

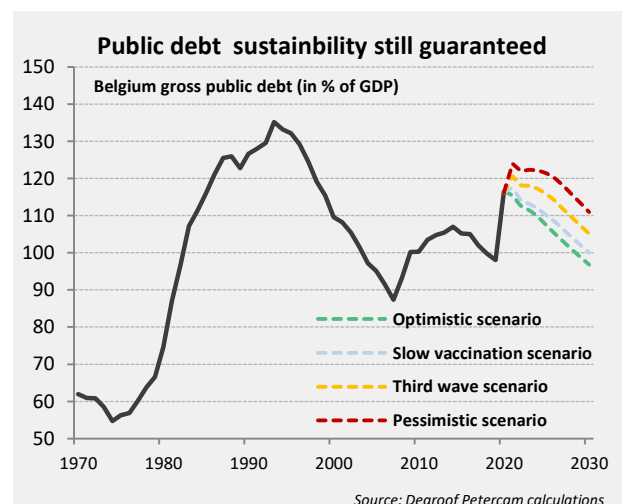
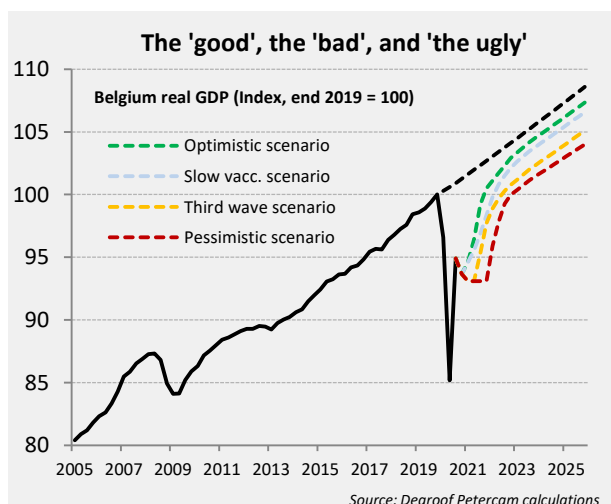
Belgium Economic Outlook

“The good, the bad, and the ugly“

- ✓ *There is significant potential for economic activity to bounce back quickly*
- ✓ *However, the economic recovery crucially depends on getting the virus under control*
- ✓ *In this short publication, we explore four different possible scenarios:*
- ✓ *An optimistic scenario, a slow vaccination scenario, a third wave scenario and a pessimistic scenario*
- ✓ *In the optimistic scenario, the economic shortfall by 2025 could be limited to 1.1% of GDP*
- ✓ *In the pessimistic scenario, the economic cost could be as high as 4.2% of GDP*
- ✓ *These macroeconomic results are based on in-house independent simulations*
- ✓ *Obviously, we are not virologists nor experts in vaccines*

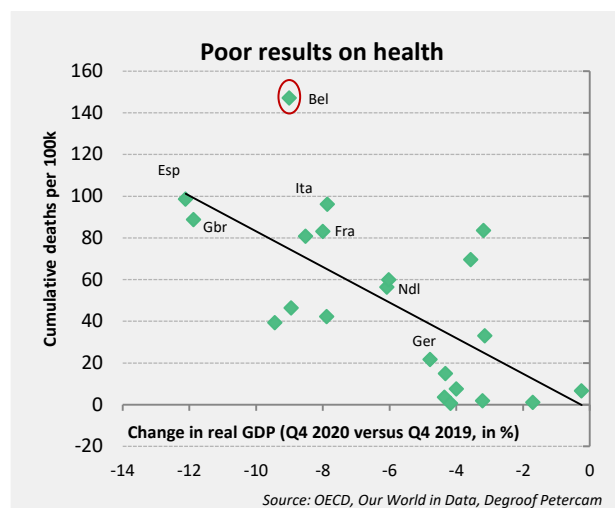
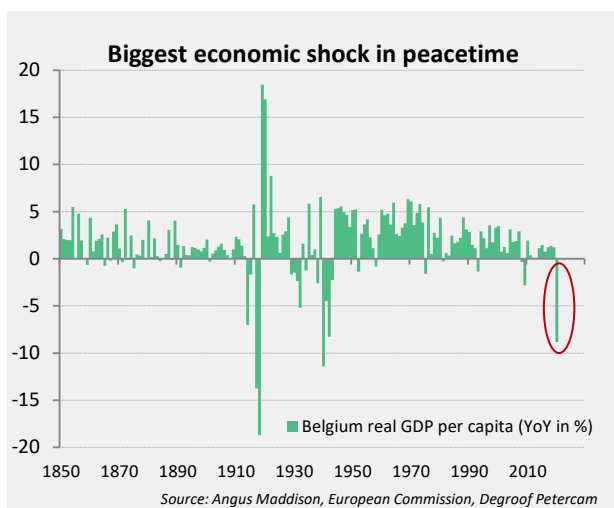
In summary: economic growth crucially depends on getting the virus under control

