



## Belgium

### Macroeconomic outlook and forecasts

The COVID-19 pandemic impacted Belgium hard, but less severely compared to other EU Member States (see Table 1 below). GDP contracted 5.7 % in 2020 (y-y) and is expected to have grown in 2021 by 6 % (y-y). GDP fell significantly during the first and second quarter 2020 (respectively – 3.3 % and – 11.9 % q-q change) and experienced a significant rebound in the third quarter of 2020 (+11.8%). According to the latest Commission 2021 autumn forecasts, real GDP grew by 1.2 % in the first quarter 2021, 1.7 % in the second quarter, and by 1.8 % in the third quarter, when it reached its pre-crisis level.

To cushion the effects of the pandemic, automatic stabilisers and fiscal measures were put in place by the Belgian government. Overall, the COVID-19 fiscal package amounted to 15.1 % of GDP, of which 12 % were guarantees to support the liquidity position of enterprises and 2.3 % were discretionary measures to support household incomes and employment through short-time work (STW) schemes. STW schemes contributed to keep corporate bankruptcies at low levels and have supported employment in 2020 and 2021. The unemployment rate indeed increased by only 0.2 percentage points in 2020 (5.6 %) compared to 2019 and is forecasted to have increased to 6.2 % in 2021, before being expected to decrease to 5.8 % in 2023. The employment rate decreased by 1.6 percentage points in 2020 and is expected to return to pre-crisis levels by 2023.

In line with other Member States, the fiscal effort of the Belgian government together with the reduction in revenues, had a direct impact on the government balance, with a deficit of 9.1 % of GDP in 2020 and 7.8 % of GDP in 2021 (estimated), expected to remain negative throughout the RRF period, with a deficit of 5.2 % of GDP expected in 2026. Such trends are reflected also in the debt-to-GDP ratio that has already increased in 2020 by 15 percentage points and is expected to progressively increase in the years to come (see Table 1 below). Such negative trends are reflected in high fiscal sustainability risks in the short, medium, and long term due to the influence of the debt requirement in the medium term and the ageing costs in the long term in its budgetary position, as stressed in the Commission debt sustainability analysis (European Commission [2021](#)).

Table 1. Macroeconomic developments and forecasts Belgium.

Macroeconomic developments and forecasts	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (y-y % change)	2,1	-5,7	6,0	2,6	1,9	1,5*	1,3*	1,1*
Employment ( % change)	1,6	0	0,9	0,4	1,2	0,9*	0,7*	0,6*
Unemployment rate (%)	5,4	5,6	6,2	6,3	5,8	5,7*	5,5*	5,3*
HICP inflation ( % change)	1,2	0,4	2,7	2,3	1,6	n/a	n/a	n/a
Gov balance ( % GDP)	-1,9	-9,1	-7,8	-5,1	-4,9	-5,1*	-5*	-5,2*
Debt-to-GDP ( % GDP)	97,7	112,8	112,7	113,1	114,6	118,8*	120,6*	122,6*

Source: Own elaboration, based on [autumn 2021](#) and [winter 2022](#) AMECO Forecasts (until 2023) and Belgian recovery and resilience plan (for 2024-2026).

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## Belgian structural challenges before COVID-19

The Belgian economic situation before the the COVID-19 crisis was overall positive, with GDP growth in 2019 around 1.4 %, close to the EU average (1.5 %) and above the Euro area (1.2 %). Yet, structural challenges negatively affected the labour and product markets, as well the taxation system and social policies (see Table 2).

Regarding the labour market, Belgium showed a participation slightly lower than the EU average (74.5 % vs 78.7 %), yet with significant regional disparities, with the Flanders performing much better than Wallonia and Brussels capital. Particularly affected by low participation to the labour market were the disadvantaged groups, such as Third Country nationals and people with disability. High labour income taxation characterised the labour market, negatively affecting incentives to work and to participate in adult learning (OECD, [2020](#)). Similarly, financial disincentives to labour market participation also remained for beneficiaries of social benefits with a low earning potential. Finally, concerns emerged on the effectiveness of activation policies, whereby despite the high participation in active labour market policies, the country also recorded a low transition rate from unemployment to employment.

