

Positive albeit weak momentum

General Information



GDP	USD524.8 bn (World ranking 24, World Bank 2013)
Population	11.2 mn (World ranking 77, World Bank 2013)
Form of state	Federal Parliamentary Democracy under a Constitutional Monarchy
Head of government	Charles Michel (MR)
Next elections	2019, legislative



Strengths

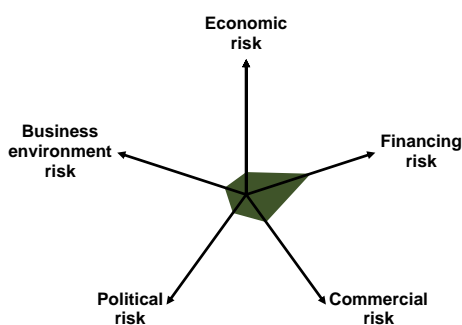
- Role as a regional trade hub in the Eurozone
- Diversified export structure in terms of products
- Presence of many European institutions
- Fairly resilient economic activity since the crisis

Weaknesses

- High labour costs due to wage indexation on inflation and high tax rates for firms
- Highly correlated to Eurozone business cycle
- High public debt
- High external debt

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination / origin (% of total)

Exports	Rank			Imports
Germany	16	1	20	Netherlands
France	16	2	14	Germany
Netherlands	12	3	11	France
United Kingdom	8	4	7	USA
USA	5	5	5	United Kingdom

By product (by % of total)

Exports	Rank			Imports
Mineral fuels	13	1	19	Mineral fuels
Pharmaceutical products	10	2	10	Vehicles
Vehicles	10	3	8	Pharmaceutical products
Organic chemicals	8	4	8	Organic chemicals
Machinery	7	5	7	Machinery

Source: ITC (2014)

Economic Overview

Moderate but steady growth

Domestic demand will remain the main driver for growth in 2015. Retail sales rebounded by 1% in 2014 supported by the adjustment in savings rate (-0.2pp to 14.9%), the increase in wages (+1.2%) and the meagre improvement in employment (see Table 1). Industrial production accelerated in 2014 (+2.6% vs +0.7% in 2013) but still stands 5% above the 2008 peak. However, the fall in capacity utilization rate (to 78.3 vs a peak of 80 in Q3 2014) suggests a more moderate path ahead, and we expect investment to slowdown in 2015. Exports performed well in 2014 (+3.3%) despite the drag from weak competitiveness and Russian slowdown, and are expected to increase at a strong pace (+3.0% in 2015), supported by the eurozone recovery. Overall, at 1.2% in 2015 and 1.5% in 2016, GDP growth is in line with the eurozone average, but remains below the pre-crisis average of 2.2%. Belgium continues to adjust its public finances due to a higher than expected fiscal deficit in 2014 (at -3.3% of GDP) and has planned to implemented EUR11bn of spending cuts (close to 3% of GDP) with the deepest cuts in social security, in addition to reductions in unemployment benefits an increase in the retirement age by 2 years to 67.

The private sector is recovering

The pick-up in global demand, albeit moderate, will help turnovers for industrial firms to stabilize in 2015 (see Chart 1). Lower oil prices (Brent prices are expected at 65 USD/barrel on average in 2015) should provide a boost to consumers through lower spending on fuel and transport services, and help firms' profitability that we expect non-financial corporations to increase by 0.8pp in 2015 (to 37% of value added vs 39% at the pre-crisis peak). Business insolvencies entered a declining trend in July 2014 and fell for the first time in 7 years in 2014 (-9%), but remain 40% above the 2007 level. In 2015 and 2016, business insolvencies are expected to continue to fall, by -5% and -4% respectively. However, corporates' taxation will remain a drag on their competitiveness. Indeed, employers' social contributions represent 23% of total labour cost, third highest ratio in the eurozone after France (31%) and Italy (24%). Further, the corporate tax is the highest within the Eurozone at 33.99%.

Table 1 Key economic forecasts

Belgium	Weights	2013	2014	2015	2016
GDP	100%	0.3	1.0	1.2	1.5
Consumer Spending	52%	0.3	1.0	1.0	1.7
Public Spending	27%	0.5	0.4	-0.4	-0.3
Investment	20%	-1.8	5.2	1.1	2.4
Construction	5%	-3.5	0.9	0.9	1.4
Equipment	15%	-1.2	6.7	1.2	2.8
Stocks	*	0%	0.1	0.1	0.1
Exports	84%	2.9	3.3	3.0	3.8
Imports	83%	1.7	2.9	3.6	3.7
Net exports	*	1.0	0.4	-0.4	0.1
Current account	**	1	5	4	5
<i>Current account (% of GDP)</i>		0.1	1.3	1.0	1.1
Employment		0.4	0.6	1.2	1.2
Unemployment rate		8.4	8.5	8.4	8.2
Wages		1.9	1.2	1.0	1.1
Inflation		1.1	0.2	-0.1	0.7
General government balance (% of GDP)		-2.7	-3.3	-3.0	-2.7
Public debt (% of GDP)		101.5	102.5	102.7	102.4
Nominal GDP	**	395	402	408	417

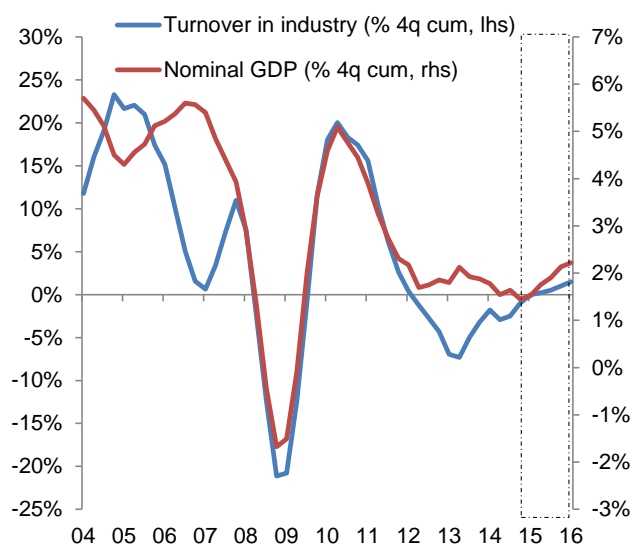
Change over the period, unless otherwise indicated.

* contribution to GDP growth

** EUR bn

Sources: National sources, IHS, Euler Hermes

Chart 1 Industrial firms' turnovers



Sources: National sources, IHS, Euler Hermes

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