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### **Belgian business investment in the context of the crisis**

(Article for the September 2012 Economic Review)

Since 2008 the Belgian economy has been exposed to a series of exceptional shocks affecting GDP and all its components. Against the backdrop of the most serious economic crisis since the Great Depression of the thirties, the article therefore analyses the pattern of business investment and discusses a number of factors which may explain that picture.

First, it is clear that investment in Belgium is procyclical in character. It mirrors the variations in GDP, but the fluctuations are larger. As a result of the crisis, business investment in Belgium therefore recorded its steepest decline since 1980. It fell from mid-2008 to the beginning of 2010, after which an initially cautious recovery set in, which subsequently strengthened. However, if that steep decline is viewed in relation to GDP, it is evident that the fall in investment was not exceptionally large given the scale of the slump in GDP during the crisis. Following a recovery period, the expansion of investment appeared to stagnate in mid-2011. The expansion is likewise predicted to remain stable in 2012, followed by a gradual investment revival in 2013.

In international terms, however, Belgian business investment held up relatively well during the crisis, recording a smaller cumulative decline than in neighbouring countries and in the euro area.

Next, the article looks for explanations for the above findings. First, on the basis of the Bank's quarterly model, it offers an outline of the investment determinants and how they have moved in the past five years. However, this model, which is also used for the macro-economic projections, does not necessarily contain all the elements which may influence investment (e.g. uncertainty is not taken into account as such). The article therefore proceeds to examine a number of factors in more detail, both those which may explain the steep decline in business investment during the crisis and the possible reasons why that decline was relatively limited in international terms.

The factors underlying the sharpest fall in investment since 1980 are the slump in demand and economic activity during the crisis, the considerable decline in the gross operating surplus of Belgian firms in 2009, the increase in the external financing cost for businesses, and the tightening of credit conditions prior to and during the financial crisis. The high uncertainty and unstable outlook as a result of the crisis also played a part.

Subsequently, the article examines the factors which may account for the relatively limited scale of the decline in business investment during the crisis. It focuses first on the resilience of the Belgian economy in the face of the crisis, as Belgian GDP recorded the smallest decline in relation to neighbouring countries, and rapidly recovered to pre-crisis levels. That was not always the case for other euro area countries. In addition, Belgian firms maintained a sound financial position in historical terms. During the crisis, their gross operating surplus recorded a smaller decline than in the case of firms in neighbouring countries, and recovered faster.

Finally, the article discusses a number of points to be considered for the future. In view of the importance of investment as a factor of innovation, technological progress and improvement, contributing towards sustainable, balanced economic growth, the article lists a number of factors which could threaten the gradual investment recovery and therefore jeopardise the growth potential of the Belgian economy in the longer term.