdrop of moderate growth in labour costs. Flying in the face of steeply lower unit labour costs in 2015 – the result of measures to bolster Belgian competitiveness – underlying inflation remained intractably robust, at 1.6 % and 1.8 % in that year and in 2016 respectively.

This is confirmed when a Phillips curve model is taken to analyse the link between inflation and the general macroeconomic cycle. Traditionally, this model draws on the unemployment rate as an

indicator for the economic cycle, but, by extension, other variables may also serve as input, real GDP, for instance, or unit labour costs. Based on multiple Phillips curve specifications, combining diverse variables, it may be concluded that underlying inflation was a little lower than might be expected in 2018 and 2019. The years 2015 and 2016, by contrast, had too high an underlying inflation according to this model, and particularly in the services component.

How companies set prices does not just depend on their costs, including labour costs, but also on how fiercely competitive their sector is, what investment is needed for their business, how flexible they can be in changing prices frequently or not, etc. Labour cost fluctuations can be absorbed in part by profit margins,

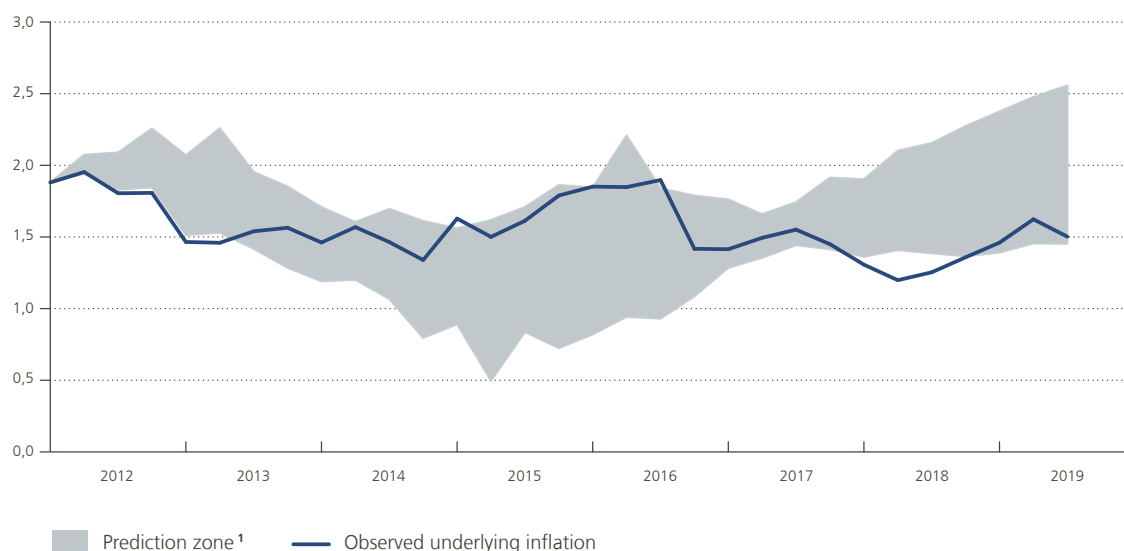
*Despite strong wage growth,  
underlying inflation  
remained subdued*

whether temporarily or longer term. Expenditure statistics in the national accounts reveal to what extent margins are used for this purpose. The analysis will first investigate how the changes in unit labour costs are transferred to domestic prices (measured by the GDP deflator), with profit margins equalling the difference in growth between the two variables. Determining the link between the GDP deflator and underlying inflation is the next step, as the latter does not merely depend on domestic costs, but also on prices of imported goods (whether consumed immediately or used as input towards the production of consumer goods). That is how, at the end of the day, underlying inflation can be broken down into contributions from three components: unit labour costs, profit margins and a residual, which also includes the terms of trade.

Chart 40

### Underlying inflation lower in the last few years than might be expected given macroeconomic environment

(annual percentage changes)



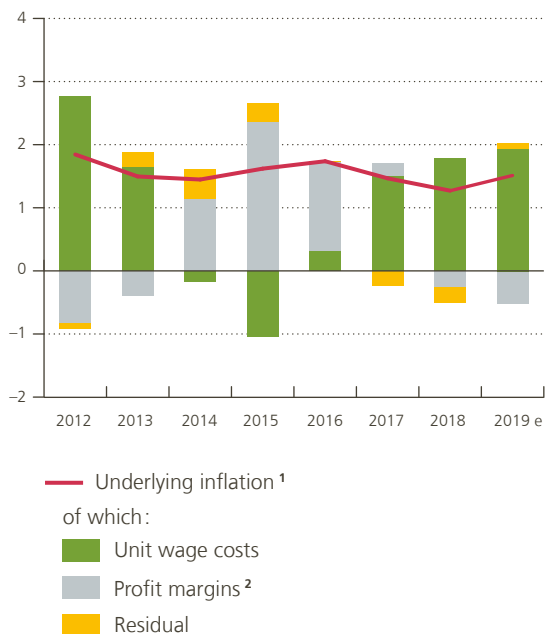
Sources: EC, ECB, Eurostat, NBB.

