

# Belgium: The Middle Kingdom for better or worse

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Credit Expo  
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# Agenda

- 1 The world is growing out of sync**
- 2 Belgium: Is differentiation possible?**

# Reversing gears?

GDP growth will remain (again) below 3%:  
Better advanced economies, diverging  
emerging markets

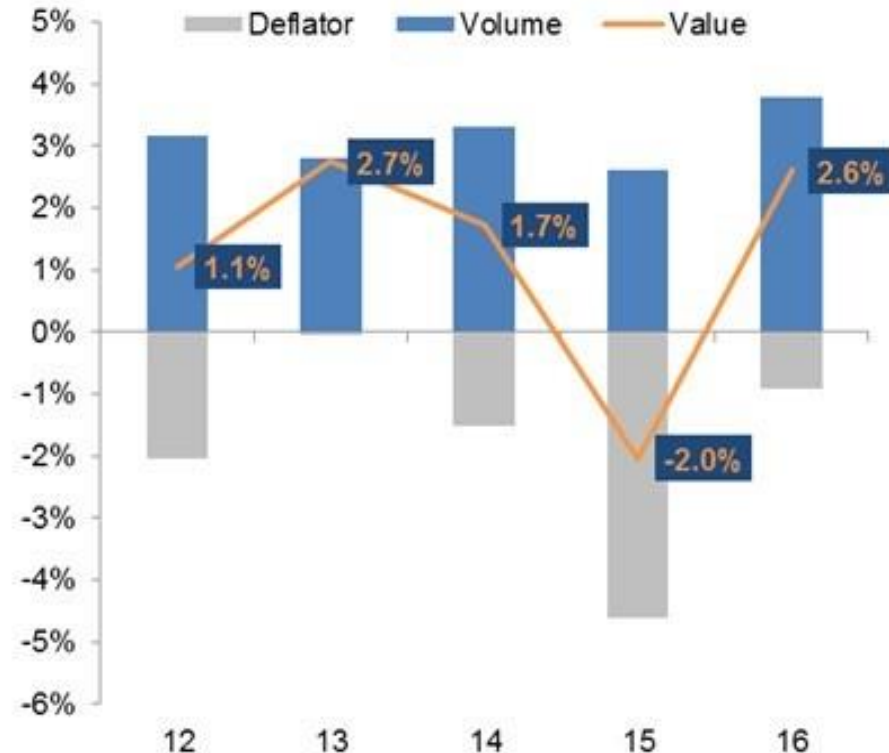
		GDP growth, %				
		Weights*	2013	2014	2015	2016
<b>Global GDP growth</b>			<b>2.5</b>	<b>2.7</b>	<b>2.5</b>	<b>2.9</b>
	United States	22	1.5	2.4	2.5	2.7
	Brazil	3	2.7	0.1	-2.4	0.0
	United Kingdom	3	1.7	3.0	2.5	2.2
<b>Eurozone</b>		17	<b>-0.3</b>	<b>0.8</b>	<b>1.4</b>	<b>1.6</b>
	Germany	5	0.4	1.6	1.6	1.7
	France	4	0.7	0.2	1.2	1.5
	Italy	3	-1.9	-0.4	0.7	1.1
	Spain	2	-1.2	1.4	3.0	2.5
	Russia	3	1.3	0.6	-4.0	-0.3
	Turkey	1	4.1	2.9	3.2	3.6
<b>Asia</b>		29	<b>5.1</b>	<b>4.6</b>	<b>4.6</b>	<b>4.7</b>
	China	11	7.7	7.3	6.8	6.5
	Japan	8	1.6	-0.1	0.8	1.3
	India	3	6.9	7.3	7.7	7.9
<b>Middle East</b>		4	<b>2.7</b>	<b>3.0</b>	<b>3.0</b>	<b>3.7</b>
	Saudi Arabia	1	2.7	3.6	3.0	3.0
<b>Africa</b>		2	<b>2.8</b>	<b>3.4</b>	<b>3.4</b>	<b>4.6</b>
	South Africa	1	2.2	1.5	2.0	2.5

\* Weights in global GDP at market price, 2014

Source: Euler Hermes forecasts

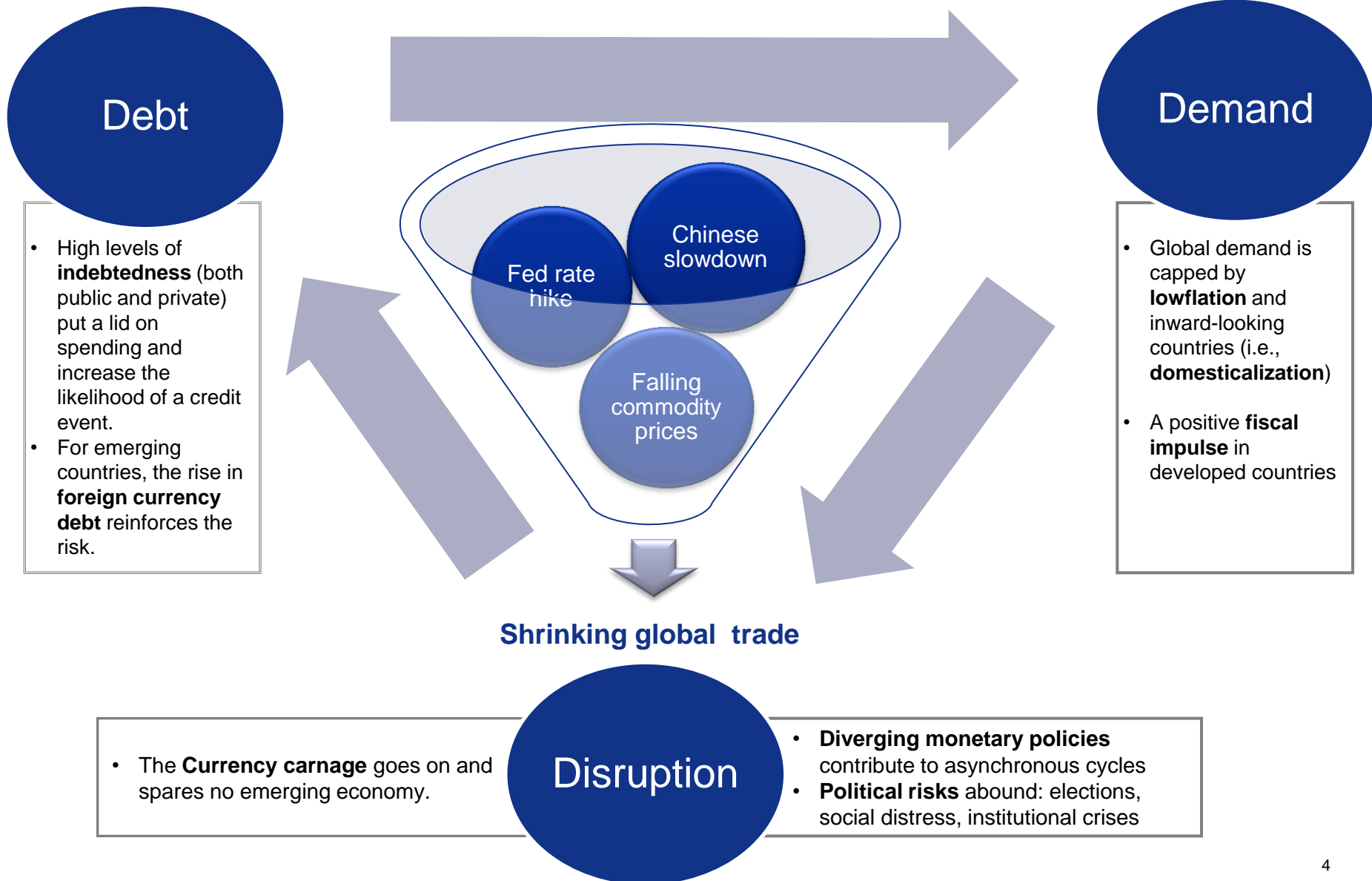
World trade has disappointed markedly on the  
back of deflationary pressures and currency  
carnage: USD400bn to be lost in 2015

Global trade growth (goods and services), % yoy



Sources: IHS, Euler Hermes forecasts

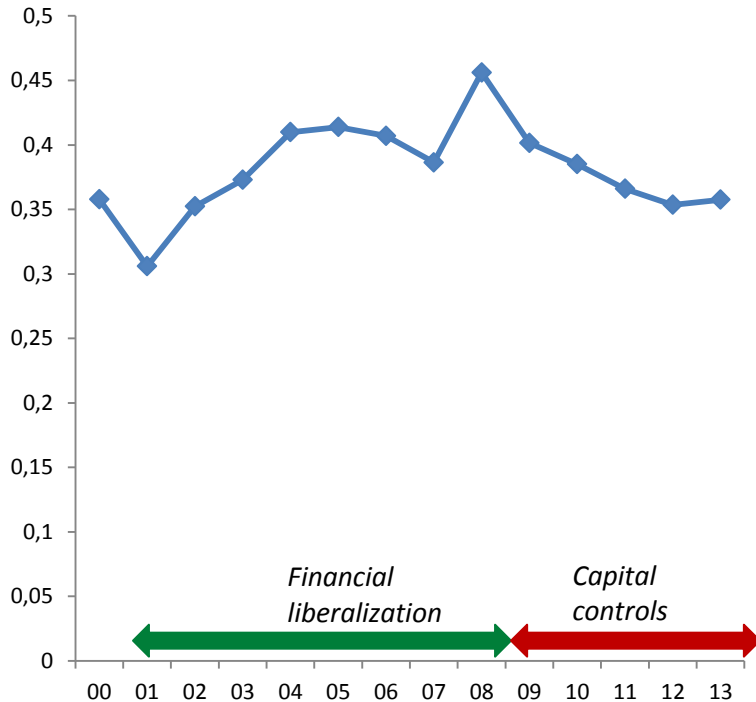
# A vicious circle in 3D



# A word on Domestication (self-interest)

Following a decade of steady improvement, emerging countries are now closing their capital accounts

