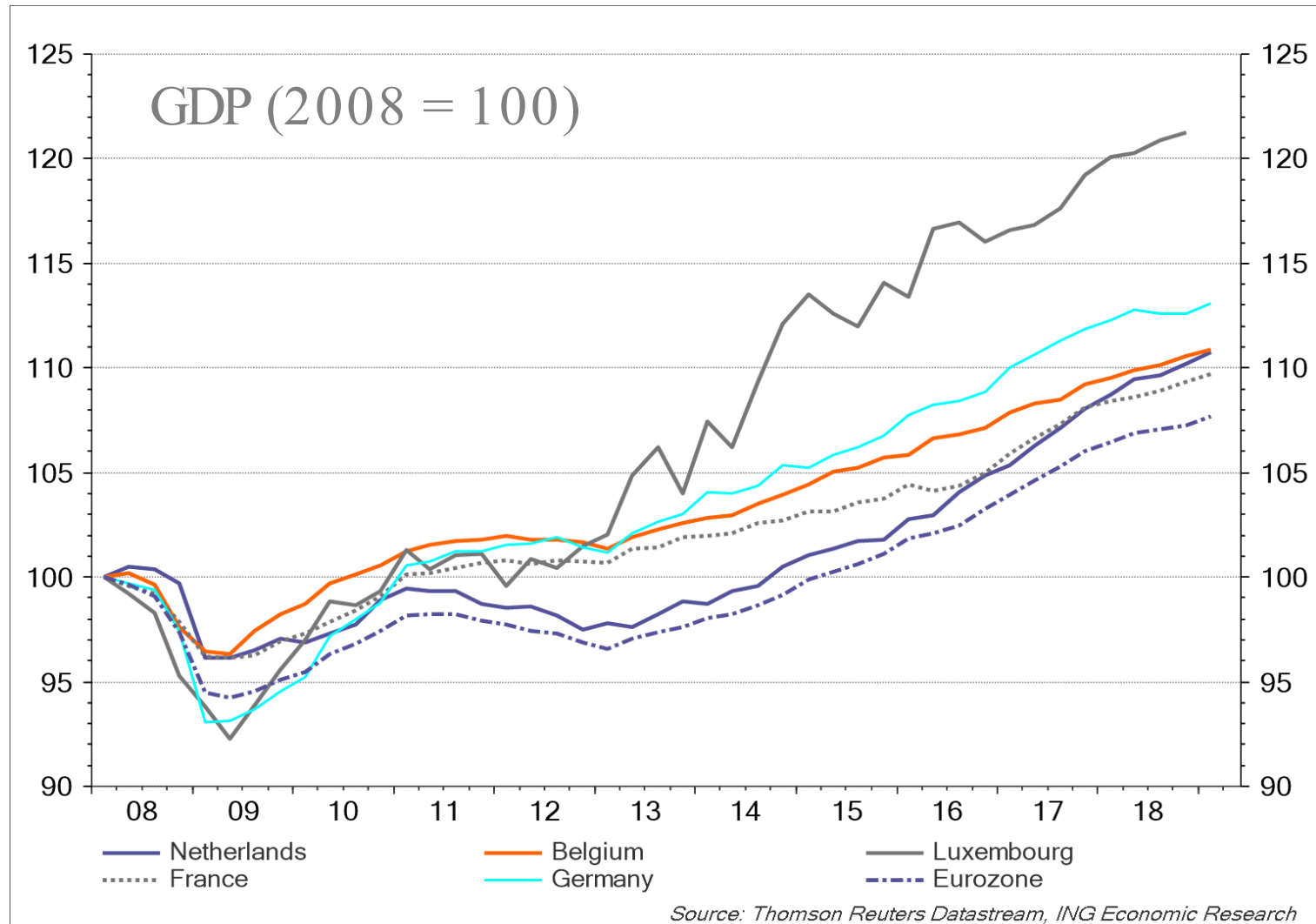


What you need to know about the Belgian economy

Philippe Ledent
Economic Research

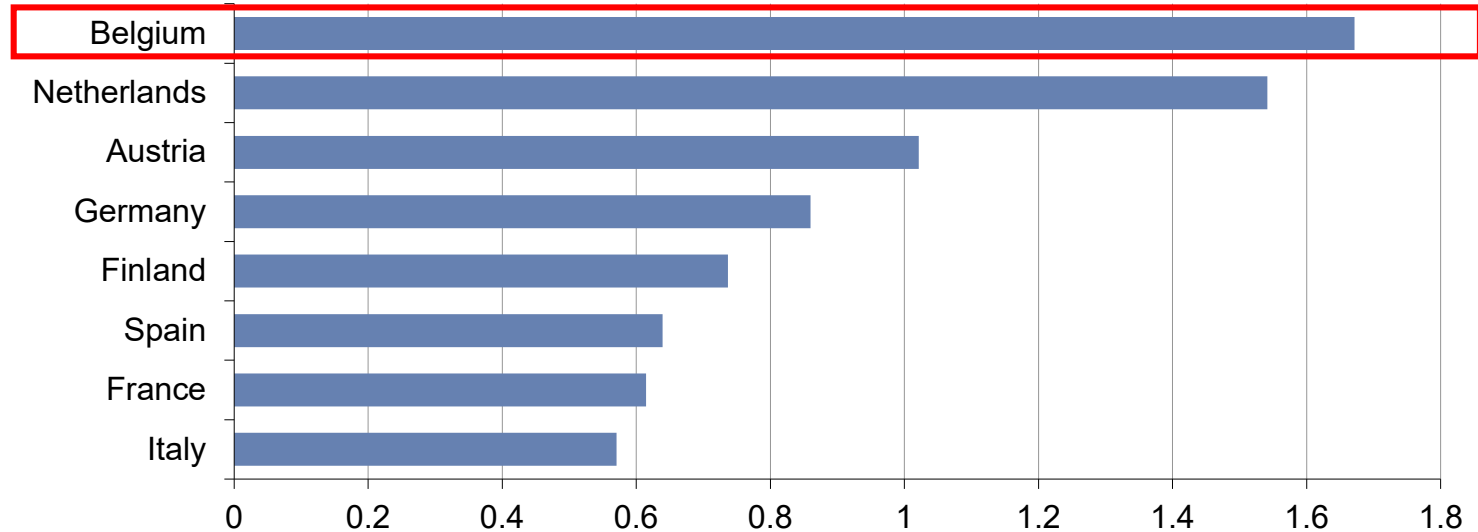
June 2019

Belgium: currently, the growth trend is more comparable to France than to Germany and the Netherlands



