3. Economic activity and the labour market in Belgium

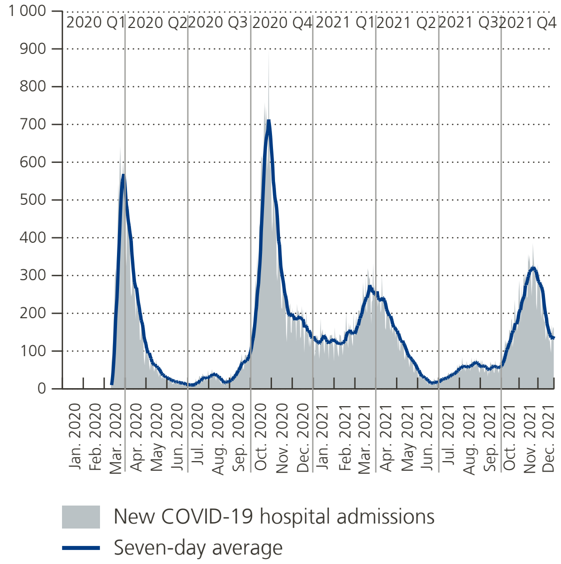
3.1 Belgian economy stages robust recovery despite ongoing COVID-19 pandemic

In 2021, the COVID-19 pandemic continued to weigh down the Belgian economy, if less so than in 2020. When public health conditions took a turn for the worse in the autumn of 2020, fresh measures were implemented to contain the number of new cases. Most of these measures remained in place in the first six months of 2021, following which a number were gradually phased out as public health conditions little by little returned to normal, thanks in the main to vaccination campaign progress. However, in the autumn, COVID-19 case numbers surged back up and public health measures were tightened once again to combat the pandemic. But this time, measures did not entail a lockdown for the population or the closure of large parts of the economy as in the previous year, whereas other regions of the world facing a pandemic flare-up did have to implement these. Tighter measures in Belgium were rather more about stricter observance of social distancing and needing a Covid Safe Ticket to access certain

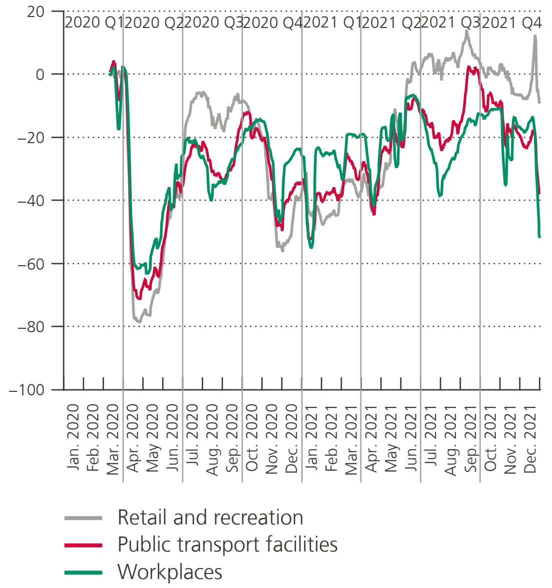
Chart 3.1

Impact of COVID-19 pandemic particularly noticeable in first and final quarters of 2021

Hospital admissions caused by COVID-19



Google mobility data
(trend in visits to various places and length of time spent compared with a reference value [1], averages for the previous seven days)



Sources: Google, Sciensano.
1 Median value for a given day calculated over the period between 3 January and 6 February 2020.

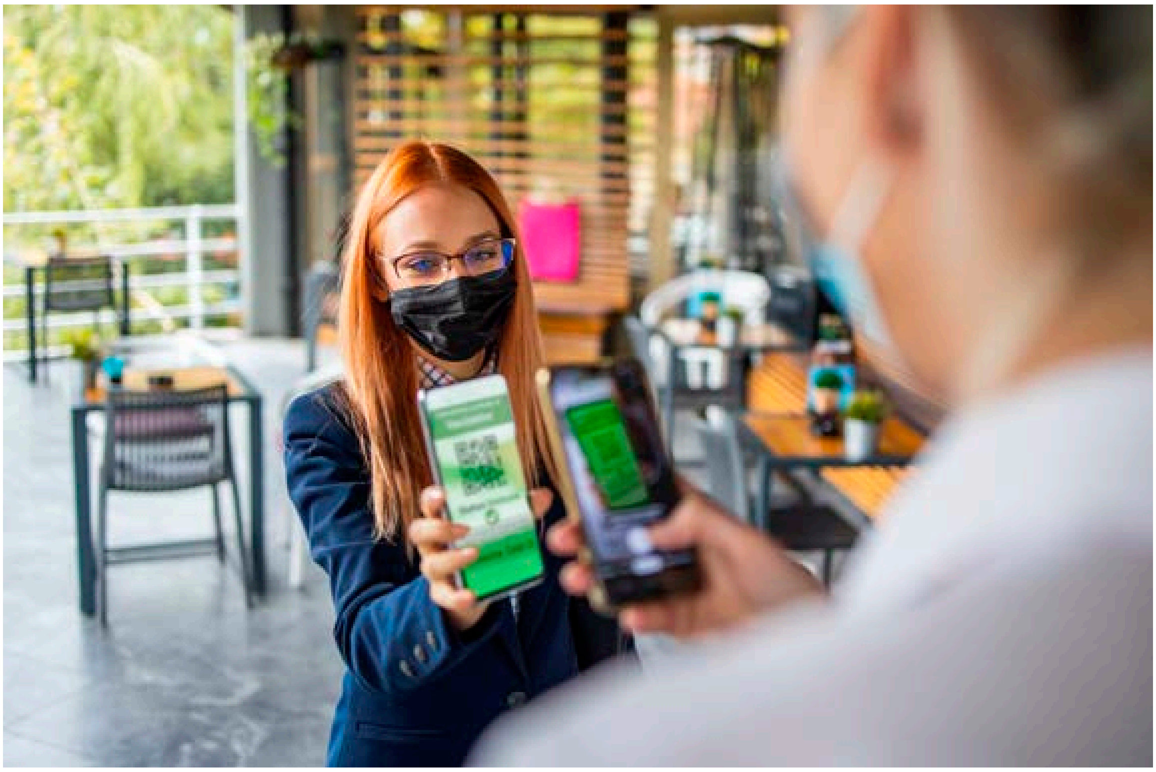
places. However, the mere announcement of worsening public health conditions caused the country's consumers to scale down their mobility voluntarily even before these measures were laid out. This put economic activity under pressure.

After its record downturn in 2020, GDP barrelled past pre-crisis levels in 2021

In the first few months of 2021, measures to combat the COVID-19 pandemic were tightened or relaxed as the situation required. At the end of March, for instance, high-contact professions were compelled to stop their business activities altogether. Non-essential shops had to cease part of their activities. This lasted about a month. Compared with the year-earlier period, however, the economy was less curtailed by restrictions, as industry and construction were relatively unscathed. What is more, previous experience made many companies – in all sectors – better prepared to handle these fresh restrictions. Vaccination campaign progress and the reduced population spread of COVID-19 soon allowed for relaxation of the public health measures. In May 2021, the night-time curfew was lifted and the hospitality industry in particular was able to resume business after six months of closures. Despite the restrictions, overall GDP was up by 1.2 % and 1.7 % in the first and second quarters of 2021 respectively, compared with the previous quarters.

The gradually improving epidemic situation over the summer, combined with high vaccination rates to bring a medical solution to the crisis closer, enabled the government to further lift public health measures. Most private and public events once again got the green light, subject to certain conditions. Pacing ahead at 2 % in the third quarter – i.e. a third consecutive step-up in growth – GDP first touched the pre-pandemic level and then exceeded it by 0.5 %.

Towards the end of 2021, coronavirus was once again spreading rapidly and fresh restrictions were being imposed. High country-wide vaccination rates, which cushioned some of the impact for the health sector, helped to prevent another lockdown for the population and closures of large sections of the economy as in the previous year. The new measures mainly involved stricter observance of some basic rules, such as wearing a face mask and social distancing, as well as the obligation – from November – to produce a Covid Safe Ticket when entering selected venues.



That said, catering establishments were ordered to close earlier, while supply constraints – in terms of a shortage or workers, materials and stocks as well as higher input costs – had a heavy impact on economic activity from the summer onwards, which slowed steeply or was hampered across many businesses. As a result, GDP growth ran out of steam in the fourth quarter, but still stayed in positive territory with a 0.5 % rise on the previous quarter.

GDP staged exceptional growth of over 6 % in 2021

In 2021, real GDP grew a total 6.1 % on the previous year – one of the highest average annual rises in Belgium since the Second World War. Admittedly, this followed hot on the heels of the biggest negative shock recorded in the same period, but it was still a remarkable recovery, not just compared with expectations but also with the biggest previous economic recession in recent history, i.e. the 2008-2009 global financial crisis. The initial shock caused by COVID-19 may have been four times as big, but GDP was back to its pre-pandemic levels in as little as seven quarters, whereas this had taken nine quarters post-financial crisis. The nature of these two recessions explains the difference, of course: the 2008-2009 global financial crisis was triggered by financial imbalances, including a burst real estate bubble in the United States, causing a massive drop in foreign demand and an overall crisis of confidence in Belgium, whereas the COVID-19 pandemic is a fully exogenous shock. The 2021 recovery was fast and furious on the back of massive government support to safeguard the incomes of numerous households, companies and self-employed people. This protection made it easy for economic activity to bounce back as soon as circumstances improved.

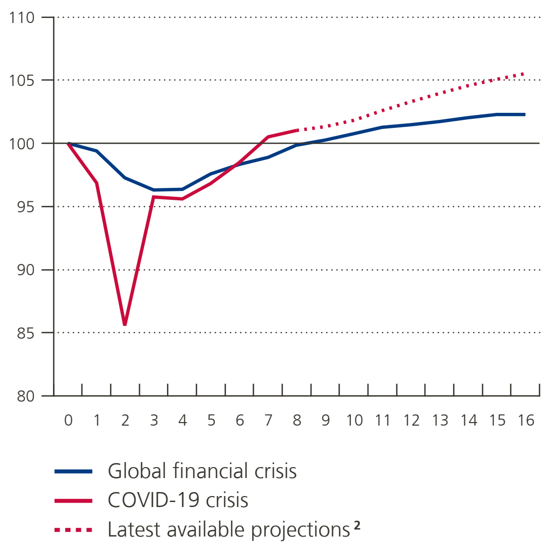
In 2021, GDP growth in Belgium was 0.9 of a percentage point higher than in the euro area, where it advanced by 5.2 %. The difference is mostly down to a more resilient Belgian economy in the face of the public health measures taken from the autumn of 2020. As already noted, GDP in Belgium rose by

Chart 3.2

Rising sharply, economic activity exceeded its pre-pandemic levels from the third quarter of 2021

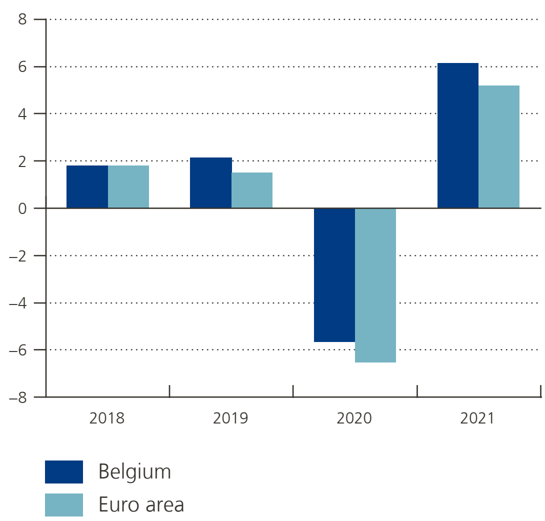
Real GDP development

(indices, pre-crisis peaks[1] = 100,
data adjusted for seasonal and calendar effects)



Real GDP growth

(annual percentage change,
data adjusted for seasonal and calendar effects)



Sources: ECB, NAI, NBB.

