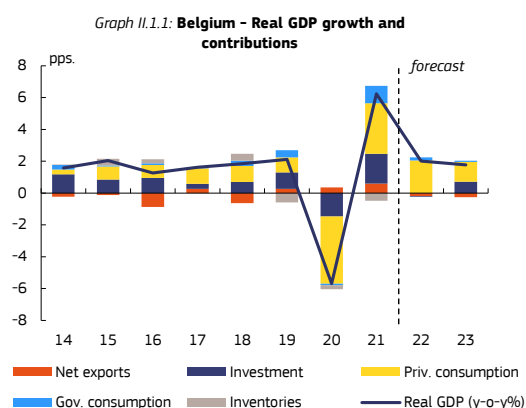


1. BELGIUM

Economic growth in Belgium is expected to slow down to 2.0% in 2022 and 1.8% in 2023 after the strong rebound in 2021. The easing of restrictions related to COVID-19 combined with the depressing effect of high inflation, which is forecast to reach 7.8% in 2022 on the back of skyrocketing energy prices, is projected to lead to moderate growth of private consumption. Uncertainty, high costs and supply side constraints are expected to weigh on investment. Despite the withdrawal of COVID-19 measures, the government deficit is set to decrease to a limited extent, to 4.4% of GDP in 2023.

After a broad-based recovery in 2021, a slow down in 2022

Economic growth is set to slow down in 2022 after the rebound of 6.2% in 2021, when the gradual lifting of restrictions ushered in a robust recovery. Moving forward, a gradual return of growth towards its potential is expected.



Real GDP growth is forecast to reach 2.0% in 2022 and 1.8% in 2023. The wave of Omicron variant is assumed to have had limited impact on the economy in 2022-Q1 and, thanks to the swift lifting of restrictions, consumption is projected to have rebounded, leading to an estimated 0.3% real GDP growth in the first quarter.

However, Russia's war of aggression against Ukraine has changed the outlook for the following quarters. The high level of inflation and the drop in consumer confidence are expected to curb the expansion of household consumption. Still, lagged automatic indexation of wages and social benefits are set to support purchasing power moving forward into 2023 when inflation is projected to substantially decrease. Starting in March 2022, the inflow of people fleeing Ukraine is expected to have a

positive but limited effect on private consumption.

After a strong rebound during the first part of 2021, investment decreased strongly in the second half of the year. In 2022, uncertainty, higher cost pressures from input prices and wages as well as supply side constraints are expected to weigh on business investment. At the same time, the RRF and the energy transition are forecast to support gross fixed capital formation. After a strong performance of net exports in 2021, a less favourable external environment, notably for world trade, is forecast to weigh on imports and exports this year. The contribution of net exports to GDP growth is projected to be slightly negative in both 2022 and 2023.

Improvements in the labour market

The strong performance of employment in 2021 put Belgium on a strong footing for 2022, as reflected by the high vacancy rate at the beginning of the year. However, the rising uncertainty and the expected slowdown in growth is projected to moderate the performance of the labour market in the second part of 2022. Employment growth is forecast to reach 1% in 2022. The unemployment rate is expected to improve to 5.8% in 2022 and to 5.6% in 2023, consistent with economic growth.

Inflation on the rise

Headline inflation is forecast to reach an exceptionally high level in 2022, at 7.8%, after 3.2% in 2021. The sharp increases of wholesale gas and electricity prices have transmitted quickly to retail prices, which are expected to remain high this year. At the same time, food prices are on the rise and core inflation is projected to reach 3.8% in 2022

and 3.4% in 2023. The gradual fall in energy prices is forecast to push headline inflation down to 1.9% in 2023.

The budgetary response to the energy crisis causes further strain on government finances

The general government headline deficit narrowed considerably in 2021 to 5.5% of GDP, according to notified data. The decrease in the government balance deficit reflects mainly the stronger-than-anticipated rebound in revenue collection due to a stronger macroeconomic performance, and lower-than-expected government spending execution, notably concerning public investment and expenditure in relation to the COVID-19.