As for education and skills, Belgium shows a significant gap in educational outcome linked to socio-economic and migration background, as showed in the [PISA 2018 results](#). Further concerns emerge with respect to the participation in adult learning, which remains low. Only 8.5 % of the population (aged 25-64) participated in adult learning (compared to 11.1 % in the EU) (European Commission, [2020](#)).

With respect to the business environment, Belgium was underperforming in terms of registering a property and getting electricity, which directly affects SMEs ([Doing Business, 2020](#)). Furthermore, despite government efforts, the administrative burden on firms remained heavy, notably in tax and labour law. Heavy administrative burdens, especially regulatory ones on setting new start-ups, which is heavier than the EU average, affected Belgian entrepreneurship (OECD, [2020](#)). There were also additional problems with the Belgian judicial system, notably in terms of digitisation of the system ([EU justice Scoreboard, 2019](#)). In the area of research and innovation, Belgium performed well ([European Innovation Scoreboard, 2019](#)). According to the [OECD product market regulatory](#) (PMR) index, several regulatory barriers are affecting the services and network sectors in particular.

With respect to social outcomes, the risk of poverty or social exclusion for children was 0.8 percentage points higher than the EU average in 2019 (23 % vs 22.2 % EU average). People with disabilities faced challenges with respect to poverty, educational attainment, and employment outcomes. Further problems regard the unequal access to healthcare, which negatively affected people with a low income particularly. In 2018, 6.8 % of the population aged more than 16 years in the lowest income quintile (vs 2.2 % in the total population and 0.5 % in the highest income quintile) reported to have experienced a self-reported unmet need for medical care, mainly because of financial constraints. Finally, social housing remains a concern, in particular for those in the private rental market, with the housing cost overburden rate higher for those renting in the private market (33.8 % compared to the EU average of 27.4 %.) (European Commission, [2020](#)).

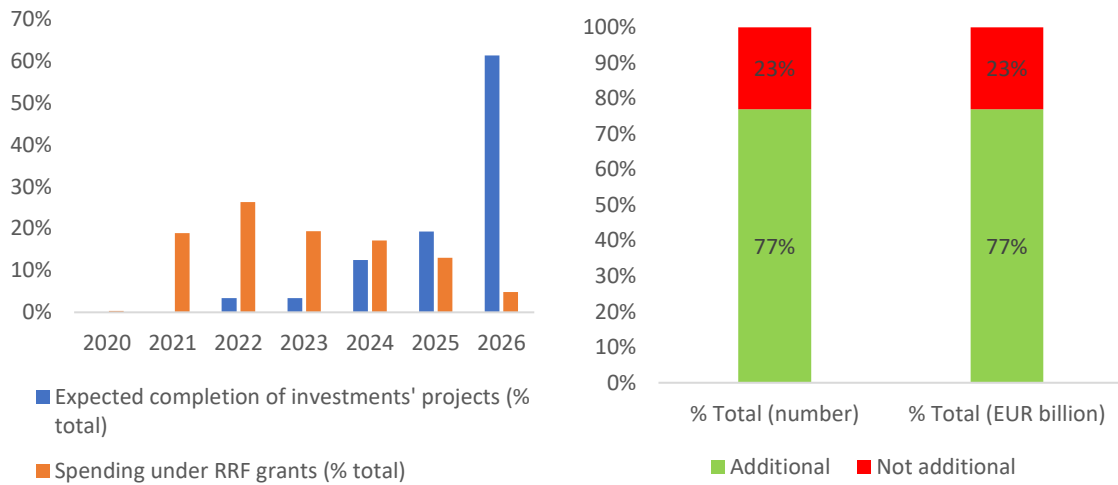
Table 2. Country specific challenges before COVID-19, Belgium