Belgium is an open economy

(Export + Import) / GDP

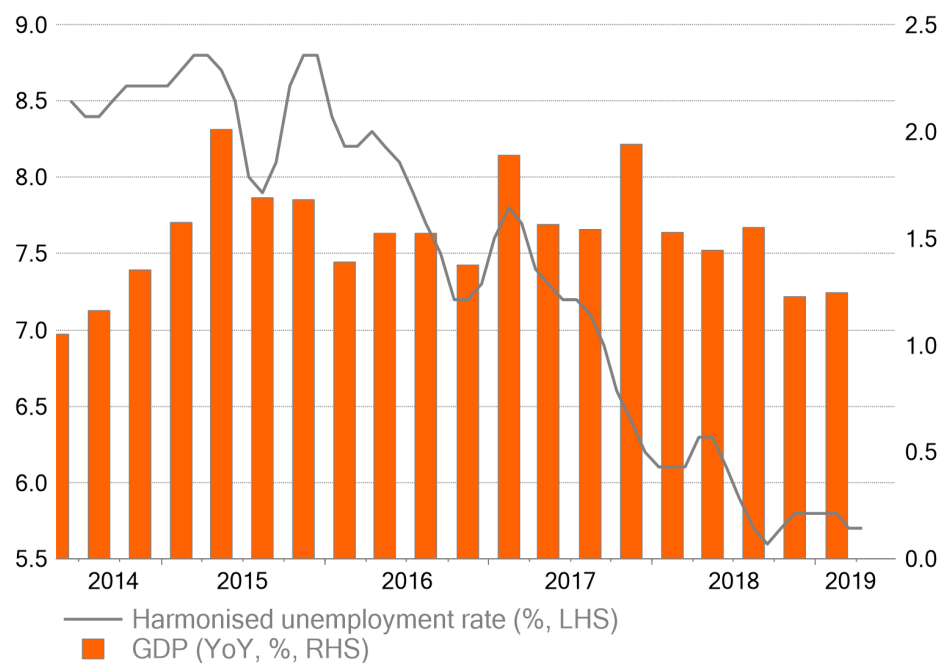


- There are several criteria to assess the openness of a country.
- One is to compute the total amount of international trade (exports + imports) divided by GDP*.
- This gives the degree of openness of an economy. Obviously, Belgium is one of the most open economy in Europe (and even in the world), as external trade represent near 170% of GDP.
- To be sure, please note that a big economy will in general tend to be less open, Germany being the exception.

*One can also divide by domestic demand

Belgium: Economic situation

Activity growth below potential but strong enough to decrease unemployment rate*

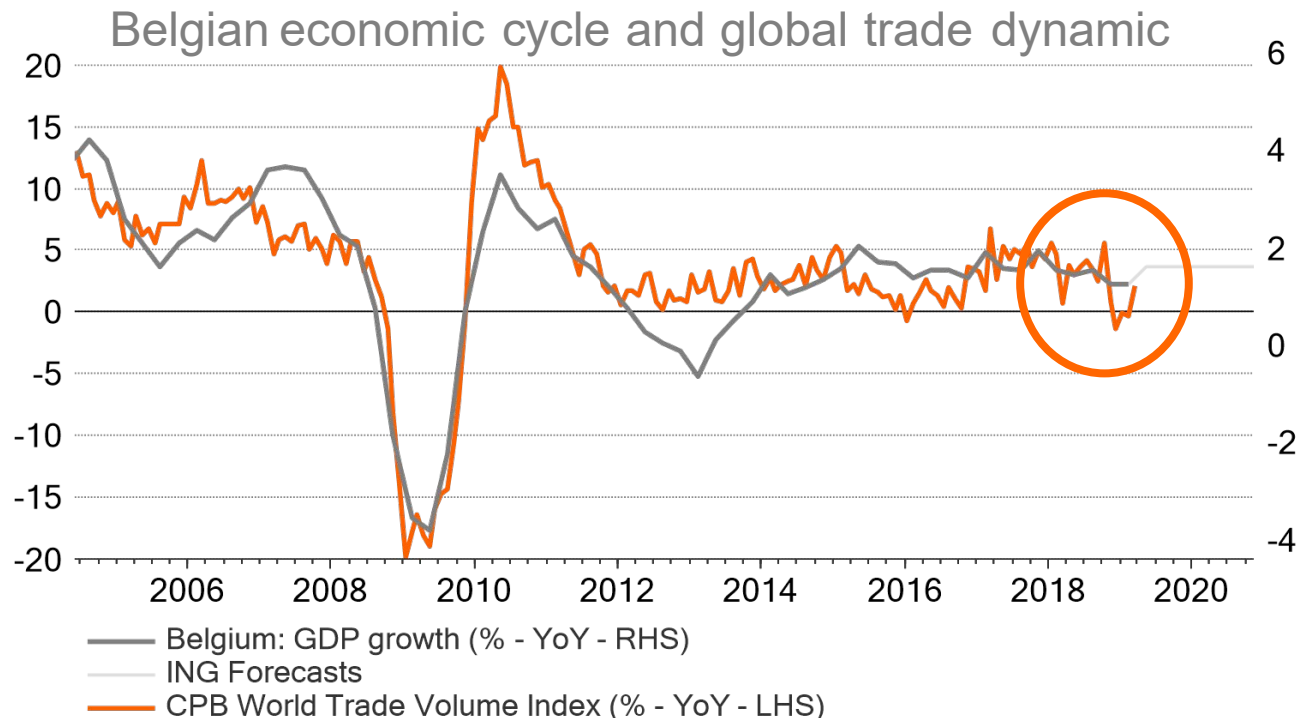


*Official unemployment rate gives a particularly optimistic view on unemployment. To be sure, the computation of the unemployment rate is currently under investigation and could strongly be revised in the near future

- **Growth** below potential (0.3% non annualised QoQ in Q1 2019).
- **Domestic Demand** contributes the most to growth in Q4 2018, thank to productive investment.
- That's said, **private consumption** remains disappointing (and contracted in Q3 AND Q4 2018).
- **Jobs creation** remains solid (around 60,000 net jobs creation in 2018)
- **Inflation** remains too strong compared to EZ average.
- **Public finances** are under control. That said, restoring budget balance is likely to be, once again, postponed (after 2020?).