<sup>1</sup> The zone pictured is between the minimum and maximum underlying inflation derived from Phillips curve models, towards which various sets of specifications are projected based on different combinations of indicators for three types of variable: economic activity, imported inflation and inflation expectations. For economic activity, the model uses the unemployment rate, unit labour costs, real investment and real GDP. For imported inflation, the model draws on oil prices and the import deflator, and for inflation expectations, the EC consumer surveys, past annualised HICP inflation, the past HICP index, the past HICP index not including energy, the past HICP index not including energy and food, and the past health index. The data cover the 1995Q1–2019Q3 period. Conditional predictions of underlying inflation start in the second quarter of 2012.

**Chart 41**

### Labour cost growth is often partly absorbed by profit margins

(annual percentage changes for underlying inflation and contributions of the various components, in percentage points)



Sources: Banque de France, Eurostat, NBB.

- Underlying inflation was measured using HICP. Decomposition was inspired by P. Diev, Y. Kalantzis and A. Lalliard (2019), "Why have strong wage dynamics not pushed up inflation in the euro area?", *Bulletin de la Banque de France*, pp. 225/6, September-October.
- Profit margins have been defined as the growth of the GDP deflator less the growth of unit labour costs. The residual comprises three parts: (i) the terms of trade excluding energy and food, approximated by the growth of the export deflator less the growth of the import deflator, less the difference between total and underlying inflation, (ii) differences in price trends between private consumption and one of the other components of domestic demand, such as public consumption and investment, and (iii) a statistical adjustment for differences between the consumption deflator and HICP inflation.

The breakdown does indeed reveal that profit margins are used to prevent prices from fluctuating too much, when labour cost growth starts to swing. For example, in 2015, falling unit labour costs were not fully passed on into prices and instead helped create higher margins. Since then, wage growth has picked up again, and this has been absorbed into shrinking profit margins from 2018. Other factors, included in the residual, have also influenced underlying inflation. An appreciating euro, for instance, lowered import prices in 2017 and 2018, slightly depressing underlying inflation. In 2019, by contrast, the euro lost ground, with the reverse effect.

Profit margins partially absorbing wage increases is not an exclusively Belgian phenomenon; the euro area as a whole displays a similar trend<sup>1</sup>.

### Price rises slowed for a number of services

How underlying inflation developed in Belgium, and services inflation in particular, is in part explained by specific factors that influence prices in sub-components. In 2015 and 2016, a series of government measures pushed up the prices of a selection of services, one example being the increase in October 2015 of tuition fees in Flanders. Besides, price trends in restaurants and cafés, as well as for telecommunications,

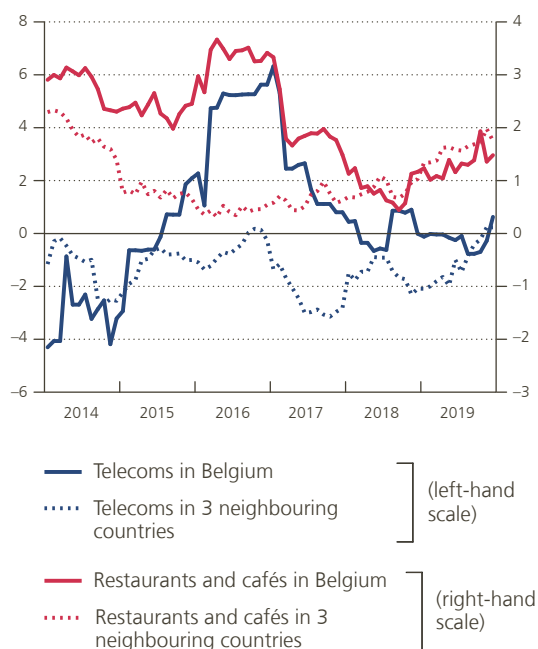
<sup>1</sup> P. Diev, Y. Kalantzis and A. Lalliard (2019), "Why have strong wage dynamics not pushed up inflation in the euro area?", *Bulletin de la Banque de France*, 225/6, September-October.



Chart 42

### Belgian inflation in telecoms and restaurants/café slowed markedly relative to 2016

(HICP; annual percentage changes)



Source: Eurostat.

at the time suggested a level of dysfunction in these sectors.

