

Belgium's economy in a nutshell

Introduction

Belgium is one of the six founding countries of the European Union. Located in the heart of Western Europe, its position undoubtedly constitutes a key aspect of its economy and its capital, Brussels, is home to a large number of European and international institutions.

With a surface area of 31,000 km² and 11 million inhabitants, Belgium, along with the Netherlands, has the highest population density in Europe.

Belgium is divided into three Regions: the Brussels-Capital Region, Flanders and Wallonia. Its population is also broken down into three language groups (Dutch, French and German) and therefore Belgium has also three communities: the Flemish Community, the French Community and the German-speaking Community.

The communication infrastructure is highly developed across the country in terms of major roads, railways, waterways, international airports (Brussels, Liege, Charleroi, Ostend, Antwerp and Courtrai) and sea ports (Antwerp, Zeebrugge, Ghent and Ostend). Belgium has one of the most developed “broadband” telecommunication networks in Europe.

Furthermore, Belgium is among the top 25 most competitive nations according to the Institute for Management Development (IMD World Competitiveness Yearbook 2016 Results¹) and is ranked 17th according to the World Economic Forum (Global Competitiveness Report 2016–2017²).

Belgium has land resources and a highly-qualified workforce. It is a quintessential “small open economy”: “small”, with a gross domestic product (GDP) of 410.3 billion euro in 2015, accounting for 3% of the total GDP of the European Union and “open” with a level of openness³ of 82% in 2015.

The Belgian economy's openness is reflected through its integration into the European Union as well as through its growing focus on the markets outside the European Union. From 2008 to 2012, the Belgian share of international trade has increased with countries outside the European Union at the expense of the internal market trade, for both exports and imports. This has been an ongoing trend for imports since then while for exports, this share has decreased both inside and outside the EU.

Table 1 Share of exports and imports (Belgium, in %)

| | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-------------|------|------|------|------|------|------|------|------|
| Share of exports (Belgium in EU-28) | Intra EU-28 | 9,0 | 9,1 | 8,8 | 8,7 | 8,6 | 8,7 | 8,6 | 8,4 |
| | Extra-EU-28 | 5,6 | 5,9 | 6,1 | 6,2 | 6,2 | 6,1 | 6,1 | 5,6 |
| Share of imports (Belgium in EU-28) | Intra EU-28 | 8,3 | 8,3 | 8,2 | 8,2 | 8,3 | 8,2 | 7,8 | 7,1 |
| | Extra EU-28 | 6,0 | 6,1 | 6,0 | 6,3 | 6,2 | 6,8 | 7,1 | 7,3 |

Source : Eurostat

¹ <http://www.imd.org/wcc/news-wcy-ranking/>

² <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>

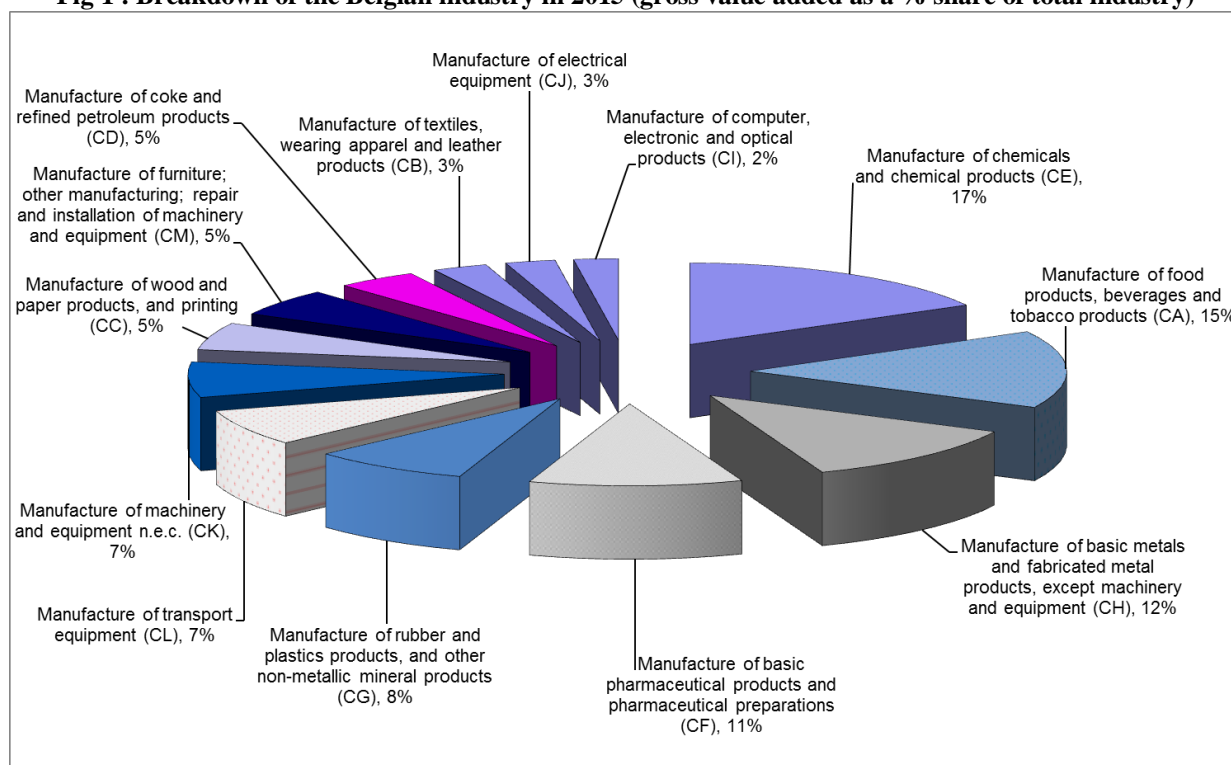
³ Average value of its imports and exports of goods and services divided by GDP, multiplied by 100