- ✓ Covid-19 is a useful reminder of Keynes' principle of fundamental uncertainty. The pandemic has caused the biggest fall in Belgian economic activity since the Second World War. That does not mean, however, that it will also turn out to be the worst and most protracted economic crisis. Covid-19 is mainly a temporary and exogenous shock (coming from outside): a very powerful and contagious virus.
- ✓ Therefore, the economy has the potential to rebound quickly, at least once fears about the virus disappear. The latter is of course a critical condition. It will make or break the near-term recovery. Recent excellent news on the arrival of highly effective vaccines provides more hope that economic activity will soon be able to recover lost ground, although not all the way back to the level as determined by previous trend growth.
- ✓ However, uncertainty about the speed of the recovery remains high. The rollout of the vaccination process could be delayed. Meanwhile, we cannot exclude the possibility of a third wave of infections. All this implies that any economic forecast comes with particularly large margins of uncertainty. In this short publication, we explore four different scenarios.
- ✓ In the optimistic scenario, the virus is soon brought under control and the critical bulk of vaccinations is administered during next summer. In the pessimistic scenario, on the other hand, the virus rages on while most of the population is only vaccinated around the turn of 21-22. The simulated results confirm that, also economically, it is very important to both get the virus quickly under control and to roll out the vaccines as efficiently and safely as possible.
- ✓ In the optimistic scenario, the shortfall in economic activity by the end of 2025 could be limited to 1.1% of GDP (or 5.7 billion in today's euros, compared to the hypothetical no corona scenario). In the pessimistic scenario, on the other hand, the economic cost could be as high as 4.2% of GDP (or 19 billion euros). Logically, while sustainability is guaranteed in all scenarios, there would also be a significant difference with regard the evolution of public debt.



Biggest single economic shock in peacetime and poor results in terms of health

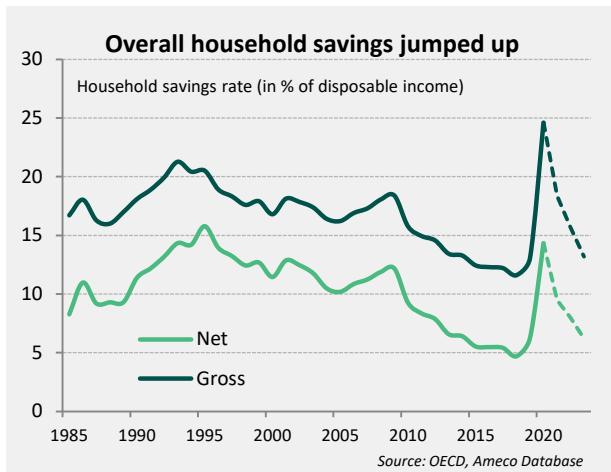
- ✓ Economic activity Belgium plummeted by 15% in the first half of 2020, followed by a sharp rebound of 11.4% in Q3. That said, the recovery was already losing steam over the course of the summer before the second wave of infections hit and restriction measures were tightened again. Following a contraction of 1.3% in the final months of the year, economic activity is estimated to contract by 6.7% in 2020.
- ✓ The fact that Covid-19 has caused the biggest fall in Belgian economic activity since the Second World War does not mean, however, that it will also turn out to be the worst and most protracted economic crisis. This time, the economy has the potential to rebound quickly, at least once fears about the virus disappear.
- ✓ Research has shown that there exists no trade-off between health and economics. Indeed, getting the virus under control is a critical condition to get better economic results as the graph below illustrates. Unfortunately, though caution is warranted with regard to interpreting the health results, Belgium has not performed well compared to many other countries.



