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# Country report

# BELGIUM


**Summary**

The ongoing political stalemate poses a threat to the necessary structural adjustments of the government budget. We don't expect a satisfying level of budgetary adjustments in the short term and are unsure about the resulting sentiment in financial markets. However, based on a strong and stable economy and a very healthy private sector, we definitely do expect the government to remain solvent in the coming years.


**Things to watch:**

- The formation of a coalition and the resulting sentiment in financial markets
- The extent of fiscal consolidation to ensure the sustainability of public finances
- Reduced, but still present vulnerabilities in the banking sector due to foreign exposures


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## Belgium

| National facts | |
|---|---|
| Type of government | Constitutional monarchy |
| Capital | Brussels |
| Surface area (thousand sq km) | 30.3 |
| Population (millions) | 10.6 |
| Main languages | Dutch (60%) |
| | French (40%) |
| Main religions | Catholic (75%) |
| | Other (25%) |
| Head of State (president) | King Albert II |
| Head of Government (prime-minister) | Yves Leterme (caretaker) |
| Monetary unit | EUR |

| Economy | | 2010 |
|---|---|---|
| *Economic size* | *bn USD* | *% world total* |
| Nominal GDP | 473 | 0.76 |
| Nominal GDP at PPP | 381 | 0.52 |
| Export value of goods and services | 381 | 2.04 |
| IMF quotum (in mln SDR) | 4605 | 2.12 |
| *Economic structure* | *2010* | *5-year av.* |
| Real GDP growth | 2.0 | 1.1 |
| Agriculture (% of GDP) | 1 | 1 |
| Industry (% of GDP) | 22 | 23 |
| Services (% of GDP) | 77 | 76 |
| *Standards of living* | *USD* | *% world av.* |
| Nominal GDP per head | 44516 | 453 |
| Nominal GDP per head at PPP | 35842 | 307 |
| Real GDP per head | 37526 | 469 |

| Social and governance indicators | rank / total |
|---|---|
| Human Development Index (rank) | 18 / 169 |
| Ease of doing business (rank) | 25 / 183 |
| Economic freedom index (rank) | 32 / 179 |
| Corruption perceptions index (rank) | 22 / 178 |
| Press freedom index (rank) | 14 / 178 |
| Gini index (income distribution) | 33.0 |
| Population below $1.25 per day (PPP) | N/A |

| Foreign trade | | | 2009 |
|---|---|---|---|
| *Main export partners (%)* | | *Main import partners (%)* | |
| Germany | 20 | Netherlands | 18 |
| France | 18 | Germany | 17 |
| Netherlands | 12 | France | 12 |
| UK | 7 | Ireland | 6 |

| *Main export products (%)* | |
|---|---|
| Chemicals and related products, n.e.s. | 32 |
| Machinery and transport equipment | 21 |
| Food, drinks and tobacco | 9 |
| Mineral fuels, lubricants, and related materials | 7 |
| *Main import products (%)* | |
| Chemicals and related products, n.e.s. | 26 |
| Machinery and transport equipment | 24 |
| Mineral fuels, lubricants, and related materials | 11 |
| Food, drinks and tobacco | 8 |
| *Openness of the economy* | |
| Export value of G&S (% of GDP) | 80 |
| Import value of G&S (% of GDP) | 79 |
| Inward FDI (% of GDP) | 3.0 |

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

**Full report:**

After the recession of 2009 (GDP -2.7% y-o-y) the economy experienced a somewhat bumpy recovery during 2010 (+2.0% y-o-y). For the small and open Belgian economy, the recovery of exports, which at the depth of the recession was down 17% on its 2008 level, has been the driving force behind the return to positive GDP growth. From a European perspective private investment and consumption were not hit too hard during the crisis, and private consumption could even significantly contribute to growth again in 2010. Employment decreased only modestly during the crisis and is currently already above its pre-crisis level. Unemployment has risen though from 7.0% (2008) to 8.5% (peak), but is currently below 8%.

The outlook for the coming years shows a moderate economic recovery. Exports will continue their growth, but the contribution to growth is uncertain due to the developments in world trade. However, favourable trends in consumer and producer sentiment signal that domestic demand might step up to support the recovery from 2011 onwards. That said, the government will have to start imposing budget cuts eventually, if not on its own account then forced by jittery financial markets. This will suppress domestic demand growth.

The budget cuts are necessary as Belgium has a very high level of public debt (around 100%-GDP) which will probably rise further in the coming years due to the sizeable government budget deficit (4.1%-GDP in 2010, according to the National Statistics Office). During the last decade the government was very successful in keeping deficits low (occasionally even posting surpluses), which substantially reduced the gross government debt, from 138%-GDP in 1993 to 88%-GDP in 2007. However since the financial crisis the deficit rose strongly again, partly cyclically but also due to structural expansionary measures. Several mediators have tried to form a coalition after the general elections in June 2010, but the Flanders and the Flemish still disagree (among others on intergovernmental fiscal arrangements). In the meantime it is very difficult to establish structural adjustments to the government budget, although the current caretaker cabinet led by Yves Leterme will probably succeed to reduce the deficit to below 4.1%-GDP in 2011, as was agreed upon with the European Commission. However, given the political deadlock we don't expect the government to meet the -3%-GDP budget target in 2012 and the balanced budget target by 2015. Political bickering is something that has become part of the Belgian political system over the past decades and it has not prevented a substantial fiscal consolidation in the past. Therefore, also based on a strong and stable economy and a very healthy private sector, we definitely do expect the government to remain solvent in the coming years. Nevertheless, in the short term it is important to make structural adjustments as financial markets today may not digest the political uncertainty (the spread on 10 year bonds with Germany increased substantially at the end of 2010) and rating agencies have warned for a possible downgrade. The fact that 65% of government debt is held by non-residents makes the government even more vulnerable for market sentiment. Moreover, in the medium and long term adjustments are necessary to reduce the impact of future aging (which is average from a European). Reforms are especially necessary regarding the current generous pension system and the low rate of labour participation.