The Belgian economy, just like any modern industrialized economy, is characterized by the growing importance of services: the share of trade services in the total gross value added represented 54.5% in 2015 (including wholesale and retail), while this share amounted to 14.3% for industry (including energy) and 5.4% for construction. The balance is distributed between non-market services (including healthcare) and agriculture.

Despite its more limited size than before, the manufacturing industry is still key to the Belgian economy because, in addition to the fact that it generates a large share of trade services, it also generates strong domestic wealth by satisfying foreign demand for Belgian exports.

The strong sectors of the Belgian industry are the chemical industry (17% of the total manufacturing value added), the food industries (15%), the manufacture of basic metals and fabricated metal products (12%) and the pharmaceutical industry (11%).

Fig 1 : Breakdown of the Belgian industry in 2015 (gross value added as a % share of total industry)



Source: National accounts institute (NAI)

According to European structural indicators, Belgium’s GDP per capita, expressed in purchasing power standards, amounted to 119 in 2015 compared to the EU-28 average set equal to 100 and was not far from 120, its best performance over the last 10 years. Belgium is one of the richest countries in Europe, just behind Germany⁴.

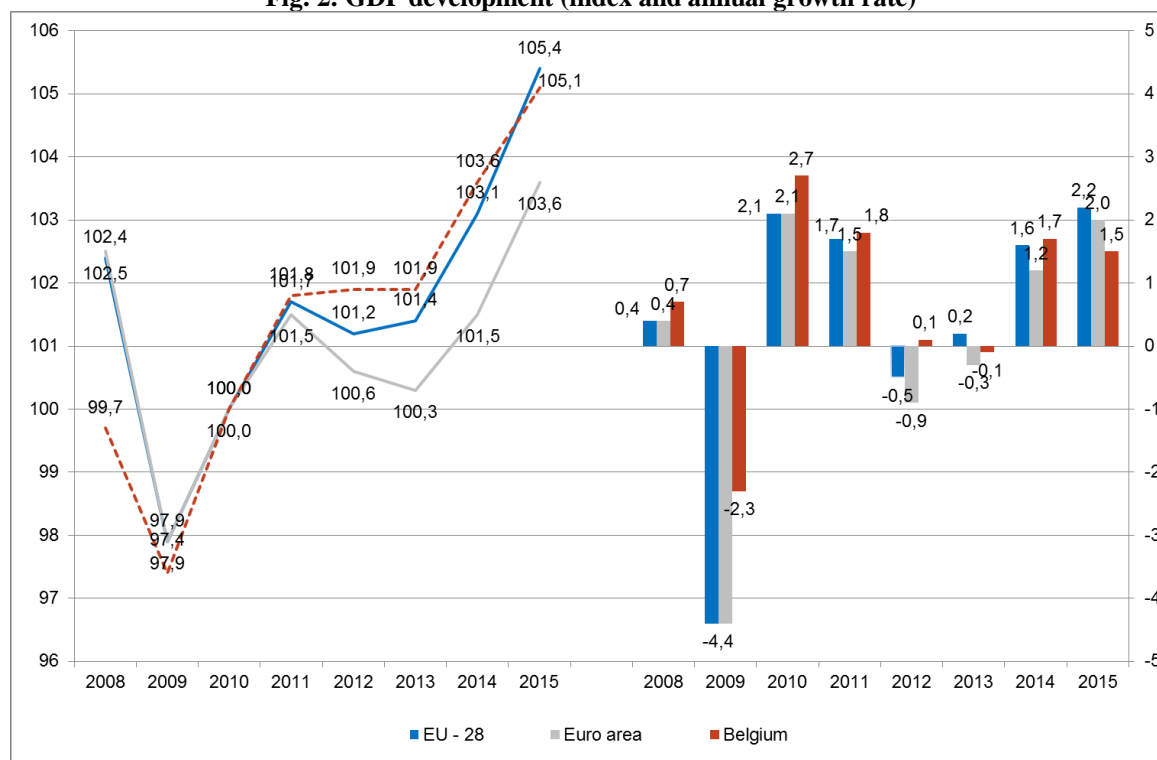
The openness of the Belgian economy and its membership to a single monetary zone justify a generally moderate inflation rate. Nonetheless, inflation has risen quicker compared to its main trade partners (France, Germany and the Netherlands) since various years.

