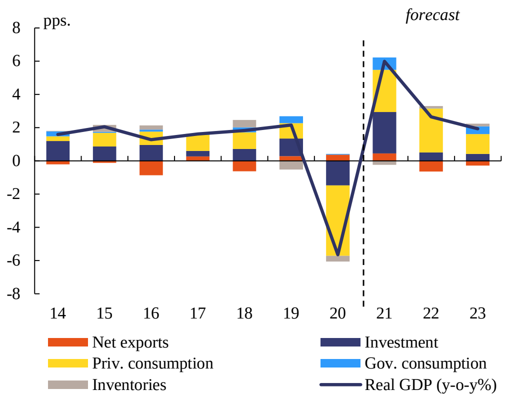
1. BELGIUM

Economic growth in Belgium is set to experience a strong rebound in 2021 after a historic plunge in 2020 following the onset of the COVID-19 crisis. After a successful vaccination campaign and the easing of restrictions, private consumption is projected to gradually recover in 2021. Investment growth is set to continue, supported also by the implementation of the Recovery and Resilience Facility. Inflation is expected to rise markedly in 2021 on the back of higher energy prices. The general government deficit is projected to improve gradually in 2021 and 2022 and to remain at a high level in 2023.

A broad-based recovery in 2021 following a historic recession in 2020

Economic growth is set to rebound in 2021 after a historic drop of -5.7% in 2020 caused by the COVID-19 crisis. A successful vaccination campaign has allowed the gradual lifting of restrictions. Consequently, households were able to return increasingly to their pre-pandemic consumption pattern, especially in the second and third quarters. Investment recovered quickly and already surpassed its pre-crisis level at the beginning of the year. Exports and imports recovered to their pre-crisis level in the second quarter of 2021 thanks to the strength of the external environment. The contribution of net exports to GDP growth is projected to be positive in 2021.

Graph II.1.1: **Belgium - Real GDP growth and contributions**



After growing by 1.2% in the first quarter and 1.7% in the second quarter, real GDP is forecast to expand by 1.8% in the third quarter, when it would reach its pre-crisis level. GDP is projected to continue growing at a more moderate pace afterwards. All in all, real GDP growth is projected to reach 6.0% in annual terms in 2021.

The recovery of private consumption is expected to continue in 2022 and to a lesser extent in 2023. Strong business confidence, favourable financing conditions, and the implementation of the Recovery and Resilience Facility should continue to support investment, despite possible solvency and liquidity concerns in the corporate sector.

In line with the recovery in domestic demand, exports and tourism, imports are expected to increase relatively more than exports, leading to a negative contribution of net exports to GDP growth in 2022 and in 2023. Overall, real GDP is expected to grow by 2.6% and 1.9%, in 2022 and 2023, respectively.

Stable unemployment

Policy support measures put in place during the crisis to shelter jobs and firms have kept corporate bankruptcies at low levels and have supported employment in 2020 and 2021. The unemployment rate is forecast to remain broadly stable at 6.3% in 2022, before improving to 5.8% in 2023, in line with economic growth. The expiry of some support measures and a possible increase in the level of bankruptcies represents a risk for growth and employment.

Inflation on the rise

Headline inflation is forecast to rebound from 0.4% in 2020 to 2.7% in 2021, due to higher energy prices. Wholesale gas and electricity prices have risen very sharply in recent weeks, and will lead to a gradual increase in consumption prices. Prices are set to stay high at the beginning of 2022 and trigger faster indexation of wages, which would lead to 2.3% inflation in 2022. After this temporary tension on prices, inflation is expected to slow down to 1.6% in 2023.

Government deficit to stabilise in 2022-2023, but at a high level

The general government headline deficit is projected to decrease to 7.8% of GDP in 2021 and 5.1% in 2022, broadly stabilising at 4.9% in 2023. This improvement is driven by the progressive phasing-out of crisis measures and by higher revenue, which are set to rise above pre-crisis levels in nominal terms in 2021, and to continue increasing thereafter, in line with the economic recovery.

In 2021, public finances continued to be affected by crisis-related measures, including the cost of health measures, various regional schemes to compensate businesses for reduced turnover, and temporary unemployment schemes. The budgetary impact of these measures has decreased considerably in the second part of 2021, notably due to a significantly lower take-up of temporary unemployment schemes.

