

Belgian Government Measures for Exporters in Times of COVID-19 Crisis

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Abstract and Policy Implications

This seminar paper examines government measures to support export-oriented companies in Belgium. After a short overview of the Belgian economy and the impact of the Covid-19 crisis, the paper introduces the available government measures for exporters. In particular, the role of Credendo as a Belgian export-credit insurance company will be discussed, and its measures will be examined in more detail. In addition, federal measures of the Belgian government will be identified, and a summary of the most important regional measures will be provided. The entirety of government measures available to export-oriented companies will be reviewed and options for the future activities of export-oriented companies will be pointed out.

1. Introduction

COVID-19 is omnipresent and determines to a large extent everyone's daily life. Consequently, many shops had to close, the income is missing and people who are able must work from home. There exists a great uncertainty on how long this exceptional situation will continue. Not only people's activities but also the Belgium's open economy and especially foreign trade are strongly restricted by the COVID-19 crisis. What impact does the virus have on Belgium's economy and foreign trade? By what means does the government intervene to support business? Is there a remedy for entrepreneurs to counteract these restrictions and if so, where and how are they available?

The aim of this seminar paper is to provide the reader with an overview of government measures that have been established to support Belgian companies during the COVID-19 crisis. The first objective is to provide an understanding of the Belgian economy and the importance of foreign trade within the Belgian economy. Based on this, the impact of the COVID-19 crisis on the Belgian economy will be identified.

Subsequently, the results of a literary and analytical research on government measures to reduce the impact on economy will be demonstrated. First, the federal measures of the Belgian government are presented. These include fiscal and labour law measures. Further specific measures that are intended to strengthen export-oriented companies will be highlighted. Special attention will be paid here to the functioning and measures of the Belgian Export Credit Agency Credendo. Credendo elaborated two measures, one to secure the business relationship of export-oriented companies and one to counteract liquidity problems. A summary of the most important measures taken by the regional governments is also provided. These mainly include compensation and financing possibilities.

Based on the presented results, the utilization and suitability of the measures for the intended purpose will be discussed and the resulting opportunities and risks for companies will be derived.

2. Belgium

Belgium is a Western European country with about 11.4 million inhabitants. It is divided into three regions, the Flemish-speaking part of Flanders in the north, the French-speaking part of Wallonia in the south with a small German-speaking part in the east and the bilingual capital city Brussels. Brussels is the headquarters of the European Union and NATO (Statista, 2019). Belgium is bordered by France, the Netherlands, Luxembourg, Germany and – across the North Sea – the United Kingdom. It is a member of the European Economic Unit (Zens & Priemer, 1995: p. 10).

2.1. The Belgian Economy

Due to its geographical location, Belgium is an important hub in north-western Europe. For example, Belgium is home to the second largest port in Europe, which had a turnover of 238 million tons in 2019. Belgium's economy can be described as an open economy. In 2018 the import of goods accounted for about 83% and the export of goods for about 86% of the gross domestic product (GDP) (GTAI, 2020). The GDP in 2019 was about € 473 B. With about 11.5 million inhabitants, this corresponds to a GDP per capita of € 41,289 (focus-economis, 2020).

Belgium has a longer-term problem in the regional distribution of its economic power. Regional autonomy has increased in recent years. In the economic area around the bilingual city of Brussels, per capita GDP is 68% higher than the Belgian average in the country. In the Flemish-speaking region, GDP per capita was 42% higher than in Wallonia (GTAI, 2020).

The economic sectors contributing to GDP are agriculture with the smallest share of 0.7%, industry with 19.6% and the services sector with a strong predominant share of 68.8% (Statista, 2019). Belgium has an export surplus in foreign trade, which was generated in 2018 at around 2.9% of GDP. However, as a small economy, Belgium is often dependent on imports. Belgium's most important export partners are Germany with an export share of 17.8%, France with 14.4% and the Netherlands with 12.2% (see Figure 1). Most of the imported goods are purchased from the Netherlands with an import share of 17.9%, as well as from Germany (13%) and France (9.4%) (GTAI, 2020).