⁴ <http://donnees.banquemondiale.org/indicateur/NY.GDP.PCAP.CD>

1. Gross Domestic Product

- Belgium has experienced moderate economic growth in 2015. GDP increased by 1.5% (compared to 1.7% in 2014) supported by a turnaround observed in the construction and in the industry. The rebound of business investment (mainly in 2014) and the rise of household consumption expenditures increased domestic demand and hence rekindled economic activity.
- Foreign trade has proved to be more dynamic in 2015 than in 2014 while net exports of goods and services stabilizing in 2015.
- Economic activity in the third quarter of 2016 expanded by 0.2% compared to the previous quarter and by 1.3%⁵ on an annual basis. The value added increased in all the activity sectors and GDP growth was supported by domestic expenditures (consumer) and external demand. The net exports of goods and services were positive for the fourth consecutive quarter.
- As far as the Eurozone is concerned, the GDP growth has accelerated in 2015 reaching 2.0% compared to 1.2% in 2014. The GDP growth reached at 1.6% in the third quarter 2016 (yoy).
- Member States located in Eastern Europe have experienced improved growth performance over the past three years.

Fig. 2: GDP development (index and annual growth rate)



Source: Eurostat

⁵ <https://www.nbb.be/doc/dq/f/dq3/histo/nfat16iii.pdf>

2. Foreign Trade – Overview of Trade Flows

- The share of the EU as a whole (EU28) in the world trade exports has slightly decreased between 2008 and 2014, as a direct consequence of the growing importance of China. Indeed, its share grew by one third during the same period of time, from 12.4% in 2008 to 16.5% in 2014.
- However, in recent years the share of the EU28 in world trade exports remained quite stable. The share of the United States followed the same pattern.

Table 2: Share of national exports in world exports (%)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------|-------|-------|-------|-------|-------|-------|-------|
| EU - 28 | 16.6% | 17.1% | 16.0% | 15.9% | 15.5% | 16.3% | 15.9% |
| USA | 11.2% | 11.8% | 11.4% | 10.9% | 11.1% | 11.1% | 11.4% |
| China | 12.4% | 13.5% | 14.0% | 14.0% | 14.7% | 15.6% | 16.5% |
| Japan | 6.8% | 6.5% | 6.9% | 6.1% | 5.7% | 5.0% | 4.9% |
| India | 1.6% | 2.0% | 2.0% | 2.2% | 2.1% | 2.4% | 2.2% |

Source: Eurostat

- The European Union is the first destination of Belgian exports representing 70.8% of total Belgian exports in 2015. This share grew moderately between 2011 and 2015, similar to the USA, but contrary to what can be observed for other European countries and Asia (and more precisely China).

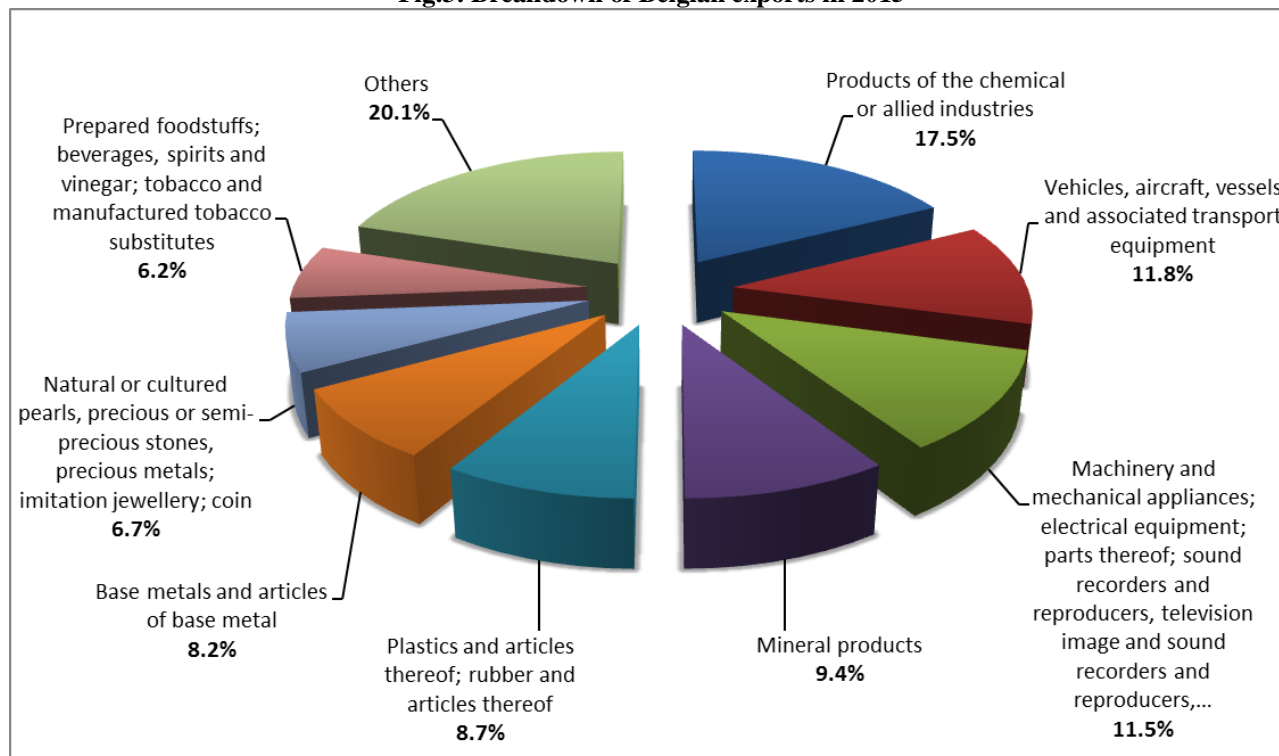
Table 3: The share of Belgian exports going to the main areas

