

COUNTRY PROFILE:**KINGDOM OF BELGIUM****DATED:****MAY 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

Recent Political Highlights

- ❑ Chief of state is King Albert II. Heir apparent is Prince Philippe, son of the monarch. Herman Van Rompuy of the Flemish Christian Democrats became prime minister in December 2008, as the head of a fragile coalition after the resignation of Yves Leterme who was in power since March 2008. Mr Leterme stepped down amid allegations that his aides tried to influence a court decision connected to the break-up of Fortis Bank, one of Belgium's largest banks. Mr Van Rompuy's government is largely unchanged from his predecessor's coalition. The EIU expects the government consisting of the Flemish and francophone Christian Democrats and Liberals and the francophone Socialists to serve its full term until 2011. The government will try to implement an economic recovery programme aimed at achieving wage moderation, encouraging lending, boosting purchasing power and supporting public investment. Regional elections are held every five years and the next ones will be held in June this year.

Recent Economic Highlights

- ❑ The population of Belgium was estimated at 10.5 million in 2008.
- ❑ This modern, private enterprise economy has capitalised on its central geographic location, highly developed transport network and diversified industrial and commercial base. With a few natural resources, Belgium imports substantial quantities of raw materials and exports a large volume of manufactures.
- ❑ Belgium's financial sector weathered the early rounds of the financial turmoil in 2007 but succumbed in September-October 2008, forcing the government to intervene in major financial institutions. Two of the country's largest banks, Fortis and Dexia started facing severe problems exacerbated by the financial problems hitting other banks in the world. The value of their stock, as well as that of most other Belgian companies plunged. The government tried to control the situation by bailing out banks and guaranteeing bank deposits. Eventually Fortis was split into two and the Dutch arm was nationalised, while the Belgian unit was sold to the French bank BNP Paribas. In May this year, the Belgian state stepped in to bail out troubled KBC bank, offering billions of euros in guarantees. Part nationalisation of the bank is also possible as the bank has reported big losses.
- ❑ Real GDP grew 1.3% in 2008. Belgium's economy contracted 1.6% in Q1'09 from the previous quarter as the country officially entered into a recession after contracting 1.7% in Q4'08. The slump brought the contraction in the Belgian economy over one year to 3%. A deep recession is expected in 2009 with a sluggish recovery in 2010. Domestic and foreign demand is forecast to fall in 2009 causing GDP to contract by 4.2%. The IMF forecasts growth to contract by 2.5% in 2009 recovering to 0.3% in 2010. Implementation of the 2008 federal budget was delayed by the lack of a government and fiscal policy in 2009 allows for a full operation of the automatic stabilisers plus a moderate discretionary stimulus (around 1% of GDP), which will widen the general government deficit to beyond 3% of GDP. Belgium has already spent \$25bn bailing out its financial sector. The EIU expects the budget deficit to grow to 4.7% of GDP in 2009, narrowing to 4.5% of GDP in 2010. The government expects a deficit of 3.4% in 2009.
- ❑ Belgium's debt-to-GDP ratio was estimated at 84% at the end of 2007. The EIU forecasts the ratio to reach 95.1% in 2009 and 97.7% in 2010 before falling moderately over 2011-13.
- ❑ The Belgium Central Bank announced that the consumer confidence was stable in March with signs of less pessimism toward economic and labour market prospects. Unemployment is forecast to peak at 9.7% in 2010 from 8.8% in 2009.
- ❑ In March 2009, 1007 businesses in Belgium went bankrupt, a rise by 40.6% compared to 2007. The number of bankruptcies in the Q1'09 amounted to 2572, a rise of 27.7% compared to the same period last year. The trade sector had the highest number of bankruptcies at 287 followed by transport and other services with 254 bankruptcies.
- ❑ EU countries Austria, Luxembourg and Belgium as well as non-EU member Switzerland have not been put on the OECD's blacklist for non-cooperative financial centres. Instead they are on the 'grey list' of eight countries that have committed to the internationally agreed tax standard, but have not yet substantially implemented it. Following mounting pressure from both sides of the Atlantic to crackdown on non-co-operating tax zones that profit by taking in capital owned by companies and wealthy individuals from abroad, many of those territories had announced a relaxation of their banking secrecy laws in the past months.
- ❑ In mid-May, Belgium reported its first known case of the H1N1 flu strain, making it the 16th country in Europe and 34th country in the world which was affected by the disease.

Latest Trade Developments

- ❑ Major exports and imports: machinery and equipment, chemicals, diamonds, pharmaceuticals, metals and metal products, foodstuffs, transportation equipment and oil products.
- ❑ Main trading partners: Germany, France, Netherlands, UK, US, Italy, Ireland and China. Roughly three quarters of its trade is with other EU countries.
- ❑ South African exports to Belgium totaled R12.3bn in 2007, R16.7bn in 2008 and R1.7bn in the year-to February 2009. Main export products from South Africa to Belgium include rough diamonds, iron, fresh fruit, bituminous coal, other ores, and manganese dioxide. Value-added exports primarily include automotive components, catalytic converters, as well as transport containers and parts and accessories thereof. Belgium is among the top ten investors in South Africa from the EU.