Policy area	Challenges
Labour market	Geographical asymmetries in labour marker participation
	Low employment rate of people from disadvantaged groups
Education and skills	Low adult learning participation
	High gap in educational outcomes linked to socio-economic and migration background
	Shortage of well-qualified teachers and need for professionalisation
Justice	Need for improvement in the digitalisation of the justice system
	Significant delays due to the shortage of resources for administrative justice cause





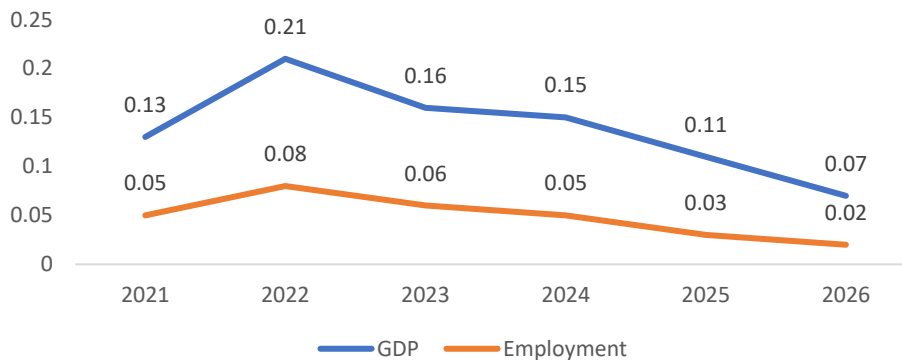
Figure 1. Planned Belgian expenditure financed under RRF grants and expected completion of investment projects (left panel) and additionality of public investments (right panel)



Source: Own elaboration, based on Belgian NRRP (2021).

According to the stylised impact simulations run by the Belgian government with the QUEST macroeconomic model, the NRRP is expected to have a minor positive impact on both employment and GDP in the short term, and no impact is expected in the medium term (Figure 2).

Figure 2. NRRP impact on GDP and employment – deviations from baseline scenario



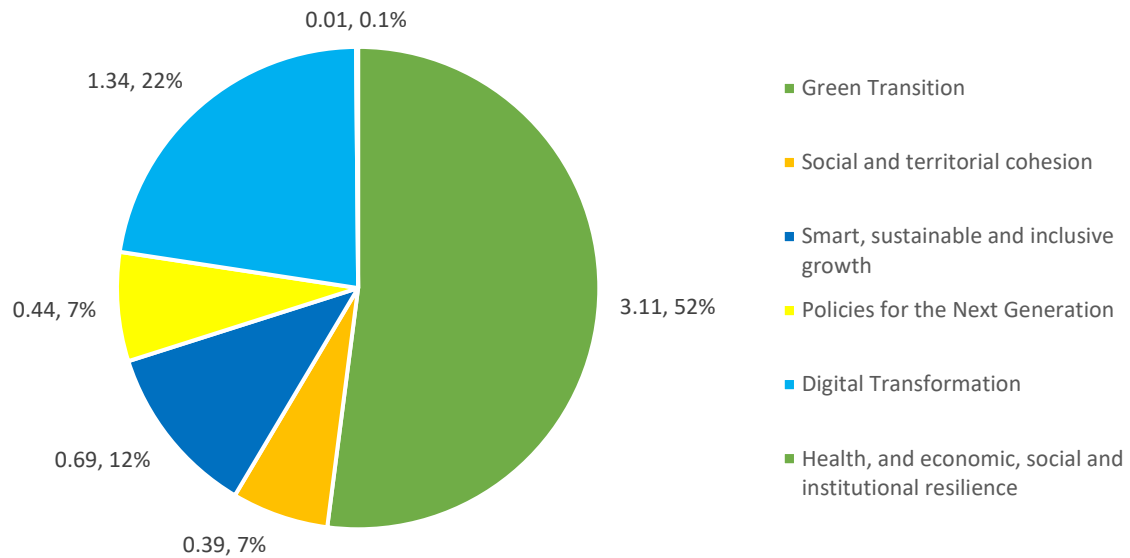
Source: own elaboration, based on Belgian NRRP.