Despite the expected phasing-out of most crisis-related measures by the end of 2021, public expenditure is projected to decrease only slightly in nominal terms in 2022 and to increase again in 2023. This partly reflects the growth in non-crisis social expenditure, which is projected to accelerate in 2022-2023 because of higher spending on health and pensions due to population ageing. The increase in minimum pensions and a permanent rise of wages in the health-sector are projected to weigh further on expenditure in 2022-2023. Two successive automatic indexations (due to rising consumer prices) are expected to drive up public wages and social benefit spending in 2022.

Public expenditure in 2022-2023 is further driven by one-off emergency and reconstruction expenditures triggered by the floods in July 2021, for an estimated 1/4% of GDP both in 2021 and 2022. It also accounts for RRF-financed expenditure, additional public investment plans at federal and regional levels in 2021-2023, and recent measures to reduce the cost of energy bills that were adopted in response to the rising energy prices for an expected amount of 0.1% of GDP in 2022.

The rebound in GDP growth and the decline in the government deficit are expected to stabilise the debt-to-GDP ratio at around 113% in 2021 and 2022, before it increases again to 115% in 2023 due to a persistent government deficit.

Table II.1.1:

Main features of country forecast - BELGIUM

		2020			Annual percentage change					
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		456.9	100.0	1.6	1.8	2.1	-5.7	**6.0**	**2.6**	**1.9**
Private Consumption		227.0	49.7	1.4	1.9	1.8	-8.2	**5.1**	**5.3**	**2.4**
Public Consumption		113.1	24.8	1.2	1.3	1.7	0.2	**3.0**	**0.1**	**2.0**
Gross fixed capital formation		109.3	23.9	2.0	3.0	4.5	-6.2	**10.5**	**2.0**	**1.6**
of which: equipment		33.8	7.4	1.1	1.8	3.1	-5.4	**10.3**	**2.1**	**2.1**
Exports (goods and services)		365.6	80.0	3.3	0.6	2.0	-5.5	**9.9**	**3.7**	**2.7**
Imports (goods and services)		359.2	78.6	3.4	1.4	1.6	-5.9	**9.5**	**4.5**	**3.1**
GNI (GDP deflator)		461.7	101.1	1.5	1.8	2.2	-5.6	**5.9**	**2.6**	**1.9**
Contribution to GDP growth:	Domestic demand			1.4	2.0	2.4	-5.7	**5.8**	**3.2**	**2.1**
	Inventories			0.1	0.4	-0.5	-0.3	**-0.2**	**0.1**	**0.2**
	Net exports			0.0	-0.6	0.3	0.4	**0.4**	**-0.6**	**-0.3**
Employment				0.8	1.5	1.6	0.0	**0.9**	**0.4**	**1.2**
Unemployment rate (a)				7.9	6.0	5.4	5.6	**6.2**	**6.3**	**5.8**
Compensation of employees / head				2.2	1.8	2.0	-1.5	**3.6**	**5.1**	**2.0**
Unit labour costs whole economy				1.4	1.5	1.5	4.4	**-1.4**	**2.9**	**1.2**
Real unit labour cost				-0.3	0.0	-0.3	3.1	**-3.3**	**0.6**	**-0.4**
Saving rate of households (b)				15.5	11.6	12.4	20.2	**17.1**	**12.7**	**12.2**
GDP deflator				1.7	1.5	1.8	1.3	**2.0**	**2.3**	**1.6**
Harmonised index of consumer prices				1.9	2.3	1.2	0.4	**2.7**	**2.3**	**1.6**
Terms of trade goods				-0.2	-1.0	0.9	0.7	**-0.6**	**0.2**	**0.1**
Trade balance (goods) (c)				1.0	-0.4	0.6	1.0	**0.9**	**0.8**	**0.8**
Current-account balance (c)				2.7	-0.8	0.1	0.8	**0.8**	**0.3**	**0.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.6	-0.7	0.3	0.8	**0.8**	**0.3**	**0.0**
General government balance (c)				-2.2	-0.8	-1.9	-9.1	**-7.8**	**-5.1**	**-4.9**
Cyclically-adjusted budget balance (d)				-2.2	-1.4	-2.8	-5.7	**-7.0**	**-5.0**	**-4.9**
Structural budget balance (d)				-2.4	-1.9	-3.0	-5.8	**-6.9**	**-4.9**	**-4.9**
General government gross debt (c)				100.3	99.9	97.7	112.8	**112.7**	**113.1**	**114.6**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.