Belgian economic activity suffers from decelerating global trade

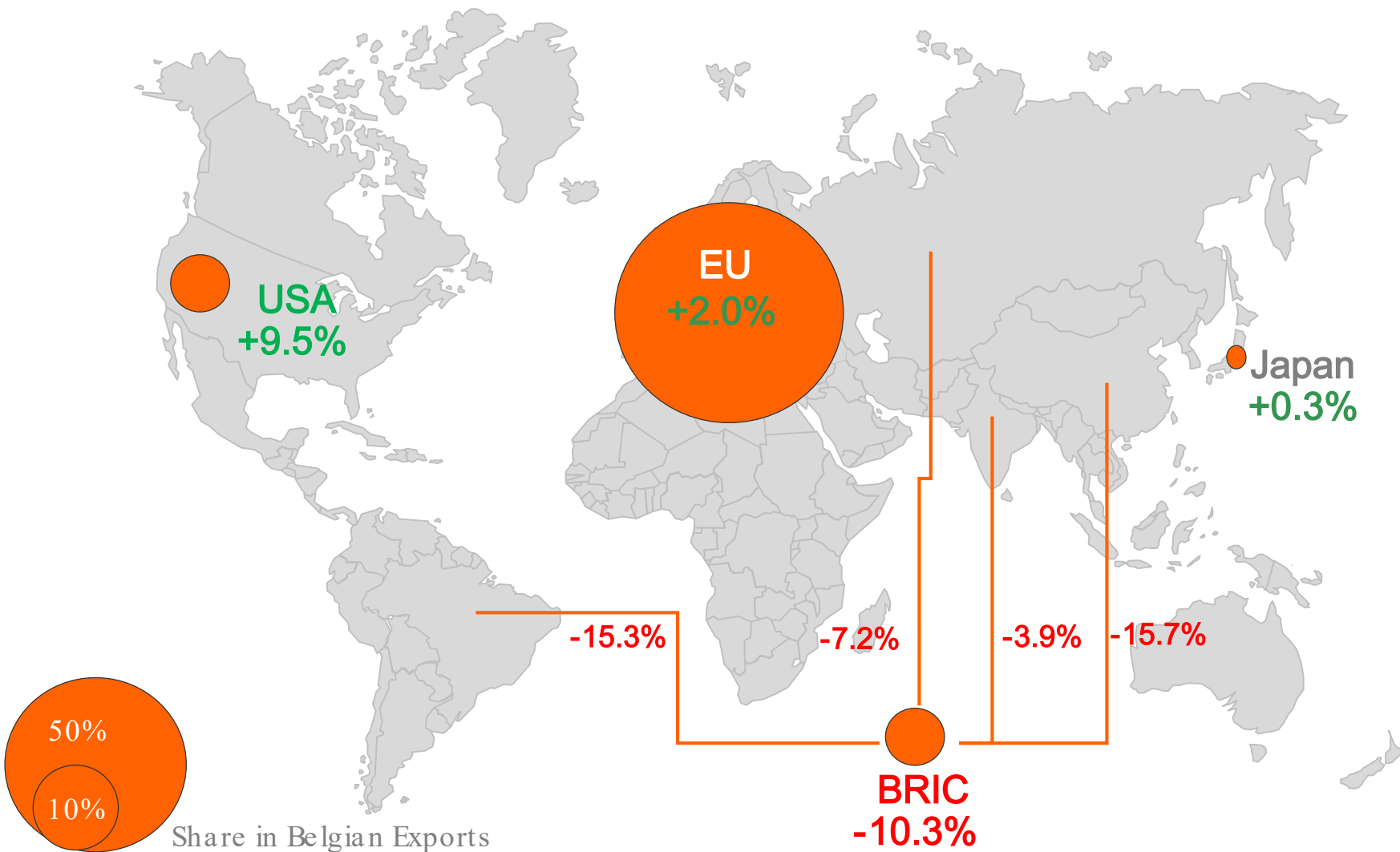
Export Sector		Value		-1M		-3M
Export order book appraisal (level)	05/19	-20.2	✗	-17.6	✗	-13.1
Export Volume (YoY - MA3M)	02/19	4.1%	✓	1.7%	✓	0.4%
Exports to EU (value, Bln. €, last 12 months)	02/19	25.8	✓	25.8	✗	26.0
Exports to US	02/19	21.0	✓	21.0	✓	20.6
Exports to BRIC	02/19	17.6	✗	17.8	✗	18.3



Source: Thomson Reuters Datastream, ING Economic Research

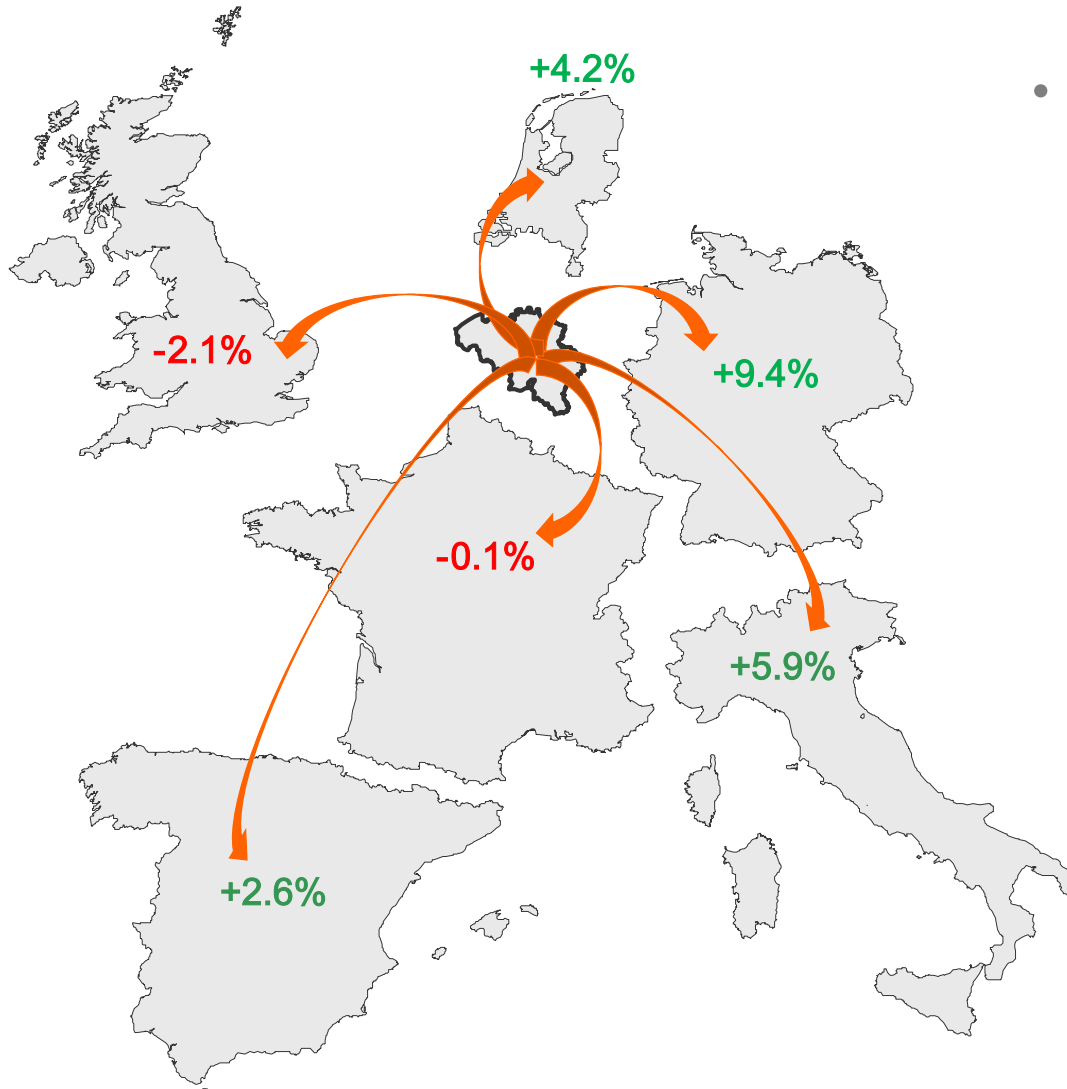
Belgian external trade: Recent evolution

(Mar 2018–Feb 2019 total compared to same period the year before)



