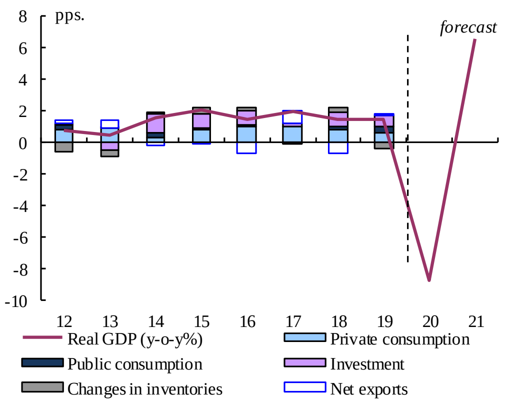
2.1. BELGIUM

Economic growth in Belgium is set to be hit hard by the COVID-19 outbreak in 2020 but should rebound strongly in 2021. Despite support from fiscal measures, consumption and investment fell as a result of the lockdown restrictions. Supply chain disruptions and a historic drop in confidence are projected to impact strongly on domestic demand in 2020. Weak international trade is expected to detract from growth in both 2020 and 2021.

Graph 2.1: **Belgium - Real GDP growth and contributions**



Real GDP growth is forecast to fall to -8¾% in 2020 and to rebound to 6½% in 2021. Domestic demand dropped by 4.4% in the first quarter of 2020 and is set to plunge even lower in the second quarter of 2020. Economic activity is forecast to start rebounding in the third quarter, as survey indicators point to an acceleration of the recovery in business turnover in June following the lifting of most restrictive measures. The recovery is set to be driven notably by a resumption of household consumption growth, as signalled by the improvement of consumer confidence indicators in May and June. A more significant fall in investment due to supply chain disruptions and falling aggregate demand is expected. Public investment is forecast to decrease in 2020 and rebound progressively from 2020-Q3. Household investment growth is projected to recover gradually due to strong fundamentals. In contrast, business investment growth is expected to rebound more slowly as business supply chains are expected to take longer to readjust and uncertainty regarding the evolution of demand lingers.

The contribution of net exports to real GDP growth is expected to remain negative in both years amid a fall in the growth of world trade in 2020. Reflecting Belgium's position as a trade hub, imports are largely expected to evolve in line with exports, resulting in a contraction in 2020 and a rebound in 2021.

Unemployment is projected to rise, notably due to a higher likelihood of bankruptcies in the most affected sectors such as arts, leisure, hotels and restaurants. This is set to weigh on the recovery of household consumption from the second half of 2020.

The fall in economic activity is expected to weigh on annual HICP inflation, which is forecast to decrease from 1.2% in 2019 to 0.3% in 2020, mainly due to lower fossil fuel and wholesale electricity prices. Inflation is forecast to edge up to 1.4% in 2021, with a positive contribution from energy prices.