1 The pre-crisis peaks (t = 0) reflect the second quarter of 2008 and the fourth quarter of 2019 respectively.

2 December 2021 economic projections by the Bank.

1.2 % in the first quarter in the teeth of stricter restrictions, whereas GDP for the euro area as a whole continued to decline, by 0.3 %.

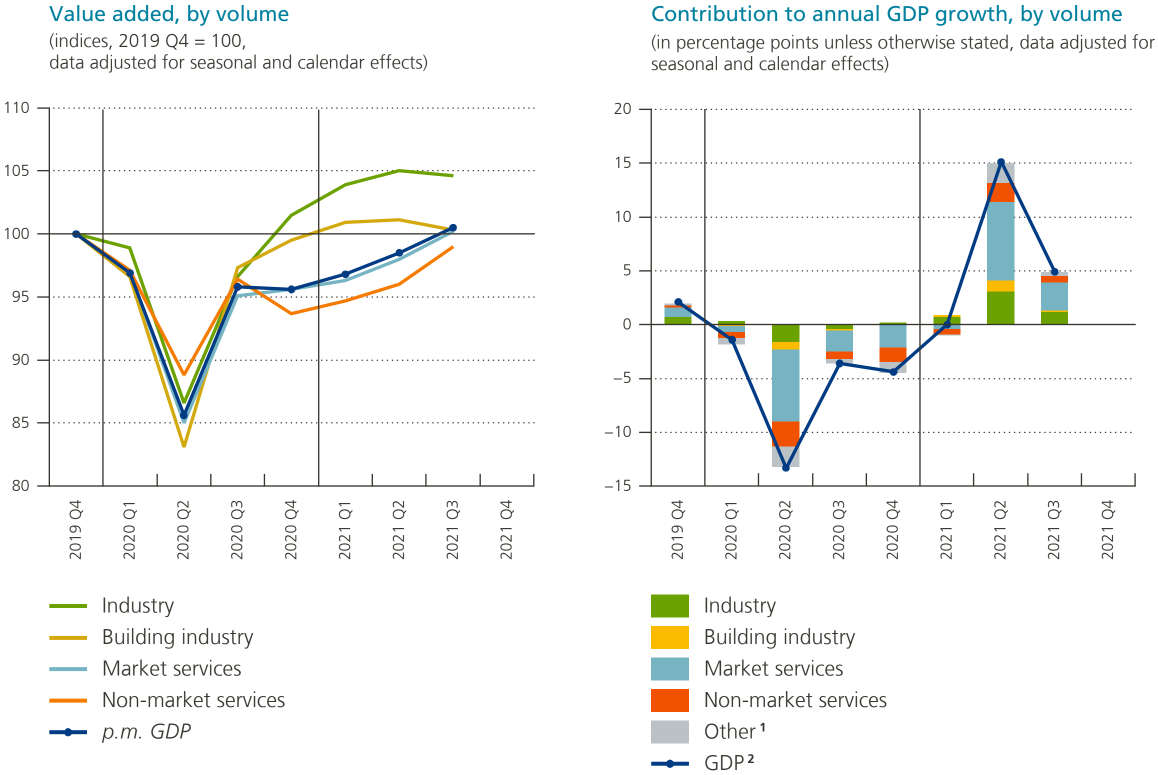
Industry and construction were gradually bogged down by supply constraints, while services became the main growth driver

The coronavirus crisis affected different sectors in different ways. Although its impact was negative across the board, service activities were hit the hardest by measures taken to combat the spread of COVID-19, particularly where these involved close contact between people. Being a key contributor to total value added generated in Belgium, services were also a significant factor in the hit to GDP. The repercussions of the COVID-19 pandemic had an unequal effect on the various branches of activity in 2021 as well.

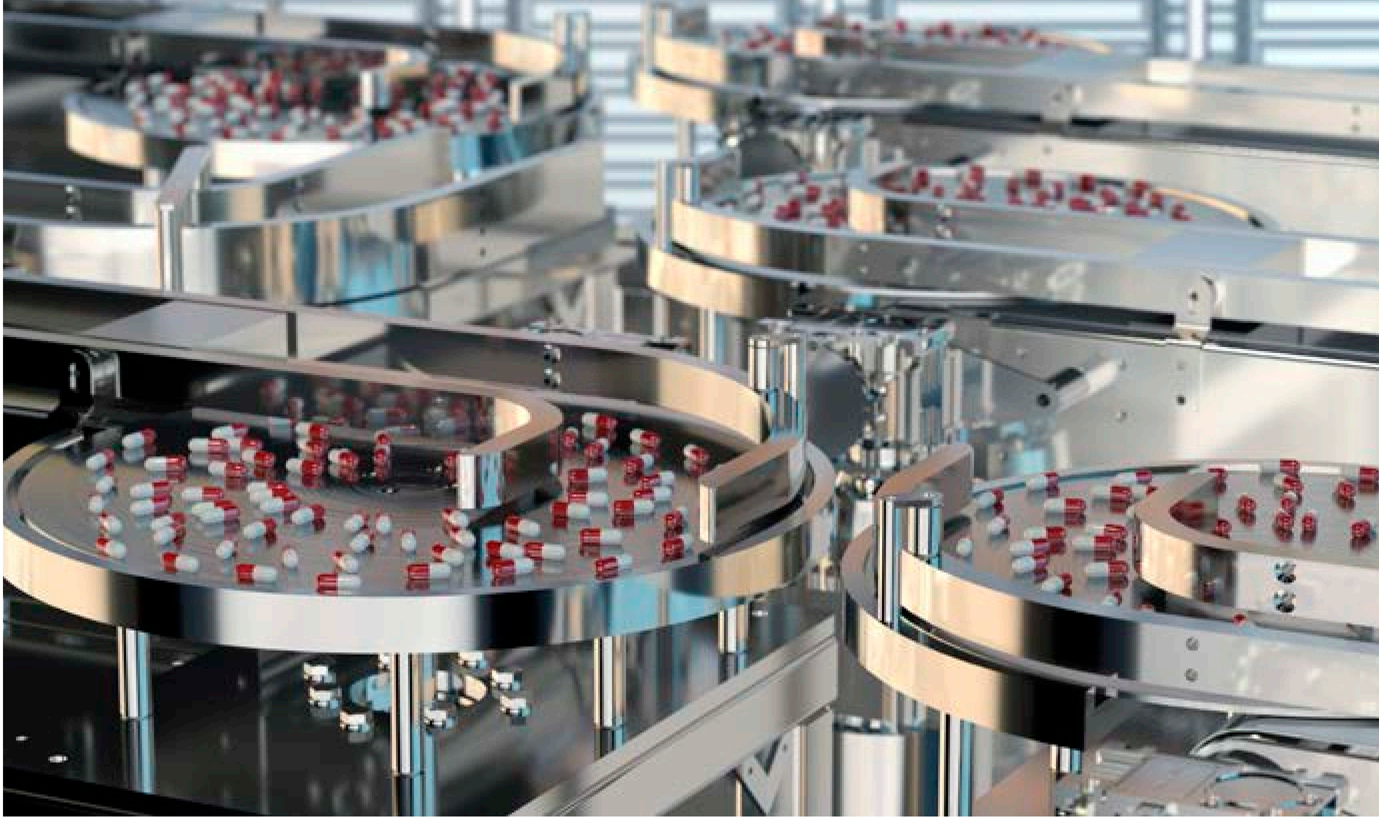
Typically more sensitive to cyclical fluctuations, industry fully benefited from the economic recovery from the third quarter of 2020 and proved pretty resilient to worsening public health conditions towards the end of that year. It continued its recovery into 2021 – albeit at a slightly less pronounced pace – and its value added was up by 11.2 % in the course of the first three quarters when compared with the corresponding period of the previous year. Compared with the early stages of the pandemic in 2020, the sector was less directly affected by public health measures and not compelled to suspend its activities, even temporarily. But its recovery also drew on previous experience and the implementation of

Chart 3.3

Market services activities a major factor underpinning growth from second quarter



Source: NAI.
1 Notably "agriculture, forestry and fisheries" and taxes on production, excluding subsidies.
2 Percentage change compared with the corresponding period of the previous year.



protocols that helped to organise business activity more efficiently in these circumstances. Yet, value added growth, which had still been robust at the start of 2021 (at 2.3 % in the first quarter) slowed, halving in the second quarter (1.1 %) before turning slightly negative in the third (–0.4 %), as industrial activity was hobbled by supply constraints. And these started to really bite as the year drew on. A survey by the Bank in October revealed that nearly 65 % of the respondent industrial companies were struggling with staff shortages and over 80 % with supply issues. Companies estimated the negative impact on production of these two sets of problems at 4 % and 6 % respectively. In a separate development, many industrial companies reported clear increases in input costs, to which the sector is very sensitive.

Not all branches of industry benefited from the economic recovery to the same degree after the initial shock. Of the most important industrial sectors in the Belgian economy, pharmaceuticals – which accounts for around 20 % of manufacturing industry – notched up very remarkable results in the first three quarters of the year. Thanks to its specialisation, this branch of industry benefited from high demand for vaccines by exporting its production massively, making for a GDP growth contribution totalling around 0.15 percentage point in the first nine months of the year. The metals industry, by contrast, which accounts for nearly 10 % of Belgian manufacturing, was really struggling with the supply constraints already mentioned and saw its value added slide in the first nine months of the year.

Construction also saw its value added surge in the first three quarters of 2021 : up 9.1 % compared with the corresponding period of the previous year. Construction and renovation / refurbishment activities continued to benefit from the ongoing low interest rate environment and, compared with 2020, the branch of activity was less affected by the public health situation and the measures taken. To a degree, this also reflected previous experience and the implementation of protocols that helped to organise activity more efficiently. Just as in industry, three-month value added growth gradually declined in construction, from 1.4 % in the first quarter to a negative 0.9 % in the third. And here, too, supply shortages were increasingly beginning to bite. Around 70 % of construction companies surveyed by the Bank faced labour shortages and a little over 80 % reported supply issues. Companies estimated the negative impact on production of these two sets of problems at 9 % and 7 % respectively. Incidentally, construction was one of the key industries reporting a significant increase in input costs.

Services activities have been the main driver of growth

Chart 3.4

Many companies facing supply constraints

(in % of respondent companies facing supply constraints, by intensity of the constraints, October 2021)

Source: *La reprise a été vigoureuse mais elle est de plus en plus entravée par les contraintes d'offre*, NBB, 8 November 2021.
1 Self-employed workers excepted.
2 Other than price rises.

And lastly, whereas the value added generated by market and non-market services activities traipsed the steep advances enjoyed by these two large branches of activity – i.e. up 6.3 % and 2.7 % respectively – in the first three quarters compared with the corresponding period in 2020, it did accelerate sharply as the year progressed and ended up becoming the leading driver for growth. The sector's growth was supported by the gradual lifting of public health measures and in particular the reopening of contact professions at the end of the first quarter, gradual normalisation by the hospitality industry from April, and the go-ahead for public events from the third quarter. As a result, value added in the hospitality industry and in art, entertainment and recreation rose significantly from the second quarter. What is more, service activities were relatively less prone to labour shortages and supply issues, with the exception of the wholesale sector, where supply problems were crippling.

In the fourth quarter, the Bank's business surveys generally pointed to a loss of business confidence across Belgium compared with the previous quarter. The deterioration in the business climate doubtless reflects concerns about rising energy prices and a continuation of this trend in the short term, while the turn for the worse in public health conditions and successive tightening of restrictive measures towards the end of the year may have played into it as well. After all, it has become less likely that vaccinations will prove a complete solution to the COVID-19 pandemic, and this is making companies unsure about their business returning to normal in the immediate future.

Chart 3.5

Business confidence deteriorated in second half

(balance of responses to the Bank's survey[1] for the 1995-2021 period)

Source: NBB.

1 All observations are reduced by the empirical average of the data and divided by their standard deviation. As a result, the long-term average (1995-2021) for all data series is nil.