Covid-19 has struck very unevenly both for firms and households

- ✓ On a global level, Covid-19 crisis has exposed the gaps between the haves and the have not. This crisis has exposed (and probably also exacerbated) inequalities in different ways, both between and within countries. From access to healthcare, work, technology and schooling, research suggests that more educated, higher earning employees come out relatively better.
- ✓ Although the full socio-economic impact of Covid-19 in Belgium is not clear yet, it seems inevitable that clear differences will also emerge in Belgium. Those who came to ask for financial support were already financially vulnerable before the pandemic struck. Gradually but surely, people with different profiles, such as artists, self-employed and temporary workers, and students are also increasingly applying for financial support.
- ✓ This is also reflected in recent surveys conducted by the National Bank of Belgium. 71 % of households have been completely unaffected in terms of income. This group primarily consists of pensioners and those on social benefits who receive a guaranteed income, as well as a proportion of employees who have not been laid off temporarily. For other categories of households, the loss of income has been significant, albeit to varying degrees, with the self-employed bearing the heaviest burden.

- ✓ The impact on revenues of Belgian companies has also been very unequal between sectors and firms as illustrated by survey results from the Economic Risk Management Group (see table below).

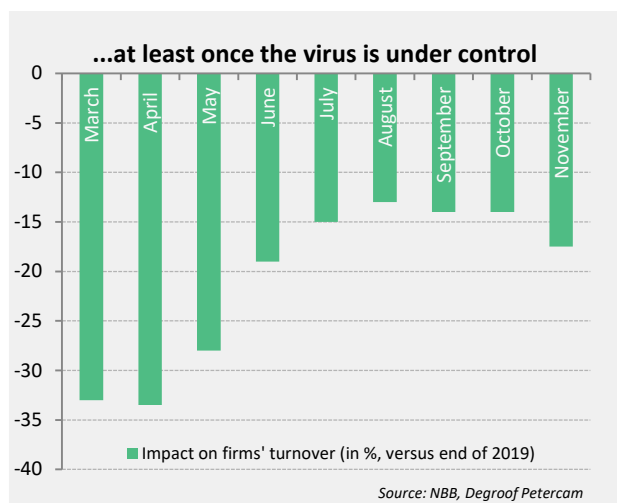
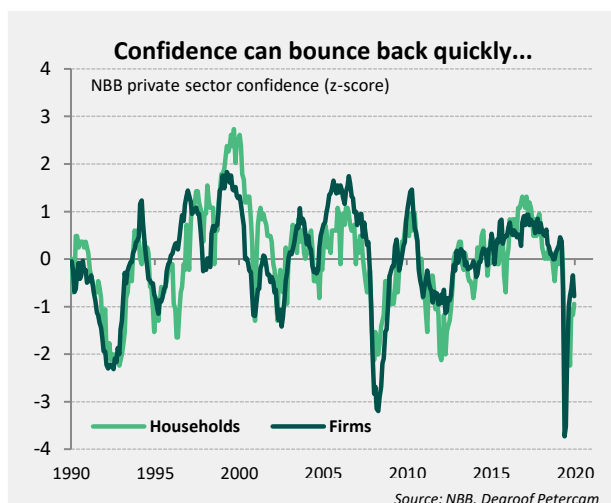


Impact on turnover in %	Early April	Mid-November
Events and recreation	-92	-77
Accomm. and food serv. act.	-83	-66
Retail sales (non-food)	-85	-51
Real estate activities	-44	-37
Wholesale	-48	-19
Aviation	-40	-15
Consultancy	-16	-14
Road transport (persons)	-45	-13
Inf. and comm.	-21	-13
Liberal professions	-21	-12
Agriculture	-23	-12
Engineering services	-62	-12
Manufacturing	-32	-12
Logistics	-26	-11
Human Resources	-46	-11
Financial and insurance act.	-9	-10
Retail sales (food)	-4	-9
Construction	-46	-9