### Investments in the Belgian RRF

In line with the RRF regulation, investments can be classified on the basis of the objectives included in the six pillars of the RRF. Based on the recorded investments, *green transition* (52 %) and *digital transformation* (22 %) projects account for a total of 74 % of the investments. The remaining 26 % will go to *smart, sustainable, and inclusive growth* (12 %), *social and territorial cohesion* (6 %), *health and economic, social, and institutional resilience* (0.1 %) and *policies for the next generation* (7 %).



Figure 3. Belgian investments by 6 RRF pillars (EUR billion)



Source: Own elaboration, based on Belgian NRRP.

The most important investment projects under *green transition* are the construction of new cycle paths (EUR 0.35 billion), the strengthening of rail transport (EUR 0.28 billion) and public building renovation towards better energy efficiency EUR 0.75 billion).

The investments under *digital transformation* are also significant for the federal and regional public administrations (EUR 0.58 billion).

Under *smart, sustainable, and inclusive growth*, the most important projects will focus on innovation and development, by increasing the number of projects to be funded and linking them to the ecological transition (EUR 0.28 billion) and by renovation of the infrastructures (EUR 0.09 billion). In addition, under the *social and territorial cohesion* pillar, social policies will also benefit as the plan includes an increase in the supply of housing for vulnerable groups (EUR 0.17 billion).

Finally, under *Policies for the Next Generation*, an expansion of digital resources in schools, both for students and teachers (EUR 0.44 billion) will be the main investment project.

With respect to the distribution of funding across economic sectors, the largest share of the resources is allocated to construction (43 %), professional, scientific, and technical activities (17 %), public administration (16 %) and education (9 %).

Table 4 summarises the 10 largest investment projects included in the Belgian plan.

Table 4. Belgium 10 strategic projects financed by RRF

Projects	€ bn	Description	Timeline
Renovation of public buildings	0.65	Renovation of public and historical buildings, support the renovation of them and improve their energy performance through concrete proposals adapted to each of the regions.	Q22026
Cycling infrastructure	0.41	Building new cycle paths, refurbishing and upgrading existing ones and building new bicycle parking spaces.	Q22026
Digitalisation of the healthcare system	0.7	Digitalisation of the Social Security services, extension of the e-prescription capabilities, improvement of the quality of prescriptions and cost reductions through clinical decision	Q22026