3.2 Ongoing employment growth in a labour market under pressure

Following the shock of the health crisis in 2020, the economic activity rebound came with sharply higher numbers of hires and hours worked. A hefty 88 000 new jobs were created in 2021 (+1.8 %), which is comparable to pre-crisis numbers and contrasts with virtually stalling employment in 2020. Meanwhile, every employee also increased their average working hours by 4.8 %, a recovery from 2020 – mostly the result of furlough schemes – even if the number of hours worked per person is still 4.1 % below the figure for 2019. The Belgian economy's volume of labour rose by a total 6.7 % in 2021 but stuck at 2.4 % below pre-crisis levels.

The furlough and bridging allowances continued to provide protection, as restrictions were gradually lifted. In the first eleven months of 2021, an average 267 000 employees were on the furlough scheme every month, while 69 000 self-employed workers needed the bridging allowance. Although a downward trend had been visible from May 2021, the figures edged back up towards the end of year in the wake of the fresh restrictions imposed in November.

Employment dynamics were driven both by employees (+68 000) and the self-employed (+19 000).

Chart 3.6

Recovery accompanied by dynamic net employment creation

(seasonally adjusted data, changes in thousands of people compared with previous quarter)

Sources : NAI, NBB.

For self-employed workers, this was partly down to the preservation of the coronavirus bridging allowance and the various support measures at federal, regional and local level during the health crisis. Between them, these factors dampened an already subtle relationship between self-employment trends and cyclical fluctuations. This group typically comprises highly-educated people in the liberal professions or management jobs.

The net increase in the number of self-employed was due more to the fact that – compared with previous years – fewer of them ceased trading in 2020 and not so much because there were more start-ups. Statistics on start-ups from the National Institute for Health and Disability Insurance (NIHDI-INAMI-RIZIV) even show a drop in the number of people who set up as self-employed. The number of recorded bankruptcies, by contrast, was exceptionally low at around 1 800 in 2020, compared with 2 200 in 2019. Bankruptcy numbers gradually normalised as 2021 drew on, to a little over 2 100. There is currently no sign of any catch-up in bankruptcies that failed to materialise in 2020, making for positive net job creation – and this despite the moratorium on bankruptcies being lifted at the start of the year, the double bridging allowance being scrapped and access requirements for a single bridging allowance being tightened up from October (a turnover drop of 65 % compared with 40 % previously). The labour force survey suggests that the number of self-employed workers in 2021 predominantly grew in the information and communication, human health and social work, and transport sectors.

Job-rich recovery for both employees and the self-employed

After significant losses in 2020, salaried workers enjoyed net employment creation, mostly in sectors sensitive to the business cycle (+45 000 compared with a net loss of 29 000 in the previous year). Employment in public administration and education, as well as in other services also outpaced 2020, with net job creation at 12 000 and 11 000 respectively.

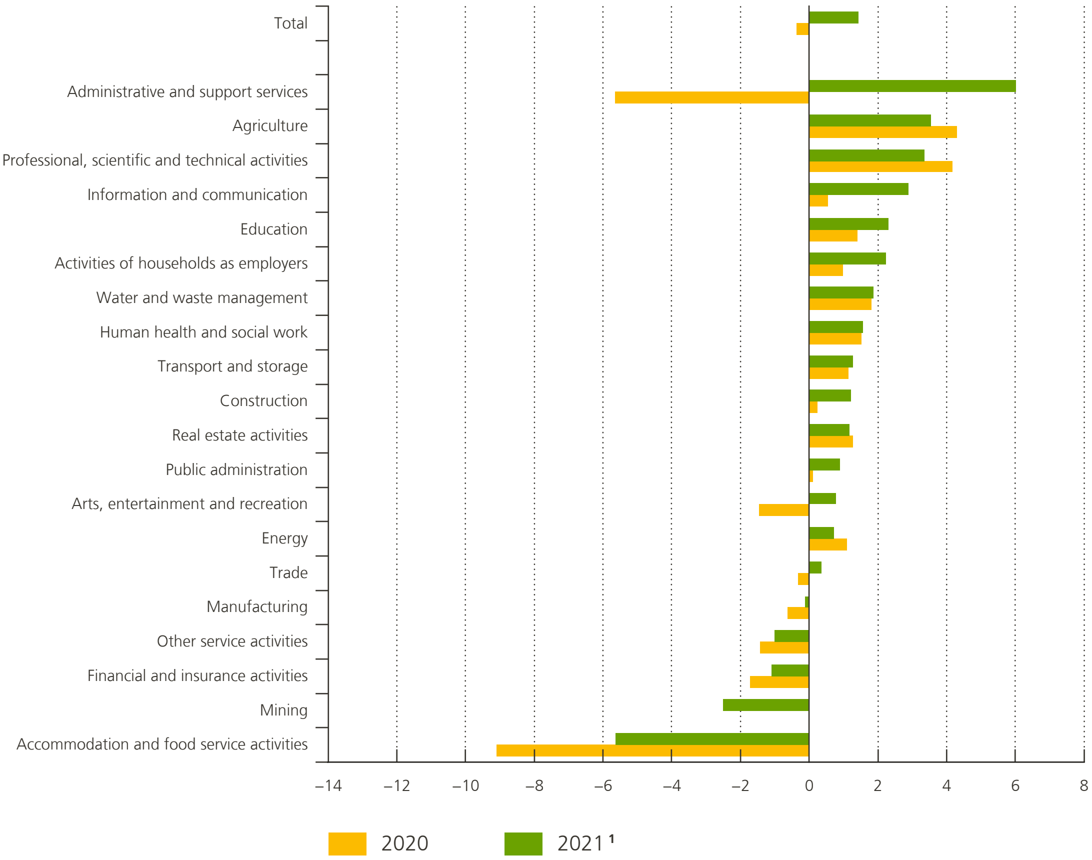
A breakdown of the data at more detailed sector level for private sector employees – available for the first three quarters of the year – shows a continued loss of jobs in the hospitality industry (–5.6 % compared with the average for the first three quarters of 2020, i.e. 6 600 jobs), although the third quarter recorded a recovery to pre-health crisis levels. Job losses were likewise recorded in other services activities[1] (–1 %, or 700 jobs), and to a limited degree in manufacturing (–0.1 %, or 500 jobs) and in mining (–2.5 %, a mere 60 jobs given the industry's small size in Belgium). Financial and insurance activities saw job numbers reduced further, although this reflects a long-term trend that had been visible before. Having suffered massive declines in job numbers during the health crisis, administrative and support services recorded the biggest gains in 2021 (+6 %, or 24 400 jobs). The sectors enjoying the biggest net employment creation included education (+2.3 %, i.e. 9 400 jobs), human health and social work (+1.6 %, i.e. 8 900 jobs), the professional, scientific and

1 This includes associations' activities, repair of computers, personal and household goods, and other personal services to individuals, such as hairdressers.

Chart 3.7

Some sectors are still seeing job losses

(percentage changes compared with the previous year)



Source: NAI.
1 Average for the first three quarters.

technical activities (+3.4 %, i.e. 6 300 jobs), information and communication (+2.9 %, i.e. 3 300 jobs) and to a lesser degree also agriculture (+3.5 %, or nearly 1 000 jobs).

The health crisis had a relatively limited impact on labour market participation: the activity rate of the 15-64 age group fell between 2019 and 2020 to 68.6 % from 69 %. In the past year, by contrast, the previous upward trend was resumed and the activity rate ended up at 69.5 % (average for the first three quarters of 2021).

This pronounced rise in employment – although coupled with a greater number of active persons in the labour market – coincided with a significant drop in joblessness numbers. Few of the workers on furlough slid into classic unemployment and most returned to the labour market. Based on figures from the Crossroads Bank for Social Security Datawarehouse, not quite 4.3 % of the people temporarily laid off in the first quarter of 2020 were job-seekers in the subsequent two quarters. In 2021, Belgium had an average 29 600 fewer unemployed job-seekers than in 2020. At a total 464 100 people, the number of unemployed job-seekers was 12 100 below the figure for 2019, i.e. before the health crisis. That said, the unemployment breakdown is different this time. In the years prior to the health crisis, the fall in the number of unemployed job-seekers was recorded in all categories of job-seekers, including the long-term unemployed. The crisis years have broken the trend, with the number of people out of work for longer than a year up by nearly 8 000 in 2020 and again in 2021, by 8 400 additional people. Whereas previously the numbers of both short-term and long-term unemployed were falling, this is now only the case for people who have been jobless for under a year (–38 000).

Coupled with fierce company demand for workers, these trends in the number of job-seekers and their composition are causing major tensions in the labour market. In the third quarter of 2021, the job vacancy rate, (i.e. the ratio between the number of vacancies and the total number of available jobs, given by the sum of jobs taken and vacant) reached levels never seen before since these statistics first became available in 2012, at 4.7 % or 196 000 of vacant jobs. Although these tensions are a structural phenomenon in most sectors [1], the hospitality industry is the odd one out. Paradoxically, while numerous jobs were scrapped when restrictions were imposed to combat the COVID-19 pandemic, a large number of positions remain unfilled: around 13 500 jobs, which boils down to an 11.4 % vacancy rate. Whereas employment in this sector had been steadily rising by around 1 % per annum between 2014 and 2019, countless people lost their jobs during the pandemic and would appear to have left the industry since it began – as suggested by an analysis of transitions between sectors based on the labour force survey. In 2020, people in work may have had less inclination than usual to leave their sectors on average (2.3 % compared with 2.9 % in 2019), but the hospitality industry saw a larger proportion leave: 6.4 % (compared with 4.3 % in 2019), with most of them switching to trade. What is more, in 2019 4.2 % of hospitality workers had transitioned from other sectors, but in 2020 this applied to only 3.4 %.

Because of its asymmetrical sector impact, COVID-19 hit some sections of the population harder in terms of employment and loss of income. Some were barely affected as they were able to work from home or were essential workers, while others faced furlough, lost their jobs altogether, saw their hours cut or their employment opportunities reduced, causing some households to tip into financial difficulties. The young (aged 15 to 24), low- and medium-skilled workers and people of non-European descent work temporary or atypical contracts comparatively often and are over-represented in the sectors that were hit hardest. As a result, the repercussions of the health crisis for the labour market affected them the most. At the

1 See also Chapter 7 of this report.

Chart 3.8

Significant drop in unemployed job-seeker numbers masks higher long-term unemployment

(changes in thousands of people)

Source: NEO.

same time, there were fewer employment opportunities for them than is usually the case, making it harder to swap joblessness or inactivity for a job.

Although the employment rate was nearly back at its pre-crisis levels in 2021 – an average 70.3 % of the 20 to 64 age group in the course of the first three quarters of 2021 – the people hit hardest by the pandemic were not necessarily those benefiting from the recovery, as the employment rates of the vulnerable groups listed above still languish below 2019 levels. Conversely, higher or similar employment rates were recorded for the 55 to 64 age group, for people of EU descent and for the highly-educated. Those with higher education diplomas were able – most often and more frequently than before – to trade in joblessness or inactivity for jobs. Nearly six out of ten highly-educated workers who had been out of work in 2020 were able to find jobs in 2021. In 2018, the number had been four out of ten. In 2021, 22 % of the highly-educated went from inactivity to work, compared with 13 % in 2019.

Not everyone benefited equally from employment growth

The recession caused by the health crisis is internationally known as a "she-cession" because of the significant impact it has had on women. And Belgium is no exception: women more often work in the hardest-hit sectors, such as the hospitality industry, trade or contact professions, and are at a higher risk of losing their jobs – more than in previous economic crises. Also, the health crisis has only exacerbated the imbalance in the division of labour in the home, particularly in terms of childcare. School closures, whether during lockdown or as a result of high numbers of COVID-19 cases, and longer school holidays have forced numerous parents to take on the care of their children much more than usual. More widespread adoption of working from home or taking coronavirus-related parental leave made it easier to strike a work/life balance. However, it was mostly women who availed themselves of these options, potentially to the detriment of their careers going forward. The 2021 recovery in employment benefited women and men alike. One difference, though, was that a larger proportion of these new female employees had been in the "inactive" rather than "jobless" categories. The upward trend in women's labour market participation rate – temporarily interrupted during the health crisis – continued in 2021. It touched an all-time high of 70.6 % in 2021 and thus further closed the gap with the male participation rate, which has remained relatively stable in the past few years.