External trade – Focus on Europe

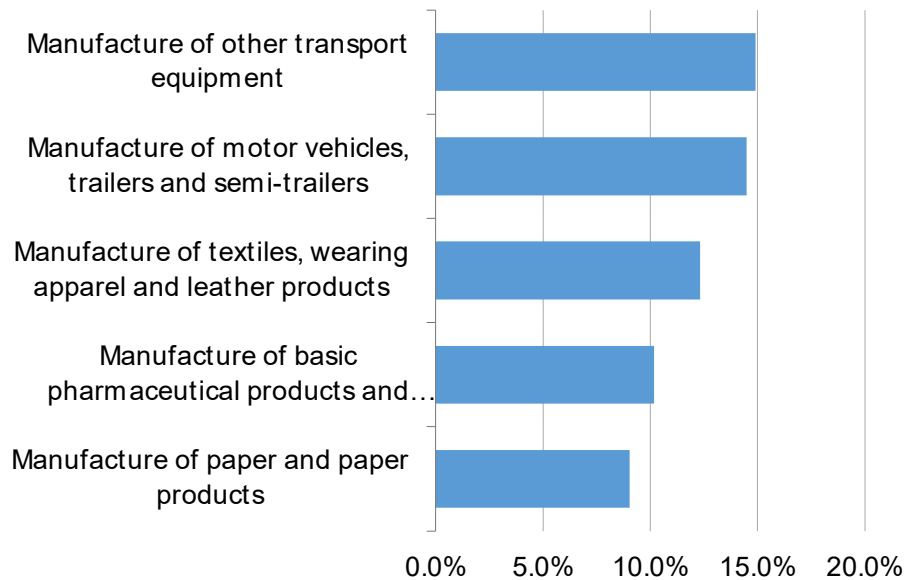
(Mar 2018–Feb 2019 total compared to same period the year before)



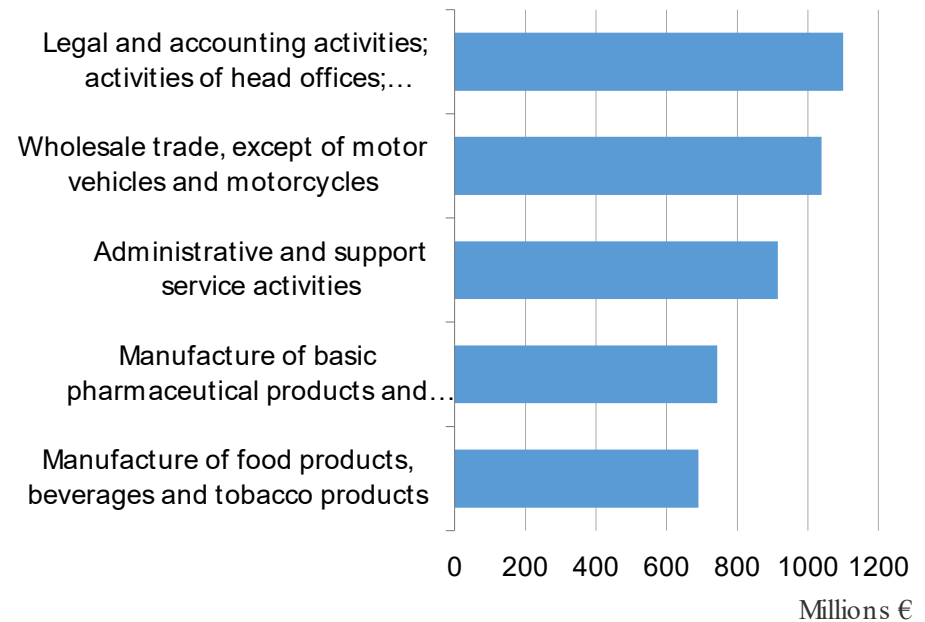
- Together, these 5 countries represent near 60% of total Belgian exports

Belgium: Some sectors are strongly exposed to UK demand

TOP 5 sectors having the highest share of their added value exposed to the UK

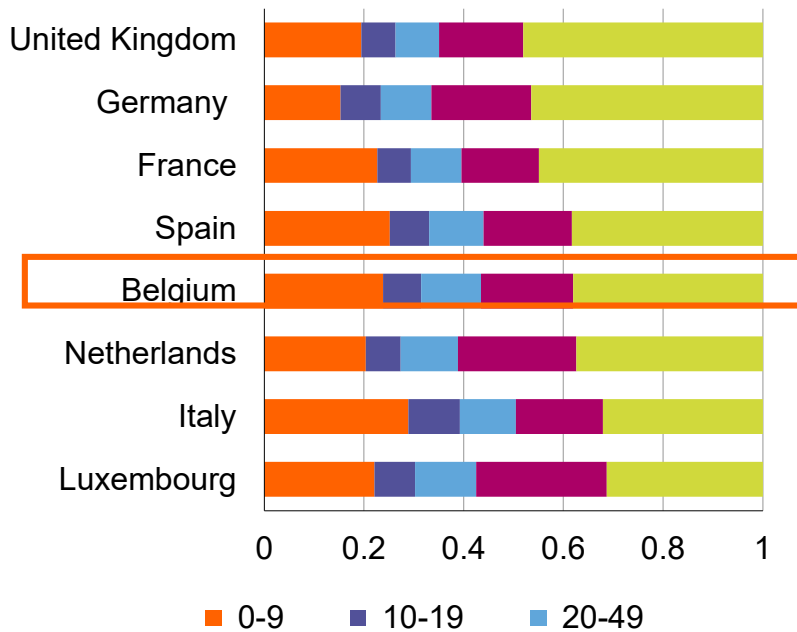


TOP 5 sectors having the highest added value exposed to UK demand

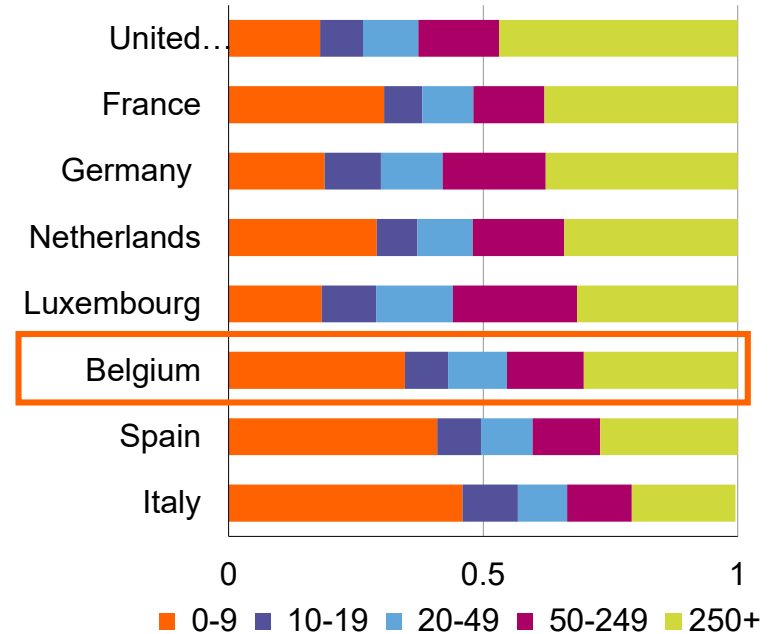


Corporate landscape dominated by SME's, making up 99% of firms

Share of SMEs in the private sector (excl. Financial sector) is...
...about 60% of Value Added



