BELGIUM

CLOUDY SKY

Belgian GDP avoided a dip in Q3, but our present forecast suggests Q4 could be worse. A short and shallow recession looks likely as record-shattering inflation is expected to gradually abate throughout 2023. Consumer spending and corporate investment remain sluggish, but the negative impact of energy prices on household budgets looks more limited than many had feared. Active government intervention played a big part here, but fiscal consolidation remains necessary.

The Belgian economy, somewhat surprisingly, avoided the start of a recession right after the summer. The National Bank published final quarter-over-quarter growth of +0.2%, after having estimated mere weeks ago that a decline of economic activity was more likely. For now, our base case remains a short and shallow recession, with a return to positive growth in the second half of 2023. More worrisome is that, even after a large (positive) revision of the National Accounts, both private consumption and, to a larger extent, gross capital formation were still lagging behind their pre-covid levels in Q2. Government spending and especially foreign trade have been spurring growth, but for a complete post-covid recovery private domestic demand will need to shift gears. This will likely not happen before the second half of 2023.

DOUBLE-DIGIT INFLATION

Inflation on a yearly basis, as measured by the ECB's preferred metric HICP, came in at 13.1% y/y for October. It is expected to remain in the double-digit territory throughout the remainder of the year. Energy inflation, which seemed to slow down over the summer, was back up to 67% y/y. More disturbing, food inflation also keeps accelerating and still looks to cross the 10% y/y barrier this year. All-in all, our base case entails a steady decline throughout 2023, with inflation still above 3.0% at the end of the next year.

HOUSEHOLDS' CONCERNS

Consumer confidence, which came in at an all-time low in September and October, recovered somewhat in November. Despite persistent low unemployment, households worry about the labour market, next to their ability to save and the general health of the economy. Geopolitical uncertainty and most notably high energy prices seem to weigh on household sentiment.

The impact of higher gas and electricity bills so far, however, might be a lot less than previously feared. Reduced consumption, changes in payment plans and active government intervention, such as doubling the share of households eligible for a reduced energy price scheme (social tariff) from 10% to 20% of the population, could have reduced the blow to household budgets, at least partially, for now.

BUSINESS CREDIT

Confidence in almost all sectors remains on a downward trajectory, as it has been since the start of the Russian invasion of Ukraine. There is some positive news in the construction sector, where order books are improving, despite households reporting a reduced appetite for major investments. Firms also report trouble in accessing credit. This indicator is near an all-time high, reached around the Great Financial Crisis of 2008-2009. Small firms and those in the services sector especially are struggling.

GROWTH & INFLATION

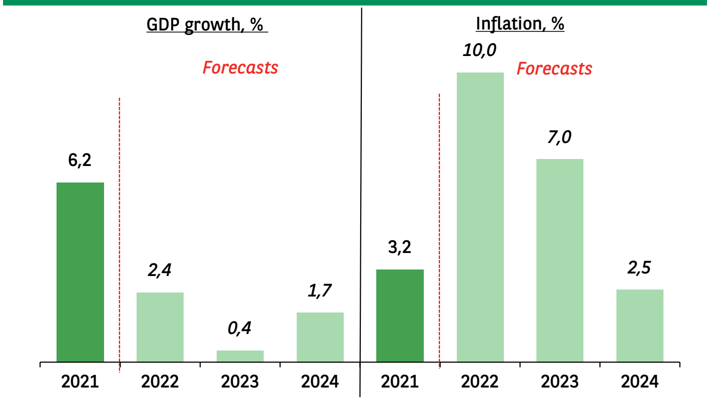

CHART 1 SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

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