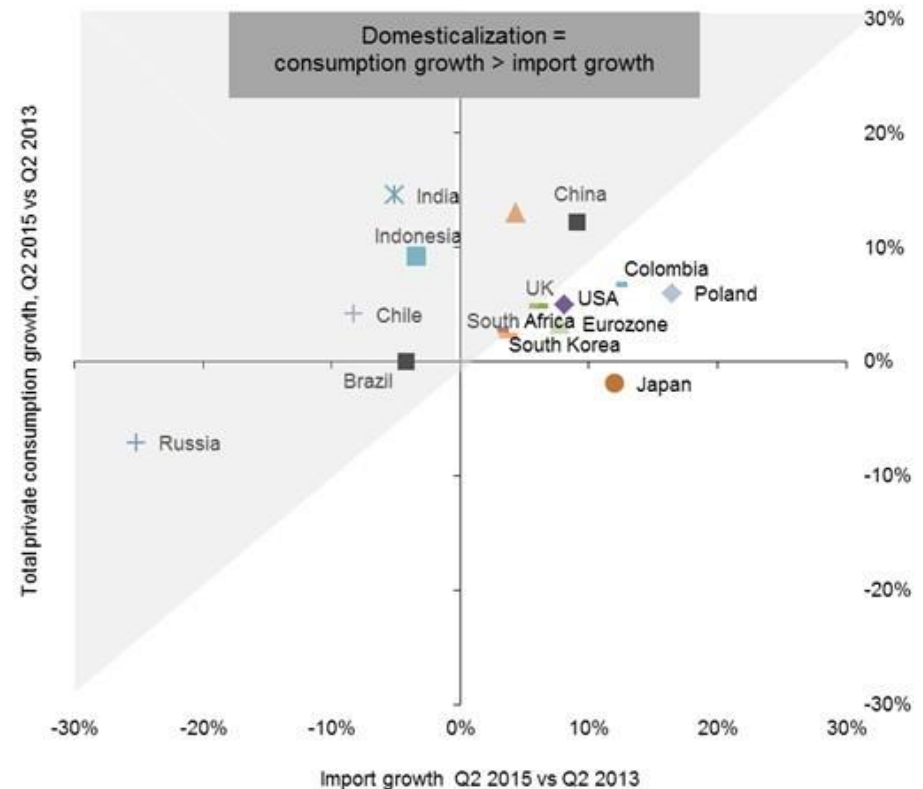
**Chinn-Ito index\* : degree of capital account openness for 15 EM**



\*) The index is normalized between 0 and 1, the latter indicating a fully liberalized capital account

Countries have become more inward-looking

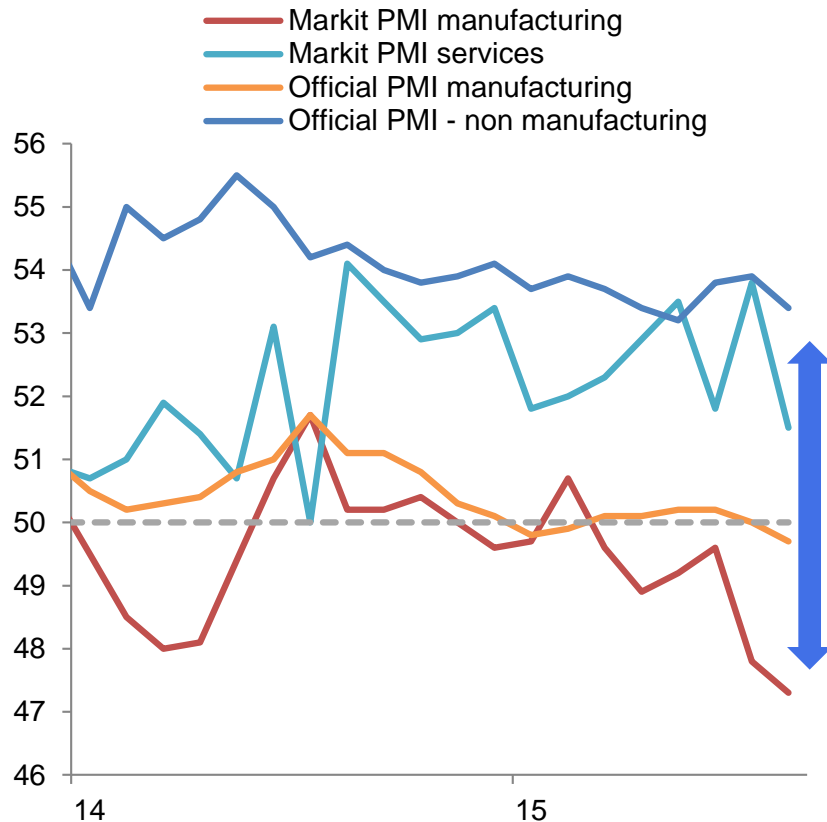
**Imports growth vs consumption growth since 2013**



# China: Cracks in the Wall ?

Private consumption in services has been resilient but not sufficient enough to compensate for lower exports and industrial growth

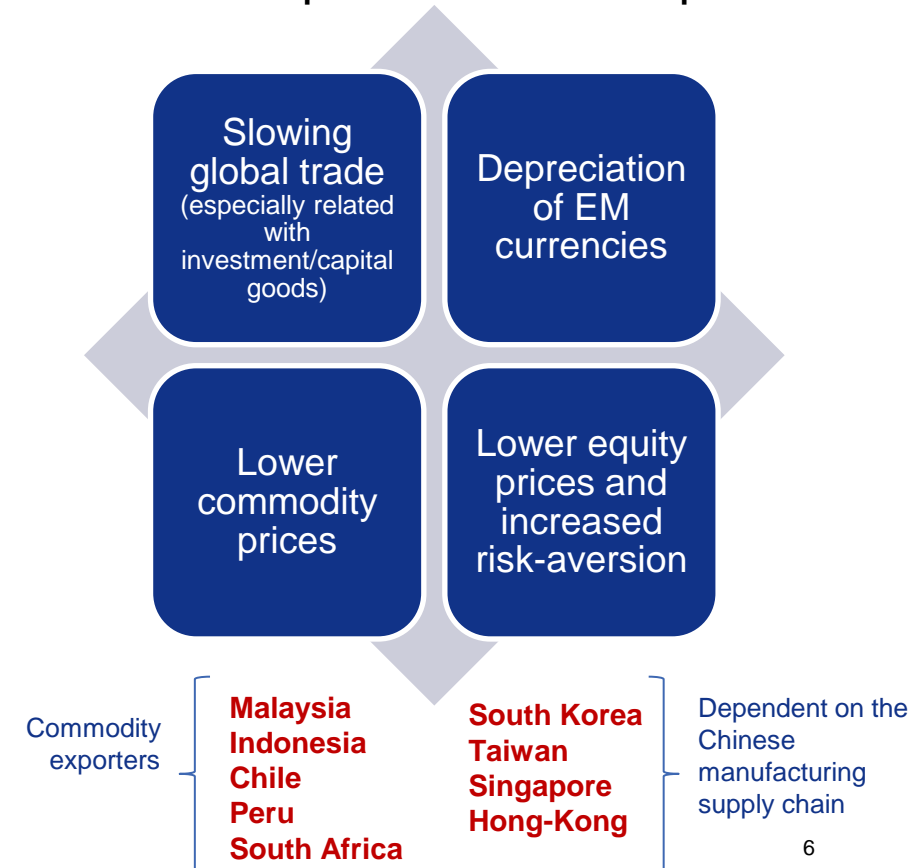
**Markit PMI**



Sources: IHS, Markit, Euler Hermes

The impact on global growth will be limited (-0.1pp of GDP) but some countries at risk

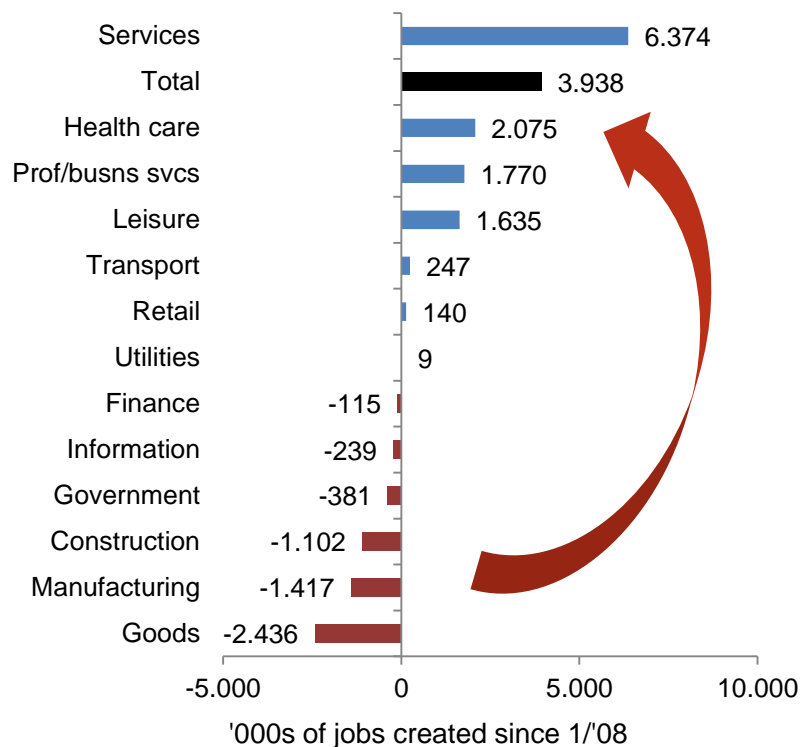
**Main channels of transmission and the countries expected to be the most impacted**