As stated before, the private sector of Belgium is one of the healthiest in Europe. Due to very high household savings (net financial assets amount to 212%-GDP) and only moderate debt levels of firms, it has a very sound external financial position. However, due to a deterioration of its competitiveness Belgium had a current account deficit in 2008 for the first time since the late 70's. To regain a good position of the export sector (and to increase the ability to finance the government debt internally in the future) it is important increase the investments in research/innovation and to moderate the wage growth.

The strength of the banking sector has improved since the crisis and there has been a first rebound of profitability. Despite the fact that the capital adequacy of Belgian banks is favourable from a European perspective, there remain come considerable risks, mainly due to relatively large exposures in South- and Eastern-Europe. Banking activities in these areas are confronted with higher nonperforming loans (NPL). Currently, many of the larger Belgian banks are restructuring, i.e. deleveraging and shifting the focus to their core activities. Domestically the NPL remains relatively muted, given the economic recovery and the low debt level (and conservative lending) of the private sector.

# Belgium

| Selection of economic indicators | 2006 | 2007 | 2008 | 2009 | 2010 | 2011e | 2012f |
|---|---|---|---|---|---|---|---|
| *Key country risk indicators* | | | | | | | |
| GDP (% real change pa) | 2.7 | 2.8 | 0.8 | -2.7 | 2.0 | 1.7 | 1.4 |
| Consumer prices (average % change pa) | 2.3 | 1.8 | 4.5 | 0.0 | 2.3 | 2.5 | 2.2 |
| Current account balance (% of GDP) | 2.0 | 1.5 | -1.6 | 0.7 | 1.1 | 0.6 | 0.7 |
| *Economic growth* | | | | | | | |
| GDP (% real change pa) | 2.7 | 2.8 | 0.8 | -2.7 | 2.0 | 1.7 | 1.4 |
| Gross fixed investment (% real change pa) | 2.0 | 6.3 | 2.4 | -4.9 | -1.8 | 2.0 | 2.0 |
| Private consumption (real % change pa) | 1.8 | 1.7 | 1.4 | -0.2 | 1.6 | 1.6 | 1.5 |
| Government consumption (% real change pa) | 0.6 | 2.1 | 2.5 | 0.4 | 1.0 | 1.5 | 1.5 |
| Exports of G&S (% real change pa) | 5.0 | 4.3 | 1.4 | -11.4 | 10.4 | 5.8 | 4.4 |
| Imports of G&S (% real change pa) | 4.6 | 4.4 | 2.8 | -10.9 | 8.4 | 5.2 | 4.7 |
| *Economic policy* | | | | | | | |
| Budget balance (% of GDP) | 0.1 | -0.4 | -1.4 | -6.1 | -4.5 | -4.0 | -3.6 |
| Public debt (% of GDP) | 92 | 88 | 93 | 100 | 100 | 101 | 103 |
| Money market interest rate (%) | 3.1 | 4.3 | 4.6 | 1.2 | 0.8 | 1.0 | 1.5 |
| M2 growth (% change pa) | 6 | 4 | 5 | 3 | 9 | 7 | 5 |
| Consumer prices (average % change pa) | 2.3 | 1.8 | 4.5 | 0.0 | 2.3 | 2.5 | 2.2 |
| Exchange rate LCU to USD (average) | 0.8 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Recorded unemployment (%) | 8.3 | 7.5 | 7.0 | 7.9 | 8.3 | 8.4 | 8.9 |
| *Balance of payments (mln USD)* | | | | | | | |
| Current account balance | 8036 | 7041 | -8342 | 3500 | 5300 | 2900 | 3300 |
| Trade balance | 3357 | 615 | -16347 | -2900 | 2600 | 2000 | 1200 |
| Export value of goods | 281135 | 299407 | 331700 | 252200 | 295200 | 303400 | 299800 |
| Import value of goods | 277780 | 298790 | 348050 | 255100 | 292600 | 301400 | 298600 |
| Services balance | 6265 | 5772 | 4764 | 8700 | 3500 | 3100 | 2600 |
| Income balance | 4952 | 7011 | 12780 | 6600 | 9200 | 7500 | 9000 |
| Transfer balance | -6542 | -6357 | -9538 | -8900 | -10000 | -9700 | -9500 |
| Net direct investment flows | 7087 | 13096 | -23816 | 39826 | 2141 | 4600 | 15830 |
| *External position (mln USD)* | | | | | | | |
| International investment position | 120320 | 142900 | 149940 | 211020 | N/A | N/A | N/A |
| Total assets | 1892380 | 2452420 | 2345200 | 2344130 | N/A | N/A | N/A |
| Total liabilities | 1772060 | 2309520 | 2195260 | 2133110 | N/A | N/A | N/A |
| *Key ratios for balance of payments, external solvency and external liquidity* | | | | | | | |
| Trade balance (% of GDP) | 0.8 | 0.1 | -3.2 | -0.6 | 0.5 | 0.4 | 0.3 |
| Current account balance (% of GDP) | 2.0 | 1.5 | -1.6 | 0.7 | 1.1 | 0.6 | 0.7 |
| Inward FDI (% of GDP) | 14.2 | 21.1 | 21.0 | -8.2 | 3.0 | 3.0 | 7.9 |
| International investment position (% of GDP) | 30.1 | 31.2 | 29.6 | 44.7 | N/A | N/A | N/A |

Source: EIU