Belgium: A mixed summer report

As usual, the Belgian federal government ended its political year by adjusting the budget for 2018 and by fixing the guidelines for next year's budget, with a particular focus on the labour market. If growth continues to decelerate, some further adjustments could be necessary in the future

Macroeconomic round-up: higher inflation, lower growth

During the second quarter of this year, economic activity grew by 0.3% (non-annualised quarter-on-quarter). This rather weak number was largely expected as the main economic indicators remained bearish over the quarter. On a yearly basis, economic activity only grew by 1.3% from 1.5% in the first quarter. There is, at this stage, no detail about the composition of this growth, but we would expect that private consumption has been affected by higher energy prices. Moreover, exports could have been hit by the subdued evolution of international trade.

At the end of last year, rosy numbers supported the expectation of 2.0% GDP growth in 2018. More than half a year later, all forecasts have been revised downwards, to 1.6%. Is this number still really plausible? Yes, as we believe that economic activity won't decelerate further in the second half of the year, despite many risks (protectionism, the political situation in Italy or Spain, the risk of a Brexit clash..).

In the context of moderating growth, one would expect inflation to remain subpar, so the 2.2% inflation rate in July was, in this regard, surprising. In fact, inflation is partly driven by the oil price, which has nothing to do with internal economic dynamics. Brent remained above 64 EUR/bbl in July and more importantly was more than 50% higher than a year ago. This strongly supported housing and transport energy prices. Having said that, the price of other categories of goods and services is also increasing, like milk (+5.5%), tobacco (+5.9%) and postal services (+13.5%). In other words, some inflationary pressures are back in Belgium, and even if we expect inflation to fall below 2% again in the coming months, it is likely to remain around 1.5%. Finally, let's note that the evolution of consumer prices is likely to induce an automatic wage indexation in the coming months.

1.3% Yearly growth of GDP in 2Q

Budget: summer deal!

As usual, before going on holiday, the federal government makes the necessary adjustments to the current year budget and fixes the guidelines for the year after. This year, the objective was to find around €2.6 billion in order to follow the defined deficit reduction trajectory. As is typical at this stage, there is no detail about how much all of the agreed measures will bring in, but the government professes that the target has been reached. This means that the structural deficit is likely to be reduced to -0.6% in 2019, implying a debt ratio below 100% of GDP next year. We should note that a target of 1.6% economic growth has been used to build the budget for 2018 and any further deceleration in growth would, therefore, require additional measures.

Following the government's communication, no new taxes have been decided in this summer deal. The deficit reduction is mainly reached by cutting some spending and helped by the (expected) positive returns on growth from structural reforms. Indeed, in addition to an important agreement on the labour market (including measures to decrease the path of unemployment benefits across time, special training budgets for people losing their job and a special effort to reduce the lack of qualified job seekers in certain sectors), measures have been taken to improve Belgium's competitiveness and households' purchasing power, and to increase strategic public investments (infrastructure, digital world…).

On top of this, the 2019 budget will also be helped by one-off measures, mainly the IPO of the bank Belfius (30% of equity, still to be confirmed) and the launch of a fourth operator in mobile telephony.

-0.6% Expected structural deficit in 2019

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