# Fed fatigue now, Fed quake later

Most jobs in the U.S. are created in low-productivity, low-wage growth sectors

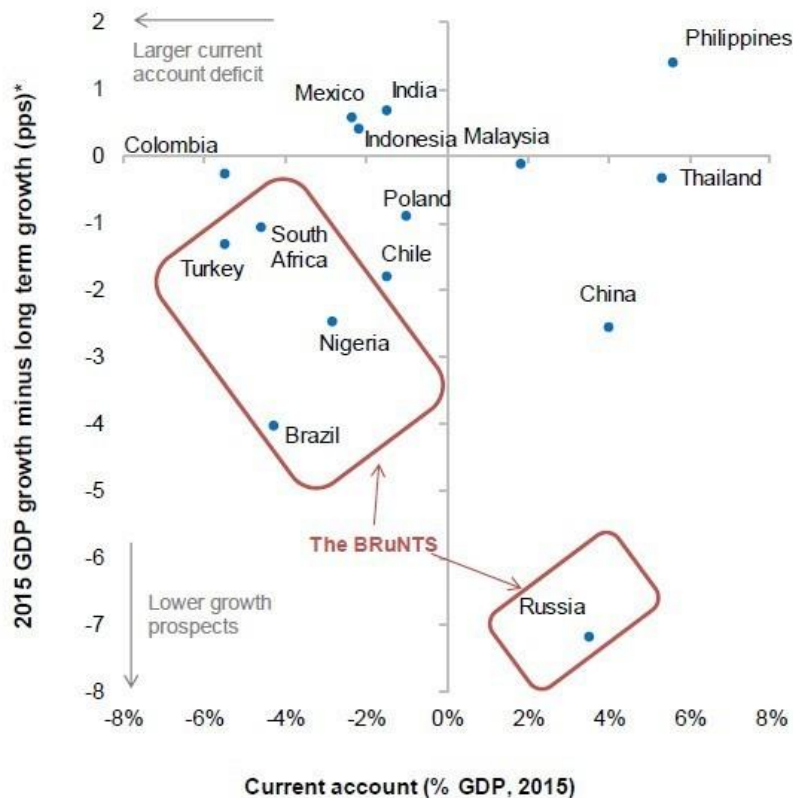
Jobs created since Jan. 08 ('000s)



Sources: IHS, Euler Hermes

Brazil, Russia, Nigeria, Turkey and South Africa will bear the Brunt of a Fed hike

Current-account (% GDP, 2015) vs 2015 GDP growth minus long-term growth



Sources: IHS, Euler Hermes

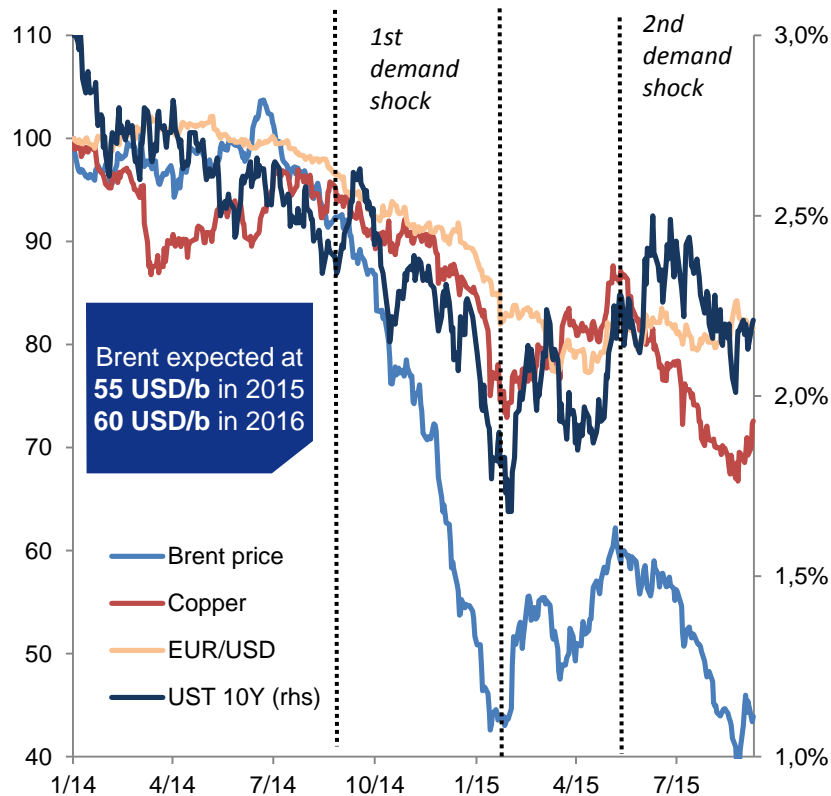


# Commodities: How low can they go?

The renewed fall in commodities prices: combination of the demand shock (notably China) and the oversupply (largely > 1Mb/d)

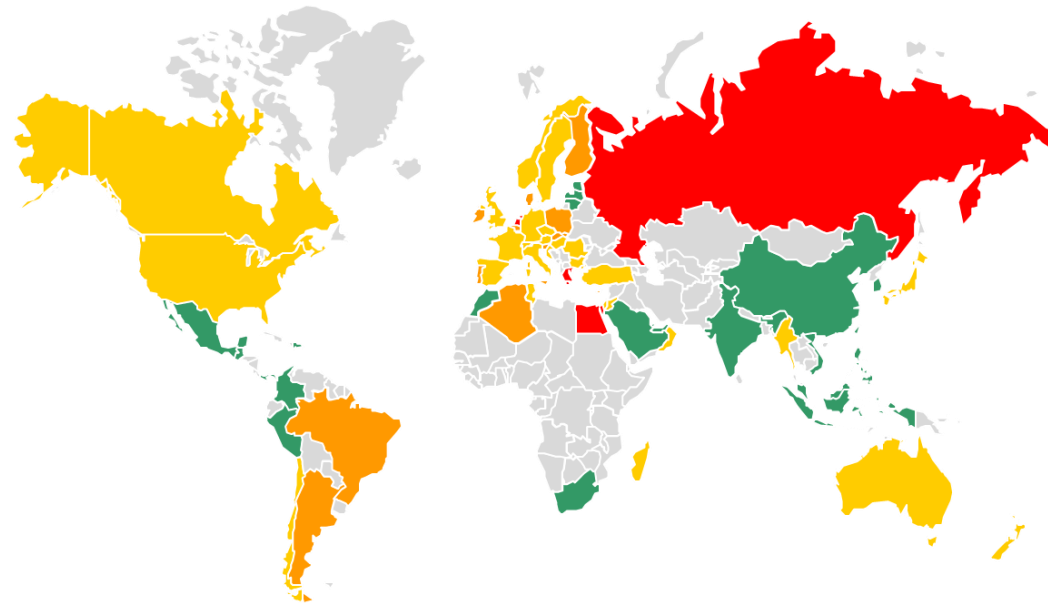
Cheap commodities prices have not triggered obvious improvement in retail

**Oil, Copper, EURUSD and UST 10Y**



Sources: IHS, Euler Hermes

**Retail sector risk rating, Q3 2015**



Source: Euler Hermes

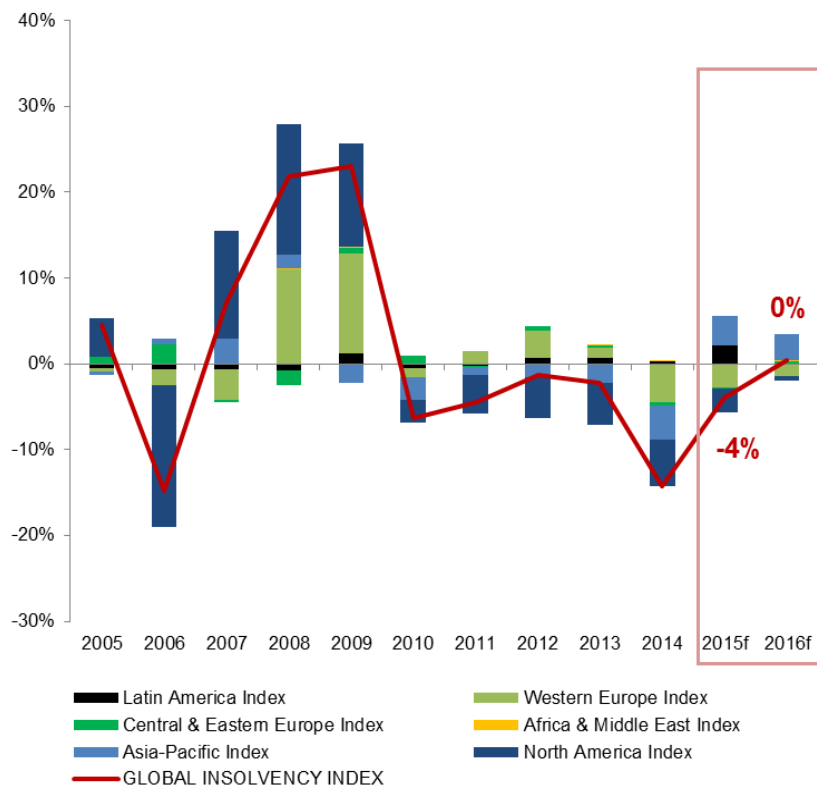


# Insolvencies: Hitting the pause button in 2016

In 2015, steady decrease of insolvencies in the US and Western Europe offsets turmoil in Asia and Latin America...

