BELGIUM

NEAR COMPLETE RECOVERY, GROWTH SLOWDOWN AHEAD

Belgian GDP increased by 1.7% in the second quarter. Consequently, quarterly GDP came within 2% of its pre-covid level. We expect full year growth to come in at 5.5% this year, slowing down to 3.0% in 2022. Increased government spending helped stave off worse outcomes for the labour market and Belgian firms, which resulted in a quick rebound in investment-related spending by all sectors. Private consumption is rebounding more gradually against a backdrop of GDP growth slowing down.

TOWARDS A SLOWDOWN

A Covid-hit Belgian economy had its GDP slashed by 6.3% last year. A successful vaccination campaign and subsequent loosening of most social distancing measures spurred on growth ever since. After growing at an above-potential pace since the beginning of 2021, we see growth slowing down in the second half of this year. In 2022, we anticipate a further normalization with quarterly growth slightly above potential.

ECONOMIC OUTLOOK

Our nowcast indicates that GDP was 1.2% higher in the third quarter, compared to the second. This implies growth slowing down from 1.7% in the period before summer, which was itself a high-mark for the period 1980-2019. A measure of total economic activity, based on aggregated bank-transaction data, shows how the recovery stalled somewhat since early August.

Based on proprietary data, we consider that before the summer, retail spending was back at the level reached in 2019. . This was followed by a particularly strong July and a subsequent loss of momentum. This might mean the much heralded "pent-up demand"-effect has already run its course.

Consumer confidence is back at its July-peak, with fear of unemployment all but non-existent. Private consumption as a component of GDP was still 6% lower than pre-Covid levels before summer. We don't expect it to fully recover before the end of 2022.

PRICES RISING

HICP, a more volatile measure than CPI, showed prices rising at a whopping 4.7% year-over-year in August. This was mostly the result of a technical effect, with the traditional retail discount period taking place in August, rather than in July last year. Nevertheless, CPI-measured inflation has also been creeping up and most recently came in at 2.7%.

Housing prices are picking up, spurred on by a strong rebound in transactions. A reduction in the favorable tax-treatment of home-ownership at the start of 2020 caused a spike in transactions a couple of months prior, effectively pushing sales forward in time. The subsequent lull in housing purchases was exacerbated by the first bout of social distancing measures, which at some point banned prospective buyers from visiting for-sale properties. Since then, measures were relaxed and demand recovered swiftly to arrive back at the same level as in mid-2019.

The Bank of International Settlements' Residential price index rose by 6.7% over the last 12 months. This development is in line with what is happening in in neighbouring countries. The National Bank of Belgium (NBB) considers Belgian residential real estate 14% overvalued. According to the ECB's models the prices could be as much as 20%

GROWTH AND INFLATION (%)

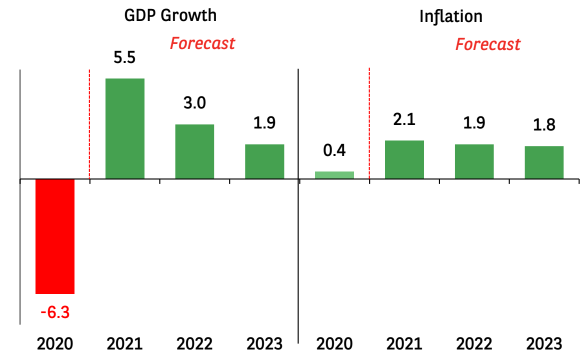

CHART 1 SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

above a level supported by the fundamentals. The persistence of recent behavioural changes, such as the increase in remote working, could play an important role in the future development of this market.

COMPANIES REPORT ISSUES IN RECRUITMENT

Labour economist Stijn Baert (University of Ghent) recently pointed out that the Belgian labour market was the most stable one in the EU-27 since the onset of the Covid-pandemic. In his view, the rates of unemployment and inactivity (those without a job, not looking for it) barely changed between 2019 and 2020. The early expansion of the temporary unemployment scheme could have played an important role in this.

Attracting suitable staff however seems to have become more difficult as of late. The vacancy index, which indicates what proportion of jobs are vacant, is rebounding fast. It is now close to its 2018-peak of 4.5%. The latest survey data of the NBB revealed that close to 80% of all Belgian companies report issues in recruitment, with a lack of applicants the most notable problem.

The number of self-employed workers continued its upward trajectory, with an annual growth rate in line with the peak seen since 1996. This might explain, at least partly, the labour shortages on the hiring front. In contrast, the number of paid employees returned to pre-Covid levels only right before summer.

PUBLIC FINANCE

Supporting the economy throughout the pandemic took its toll on the government budget. The deficit reached 9.4% of GDP last year. The resulting increase in gross government debt will add more strain to a spending pattern which, before the Covid-19 crisis, was already difficult to sustain.

In its Article IV report, the IMF provides an estimate of the impact of the pandemic on the government budget. The economists of the Fund expect a yearly increase of the deficit to the tune of 2 percentage points over the period 2022-2025.

A similar conclusion was drawn by the Belgian Debt Agency. It sees yearly funding needs 10-20B€ higher on a yearly basis, compared to their pre-Covid estimates. On a more positive note, debt servicing costs continue their declining trajectory. Federal government interest expenditures, which stood at 1.75% of GDP last year, could drop to as low as 1.2% over the next couple of years.

For the broad coalition of the De Croo government, lower interest charges on outstanding debt should facilitate the task of bringing public finances under control. It remains to be seen what else will be done.

Completed on 23 September 2021

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