BELGIUM

TRADE-OFFS ABOUND

Belgian economic growth remains somewhat below but close to trend. Our nowcast for the 4th quarter indicated 0.3% QoQ growth. Domestic demand will have to continue to offset a negative contribution from net exports at a time when declining demand for specific products and a challenging external environment weigh down on the trade balance. Whereas, last year, firms' investment spending took on the role of growth engine, private consumption is now slowly returning to center stage. A pressing need for fiscal consolidation should hold back further increases in government outlay.

DOMESTIC DEMAND TO SAVE THE DAY

Belgian GDP growth remains stable, if somewhat below trend. After capex spending carried the brunt of economic growth last year, government spending took over, not surprisingly, in this election year. In stark contrast with the 2020-2022 Covid period, when vaccine production boosted exports, international trade has been a drag on GDP since 2023. This situation is likely to continue as external factors conspire to hinder exports recovery (*see box*). Domestic demand will have to offset this, with private consumption expected to return as this economy's workhorse. Subject to interest rates stabilizing at a lower level, we can expect private investment (both firms and households) to contribute as well, while fiscal tightening impedes further fiscal spending.

A recent study shows that Belgian households are quite well-off compared to those in most other EA-countries. Only in Luxembourg net wealth per household is significantly higher. About 50% of Belgian households' wealth is held in real estate. Real estate prices have been trending up gradually, despite higher interest rates, over the last couple of years. Currently, declining rents could help spur on transaction levels, still depressed, compared to 2022 levels.

Firms' confidence is picking up, with construction and services leading the charge. Manufacturers, having posted pessimistic takes throughout most of the year, seem to be turning a page. It remains to be seen however how resilient that newfound optimism turns out to be in the face of potential adversity in the external environment.

With the specter of trade war looming large and difficult government formation talks ongoing, risks are firmly on the downside.

LABOUR MARKET COOLING DOWN, SLOWLY

After demonstrating remarkable resilience throughout the Covid lockdowns, with especially strong job growth for self-employed works, the Belgian labour market has been cooling off somewhat. The Federgon-index for temporary labour had been falling since pre-Covid, a clear sign of cycle coming to an end. Survey data show that the fear of unemployment is now at its highest level in two years, while the vacancy rate remains stable. In 2023, more than half of all new jobs were created by the government, either directly or indirectly (non-market services). As from 2025, we expect the employment rate to further pick up, to the tune of 0.3-0.4 pp per year.

INFLATION: STILL BOOSTED BY 2023-LOWS, BUT WILL NORMALIZE SHORTLY

The Belgian economy has been sharing with Romania the questionable honour of "EU's highest inflation" since the beginning of this year. Rather than trending down a (late) double-digit peak, Belgian HICP has picked up again from turning negative in Q4 2023. The main culprit? Energy-price-inflation. The technical treatment of specific government support measures resulted in a double drag on Belgian inflation: these

GROWTH AND INFLATION

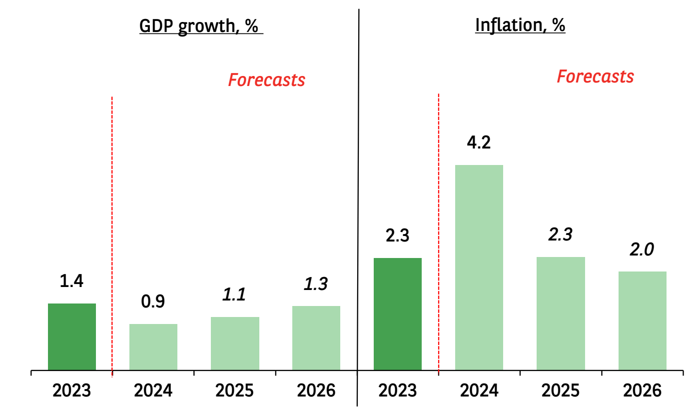

CHART 1 SOURCE: BNP PARIBAS FORTIS, BNP PARIBAS

measures drove down calculated energy price levels at the same time when prices indeed dropped significantly lower than their 2022 peaks. The result is that currently Belgian price levels – more or less progressing along at historical MoM rates – look high, compared to the lows of 12 months ago. This temporary effect should dissipate at the turn of the year, after which we expect FY inflation close to but slightly above 2%.

FORMATION TALKS DRAGGING ON WITH GOVERNMENT DEBT EVER RISING

At the moment of writing, 6 months after last June's election, no new federal government is in place. The negotiating parties – 2 center-rights parties from Flanders and Wallonia each plus the Flemish Socialist Party – continued their talks after November's local elections. It seems a final agreement is close, but it remains to be seen how much of aspiring-prime minister and long-time NVA-president Bart De Wever fiscal consolidation agenda will end up in that document. The NBB recently confirmed that the current fiscal deficit of -4.5% of GDP and debt to GDP ratio of 105.7% will likely reach -7.2% and a whopping 130% by 2038 under current policy settings. At the very least, a debt-ratio-increase of 1.5pp per year seems hard to avoid in any scenario.

Article completed on 09 December 2024

Arne Maes
arne.maes@bnpparibasfortis.com

TRADE WAR: SOME (INDIRECT) IMPACT

President-elect Trump persistent remarks about pending tariff hikes have Belgian firms worried. In the NBB's most recent Business Echo[1], more than half of all surveyed business share their pessimism for 2025. This year already, the significant slowdown of the German economy – a key trade partner for Belgian exporters – weighed economic activity down. According to in-house estimates, a 1%-slowdown in Germany could shave as much as 0.4pp of Belgian GDP growth.

The share of the US in total Belgian export is about 6%, which puts the US in the top 5, albeit at a considerable distance from neighbouring countries France, Germany and the Netherlands. Collectively, these last three account for half of all Belgian exports. Belgian firms export machinery, mechanical appliances & parts, metal & minerals (diamonds included), vehicles and plastics to the USA. These four categories account for about one third of all Belgium-to-US export. But pharmaceuticals reign supreme: this category represented 51% in 2022, up from 43% pre-Covid.

Post-Covid, Belgian trade has been slowing down substantially. This has been both a result of lower demand for vaccines and diamonds and decreased cost-competitiveness, at least partially a result of automatic wage-indexation. Since early 2023, growth rates for diamond exports have been negative or flat. As a result, diamond's share in total export dropped from 4% to 2%. A key driver of this decline has been the emergence of synthetic diamonds, especially in the US, which happens to be the largest market for demand. The labour cost handicap is slowly dissipating though, as wage developments in other (neighbouring) countries catch up. Prior to the US election, the contribution of net exports was expected to slowly revert from a net drag to a small positive for GDP growth over the next 5 years. Given the outcome and expected changes in the international environment, a likelier scenario is that net exports will continue to weigh on GDP growth.

1 https://www.nbb.be/doc/ts/publications/business_echo/2024_12_business_echo_publication.pdf