The government budget deficit is projected to decrease moderately in 2022, to 5% of GDP. While the bulk of government measures related to the pandemic are expected to be withdrawn, Belgium's fiscal outlook in 2022 is significantly affected by the budgetary response to the energy crisis. Temporary measures adopted in response to high energy prices are set to weigh on public finances in 2022. In addition, the automatic indexation of public sector wages and social benefits to rising consumer prices leads to rapidly growing public spending, which are only partly offset by the impact of higher wages on the revenue side. Furthermore, the

government adopted additional defence spending and the Commission's forecast also takes into account the budgetary impact of the inflow of people fleeing Ukraine.

In 2023, the government deficit is projected to decrease slightly, to 4.4%, as the vast majority of measures adopted in response to the energy crisis and to COVID-19 are assumed to be withdrawn. At the same time, the automatic indexation of public sector wages and social benefits, as well as lower corporate tax revenue due to rising input prices and wages, would have a negative impact on the government budget balance. In addition, the high government deficit in 2023 also reflects the growth in non-crisis current expenditure, which is notably due to rising ageing costs and to the budgetary impact of recently adopted permanent measures not offset by compensating measures.

The government debt-to-GDP ratio decreased to 108% in 2021, reflecting the rebound of economic output and its positive impact on the denominator. The debt to GDP ratio is set to decrease to 107.5 % in 2022 and to stabilise in 2023, as the favourable snowball effect from higher inflation (as measured by the GDP deflator) would be offset by the still-high government deficit.

Table II.1.1:

Main features of country forecast - BELGIUM

	2021		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	507.2	100.0		1.6	1.8	2.1	-5.7	6.2	2.0	1.8
Private Consumption	246.8	48.7		1.4	1.9	1.8	-8.2	6.4	4.2	2.5
Public Consumption	120.2	23.7		1.2	1.4	2.0	-0.4	4.4	0.8	0.3
Gross fixed capital formation	122.2	24.1		2.0	3.0	4.4	-6.1	7.8	-0.1	3.0
Exports (goods and services)	432.9	85.4		3.3	0.6	2.0	-5.5	9.6	3.3	3.9
Imports (goods and services)	426.1	84.0		3.4	1.4	1.6	-5.9	9.1	3.6	4.1
GNI (GDP deflator)	511.2	100.8		1.5	1.8	2.2	-5.6	6.0	2.0	1.8
Contribution to GDP growth:										
Domestic demand				1.4	2.0	2.4	-5.8	6.1	2.2	2.0
Inventories				0.1	0.4	-0.6	-0.3	-0.5	0.0	0.0
Net exports				0.0	-0.6	0.3	0.4	0.6	-0.2	-0.3
Employment				0.8	1.5	1.6	0.0	1.8	1.0	0.8
Unemployment rate (a)				8.0	6.0	5.5	5.8	6.3	5.8	5.6
Compensation of employees / head				2.2	1.8	2.0	-1.5	4.2	6.0	5.5
Unit labour costs whole economy				1.4	1.4	1.5	4.4	-0.2	5.0	4.4
Saving rate of households (b)				15.5	11.6	12.4	20.2	16.1	12.4	12.6
GDP deflator				1.7	1.5	1.8	1.3	4.5	4.5	3.0
Harmonised index of consumer prices				1.9	2.3	1.2	0.4	3.2	7.8	1.9
Terms of trade goods				-0.2	-1.0	0.9	0.7	-0.7	-2.5	1.0
Trade balance (goods) (c)				1.0	-0.4	0.6	1.0	0.9	-0.6	-0.2
Current-account balance (c)				2.7	-0.8	0.1	0.8	0.6	-1.1	-0.6
General government balance (c)				-2.2	-0.9	-2.0	-9.0	-5.5	-5.0	-4.4
Structural budget balance (d)				-2.4	-1.9	-3.0	-5.8	-4.6	-4.5	-4.2
General government gross debt (c)				100.3	99.8	97.7	112.8	108.2	107.5	107.6

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