BELGIUM

MORE ROBUST THAN EXPECTED, BUT NEW COALITION HAS TOUGH CHOICES TO MAKE

We expect the Belgian economy to lose 7.5% of its size this year and grow by 4.6% next year. Consumption is on course for a strong recovery but corporates remain hesitant to invest, with government interventions expected to pick up some of the slack. Belgium has a new government after 16-month deadlock. The new coalition will have its work cut-out for it, as both supportive measures in the short term and a deficit-reduction program in the medium term are needed.

The impact of the Coronavirus was already felt in the GDP numbers for the first quarter of this year, which came in at 3.4% below Q4 2019. As the bulk of the lockdown measures only kicked in at the end of March, the hit to the 2nd quarter proved to be even more substantial, at 12.1%. The industry and construction sectors shrank by about 13%, services activity was 11.5% lower than in the first quarter.

A partial recovery in the remainder of the year will be led by consumer spending and supported by government measures. Investment will take longer to rebound, as we only see it reaching its 2019 levels well into 2022. For the whole economy, on a quarterly basis GDP should have recovered the level of the last quarter of 2019 by the end of 2022.

CONSUMER CONFIDENCE STARTED RECOVERING

A survey by the Belgian National Bank (NBB) indicated three distinct factors holding back private consumption at the beginning of the summer: shops being closed, shopping being less enjoyable than before and fear of catching the infection. The first factor was more or less eliminated through the subsequent easing of the lockdown directives, but the impact of social distancing measures is likely to stick around longer on the shopping experience, at least until a vaccine becomes widely available. This goes as well for the fear of the virus which feeds directly into the confidence channel.

Consumer confidence started recovering through June and July but the subsequent partial lockdown of certain provinces seems to have taken its toll as in August it dropped back to its May-level which was the lowest since 1993. Saving rates likely rose due to forced saving during the lockdown. The drop in consumer confidence risks to 'block' part of these savings in the coming quarters, which could weigh on consumer spending though overall purchasing power is expected to actually hold up for the next couple of years. An additional boon during the past months was the "staycation"-effect: the decimation of international tourism eliminated most spending by foreign visitors in Belgium but encouraged additional consumption by residents unable to go abroad. This had a positive outcome on Belgian economy as a whole.

THE IMPACT FOR CORPORATES DIFFERS

For corporates, the impact of Covid-19 differs by sector. According to an NBB-survey, at the end of August, 8% of all corporates considered bankruptcy likely in the next coming months across the economy. This number increases to one-third for sectors like accommodation and food service activities, events and recreation and road transport (persons). In the same survey, the total number of respondents who believe themselves unable to remain operational beyond the next 3 months has declined from about 40% in March to 20% in August.

Corporate investment, which represents about 70% of all Gross Fixed Capital Formation, could end up 20% lower than its 2019-level on a full year basis. Low capacity utilisation rates, uncertainty and pressure on profit margins are the main culprits here.

REGULAR UNEMPLOYMENT LEVELS WOULD PEAK

The number of employees registered in the "temporary unemployment"-scheme peaked in April with 1.2 million applicants. Since then,

GROWTH AND INFLATION (%)

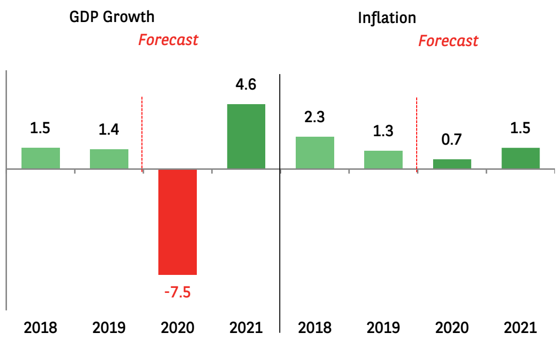

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

the total number of registrations has declined each month, reaching about 300 000 in July. Interestingly, a survey by the NBB revealed that, in April, corporations expected 20% of the employees on temporary unemployment to be made redundant.

With total unemployment up by 30,000 since the beginning of the year, this expectation has failed to materialise so far. In fact, the current increased unemployment rate is back at the level it stood at the beginning of 2019, which at the time was considered to be well below the non-accelerating inflation rate of unemployment (NAIRU).

Looking forward, we expect temporary unemployment levels to revert to their long-term average value of around 100,000 by the beginning of next year summer. From the 200 000 decrease in temporary unemployment, we think about 50% will lose their job. At that point, regular unemployment levels would peak, with about 130,000 more unemployed men and women than at the beginning of this year.

GOVERNMENT REVENUES ARE LIKELY TO DECLINE

The government measures, needed to prop up the economy, will increase the budget deficit significantly. Already more than EUR 16 billion additional spending was announced, as Belgium requested assistance from the European SURE-fund to help foot the cost of labour-supporting measures. Furthermore, government revenues are likely to decline by around EUR 15 billion. All things considered, we expect an increase in the primary deficit by at least EUR 40 billion, with the headline deficit coming in at -11.7% for 2020.

The governor of the NBB recently expressed his opinion that this deficit might decline to 6% by 2023, but that would require the installation of a clear budget-plan. For the new government just formed almost 500 days after the last election, the stakes are high. It's first priority will be to support the recovery in the near term but eventually less popular decisions will have to be made.

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