No far-reaching one-off measures have since been taken to significantly accelerate underlying inflation. Quite the reverse, Wallonia scrapped the radio and TV licence fee in 2018, exerting downward pressure on services inflation for a year. Various initiatives were launched to boost market forces in some industries. The code of conduct signed in December 2015, for example, sought to curb the use of brewery contracts in the catering industry, which often specified the purchase of a minimum amount at pre-determined prices. In telecommunications services, cable was liberalised in 2016 while July 2017 saw the launch of the Easy Switch procedure – making it easier to switch to a different telecoms

*Inflation slowed more in Belgium than the average in its three neighbouring countries*

1 See Price Observatory's third quarterly report 2019 (FPS Economy).

operator and benefiting competition in the industry. More recently, at the beginning of July 2019, the Belgian telecoms regulator (the Belgian Institute for Post and Telecommunication – BIPT) and media regulators together released a number of draft decisions proposing new monthly wholesale rates for access to cable operators' networks<sup>1</sup>, the idea being that alternative operators should pay a fair rate for the use of these networks. A similar procedure will follow for the optic fibre market. Meanwhile, European bodies have also issued measures to temper price rises, for instance laws to cap the costs of calling and texting between EU countries, effective since May 2019. Price rises in restaurants and cafés as well as in the telecoms sector have been effectively curbed, especially when compared with 2016.

### The inflation gap between Belgium and its neighbouring countries turned negative in the second half of the year

After significantly narrowing the total inflation gap with its three main neighbouring countries in 2018, Belgium saw it shrink further in 2019, with inflation even dipping below that in its neighbouring countries in the second half. Headline inflation fell more sharply in Belgium, fuelled in the main by price trends in energy products and, to a lesser extent, food.

In terms of energy products, gas and electricity made the biggest contribution to narrowing Belgium's inflation gap with its neighbours, with gas prices coming down much more significantly in Belgium as 2019 progressed than they did on average in the neighbouring countries. Network charges and non-VAT levies affecting gas prices are quite a bit lower in Belgium, meaning that lower wholesale prices impact consumer end prices much more significantly. In

addition, Belgian supplies of gas have more diverse origins, as it is brought in through the port of Zeebrugge. As for elec-

tricity, prices in Belgium briefly shot up at the end of 2018 as a large proportion of the country's nuclear plant capacity was unavailable and there was uncertainty over power supply through the winter months; all of which depressed electricity-based inflation a year later, in the second half of 2019. Besides, France raised regulated electricity rates in June 2019. Lastly,



the Netherlands raised taxes on gas and electricity in January 2019, pushing up inflation for both categories throughout the year.

Lower Brent oil prices also partly explained the lower total inflation gap. Crude oil price fluctuations hit consumer prices for heating oil harder in Belgium, as related excise duties are a lot lower than in its neighbouring countries. In December 2019, these excise duties stood at 1.9 euro cents a litre in Belgium, compared with 6.1 cents in Germany and 15.6 cents in France (in the Netherlands, heating oil is not included in the consumer price index). Furthermore, heating

oil accounts for a greater proportion of household spending in Belgium, hence its weight in the consumer price index is a little higher: in 2019, heating oil accounted for 1.3 % in the HICP, compared with an average 1.1 % for Germany and France.

Although it has been a little lower in the past few years than might have been expected from the macro-economic variables, underlying inflation in Belgium is still higher than in its neighbouring countries. In these countries, and more generally in the euro area, underlying inflation has been persistently low for a number of years.

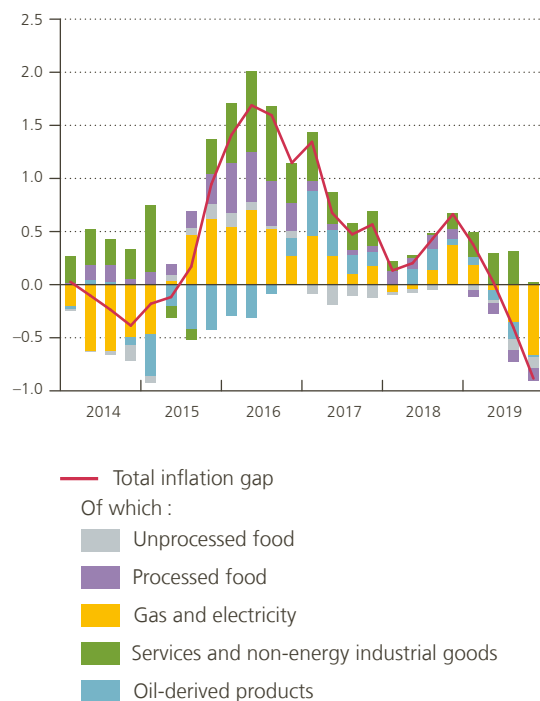




Chart 43

**For the first time since 2015, Belgium's inflation dipped below the average for its three neighbouring countries**

(quarterly averages, in percentage points)



Source: Eurostat.