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------|-------|-------|-------|-------|-------|
| World (all entities) | 100% | 100% | 100% | 100% | 100% |
| European Union | 70.0% | 69.5% | 69.7% | 70.0% | 70.8% |
| Other European countries | 5.8% | 5.7% | 5.7% | 5.0% | 4.3% |
| Africa | 2.7% | 2.8% | 2.9% | 2.9% | 2.9% |
| America | 6.6% | 7.3% | 7.0% | 7.1% | 7.9% |
| <i>United States</i> | 4.4% | 5.0% | 4.3% | 4.8% | 5.6% |
| Asia | 12.5% | 12.3% | 12.1% | 12.6% | 12.1% |
| <i>China</i> | 2.4% | 2.4% | 2.3% | 2.3% | 2.0% |
| <i>India</i> | 3.2% | 3.2% | 3.1% | 3.4% | 3.1% |
| <i>Japan</i> | 0.9% | 0.8% | 0.8% | 0.8% | 0.8% |
| Australia and Oceania | 0.6% | 0.5% | 0.5% | 0.5% | 0.5% |
| Other | 1.9% | 1.9% | 2.0% | 1.8% | 1.5% |

Source: National Accounts Institute (NAI)

- In 2015, there were four main sectors that dominated the total exports of Belgium. These were chemical products (17.5%), vehicles and transport equipment (11.8%), machinery and equipment (11.5%) and mineral products (9.4%). Together, those four sectors represented more than the half of all Belgian exports.

