

Reforms benefit companies, but consumers pay the bill

General Information



GDP	USD455bn (World ranking 25, World Bank 2015)
Population	11.28mn (World ranking 77, World Bank 2015)
Form of state	Federal Parliamentary Democracy, Constitutional Monarchy
Head of government	Charles Michel
Next elections	October 2018, local elections; 2019, legislative elections



Strengths

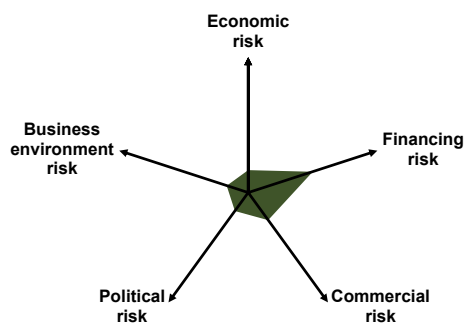
- Strong business environment
- Relatively low corporate debt
- Moderate household debt
- Diversified export structure in terms of products
- High-skilled workforce
- Presence of many European institutions

Weaknesses

- Highest corporate tax in the EU
- High dependency to the eurozone business cycle
- High public debt
- High bank assets

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	17% 1	17% Netherlands
France	15% 2	13% Germany
Netherlands	11% 3	10% France
United Kingdom	9% 4	9% United States
United States	6% 5	5% United Kingdom

By product (% of total)

Exports	Rank	Imports
Pharmaceuticals	12% 1	11% Road vehicles
Road vehicles	10% 2	10% Pharmaceuticals
Organic chemicals	7% 3	9% Refined petroleum
Refined petroleum	7% 4	8% Organic chemicals
Plastics in primary forms	5% 5	5% Non metallic mineral manufactures, n.e.s.

Source: UNCTAD (2015)



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Economic Overview

Consumer spending expected to remain weak

GDP growth declined to +1.2% in 2016, below the eurozone average of 1.7%. This was due to a large extent to the slowdown in the main driver for growth, domestic demand.

Private consumption rose by a mere +0.7% on a backdrop of the freeze of wage indexation (since 2015) and the rise in several indirect taxes. In addition, the 2016 Government budget implemented a shift in taxation from labor to consumption and capital in order to alleviate companies' costs and boost competitiveness.

The rise in indirect taxes such as VAT on electricity (up to 21%), withholding tax (from 25% to 27%), and higher excise duties on tobacco, alcohol, diesel and soft drinks, coupled with the commodity prices' recovery to push inflation above 2% at the start of 2017.

Going forward, the reforms should continue to support the labor market. The unemployment rate fell from 8.3% in January 2015 to 7.7% in January 2017. However, real wage growth is set to remain negative. This will curb private consumption growth to +1.1% in 2017.

Firms profitability reaches record high

Net exports have driven growth in 2016 (+0.8pp) for the first time 2012. Total export gains have more than doubled in 2016 to EUR16bn and should reach EUR25bn in 2017, the best performance since 2011.

A continued upswing in exports will rely on a few factors. First, lower labor costs were achieved through a gradual decrease in employers' social security contributions from 33% to 25% by January 2018. Second, there is the lower euro which should average 1.07 against the USD in 2017. Third, rising demand in the eurozone and globally made life easier for exporters.

Low oil prices, lower financing costs and - above all - moderated wages and reduced social security contributions have boosted firms' margins. After Ireland, Belgium has been the eurozone country to benefit the most from the recovery in profitability, which was up by +1.4pp to 42.8%, a record high level.

Lower unit labor costs and the higher profitability buoyed the construction sector. In 2016 confidence continued to improve and production increased by +3.9%, the highest increase since 2011. Overall, investment in the construction sector returned to above pre-crisis levels at mid-2016 and now stands 5% above the 2008 highs.

Nominal GDP grew by +2.8% in 2016 and should grow by more than +3.5% in 2017. The ongoing reflation process should improve the pricing power for companies and therefore support turnovers. Firms' turnover in the manufacturing sector excluding energy-related sectors grew by +2.2% in 2016. Compared to France (+1.4%) and the eurozone (+0.8%) Belgium is an over performer.

Figure 1 – Key economic forecasts

Belgium	2015	2016	2017	2018
GDP	1.5	1.2	1.3	1.4
Consumer Spending	1.1	0.7	1.1	1.7
Public Spending	1.1	6.1	2.6	0.8
Construction investment	1.3	6.4	5.3	3.0
Equipment investment	2.3	2.1	3.4	3.0
Stocks	*	0.0	-0.2	0.1
Exports	4.3	6.1	5.6	3.8
Imports	4.3	5.3	6.1	4.3
Net exports	*	0.0	0.8	-0.3
Current account	**	2	4	6
Current account (% of GDP)		0.4	1.0	1.3
Employment		0.3	5.7	1.3
Unemployment rate		8.5	8.0	7.5
Wages		0.1	0.5	0.9
Inflation		0.6	2.0	1.8
General government balance (% of GDP)		-2.5	-3.0	-2.3
Public debt (% of GDP)		105.8	106.5	105.7
Nominal GDP	**	410	422	438

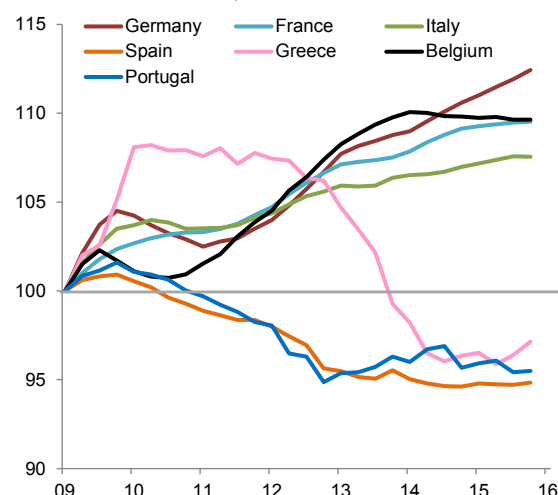
Change over the period, unless otherwise indicated:

* contribution to GDP growth

** EUR bn

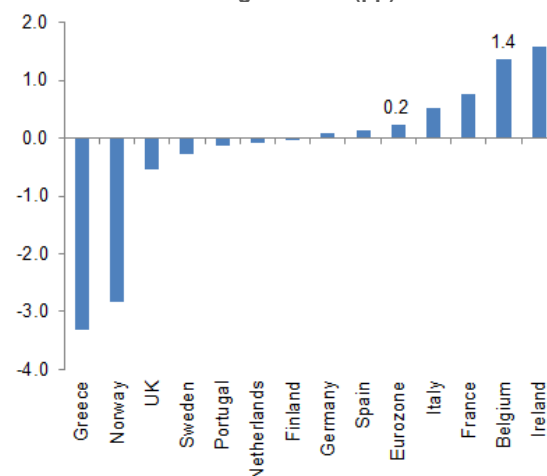
Sources: National sources, IHS, Euler Hermes

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



Sources: Eurostat, Euler Hermes

Figure 3 – Non-financial corporations' profitability, change in 2016 (pp)



Sources: National sources, IHS, Euler Hermes

Business insolvencies remain above the 2007 level

In 2017 and 2018, business insolvencies are expected to continue to fall, but at a slower pace than in previous years: -2% and -5% respectively. The 2018 forecast - 8500 cases – is still 11% above the 2007 level (see Figure 4).

Brexit remains a risk due to close trade links between Belgium and the UK

Belgium is highly exposed to the British economy, notably through trade in goods (see Figure 5). The most sensitive sectors are Chemicals, Automotive, and Energy.

The impact on Belgium could come in various forms. Euler Hermes' baseline scenario takes into account a limited Free Trade Agreement (FTA) which would imply tariffs on UK goods and some services imported by the EU equivalent to 5%.

In such case, we forecast a total negative impact on GDP growth of -1.0pp between 2017 and 2021. One should expect a gradual implementation of the new trade agreement. This should give time to businesses to adapt to the new commercial relationships. Total export losses for goods and services could reach -EUR3.5bn between 2017-21.

Changes in regulation and additional administrative costs could imply lower activity for Belgian companies operating in the UK.

Moreover, UK-based subsidiaries in the financial sector would no longer access euro financing through the European Central Bank.

Thus, Belgian companies could be inclined to invest less in the UK post EU-exit. The same could be true the other way around.

We forecast an investment loss of -EUR1bn between 2017 and 2021 in our baseline scenario.

In terms of imports from the UK, prices would increase as a consequence of tariffs implementation. Yet in the short-term, this should not be a significant issue given the GBP depreciation.

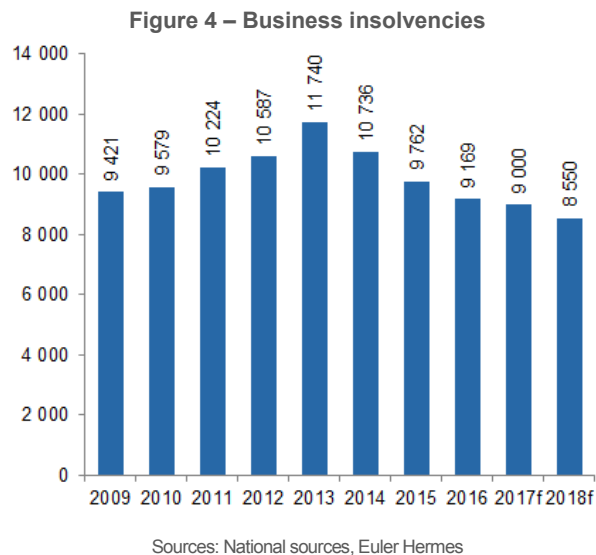
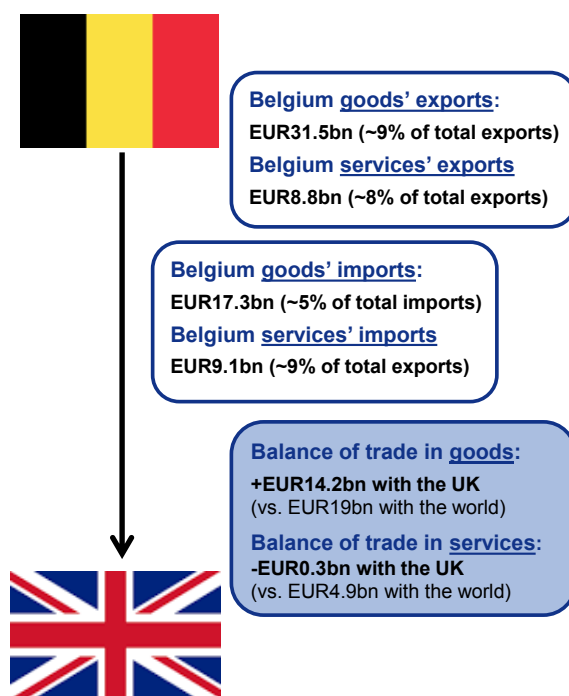


Figure 5 – Trade links between Belgium and the UK



Sources: ITC, Euler Hermes

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