...about 70% of employment

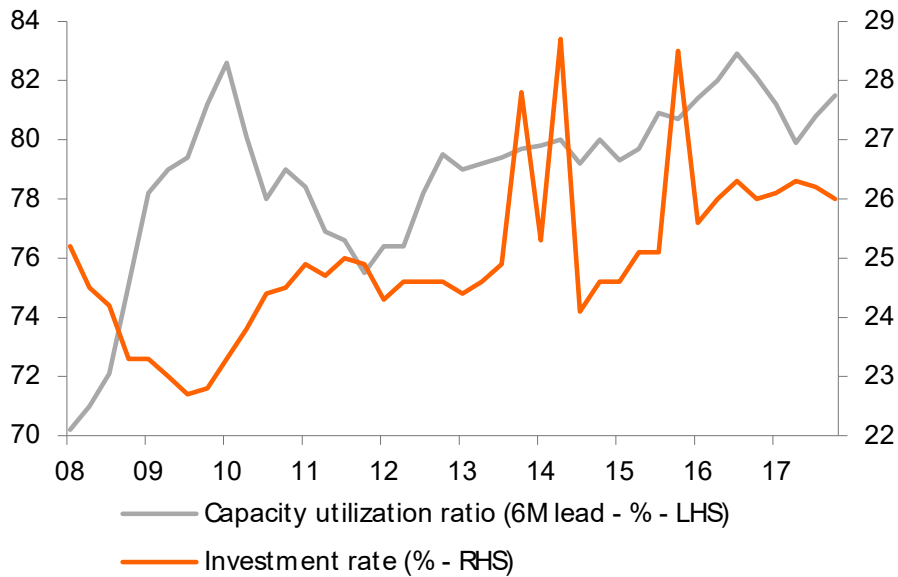


Source: Eurostat

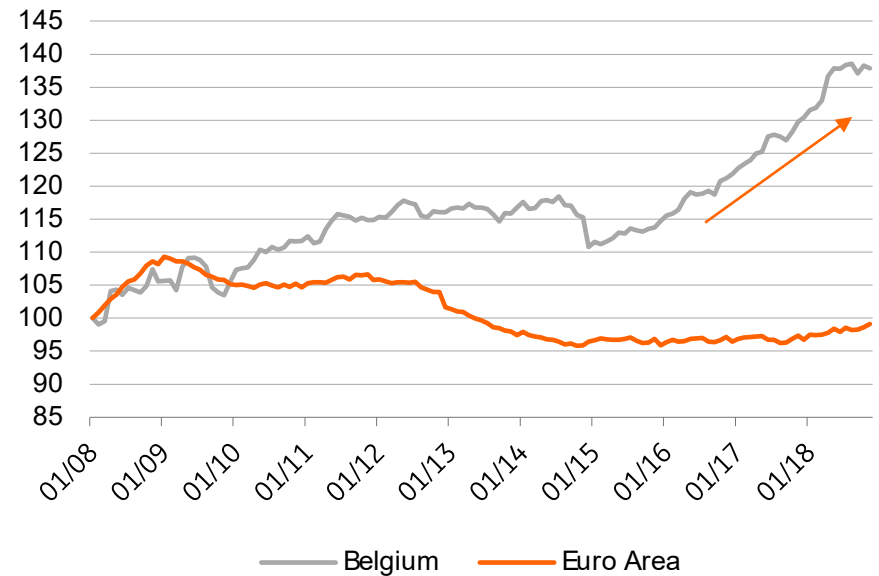
Source: Eurostat

Corporate investment rate is slightly above LT average

Higher investment rate is supported by strong capacity utilization rate



Credit evolution is more positive in Belgium than in the Euro area
(total credit to non-financial corp. – 01/2008 = 100)

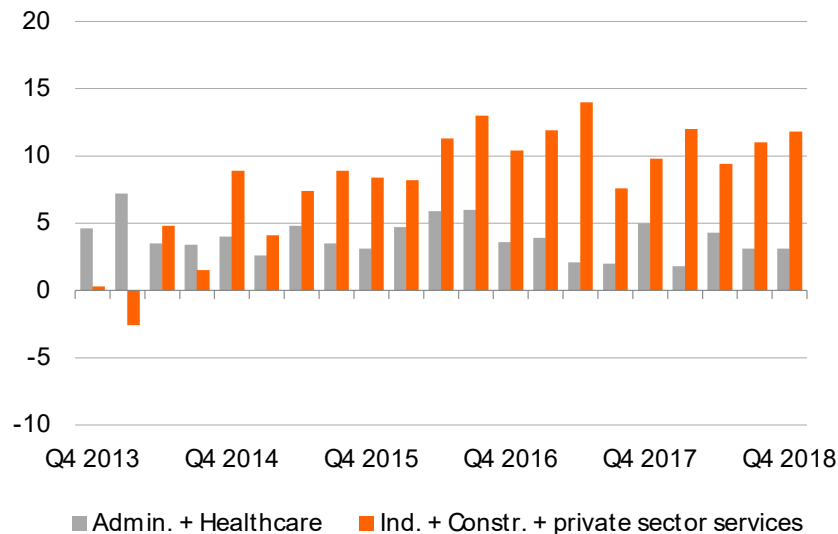


Note: Investment rate is computed as GFCF in % of VA

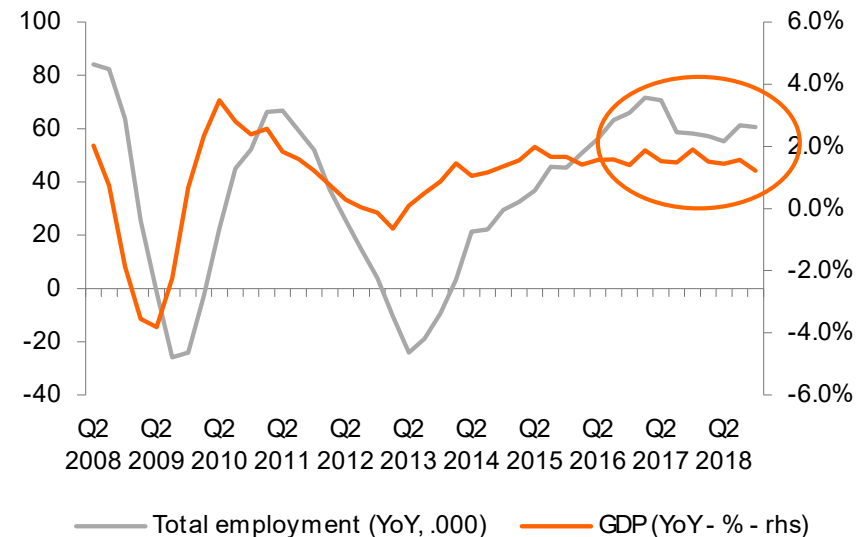
Economic growth is labor intensive

Labour Market		Value	-1M	-3M		
Employment forecasts - Manufacturing (level)	05/19	-5.6	✗	-4.3	✗	-2.7
Services	05/19	12.2	✗	17.2	✗	18.2
Construction	05/19	4.7	✓	3.4	✗	6.9
Unemployment rate (Eurostat - % of active pop.)	04/19	5.7	!	5.7	✓	5.8
Jobseekers - Flanders (YoY)	04/19	-6.4%	✗	-7.3%	✗	-7.9%
Wallonia (YoY)	04/19	-0.5%	✗	-1.1%	✗	-1.3%
Brussels (YoY)	04/19	-2.7%	✓	-1.7%	✓	-2.1%