		support systems and digital transformation of the Office de la Naissance et de l'Enfance (ONE).	
Digitalisation of education	0.36	Provide all schools with a digital device for each student, provide teachers with effective learning tools and training to improve their digital skills and support schools in digitalising their curricula by setting up a central knowledge and advisory centre, strengthening connectivity, and standardising and consolidating the IT environment of education in a sustainable manner by providing the necessary infrastructure and IT support, school and teacher management and by promoting IT skills/training for pupils and teachers.	Q22026
Strengthen R&D	0.34	Three different axes are foreseen. A first axis will target R&I projects in areas where Flanders already performs well, with a focus on sustainable, digital- and health-related activities. Under the same axis R&D on bio-economy will be financed, and a part of the budget will be dedicated to support SMEs and young enterprises. Projects related to the green transition will also be part of this axis. A second axis will target investment in state-of-the-art research and technological infrastructure. For example, it is foreseen to finance an incubator for the startups in the bio-economy sector, or some pilot facilities related to the digitalisation of the manufacturing industry. The third axis will focus on current instruments targeting R&D support to companies. Under this axis R&D projects can for example relate to the pharmaceutical sector, and to 3D printing technology. The support for the participation to the planned IPCEI on micro-electronic is also foreseen. Under the measure at least 220 projects will be awarded covering all areas of intervention of the measure. In addition, investments in aeronautics, space and nuclear power projects are foreseen.	Q22026
Improved energy subsidy schemes	0.31	Several sub-measures are envisaged: (i) reform of the subsidies for energy efficiency and renewable energy and subsidies by target groups for improving housing quality which will be integrated into a single scheme. The new one-stop-shop, user-friendly and transparent system will be available from 2022 and is expected to support the energy efficient renovation of 202 000 dwellings; (ii) revision of the energy label scheme which is expected to support the energy efficiency renovation of 8 400 dwellings; (iii) introduction of a demolition reconstruction grant complementing the federal reduced VAT scheme which is expected to support the reconstruction of 1 760 dwellings; (iv) revision of the renovation support scheme for smart control of heat pumps, electrical boilers, electric storage heating and home battery intended which is expected to support 8 400 households; (v) reform and merge the energy bonuses and housing renovation premiums into a single regional mechanism for individuals, and (vi) create incentives for the implementation of energy saving measures and the reduction of carbon dioxide emissions for existing residential buildings.	Q12022
Industrial value chain for energy transition	0.29	Various demonstration projects related to the production and use of hydrogen under the competence of the federal government, supporting the transition to a sustainable hydrogen industry in Flanders through investment and project financing and sub-projects (mostly in the field of research and development and first industrial development) covering the whole green hydrogen production value chain, as well as	Q22026



		developing various applications of hydrogen as an energy carrier and the adaptation of devices (such as engines), that enable the use and valorisation of hydrogen.	
'Blue Deal'	0.29	Nine different sub-actions are supported, addressing diverse actors, including industry, farmers, and municipalities. The actions cover: (A) landscape projects for drought mitigation, (B) a research programme in agriculture, (C) two projects on waterway pumps and locks, (D) a water management support scheme for companies that invest in innovative water-saving technologies, (E) urban green-blue projects with 15 municipalities, (F) innovative projects on circular water use and digital monitoring and smart water data systems, (G) implementation of nature-based solutions in four defined areas, (H) 30 projects for green-blue waterways and (I) wetland restoration projects.	Q22026
Rail- efficient network	0.28	Upgrading 36 rail sections in the overall network, modernising 24 dedicated rail freight infrastructures, removing six infrastructure bottlenecks that hinder the performance of the Brussels–Luxembourg line (Euro cap rail), removing four rail bottlenecks in Brussels and development of an IT module for traffic management.	Q42024
Construction of social housing and infrastructure	0.23	Construction and energy efficiency renovation of low-rent housing, of inclusive and solidarity-based housing, of homeless accommodation places and of childcare places.	Q32026

Source: Own elaboration.

### Belgium key structural reforms

The NRRP includes a total of 34 reforms.

Table 5 below summarises the main interventions included in the plan. Although the plan formally addresses a large share of the country, specific recommendations, details are not always provided.

In the area of public finance, and in particular budget stability, the plan contains a commitment to introduce spending reviews at different government levels with the aim to improve the composition and efficiency of public expenditure. Furthermore, an intervention is envisaged to guarantee the financial sustainability of the social security system and public finances and improve the adequacy and social fairness of the pension system.

In the area of the labour market, various interventions are included in the plan; these are intended to strengthen the effectiveness of active labour market policies, in particular for the low-skilled, older workers and people with a migrant background, and to address skills mismatches. Most of the reforms will be implemented by the end of 2023, although some were planned already for 2021 and 2022.

To improve the business environment, the plan includes reforms aimed at reducing the regulatory and administrative burden to encourage entrepreneurship and remove barriers to competition in services, particularly telecommunication, retail, and professional services. Furthermore, a simplification of the administrative procedures is envisaged through the digital transformation of government services and accelerating different procedures for enterprises and citizens.

