BELGIUM

STRONG RECOVERY, BUT AT THE COST OF HIGHER PUBLIC DEBT

The Belgian economy grew at an above-potential rate in the first quarter of this year, and looks to be on course to maintain this pace throughout the year. Full year growth is expected to come in at 5.1%. Private sector sentiment is strong and the labour market is emerging from the health crisis virtually unharmed, with the unemployment rate still hovering at around 5%. Public finances, largely responsible for the current strong situation through extensive support measures, need to be improved over the medium-term, as the government aims to capitalise on the recovery to fix other, more structural issues.

GDP GROWTH AND VACCINATION COVERAGE

At the end of the first quarter, Belgian GDP stood 4% lower than its pre-Covid level. This is in line with the Netherlands but well above the European average. First quarter GDP growth exceeded the market consensus and early readings for the second quarter points to a further acceleration.

Household consumption still came in 9% below its pre-Covid level in the first quarter of 2021. High-frequency retail transaction data suggest spending was well short of a full recovery early in June, even if online shopping continued its upward trajectory.

The situation is somewhat different for investment spending, where a full recovery to the level of the fourth quarter of 2019 was in fact completed early in 2021. All categories of investment are growing, with government spending up 5% compared to pre-Covid levels.

The vaccination rollout is progressing quite smoothly. At the time of writing, at least 80% of all those aged 45 year and more have received at least one shot. This invalidates initial concerns about vaccine-scepticism among people belonging to this age group category, whereas reports last year suggested only 60% would be willing to get vaccinated. Regional heterogeneity could become worrisome, as the uptake is significantly lower in the region around the capital city of Brussels.

GROWTH AND INFLATION (%)

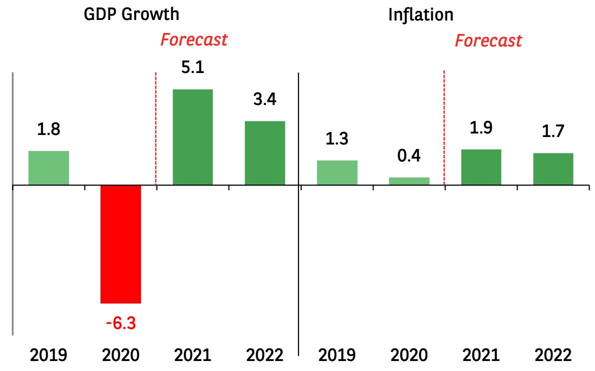

CHART 1

SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

ECONOMIC OUTLOOK

We expect the above-potential growth to persist for the next couple of quarters, with a normalisation only pencilled in for 2023. With QoQ-rates of at least 1% expected to persist throughout 2021, full year growth would come in at 5.1%. As a consequence, GDP levels are now expected to return to their 2019 Q4-levels at the beginning of 2022 in our updated outlook.

A recovery in private consumption is only foreseen for 2023, but government spending and investment are driving the positive medium term prospects.

At present, we see risks mostly on the downside. A slowdown of the vaccination campaign or an increased prevalence of the various variants of the virus could adversely impact our outlook. In addition, there is still some concern about the financial health of companies in the worst-hit sectors. A much feared "wave of bankruptcies" has so far failed to materialise and the likelihood of such an event further decays as the economic recovery steams ahead.

PRIVATE SECTOR BUSINESS CONFIDENCE ON AN UPWARD TREND

In May, business confidence went up for the sixth consecutive month. The improvement is most notable in the construction and service sectors, which are both reporting a stronger outlook for demand and their own activities. Supply disruptions are seemingly emerging in some sectors.

Trade, construction and manufacturing are amongst the hardest-hit sectors, with a shortage of supplies identified as the main issue. There are reports of input cost increases of 10-50% and companies expect to, at least partly, pass them through to their end-users.

Consumer sentiment also continued its upward trajectory with a strong increase in May. It is currently matching its high-mark of two decades, with especially the better outlook for unemployment in the next 12 months being a significant contributor.

Total employment has increased in the last quarter. Self-employment growth remained robust throughout the health crisis and the number of employees is increasing once again. Some 400 000 employees remain in temporary employment, as one in ten self-employed receives financial support.

Firms are reporting hiring difficulties, combined with a higher than usual staff turnover.

In the latest Covid-dashboard (NBB) 81% of households reported that their income was not impacted by Covid-19. Spending on residential real estate continues unabated. Just as in the neighbouring countries, housing prices are rising. The Bank of International Settlement's residential price index showed a 5.7% increase at the end of last year.

PUBLIC FINANCE : FINANCING NEEDS WILL REMAIN HIGH

The government deficit came in at just below 10% for 2020. Measures to support both workers and companies boosted the expenditure side, while the revenue share as a percentage of GDP remained stable.

Financing requirements are, however, expected to remain elevated for the foreseeable future, with the National Bank of Belgium forecasting a deficit of 4.5% for 2023. This would reflect a structural issue, as at that point, Covid-related spending will have all but abated. Accordingly, the debt-level will not decrease before the end of the projection period. It came in at 114% for 2020 and will likely be at around the same point by 2023.

The Belgian Debt Agency reported that as early as mid-June, the majority of the expected borrowing requirements for 2021 had been met. The average maturity of Belgian government debt continued its upward trajectory and stood at 10.2 years last month. Moreover, yields continued to decline, allowing to lock in the low rates for a longer time. The average interest rate on the outstanding debt is now 1.6%, roughly half as much as was the case in 2014.

With the health crisis seemingly more and more under control, the governing parties are shifting their focus to other areas. Structural challenges for the Belgian economy (rigid labour market, impediments to entrepreneurship, a decline in the working-age population and regional disparities) will need to be addressed head-on. After having dealt with arguably the largest crisis since the 2nd World War, it is now up to the De Croo government to show that it can also excel in the more mundane task of supporting a recovery.

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