BELGIUM

THE TENSION IS RISING

Belgian GDP grew by 0.2% in the second quarter of this year. Private consumption continued its upward trajectory in the first half of 2022 but is expected to slow down as inflation remains at an all-time high. Higher labour and energy costs are weighing on firms, with investment expenditures once again below pre-pandemic levels. A recession as from the end of this year looks unavoidable. Active fiscal policy should ensure it remains a shallow one but the cost to public finances will be sizeable.

Belgian GDP came in at 2% above its pre-pandemic level right before summer. Private consumption accelerated throughout April, May and June. Gross fixed capital formation weakened from the first to the second quarter of this year. Net trade didn't contribute much to growth, as both import and export volumes posted similar (negative) growth rates.

Price pressures and geopolitical uncertainty will continue to weigh on the outlook, even though fiscal support will somewhat offset monetary tightening. We expect to enter a recession by the end of the year, as domestic demand looks poised to slow down further. A normalization of energy markets paves the way for growth normalization by the second half of 2023. Full year GDP growth is expected to come in at 2.4% this year, mostly as a result of the strong quarterly growth in 2021 and the resulting carry over effect. For 2023 we foresee a mere 0.4%.

INFLATION SHOULD REMAIN IN DOUBLE DIGIT TERRITORY

Inflation on a yearly basis, as measured by the ECB's preferred metric HICP, shot through the 10%-barrier in June, setting an all-time record. It is expected to remain in double digit territory through the remainder of the year.

The impact of energy prices seems to have peaked over summer, but now core and food-related inflation are gathering pace. In fact, average prices for food and non-alcoholic beverages have been increasing by more dan 1% per month since the start of this year.

A unique feature of the Belgian economy is its automatic wage-indexation. Wages and income transfers throughout the economy are tied to the health-index and rise automatically to align with this index, albeit with varying frequencies. As such, wages might take some time to catch up with the current runaway inflation but are all but guaranteed to eventually do so.

All in all, the purchasing power of the average Belgian household would remain almost flat this year and actually increase 0.7% in 2023 according to calculations by the Federal Plan Bureau. Beneath this headline average number however, widely diverging individual situations are materializing. For those in the lowest income-quintile that are excluded from social support, inflation could be as much as 2 percentage points higher than the population average.

The unemployment rate stood at 5.3% before summer, barely above the pre-pandemic low of 5.1%. Consumer confidence continued its bumpy recovery since the record-breaking dip at the start of the Russian invasion.

Consumption of non-durables was elevated before summer, more than offsetting the decline in durable goods purchases. Recent numbers however, point towards a deterioration of retail trade. The appetite for large purchases is also waning, with increasing mortgage rates weighing on households' repayment capacity. Over the first five months, the number of building permits for residential real estate declined by 3.4% versus last year.

GROWTH & INFLATION

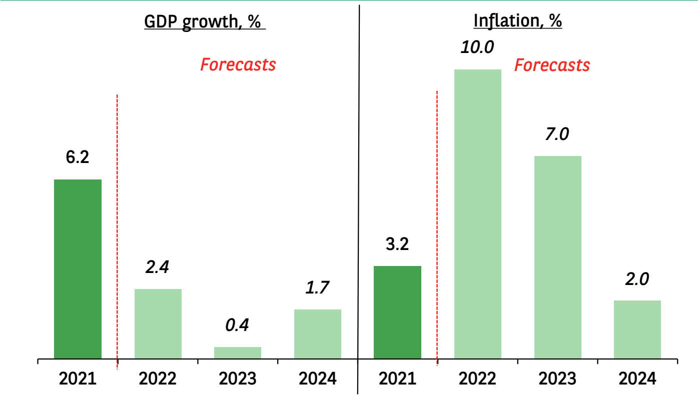

CHART 1 SOURCE : NATIONAL ACCOUNTS, BNP PARIBAS FORTIS

Firms are suffering across almost all sectors. Especially manufacturers became more pessimistic last month. Fewer orders add to persistent difficulties in sourcing input materials and hiring qualified staff.

So far, there is no meaningful increase in the number of bankruptcies. In fact, on a weekly basis, fewer firms are closing down than before the start of the pandemic. During the summer months, there was a slight increase in construction firms going bankrupt, but the heavily anticipated wave of businesses closing down has not materialized.

Corporate investment continues to disappoint. Volumes in the first half of this year did not exceed their pre-covid levels. It remains to be seen to what degree firms will pause or even cancel planned investments in light of the deteriorating economic environment.

PUBLIC FINANCE

Covid-induced spending increased the budget deficit and the energy crisis made things worse, with the federal government having spent already close to 1% of GDP on supporting households and firms as gas- and electricity prices of rates climb higher.

A recent report by the Federal Plan Bureau paints a damning picture: the deficit is expected to hover around 5% at least for the foreseeable future. As a result, the public debt could be in excess of 110% of GDP by the end of 2025. With the cycle of ever lower borrowing rates now broken by a forceful ECB, the government has its challenges laid out in front of it.

Arne Maes
arne.maes@bnpparibasfortis.com