'Big picture: 2021, a pivotal year'

"The turning-point will require a sustained vaccination campaign that ideally leads to group immunity. Only then will it be possible for consumer and producer confidence to recover fully and the economic engine to fire on all cylinders again."

It is highly likely that 2021 too will go down as a highly unusual year. History will record that the Covid-19 pandemic caused immense human suffering in 2020 (almost two million deaths and unprecedented quarantine measures all over the world). Coronavirus also inflicted huge economic damage in 2020. We don't yet know the final figures, but it is virtually certain that economic losses (as measured by the fall in GDP, for instance), will be unprecedentedly large. And it will take time for us to digest those losses. Our most recent forecasts anticipate a return to pre-crisis levels around the end of 2022, beginning of 2023. What it means in practice is that several years of economic growth have been lost forever.

All the signs are that 2021 will be another highly unusual year. We expect the pandemic to end roughly a year after it began, which is quick compared to earlier pandemics. The development of several highly effective vaccines and the vaccination campaigns now underway in various countries suggest that (hopefully) the pandemic can be brought under control in 2021. All this could make 2021 a pivotal year, in which economic recovery and the return of social normality will gradually continue and we will put the Covid crisis behind us – once and for all, we hope.

Vaccinate to normalise

The worldwide roll-out of a successful vaccination campaign will be by far the most important trend in 2021, even if it began strictly speaking in late 2020. Systematic vaccination will enable us to bring the pandemic under control and to normalise the socioeconomic situation. This turning-point will not happen by itself and will probably not be immediate either: it will require a sustained vaccination campaign that ideally leads to group immunity. Only then will it be possible for consumer and producer confidence to recover fully and for the economic engine to fire on all cylinders again. Before we get to that point, the restrictive public-health measures currently in force will have to be maintained in the early part of 2021 if we are to avoid a powerful third wave of the pandemic, which is bound to weigh further on economic activity in the early part of the year. Our scenario therefore assumes a very gradual economic recovery that will chiefly pick up in the second half of the year.

Forecasts in figures

We expect a cautious recovery that will occur first and more strongly in the United States and only later in the EMU. Our most recent projections (December 2020) are based on real GDP growth of 4.2% for the United States and 2.4% for the EMU. In the latter case, we anticipate stronger growth in the second half of 2021 and in 2022. There are striking differences between the forecasts for the US and the EMU. These reflect factors such as the varying severity and duration of the lockdown measures applied in the two blocs in both the first and second waves of the pandemic. Our forecasts for Belgium largely echo those for the euro area. We do, however, expect the Belgian economy to suffer relatively more in the fourth quarter of 2020/first quarter of 2021 from the restrictions to curb the second pandemic wave and that growth will not pick up in earnest until the second quarter and fully until the second half of 2021.

Inflation: low for a prolonged period

Besides the economic recovery, inflation remains a focus of attention, making it the second trend we wish to highlight for 2021. The most recent figures continue to point towards very weak general inflation in the euro area. Low inflation will remain an important focus for ECB monetary policy in 2021. Lifting the inflation rate will once again be the central bank's most important objective in 2021, barring the unlikely event that it downgrades its inflation target in its Strategic Review or defines it more broadly. The financial markets at any rate continue to price in euro area inflation that will remain around 1% for a prolonged period – far below the ECB target. It is highly likely, therefore, that the current, highly accommodative policy in the euro area will be extended. This policy will also influence the dynamism of the bond markets: low-for-long will once again be the dominating theme on the fixed-income markets and far beyond.

The financial markets – the equity and commodity markets in particular – are already pricing in the economic revival. Oil prices have gradually recovered from their historical lows and put on an extra sprint in response to the greater than expected efficacy of the vaccines. The share markets too are showing signs of reflation in response to the anticipated recovery, reduced uncertainty and an environment of persistently low interest rates. It seems moreover that the central banks' focus on ensuring sufficiently loose financing conditions will continue to support the financial markets in 2021.

It is also important, lastly, to pay attention not only to general trends but also to a number of 'known unknowns' that might become somewhat clearer in 2021.

1. We have speculated for some considerable time now on the ultimate impact of **Brexit**. It will finally be possible in 2021 to evaluate the true short-term consequences of the UK's departure from the European Union. Many businesses took steps to prepare for Brexit with the result that dependence on exports to the UK had already declined significantly. All the same administrative and operational bottlenecks could have a major impact during the transition. What's more, the euro has appreciated sharply against sterling, which could further hinder exports to Britain.
2. At the same time, it remains difficult to quantify the **structural economic damage inflicted by the Covid crisis**. For the time being, the economy will be artificially shielded from the impact of the crisis behind a robust wall of protective government measures. The limited rise in unemployment and the reduction in the number of business failures in 2020, for instance, paint a highly distorted picture of the situation in Belgium. A variety of government measures – particularly the increased income support provided via the extensive furlough system or support for the self-employed – are temporarily limiting the impact of the crisis on companies and families. The question remains as to how far the crisis has structurally weakened businesses' financial position and whether they will remain viable without the government lifeline. Whatever the answer, the more negative pattern of unemployment in neighbouring countries suggests that the crisis is bound to have structural consequences. The jobless rate there has risen by around two percentage points since the beginning of the crisis.
3. A third focus of attention – more in the medium term in this instance – concerns the role of **budgetary policy** in supporting the economy. 2020 was dominated by the need to get through the crisis and the same will apply in 2021. Because of this, budgetary constraints were rightly ignored (or overridden by the escape clause in the Stability and Growth Pact) in order to provide income support and to enable the economy to survive. At some point, this large-scale support will have to be scaled back as part of a return to greater budgetary orthodoxy. The economic revival will then no longer be underpinned by substantial government support but will have to come primarily from the private sector. This transition from a government-driven recovery to sustainable economic growth driven by the private sector will be an important link towards successful normalisation. The engine has to be restarted and brought back to full speed, which will require a sufficiently rapid restoration of consumer and producer confidence.

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