BELGIUM

LIGHT AT THE END OF THE TUNNEL BUT BEWARE OF THE CHALLENGES AHEAD

The Belgian economy shrunk by 6.3% in 2020. This amounts to the biggest post-war decline on record. A better-than-expected fourth quarter pushed the final numbers up somewhat and will have a positive effect on the yearly growth rate for the whole of 2021, which we see at 3.7%. Consumption suffered during the second lockdown at year's end and is expected to dip again in April, as the government reinstated shopping on appointment only and instructed schools to extend the Easter holiday break. Unemployment increased significantly but less than was feared and the long-anticipated wave of bankruptcies hasn't quite materialised so far. Tough choices lie ahead for the multi-party government, which should also focus on reining in its budget deficit in the years to come.

OVERVIEW

Household consumption, which posted a 12% QoQ decline in the 2nd quarter rebounded only partially in the 2nd half of 2020. Total capital spending held up surprisingly well in 2020, after dropping by more than 20% in the 2nd quarter. A strong recovery in the 3rd and 4th quarters however resulted in a total spending a lot closer to pre-Covid levels at year's end (-2%). Government spending declined as non-urgent medical procedures were postponed when the second lockdown kicked in (it had also been the case during the first lockdown).

An increase in hospital admissions induced the federal government to announce a third lockdown at the end of last month. With schools closed for at least three weeks and non-essential stores working with appointments only, the impact on the virus' metrics remains to be seen. Just weeks before, the government had put forward the 1st of May as the date on which restaurants and bars could reopen. Whether or not it will be able to follow through on that is hard to say at the moment.

OUTLOOK

For 2021, we expect a partial GDP recovery, the Q4 2019 level being only reached in the second half of 2022. The underlying expenditure components will display some divergence over the short-term. At the start of this year, consumer spending is still about 5% below its pre-Covid level but we expect it to complete a full recovery by the end of 2021.

Business investment would still be 11% lower in 2022 compared to where it would have been without the pandemic, according to survey data. We expect household and government investment to pick up some of the slack by then, with a recovery to Q4 2019-levels for total investment expected by mid-2022.

The speed of the recovery will of course be highly dependent on any developments in the health crisis. The pace of vaccination is in line with that of the neighbouring countries, but well below rates reported in the United States and Israel. Despite the near-term uncertainty, most scenarios include at least partial relaxation of the most stringent social distancing measures towards the end of the year. Risks remain skewed towards the downside however.

LABOUR MARKET

The Belgian unemployment rate came in at 5.8% at the end of 2020, up from 5.1% at the start of the year. Early in the health crisis, the Belgian government installed various measures to support the labour market. For example, the temporary unemployment regime was made more generous and easier to access for employees. In April 2020, 1.2 million workers made use of this facility, up from a historical average of a mere 100,000. This number came down rapidly to around 250,000 over the summer. Despite fears of an upsurge, the second lockdown at the end of 2020 saw only a relatively small increase in temporary unemployment, with less than 300,000 workers listed as temporary unemployed in December 2020.

Once the current regime and the various measures supporting the self-employed expire, actual unemployment is expected to increase significantly. This increase would originate from three distinct channels: workers moving from temporary to full time unemployment, self-employed workers closing their business and firms with more than 10 employees going bankrupt. Each of these channels could contribute to adding another 100 000 unemployed workers at the end of 2021. Later on, we expect to see a gradual improvement in the situation, with unemployment declining from a peak of 7.7% back to below 7% by the end of 2022.

Work organisation has evolved markedly compared to the pre-Covid situation. In March, one out of three employees was reported to be working from home at least partially. Despite half of the participants to the ERMG-surveys reporting some negative productivity impact at minima, firms expect regular telework to become a permanent feature once the health-crisis is over. Across the whole economy, physical office space per employee is expected to decline by almost 10% over the next five years. This will undoubtedly have repercussions on the office market.

GROWTH AND INFLATION (%)

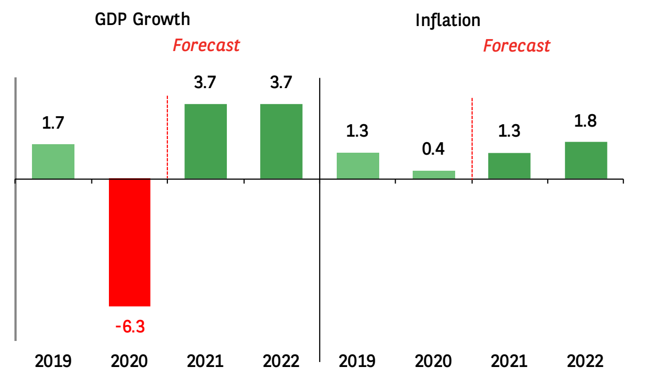

CHART 1 SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

REAL ESTATE

Housing prices nonetheless continued their upward trajectory despite a background of price-limiting measures (the Flemish government scaled down its tax-advantageous treatment of mortgage payments ["*Woonbonus*"] in 2019) and a modest disposable income growth. Ultra-low interest rates however mostly buffered the impact. The National Bank of Belgium's valuation model points towards an overvaluation of 13.5% compared to underlying fundamentals at the end of 2020.

Real estate transactions were frozen during the most stringent phase of the first lockdown in April 2020, but activity levels recovered swiftly in the remainder of the year. The growth in outstanding mortgage loans persisted, despite more stringent loan-to-value requirements established by the National Bank of Belgium. Aggregated household debt came in at 66% of GDP in 2020, somewhat higher than the Eurozone average (62%).

PUBLIC FINANCE

Government revenues remained stable as a proportion of the economy but took a EUR 12 bn hit in nominal terms as the economy shrunk by 6.3%. Non-interest expenditures had been close to 50% of GDP for the last couple of years. Increased spending at various government levels brought this number closer to 60% for the whole of 2020. All in all, the NBB estimates that fiscal stimulus amounted to EUR 36 bn or 8% of GDP. About two thirds of this were discretionary spending, with the remainder consisting of automatic stabilisers, in operation during dire economic times.

Notable measures include the extension of the temporary unemployment regime (EUR 4 bn), bridging rights for self-employed persons (EUR 3 bn) and premiums in case of forced closure or sharp drop in sales (EUR 3 bn), next to additional support for the health sector (EUR 6 bn).

The exceptional low-rates environment allowed the Belgian government to further push down average interest rates on the outstanding debt. So even as the debt-to-gdp ratio shot up to 116%, yearly interest charges continued their downward trajectory from 2.0% of GDP in 2019 to 1.8% of GDP last year. The average rates on the outstanding debt are expected to decline further from about 1.7% currently to 1.3% by 2022.

Despite this positive evolution, debt-sustainability remains worrisome in the long run. With the government's focus slowly shifting from fire-fighting mode to kickstarting the economy again, a big challenge awaits federal Prime Minister De Croo. His broad coalition will need to get on the same page about future steps.

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