Euler Hermes Economic Research

Country Report

Belgium

Moderate recovery

General Information

GDP	USD420bn (World ranking 25, World Bank 2014)
Population	11.22mn (World ranking 77, World Bank 2014)
Form of state	Federal Parliamentary Democracy, Constitutional Monarchy
Head of government	Charles Michel (MR)
Next elections	2019, legislative

Strengths

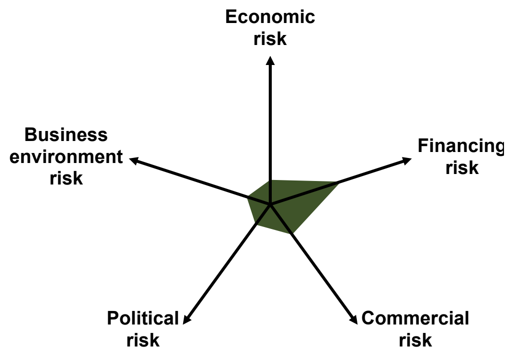
- Strong business environment
- Relatively low corporate debt (45% of GDP)
- Moderate household debt (62% of GDP)
- Diversified export structure in terms of products
- Presence of many European institutions – many languages spoken
- High-skilled workforce

Weaknesses

- Highest corporate tax in the EU
- High dependency to the eurozone business cycle
- High public debt
- High bank assets (above 250% of GDP)

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Germany	15%	1	20%	Netherlands
France	15%	2	15%	Germany
Netherlands	13%	3	10%	France
United Kingdom	9%	4	7%	United States
Italy	5%	5	6%	United Kingdom

By product (% of total)

Exports		Rank		Imports
Pharmaceuticals	11%	1	9%	Pharmaceuticals
Refined Petroleum Products	9%	2	7%	Refined Petroleum Products
Plastic Articles	7%	3	7%	Basic Organic Chemicals
Cars And Cycles	7%	4	6%	Cars And Cycles
Basic Organic Chemicals	6%	5	5%	Jewellery, Works Of Art

Source: Chelem (2014)

Economic Overview

Ongoing moderate economic recovery, improving competitiveness is now a fact not a only a plan

GDP growth, standing at +1.4% in 2015, should slightly accelerate to +1.5% in 2016 and to +1.7% in 2017, in line with the eurozone average but below the country's pre-crisis average of 2.2%.

Domestic demand should no longer be the main driver for growth in 2016. Consumer spending contributed more than half to 2007-14 real GDP growth thanks to moderate private indebtedness (62% of GDP), robust mortgage lending and solid wager growth. Public spending has also been an important driver of growth over the past years as the pace of fiscal consolidation has been much slower than in other eurozone countries.

In 2016, private consumption is expected to slow down (+0.8%) given the ongoing « holiday » of the wage indexation rule (*"Saut d'index"*) and the measures planned within the 2016 Budget. First, the rise in indirect taxes (VAT on electricity, excises on diesel, alcohol, tobacco and sugary drinks) since November 2015 impact consumption through higher consumer prices (inflation rebounded to +1.5% y/y in December). Overall, inflation should stand at 0.8% in 2016 as the fall in oil prices will compensate part of the base effects linked to tax increases.

Second, the 2016 Government budget foresees a shift in taxation from labor to consumption in order to alleviate companies' costs and boost competitiveness. Employers' social security contributions should thus be cut from 33% to 25 % reducing tax burden on labor by EUR5.9bn by 2019. This tax shift, even if smaller on average than it seems given the existing exceptions, will support firms' competitiveness that deteriorated significantly over the past years (see Figure 2). Labour costs in the business economy stand among the highest in the eurozone (41 EUR/hour) and increased at a fast pace since 2008 (+15% compared with +10% for France).

With the current reform, the contribution for an employee paid the minimum wage will be reduced by 6.5pp while labor costs for the median worker will fall by 1.75pp. The reform should also help create jobs. The official estimates (IMF, National Bank of Belgium) point to an additional 35-40K jobs of which more than one third would be among the lower-skilled. Unemployment rate decreased quite fast to 7.9% in January 2016 from 8.5% at the start of last year and is expected to reach 7.8% in 2016. However, the overall impact will be highest in the services and the construction sector where competition is not that high while the industrial sector, where wages are higher, will benefit less.

