BELGIUM

DREADING THE FALL

At the start of this year, Belgian GDP growth remained at above-average levels. Inflation is currently slowing down alongside the cooling of the labour market. Rising interest rates have started to bite, as real estate spending is already declining, with firm capex to follow suit. A (brief) recession towards the end of the year remains possible but unlikely. Even if it does materialise, a debt-constrained government won't be of much help, however.

The Belgian economy surpassed expectations in growing by 0.5% q/q in the first quarter of this year. Currently, our forecast for the second quarter suggests slower but still above-average growth of 0.4%. In the second half of the year, we expect GDP to stagnate, as the impact of monetary tightening becomes more significant.

Harmonised inflation came in at 2.7% y/y in May, amongst the EU27's lowest. The average price level in Belgium has declined by more than 3% from its October peak. Energy prices have started to act as a drag on headline inflation. Food price inflation, in double-digit territory since the second half of last year, is also slowing down somewhat. The food price index even declined month-on-month in April, for the first time in almost two years. All eyes remain firmly fixed on core inflation, which has been hovering above 6%. With the labour market gradually cooling down (*see below*), underlying inflation pressures are expected to subside, but this disinflation process will be slow. We expect HICP to flirt with deflation at the start of Q4, driven down by the technical treatment of energy-support measures. For the full year, our inflation forecast is at 3.0%, both for 2023 and 2024.

Consumer confidence remains close to its long-term average, having completed its recovery from the double dip (due to Covid-19 and the Russian invasion) at the start of the year, but households' pessimism about their ability to save money has worsened. Households are also gradually becoming more worried about the evolution of the labour market. Employment growth is indeed slowing down, both for company employees and those in self-employment. The vacancy rate had come down somewhat from its historical peak, to 5.4% by the end of last year. The leading Federgon index, a measure for temporary labour demand, has been trending down steadily since the beginning of last year. The unemployment rate, which was at 5.6% in April, remains at a historically-low level. However, the trend should reverse somewhat – the jobless rate is likely to pick up above 6% - which would help push down core inflation.

The real estate market is also cooling off. Prices have fallen back somewhat, according to the latest BIS data.. The number of transactions remains stable, but a steep decline in mortgage demand suggests this is only a temporary reprieve. We expect prices to drop by 2% across 2023, after which a gradual normalisation should ensue as interest rates reach a new equilibrium.

Interest rates will also weigh on business investment while it is the sole remaining GDP component that is still below pre-Covid-19 levels. Business confidence receded once again in May, but fortunes differ markedly among the various sectors. Optimism increased among firms active in trade for a third consecutive month. Manufacturers, on the other hand, are more worried, especially about demand and employment. These companies are also most pessimistic about their access to credit.

GROWTH & INFLATION

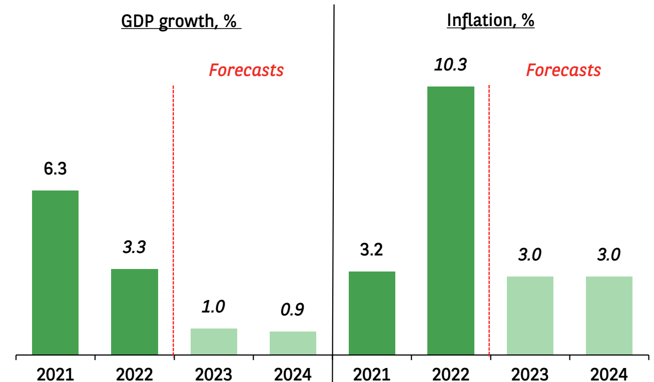

CHART 1 SOURCES: BNP PARIBAS GLOBAL MARKETS

12 months – that is all it took for government bond yields to return to their 2010 levels. Despite the long maturities of outstanding debt, debt servicing costs have increased by 10 basis points since last summer. The Belgian Debt Agency expects them to further increase from around 1.5% of GDP currently to about 2.2% by 2027. Under conservative assumptions, public debt as a share of GDP could increase by close to 2 percentage points every year in the foreseeable future. Having insulated the economy from the worst impact of both the pandemic and high energy prices, the De Croo government is now expected to turn its focus to improving the budget outlook, which is expected to come in at -5% or worse this year.

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