BELGIUM

OCTOBER 2023

COUNTRY REPORT

BELGIUM
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COUNTRY REPORTS & ECONOMIC FORECASTS (CREF)

MAP


North Sea
Netherlands
Zeebrugge
Oostende
Antwerp
Brugge
Gent
Hasselt
Germany
Kortrijk
Brussels
BELGIUM
Liege
Mons
Namur
Charleroi
Bastogne
France
Lux.

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Broad Coalition 50%
FIVE-YEAR	Broad Coalition 45%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	Low	A-	A-	A
FIVE-YEAR	Low	A-	A-	A-

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	1.6	3.2	0.99
2023(F)	1.0	2.5	-12.50
2024-2028(F)	1.3	2.1	-4.60

DISUNITY CLOUDS FISCAL STRATEGY

The seven-party “Vivaldi coalition” government headed by Prime Minister Alexander De Croo is showing worrying signs of disunity as it enters its fourth year. Nevertheless, the alliance of French-speaking liberal, socialist, and green parties, their Dutch-speaking counterparts, and the Flemish CD&V is expected to survive until the general election scheduled for June 2024, if only because the constituent parties have nothing to gain from forcing its early collapse.

The bigger question is whether the resentments that have piled up over the past several months will be an impediment to renewing the current arrangement, which, based on the seat projections derived from the most recent polls, would produce a government claiming a majority of 82 seats in the 150-member lower chamber of Parliament. There are other plausible paths to a majority (assuming the current polling trends hold through the election), but most of the alternative scenarios would entail adding more partners to an already ungainly coalition, or the replacement of current members of the coalition (most likely the greens) with the Flemish nationalist N-VA.

Prolonged delays in post-election government formation have become the norm in Belgium; it took a world record 541 days to complete the process following the 2010 general election, and De Croo’s government was sworn in 494 days after the 2019 election. Neither the seat projections derived from the recent polling data nor the state of relations within the incumbent administration inspires confidence that the process might go more smoothly this time around.

The liberal francophone MR aggravated tensions within the coalition by adopting an uncompromising position on a tax reform package proposed by Finance Minister Vincent Van Peteghem. Although all parties in the coalition voiced objections to various components of the reform, the refusal of the MR to budge at all in negotiations doomed the effort to failure, as Van Peteghem and De Croo conceded in July.

The impasse over the tax reform, which sought to shift the tax burden from lower- and middle-income households to the wealthy, comes amid growing pressure on the government to rein in a general government budget deficit that is forecast to swell to 4.8% of GDP in 2023, from 3.9% of GDP last year. The EU's fiscal rules were suspended in response to the COVID-19 pandemic and the war in Ukraine but are scheduled to come back into force next year.

The stability program for 2022-2027 forecasts a narrowing of the deficit to below the 3% of GDP ceiling permitted by the EU by 2025. However, recent projections by the independent Federal Planning Bureau suggest that without significant spending reductions, the shortfall will narrow only slightly (to 4.7% of GDP) next year, before widening to 5% of GDP in 2025 and to 5.5% of GDP by 2028.

On balance, then, it is very likely that Belgium will come under very heavy pressure from the European Commission to accelerate the consolidation process, creating the risk of a retreat by investors in the event of inaction, the danger of which will be especially pronounced if there is a protracted delay in forming a government following next year's elections.

Year-on-year real GDP growth slowed for a sixth consecutive quarter in April-June 2023, reflecting the dampening effect of monetary tightening by the ECB on both domestic activity and demand for exports in key EU markets. Business confidence weakened in the third quarter, but overall growth is forecast to level off in the second half of the year, as indexation of wages and pensions supports household spending and manufacturing production recovers from a protracted downturn. Annual real growth will slow to just 1%, from 3.2% in 2022, and the constraining effect of monetary tightening will persist in 2024, although a boost from pre-election spending could nudge the yearly figure above 1.5%.

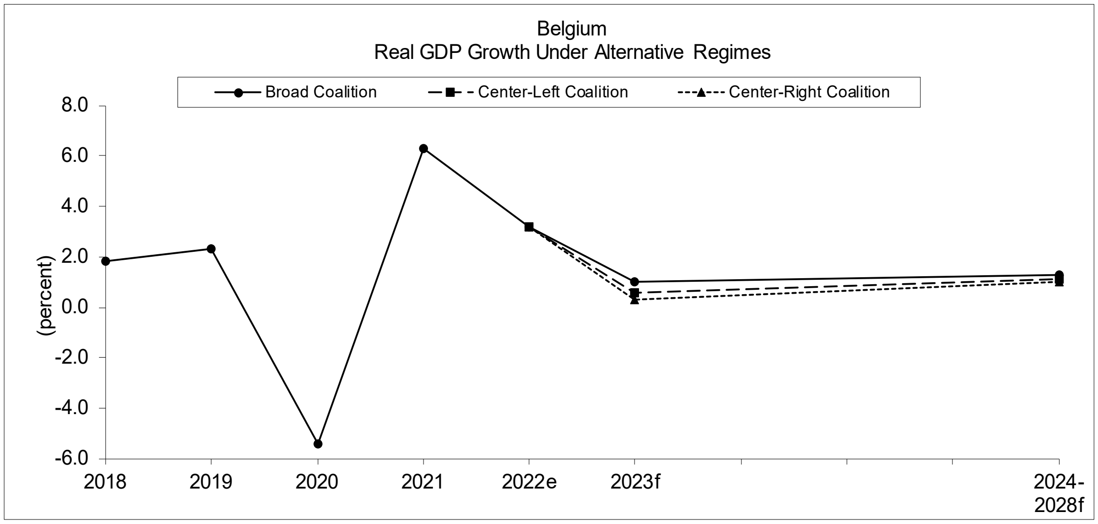
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Broad Coalition			**Center-Left Coalition**			**Center-Right Coalition**		
	GROWTH (%)	**INFLATION (%)**	**CACC ($bn)**	**GROWTH (%)**	**INFLATION (%)**	**CACC ($bn)**	**GROWTH (%)**	**INFLATION (%)**	**CACC ($bn)**
2023	1.0	2.5	-12.50	0.6	2.9	-14.00	0.3	2.8	-14.40
2024-2028	1.3	2.1	-4.60	1.1	2.4	-5.30	1.0	2.0	-5.90

