BELGIUM

STRUCTURAL IMPACT LIMITED SO FAR, BUT EVENTUALLY BILL COMES DUE

We expect the Belgian economy to lose 7.2% of its size this year, followed by a 3.8% increase next year. After a strong recovery in the third quarter, private consumption is expected to decline again at the end of this year, but not as much as during the first lockdown. So far, structural damages seem to have been mainly avoided, with bankruptcies close to their normal level and unemployment rates stable since the beginning of the year. Government support measures have no doubt played a crucial role in this but once these measures are discontinued, some long term scarring will take place.

At the end of the first half of this year, Belgian quarterly real GDP was 15% below the level of the last quarter of 2019. Upward revisions of the national accounts, for both the first and the second quarters, fuelled a more optimistic outlook. This was seemingly reinforced by a higher-than-expected growth rate for the third quarter, coming in at 11.4% quarter-on-quarter.

The uptick in new cases at the beginning of the fourth quarter and the subsequent increase in countermeasures however paint a less rosy picture. We expect lower economic activity in the last quarter of this year and it remains to be seen if a technical recession can be avoided at the start of 2021.

LABOUR MARKET

The unemployment rate has remained stable (around 5%) since the beginning of the year, which is quite remarkable. In fact, during the same period the EU-average unemployment rate increased by close to 1 percentage point and a similar trend was observed in the neighbouring countries. The expanded "temporary unemployment"-scheme no doubt played a major part in the standout performance of the Belgian labour market. In April, when government measures to fight the pandemic were at their most stringent, close to 1.2 million people benefitted from this scheme. For September, that number had fallen below 200.000, still almost twice as high as the normal level.

During the second lockdown, which was imposed at the beginning of November, this number is expected to go up again, with more than half of all companies looking to increase the number of workers they enlist for the scheme. We expect to see around half a million workers registered for temporary unemployment by the end of this year. From the 2nd quarter of 2021 onwards this number should slowly drop again.

At that point, the actual unemployment rate will be creeping upwards as government support measures are expected to come to an end. All in all, we expect to see the unemployment rate peak well above 7% by the start of 2022. Even though an estimated number of 140.000 people losing their job will cause significant economic hardship, the unemployment rate will be at a similar level than that of 2017.

At that point, halfway through the Michel-I government's legislation period, close to 160 000 jobs had been created since the end of 2014. Just as many were added in the 2 following years. An equally fast pace of job-creation might be hard to repeat, but the unique stop-start-character of the current crisis could support a quick rebound.

CORPORATES

In its monthly survey, the National Bank of Belgium (NBB) has been tracking the negative impact of the health crisis on firms' turnover levels. Turnover losses peaked above 30% for the economy as a whole in the month of April, but this gradually improved to less than 15% in August. For November, companies expect another deterioration as the 2nd lockdown kicks in.

GROWTH AND INFLATION (%)

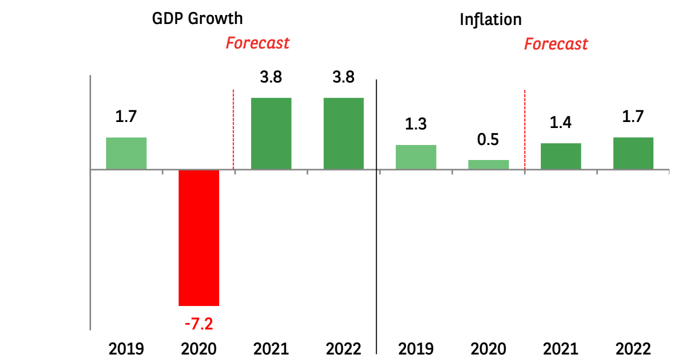

CHART 1 SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

The hardest hit areas are reported in client-facing sectors such as Events, Accomodation & Food Services and the Non-Food Retail sector. Aggregated real-time data on retail spending confirms this picture, with expenditures in the first two weeks of November some 20% below their normal levels. After private consumption almost posted a full recovery to pre-crisis levels in the third quarter, a significant decline is in the cards for the last months of this year.

Still, the impact of this second lockdown is likely to be softer, as businesses now seem better equipped to deal with more stringent measures. In November, full time telework was quickly reinstated for more than 30% of all employees. This closely resembles the situation in the first lockdown and is well in excess of the 9% reported for September.

Across the board, firms are fearing a strong increase in bankruptcy risk. Surveys show that close to 10% could be out of business by the second half of next year. The main reasons for liquidity problems are thought to be revenue losses and late payments, with insufficient credit lines so far less of an issue.

The impact on investment plans is significant. For the entire economy, firms intent to cut back on their pre-covid investment plans by more than 20%, for both this year and 2021. In the second quarter of this year this trend was already traceable in the national accounts, with corporate investment 23% below the level it had reached at the end of 2019. We do not expect investments to reach this level again before the end of 2022.

PUBLIC FINANCE

The freshly minted De Croo-government announced new outlays to the tune of 1% of GDP but the revenue-side of the equation remains somewhat murky. A large slice of the newly budgeted government income is expected to arise from increased efforts to fight social fraud, which does not look all that realistic.

For this year, we expect revenues to decline by close to EUR 14 bn in line with the reduction in GDP. General expenditures will be close to last year's level, with an additional EUR 16 bn in Covid-related spending taking place at various government levels. All in all, we see the deficit for this year ending up at 8.7% of GDP. Today there is no real indication that the deficit would fall below 5% of GDP before the end of the government's ruling period in 2024.

This of course adversely impacts the government debt level, which we put this year at 114% of GDP. A recent study by the NBB suggests a *"safe upper boundary"* of 120% of GDP for Belgian government's debt. This boundary is higher than that of countries like France, Italy and Spain because historically, Belgian governments have shown a willingness to implement fiscal policy consolidation in the face of an increasing debt level.

It remains to be seen whether the current centre-left government, led by a centre-right politician, will choose a similar path after the health-crisis has been brought under control.

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