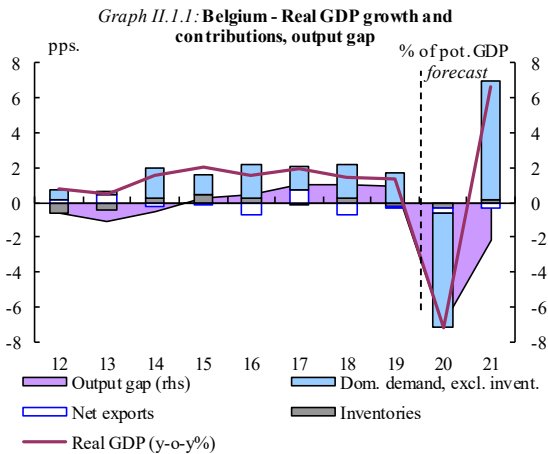


1. BELGIUM

Economic growth in Belgium is set to be severely hit by the COVID-19 outbreak in 2020, but should see a rebound in 2021. Domestic demand is projected to plummet due to restrictions to consumption linked to lockdown measures, supply chain disruptions and an historic drop in confidence. International trade is expected to detract from growth in both 2020 and 2021. Inflation is forecast to decrease markedly in 2020 and rise slightly thereafter. The general government deficit is projected to deteriorate significantly, leading to a rise in public debt.

A broad-based economic plunge in 2020

Economic growth is forecast to fall from 1.4% in 2019 to -7% in 2020 due to the COVID-19 pandemic. This is expected to be driven by a large drop in household consumption, which has been hindered by restrictive measures put in place to combat the pandemic and low confidence. A more significant slump in investment due to supply chain disruptions and falling aggregate demand is also expected. Measures to protect employment, household disposable incomes and corporate liquidity should support domestic demand recovery from mid-2020 onwards, underpinning a rebound in GDP growth in 2021.



Real GDP growth is forecast to fall to -7% in 2020 and to rebound to 6¾% in 2021. The impact of the lockdown measures is expected to lead to negative quarterly GDP growth in the first and second quarters of 2020, followed by a rebound in the third quarter once restrictive measures are gradually lifted. Economic activity is projected to recover progressively throughout the rest of the forecast horizon, although GDP level in 2021 is forecast to remain below that of 2019.

Private consumption and investment to plummet in 2020, amid rising unemployment

The lockdown measures in place since mid-March are expected to decrease private consumption significantly, which is projected to fall by almost 7% in 2020. This is set to most severely affect services sectors (hotels, restaurants, leisure) and durable goods consumption. Automatic stabilisers and measures taken to protect employment and purchasing power are expected to help offset part of the fall in private consumption as households are temporarily raising precautionary savings. Despite widespread recourse to the short-term unemployment scheme to avoid job losses during the lockdown period, the unemployment rate is set to rise from 5.4% in 2019 to 6½% in 2021.

Falling demand, strong supply chain disruptions and high uncertainty are expected to lead to a decrease of over 15% in investment in 2020. After an expected slump during the lockdown period, housing investment is set to rebound, supported by fundamentals. Business investment is projected to fall in line with the reduction in gross operating surplus, and is expected to recover more slowly, as supply chains are restored gradually and uncertainty subsides. Public investment is projected to fall in 2020 and to recover in 2021. Investment growth is forecast to grow by almost 16% in 2021.

Exports are projected to plunge in 2020 due to a fall in external demand, and to rebound in 2021 amid the expected global recovery. Reflecting Belgium's position as a trade hub, imports are projected to evolve in line with exports, resulting in a contraction in 2020 and a rebound in 2021. The contribution of net exports to GDP growth is forecast to remain negative in 2020 and 2021.

Inflation to decline

Headline inflation is forecast to fall from 1.2% in 2019 to 0.2% in 2020, mainly driven by lower

energy prices. Headline inflation is expected to rise slightly to 1.3% in 2021, reflecting rising food and services prices. This should support core inflation, which is projected to increase in 2021.

Deficit and debt to increase sharply in 2020

The general government deficit increased to 1.9% of GDP in 2019, 0.2 pps. higher than projected in the 2019 autumn forecast. In 2020, the COVID-19 crisis is expected to push the general government deficit to about 9% of GDP.