Fig.3: Breakdown of Belgian exports in 2015

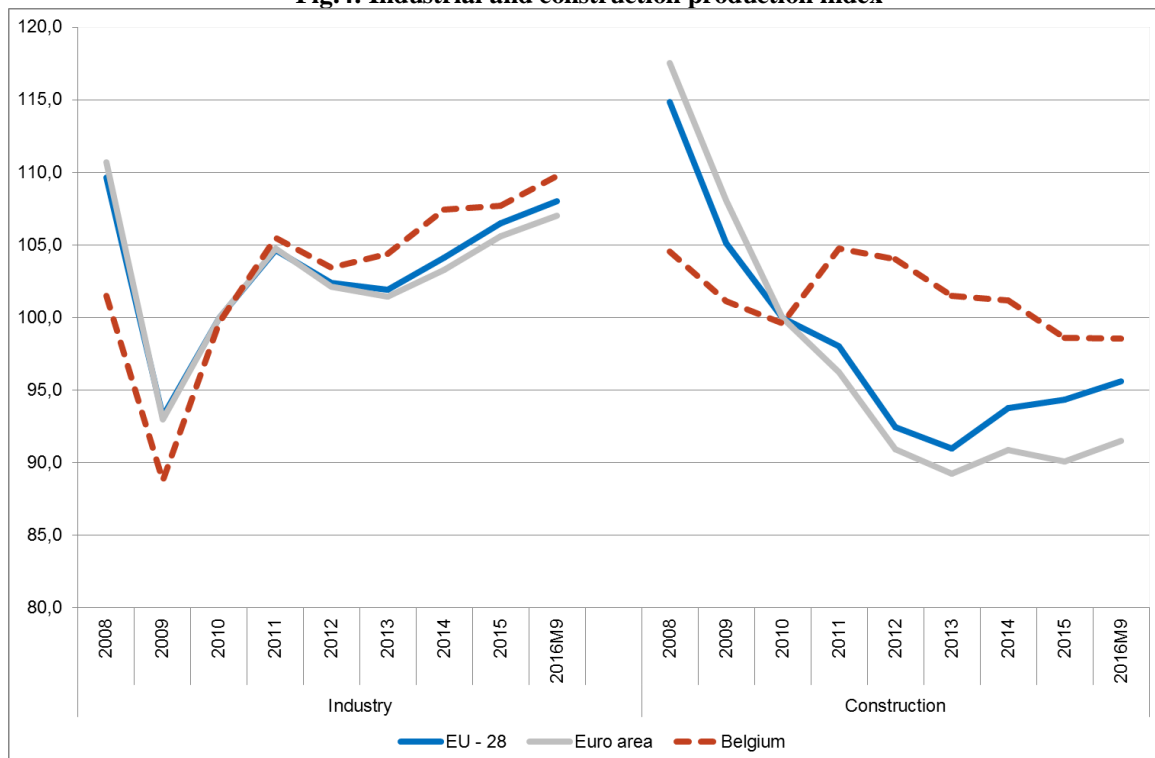


Source: National Accounts Institute (NAI)

3. Industrial Production

- In Belgium, the industrial production is well above its pre-crisis level, in contrast to what can be observed for the European Union or the Eurozone (the fall in activity in some sectors raises question in terms of market positioning, innovation or competitiveness). To put a halt to the deindustrialization, the European Commission wanted to increase the share of the EU industry in GDP to 20% by 2020, compared with less than 16% registered in 2013⁶.
- In 2015, the Belgian industrial production (in volume) grew by 6.1% compared to 2008 and by 0.2% compared to the previous year. In the Eurozone, the industrial production has declined since 2008 (-4.6%) but rose again in 2015 (+2.3%).
- The chemicals and food industries are usually the most important sectors of the industrial activity in Belgium. The production in the chemical sector has diminished by 11.3% since 2008 (-1.3% in de Eurozone). Whereas, industrial activity in the food industries rose up to 8% in Belgium since 2008 compared to +4.1% in the Eurozone.
- The pharmaceutical industry is the most dynamic sector in Belgium. It grew by 82.4% since 2008 (+ 40.6% in Eurozone) but felt in 2015 after two particularly impressive years.
- During the first nine months of 2016, the industrial production pursued its growth in Belgium (+2% year-on-year). The same trend has been observed in the Eurozone (+1.5%).

Fig.4: Industrial and construction production index



Source: Eurostat

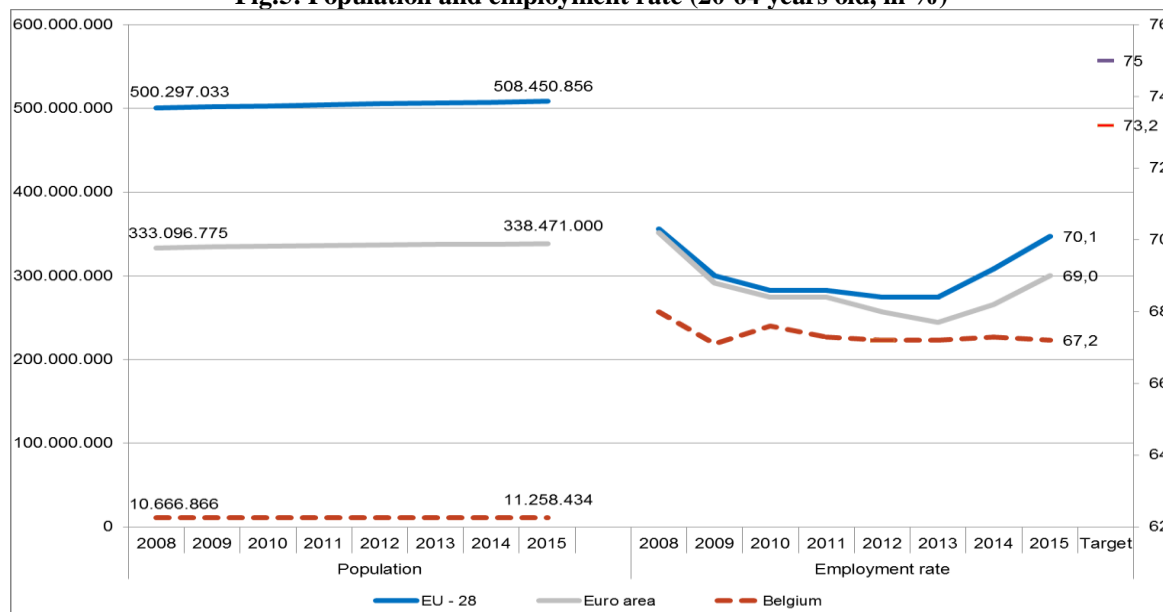
⁶ http://ec.europa.eu/commission_2010-2014/tajani/priorities/reindustrialisation/index_fr.htm

- Production in the construction sector in Belgium remained relatively stable between 2008 and 2015 compared to the Eurozone (-5.7% against -23.6%). Indeed, the lack of a Belgian real estate market bubble helped to cushion the effects of the crisis unlike the situation in some European countries affected by business bankruptcies and the burst of the housing bubble
- Between 2014 and 2015, activity in the construction sector decreased by 2.6% in Belgium and by 0.8% in the Eurozone. During the first nine month of 2016, production in the construction sector decreased by 0.5% in Belgium on an annual basis while it increased by 1.8% in the Eurozone.