The ongoing labour market reforms have also targeted the pension system: (i) a gradual increase in the legal retirement age from 65 to 66 in 2025 and 67 in 2030 and (ii) an increase of the minimum age and career length for early retirement starting in 2017.

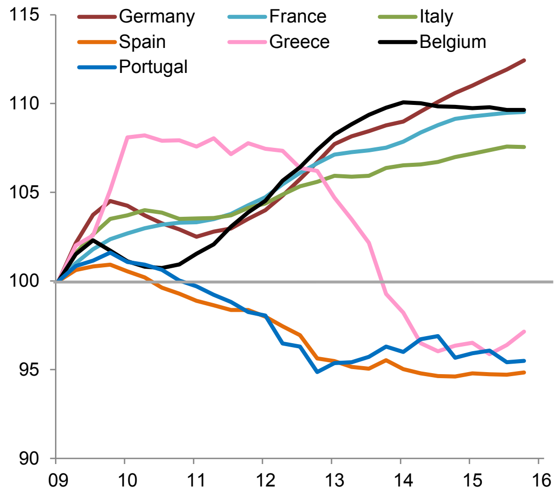
Figure 1 – Key economic forecasts

Belgium		Weights	2014	2015	2016	2017
GDP		100%	1.3	1.4	1.5	1.7
Consumer Spending		52%	0.4	1.3	0.8	1.9
Public Spending		26%	0.9	0.7	0.2	0.4
Investment		24%	7.0	2.0	1.0	2.2
Construction		5%	5.7	-0.1	0.9	1.0
Equipment		18%	7.4	2.7	1.0	2.6
Stocks	*	0%	0.0	0.2	-0.2	0.6
Exports		87%	5.4	3.4	3.0	3.4
Imports		86%	5.9	3.8	4.6	3.9
Net exports	*	1%	-0.4	-0.3	-1.3	-0.4
Current account	**		-1	1	2	1
Current account (% of GDP)			*-0.2*	*0.3*	*0.4*	*0.2*
Employment			0.3	0.4	0.6	0.4
Unemployment rate			8.5	8.3	7.8	7.5
Wages			1.2	0.1	0.0	0.1
Inflation			0.2	0.7	0.8	1.4
General government balance (% of GDP)			-3.1	-2.8	-2.6	-2.2
Public debt (% of GDP)			106.7	106.5	105.6	105.1
Nominal GDP	**		401	410	422	435

Change over the period, unless otherwise indicated:
* contribution to GDP growth
** EUR bn

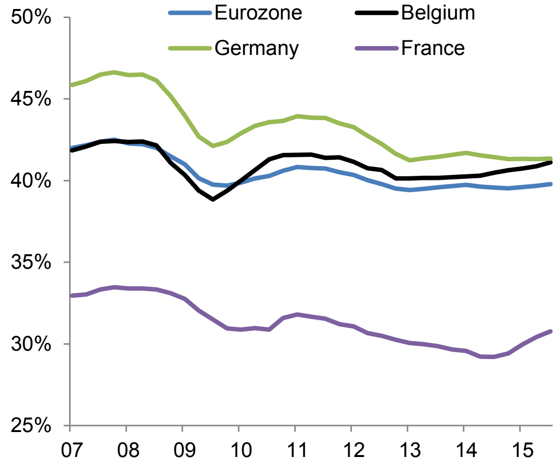
Sources: National sources, IHS, Euler Hermes

Figure 2 – Nominal unit labour cost, hours worked, Q1 2009 = 100



Sources: Eurostat, Euler Hermes

Figure 3 – Non-financial corporations' margins (% of value added)



Sources: National sources, IHS, Euler Hermes

The reforms are expected to lower the annual growth of pension costs in the long term from the 4-5% per year. Indeed, even if Belgium exited the Excessive Deficit Procedure in June 2014 despite the fiscal deficit being marginally above 3% of GDP (see Figure 1), triple digit public debt (106.5% of GDP in 2015), primary balance deficit (-0.1% of GDP) and still weak nominal GDP growth make the public deleveraging process quite tough.