Although the health crisis caused a drop in the transition from joblessness to work in the country's three Regions (by 4.9 percentage points in Brussels, 3.3 percentage points in Flanders and 2.5 percentage points in Wallonia), regional recovery was not evenly balanced. In the Flemish Region, over half of those jobless in 2020 were able to get back into the workforce in 2021, adding up to an employment rate 12 percentage points up on 2019. Fewer were able to make the transition in the Brussels-Capital Region – around 31 %. This still exceeds the pre-crisis figure by 5.5 percentage points. In Wallonia, by contrast, the transition from unemployment to work did not rise (24 %) and stayed below the level recorded in 2019 (25 %). These differences in the transition from unemployment to work were recorded against a backdrop of unemployment rates that varied markedly between the Regions. In Flanders, unemployment stood at 4.1 %, in Wallonia at 9 % and in the Brussels-Capital Region at 12.9 % (averages for the first three quarters of 2021).

3.3 After its exceptional fall in 2020, domestic demand became the main driver of economic recovery in 2021

The outbreak of the COVID-19 pandemic in 2020 triggered a historic fall in domestic demand. In 2021, by contrast, all domestic demand components staged a clear rise and between them (with the exception of inventories) made an amply positive contribution to growth of around 6.5 percentage points. Private consumption, which accounts for around half of GDP in Belgium, rose by 6.3 % and did not exceed the pre-crisis level until the third quarter, which was later than the other domestic demand components. Private investment, which accounts for some 20 % of GDP, recorded a spectacular increase and surged ahead of pre-crisis levels from the first quarter. Households invested 10.4 % more, while companies upped their capital spending by 9.2 %. Meanwhile, the government also contributed to growth : public consumption and investment were up by 4.5 % and 10.9 % respectively.

Net exports made a slightly positive contribution to GDP growth (of 0.5 percentage point) on the back of a marginally more pronounced climb in exports (9 %) compared with imports (8.5 %). By contrast, the change in inventories was a negative contributor to GDP (–0.9 percentage point).

Table 3.1

GDP and main expenditure categories

(calendar adjusted volume data; percentage changes compared to the previous year, unless otherwise stated)

	2017	2018	2019	2020	2021 e
Private consumption	1.9	1.9	1.8	–8.2	6.3
Public consumption	0.2	1.3	1.7	0.2	4.5
Gross fixed capital formation	1.4	3.0	4.5	–6.2	9.6
Housing	1.0	1.5	5.1	–6.8	10.4
Enterprises	1.6	2.4	4.8	–7.0	9.2
General government	1.1	10.2	1.7	0.6	10.9
p.m. Final domestic expenditure [1,2]	*1.3*	*2.0*	*2.4*	*–5.7*	*6.5*
Change in inventories [2]	0.0	0.4	–0.5	–0.3	–0.9
Net exports of goods and services [2]	0.3	–0.6	0.3	0.4	0.5
Exports of goods and services	5.5	0.6	2.0	–5.5	9.0
Imports of goods and services	5.2	1.4	1.6	–5.9	8.5
GDP	1.6	1.8	2.1	–5.7	6.1

Sources: NAI, NBB.
1 Excluding the change in inventories.
2 Contributions to the change in GDP compared to the previous year, in percentage points.

Private consumption recovery ultra-sensitive to coronavirus measures

The public health situation and its repercussions continued to influence households' consumption behaviour, particularly at the start of the year. As noted above, compared with the public health measures imposed at the early stages of the pandemic, those taken in the autumn of 2020 and still in place in the first few months of 2021 were not equally restrictive for consumers. That said, some types of spending were still impossible at the start of the year. Personal services activities were suspended on several occasions and the hospitality industry did not reopen until the beginning of May – and then only partially. As a result, private consumption gradually grew more robust as the quarters progressed – as did consumer confidence – and recorded an advance from 1.3 % to 6.1 % between the first and third quarters, beating pre-crisis levels. When the epidemic situation rapidly deteriorated towards the end of the year, fresh public health restrictions were implemented. Unlike previously, access to trade was unhindered, but some venues – particularly cultural institutions and the hospitality industry – could only be visited with a Covid Safe Ticket. Consequently, private consumption growth in the fourth quarter remained positive, but the Bank's projections suggest it had significantly slowed.

Selected consumer spending repeatedly hobbled by pandemic

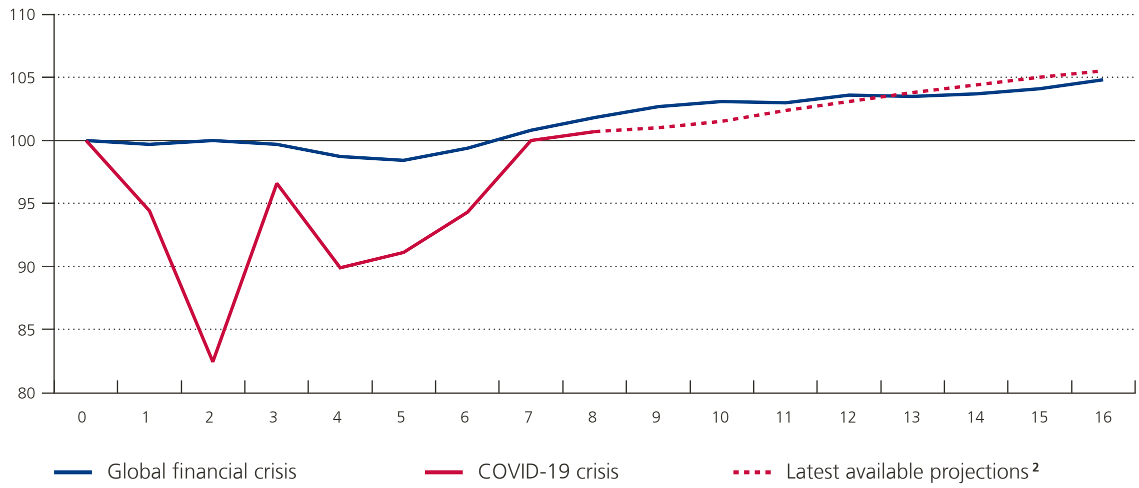
Consumer spending was also depressed by the impact on disposable income and the concern caused by rising energy prices at the end of 2021, particularly for households on the lowest incomes. Consumption was also affected by growing supply restrictions, which influenced the degree to which consumer demand could be met.

Altogether, private consumption in Belgium rose by 6.3 % in 2021, following a drop of 8.2 % in the previous year. Although not the most cyclically sensitive component of demand, private consumption does typically reflect the first signs of recovery, as it did after the 2008-2009 financial crisis. The shock for private consumption did not last very long and proved relatively marginal as it did not trigger a decline for the whole year of 2009 but rather just a slowdown to 0.6 %. Recovery was faster after the financial crisis,

Chart 3.9

Private consumption recovery was uneven and moved up and down in tandem with the waves of tightened and eased coronavirus measures

(indices, pre-crisis peaks[1] = 100, data adjusted for seasonal and calendar effects)



Sources: NAI, Statbel, NBB.
1 Pre-crisis peaks (t = 0) are the second quarter of 2008 and the fourth quarter of 2019 respectively.
2 December 2021 economic projections by the Bank.

too, with private consumption back to its pre-crisis levels in under a year, whereas it took seven quarters during the COVID-19 pandemic. The difference between these two most recent and devastating recessions matches their individual features: while the financial crisis sparked great uncertainty and hence a sharp rise in precautionary savings, the COVID-19 pandemic mostly forced people to save as they were unable to spend on particular goods or services multiple times.

The measures to combat the COVID-19 pandemic have also brought about a change in the breakdown of consumer spending by households, bringing a shift from services to goods, and particularly non-durable goods. Similarly, in 2021, internet-search-based indicators reveal a continuation of this trend, with search volumes for certain types of services categories having plummeted due to stricter public health measures, much more so than searches for durable and non-durable consumer goods.

Inflation squeezed households' purchasing power and some saw their financial vulnerability increase

Because of general price trends – which were pushed up by their energy component in particular – purchasing power rose by only 1.1 % in 2021, a relatively minor contribution to higher private consumption. After all, purchasing power captures households' real disposable income. Admittedly, incomes in Belgium are index-linked to keep up with inflation, but only after a selected period of time and only partly.

In nominal terms, household disposable income was up by 3.2 %. One of the key components was the rise in wages – of both employees and self-employed workers – because of higher numbers of hours worked, particularly in sectors that had been hit by COVID-19 pandemic in 2020. Despite a persistent low interest rate environment, net capital income was also up, supported by a recovery in dividends paid by companies.

The transfers paid by households to other sectors – mainly involving taxation – grew faster than their incomes. Transfers received from the public sector, by contrast, moved a lot more slowly, as a lot less use was made of furlough schemes for employees and bridging allowances for the self-employed than in the year before.

Real disposable incomes grew less than consumer spending did, reducing the savings rate. This fell by 4.1 percentage points between 2020 and 2021, from 20.2 % to 16.1 %, even though this was still higher than the 12.4 % recorded in 2019. It once again shows how impossible it was to make certain expenditure during part of the year, causing a savings surplus to arise.

Such an accrual of savings would appear to have happened in households that are financially better off, though. And more investment in less liquid assets also seems to suggest an asymmetrical distribution of savings.

Higher gross disposable income at a macroeconomic level hides the financial vulnerability of a proportion of households. Despite measures being extended – such as higher replacement rates for temporary lay-offs, double bridging allowances and the freezing of the degressive nature of unemployment benefits – 2021 once again saw some households face significant income losses in the wake of the COVID-19 crisis. In 2021 (data only available for the first ten months), an average 13 % of NBB consumer survey respondents still reported a crisis-related loss of income in excess of 10 %. That is a significant proportion of respondents, although lower than the 21 % reported in 2020, which incidentally did come down over the course of 2021 as more and more sectors were able to operate on fewer or even no restrictions. Broken down by position in the labour market, it is worth noting that, in 2021 as well, loss of income continued to be much more pronounced for self-employed workers. Compared with employees, an average 3.5 times more self-employed workers reported facing a serious loss of income in 2021 (> 30 %). As explained in chapter 5, households hit by significant loss of income also saw their opportunities to save vanish and their often meagre savings buffer gradually eroded.

For households such as these, on low incomes and with little in the way of savings, even a slight loss of income can soon turn into a big problem. And it

Table 3.2

Determinants of the gross disposable income of individuals, at current prices

(percentage changes compared to the previous year, unless otherwise stated)

						p.m. In € billion
	2017	**2018**	**2019**	**2020**	**2021 e**	***2021 e***
Gross primary income [1]	3.9	3.3	3.3	−3.5	5.6	*274.1*
Gross wages [1]	3.7	3.8	3.7	−2.1	5.5	*187.0*
Gross operating surplus and gross mixed income	3.8	2.9	3.0	−3.1	4.1	*60.8*
Capital income [2]	5.1	0.9	0.7	−13.1	10.1	*26.4*
Current transfers received	3.6	3.1	3.2	13.5	0.8	*119.5*
Current transfers paid [1]	3.4	3.3	0.8	0.4	6.7	*103.3*
Gross disposable income	3.9	3.2	4.1	1.6	3.2	*290.3*
p.m. In real terms [3]	*2.0*	*1.2*	*2.7*	*0.9*	*1.1*	–
Savings rate [4]	12.2	11.6	12.4	20.2	16.1	–

Sources: NAI, NBB.

1 Wages received or current transfers paid, excluding social contributions payable by employers.

2 These are net amounts, i.e. the difference between incomes received from other sectors and those paid to other sectors.

3 Data deflated by the household final consumption expenditure deflator.

4 In % of disposable income in the broad sense, i.e. including changes in households' supplementary pension entitlements accruing as a result of an occupational activity.

was precisely these households that most often faced coronavirus-related temporary lay-offs, termination of contracts – temporary or otherwise – or reduced chances of finding new work, and that therefore suffered a loss of income[1]. Also, not everyone is able to benefit from the social security system, e.g. those in some types of jobs or on some types of contract (student jobs, for instance), with insufficient time on the payroll, or with incomes earned in the informal economy.