4. Labour Force and Unemployment

- The employment rate in Belgium has remained stable, varying between 67% and 68% during the whole period (2008-2015), whereas some Southern European countries (primarily in Greece) observed a particularly strong decline in their employment rate.
- In the 5 coming years, Belgium should increase its employment rate by more than 1 point of percentage on average per year to achieve its Europe 2020 target⁷ of 73.2%, the gap with respect to the current rate being of 6 percentage points.
- Between 2008 and 2013, the employment rate decreased remarkably in Europe, though there were significant disparities between countries. The employment rate (20-64 years) even passed under the 70% threshold in both the European Union and the Eurozone reaching respectively 68.4% and 67.7% in 2013. However, it has significantly increased since then to reach 70.1% for the European Union and 69.0% for the Eurozone in 2015, driven by a rise in employment in the countries most weakened by the crisis, particularly in Spain.
- The gap between the actual employment rate and its 2020 target (75%) is also about 6 percentage points for the Eurozone, the same gap as for Belgium.

Fig.5: Population and employment rate (20-64 years old, in %)



Source: Eurostat

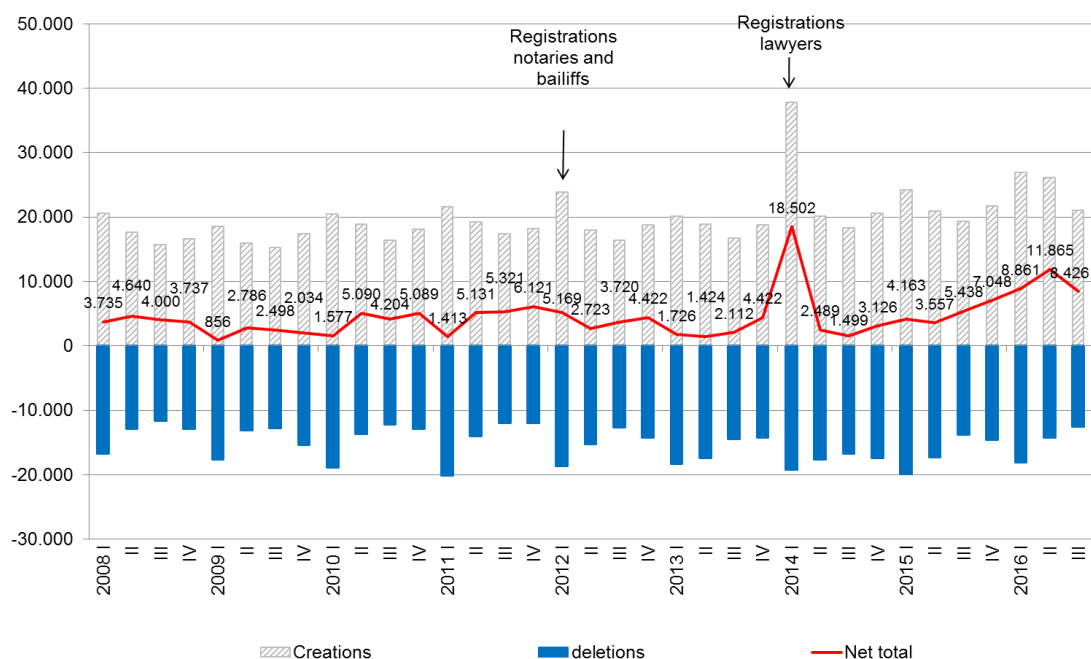
⁷ The five objectives of the EU 2020 Strategy (transposed into national objectives):

1. Employment: Employment for 75% of the population aged 20 to 64 years (73.2% for Belgium)
2. Research and development: Investment of 3% of GDP in the EU for research and development (the same for Belgium);
3. Climate change and sustainable energy: Reduction of 20% greenhouse gas emissions (or even 30%, conditions permitting) compared with 1990. Increase in use of energy from renewable sources to 20%. 20% increase in energy efficiency (respectively 15%, 13% and 18% for Belgium);
4. Education: Lowering the rate of early exit from the school system to less than 10%; A higher education degree for at least 40% of the population aged 30 to 34 years (respectively <9.5% and >=47% for Belgium);
5. Combating poverty and social exclusion: Reduction of the number of people affected or threatened by poverty and social exclusion by at least 20 million (-380,000 for Belgium).

