

## Belgium in 2021: Testing the limits

Without doubt, 2020 tested the limits of the Belgian economy and its health system. 2021 can only be better, but the capacity for recovery will depend on the state of public finances and the capacity of households to spend the money they've saved during the lockdown



### Second wave

The new Belgian government led by Alexander De Croo is facing a second wave of the pandemic, which is particularly virulent in Belgium. The number of people hospitalised has surpassed that of the first wave, even though the rate of absenteeism due to illness is high among healthcare staff. The limits of the Belgian health care system are clearly being tested.

This second wave has a whiff of collective failure, as it demonstrates the inability to control the pandemic by partial measures. The government therefore had to impose an almost complete lockdown, although still leaving some room for economic activity. This will probably result in negative growth in the fourth quarter. For 2020 as a whole, we are forecasting a contraction in GDP of around 7.5%.

### Collateral damage

It is highly likely that 2021 will still be marked by partial restrictions, as the Minister of Health has already warned that the strategy post lockdown will be stricter than after the first wave, as a third

wave would be untenable for the economy and its healthcare system. As a consequence, the financial limits of many companies will be tested until a vaccine arrives: they will have to cope with consumer caution and strict health rules, sometimes hampering their operations. We, therefore, expect a sharp increase in bankruptcies as soon as the deferral of loan repayments and the bankruptcy moratorium are lifted.

In order to limit the damage caused by the crisis, the federal and regional governments are stepping up support measures: suspension of social security contributions, postponement of payments and an increase in benefits for the self-employed. Refinancing of health care is also planned. This should cushion the shock, but it will further deteriorate public finances. The public deficit, which is expected to reach 9.4% in 2020, should be lower next year, but it will remain huge, around 5.2%. The public debt ratio could peak at 115.5%, which is not far from the safe debt limit for the Belgian economy (120%) according to a recent study by the National Bank.

## Slow recovery

Once a vaccine is available and widely distributed, hopefully from the second quarter onwards, the Belgian economy should grow faster, thanks in particular to household consumption. According to the National Bank, a savings reserve of €20 billion has been built up by households through forced savings by the various confinement measures decided in 2020. This will partly be the key to the post-Covid recovery.

---

*Household savings will partly play a role in the post-Covid recovery*

---

However, we remain cautious with regards to this reserve. Admittedly, the figures do show an increase in household savings, but will it really be used for consumption in 2021? It could also be used to reduce household debt or to build up a reserve for pensions. On the other hand, let's not forget that a significant number of households will have to use the reserves built up to soften the shock of job losses. In fact, we expect the loss of almost 100,000 jobs by the end of 2021, which will raise the unemployment rate to almost 8.0% of the active population.

The other key to the post-Covid recovery will be the ability of the authorities to define a coherent recovery plan. Clearly, the current crisis has shown the limits of the Belgian federal system, through the many shortcomings in the management of the crisis (there are no fewer than nine ministers responsible for health across the different Belgian entities). Better coordination of the different levels of power will be necessary for a successful recovery.

So 2021 could therefore be a pivotal year in the transformation of the Belgian economy, both for companies, which will have to get through the crisis, often by reinventing themselves, and for the authorities, which will have to manage public finances that have been severely stretched by the crisis and a recovery that has yet to unfold.

## The Belgium economy in a nutshell

	2019	2020F	2021F	2022F
GDP (%)	1.4	-7.5	2.9	3.3
Headline CPI (%)	1.4	0.8	1.6	1.7
Unemployment rate (%)	5.4	6.2	8.0	7.5
Budget balance as % of GDP	-1.9	-9.4	-5.2	-3.8
Government debt as % of GDP	98.7	114.7	115.2	113.6

Source: National Bank of Belgium, Forecast: ING

### Author

#### Philippe Ledent

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.