Some households remain financially vulnerable, despite the recovery

In fact, quite a few people had nowhere to turn for support except for public social welfare centres or charities. According to a Federal Public Service for Social Integration (FPS SI) survey, the number of people in receipt of integration incomes reached a peak of over 160 000 early in 2021, following a steady increase in 2020. As more and more sectors in the economy were able to operate freely and loss of income became more limited, integration income recipients also became fewer in number over the summer of 2021 and ended the year at a level slightly higher than before the pandemic. It is too early to draw any conclusions, though, as the number of people entitled to such income is also influenced by seasonal changes, and their number traditionally falls during the summer months.

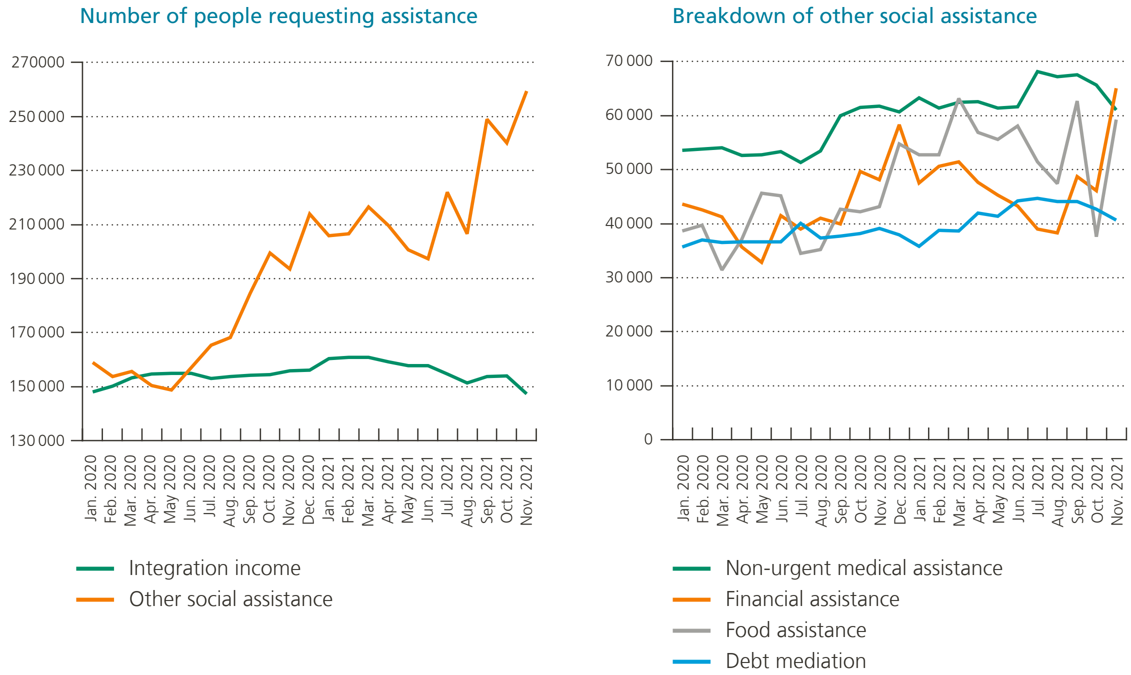
Unlike integration income, the demand for other types of social assistance provided by the country's public social welfare centres stayed significantly higher in 2021 than before the crisis. Most notable, however, is the change the crisis has caused in the type of assistance being sought. In 2020, such assistance was mostly in response to acute issues, such as emergency food supplies, which systematically peaked around or after lockdowns, and financial assistance (for instance, rent rebates or advances on benefit payments). Demand for these types of assistance clearly dropped off with the reopening of the economy in the spring of 2021. Since the start of 2021, however, people have increasingly been seeking debt mediation services and these numbers look set to keep rising. This may suggest that the persistent COVID-19 crisis is turning into such a major financial problem for some households that they increasingly feel compelled to ask for help to manage their finances and debts. In addition, the number of people that have appealed to Belgium's public social welfare centres for non-urgent medical help was much higher in 2021 than before the pandemic. This may also reflect the fact that various non-COVID-related medical treatments were initially postponed and that 2021 saw some catching up.

1 See Coppens B., Minne G, Piton C. and Warisse Ch (2021), "The Belgian economy in the wake of the COVID-19 shock", NBB, Economic Review, September.

Chart 3.10

Pandemic causes social assistance demand on public social welfare centres to change shape

(number of recipients)



Sources: Survey on Social Impact of COVID-19, FPS Social Integration & Working Group on Social Impact COVID-19 (last update 17/01/2022).

Despite the steep rise in requests for social assistance, initial projections suggest that, in global terms, Belgium's COVID-19 crisis did not have a significant impact on poverty risk in 2020[1]. However, some households were deeply affected. In addition to the immediate impact of the crisis, the country's financially most vulnerable households have also been up against rising energy prices since the autumn of 2021. This has hit these households proportionally harder (as explained in chapter 4) and puts their already precarious finances under even greater pressure.

Residential property investment benefited from growing real estate activity

While investment in housing had plunged by 6.8 % in 2020, this reversed to a 10.4 % uptick in 2021 and pre-crisis levels were exceeded from the first quarter of the year. In fact, by the final quarter, residential property investment was an estimated nearly 4 % higher than before the pandemic. This was a remarkable recovery, especially when compared with the aftermath of the 2008-2009 financial crisis, when such investment was broadly down for a period of well over five years. It is worth noting that residential property investment was the sharpest rising component of demand in 2021, increasing by over € 3 billion in total compared with the previous year.

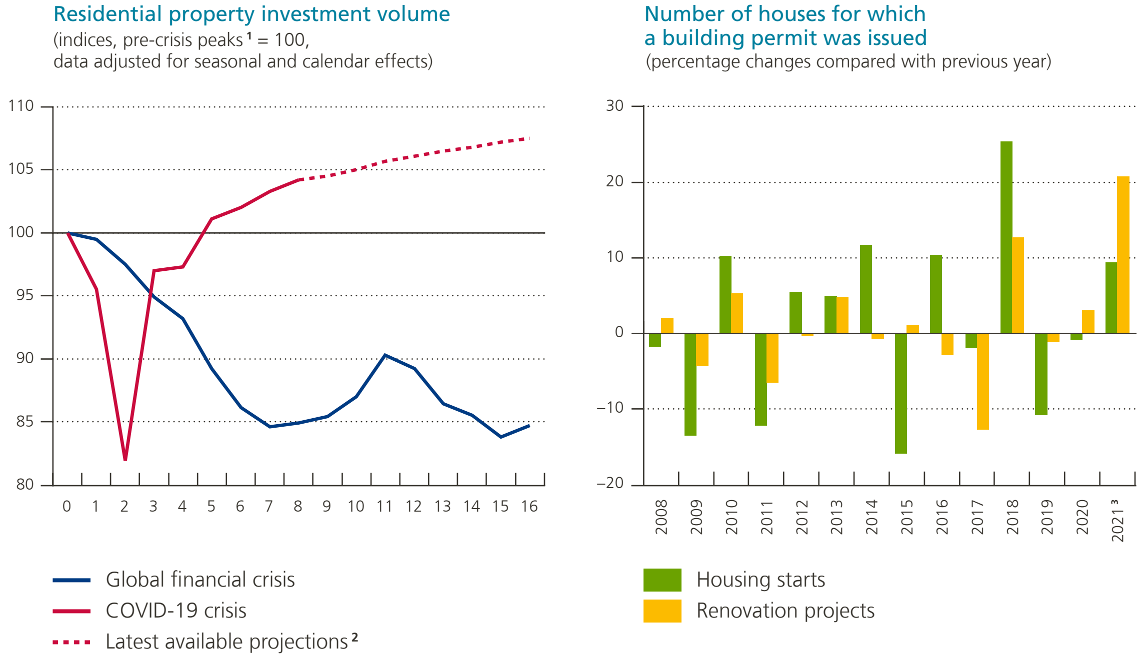
In 2021, the persistent low interest rate environment continued to support the real estate market, as borrowing conditions remained favourable and weighted average mortgage rates fell to 1.45 % in the first eleven months of 2021, i.e. 0.11 of a percentage point below the level for the entire previous year. Once again, investment in housing was considered an attractive investment opportunity.

The construction of new housing and the renovation of existing buildings, which together account for the

1 Eurostat (2021), "Early estimates of income and poverty in 2020", Eurostat News, July 2021.

Chart 3.11

Investment in housing staged an exceptionally strong rise and was back at pre-crisis levels from early 2021



Sources: NAI, Statbel, NBB.
1 Pre-crisis peaks (t = 0) are the fourth quarter of 2007 and the fourth quarter of 2019 respectively.
2 December 2021 economic projections by the Bank.
3 First nine months of the year.

core of investment in housing, benefited from construction coming back on stream, a branch of activity that had been deeply affected by the COVID-19 pandemic and its consequences. There was a surge in the issue of building permits in the first nine months of 2021, particularly for renovation projects. The latter type of activity rose by 21 % compared with the corresponding period of the previous year, the steepest rise in 25 years. New builds also contributed to the revival of housing investment, as evidenced by a rise of over 9 % in the number of building permits issued.

Registration duties on property transactions serve to complete the housing investment picture – and also showed growth. Real estate activity in 2021 clearly accelerated when compared with the previous year. In 2020, by contrast, it had been hit hard by both the COVID-19 pandemic and the end to the mortgage relief scheme for new loans in the Flemish Region (see chapter 5).

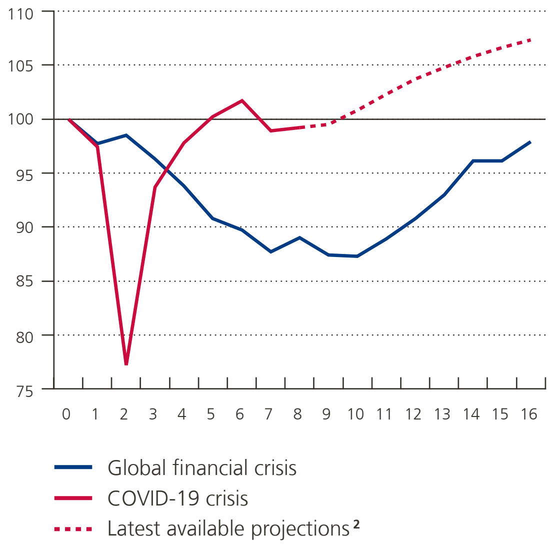
Business investment was clearly up, in keeping with higher demand and income

Business investment for the year 2021 as a whole advanced by 9.2 %, after recording a historic fall of 7 % in the previous year, as restrictions and the virtually complete standstill of all industrial and building activity triggered sharp declines in the second quarter of 2020. Remarkably, after this companies continued to invest up to and including the first six months of 2021, with investment coming down a little in the second half of the year. The second-half drop reflected a temporary deterioration in the business climate from the summer, the Bank's business barometer surveys suggest, particularly in manufacturing – a major player in investment in Belgium. The sector's production capacity utilisation rate – an indicator of the degree of investment needed to keep expanding production – grew sharply early in the year and then also

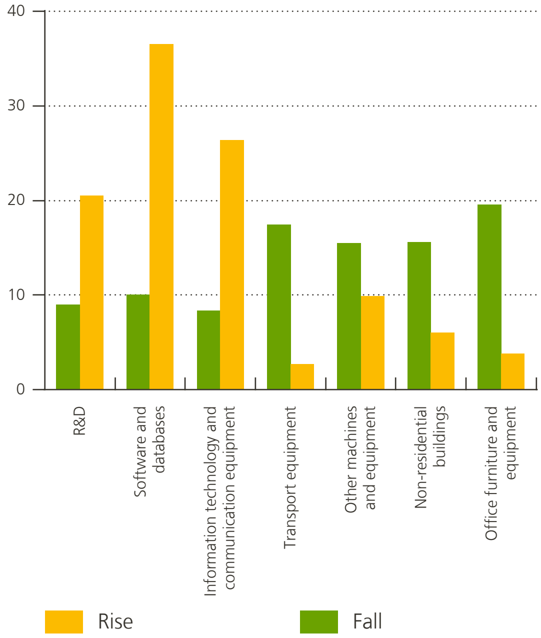
Chart 3.12

Business investment – the composition of which has changed – was exceedingly resilient

Business investment volume
(indices, pre-crisis peaks[1] = 100, data adjusted for seasonal and calendar effects)



Changes in the breakdown of investment due to the COVID-19 crisis
(in % of companies surveyed employing more than 50, multiple answers possible, April 2021)



Sources: ERMG, NAI, NBB.
1 Pre-crisis peaks (t = 0) are the second quarter of 2008 and the fourth quarter of 2019 respectively.
2 December 2021 economic projections by the Bank.

came down in the second half. The fact is that companies were up against supply issues from the summer, hampering production, and also faced an increase in the number of COVID-19 cases, prompting uncertainty.

