

Belgium

Domestic demand under pressure to keep delivering

Belgian GDP growth is expected to come down from last year's 1.4% to a mere 1% in 2019 and 0.7% in 2020. This reflects a further slowdown in international trade, which is only partially offset by resilient domestic demand. Despite a slowdown in job creation, a pickup in disposable income spurs on private consumption well into 2020. Public finance remains a key risk-factor with government debt in excess of 100% of GDP. Further fiscal slippage seems almost inevitable with government formation talks not yet near a conclusion.

Business confidence in September stabilised below its long-term average level, confirming the downward trend since the start of the second quarter of this year. The Belgian industrial production index however posted a very strong increase right before the summer months, while the eurozone on average showed a decline for this measure over the same period. Clearly some caution should be exerted in interpreting the seemingly encouraging results of these surveys. Especially given the decline in industrial added value, which is estimated based on actual turnover-data.

Despite a strong showing in the 2nd quarter, investment growth is lagging behind what would be expected given its relationship with capacity utilisation rates. With the latter still above their long-term average, we suspect uncertainty with regards to geopolitical events (Brexit, US-China trade war) is weighing on investment appetite.

■ Labour market and prices

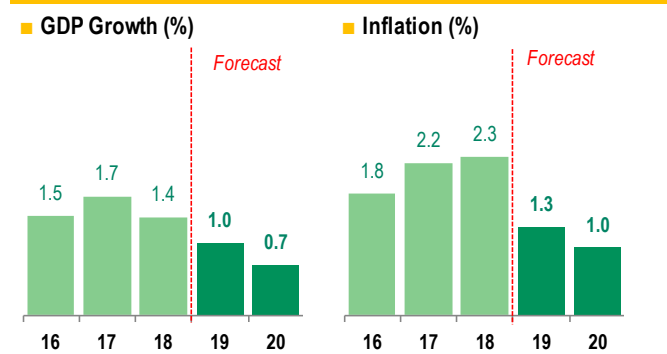
Since 2014, employment rose by 6% or almost 300,000 additional jobs. The unemployment rate is now well below 6%, with youth unemployment close to an all-time low of 13%. The employment rate of the population aged 20-64 remains perilously low. At 69.7% at the end of 2018 it is expected to fall short of its Euro2020 objective of 73.2% by 2020. Getting this number up remains a key-challenge to ensure the future sustainability of the country's social security system.

The vacancy rate, expressed as the number of vacancies compared to the total number of jobs in the service sector, has been above 4% since early 2017. This is well in excess of the eurozone average of 2.4%. Businesses struggling to fill job openings are symptomatic of the skill-mismatch between labour-supply and -demand. In addition, regional differences abound with higher unemployment rates in the Walloon (southern) part of the country.

During the last months, job-creation seems to be slowing down. The Federgon-index for temporary employment declined for 4th consecutive quarter. Previously, it had been on a five year non-stop upward trajectory from the 3rd quarter of 2013 onwards. Regardless of these early indications, private consumption is still expected to grow over the next quarters, with negotiated wages and wage indexation pushing up disposable income.

These factors will also contribute a further increase in hourly labour costs. The National Bank of Belgium (NBB) expects this increase to be only partially offset by productivity gains. The remainder would

1- Growth and inflation



Source: National Accounts, BNP Paribas

eat into producers' profits, rather than leading to higher prices. Headline inflation would fall back from 2.3% in 2018 to 1.3% in 2019.

■ Government policy

The public deficit improved markedly since 2014, moving from -3.1% to -0.7% in 2018. This was caused to an equal degree by two elements: declining interest charges and primary expenses falling faster than revenues. With regards to the first element, the Belgian Debt Agency has been instrumental in actively locking in the current low interest rates for longer on the outstanding public debt. The average maturity for the public debt went up by 4 years between 2007 and 2018, which is well in excess of the OECD-average of 2 years. As a result, the interest charges will likely remain at or below the current level of 2% of GDP for the foreseeable future.

The primary budget however is expected to deteriorate already this year, with the current minority government unable to push through unpopular measures to avoid further fiscal slippage. With government formation talks only just kicking off again, after the last regional formation talks were concluded last week, it's highly unlikely that this situation will be further mitigated still this year. We expect the headline deficit to reach 2% again for this year.

Such negative budgets will once again slow down the pace of debt-reduction. At 102% of GDP (2018) the public debt was well in excess of the Euro Area-average of 86%. This remains an important weakness of the Belgian economy.

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