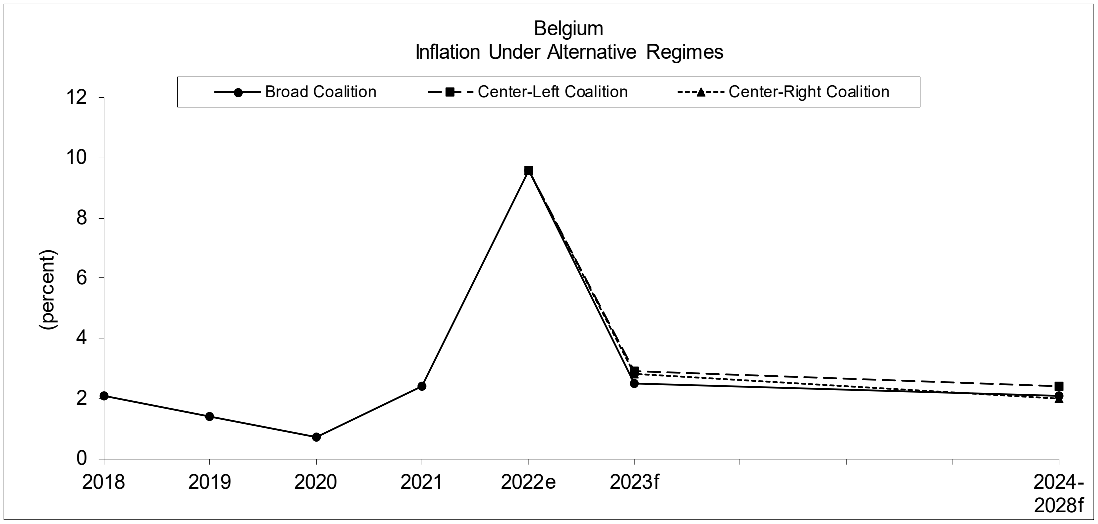
REGIME, BUSINESS & INVESTMENT FORECASTS

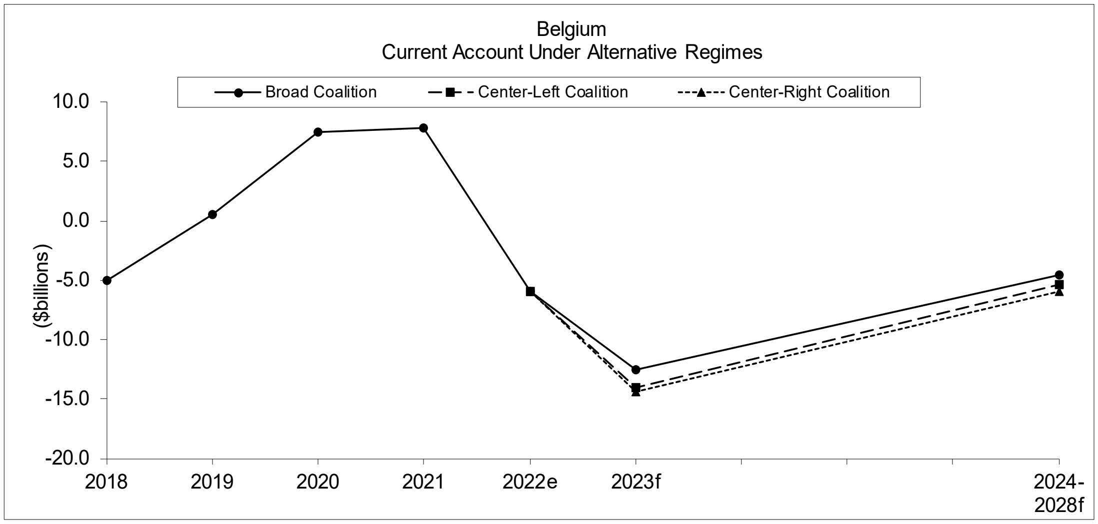
SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Broad Coalition 50%	Center-Left Coalition 30%	Center-Right Coalition 20%
RISK FACTORS	**CURRENT**			
Turmoil	Low	Same	Same	SLIGHTLY MORE
Investment				
Equity	Moderate	Same	Same	Same
Operations	Low	Same	Same	SLIGHTLY MORE
Taxation	Moderate	Same	Same	Same
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Moderate	Same	Same	SLIGHTLY MORE
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	Very High	Same	Same	Same
Foreign Debt	Low	SLIGHTLY MORE	MORE	MORE

SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		Broad Coalition 45%	Center-Left Coalition 30%	Center-Right Coalition 25%
RISK FACTORS	**BASE**			
Turmoil	Low	Same	Same	Same
Restrictions				
Investment	Moderate	Same	SLIGHTLY LESS	Same
Trade	Moderate	Same	Same	Same
Economic Problems				
Domestic	Moderate	Same	Same	Same
International	Moderate	Same	Same	Same

* When present, indicates forecast of a new regime


Belgium
Real GDP Growth Under Alternative Regimes
Broad Coalition
Center-Left Coalition
Center-Right Coalition
(percent)
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Belgium
Inflation Under Alternative Regimes
Broad Coalition
Center-Left Coalition
Center-Right Coalition
(percent)
12
10
8
6
4
2
0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Belgium
Current Account Under Alternative Regimes
Broad Coalition
Center-Left Coalition
Center-Right Coalition
($billions)
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
2018
2019
2020
2021
2022e
2023f
2024-2028f