The resilience of business investment during the COVID-19 pandemic is all the more notable for its contrast with earlier recessions. The 2008-2009 financial crisis, for instance, resulted in a downward trend in business investment for ten quarters before this gradually went back up, and it did not return to its pre-crisis level until 2014. The shock caused by the COVID-19 pandemic may have triggered a significant drop in business investment, but really only for two quarters, after which it recovered rapidly and was back to its pre-crisis levels from the first quarter of 2021, i.e. five quarters after the pandemic first struck.

Companies faced supply issues from the summer

Surveys run by the Economic Risk Management Group (ERMG) – a group of leading experts established by the Belgian government in 2020 to closely monitor the impact of the crisis on the economy – and the European Investment Bank have suggested a change in the composition of business investment, driven by the pandemic. In response to certain changes directly related to the restrictions, particularly wider use of e-commerce, investment partly shifted to information technologies and digitalisation. Conversely, companies surveyed reported that they have cut down on investment in commercial property, particularly in office property, whose use may become less necessary as people increasingly work from home.

Table 3.3

Determinants of companies' gross operating surplus[1], at current prices

(percentage changes compared to the previous year, unless otherwise stated)

	2017	2018	2019	2020	2021 e
Gross operating surplus per unit sold[2]	−0.3	2.0	3.5	1.5	12.3
Unit selling price	**2.5**	**2.4**	**0.9**	**−0.6**	**6.4**
On the domestic market	2.0	2.0	1.5	0.9	2.4
Exports	2.7	2.6	0.9	−1.6	7.7
Unit sales costs	**3.0**	**2.4**	**0.4**	**−1.0**	**5.3**
Imported goods and services	3.3	3.4	0.1	−2.1	8.2
Costs of domestic origin per unit of output[2, 3]	1.8	1.1	0.6	−0.5	−0.1
of which:					
Unit labour costs[4]	1.8	1.2	0.9	3.3	−2.1
Unit net indirect taxes	2.2	1.5	−0.4	−14.1	12.1
Final sales at constant prices	3.5	1.7	2.0	−6.6	8.0
Companies' gross operating surplus	3.2	3.7	5.6	−5.2	21.2

Sources: NAI, NBB.
1 Private and public companies.
2 Including the change in inventories.
3 In addition to wages, this category includes indirect taxes less subsidies, and gross mixed income of self-employed people.
4 Unit labour costs are expressed in units of value added of the business sector and are not calendar adjusted.

Incidentally, a proportion of the rise in business spending in 2021 was driven by the pharmaceuticals sector, which makes up around 20 % of Belgian manufacturing industry and accounted for a little over 4 % of gross fixed capital formation. This particular industry had, of course, recorded a significant rise in business investment in 2020, by some 23 % compared with the preceding year. The exceptional circumstances of the health crisis undoubtedly also worked to the advantage of the pharmaceuticals sector in 2021 and required major capital layouts, particularly to achieve vaccination targets to combat the pandemic.

Companies' gross operating surplus, i.e. the revenues they generate with their business activities, surged by 21 %, the steepest rise ever recorded in the national accounts and about twice the size of the recovery that took place after the 2008-2009 economic and financial crisis. This clear upward trend after the 5.2 % plunge in 2020 was driven by a higher volume of sales – in both the domestic and export markets – and most of all by a clear widening in gross margins. These margins, in turn, were underpinned by a rise in unit selling prices, especially in exports, which exceeded that of unit sales costs. The costs of imported goods and services were up, mostly fuelled by much higher energy prices at the end of the year, whereas the costs of goods and services of domestic origin stabilised on the back of falling labour costs. It is worth noting that the strong rise in net unit indirect taxes is primarily due to the phasing out of subsidies paid by the government to the health sector to offset income losses resulting from postponing non-urgent treatments at the height of the pandemic.

Public consumption and investment rose significantly

Higher public consumption expenditure in 2021 (up by around 4.5 %) was mostly attributable to the impact of the COVID-19 pandemic. In addition to the costs of the vaccination campaign, this item includes health spending for surgery and medical consultations unrelated to COVID-19 that had been postponed in 2020 to ensure sufficient capacity in intensive care units. In addition, public employment went up temporarily in the first half of 2021 in the wake of the exceptional increase in the number of teachers on sick leave.

Government investment rose by 10.9 % in 2021. Although construction started feeling the pain of capacity constraints as the year progressed, government investment was boosted by the implementation of recovery plans – as well as by the delivery of several military transport aircraft. It should be observed that this transaction was import-based and did not therefore influence GDP.

BOX 2

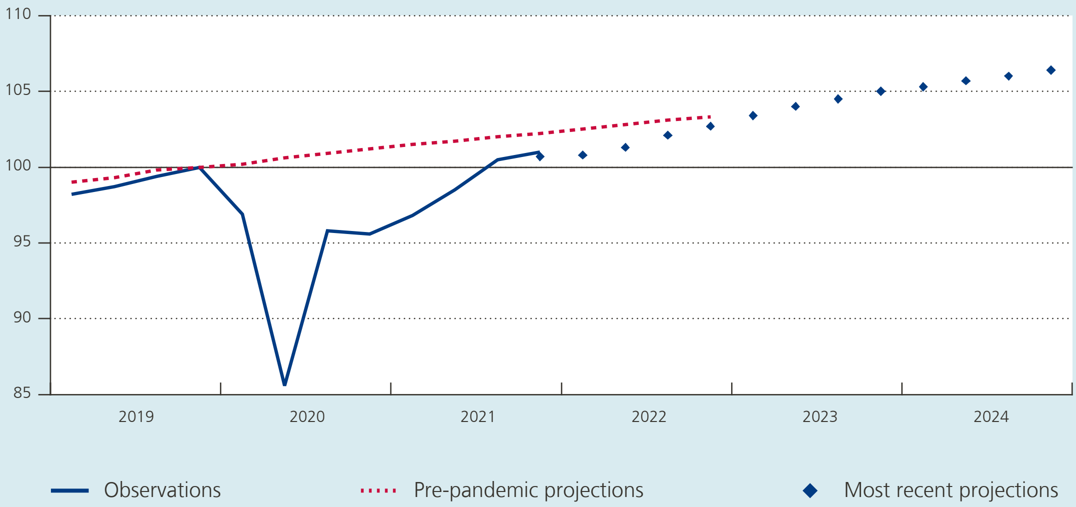
Did the 2020 recession create supply shortages that could leave an indelible mark on economic activity ?

The COVID-19 pandemic set off an historic slump in Belgian GDP, but recovery was swift on its heels – from the third quarter of 2020 – and very robust too. In fact, economic activity had not grown at this clip since the end of the Second World War. But although GDP has already touched and exceeded pre-crisis levels, it remains below the levels that had been expected before the pandemic hit. Economic growth appears to be hobbled by supply constraints, including commodity shortages (timber, metals, natural gas and oil, etc.), semi-manufactures (plastics, semiconductors, etc.) and logistics services (sea freight, etc.). What is more, many companies are reporting people shortages.

Economic research – and particularly research carried out after the 2008-2009 financial crisis – suggests that cyclical fluctuations can affect supply and may cause lingering or scarring effects on

Despite the robust recovery, GDP in 2021 stuck below the level expected before the pandemic

(real GDP adjusted for seasonal and calendar effects, indices 2019 Q4 = 100)



Sources : NAI, NBB.
Note : The pre-pandemic projections for GDP growth are those that the Bank released in December 2019. The most recent projections are from December 2021.

GDP. It is a distinct possibility that the deep recession of 2020 has changed the growth path of economic activity. In Belgium, many businesses across all sectors reported facing supply constraints in 2021. A Bank survey conducted in October revealed that over 80 % of companies in wholesale, retail (both food and non-food), industry and construction grappled with supply issues, primarily shortages at their suppliers and transport problems. Coupled with steeply higher energy prices, inputs became a lot more expensive, and even more so in sectors highly dependent on them.

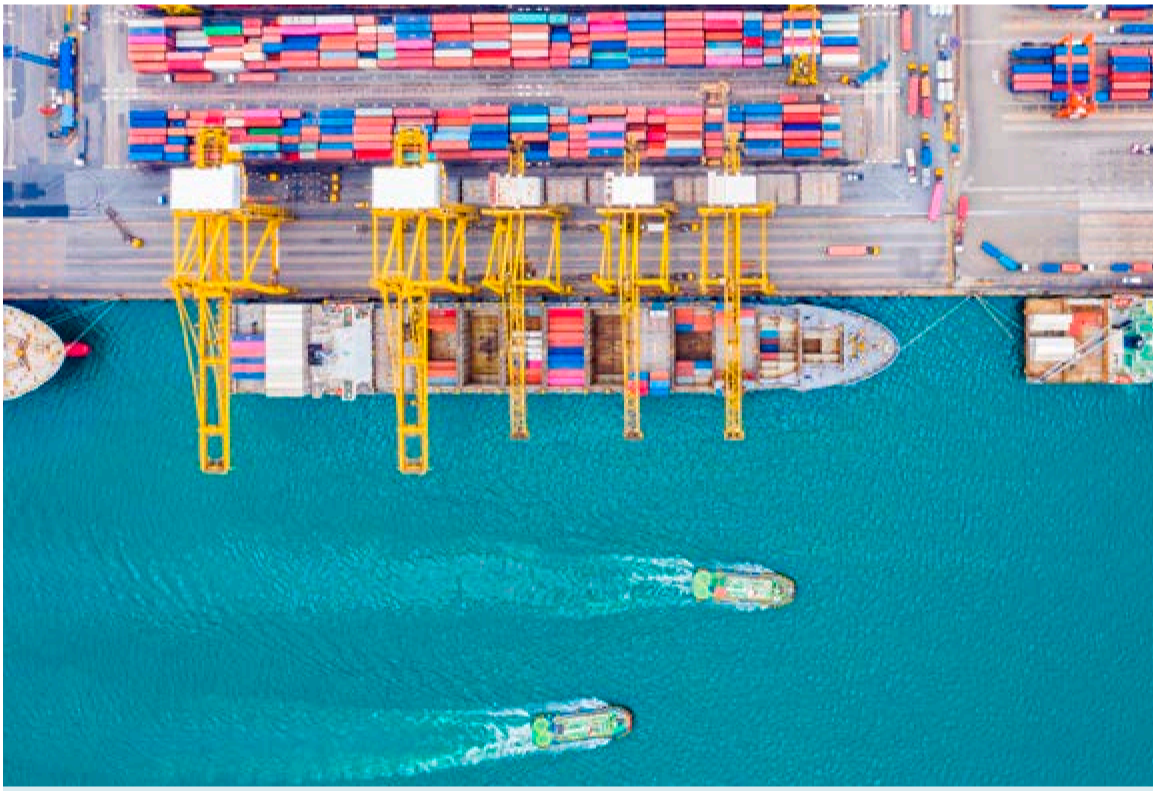
The causes of these supply constraints are many and not specific to Belgium, as PMI indicators for delivery terms and input prices suggest. Both have got significantly worse across the world, and particularly in the euro area (see chapter 1 of this Report). The global economy bounced back with a vengeance, especially compared with previous periods of recession. As a result, it has been a strongly goods-intensive period, much more than services. Consumption of services, by contrast, remained a prisoner of concerns over the public health situation and the restrictions, but also reflected changing preferences. As a result, demand rose for industrial goods – whose manufacture typically ties into global value chains – and led to a sharp increase in demand for commodities and sea freight. The literature uses the term "bottleneck" to refer to the scarcity arising when demand for a factor of production suddenly and significantly exceeds the maximum that can be produced or delivered.

