BELGIUM

DOWN WITH EVERYONE ELSE, BUT SLOWER TO PICK-UP AGAIN

We expect GDP to shrink 11.1% this year and grow by 5.9% next year. The unemployment rate could reach 9%, its highest level in 22 years. Different branches of the government have announced measures to counter the impact of the covid-virus but federal government formation talks are still ongoing, which complicates matters. As public debt is expected to come in at 123% of GDP by the end of the year, the room of maneuver is limited, but the need to support the economy will take priority, at least for now.

TOWARDS A DROP BY 11,1% IN 2020

Real GDP looks set to drop by 11.1% in 2020. Private consumption is expected to take a big hit in Q2 after it already declined 6.5% Q-o-Q in the first quarter. We expect it will only surpass the level of the last quarter of 2019 by early 2021. Gross fixed capital formation declined somewhat less in the first months of this year but we believe a bigger drop is forthcoming as short- and long-term uncertainties weigh on firms' appetite and ability to finance planned extensions. It will take several years before investments return to the level of the 4th quarter of last year.

We thus believe 2021 will only bring some restoration of activity with a year-on-year growth rate of 5.9% whilst staying below the level reached at the end of 2019. Some fiscal measures have been implemented at various government levels but already high public debt and the lack of a strong governing coalition may weigh on the policy flexibility and reactivity.

GROWTH AND INFLATION (%)

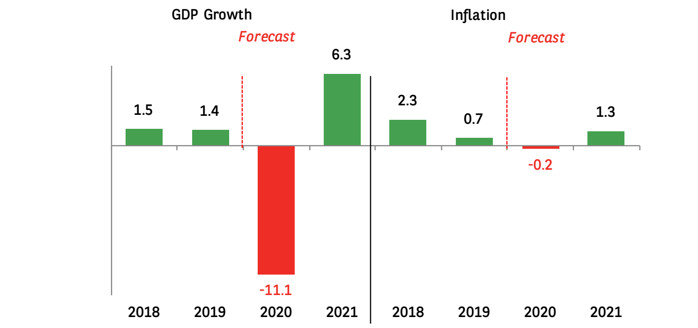

CHART 1

SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

AGGREGATE TURNOVER ACROSS ALL MARKET-SECTORS

The final GDP numbers for the first three months of the years showed a Q-o-Q decline of 3.6%. As the Belgian government announced its semi-lockdown in subsequent steps on the 13th and the 17th of March, this number reflects the impact of roughly two weeks of the most stringent measures taken in the country.

Based on regular surveys by various sector federations and the NBB (National Bank of Belgium) it became clear that economic activity slowed down significantly in subsequent weeks. For the month of April, aggregate turnover across all market-sectors came in 33% below what would be expected in a world without covid.

Initially, especially construction and real estate activities struggled to continue operating under the stringent social distancing rules. Bars, restaurants and various types of event-organisers saw their turnover almost evaporate as their activities remained forbidden for most of the duration of the lockdown.

The stepwise loosening of lockdown-measures allowed most sectors to restart/resume their activities in the meantime, with aggregate turnover somewhat improving but still 20% lower than expected at the beginning of the year. Surveys identify a lack of demand as main reason for the lower revenues, although consumer confidence improved in both May and June.

What will happen in the longer term is highly uncertain, as bankruptcy risk is creeping up. The situation is most precarious in the aforementioned sectors of events, recreation, accommodation and food services, but also road transport and transport equipment manufacturing look unstable. A rise of bankruptcies in autumn seems rather likely.

TEMPORARY UNEMPLOYMENT AND TELEWORK

In April, the national employment service (NES) registered 1.2 million requests for temporary unemployment: roughly 30% of all employees at least applied for this regimen. One of the key government measures had been to loosen the criteria for temporary unemployment and increase the proportion of the pay-out. Extending the duration of this arrangement to the end of 2020 for some sectors is under consideration.

The latest data out of the NES suggest 25% of all employees remained technically unemployed, a small improvement. More worrisome is that, according to a regular survey by the NBB, some 20% of those currently in temporary unemployment will lose their job as soon as they are no longer eligible for this scheme. We see the unemployment rate climbing to 9% at the end of this year, up from 5.3% in March.

Telework peaked early in April with, across sectors, almost 40% of all employees working full time from home and only a quarter of people full time present at the their workplace. Early June, this situation had normalised to a large degree: the majority of employees were working full-time at their workplace, with only 15% still teleworking full-time. Over the same period, there has been a strong pick-up in configurations that mix telework & workplace presents, which is now the reality for about 15% of all employees.

PUBLIC FINANCE WILL DETERIORATE

The public finance outlook will deteriorate significantly. For 2020, central government revenues are expected to decline by about EUR 27 bn, as a consequence of the drop in GDP and hence the taxable base. Primary expenditures will most likely remain at last year's level in nominal terms. On top of that, additional spending to soften the blow of the coronavirus to the tune of EUR 10 bn has been announced.

The composition of the public debt, with an average maturity of 10 years, is somewhat favourable: the Belgian Debt Agency remains adamant it can further lower interest rates on the debt that will mature over the next couple of years. These benefits almost entirely offset the increase in total debt, resulting in stable interest charges during our forecast horizon.

All in all, we expect the deficit to reach 10.9% of GDP in 2020, up from 1.9% last year. The Federal Plan Bureau predicts that this deficit will remain close to 5% all the way up until 2025. The vast increase in borrowing needs pushes up the debt-to-GDP-ratio, from just below 100% last year to 123% for the end of this year. Despite this debt overhang, the FPB deems the risk of an interest-rate-snowball is highly unlikely.

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