Finally, additional sectoral reforms are included in the plan with the aim to foster green and digital investments. In particular, such reforms aim to improve energy subsidy schemes, make federal fiscality more climate friendly, promote further the mobility budget as an alternative for company cars and emission-free transport, promote the circular economy and remove obstacles to the introduction of 5G and better internet accessibility.



Table 5. Key structural reforms

Area	Measure	Description	Timeline
Labour market	'Re-qualification strategy' of the Brussels-Capital Region	Adoption of three regulatory texts intended to: (1) introduce systematic digital and language skills assessment and/or a development pathway for Brussels jobseekers, (2) introduce a specific bonus scheme to support employers in the recruitment of jobseekers with disabilities and (3) establish institutional steering of the existing training provision and its reorientation.	Q32023
	'An inclusive labour market' of Flemish Community	Developing an integrated trajectory to support newcomers (migrants who are not EU nationals) in their integration into society and in particular into the labour market and strengthening the non-discrimination policy at sector level, including by enhanced monitoring, and setting up of specific actions, such as trainings on how to deal with discrimination and actions specific to disadvantaged groups.	Q42023
	'Cumulation regime and mobility to sectors with shortages' of the Federal State	The first reform strand is to make employment more rewarding for those benefiting from unemployment benefits or an integration income. This will be done by ensuring that, in the case of a combination of (part-time) work and receipt of (partial) unemployment benefit or (part-time) integration income, it is financially and socially more advantageous for the person concerned to increase their part-time working time. For the second reform strand, the objective of the measure is to promote labour mobility of workers made redundant in a given sector towards sectors where there are shortages of skilled workers, by making the necessary training sufficiently rewarding.	Q42023
	'Reform of support to jobseekers in Wallonia' of the Walloon Region	New coaching and solution-oriented support for jobseekers, through a legislative decree.	Q32021
Education and skills	'Digisprong' of the Flemish Community	Actions related to four pillars: (1) ICT education, media literacy and computational thinking reforms, (2) promoting effective ICT school policies, by strengthening the role of ICT coordinators, (3) digitally skilled teachers and trainers for teachers and (4) creation of a knowledge and advisory centre to support schools in digitalising their educational provision.	Q32022
	'Higher education advancement fund' of the Flemish Community	Deliver a vision paper that will define a new profile for higher education in Flanders to ensure that higher education institutions are state of the art and develop a vision on lifelong learning.	Q42023
	'Global action plan against early school leaving' of the French Community	Comprehensive strategy covering three strands - prevention, intervention, compensation- and development in a coherent and concrete manner, based on a new (reinforced) coordination of stakeholders active in different fields and of different support services.	Q42022
Justice	'Optimisation of procedures: Faster permit and appeal procedures' of the Flemish Region	Simplification of the environmental permit procedures, including by introducing conditions on the possibility to appeal decisions. It will consist in a review of the existing regulation, with the objective to reduce the time needed to process a case and to provide greater legal certainty. At the end of the review, a report will be published providing an overview of new and reviewed measures.	Q42022
Research and innovation	'Widening the innovation base' of the Flemish Region	Review of the existing instruments stimulating innovation that is more easily accessible and adapted to the needs of SMEs. At the end of the review, a report will be published providing an overview of new and reviewed measures.	Q42022







notably through the simplification of existing procedures, while the digitalisation of the judicial system is included in the broader reform of the public administration.

With respect to social policies, the plan only partially addresses the challenges identified in the Country Specific Recommendations. In particular, the plan positively addresses the problem of social housing, while it leaves unaddressed the problems of increased levels of poverty and social exclusion, notably among children and the sustainability of the pension system.

Finally, with respect to public finance, the plan introduces important reforms to improve fiscal sustainability, notably through the introduction of a spending review mechanism. By contrast, no intervention is envisaged either to address the problem of high labour taxation or to remove the existing competition barriers in services, in particular for regulated professions.