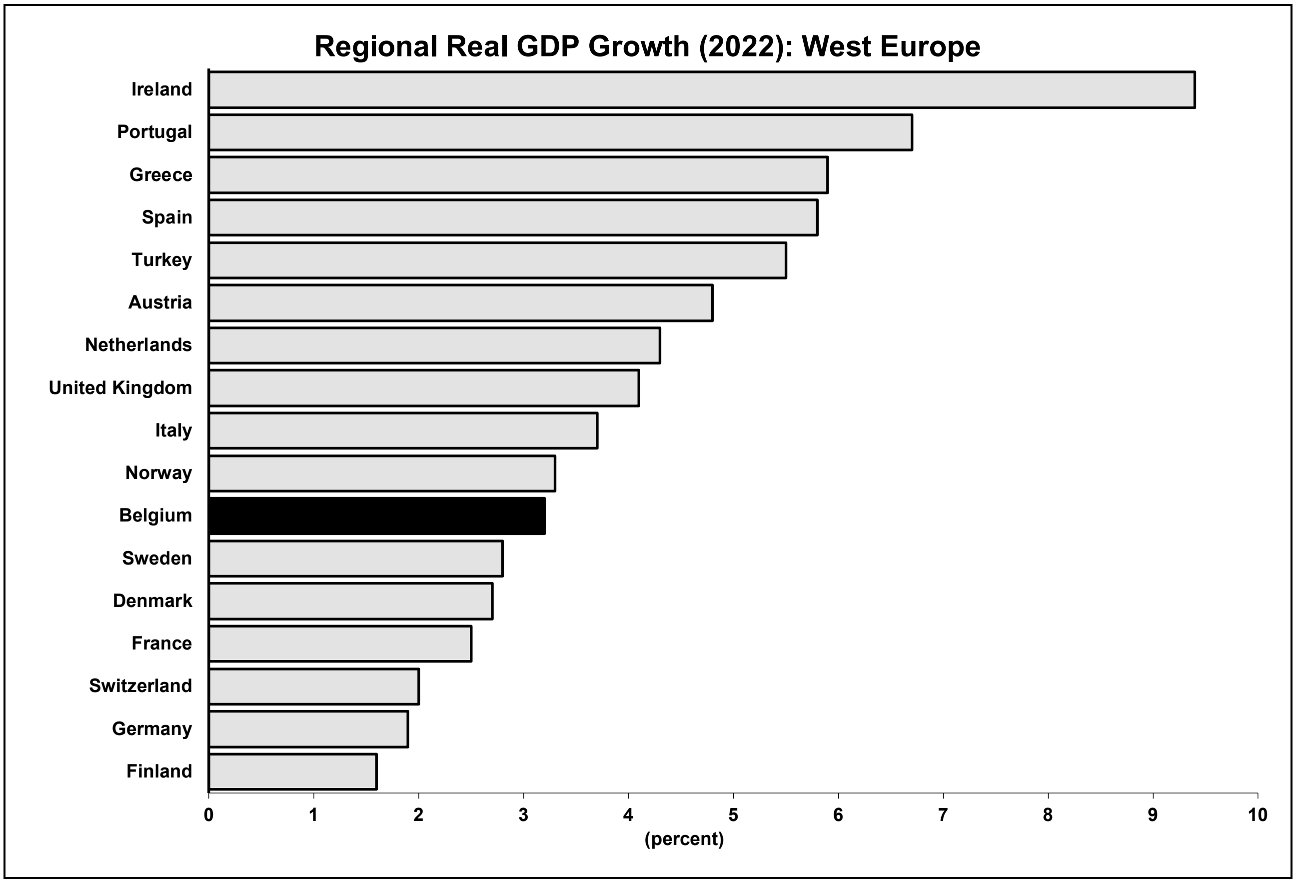
Belgium
Econometric Data

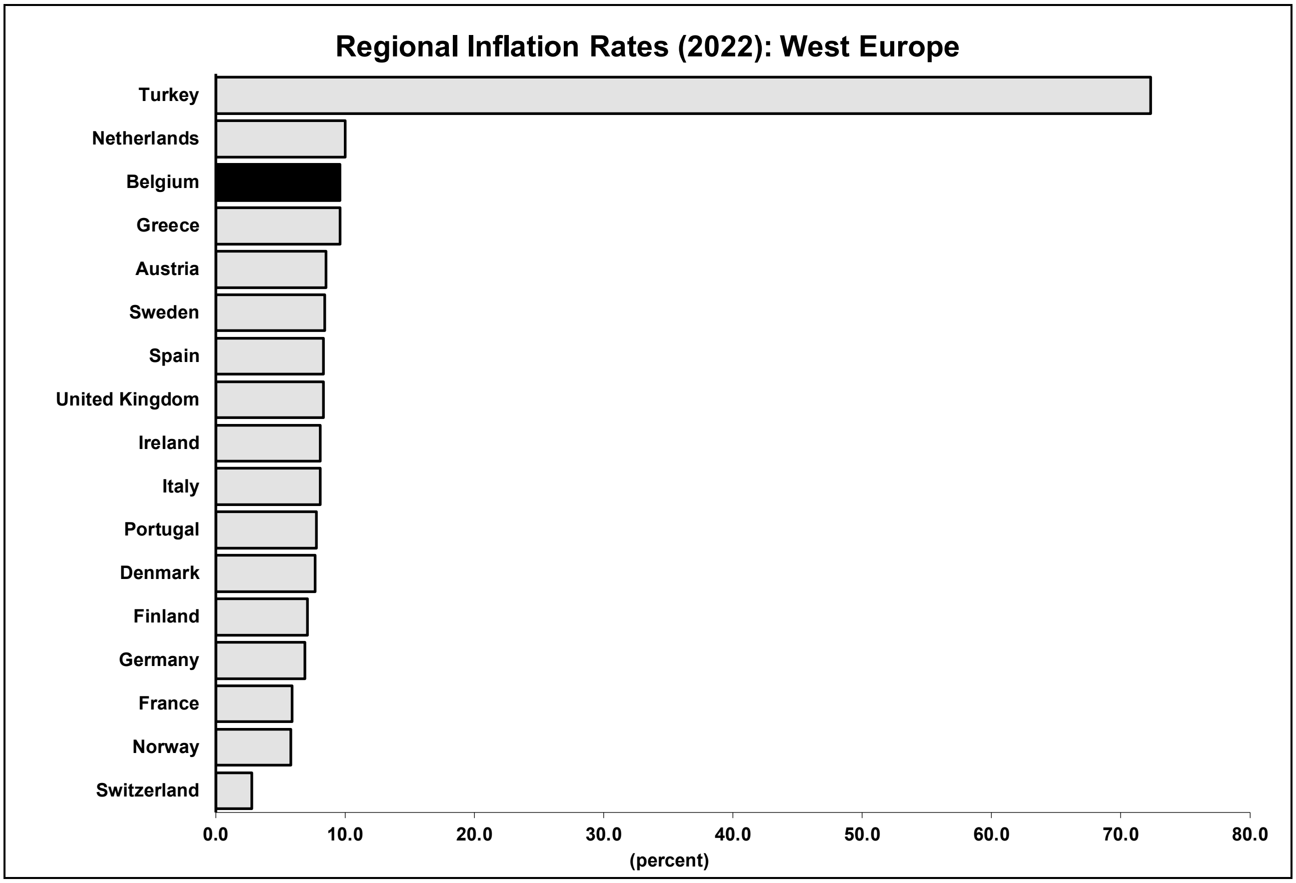
	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	499.29	554.93	521.75	535.20	461.97	475.76	501.75
Per Capita GDP ($)	44329	48053	46794	47743	40991	42028	44091
Real GDP Growth Rate (%)	1.4	1.6	0.5	1.6	2.0	1.3	1.6
Inflation Rate (%)	1.2	3.2	1.1	0.3	0.6	2.0	2.1
Capital Investment ($bn)	114.27	131.18	115.68	122.06	106.09	110.74	116.80
Capital Investment/GDP (%)	22.9	23.7	22.2	22.8	23.0	23.3	23.3
Budget Revenues ($bn)	133.60	138.45	148.12	152.11	121.58	118.44	127.76
Budget Revenues/GDP (%)	26.7	24.9	28.4	28.4	26.3	24.9	25.5
Budget Expenditures ($bn)	143.87	156.16	161.57	165.61	127.49	130.59	134.09
Budget Expenditures/GDP (%)	28.7	28.1	31.0	30.9	27.6	27.5	26.7
Budget Balance ($bn)	-10.27	-17.71	-13.45	-13.50	-5.91	-12.15	-6.33
Budget Balance/GDP (%)	-2.1	-3.2	-2.6	-2.5	-1.3	-2.6	-1.3
Money Supply (M1, $bn)	198.69	300.04	175.03	199.73	184.92	207.74	226.04
Change in Real Wages (%)	0.4	-0.4	1.9	1.0	-0.4	-0.5	-0.2
Unemployment Rate (%)	8.2	5.8	8.6	8.7	8.7	7.9	7.1
International Economic Indicators							
Foreign Direct Investment ($bn)	-8.28	-10.00	-29.30	-14.27	-19.92	58.01	-35.92
Forex Reserves ($bn)	8.96	11.17	8.03	8.94	9.10	9.27	9.47
Gross Reserves (ex gold, $bn)	16.77	22.28	17.48	18.18	16.65	15.85	15.67
Gold Reserves ($bn)	8.75	12.13	8.46	9.59	7.89	8.88	8.92
Gross reserves (inc gold, $bn)	25.51	34.42	25.94	27.77	24.54	24.73	24.59
Total Foreign Debt ($bn)	1292.97	1410.77	1295.34	1375.84	1180.54	1318.40	1294.71
Total Foreign Debt/GDP (%)	259.2	254.4	248.3	257.1	255.5	277.1	258.0
Debt Service ($bn)	12.08	14.86	12.47	12.75	11.38	11.45	12.34
Debt Service/XGS (%)	2.5	2.6	2.4	2.4	2.6	2.5	2.5
Current Account ($bn)	4.33	0.99	4.98	4.13	6.39	2.62	3.51
Current Account/GDP (%)	0.9	0.2	1.0	0.8	1.4	0.6	0.7
Current Account/XGS (%)	0.9	0.2	1.0	0.8	1.5	0.6	0.7
Exports ($bn)	288.57	350.40	312.73	310.60	250.51	268.98	300.01
Imports ($bn)	290.44	347.44	321.52	317.64	248.65	267.01	297.36
Trade Balance ($bn)	-1.87	2.96	-8.79	-7.04	1.86	1.97	2.65
Exports of Services ($bn)	114.88	127.82	113.71	125.51	108.93	108.92	117.35
Income, credit ($bn)	72.81	71.74	80.62	82.86	67.11	68.89	64.58
Transfers, credit ($bn)	11.73	17.27	12.48	12.19	11.18	11.06	11.75
Exports G&S ($bn)	487.99	567.24	519.54	531.16	437.73	457.85	493.69
Liabilities ($bn)	1.28	2.11	0.00	0.00	0.16	2.28	3.96
Net Reserves ($bn)	24.23	32.30	25.94	27.77	24.38	22.45	20.63
Liquidity (months import cover)	1.0	1.1	1.0	1.0	1.2	1.0	0.8
Currency Exchange Rate	0.840	0.883	0.753	0.753	0.902	0.904	0.887
Currency Change (%)	-2.3	-1.2	3.3	0.0	-16.5	-0.2	1.9
Social Indicators							
Population (million)	11.27	11.55	11.15	11.21	11.27	11.32	11.38
Population Growth (%)	0.6	0.6	1.1	0.5	0.5	0.4	0.5
Infant Deaths/1000	3	3	4	4	3	3	3
Persons under Age 15 (%)	17	17	16	16	17	17	17
Urban Population (%)	98	98	98	98	98	98	98
Urban Growth (%)	0.5	0.5	0.6	0.5	0.5	0.5	0.4
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	1	1	2	2	1	1	1
Industry-Commerce Work Force (%)	21	21	25	25	19	19	19
Services Work Force (%)	77	78	73	73	80	80	80
Unionized Work Force (%)	55	55	55	55	55	55	55
Energy - total consumption (10^{15} Btu)	2.57	2.70	2.64	2.46	2.53	2.59	2.63
Energy - consumption/head (10^{9} Btu)	0.23	0.23	0.24	0.22	0.22	0.23	0.23