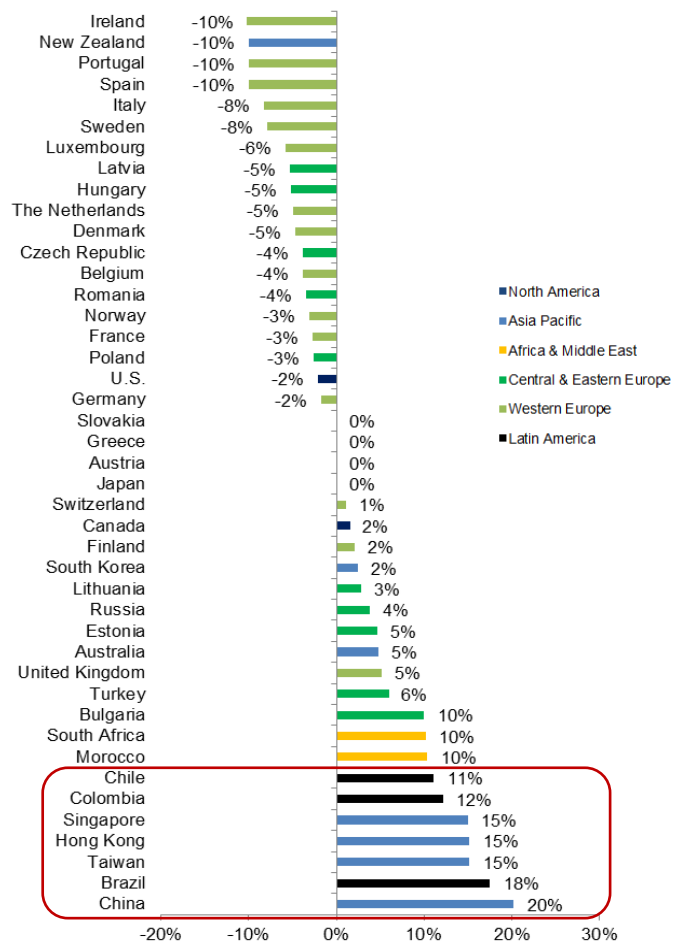
...but in 2016, the latter will take the upside leading to a stabilization in worldwide insolvencies

**EH Global Insolvency Index and Regional Indices (yearly level basis 100 = 2000)**



Sources: National figures, Euler Hermes

**2016 Insolvencies Forecasts (% change compared to 2015)**



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# Belgium is growing in line with the Eurozone, not more, not less

GDP recovers gradually. Positive confidence and domestic demand to be main driver for growth

Demand prospects are improving

Belgium	Weights	2013	2014	2015	2016
GDP	100%	0.3	1.1	1.4	1.6
Consumer Spending	52%	0.3	0.9	1.6	1.7
Public Spending	27%	0.6	1.2	-0.2	-0.8
Investment	24%	-2.1	5.1	0.2	0.5
Construction	5%	-3.5	0.7	0.3	0.9
Equipment	19%	-1.6	6.5	0.1	0.4
Stocks	*	0%	0%	-0.2	0.0
Exports	88%	2.9	3.8	3.5	3.7
Imports	87%	1.7	3.6	4.4	4.7
Net exports	*	1.0	0.2	-0.7	-0.8
Current account	**	-1	6	4	-5
Current account (% of GDP)		-0.2	1.6	0.9	-1.3
Employment		0.1	0.9	0.4	1.1
Unemployment rate		8.4	8.5	8.5	8.4
Wages		1.9	1.2	0.1	0.4
Inflation		1.1	0.2	0.5	0.8
General government balance (% of GDP)		-2.9	-3.2	-3.0	-2.7
Public debt (% of GDP)		104.4	106.5	106.3	105.9
Nominal GDP	**	395	402	409	419

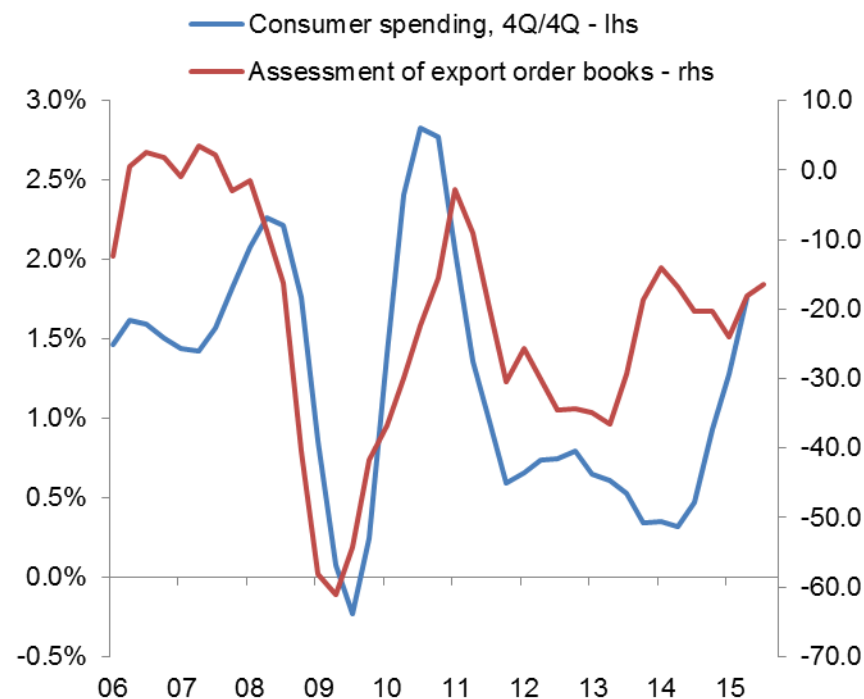
Change over the period, unless otherwise indicated:

\* contribution to GDP growth

\*\* EUR bn

Sources: IHS, Euler Hermes forecasts

## Consumer spending vs assessment of export order books

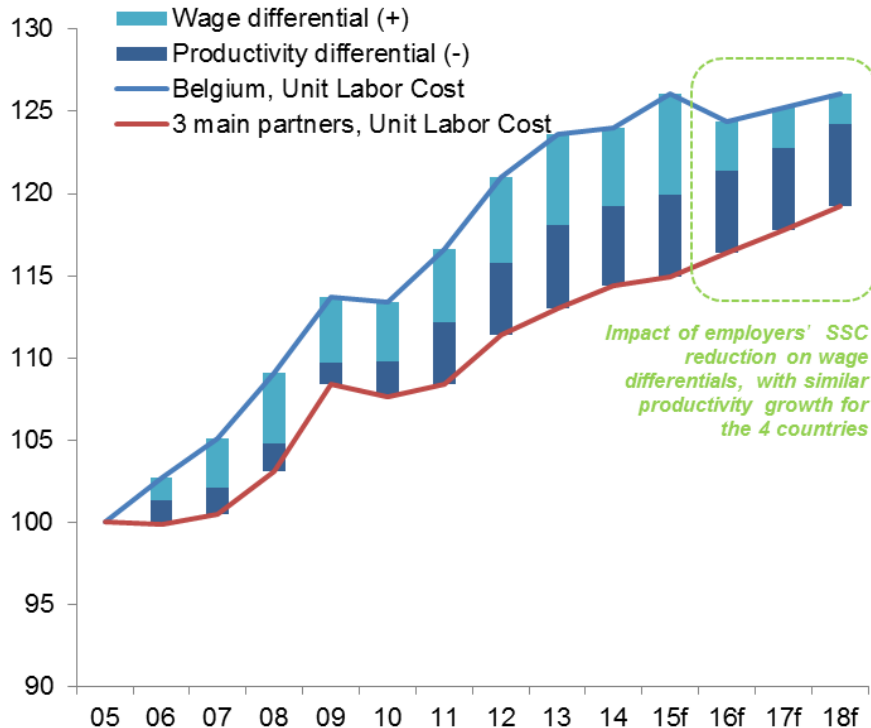


Sources: National sources, Eurostat, Euler Hermes

# Becoming (more) competitive and attractive?

Gradual decrease in employers' SSC from 33% to 25% of labor cost and suspension of wage indexation to boost competitiveness

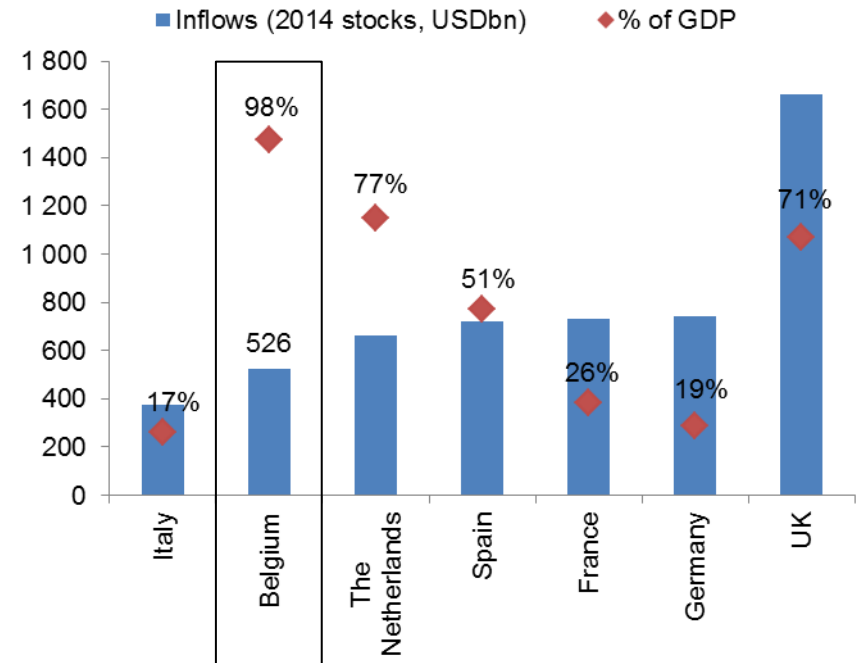
**Wages and Productivity differentials, unit labor cost indices (2005=100)**



