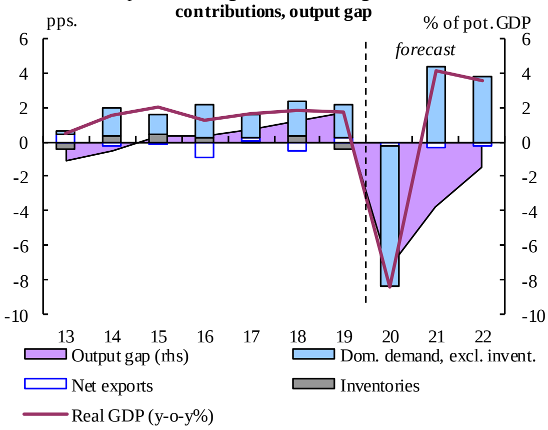
1. BELGIUM

Economic growth in Belgium this year is set to be severely hit by the COVID-19 pandemic, as domestic demand suffers from lockdown measures, supply chain disruptions and a large drop in confidence. Amid lingering uncertainty and rising unemployment, GDP is forecast to bounce back only gradually in 2021 and 2022, with international trade expected to detract from growth. Inflation is set to decrease markedly in 2020 and rise moderately thereafter. The general government deficit is projected to deteriorate significantly, leading to a strong rise in public debt.

A historic recession in 2020, followed by a gradual recovery

Economic growth in Belgium is forecast to fall from 1.7% in 2019 to -8½% in 2020 due to the COVID-19 pandemic. A steep decline in real GDP growth occurred in the first and second quarters of 2020, as household consumption dropped sharply due to restrictive measures put in place to combat the pandemic. Confidence indicators fell to historic lows, and have recovered only partially since. Investment also decreased significantly due to supply chain disruptions and falling demand.

Graph II.1.1: **Belgium - Real GDP growth and contributions, output gap**



Economic activity bounced back in the third quarter of 2020, reflecting pent-up demand after containment measures were lifted. However, new restrictions to counter the resurgence of virus cases are set to dampen growth in the last quarter of 2020 and the first quarter of 2021. Measures to protect employment, household disposable incomes and corporate liquidity have mitigated the impact of the crisis so far. They should support domestic demand, which is expected to drive GDP growth to 4% in 2021 and 3½% in 2022. However, GDP in 2022 is forecast to remain below its 2019 level, also due to the additional negative impact of the less beneficial EU-UK trade relations on investment and trade. As Belgium's Recovery and Resilience plan was not yet defined, its potential impact on growth remains an upside risk.

Private consumption to recover gradually, amid a rise in unemployment

Lockdown and social-distancing measures have significantly curtailed private consumption, which is forecast to fall by 10% in 2020. Service sectors (hotels, restaurants, leisure, retail) are expected to be the most severely hit. Automatic stabilisers and measures taken to protect employment and support purchasing power are projected to contribute to a temporary surge in households savings. Amid worsening labour market conditions, private consumption growth is expected to recover gradually until 2022. As some employment support measures gradually expire, the unemployment rate is forecast to rise from 5.9% in 2020 to 7% in 2021, before improving in line with economic growth to 6.2% in 2022.

A mixed outlook for investment

Severe supply chain disruptions and uncertain demand prospects are expected to lead to a 14% fall in investment this year, followed by a gradual recovery. Business investment is projected to fall in 2020 and to grow only moderately in 2021 and 2022, reflecting lingering demand uncertainty, notably linked to the less beneficial EU-UK trade relations, and the reorganisation of supply chains. Housing investment, by contrast, is set to rebound at a faster pace, however without catching-up with its 2019 level. Public investment is projected to fall in 2020 and bounce back strongly until 2022.

Exports are set to plunge in 2020, reflecting weak external demand, and are expected to rebound strongly in 2021 and 2022 as the global economy recovers. Reflecting Belgium's position as a trade hub, imports are forecast to evolve in line with exports. Net exports are expected to have a negative contribution to GDP growth.

Inflation to decline

Headline inflation is forecast to fall from 1.2% in 2019 to 0.4% in 2020, due to the fall in energy prices, and to rise to 1.4% in 2021 and 1.6% in 2022, reflecting rising energy, food and services prices. This would slightly raise core inflation.

Strong public support during the crisis expected to push-up deficit and debt levels.