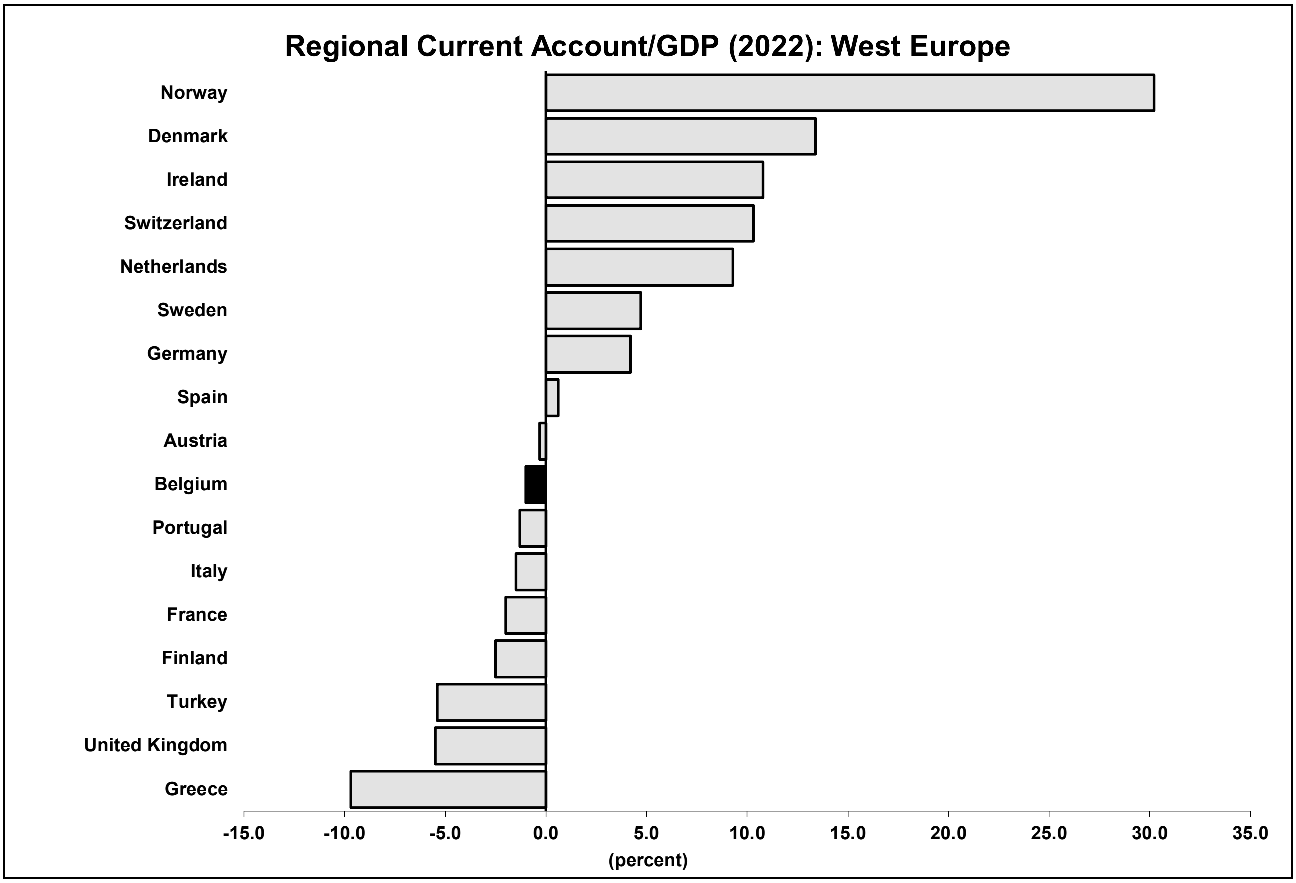
Belgium
Econometric Data

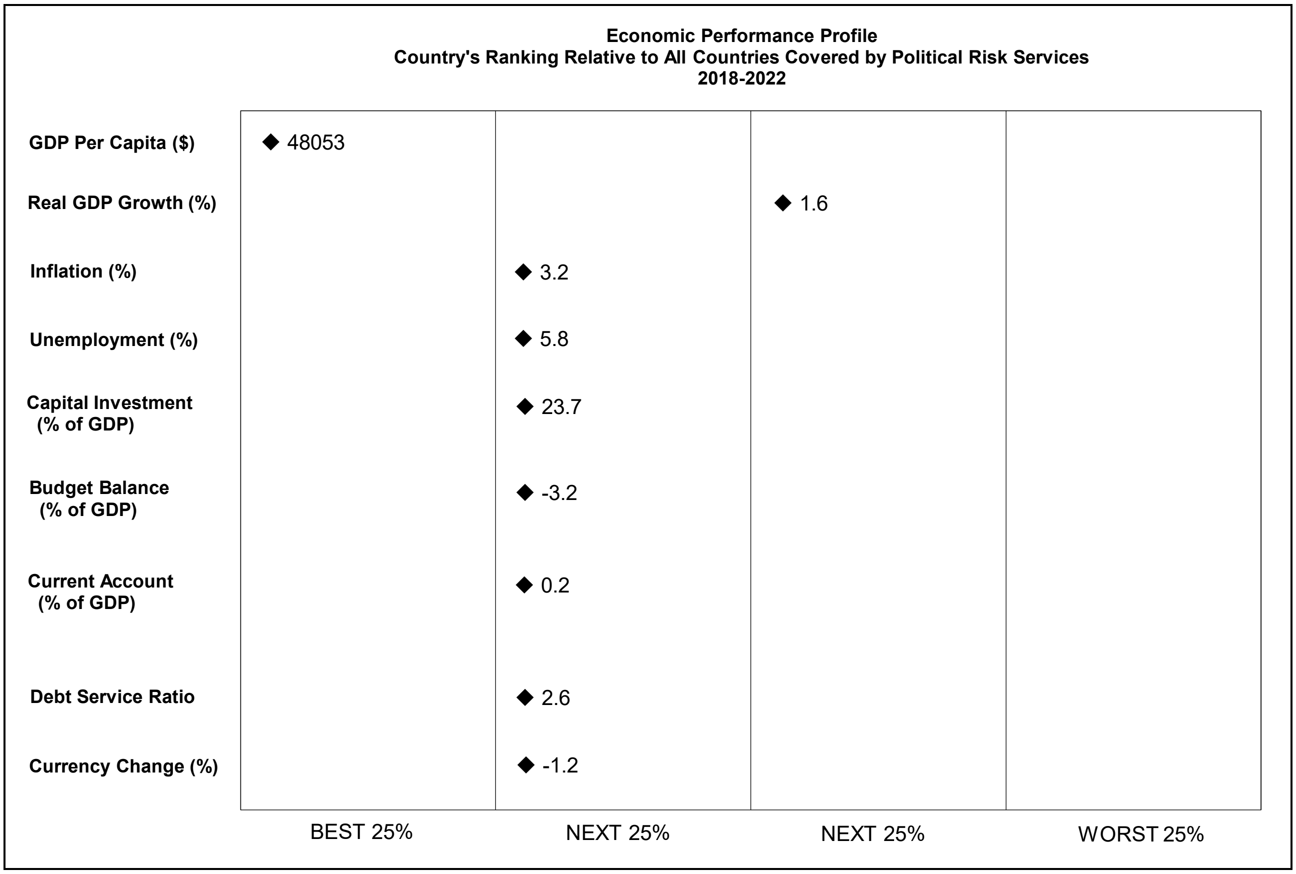
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	499.29	554.93	542.51	536.03	524.32	594.00	577.77
Per Capita GDP ($)	44329	48053	47464	46652	45514	51251	49382
Real GDP Growth Rate (%)	1.4	1.6	1.8	2.3	-5.4	6.3	3.2
Inflation Rate (%)	1.2	3.2	2.1	1.4	0.7	2.4	9.6
Capital Investment ($bn)	114.27	131.18	128.15	130.17	126.75	131.39	139.42
Capital Investment/GDP (%)	22.9	23.7	23.6	24.3	24.2	22.1	24.1
Budget Revenues ($bn)	133.60	138.45	142.91	131.63	124.83	148.85	144.05
Budget Revenues/GDP (%)	26.7	24.9	26.3	24.6	23.8	25.1	24.9
Budget Expenditures ($bn)	143.87	156.16	144.14	142.02	162.07	172.99	159.60
Budget Expenditures/GDP (%)	28.7	28.1	26.6	26.5	30.9	29.1	27.6
Budget Balance ($bn)	-10.27	-17.71	-1.23	-10.39	-37.24	-24.14	-15.55
Budget Balance/GDP (%)	-2.1	-3.2	-0.2	-1.9	-7.1	-4.1	-2.7
Money Supply (M1, $bn)	198.69	300.04	253.30	257.11	322.02	352.80	314.95
Change in Real Wages (%)	0.4	-0.4	0.1	-0.1	-0.5	1.3	-2.8
Unemployment Rate (%)	8.2	5.8	6.0	5.4	5.6	6.3	5.6
International Economic Indicators							
Foreign Direct Investment ($bn)	-8.28	-10.00	-41.91	-20.68	-28.56	29.52	11.63
Forex Reserves ($bn)	8.96	11.17	10.98	10.90	10.62	12.08	11.25
Gross Reserves (ex gold, $bn)	16.77	22.28	18.01	17.79	18.12	29.82	27.68
Gold Reserves ($bn)	8.75	12.13	9.67	11.09	12.87	13.91	13.12
Gross reserves (inc gold, $bn)	25.51	34.42	27.68	28.88	30.99	43.73	40.80
Total Foreign Debt ($bn)	1292.97	1410.77	1341.98	1380.71	1409.34	1535.04	1386.79
Total Foreign Debt/GDP (%)	259.2	254.4	247.4	257.6	268.8	258.4	240.0
Debt Service ($bn)	12.08	14.86	13.53	13.77	13.22	16.76	17.02