5. Business Demography in Belgium

- In the third quarter of 2016, 20,973 new enterprises were established representing an increase of 8.7% compared to the same quarter of the previous year.
- 12,547 enterprises ceased to exist in the third quarter of 2016 (of which 68.4% self-employed persons and 31.6% legal enterprises), a year-on-year decrease of 9.5%.
- In the third quarter of 2016, the net balance⁸ was positive, representing net establishments of 8,426. Therefore the net balance increased by 54.9% on an annual basis.

Fig. 6: Enterprise creations and cessations (quarterly averages)



Source: Statistics Belgium

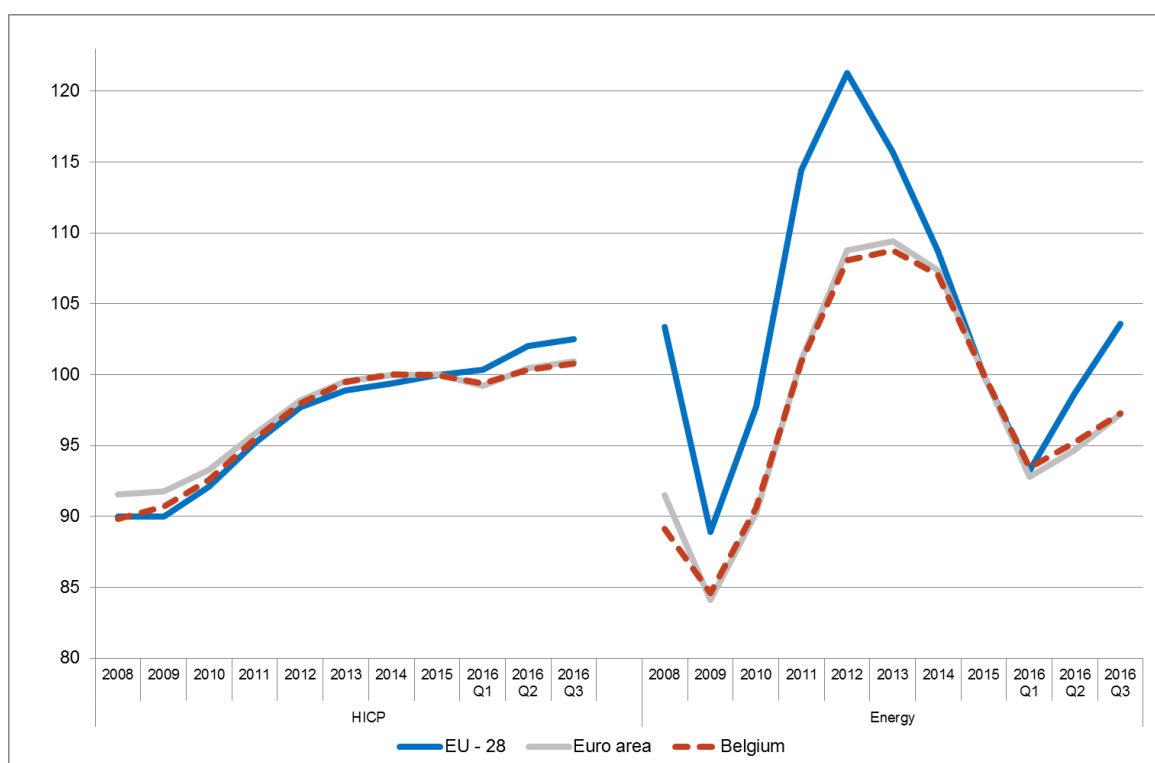
⁸ Net balance = establishments - shutting-downs

6. Trend in Consumer Price Index

(Data up to January 30)

- Since 2008, the average level of consumer prices rose faster in Belgium (13.1%) than in major neighboring countries⁹ and in the Euro area (9.5%). Those are mainly the services and the processed food products that contributed to this faster progress of consumer prices in Belgium.
- The Belgian inflation rose quickly in 2016 (1.8% on a year basis after 0.6% in 2015). Each component, except the energy, put an upward pressure on prices.
- For the fourth year in a row, the energy products affected negatively the total inflation in Belgium (the downward impact of lower prices for energy products decreased quarter over quarter and become positive in the last quarter of 2016).
- In 2016, core inflation has increased attaining 2.0% in 2016 as inflation in services with 2.2%, which was a faster increase than in the neighboring countries (respectively 0.8% for the core inflation and 1.1% for the services). Government asked the FPS Economy to examine the related causes and the final report will be published on March 2017.

Fig. 7: Trend in the consumer price index and in the energy price index



Source: Eurostat

⁹ Namely Germany, France and the Netherlands (respectively 9.2%, 8.6%, 10.8%).

7. Public Finance for Belgium¹⁰

- The deficit amounted to 2.5% of GDP in 2015, in comparison to 3.1% of GDP in 2014.