Sources: OECD, Euler Hermes forecasts

Belgium continues to attract investors and companies

**FDI inflows (stocks, USDbn and % of GDP)**



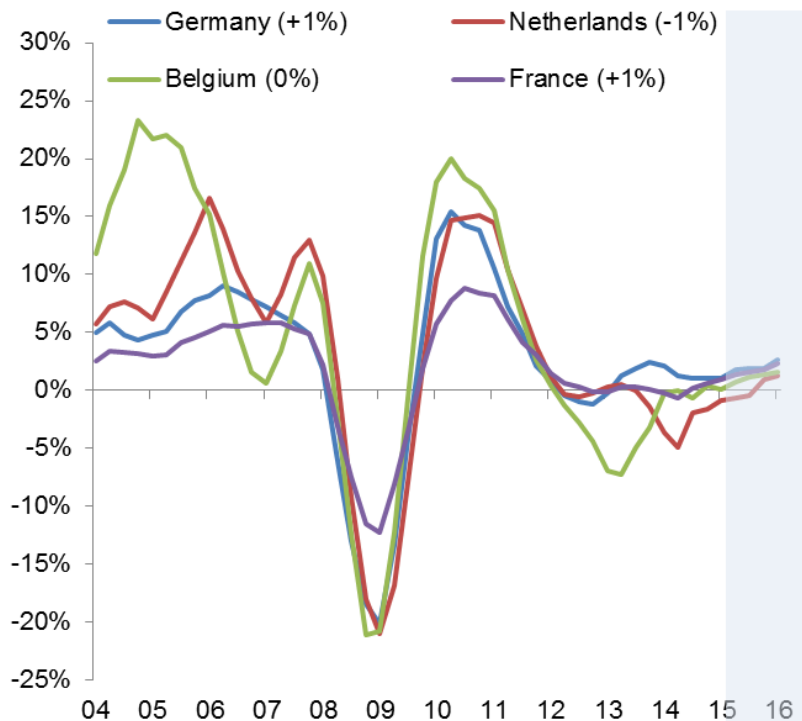
Sources: Unctad, Euler Hermes

# Companies: Turnover growth and the return of investment

Turnovers stopped falling and should return to low positive growth in 2016 (+1.6%), in line with nominal GDP growth

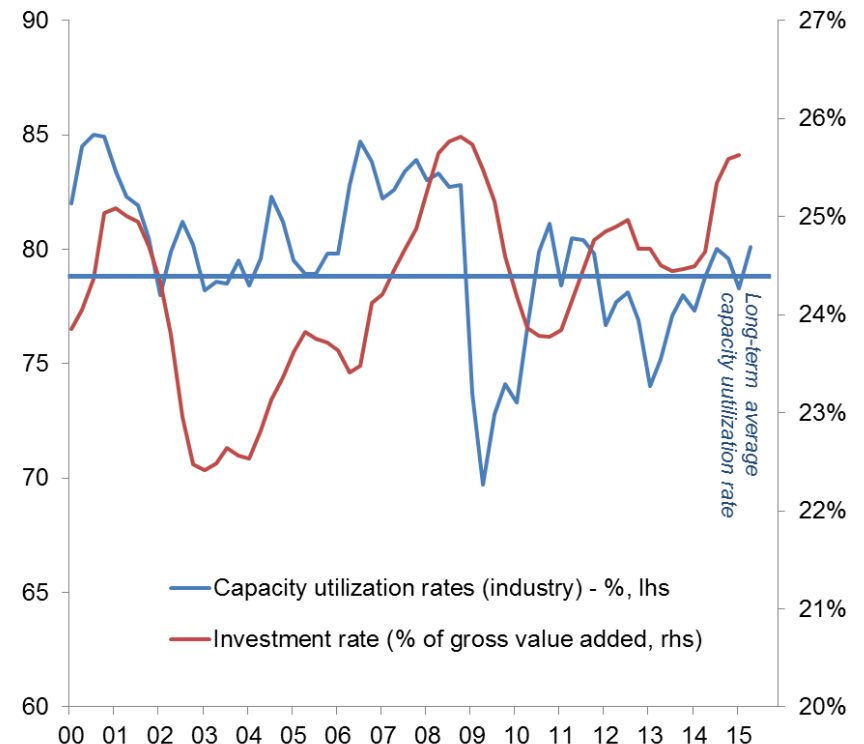
What if Belgium sees an investment cycle first? Credit expansion is positive since March 2015

**Non-financial corporations' turnovers (4Q/4Q)**



Sources: Eurostat, Euler Hermes forecasts

**Non-financial corporations investment rate vs capacity utilization rates, %**



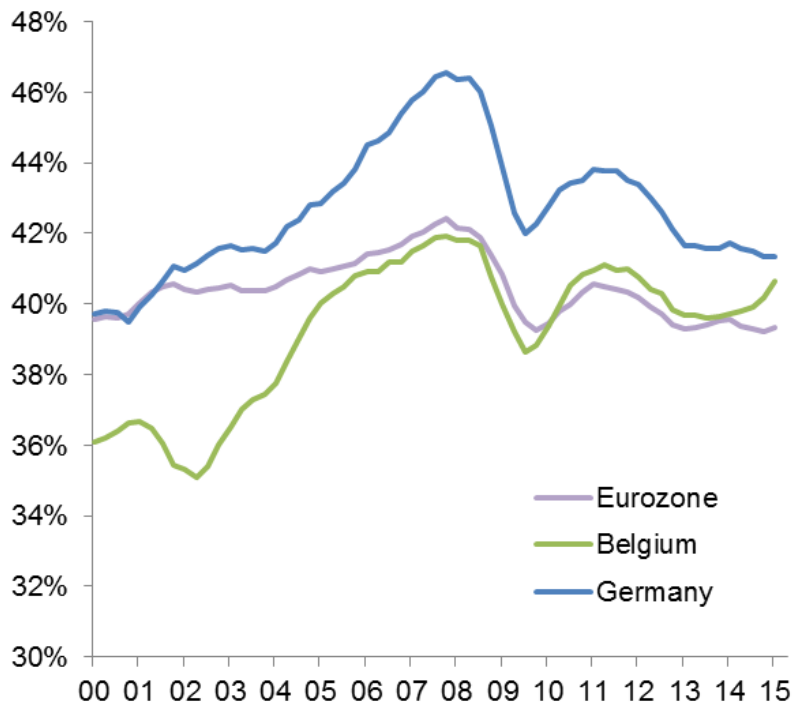
Sources: Global Insight, Euler Hermes

# Companies (2): Better margins but still high credit risk

Companies enjoy slightly higher profitability thanks to lower oil prices: margins are getting closer to German ones

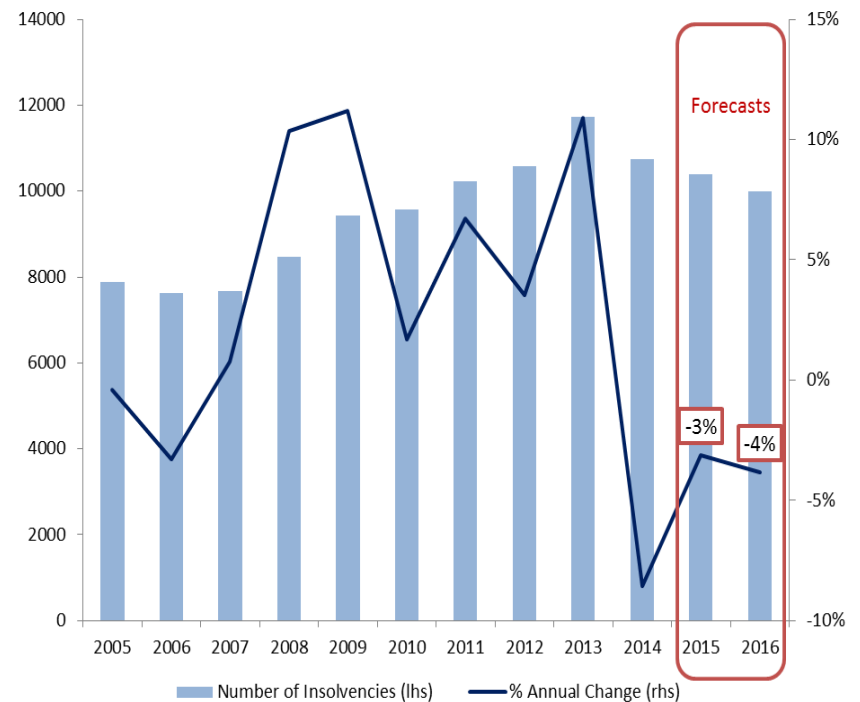
Insolvencies will continue to decrease but remain 35% above pre-crisis level. DSO stable at 62 days

**Non-financial corporations' margins (% of value added)**



Sources: Eurostat, Euler Hermes

**Business insolvencies**

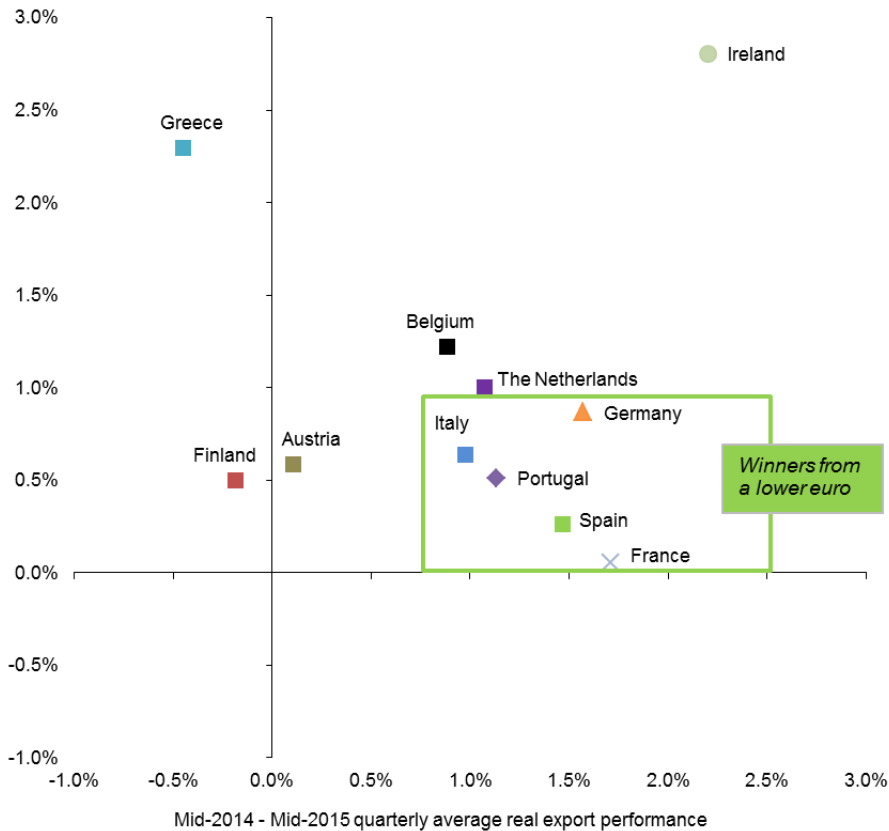


Sources: National figures, Euler Hermes

# Old (euro) habits die hard

High dependency on intra-eurozone trade flows (57% of total exports), makes Belgium benefit less

