Belgium

Firm government measures support economy but add to long term fiscal worries

Due to the Covid-19 virus our growth outlook declines by 5 percentage points to -3.5% for the whole of 2020, despite government measures to attenuate the impact of the epidemic. We see strong hits across almost all sectors, most notably construction and real estate related activities. Prime Minister Wilmés was empowered by a "corona coalition", which provides a welcome if only temporary breather from government formation talks. The government so far managed this crisis in decisive fashion but eventually the bill will have to be footed.

Most sectors of the economy will suffer

Already before it became clear to what extent the Covid-19 virus would impact the global economy, Belgian GDP growth was expected to slacken. For a small open economy, a slowdown in international activity would inevitably have negative effects on its growth. The strong job creation under the Michel-I government's rule was a persistent boost to private consumption. Also, investment growth picked up again in the last quarter of 2019. For 2020, the heavy-lifting was expected to be done mostly by government spending, with a strong focus on large infrastructure projects, like Oosterweel, a highway infrastructure project around the city of Antwerp.

As much as we emphasised the government role in supporting economic growth for the country in earlier publications, its actual impact in supporting domestic activity over the next coming months will be crucial. Measures include an increase in payment to those in temporary unemployment and delayed tax-payments by corporations. Negotiations about a EUR 50 bn-program carried by the government, the largest banks and the National Bank of Belgium are expected to reach their conclusion over the next coming days.

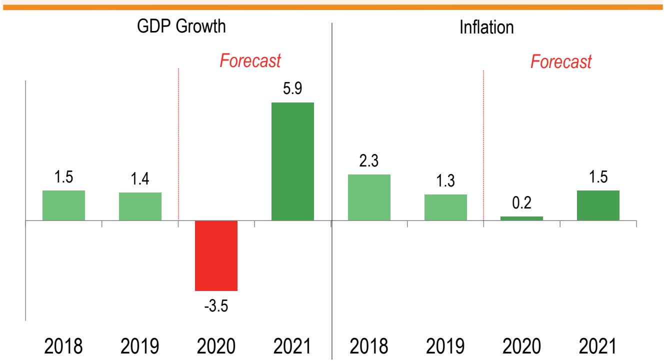
Still, the 3.5% decline in GDP we are currently forecasting is the largest such dip since the 2nd World War. This takes into account the current measures taken by the government to support household income and keep businesses from going broke.

To reflect the expected impact of the Covid-19 virus and its subsequent disruptions, we put aside the traditional "expenditure"-approach to calculate total GDP. Instead, we focussed on a "production"-approach, a framework that allows to more clearly specify changes to the added value on a sector level.

The subsequent analysis showed that most sectors of the economy will indeed suffer over the coming weeks and months, bar notable exceptions such as healthcare. For Belgium, the largest slowdown in activity is expected in the construction sector and for real estate related activities. For the former, the physical nature of the job renders it almost impossible for most businesses to comply with the strict social distancing rules, whereas the latter's sector federation actually supported a recent government decision to forbid house-visits by prospective buyers.

The forced closing of certain aspects of social life obviously adversely impacts the demand in all sectors, but also on the supply side there are issues. According to the Secretary of Labour Nathalie Muylle, at least one million workers (20% of the total workforce) are, at currently, temporarily unemployed. Under this scheme, these workers are eligible to receive social support to the tune of 70% of their normal earnings, within some constraints.

1- GDP Growth and inflation
(Y/Y, %)



Source: BNP Paribas Global Markets

In addition, there has been a strong focus on telework. Data from 2017 show that about 17% of all employees regularly works from home, with public workers actually well ahead of their peers in the private sector. However, as schools and daycare centres increasingly only take in children from parents with jobs considered essential, the amount of telework will presumably be closer to 50% today. Many of these workers (and their employers) might not yet be as experienced in the technological side of such setup. Combined with potential round-the-clock childcare, a slump in productivity seems inevitable.

Public finance

At the time of the first Covid-19 outbreak in Europe, the political situation in Belgium was still best described by a deadlock, following the May 2019 elections. In the meantime, Prime Minister Wilmés, who inherited a minority-backed government from Charles Michel when he became European Council President, received support from all but two parties in the federal parliament to execute a "corona"-mandate. This in theory authorizes the PM and her secretaries to fight the current crisis without consulting parliament on a regular basis.

Public finance was already deteriorating in 2019, as the deficit shot up again from a post-crisis low of 0.7% in both 2017 and 2018 . A recent publication from the National Bank of Belgium investigates how large GDP-shocks could adversely impact the deficit in various European countries. This analysis identified the strong automatic stabilisers in Belgium as a prime reason for the country's high budget sensitivity, coming in a close second to France. Based on the analysis by the NBB, the budget deficit for 2020 could increase again by an additional 4 % points to an estimated 7%. But even with this kind of deficit, Belgium will be far from the worst pupil in the class. We're living in different times.

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