Debt Service/XGS (%)	2.5	2.6	2.5	2.6	2.7	2.7	2.6
Current Account ($bn)	4.33	0.99	-4.96	0.53	7.42	7.86	-5.89
Current Account/GDP (%)	0.9	0.2	-0.9	0.1	1.4	1.3	-1.0
Current Account/XGS (%)	0.9	0.2	-0.9	0.1	1.5	1.3	-0.9
Exports ($bn)	288.57	350.40	326.48	317.97	294.85	392.31	420.41
Imports ($bn)	290.44	347.44	328.60	313.77	283.54	382.81	428.49
Trade Balance ($bn)	-1.87	2.96	-2.12	4.20	11.31	9.50	-8.08
Exports of Services ($bn)	114.88	127.82	124.25	123.71	118.25	135.58	137.31
Income, credit ($bn)	72.81	71.74	76.11	73.01	59.62	73.48	76.50
Transfers, credit ($bn)	11.73	17.27	14.40	15.11	16.89	19.52	20.42
Exports G&S ($bn)	487.99	567.24	541.24	529.80	489.61	620.89	654.64
Liabilities ($bn)	1.28	2.11	3.80	0.73	1.54	1.73	2.77
Net Reserves ($bn)	24.23	32.30	23.88	28.15	29.45	42.00	38.03
Liquidity (months import cover)	1.0	1.1	0.9	1.1	1.2	1.3	1.1
Currency Exchange Rate	0.840	0.883	0.848	0.893	0.877	0.846	0.951
Currency Change (%)	-2.3	-1.2	4.6	-5.0	1.8	3.7	-11.0
Social Indicators							
Population (million)	11.27	11.55	11.43	11.49	11.52	11.59	11.70
Population Growth (%)	0.6	0.6	0.4	0.5	0.3	0.6	0.9
Infant Deaths/1000	3	3	3	3	3	3	3
Persons under Age 15 (%)	17	17	17	17	17	17	17
Urban Population (%)	98	98	98	98	98	98	98
Urban Growth (%)	0.5	0.5	0.5	0.4	0.3	0.3	0.9
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	1	1	1	1	1	1	1
Industry-Commerce Work Force (%)	21	21	21	20	22	21	21
Services Work Force (%)	77	78	78	79	77	78	78
Unionized Work Force (%)	55	55	55	55	55	55	55
Energy - total consumption (10^{15} Btu)	2.57	2.70	2.69	2.73	2.69	2.68	2.71
Energy - consumption/head (10^{9} Btu)	0.23	0.23	0.23	0.23	0.23	0.23	0.23