Source: NBB, Economic Risk Management Group

The good news is that the economy has the potential to bounce back quickly

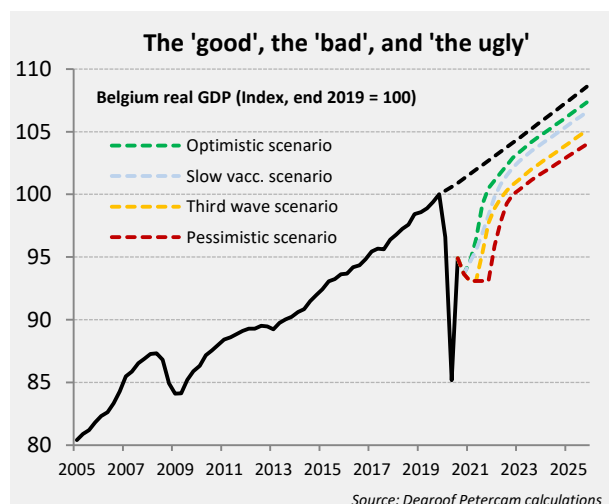
- ✓ Overall, the loss of turnover vis-à-vis pre-corona levels rose to 17% in November, a decrease of 3 percentage points compared to the period running from August to October. The effects of the second (semi-) lockdown, however, are milder as can be seen from the graphs below.
- ✓ The good news is that there is significant potential for economic activity to bounce back quickly, once the virus is brought under control and fears about the virus recede. This is confirmed by both the rapid rebound in economic activity and private sector confidence between May and August. Economic results from China and other Asian countries also suggest that the economy can recover fairly rapidly when confidence returns against the back of continued government support.
- ✓ From a macroeconomic point of view, the surge in household savings allows for catch-up demand for goods and services. Again, this will only be possible if the virus is contained. Fortunately, recent excellent news on the arrival of highly effective vaccines means there is light at the end of the tunnel.



Uncertainty about the recovery remains high: the good, the bad and the ugly

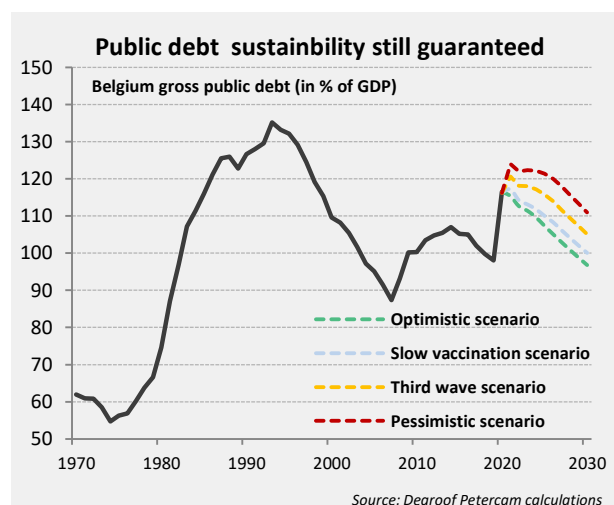
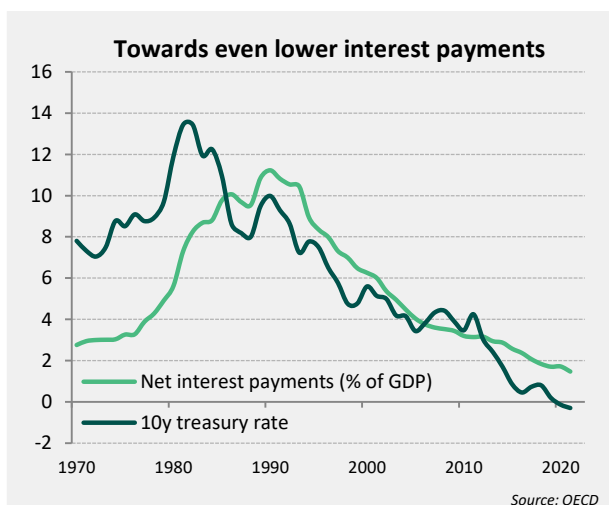
- ✓ However, uncertainty about the speed and the strength of the recovery remains high. We don't know exactly when the vaccine will be readily available and administered. Meanwhile, we cannot exclude the possibility of a third wave of infections as has happened during major pandemics in the past. All this implies that any economic forecast comes with particularly large margins of uncertainty. We explore four different scenarios. Obviously, we are neither virologists nor experts in vaccines.
- ✓ In the optimistic scenario, wherein the virus is soon brought under control and vaccination is largely rolled out by the summer of 2021, economic activity in 2021 and 2022 is estimated to grow by respectively 5.5% and 4.5%. In the pessimistic scenario, on the other hand, the virus rages on until most of the population is vaccinated around the turn of 2021-22. In this scenario, at respectively 0.6% and 5.5%, GDP figures will come in significantly lower over the next two years.
- ✓ The results of the slow vaccination and third wave scenario are somewhat less extreme as shown by the quadrant below. Nevertheless, they suggest that getting the virus under control is absolutely key. Hopefully it will be possible to make rapid progress in vaccinating the population. Crucially, however, that barely pays off if the number of infections cannot be contained in the meantime.
- ✓ Indeed, getting the virus under control is a *conditio sine qua non* for the economy to recover quickly. Failing to do so, will result in a much slower recovery in 2021 and 2022. Even worse, it will also greatly increase the chances of more permanent damage to economic activity in the longer run, a phenomenon that is better known under the term of 'economic scarring'. In this scenario, structural unemployment would be higher.
- ✓ In the most optimistic scenario the shortfall in economic activity by 2025, relative to pre-corona crisis trend growth, could be limited to 1.1% of GDP. This amounts to roughly 5.7 billion euros (in today's value). In the pessimistic scenario, instead, the economic cost could be as high as 4.2% of GDP, or 19 billion euros. In the slow vaccination scenario and the third wave scenario the incurred losses would amount to over 8.7 billion and 14.6 billion euros respectively.
- ✓ We must notice, however, that the future remains highly uncertain. Other factors inevitably come into play. Moreover, as a small and open economy, demand and output is highly dependent on what happens in the rest of the world. In case of a hard Brexit scenario for example, as several studies have shown, Belgium would be one of the most economically vulnerable countries.

