Belgium

Domestic demand under pressure to keep delivering

Belgian GDP growth is expected to drop to 0.8% in 2020, down from 1.3% in 2019. Domestic demand remains the key engine of growth, partially offset by a negative contribution from net trade. Private consumption growth is reduced as employment increases now at a slower pace, after 4 strong years. Investment growth is up, spurred on by public expenditures. The lack of a majority-backed government contributed to renewed fiscal slippage, which remains a key risk for the Belgian economy.

Belgian economic growth proved to be remarkably resilient, especially in the 2nd part of last year. Third quarter growth came in strong, spurred on by private consumption and consumer confidence rebounded somewhat at the end of last year. Business confidence continued its 4-month rise all through December and corporate investment growth has kept pace with 2018. Recently announced changes in the Flemish fiscal regime supporting first-time-homeownership caused some volatility in the number of transactions in the 2nd half of 2019. Based on the current numbers it seems that a large portion of the transactions were pushed forward in time to still benefit from the old regime.

Labour market

The unemployment rate came in at 5.6% in October of last year. After strong employment growth in the period 2014-2018, job creation slowed down in recent quarters. The National Bank of Belgium (NBB) expects that 169 000 new jobs will be created in the period 2019-2022, which is almost a third less than in the previous four years.

The recent employment growth drove the employment rate to 70% in 2018. There is some further improvement expected in this area but the Belgian EU2020 objective of 73.2% will unfortunately remain elusive. The employment intensity of activity growth is expected to come down again, after rising in recent years. This is a consequence of the slowdown in labour-supply growth, with vacancy rates still well in excess of the EU-average.

The Federal Planning Bureau expects that the wage-indexation mechanism will kick in in March 2020. As a consequence, welfare transfers and wages for civil servants would increase by 2% in the subsequent 2 months. Purchasing power per capita should increase around 5% by 2022 according to estimates by the NBB.

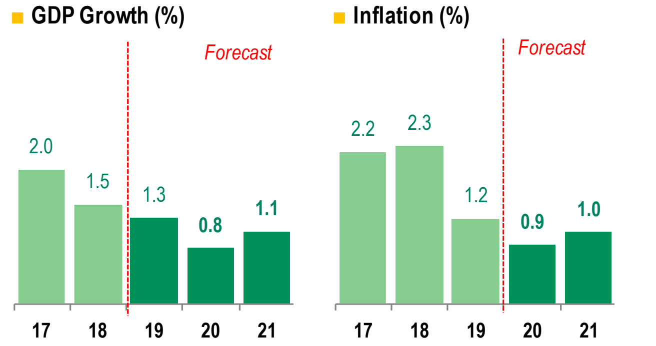
Price and trade

Meanwhile, labour costs are picking up again, with yearly growth once again in excess of the EU19-average. Domestically, this effect will likely only partially spur on core inflation, as lower firm profit margins are expected to make up for the difference.

High labour costs have l been a key worry for a long time with regards to the international competitiveness of the small open economy that is Belgium. This has come all the more to the fore given the sustained loss of global market sharesince the beginning of the century.

In a recent study by the NBB, the positive impact of past Belgian wage moderation efforts are shown to have had only marginally

1- Growth and inflation



Source: National Accounts, BNP Paribas

benefitted international cost competitiveness. This is consequence of the specific characteristics of Belgian export flows, which are focussed on intermediate goods, have above average high-tech content and often occur between entities of the same multinational groups. As a consequence, these flows are much less sensitive to movements in labour costs. The study does however point out an important role for the Belgian authorities, through export promotion and removal of constraining barriers.

Government policy

Public spending increased markedly in 2019, driven by local government investment as per usual in an election year. For 2020 and 2021 additional public spending is expected, amongst others on a large infrastructure project near the city of Antwerp.

Public debt came in at just below 100% of GDP in 2019, after GDP was revised upwards as part of a major update of the methodology used to calculate the national accounts. The fiscal deficit reached a post-crisis low of 0.7% in both 2017 and 2018 but is expected to deteriorate significantly going forward. The improved figures in these years were a consequence of one-off-events and the absence of a majority backed government for the whole of last year likely pushed the deficit back up to 2%.Government expenditures are climbing, but revenues remain stagnant. The High Council of Finance, which advises the government on its multi-year budget, foresees deficits in excess of that for the near future. As such fiscal slippage is a key-risk for the Belgian economy.

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