BELGIUM

WAIT FOR THE REBOUND

Belgian GDP grew by 0.5% in the first quarter of 2022, as inflation continues to reach new all-time highs. Consumer confidence took a hit at the start of the Russian invasion, with growth subsequently likely to have come to a standstill. Index-linking of wages as an income-protection mechanism should eventually soften the inflation-induced blow to private consumption, but the international competitiveness of Belgian firms will suffer as a result. Against a backdrop of rising interest rates, fiscal consolidation remains crucial.

Belgian GDP recorded 0.5% q/q growth for the first three months of 2022. Economic activity exceeded pre-Covid levels for the first time in Q3 2021. In Q4, growth remained above potential, albeit driven almost exclusively by net trade and stockbuilding. 2022 began with more broad-based growth, as gross fixed capital formation and private consumption picked up again.

Price pressures and geopolitical uncertainty will continue to weigh heavily on the outlook for the next quarters, however. We expect GDP to remain flat over the summer and only start to climb again at the end of this year, when headline inflation should be past its peak. Expected full-year growth of 2.3% seems to indicate a buoyant economy, but no less than 1.8% point of this growth is contributed by the strong basis effect, as a consequence of the strong recovery in 2021. We expect both GDP growth and inflation to normalise gradually towards the end of 2023.

HOUSEHOLDS SUFFER

CPI came in at 9.9% in May, an all-time high. HICP for the same month is expected to break through February's (record-)reading, with the flash estimate currently also at 9.9%.

Energy prices are still the main driver. Food prices also gained momentum, however, having risen by 1% per month on average since the start of this year. Core inflation should peak right after the summer.

Not all households suffer equally from these higher prices. A recent study by the NBB shows how families in the lowest income quintile experience inflation rates at 1% point or more above those in higher quintiles, even though for some of them the pain is reduced via such measures as social tariffs.

The NBB points out that real income growth would still be positive this year, due to increased employment growth. On a per capita basis, however, it will probably remain flat. Contrary to the Eurozone as a whole, Belgian real wages are expected to post significant gains (4.5%) across 2022-2024, the bulk of which will take place in 2023.

The accumulated (forced) savings are predominantly held by those in higher income groups. These households are not expected to contribute much to (supporting) consumption, due to their higher propensity to save.

Over the short term, consumption will suffer. Despite nominal spending reverting to pre-Covid levels last month (according to our in-house metrics), the situation is still a source of concern. Private consumption, as the largest component of total GDP, remains below its pre-pandemic level in volume terms. We expect it to decline further, due to the loss of purchasing power, before stabilising at year-end.

INVESTMENT GROWTH IS EXPECTED

Investment by non-financial corporates grew by almost 3% in the last quarter. Investment growth is expected to remain elevated in the foreseeable future, since in the latest round of survey data fewer firms reported either labour or equipment as factors limiting production.

GROWTH & INFLATION

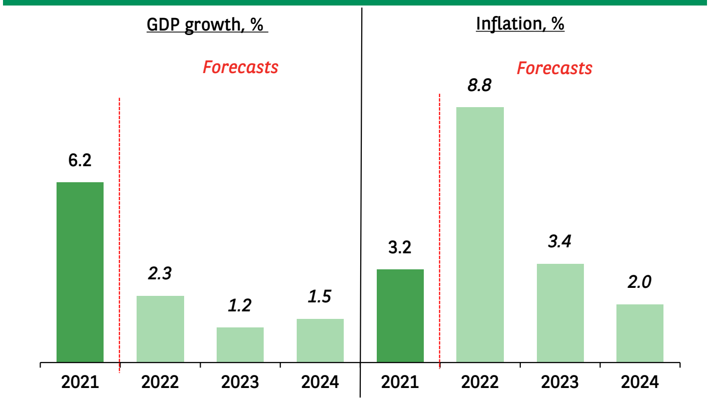

CHART 1 SOURCE: COMPTES NATIONAUX, BNP PARIBAS FORTIS

Especially manufacturers, which experience high utilisation rates, will probably be able to expand their productive capacity in the short term.

Hourly wage costs could increase by 12% in the 2022-2023 period, almost solely due to the wage-index-linking mechanism. Over the same period, the wage gap with neighbouring countries, France, Germany and the Netherlands, could deteriorate by around 5%.

A recent study by the NBB of micro-data for Belgian enterprises provides an estimate of the ease with which firms can push price increases through to the end-user. The pass-through was estimated at 60% and is generally higher for larger, more energy-sensitive firms.

A majority of the Belgian firms that participate in the business confidence survey flag their intentions to raise selling prices over the next three months. All in all, profit margins are expected to decline somewhat, but remain above their long-term average throughout the forecasting period.

This might help explain why the number of bankruptcies is still well below the pre-pandemic average. In this respect, the current situation compares favourably with earlier crises (2001, 2008-2009), when bankruptcies drifted 10-15% above pre-crisis levels.

The public finance outlook remains negative. Income support measures to combat higher energy prices, the cost of the booster vaccination drive and expenditure on Ukrainian refugees have all contributed to an increase in government spending.

The deficit is not expected to fall back below the 3% threshold during the next year. Further fiscal consolidation is needed, however, as rising interest rates are no longer just a distant prospect.

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