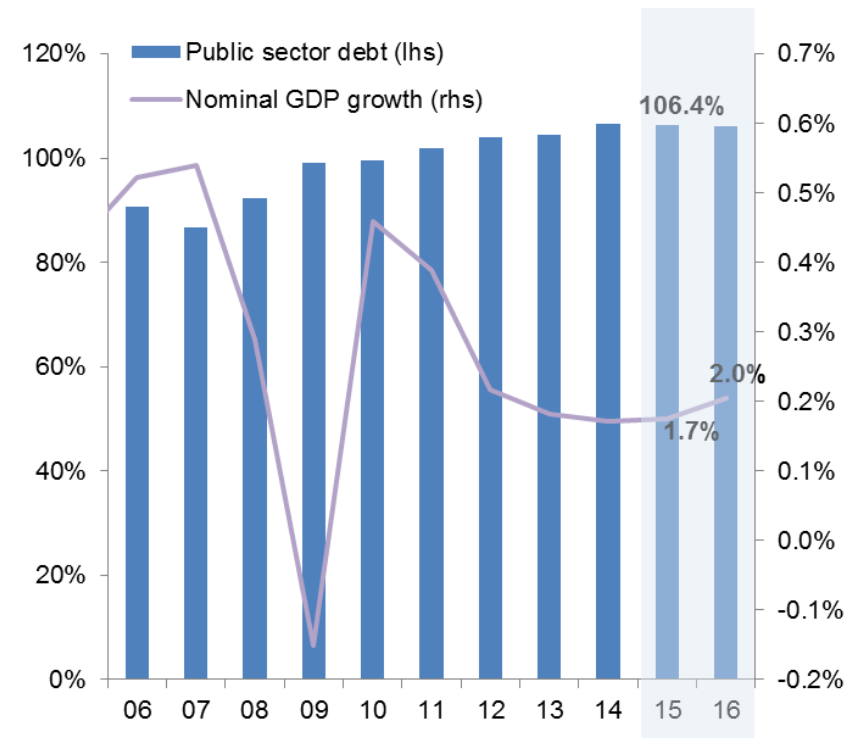
**Real Exports (average q/q growth since mid-2014)**



Sources: IHS, Euler Hermes

Public debt to stabilize but at a high level of 106% of GDP as nominal GDP growth is still weak

**Public debt vs nominal GDP growth**



Sources: IHS, IMF, Euler Hermes forecasts

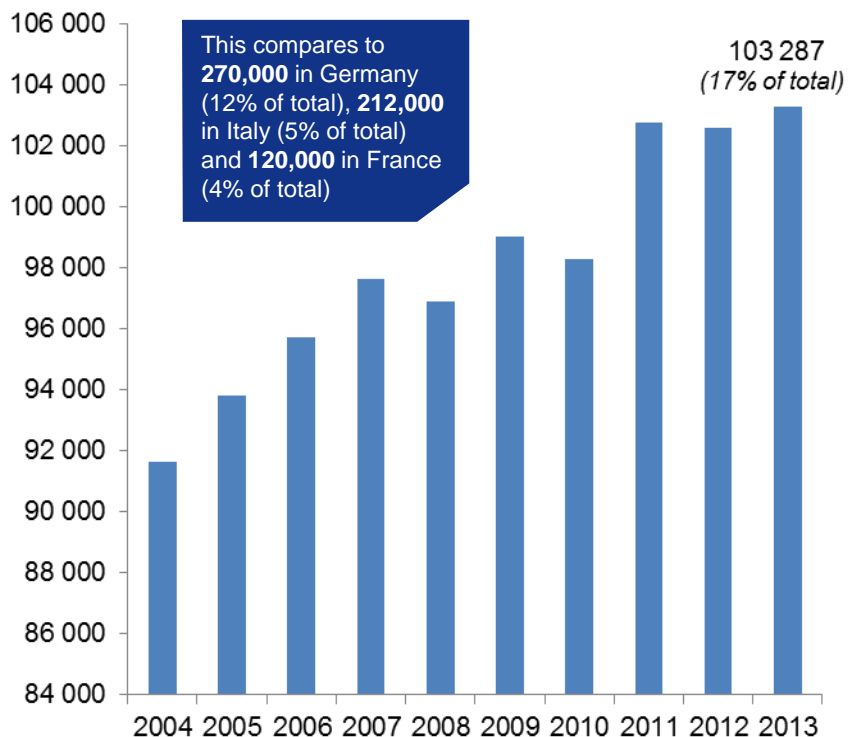


# But Europe has (also) been a springboard for exports...

The export culture took off, forced by the covariant shock in Europe

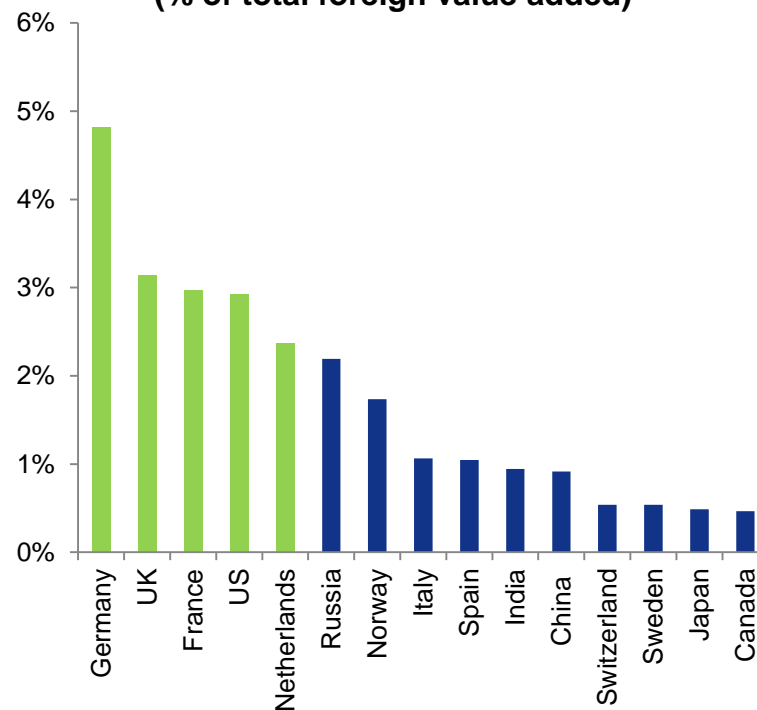
Intermediate goods represent 58% of total Belgian exports. Reliance on production coming from Germany, the UK, France, the US and the Netherlands

**Number of exporting companies**



Sources: BNB, OECD, Euler Hermes

**Origin of value added in Belgian exports  
(% of total foreign value added)**



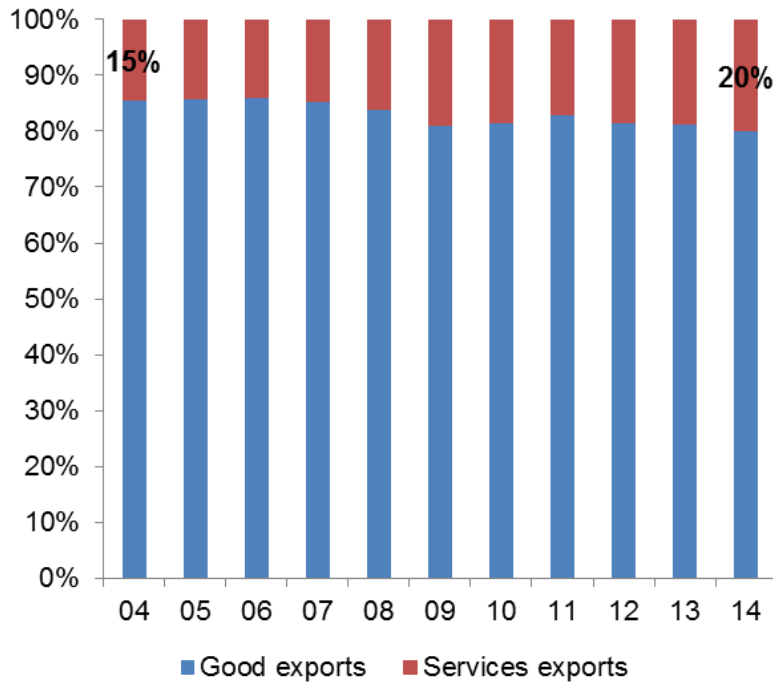
N.B.: Domestic value added to gross exports amounts to 65% of total exports

Sources: OECD, WTO, Euler Hermes

# ... including for Services

Exported services increased over the past decade notably to France, the Netherlands, US, Germany, the UK