GDP (YoY in %)	Rollout of vaccination ?	
	Quick	Slow
	Optimistic scenario	Slow vacc. scenario
Virus under control ?		
YES	5.5 ⁽²¹⁾ 4.5 ⁽²²⁾	4.4 ⁽²¹⁾ 5.0 ⁽²²⁾
	Third wave scenario	Pessimistic scenario
No	2.4 ⁽²¹⁾ 5.4 ⁽²²⁾	0.6 ⁽²¹⁾ 5.5 ⁽²²⁾



The evolution of the public debt level will also vary according to how the scenario develops

- ✓ Even before the pandemic struck, many observers had been sending out alarming messages about the level of Belgian government debt. However, most of these claims are unfounded. It is not the level of indebtedness as such that matters for debt sustainability.
- ✓ Indeed, from a macroeconomic point of view, it is the interaction between the overall budget balance excluding interest payments (i.e. the primary budget balance), the implicit interest rate on outstanding public debt, and the nominal growth rate (real growth plus inflation) that determines public debt sustainability. Analysis of the evolution of Belgian government debt in the four different scenarios reveals that public debt sustainability in Belgium is still guaranteed.
- ✓ The low interest rate environment of the past decade, the fact that the Belgian federal government can now issue 10 year governments bonds at a negative interest of -0.4% and the expectation that the primary deficit will decline fairly rapidly over the next five years (although to varying degrees), all provide some comfort. Nevertheless, it certainly matters how quickly economic activity will recover over the next years. Also, it is still necessary for policymakers to examine the composition and efficiency of public spending in the context of ageing of the population.
- ✓ In the most optimistic growth scenario, as described higher, the Belgian government debt level would soon stabilize at just below 120% of GDP. Moreover, in 2030 it would be back at the level witnessed just prior to the Covid-19 outbreak. In the most pessimistic scenario, on the other hand, the debt level would peak at 124% of GDP before making its way down. At 111% of GDP in 2030, the level would be considerably higher compared to the optimistic scenario.
- ✓ However, in case the pessimistic growth scenario were to materialize, one should not draw the conclusion that drastic government savings should be made in order to compensate. It would still be of the utmost importance to continue to support the economy with well-targeted measures in order to prevent as much permanent economic damage as possible.



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