Job creations remains strong in both the public and the private sector

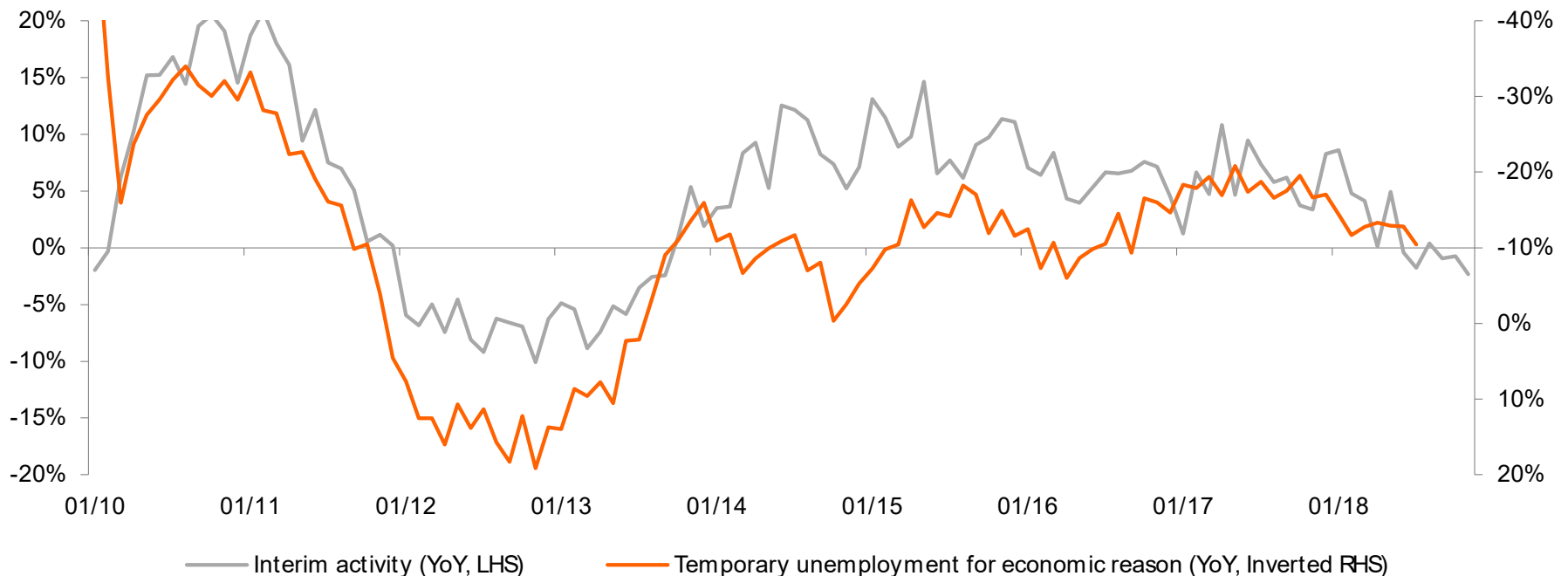


Belgian Okun's law



Having said that, leading indicators of the labor market tend to indicate some slowdown...

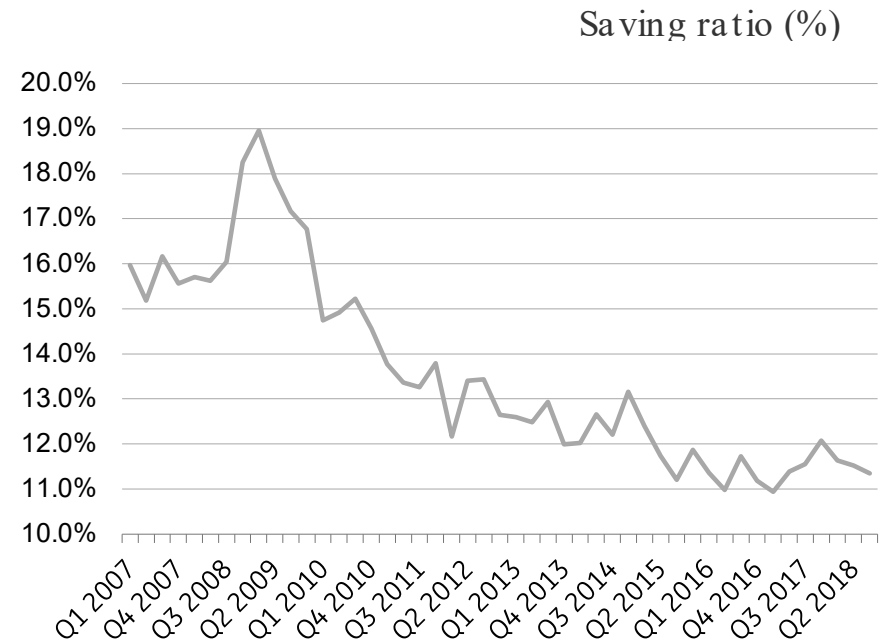
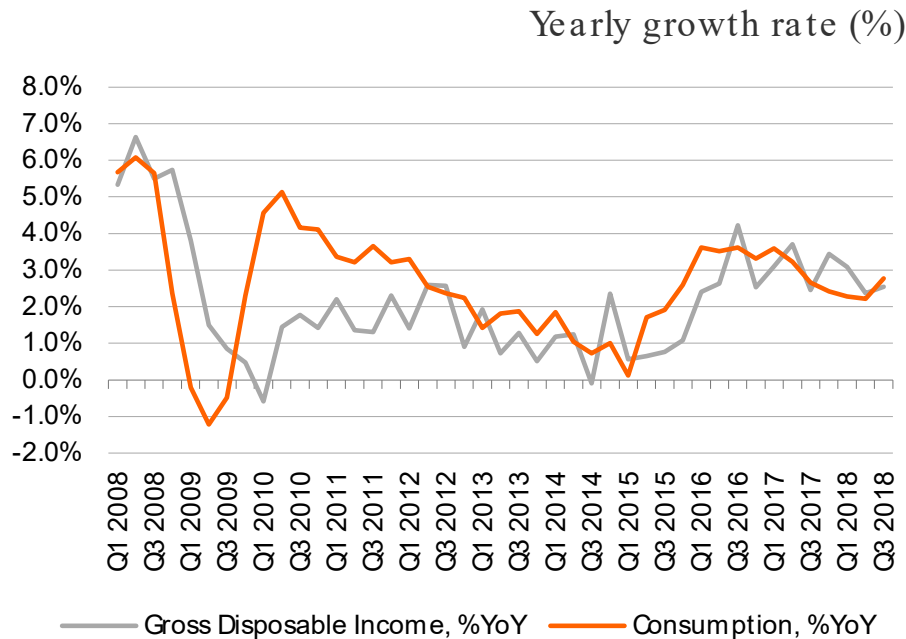
Leading indicators of the labor market are less optimistic