The headline deficit is expected to widen from 1.9% of GDP in 2019 to 11¼% of GDP in 2020. The COVID-19 crisis and lockdown measures have led to a sizeable decrease in tax collection and social contributions. A surge in beneficiaries of the temporary unemployment scheme has also increased spending on social benefits. COVID-19 health treatments have also pushed-up healthcare spending, despite the postponement of less urgent treatments. Moreover, measures amounting to about 3% of GDP were taken to fight the pandemic and mitigate its impact. These include a top-up of the federal temporary unemployment allowance, an extended replacement income for the self-employed, regional support schemes and spending on personal protection equipment. Tax and social contribution deferrals and exemptions have provided liquidity support to companies. Public guarantees, totalling around 12% of GDP, are not expected to entail a budgetary impact. However, downward risks linked to the liquidity support measures remain. Other factors impacting the deficit in 2020 are a cut in corporate tax rates, part of a broader corporate tax reform, and a reduction in employers' social contributions as part of the reform to shift taxation away from labour.

Based on a no-policy-change assumption pending the new 2021 federal budget, the deficit is expected to decrease to about 7% of GDP in 2021 as a result of the economic recovery and due to the phasing-out of temporary measures taken in 2020. However, some of these measures will still have a deficit-increasing impact in 2021. A permanent rise in health-related expenditure is also expected to weigh on the 2021 deficit. In 2022, based on a no-policy-change assumption the deficit is forecast to decrease to 6% of GDP, driven by the economic recovery. RRF-related measures, yet undefined, are not included in the forecast and remain an upside risk.

Public debt is forecast to rise from 98% of GDP in 2019 to 118% of GDP in 2020 and 2021. In 2022 the debt is expected to increase to 119% of GDP, driven by debt-increasing stock-flow adjustments.

Table II.1.1:

Main features of country forecast - BELGIUM

	2019		Annual percentage change						
	bn EUR Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	476.2	100.0	1.6	1.6	1.8	1.7	**-8.4**	**4.1**	**3.5**
Private Consumption	244.8	51.4	1.3	1.9	1.9	1.5	**-10.0**	**5.3**	**4.3**
Public Consumption	109.7	23.0	1.3	0.2	1.2	1.7	**1.0**	**1.7**	**0.9**
Gross fixed capital formation	115.1	24.2	2.0	1.4	3.4	3.4	**-13.7**	**5.9**	**6.0**
of which: equipment	35.9	7.5	1.4	-1.9	1.3	-0.2	**-15.4**	**5.3**	**9.8**
Exports (goods and services)	389.7	81.8	2.9	5.5	0.6	1.0	**-8.6**	**5.0**	**3.0**
Imports (goods and services)	386.8	81.2	3.0	5.2	1.3	0.8	**-8.4**	**5.4**	**3.4**
GNI (GDP deflator)	482.1	101.2	1.5	1.6	1.9	2.0	**-8.3**	**4.1**	**3.5**
Contribution to GDP growth: Domestic demand			1.4	1.3	2.0	2.0	**-8.2**	**4.4**	**3.8**
Inventories			0.1	0.0	0.3	-0.4	**0.0**	**0.0**	**0.0**
Net exports			0.1	0.3	-0.5	0.2	**-0.2**	**-0.3**	**-0.2**
Employment			0.8	1.6	1.5	1.6	**-0.7**	**-1.0**	**1.7**
Unemployment rate (a)			7.9	7.1	6.0	5.4	**5.9**	**7.0**	**6.2**
Compensation of employees / head			2.3	1.9	1.8	2.1	**-1.2**	**4.3**	**0.9**
Unit labour costs whole economy			1.6	1.9	1.4	1.9	**7.2**	**-0.8**	**-0.9**
Real unit labour cost			-0.1	0.0	-0.2	0.3	**5.4**	**-2.4**	**-2.4**
Saving rate of households (b)			15.8	12.2	11.6	13.0	**24.6**	**18.4**	**15.7**
GDP deflator			1.7	1.8	1.6	1.7	**1.7**	**1.6**	**1.5**
Harmonised index of consumer prices			1.9	2.2	2.3	1.2	**0.4**	**1.4**	**1.6**
Terms of trade goods			-0.2	-0.2	-1.1	1.0	**1.1**	**0.2**	**-0.1**
Trade balance (goods) (c)			1.1	0.5	-0.1	0.7	**1.1**	**1.1**	**0.9**
Current-account balance (c)			2.9	0.7	-0.8	0.3	**0.7**	**0.6**	**0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.9	0.8	-0.7	0.5	**0.9**	**0.7**	**0.5**
General government balance (c)			-2.2	-0.7	-0.8	-1.9	**-11.2**	**-7.1**	**-6.3**
Cyclically-adjusted budget balance (d)			-2.2	-1.1	-1.6	-3.1	**-6.7**	**-4.6**	**-5.3**
Structural budget balance (d)			-	-1.6	-2.1	-3.3	**-6.8**	**-4.6**	**-5.3**
General government gross debt (c)			100.7	102.0	99.8	98.1	**117.7**	**117.8**	**118.6**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.