In 2020, the sharp decline in economic activity is expected to weigh heavily on tax collection and social transfers. In particular, a sizeable increase in the number of temporary unemployed and self-employed benefitting from replacement income is set to lead to a strong rise in social benefits. On top of automatic stabilisers, the government adopted expenditure measures totalling about 1¼% of GDP, both to alleviate the economic impact of the crisis and to fight the spread of the pandemic. They include a top-up of the federal temporary unemployment allowance, regional transfers to companies and self-employed workers forced to halt their activities and regional subsidies to the most affected sectors. Moreover, a federal provision for health spending is set to boost

intermediate consumption. Tax and social contribution deferrals, aimed at providing liquidity support to companies, are not assumed to have a budgetary impact in 2020. Similarly, public guarantees totalling around EUR 52 billion are expected to entail no immediate budgetary impact.

Other factors impacting the deficit in 2020 are a cut in corporate tax rates, amid a broader reform of corporate taxation launched in 2018, and a reduction in employers' social contributions as a part of the tax shift reform.

Consequently, the expenditure-to-GDP ratio is projected to increase by 7½ pps. to 59¼%, while the revenue-to-GDP ratio is set to remain roughly stable. Interest payments are projected to continue declining.

Given the temporary nature of the measures taken in 2020 and the expected economic recovery in 2021, the general government deficit is expected to shrink to 4¼% of GDP in 2021 on a no-policy change basis. Public debt is forecast to rise from 98¾% of GDP in 2019 to 113¾% of GDP in 2020, falling back slightly to 110% of GDP in 2021.

Table II.1.1:

Main features of country forecast - BELGIUM

	2018			Annual percentage change						
	bn EUR	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	459.8	100.0		1.7	1.5	2.0	1.5	1.4	-7.2	6.7
Private Consumption	237.2	51.6		1.4	1.9	1.8	1.5	1.1	-6.9	6.5
Public Consumption	106.1	23.1		1.5	0.4	0.3	0.9	1.6	2.8	0.3
Gross fixed capital formation	109.6	23.8		2.1	3.8	1.3	4.0	3.1	-15.3	15.9
of which: equipment	37.1	8.1		1.2	14.3	-3.1	5.1	3.4	-19.6	19.0
Exports (goods and services)	379.7	82.6		3.3	6.5	5.3	1.2	1.0	-10.6	7.7
Imports (goods and services)	380.4	82.7		3.3	7.5	4.4	2.1	1.2	-10.2	8.1
GNI (GDP deflator)	462.8	100.6		1.7	1.0	2.1	1.0	1.5	-6.7	6.6
Contribution to GDP growth:		Domestic demand		1.5	1.9	1.3	1.9	1.7	-6.6	6.9
		Inventories		0.1	0.2	-0.1	0.3	-0.2	-0.3	0.1
		Net exports		0.1	-0.7	0.7	-0.7	-0.1	-0.3	-0.3
Employment				0.9	1.3	1.6	1.4	1.5	-1.0	1.2
Unemployment rate (a)				7.8	7.8	7.1	6.0	5.4	7.0	6.6
Compensation of employees / head				2.4	0.6	1.8	1.9	1.7	-1.4	1.2
Unit labour costs whole economy				1.5	0.3	1.5	1.8	1.9	5.1	-4.0
Real unit labour cost				-0.2	-1.4	-0.2	0.3	0.3	3.6	-5.5
Saving rate of households (b)				16.1	12.2	12.0	11.8	12.9	20.6	12.9
GDP deflator				1.7	1.7	1.7	1.5	1.6	1.4	1.6
Harmonised index of consumer prices				2.0	1.8	2.2	2.3	1.2	0.2	1.3
Terms of trade goods				-0.4	0.3	-1.0	-1.3	0.5	0.8	0.2
Trade balance (goods) (c)				1.2	0.4	0.7	-0.2	-0.3	0.0	-0.1
Current-account balance (c)				3.1	0.6	1.2	-1.0	-0.7	-0.1	-0.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.1	0.7	1.3	-1.0	-0.6	-0.1	-0.2
General government balance (c)				-2.0	-2.4	-0.7	-0.8	-1.9	-8.9	-4.2
Cyclically-adjusted budget balance (d)				-2.2	-2.6	-1.3	-1.4	-2.4	-4.5	-2.9
Structural budget balance (d)				-	-2.6	-1.8	-2.0	-2.6	-4.7	-2.9
General government gross debt (c)				101.0	104.9	101.7	99.8	98.6	113.8	110.0

(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.