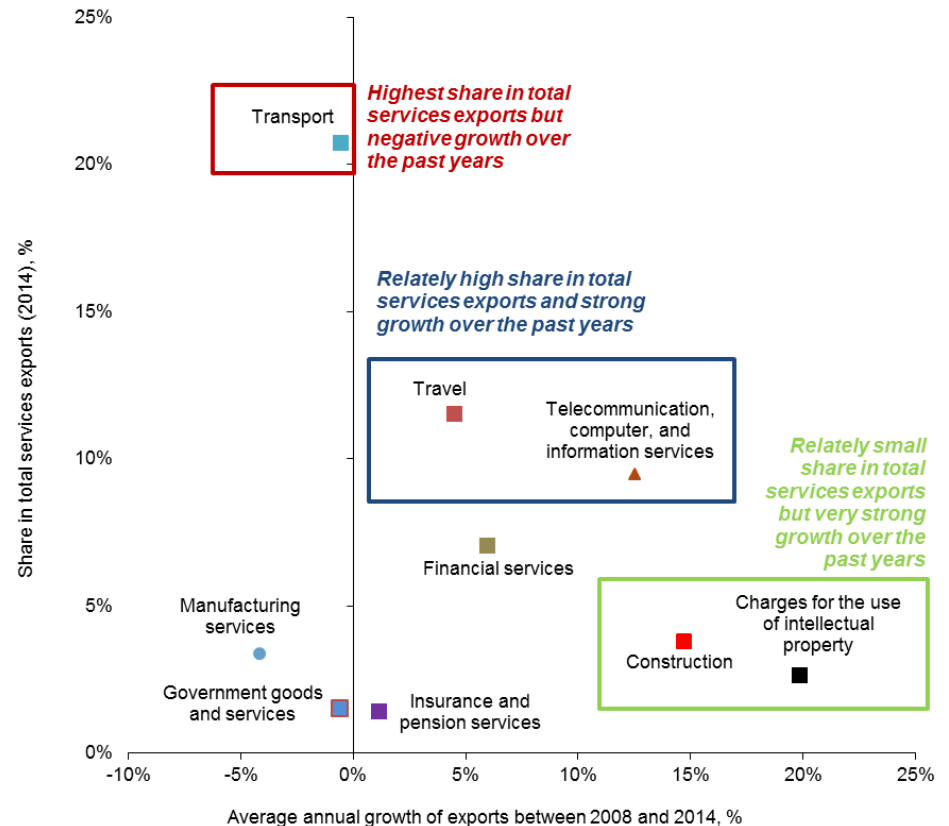
**Good and services exports, % of total**



Sources: ITC, Euler Hermes

Main winners: services related to construction, tourism, ITC and intellectual property

**Services exports by type (share in total services exports and average growth since 2008)**



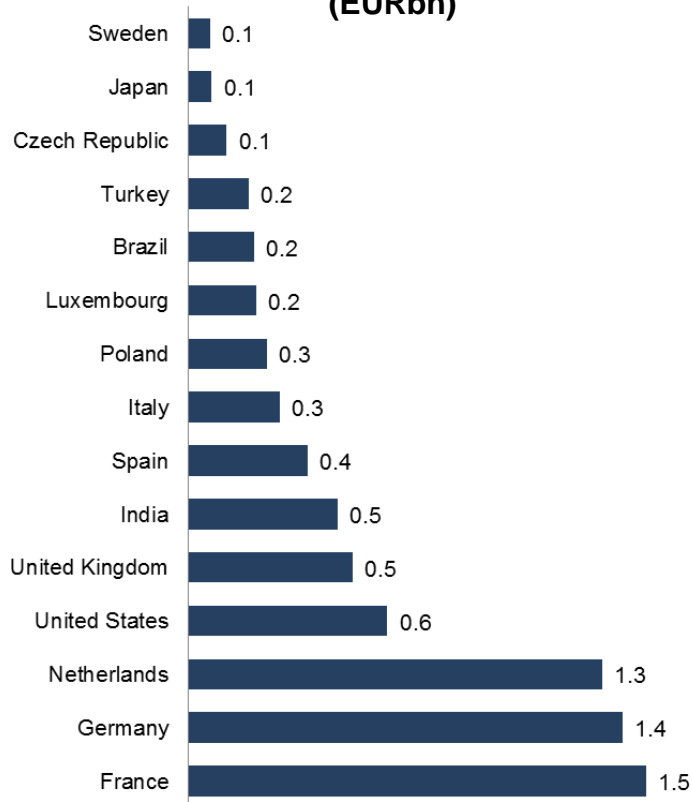
Sources: ITC, Euler Hermes

# EUR10bn of additional exports in good and services in 2016

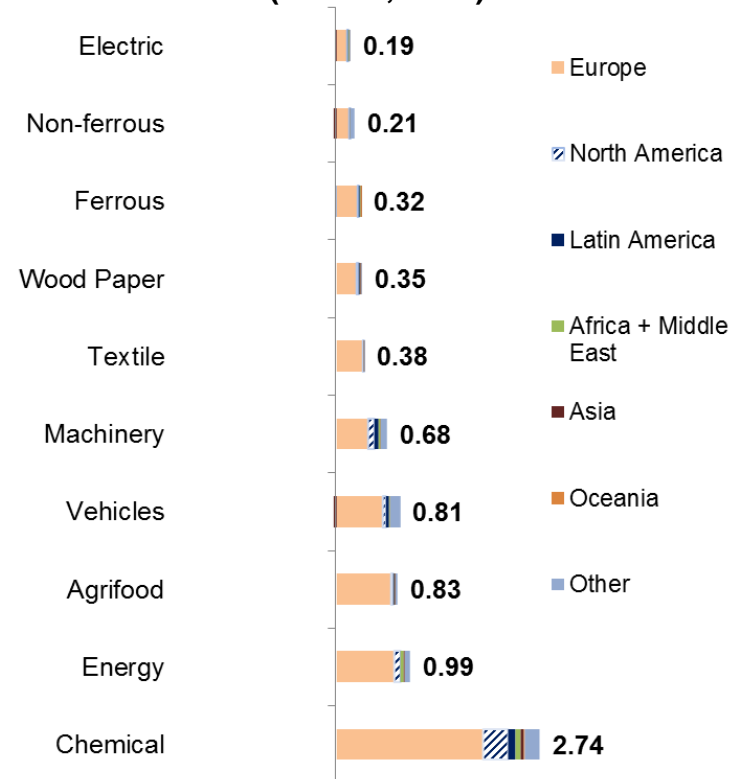
EUR8bn of total export gains will come from goods and 50% will come from the three trade partners (Germany, France and the Netherlands)

Chemicals (incl. Pharma), Energy, Agrifood, Vehicles and Machinery to represent ¾ of additional goods exports

**2016 export gains by destination, (EURbn)**



**TOP 10 potential export gains by sector and region, (EURbn, 2016)**



NB: Belgian total exports to reach EUR354bn in 2016

Source: Euler Hermes

NB: Chemical sector includes Pharmaceuticals.

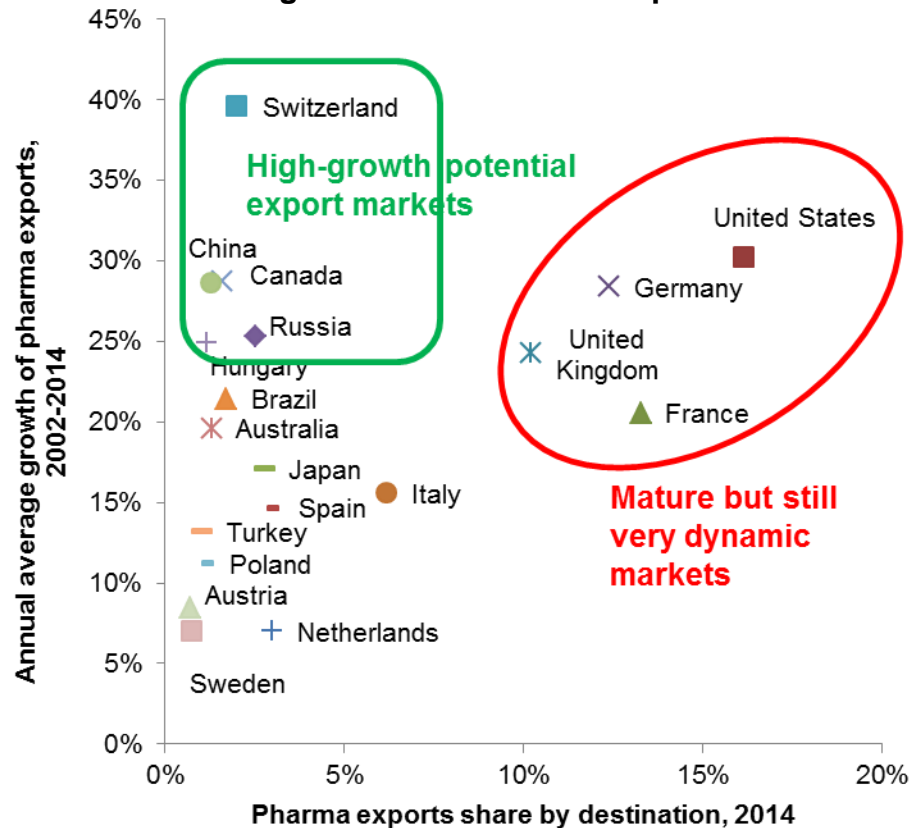
Source: Euler Hermes

# Export opportunity #1: Pharma and... plastics, two Belgian chemicals champion to nurture

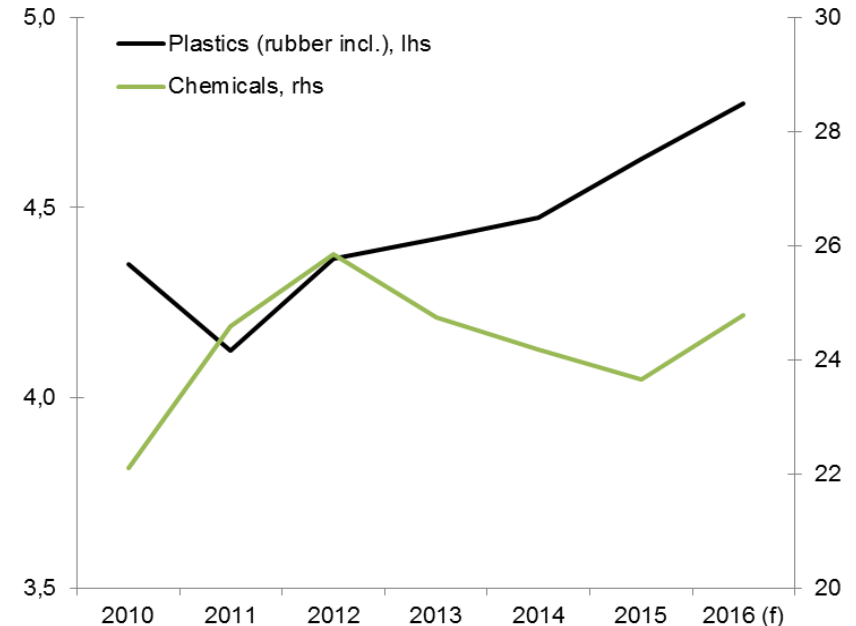
Third largest exporter and largest producer of medicines p.c.: Extra room for growth