Private consumption is already affected by the willingness of households to stabilise their saving ratio

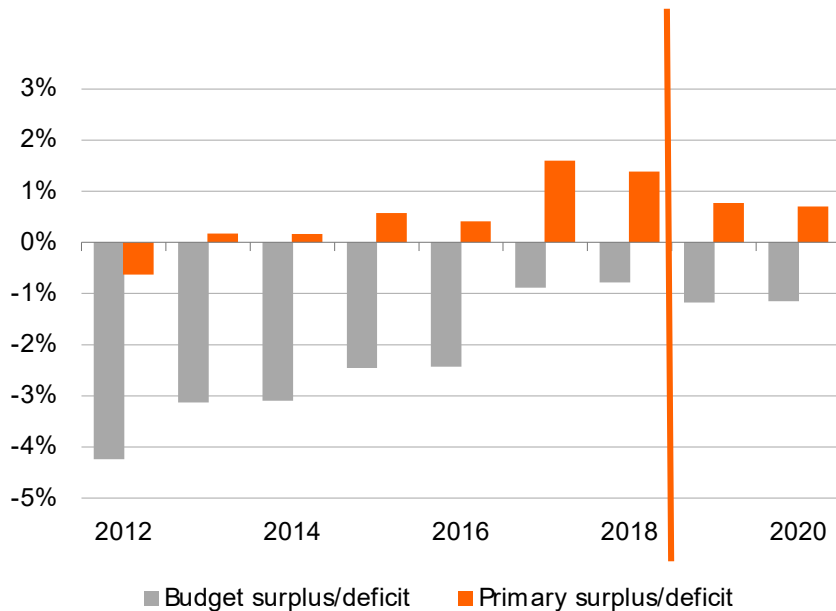
Nominal consumption growth now follow the evolution of the disposable income of households...

..allowing their saving ratio to stabilize after a long decrease

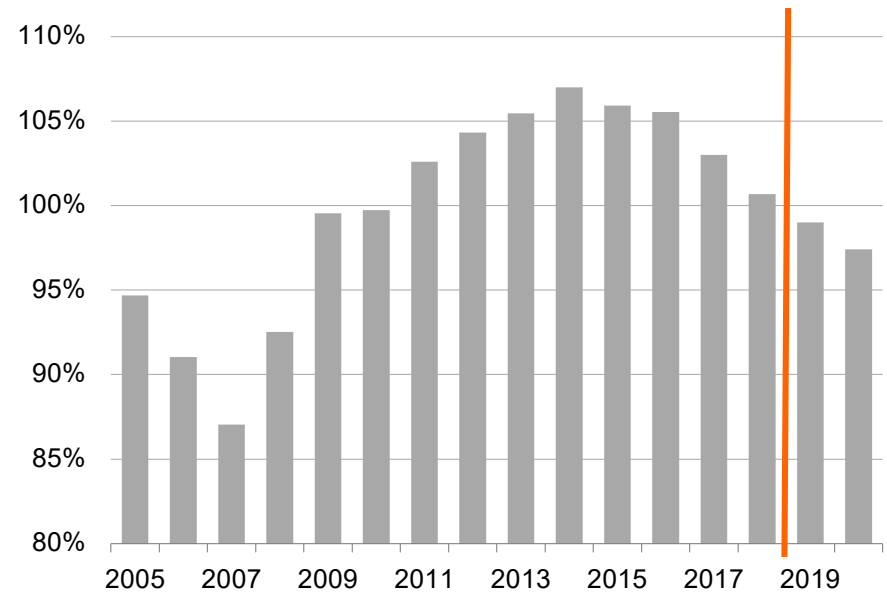


Key public finances metrics

Budget surplus (+) or deficit (-)
(% of GDP, ING forecasts after 2018)



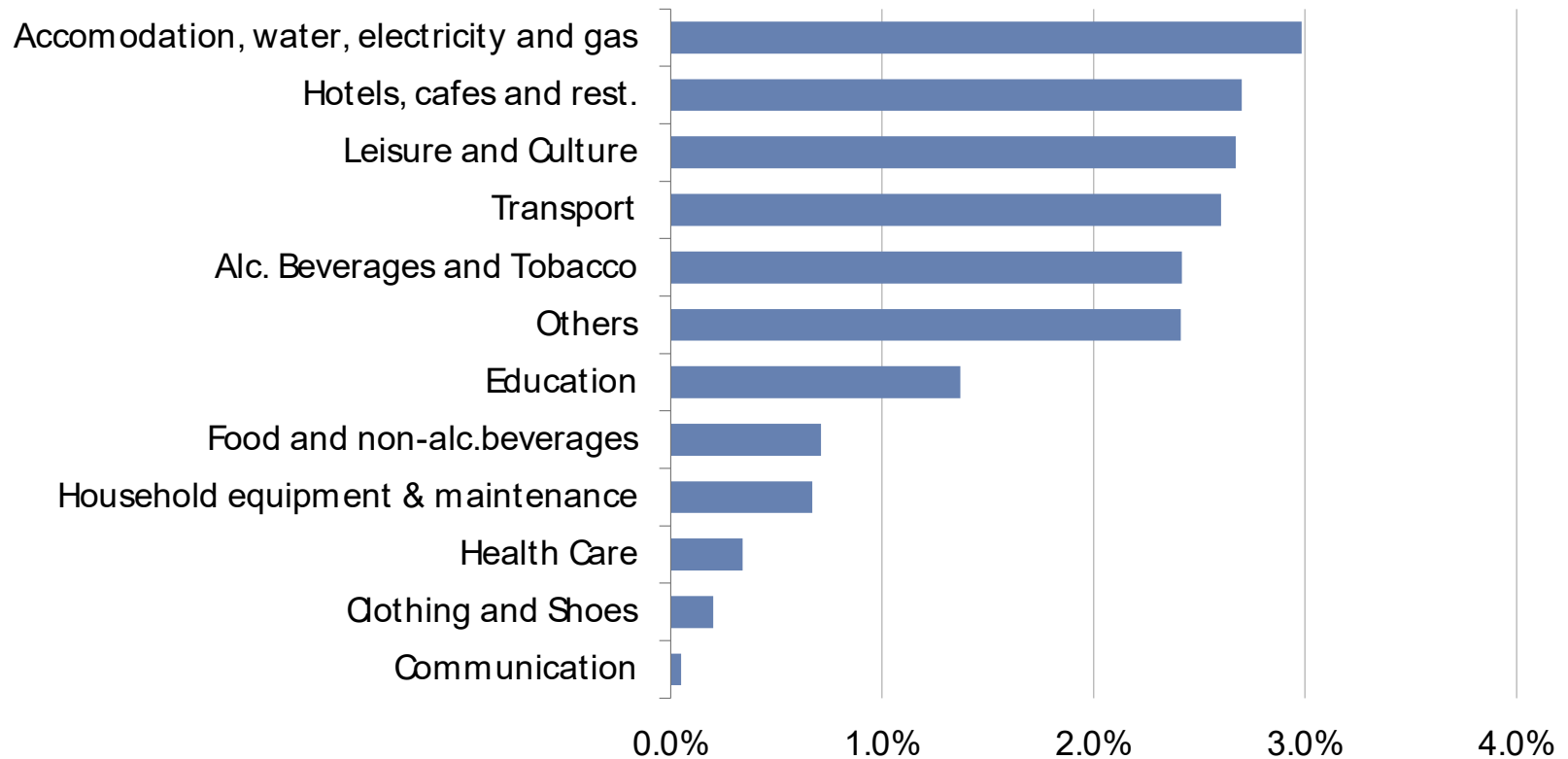
Public debt dynamics
(% of GDP, ING forecasts after 2018)