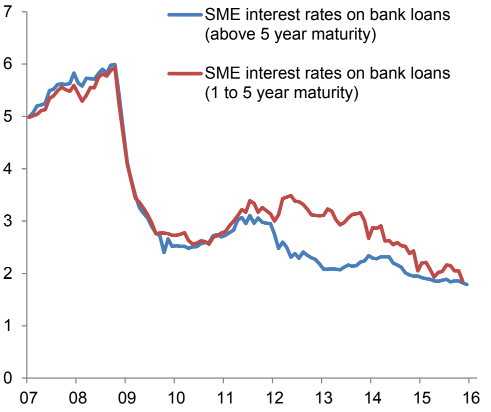
Better financing conditions for companies, higher margins, lower business insolvencies

Financing conditions, including rates on bank loans, have improved over the past few years, particularly for SME. In December 2015, SME bank loans' interest rates on bank loans (over 5 year maturity) were 1.8%, down from 2.2% in June 2014 (see Figure 4). Demand for loans has also picked-up since mid-2015 with the stock of loans rising by +4.8% y/y in January 2016 (see Figure 5).

Non-financial corporations' margins have thus picked-up in mid-2015 thanks to lower financing costs and lower oil prices. They stand above the Eurozone average and cached-up with the German ones (at 41%, +0.5pp since start of 2015, see Figure 3). Likewise, the weaker euro had a positive external shock in 2015 both for margins and turnover. It also contributed to a strong growth in exports (+3.4% in 2015 in real terms).

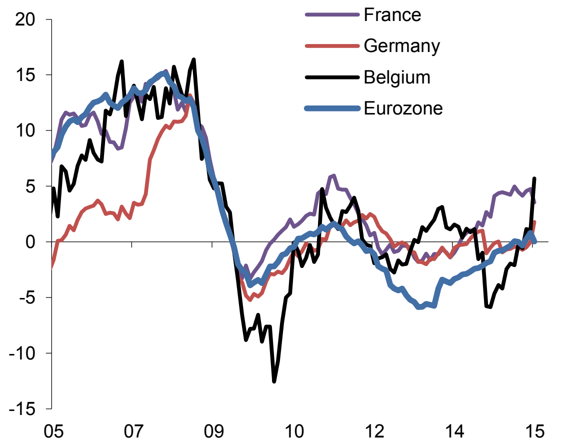
In 2016 and 2017, business insolvencies are expected to continue to fall, by -4% and -5% respectively, but remain 25% above the 2007 levels (see Figure 6).

Figure 4 – Bank loans' interest rates for SMEs



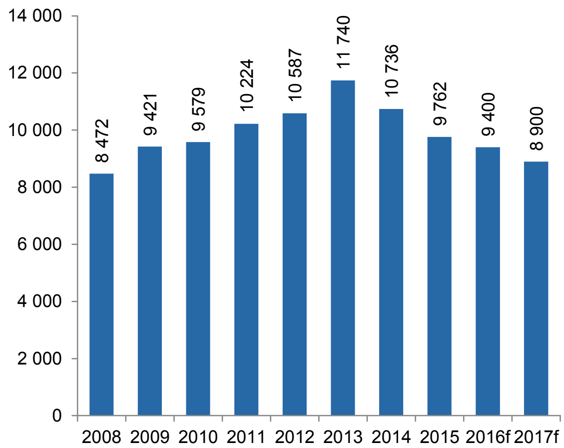
Sources: ECB, Euler Hermes

Figure 5 – Credit to Non-financial companies, y/y change



Sources: ECB, Euler Hermes

Figure 6 – Business insolvencies



Sources: National sources, Euler Hermes

Last review: 2016-03-21
Country Risk Analyst:
Ana Boata
ana.boata@eulerhermes.com