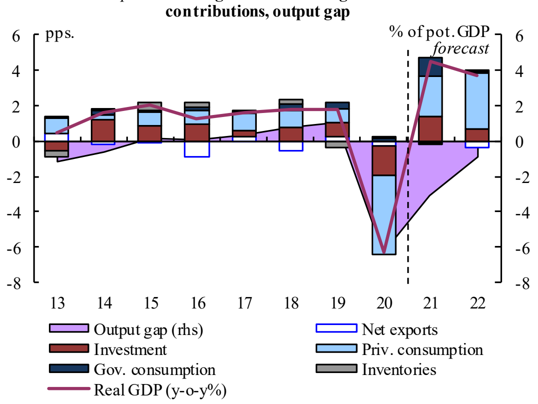
1. BELGIUM

Economic growth in Belgium is set to rebound in 2021 after a historic plunge in 2020 following the onset of the COVID-19 crisis. The easing of restrictions that is expected to follow as a large share of Belgians are vaccinated should allow private consumption to gradually recover. After rebounding in the second half of 2020, investment is forecast to continue growing in 2021, with the help of the RRF. Inflation is set to rise markedly in 2021 on the back of energy prices. The general government deficit is projected to improve gradually in 2021 and 2022.

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

Economic growth is forecast to rebound in 2021 after a historic drop of 6.3% in 2020 caused by the COVID-19 crisis. As Belgium's vaccination campaign progresses and the number of hospital cases decreases, Belgium is set to gradually lift restrictions. Investment already rebounded strongly in the second half of 2020. As business confidence continues to improve and the RRP starts being implemented, investment should continue to support growth in 2021 and in 2022. Furthermore, an increase in public consumption is forecast to contribute to GDP growth in 2021.

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



Real GDP growth is forecast to grow by 4.5% in 2021 and by 3.7% in 2022. The contribution of the first quarter to the economic recovery is expected to be limited as the level of restrictions was still high (notably, restaurants and bars remained closed). The rebound is expected during the second quarter, as restrictions are gradually lifted, and should accelerate thereafter. Economic activity is projected to return progressively to historic growth trends over the forecast horizon, with real GDP reaching its pre-crisis level in the first half of 2022.

Private consumption to recover steadily, despite a rise in unemployment

Social-distancing measures will continue to curtail private consumption expenditure in the first half of 2021, with contact-intensive services activities (hotels, restaurants, leisure) being particularly hit. Government support measures have protected households from the worst of the economic hit and have allowed a strong increase in saving rates. Consequently, household consumption is projected to be in a position to rebound once restrictions are eased. Job and business support measures have allowed employment to remain broadly steady and have kept bankruptcies at low levels. The gradual expiry of some of these measures is expected to contribute to an increase in bankruptcies and a rise in unemployment from 5.6% in 2020 to 6.7% in 2021, before slightly improving to 6.5% in 2022, consistent with economic growth.

Investment was severely hit by the COVID-19 crisis in 2020. However, the strong rebound in the second half of the year limited the drop in annual terms to -6.9%. Improving business confidence, favourable financing conditions, and the entry into force of the RRF should continue to support investment. The recovery is expected to be broad-based, driven by consumer spending, as well as business and public investment, the latter supported by the RRF.

Exports are set to recover in 2021 thanks to the strength of the external environment. Following the recovery in domestic demand and exports, imports are also forecast to rebound strongly. The contribution of net exports to GDP growth is therefore expected to be negative throughout the forecast horizon.

Headline inflation is forecast to rebound from 0.4% in 2020 to 1.8% in 2021, due to higher energy prices. It is then projected to slow down to 1.5% in 2022, as energy prices stabilise.

Fiscal policy remains supportive in 2021 and 2022

The general government headline deficit widened to 9.4% of GDP in 2020, driven by higher expenditure combined with lower, albeit relatively resilient revenue compared to 2019. Crisis-related measures, such as an extended replacement income scheme for the self-employed, additional payments to hospitals and fixed premiums for business that were forced to close entirely or partially, amounted to 3.8% of GDP. In 2021, Belgium's fiscal performance is set to improve moderately, with a projected headline deficit of 7.6% of GDP.