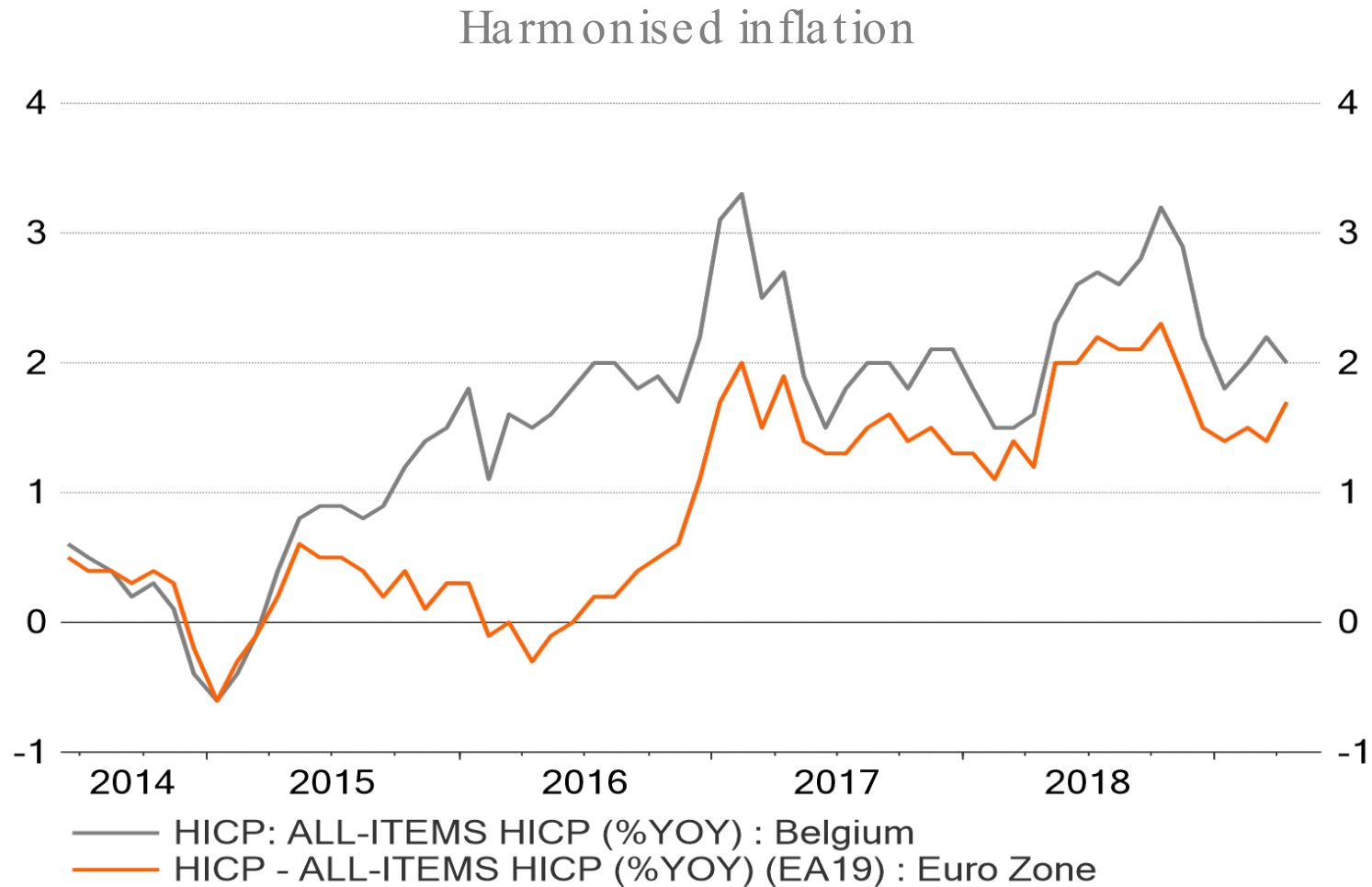
Drivers for inflation (MAY2019)

MAY2019
Total inflation: 1.9%

Inflation of CPI's components



Belgian inflation still higher than EZ average



Source: Thomson Reuters Datastream, ING Economic Research

Belgium: Outlook

- Leading indicators of the Belgian economy tend to confirm **stabilisation of activity** in the coming quarters.
- To be sure, the pace of GDP growth remains too slow.
- **Domestic demand** is likely to remain weak.
- Having said that, the improvement of disposable income of HH (also thanks to wage indexation in Q3 2018) is likely to slightly support consumption in the coming quarters.
- **External trade** could be affected by more protectionism..and by some slowdown in the Euro area.
- We expect **growth to be** 1.2% this year.
- **Inflation** is expected to decrease somewhat from current level, but this is related to expectations in terms of Oil price.
- Reaching a **budget balance** will need some additional effort, that will be very tricky to achieve in the current and future political context. Any budget balance could not be expected in the near term.

ING Forecasts for Belgium

Annual Indicators	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP (EUR bn), NOMINAL	387.5	392.3	400.1	411.0	424.7	439.1	452.7	465.8	479.0
Economic Growth (GDP, annual var. in %)	0.2%	0.2%	1.3%	1.7%	1.5%	1.7%	1.4%	1.2%	1.2%
Domestic Demand (annual variation in %)	0.7%	0.1%	1.8%	1.2%	1.7%	1.1%	1.0%	1.0%	1.3%
Private Consumption (annual var. in %)	0.6%	0.7%	0.6%	0.9%	1.7%	1.1%	0.6%	0.6%	1.3%
Fixed Investment (annual variation in %)	0.2%	-1.5%	5.8%	2.7%	3.8%	1.8%	2.0%	2.2%	1.3%
Exports (G&S, annual variation in %)	0.3%	0.9%	5.2%	3.5%	7.6%	5.0%	3.5%	3.7%	3.2%
Imports (G&S, annual variation in %)	0.1%	0.3%	6.2%	3.4%	8.5%	4.3%	2.7%	3.4%	2.8%
Unemployment (% of active population, aop)	7.6%	8.4%	8.6%	8.5%	7.9%	6.1%	6.2%	6.3%	6.0%
Fiscal Balance (% of GDP)	-4.2%	-3.1%	-3.1%	-2.5%	-2.4%	-0.9%	-0.8%	-1.2%	-1.1%
Public Debt (% of GDP)	104.3%	105.5%	107.0%	105.9%	105.5%	103.0%	100.7%	99.0%	97.4%
Inflation (HICP, annual variation in %, aop)	2.8%	1.1%	0.3%	0.6%	2.0%	2.1%	2.0%	1.8%	1.8%

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