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): West Europe
Norway
Denmark
Ireland
Switzerland
Netherlands
Sweden
Germany
Spain
Austria
Belgium
Portugal
Italy
France
Finland
Turkey
United Kingdom
Greece
-15.0
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
25.0
30.0
35.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
48053
Real GDP Growth (%)
1.6
Inflation (%)
3.2
Unemployment (%)
5.8
Capital Investment (% of GDP)
23.7
Budget Balance (% of GDP)
-3.2
Current Account (% of GDP)
0.2
Debt Service Ratio
2.6
Currency Change (%)
-1.2
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

POLITICAL INFIGHTING CLOUDS POST-ELECTION SCENARIO

The seven-party "Vivaldi coalition" government headed by Prime Minister Alexander De Croo is showing worrying signs of disunity as it enters its fourth year. Nevertheless, the alliance of French-speaking liberal, socialist, and green parties, their Dutch-speaking counterparts, and the Christian Democrats and Flemish (CD&V) is expected to survive until the general election scheduled for June 2024, if only because the constituent parties have nothing to gain from forcing its early collapse.

De Croo caused a stir in May, when he suggested that the EU should scale back the ambitions of its green agenda in favor of a pro-growth strategy, echoing the sentiments of some other leading figures in the European bloc, as well as Zuhal Demir, the environment minister in the Flanders regional government. The proposal provoked sharp criticism from Deputy Prime Minister Petra De Sutter, whose Flemish Greens had already conceded ground on another pet issue, the phase-out of nuclear power, after Russia's invasion of Ukraine raised questions about the security of the country's power supply.

The cohesion of the ideologically diverse governing alliance was likewise strained by a controversy over the issuing of visas to an Iranian delegation that attended an urban summit held in Brussels in May. Foreign Minister Hadja Lahbib, a member of the francophone liberal Reform Movement (MR), defended her actions by noting that the invitations had been extended by an official in the Brussels regional government, Pascal Smet, a member of the Flemish socialist Forward, and arguing that denial of the visas might have jeopardized ultimately successful negotiations to secure the freedom of Olivier Vandecasteele, a Belgian national detained by Iran for more than a year.

Smet resigned from his post in the regional government, but Lahbib refused to step down, a decision supported by De Croo, a member of the MR's Dutch-speaking counterpart, the Open Flemish Liberal and Democratic Party (Open VLD). She survived a confidence vote, but the episode left a bitter taste with the green and socialist partners in the governing coalition.

Lahbib fared better than Eva De Bleeker, the state secretary for the budget, who resigned last November after the government was forced to revise a budget update that underreported the 2023 budget deficit by €1.7 billion (equivalent to about 0.3% of GDP). De Croo appeared willing to let his party colleague stay on, but when the main opposition New Flemish Alliance (N-VA), which uncovered the initial mistake, found additional math errors in the revised update, De Bleeker's position became untenable.

The MR aggravated tensions within the coalition again by adopting an uncompromising position on a tax reform package proposed by Finance Minister Vincent Van Peteghem. Although all parties in the coalition voiced objections to various components of the reform, the refusal of the MR to budge at all in negotiations doomed the effort to failure, which De Croo and Van Peteghem conceded in July.