The government extended and implemented a number of crisis-related expenditure and revenue measures in 2021. Revenue is expected to get back to pre-crisis level in 2021, driven by the dynamism of the recovery. Liquidity support measures to companies and temporary tax exemption schemes are assumed to have a limited budgetary impact in 2021-2022. However, crisis-related expenditure remains substantial in 2021, and includes the continuation of a scheme for the self-employed, a federal provision for health spending (notably including vaccines), and regional schemes targeting the most affected businesses. The number of workers in temporary unemployment remains high and unemployment is set to increase in 2021, keeping social transfers at high levels. In addition, expenditure postponed in 2020, notably on non-essential healthcare, is projected to take place in 2021.

The deficit is forecast to decrease to 4.9% of GDP in 2022, driven by the expected economic recovery and the phasing-out of most temporary measures still in place in 2021. However, the permanent rise in health-related expenditure and increase in minimum pensions are expected to weigh on public finances. Downside risks linked to liquidity support measures remain in 2021-2022, in particular if bankruptcies increase abruptly. This forecast includes RRF-financed expenditure in 2021 and 2022 in line with Belgium's RRP, however it does not include the reforms that are part of the plan.

Fiscal stimulus measures are expected to cause public debt to rise to 114% of GDP in 2020. In 2021 and 2022, the debt is forecast to increase further to 115% and 116% of GDP, driven by a still-high public deficit and stock-flow adjustments such as tax deferrals and acquisition of financial assets.

Table II.1.1:

Main features of country forecast - BELGIUM

		2019		Annual percentage change						
bn EUR		Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		476.3	100.0	1.6	1.6	1.8	1.8	**-6.3**	**4.5**	**3.7**
Private Consumption		244.8	51.4	1.3	1.9	1.9	1.5	**-8.7**	**4.6**	**6.3**
Public Consumption		109.7	23.0	1.3	0.2	1.3	1.6	**0.6**	**4.1**	**0.4**
Gross fixed capital formation		115.2	24.2	2.0	1.4	3.4	3.5	**-6.9**	**6.0**	**2.8**
of which: equipment		35.9	7.5	1.4	-1.9	1.3	-0.2	**-6.2**	**5.0**	**3.0**
Exports (goods and services)		389.7	81.8	2.9	5.5	0.6	1.0	**-4.6**	**5.9**	**3.9**
Imports (goods and services)		386.8	81.2	3.0	5.2	1.3	0.8	**-4.3**	**6.1**	**4.3**
GNI (GDP deflator)		482.3	101.2	1.5	1.6	1.8	2.1	**-6.1**	**4.4**	**3.6**
Contribution to GDP growth:	Domestic demand			1.4	1.3	2.1	1.9	**-6.0**	**4.7**	**3.9**
	Inventories			0.1	0.0	0.3	-0.4	**0.0**	**-0.1**	**0.1**
	Net exports			0.1	0.3	-0.5	0.2	**-0.3**	**-0.1**	**-0.3**
Employment				0.8	1.6	1.5	1.6	**0.0**	**-0.6**	**0.8**
Unemployment rate (a)				7.9	7.1	6.0	5.4	**5.6**	**6.7**	**6.5**
Compensation of employees / head				2.3	1.9	1.8	2.1	**-1.8**	**2.7**	**3.4**
Unit labour costs whole economy				1.6	1.8	1.5	1.9	**4.7**	**-2.3**	**0.5**
Real unit labour cost				-0.1	0.0	-0.2	0.2	**3.6**	**-3.8**	**-1.0**
Saving rate of households (b)				15.8	12.2	11.6	13.0	**21.7**	**16.7**	**12.1**
GDP deflator				1.7	1.8	1.6	1.7	**1.1**	**1.6**	**1.5**
Harmonised index of consumer prices				1.9	2.2	2.3	1.2	**0.4**	**1.8**	**1.5**
Terms of trade goods				-0.2	-0.2	-1.1	1.0	**0.2**	**-0.2**	**0.0**
Trade balance (goods) (c)				1.1	0.5	-0.1	0.7	**0.4**	**0.7**	**0.3**
Current-account balance (c)				2.9	0.7	-0.8	0.3	**0.1**	**-0.1**	**-0.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.9	0.8	-0.7	0.5	**0.2**	**0.0**	**-0.4**
General government balance (c)				-2.2	-0.7	-0.8	-1.9	**-9.4**	**-7.6**	**-4.9**
Cyclically-adjusted budget balance (d)				-2.2	-0.9	-1.3	-2.6	**-5.5**	**-5.7**	**-4.4**
Structural budget balance (d)				-2.7	-1.4	-1.8	-2.8	**-5.6**	**-5.8**	**-4.4**
General government gross debt (c)				100.7	102.0	99.8	98.1	**114.1**	**115.3**	**115.5**

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