Belgian downstream chemicals (i.e. plastics and rubber) appear to be more dynamic in terms of sales than upstream chemicals

**Belgian Pharmaceuticals exports**



**Belgian gross output (EURbn)**



*The biotech sector has cashed in on a 3% a year growth rate of R&D spending since 2010*

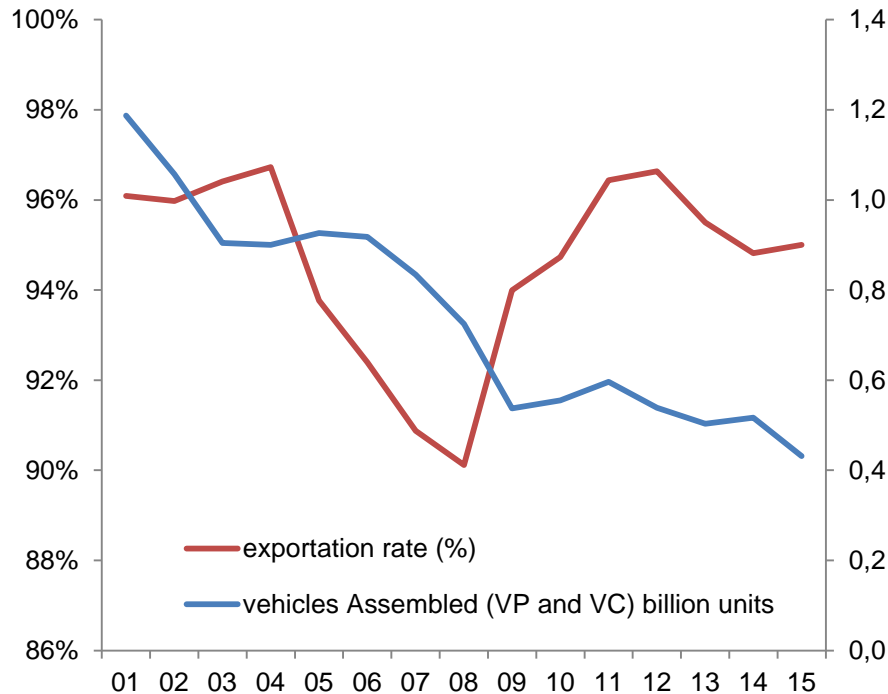
Sources: Oxford Economics, Euler Hermes

# Export opportunity #2: Automobile production in Belgium is exported, and global demand is growing

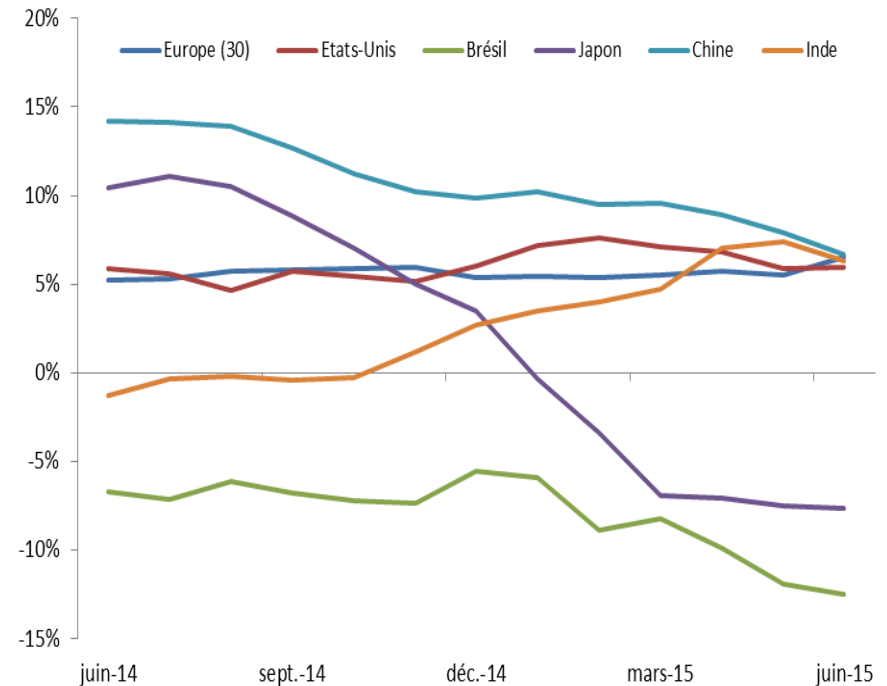
95% of automobile production is exported. However competition with the other European carmakers is tough

The world car market is back on track and new Eldorado's emerge (countries and technologies)

**Evolution of vehicles assembly and exports, 2001-2015**



**Registrations in major markets (12-month rolling basis)**



Source: Febiac.be, Euler Hermes

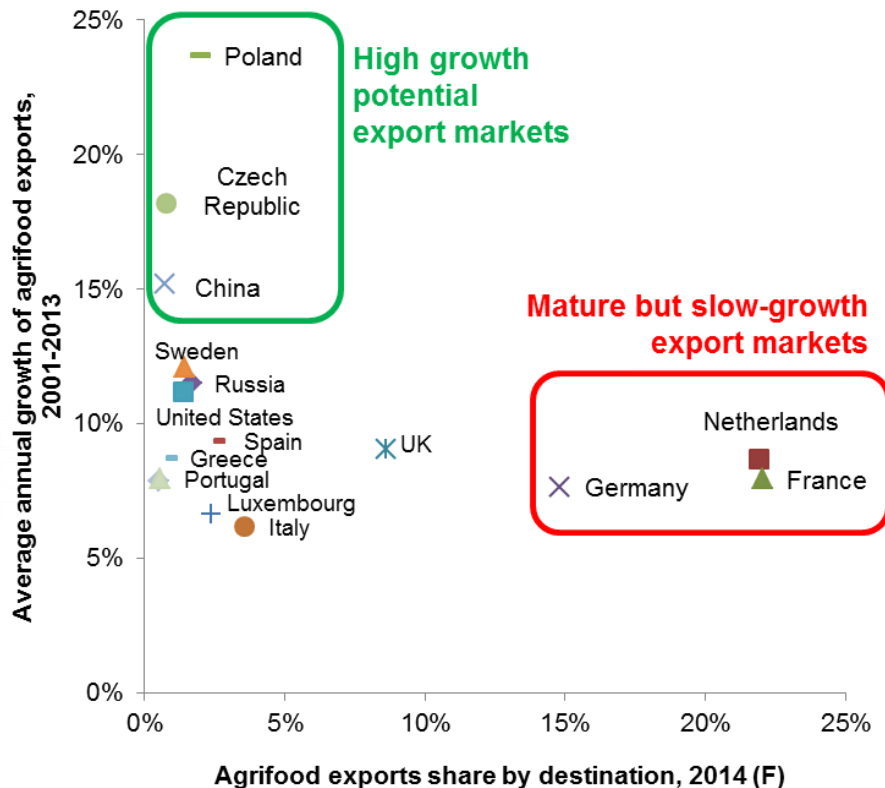
Sources: OICA, Euler Hermes

# Export opportunity #3: Agrifood industry - the example of chocolate is probing

Belgian agrifood exports to gain EUR2bn in 2016 to EUR50bn, with an increasing presence in Eastern Europe

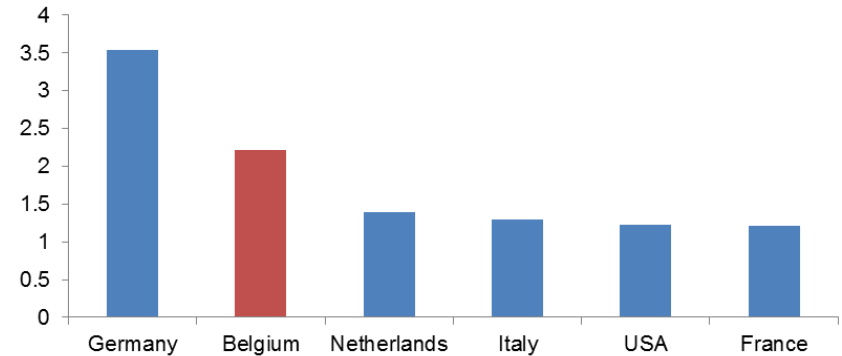
Top quality chocolate is imported by world largest chocolate exporters (Germany, Netherlands, France) making it the 2<sup>nd</sup> world exporter

**Belgian Agrifood exports**

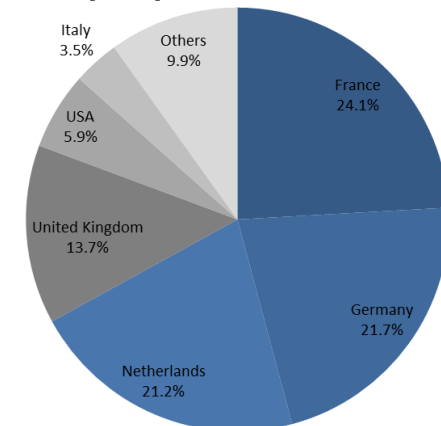


Source: Chelem, Food.be, Euler Hermes

**World largest chocolate exporters, EURbn**



**Belgian chocolate top export destination, % of export**



Sources: ITC, Euler Hermes



# Thank you for your attention

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