The COVID-19 pandemic was also a key factor in the sense that many relationships between suppliers and producers were disrupted or hampered by public health measures and were not always easily and swiftly restored – as aspect made even worse by the lack of synchronicity in restrictions across the world.

To make matters worse, some sectors – transport and distribution, but mining as well – had been facing a lack of investment even prior to the pandemic, eroding their ability to cope with a sudden increase in demand.

All that said, supply constraints and their impact on economic activity are expected to ease steadily, with the nature of the constraints determining the speed at which this will happen. Where these are mainly attributable to the sheer strength of the recovery, the impact of which may be further fuelled by stock-building in supply chains, the so-called bullwhip effect, these constraints should be quick to disappear. If, by contrast, they reflect major changes in the composition of demand, such as increased digitalisation of the economy, they will require investment that will take time. Most Belgian companies that responded to the above-cited survey, including those in supply-sensitive lines of business, emphasised the temporary nature of the supply constraints, and reckoned these should ease and then disappear in the second half of 2022. And this is exactly the scenario that informed the Bank's macroeconomic projections in the autumn : these assumed that growth would accelerate from the spring of 2022, taking GDP close to the levels that had been expected before the outbreak of the pandemic and then certainly beyond.

As for the labour markets, the crisis has served to intensify specific trends that had featured previously, such as the challenge of recruiting employees with varying profiles. Specialists in information and communication technology had been hard to find for quite a few years and now there is also a shortage of people in construction, the hospitality industry, and transport and logistics, to mention but a few sectors.



The way people work within companies has likewise undergone a major transformation, particularly because of the much wider recourse to working from home, which has led to a willingness on the part of companies to offer hybrid arrangements. Against this particular backdrop, it is becoming increasingly important for workers to develop and nurture digital skills in both their initial and lifelong training.

It is reasonable to assume that employment – which already surged by a net 88 000 new jobs – would have staged exceptional growth in 2021 if it had not been for these recruitment issues. This job creation came at a time of swelling labour supply, as new people entered the labour market, while unemployment fell significantly at the same time. In 2021, Belgium had 29 600 fewer unemployed job-seekers than in 2020. That said, the data does show a rise in structural unemployment, as 8 400 more people have now been out of work for a year or longer. This poses a major challenge, as we are dealing with a group of people who find it harder to find work again. In fact, the transition from unemployment to work has always been relatively tough in Belgium compared with partner countries, whose labour markets have proved less rigid. Recent developments are pointing to some improvement, however, and suggest that more favourable outcomes are possible. Provided that appropriate policy measures are taken and that the supply chain bottlenecks do indeed prove temporary, the shock caused by the COVID-19 pandemic will probably not cause any lasting damage to supply.

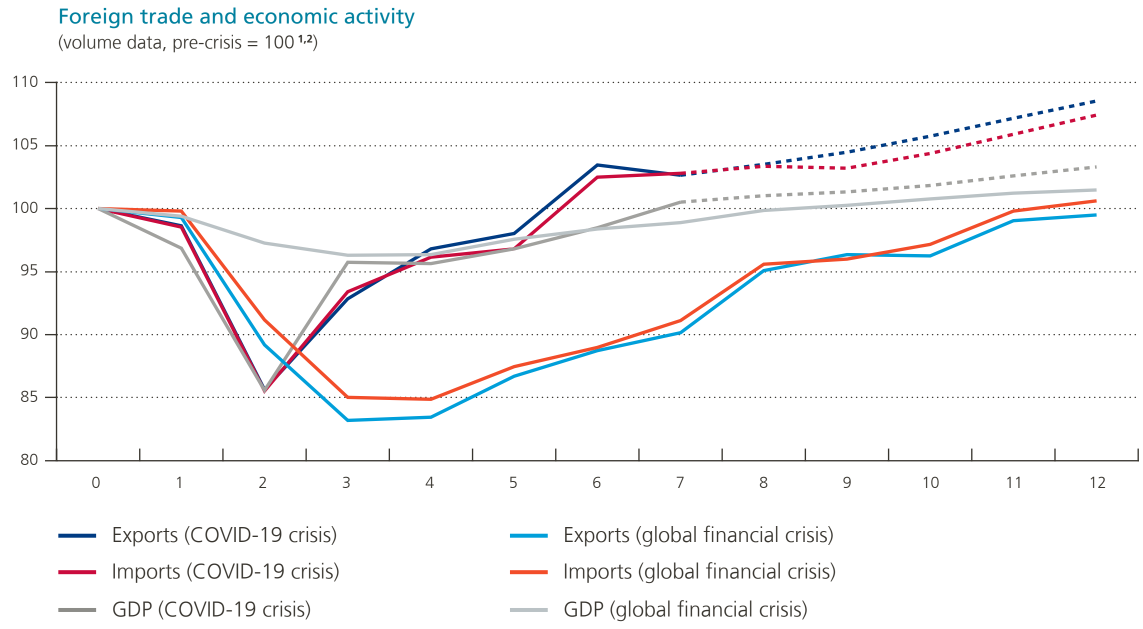
Belgium's trade flows recovered quickly

In terms of foreign trade, Belgium was unable to sidestep a deteriorating global economy and the drop in international trade in 2020. Still, after the slump in the second quarter of 2020, trade in Belgian goods and services with the rest of the world recovered sharply from the third quarter of that year, in line with the trend in GDP. In fact, foreign goods and services trade reached higher levels than before the crisis from the second quarter of 2021, slightly more quickly than the broader economy. One reason for this can be explained by the massive impact of a range of pandemic-related public health measures on services activities, which have not yet returned to their pre-crisis levels and whose weight in Belgian GDP is higher than that of foreign trade. Just as with all the other components of demand – with the exception of private consumption – the recovery in trade flows was swift when compared with the 2008-2009 crisis: pre-crisis levels were scaled as early as six quarters after the initial shock, as against twelve after the global financial crisis.

At annualised increases of 9.0 % and 8.5 % respectively compared with 2020, outgoing and incoming trade flows, as expressed in constant prices, recorded pretty similar trends and made, as they did last year, a slightly positive net contribution to economic activity growth in 2021. Meanwhile, sharply higher energy and production costs pushed down Belgium's terms of trade (i.e. the relationship between the export price index and the import price index) in 2021 when compared with the previous year (–0.5 %). The 2021 energy price surge, for gas and oil in particular, was all the more significant because those same prices had been at exceedingly low levels in 2020. Although oil prices were high in 2021 (averaging around € 71.8 per barrel in the year), prices per barrel are close to those recorded in 2018 (€ 71.0 on average) and remain firmly below those seen in the years after the 2008-2009 crisis (€ 102 on average in the 2010-2014 period). Gas prices, by contrast, were historically high in full-year 2021 and higher still in the second half. Coupled with higher demand for these mostly imported products, these prices widened the Belgian trade deficit for energy products with the rest of the world. This deficit stood at around € 9.8 billion in the first nine months of 2021, i.e. € 3.5 billion more than in

Chart 3.13

Imports and exports of goods and services rapidly recovered

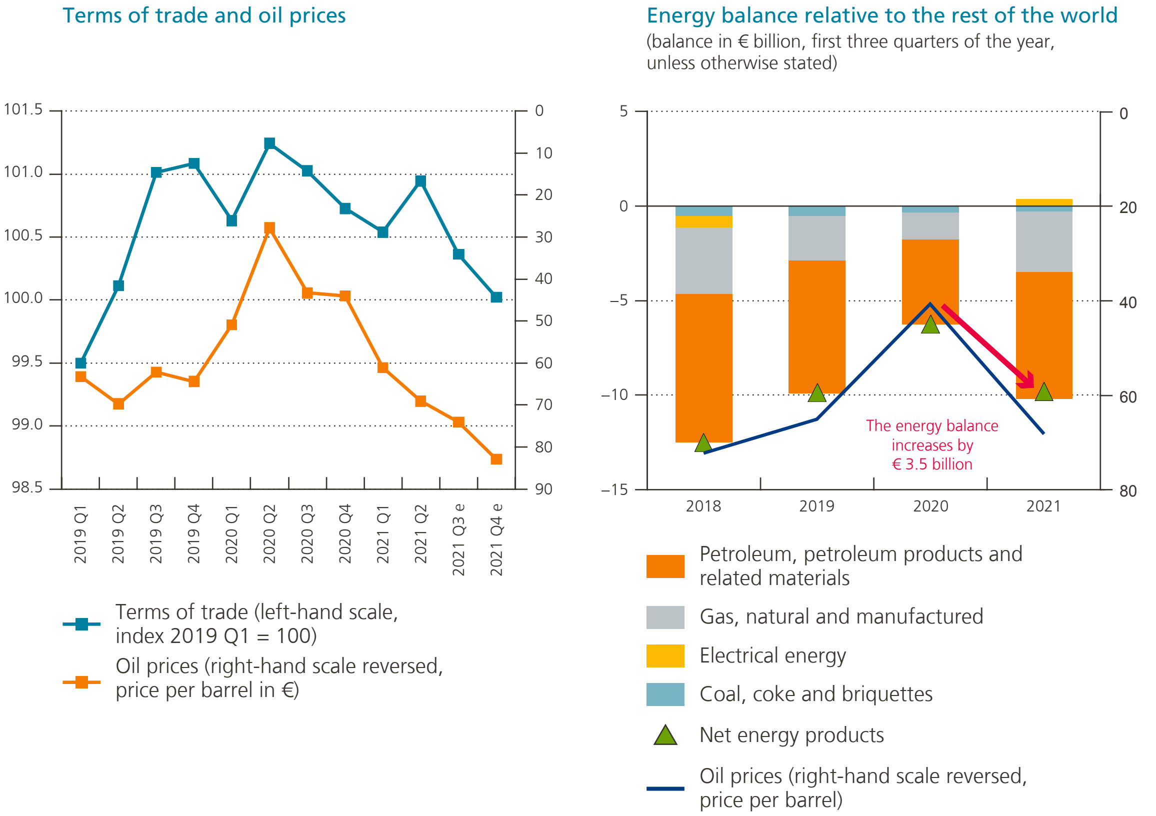


Sources: NAI, NBB.
1 The dotted lines reflect the Bank's economic projections dated December 2021.
2 The pre-crisis peaks (t = 0) reflect the second quarter of 2008 and the fourth quarter of 2019 respectively.

the corresponding period of 2020, but less than in the first nine months of 2018 and less than the average in the corresponding period of 2010-2014, when the deficit worked out at € 12.5 billion and € 12.6 billion, respectively. The surge in energy prices also had a significant impact on a broad range of domestic

Chart 3.14

Rising energy prices adversely affected the terms of trade and Belgium's net energy bill



Sources: ECB, NAI, NBB.

sectors of the Belgian economy in 2021. For one thing, households saw their consumer spending grow at the expense of their savings, while companies faced higher production costs. For the government, these higher energy prices led to temporarily higher income in 2021, due to higher VAT revenues from these products. Overall, surging energy prices somewhat reduced the Belgian economy's financing capacity for the year.