None of which poses a significant risk to the survival of the coalition. Recent polling data suggests that the only members of De Croo's coalition whose election prospects have weakened since joining the current government are the green parties, both of which are projected to suffer a net loss of three seats in 2024. However, it is highly doubtful that either would improve its chances by pulling out of the coalition at this point, and the likelihood that government instability might boost popular support for the right-wing populist Flemish Interest (VB), which has overtaken the N-VA for the top spot in the polls and is currently favored by 23%-25% of voters, will provide all of the coalition partners with additional incentive to hang together for the duration.

The bigger question is whether the resentments that have piled up over the past 18 months will be an impediment to renewing the current arrangement, which, based on the seat projections derived from the most recent polls, would produce a government claiming a majority of 82 seats in the 150-member lower chamber of Parliament. There are other plausible paths to a majority (assuming the current polling trends hold through the election), but most of the alternative scenarios would entail adding more partners to an already ungainly coalition, or the replacement of current members of the coalition (most likely the greens) with the N-VA.

On current projections, the N-VA and the VB would not be able to achieve a majority on their own. Assuming the continued aversion of the mainstream parties to cooperation with the VB, the N-VA's return to government would most likely entail its inclusion in an ideologically and regionally diverse coalition, which would limit its influence over policy. But the N-VA has made clear its willingness to bide its time in opposition if prospective partners prove reluctant to make concessions related to Flemish autonomy, which historically has been a deal-breaker for most of the francophone parties. The increasingly acrimonious governing partnership of the N-VA and the CD&V in Flanders could become an impediment to their future cooperation at the federal level, which would further complicate post-election coalition negotiations.

Prolonged delays in post-election government formation have become the norm in Belgium; it took a world record 541 days to complete the process following the 2010 general election, and De Croo's government was sworn in 494 days after the 2019 election. Neither the seat projections derived from the recent polling data nor the state of relations within the incumbent administration inspires confidence that the process might go more smoothly this time around.

PRESSURE TO IMPLEMENT FISCAL REFORMS

The impasse over the tax reform, which sought to shift the tax burden from lower- and middle-income households to the wealthy, comes amid growing pressure on the government to rein in a general government budget deficit that is forecast to swell to 4.8% of GDP in 2023, from 3.9% of GDP last year. The EU's fiscal rules were suspended in response to the COVID-19 pandemic and the war in Ukraine but are scheduled to come back into force next year.

The stability program for 2022-2027 forecasts a narrowing of the deficit to below the 3% of GDP ceiling permitted by the EU by 2025. However, recent projections by the independent Federal Planning Bureau suggest that without significant spending reductions, the shortfall will narrow only slightly (to 4.7% of GDP) next year, before widening to 5% of GDP in 2025 and to 5.5% of GDP by 2028.

In accordance with the EU's agreement to the OECD's proposal for a global minimum tax, the government has approved tax rules designed to ensure that multinational corporations with annual turnover of more than €750 million pay a tax of at least 15% beginning in 2024. The tax measure is forecast to boost revenues by about €349 million next year, and the two-year budget approved in March reduced total annual spending by €1.8 billion. However, it is doubtful those steps will be enough to put the deficit on a rapid downward trajectory, and there will be little appetite for making additional cuts ahead of a general election.

On balance, then, it is very likely that Belgium will come under very heavy pressure from the European Commission to accelerate the consolidation process, creating the risk of a retreat by investors in the event of inaction, the danger of which will be especially pronounced if there is a protracted delay in forming a government following next year's elections. Fitch revised its AA– sovereign rating from stable to negative in March, and affirmed the negative outlook last month, citing structural risks stemming from an ageing population (i.e., rising pension and healthcare costs) and the uncertain political capacity to make compensatory fiscal adjustments.

The sovereign debt is contracted on long-term maturities and the country is not at any risk of being denied access to international markets. However, an inflation premium and the tightening of monetary policy in the euro zone have increased debt-servicing costs, resulting in a rise in the benchmark government bond yield to an average of 3.5% since late September. The debt ratio remains uncomfortably high at close to 105% of GDP and is expected to return to an upward trajectory in 2024, a prospect that will reinforce pressure on the next government to pursue aggressive fiscal consolidation.

SUBDUED GROWTH, EASING INFLATION

Year-on-year real GDP growth slowed for a sixth consecutive quarter in April-June 2023, reflecting the dampening effect of monetary tightening by the European Central Bank (ECB) on both domestic activity and demand for exports in key EU markets. Business confidence weakened in the third quarter, but overall growth is forecast to level off in the second half of the year, as indexation of wages and pensions supports household spending and manufacturing production recovers from a protracted downturn. Annual real growth will slow to just 1%, from 3.2% in 2022, and the constraining effect of monetary tightening will persist in 2024, although a boost from pre-election spending could nudge the yearly figure above 1.5%.

Headline inflation has eased significantly over the last 12 months, falling to a 26-month low of 2.4% (and just 0.7% on a harmonized basis) in September. However, core inflation averaged slightly more than 6% in the third quarter, reflecting indexation-related wage pressures that have negative implications for labor costs and export competitiveness.

The current account balance recorded a deficit for only the second time in more than a decade in 2022, as a steep rise in the cost of energy imports pushed the trade balance into negative territory. Weaker external demand and competitiveness issues have slowed the growth of exports in 2023, and the current account balance is forecast to remain in deficit this year, despite the moderation of prices for energy imports.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
OCTOBER 2023 VERSUS NOVEMBER 2022

RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
	Very Low Risk				
1	Norway	86.0	87.0	-1.0	2
1	Switzerland	86.0	87.3	-1.3	1
3	Luxembourg	85.8	86.0	-0.3	3
4	Denmark	84.8	84.3	0.5	6
5	Taiwan	84.5	84.3	0.3	6
6	Singapore	84.3	85.8	-1.5	4
7	Ireland	83.8	82.3	1.5	8
8	Saudi Arabia	82.5	85.5	-3.0	5
9	Brunei	81.8	79.5	2.3	16
10	Canada	80.8	82.0	-1.3	10
10	Iceland	80.8	80.5	0.3	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING OCTOBER 2023 VERSUS NOVEMBER 2022					
RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
13	United Arab Emirates	80.5	82.3	-1.8	8
14	Netherlands	80.3	79.8	0.5	15
15	Kuwait	80.0	80.8	-0.8	13
	Low Risk				
16	Japan	79.8	76.3	3.5	26
16	Sweden	79.8	81.0	-1.3	12
18	Korea, Republic	79.5	77.8	1.8	22
19	Australia	79.3	81.3	-2.0	11
19	Botswana	79.3	77.0	2.3	24
21	Finland	78.8	78.3	0.5	20
21	New Zealand	78.8	76.0	2.8	27
23	Germany	78.5	78.8	-0.3	17
24	Hong Kong	78.0	74.0	4.0	36
25	Trinidad & Tobago	77.0	77.5	-0.5	23
26	Bahamas	76.8	71.0	5.8	55
26	Portugal	76.8	75.5	1.3	31
28	Austria	76.5	78.5	-2.0	19
28	Oman	76.5	78.3	-1.8	20
30	Czech Republic	75.8	75.5	0.3	31
31	Kazakhstan	75.5	76.0	-0.5	27
32	Guyana	75.3	75.8	-0.5	30
33	Uzbekistan	74.8	73	2.3	43
34	Belgium	74.5	74.5	0.0	35
34	Italy	74.5	73.5	1.0	38
36	Malaysia	74.3	73.5	0.8	38
37	Croatia	73.8	73.8	0.0	37
37	Libya	73.8	70.8	3.0	59
37	Malta	73.8	74.8	-1.0	34

