BELGIUM

BRACE FOR IMPACT

Belgian GDP grew by 0.5% in the fourth quarter of last year, full-year growth amounting to 6.1%. Having completed a full recovery to pre-covid levels faster than expected, a gradual slowdown from above-potential growth was our base case scenario, even though (energy-)prices continued their upward trajectory and labour market pressures built up. The war in Ukraine will further derail these prospects. As a consequence, we lower our outlook for growth by 1 pp and increase that for inflation by more than 2 pp.

Belgian GDP exceeded its pre-covid level for the first time in the third quarter of last year. The year seemingly finished on a high note with a QoQ growth of 0.5%. However, beneath the headline numbers, exports and net inventory changes were the only GDP components making a positive contribution to this above-potential growth rate.

Private consumption, government spending and investment all receded on a quarterly basis, as some lockdown measures were reimposed towards the end of the year.

Since the start of the Russian invasion, the outlook has deteriorated significantly. With prices for fuel supplies and other commodities now expected to remain elevated and consumer confidence evaporating, we lowered our full year GDP outlook for 2022 from 3.1% to 2.1%. The prospect of higher inflation for longer looks inevitable. We foresee Belgian harmonized inflation to peak in the second quarter (only) and to remain above the ECB's 2%-target well into next year.

GROWTH AND INFLATION

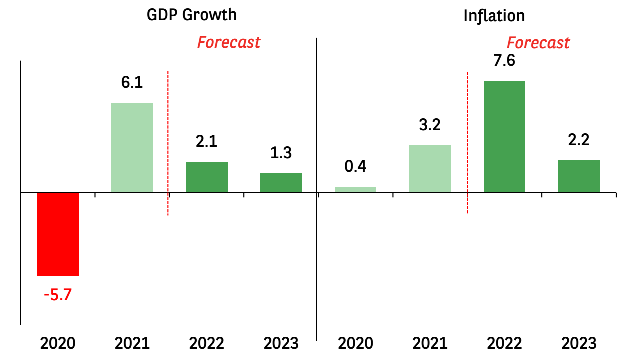

CHART 1 SOURCE: BNP PARIBAS FORTIS

HOUSEHOLDS CONFIDENCE IS DETERIORATING

In the wake of the war in Ukraine, the central bank's consumer confidence index has recorded in March its largest monthly decline ever, even more than at the start of the pandemic.

It remains to be seen what the impact will be on actual consumer spending. Our in-house metric for household expenditures, based on aggregated transaction volumes for our retail clients, suggests lower spending in February.

Worryingly, total spending on a nominal basis was still well below its pre-covid level. Given the strong increase in inflation since then, this implies that the volume of spending could be close to 10% lower than before the onset of the pandemic. We expect private consumption growth to remain below its long-term average throughout most of this year.

The Belgian labour market is holding on strong. In fact, the unemployment rate in January stood at 5.6%, its lowest level since the end of the first lockdown measures.

Other indicators confirm the healthy state of the labour market: total employment has exceeded the five million-threshold for the first time last year.

Meanwhile, the vacancy rate remains elevated, even if it came down somewhat near the end of last year to 5.8%. Hiring difficulties look more pressing than in neighbouring countries, which also saw an increase in vacancy rates.

BUSINESS: LABOUR AND SUPPLY SHORTAGES

One in every four Belgian manufacturers identified labour as a factor limiting production at the start of this year, up from just 10% twelve months before. The impact the competition for workers will have on wages, comes on top of the automatic wage-indexation. Consequently, the National Bank expects hourly wages in the private sector to increase by more than 10% over the next two years. This is well in excess of the expected average increase for the neighbouring countries, France, Germany and the Netherlands. The international competitiveness of Belgian firms could deteriorate as a result.

Equally worrying is the lack of supplies. 35% of producers report having insufficient materials, up from just one in ten a year before. Manufacturers of machinery, vehicles and other transportation equipment are hit the worst.

Business will partially buffer the impact of increased costs through lower profit margins. However, this will not suffice to bring down harmonized inflation, which came in at a record 9.5% in February. An eagerly anticipated resolution of the military conflict in Ukraine could speed up the normalization of commodities and fuels prices, but in most scenarios we expect core-inflation to continue its upward trajectory throughout this year. All in all this results in a full-year inflation of 7.1% for this year, up from 3.2% last year.

PUBLIC FINANCE AND BUDGET DEFICIT

The budgetary deficit came down last year from 9.1% in 2020 to a still worrying 5.6%, driven by a nominal increase in revenues. The National Bank expects the deficit to remain above 4% beyond 2024.

Recently announced measures to protect low-income groups from the impact of increased energy prices and additional investments as part of a push to decrease dependency on certain energy suppliers will further complicate fiscal consolidation. As a consequence, public debt is unlikely to come down anytime soon, having shot up by more than ten pp during the first year of the Covid-19 pandemic.

Up until recently, yearly interest charges on the outstanding government debt looked set to continue their downward trajectory. This was the result of the Belgian Debt Agency locking in the prevailing low interest rates at long maturities.

However, since the end of last year, Belgian 10-year yields have climbed by 100 basis points. With the ECB still likely to hike rates before the end of the year, reining in the budget deficit will need to become a policy priority.

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