Fig. 8: Belgian public finance according to the EDP¹¹ (in % of GDP)



Source: NAI

- As a result of the crisis, the deficit rose to reach 5.4% of GDP in 2009. On the one hand, the years 2010 and 2011 have been years of budgetary consolidation and Belgium has made great efforts to reduce its government deficit. On the other hand, the government debt-to-GDP ratio exceeded 100% in 2011. It has continued to climb to reach 106.5% in 2014 before declining in 2015 to 104.8%.
- Both the balance of funding and the level of debt have been revised due to methodological adaptation (ESA 2010). Without this revision, the debt would have been lower.
- Pro memori: In response to the shock of the sovereign-debt crisis, a new European governance has emerged 'post-crisis'. It consists in two main components. The first element called 'the European semester' seeks increased integration and enables Member States to take into account the guidelines of the European Union (EU) at an early stage of the development of their national budgets and their economic policies. The second establishes a reinforced monitoring and stronger sanctions (budgetary surveillance, macroeconomic surveillance and implications at the level of national statisticians via the 2-packs and 6-packs).

¹⁰ Data issued by Eurostat in the context of ESA 2010 accounts

¹¹ Excessive deficits procedure

- A number of significant measures to ensure the long-term sustainability of public finances have been taken. For instance, further steps in the pension reforms were implemented in 2015, notably by raising the statutory retirement age to 66 and 67 years in 2025 and 2030, respectively.
- The Belgian government decided in mid-October 2015¹² to implement a package of measures, called the “tax shift”. The package has a dual objective. On the one hand, it enhances firms’ competitiveness through a significant reduction in their wage costs, mainly by cutting social security contributions. On the other hand, it supports households’ purchasing power by reducing personal income taxes on labor income or employee social security contributions¹³.
- On mid October 2016¹⁴, the Belgian government informed the European Commission on the new measures to reach the balance in 2019.

Table 3: General government budget balances and debts in some euro area countries (in % of GDP)¹⁵

| | Government deficit | | | | | | | | | Debt-to-GDP ratio | | | | | | |
|--------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| EU-28 | -2,4 | -6,6 | -6,4 | -4,6 | -4,3 | -3,3 | -3,0 | -2,4 | 60,7 | 72,8 | 78,4 | 81,1 | 83,8 | 85,7 | 86,7 | 85,0 |
| Euro area (19 countries) | -2,2 | -6,3 | -6,2 | -4,2 | -3,6 | -3,0 | -2,6 | -2,1 | 68,6 | 78,4 | 83,8 | 86,1 | 89,5 | 91,3 | 92,0 | 90,4 |
| Belgium | -1,1 | -5,4 | -4,0 | -4,1 | -4,2 | -3,0 | -3,1 | -2,5 | 92,5 | 99,5 | 99,7 | 102,3 | 104,1 | 105,4 | 106,5 | 105,8 |
| Germany | -0,2 | -3,2 | -4,2 | -1,0 | 0,0 | -0,2 | 0,3 | 0,7 | 65,1 | 72,6 | 81,0 | 78,7 | 79,9 | 77,5 | 74,9 | 71,2 |
| Greece | -10,2 | -15,1 | -11,2 | -10,3 | -8,8 | -13,2 | -3,6 | -7,5 | 109,4 | 126,7 | 146,2 | 172,1 | 159,6 | 177,4 | 179,7 | 177,4 |
| Spain | -4,4 | -11,0 | -9,4 | -9,6 | -10,5 | -7,0 | -6,0 | -5,1 | 39,4 | 52,7 | 60,1 | 69,5 | 85,7 | 95,4 | 100,4 | 99,8 |
| France | -3,2 | -7,2 | -6,8 | -5,1 | -4,8 | -4,0 | -4,0 | -3,5 | 68,0 | 78,9 | 81,6 | 85,2 | 89,5 | 92,3 | 95,3 | 96,2 |
| Italy | -2,7 | -5,3 | -4,2 | -3,7 | -2,9 | -2,7 | -3,0 | -2,6 | 102,4 | 112,5 | 115,4 | 116,5 | 123,3 | 129,0 | 131,9 | 132,3 |
| Luxembourg | 3,4 | -0,7 | -0,7 | 0,5 | 0,3 | 1,0 | 1,5 | 1,6 | 15,1 | 16,0 | 19,9 | 18,8 | 21,8 | 23,5 | 22,7 | 22,1 |
| Netherlands | 0,2 | -5,4 | -5,0 | -4,3 | -3,9 | -2,4 | -2,3 | -1,9 | 54,8 | 56,9 | 59,3 | 61,6 | 66,4 | 67,7 | 67,9 | 65,1 |

Source: Eurostat

¹² The draft program is made public by the Commission in accordance with EU Regulation No 473/2013.¹³ Belgian National Bank¹⁴ The draft program is made public by the Commission in accordance with EU Regulation No 473/2013.¹⁵ The accounts drawn up in the context of the new ESA 2010 accounts will be published on the Eurostat website on October 2016