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING OCTOBER 2023 VERSUS NOVEMBER 2022					
RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
37	Panama	73.8	73.5	0.3	38
37	Slovenia	73.8	73.0	0.8	41
37	United Kingdom	73.8	76.8	-3.0	25
37	Uruguay	73.8	75.3	-1.5	33
44	Azerbaijan	73.3	72.5	0.8	43
45	Costa Rica	73.0	72.0	1.0	48
46	Latvia	72.8	71.5	1.3	52
47	Jamaica	72.5	72.3	0.3	46
47	Spain	72.5	72.8	-0.3	42
49	Dominican Republic	72.3	72.5	-0.3	43
50	Brazil	71.8	70.0	1.8	65
50	Chile	71.8	71.8	0.0	49
50	France	71.8	72.3	-0.5	46
50	Israel	71.8	76.0	-4.3	27
54	Bulgaria	71.5	70.8	0.8	59
54	Philippines	71.5	70.8	0.8	59
54	Poland	71.5	71.0	0.5	55
54	Vietnam	71.5	70.8	0.8	59
58	Hungary	71.0	71.5	-0.5	52
58	India	71.0	70.3	0.8	63
60	Guatemala	70.8	71.0	-0.3	55
60	Thailand	70.8	65.0	5.8	88
62	United States	70.5	71.8	-1.3	49
63	China, Peoples' Rep.	70.0	69.5	0.5	67
Moderate Risk					
64	Cyprus	69.8	70.0	-0.3	65
64	Gabon	69.8	66.5	3.3	84
64	Lithuania	69.8	70.3	-0.5	63

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING OCTOBER 2023 VERSUS NOVEMBER 2022					
RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
67	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.0	71.5	-2.5	52
68	Indonesia	69.0	68.3	0.8	73
68	Papua New Guinea	69.0	69.3	-0.3	68
71	Greece	68.8	68.0	0.8	76
71	Mexico	68.8	68.3	0.5	73
73	Congo, Republic	68.5	64.3	4.3	94
73	Iraq	68.5	71.0	-2.5	55
73	Peru	68.5	68.0	0.5	76
76	Namibia	68.3	71.8	-3.5	49
76	Slovakia	68.3	68.8	-0.5	71
78	Algeria	67.8	69.3	-1.5	68
79	Romania	67.3	66.8	0.5	82
80	Ecuador	67.0	68.3	-1.3	73
80	Gambia	67.0	65.0	2.0	88
80	Honduras	67.0	66.8	0.3	82
83	Morocco	66.8	64.5	2.3	92
83	Russia	66.8	66.0	0.8	87
85	El Salvador	66.5	63.8	2.8	98
85	Mongolia	66.5	65.0	1.5	88
85	South Africa	66.5	67.3	-0.8	80
88	Tanzania	66.3	65.0	1.3	88
89	Armenia	66.0	60.0	6.0	110
90	Serbia	65.8	67.3	-1.5	80
91	Guinea-Bissau	65.3	64.0	1.3	96
91	Paraguay	65.3	64.3	1.0	94
93	Jordan	65.0	64.5	0.5	92
94	Albania	64.8	67.8	-3.0	79

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING OCTOBER 2023 VERSUS NOVEMBER 2022					
RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
95	Iran	64.3	66.5	-2.3	84
96	Bolivia	64.0	66.5	-2.5	84
96	Cote d'Ivoire	64.0	62.3	1.8	105
98	Colombia	63.8	64.0	-0.3	96
98	Nicaragua	63.8	62.8	1.0	101
100	Bangladesh	63.5	62.5	1.0	103
100	Togo	63.5	63.3	0.3	100
102	Madagascar	63.0	62.5	0.5	3
103	Zambia	62.3	62.8	-0.5	101
104	Ghana	62.0	58.8	3.3	115
105	Cuba	61.8	69.3	-7.5	68
106	Cameroon	61.5	60.3	1.3	108
107	Moldova	61.3	59.0	2.3	114
107	Ukraine	61.3	51.8	9.5	133
109	Angola	60.5	68.0	-7.5	76
110	Mozambique	60.0	54.5	5.5	128
110	Uganda	60.0	59.3	0.8	113
High Risk					
112	Guinea	59.8	57.3	2.5	124
112	Tunisia	59.8	61.3	-1.5	107
114	Belarus	59.3	57.0	2.3	126
114	Senegal	59.3	58.3	1.0	119
114	Suriname	59.3	58.5	0.8	117
117	Burkina Faso	59.0	59.5	-0.5	111
118	Myanmar	58.3	55.8	2.5	127
119	Ethiopia	58.0	58.5	-0.5	117
120	Mali	57.8	58.8	-1.0	115
121	Zimbabwe	57.5	61.5	-4.0	106

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING OCTOBER 2023 VERSUS NOVEMBER 2022					
RANK IN 10/23	COUNTRY	COMPOSITE RISK RATING 10/23	COMPOSITE RISK RATING 11/22	10/23 VERSUS 11/22	RANK IN 11/22
122	Egypt	57.3	57.8	-0.5	123
123	Congo, Dem. Republic	57.0	60.3	-3.3	108
123	Sierra Leone	57.0	53.5	3.5	131
125	Haiti	56.8	54.3	2.5	129
125	Kenya	56.8	58.3	-1.5	119
127	Argentina	56.3	63.8	-7.5	98
128	Nigeria	56.0	59.5	-3.5	111
129	Yemen, Republic	55.8	48.3	7.5	138
130	Turkey	55.5	54.3	1.3	129
131	Liberia	55.0	58.0	-3.0	121
131	Venezuela	55.0	58.0	-3.0	121
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.3	51.0	1.3	134
135	Somalia	51.8	52.0	-0.3	132
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	134
136	Pakistan	49.3	51.0	-1.8	134
138	Niger	47.8	57.3	-9.5	124
139	Syria	44.5	43.8	0.8	139
140	Sudan	43.5	43.0	0.5	140
141	Lebanon	34.8	41.3	-6.5	141