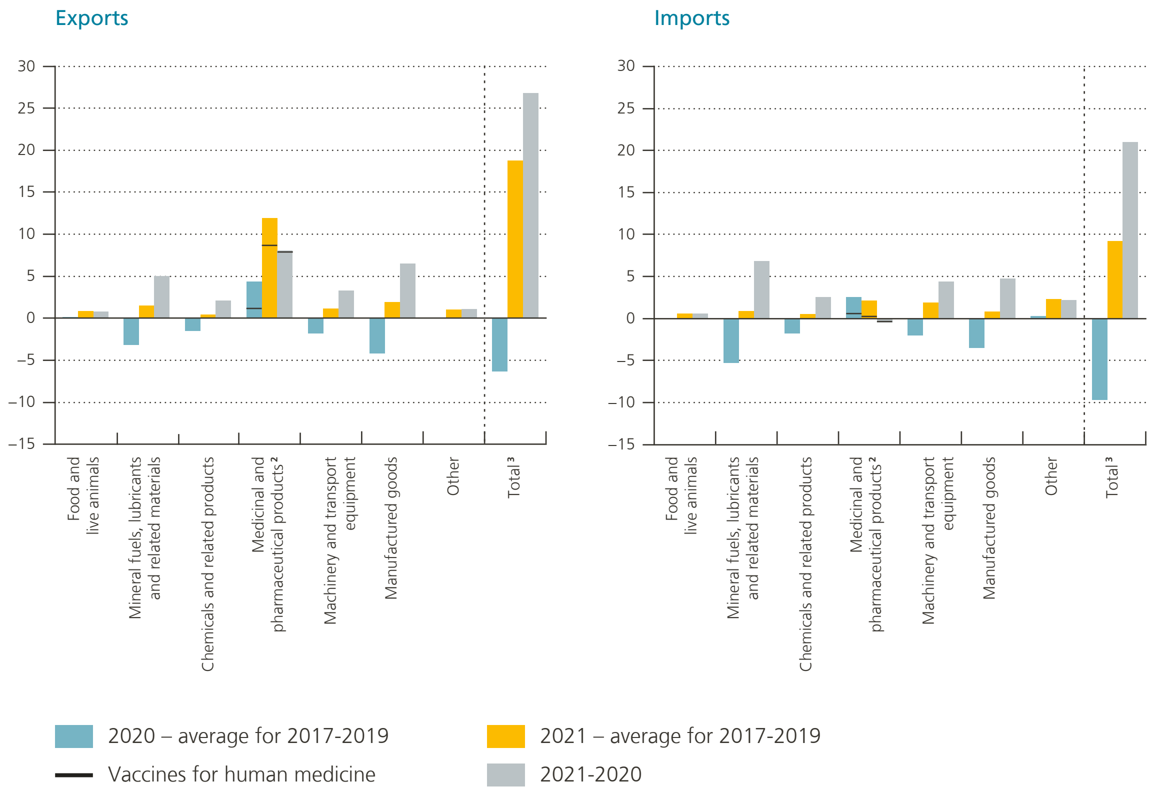
Beyond the larger deficit in energy product trade, the decline and subsequent recovery of trade in goods were uneven, much as was global trade. From the end of 2020 and particularly in 2021, Belgium benefited from the size of the pharmaceuticals sector on its territory in terms of the massive exports of medical material, particularly COVID-19 vaccines. This category of products was one of the few positive contributors to Belgian export growth in 2020, and to a lesser extent to imports, and in 2021 – the year in which the adoption of vaccines accelerated across the globe – the contribution of this type of goods to Belgian trade sharply increased. Vaccines against SARS-related coronaviruses, in particular, accounted for around € 15.4 billion in exports in the first nine months of 2021 (69 % of total exports of vaccines for human medicine), compared with a mere € 0.9 billion in imports (18 % of total imports of vaccines for human medicine) – a net result of around € 14.5 billion for the Belgian economy. However, inputs useful for

Manufacture of COVID-19 vaccines supported Belgian exports

Chart 3.15

Pharmaceuticals sector drove Belgian goods exports

(contributions to growth; first three quarters of the year; in percentage points, unless otherwise stated [1])



Source: NAI.

1 Data according to the foreign trade statistics, national concept.

2 The black line reflects the contributions of vaccines for human medicine – which include vaccines against SARS-related coronaviruses (SARS-CoV species) – to growth of trade flows in goods.

3 Percentage changes compared with the corresponding period of the previous year.

the manufacture of these vaccines are also imported, but are classed as other categories of goods, resulting in an artificially high net figure for this specific category of products. In the first nine months of 2021, the other goods categories – with the exception of manufactured and energy products – only made a limited or even negative contribution to exports and imports growth.

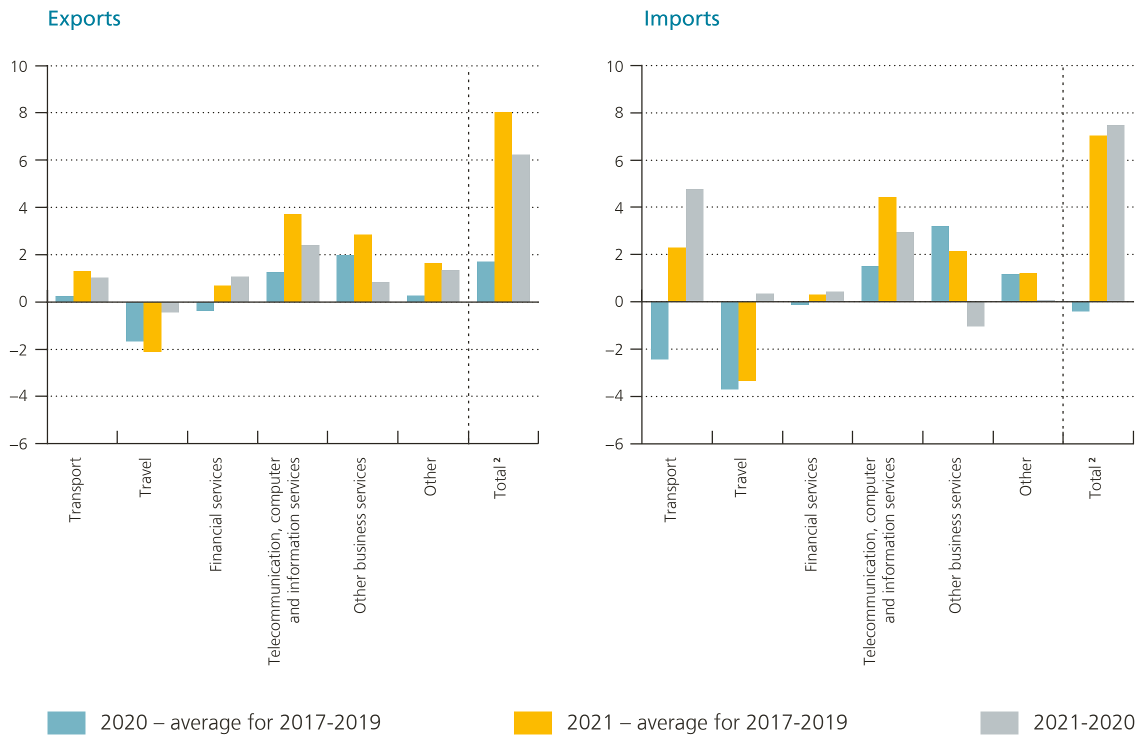
In trade in services, both exports and imports rose in the first three quarters of 2021, making for a net surplus below that for 2020 but still larger than the average recorded in the 2017-2019 period. This state of affairs was mostly down to services categories transport and travel, the net figure for which turned more strongly negative in 2021, as there were fewer lockdowns or other restrictions on economic activity and travel than had been the case in 2020. The year was also marked by a significant rise in exports and imports of communication, information technology and information services, mainly explained by the business activity of a company in this sector related to a new IT software development.

Belgium's trade flows in goods and services with the rest of the world were also influenced by the United Kingdom's departure from the European Union at the beginning of 2021. Whereas 2020 trade flows in goods to and from the United Kingdom developed pretty much in line with that recorded with the rest of the world – with the exception of the last quarter of the year when a "stock" effect was noted – trade with the UK became less dynamic at the beginning of 2021, particularly in terms of imports. Over the second and third quarters of 2021, goods imports declined further, whereas the exports of many categories of goods, particularly pharmaceuticals products, shot up. As for trade in services, both exports to and imports from the UK fell in the first

Chart 3.16

Trade in services recovered

(contributions to growth; first three quarters of the year; in percentage points unless otherwise stated [1])



Source: NBB.

1 Data according to the balance of payments statistics.

2 Percentage change compared with the corresponding period of the previous year.

six months of 2021, dragged down particularly by transport services, travel, financial services and other business services, four key sectors of trade with the UK. Unlike imports, the export of services to the UK revived in the course of the third quarter. Overall and despite major fluctuations – which would probably have been even bigger if there had not been a Trade and Cooperation Agreement between the EU and the UK – the balance of trade between Belgium and the United Kingdom shows a surplus for the first nine months of 2021, to a stronger degree than the average of the three preceding years, as a result of the fall in goods imports.

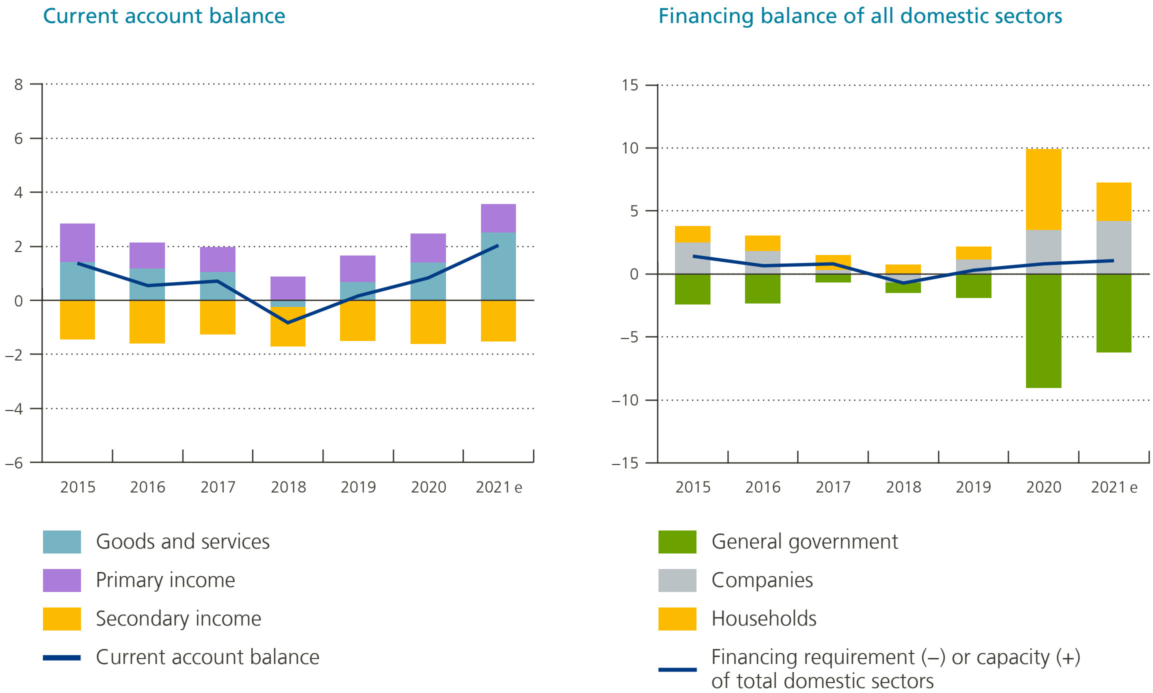
Slightly higher financing capacity for the Belgian economy

All things considered and taking account of the fact that there has been only a minor change in net primary income (which includes earned and investment paid to and received from the rest of the world) and net secondary income (mainly transfers from households and government) to or from the rest of the world as a percentage of GDP, Belgium's current account surplus grew from around 0.8 % of GDP in 2020 to 2 % in 2021. This overall trend is also visible in the Belgian economy's slightly higher financing capacity vis-à-vis the rest of the world, as the country's general government borrowing requirement has come down from its all-time high in 2020, although in a historical perspective it remains considerable (6.2 % of GDP). Companies' increased financing capacity has also provided a positive impetus to this position relative to the rest of the world, as their disposable income grew in 2021 on the back of a higher gross operating surplus offsetting higher investment. Taken together, this lower foreign financing requirement of companies and general government has made it possible to offset the lower borrowing capacity of households, whose savings have contracted – even if their savings rate remains substantial – and whose investment in housing has started to rise again after having fallen in 2020.

Chart 3.17

Borrowing and current account surpluses both up

(in % of GDP, unless otherwise stated)



Sources: NAI, NBB.