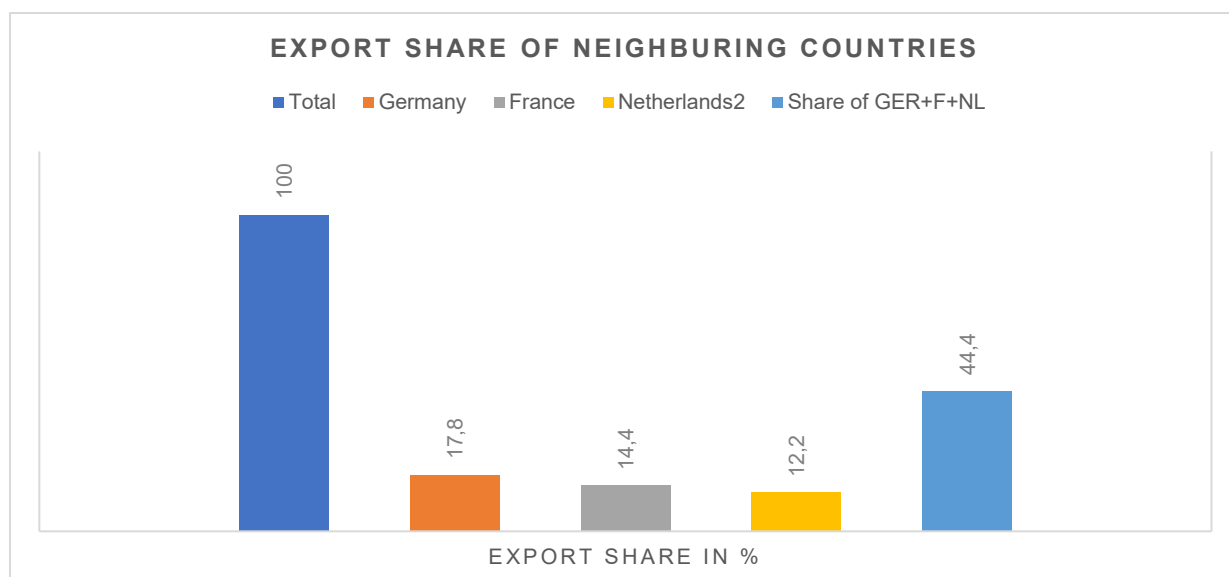


Figure 1: Export share of Belgium (own figure after GTAI, 2020)

2.2. The Impact of the Coronavirus on the Belgian Economy (at the end of April 2020)

Like the economy in the EU as a whole, the Belgian economy is heavily exposed to the consequences of the COVID-19 virus. According to weekly enterprise surveys from the Economic Risk Management Group (ERMG), the Belgian enterprises expected a 31% drop in total turnover compared to the pre-COVID-19 period. The reasons for this decline are a general drop in demand of 47% and the ban on many business activities (e.g. catering and retail trade). In addition to the drop in demand and the accompanied decline in consumer and investment spending, companies in various sectors are faced with supply shortages and interruptions in supply. The restaurant and catering industry thus lost 84% of its sales overall (NBB, 2020). At the beginning of April, 4 out of 10 Belgian companies expect to lose more than 70% of their turnover. In addition, 1 in 10 companies fear insolvency (OECD, 2020a).

Concerning foreign trade between contaminated countries and Belgium, direct trade in goods and services are under pressure. The strong integration of the Belgian economy into the European and global value chains is causing a cascading effect: when the expansion of economic activity slows down in one part of the world, it is also felt in Belgium, possibly through intermediaries. The French final demand, for example, accounts for 6.2% of Belgian added value, German demand 5.6% and Dutch demand 4.0%. Italy, currently hard hit by coronavirus, generates 2.4% of Belgian added value (SPF Economie, 2020a).

At the end of April, Belgium enterprises reported improvements in relation to total turnover. Entrepreneurs are also less likely to suffer liquidity problems as they did at the beginning of the crisis, but many are still facing an increased risk of bankruptcy due to the lack of revenue (NBB, 2020).

3. Role of the Export Credit Agency (Credendo)

Trade finance is the most important pillar of foreign trade. In the event of economic and financial crises, uncertainty about the costs and continued availability of trade finance

increases. As a result, many governments consult their export credit agencies (ECA) to close financing gaps (OECD, 2020b). ECA's are organized under private or public law and facilitate to promote business overseas to emerging markets. They offer guarantees, loans, credits and insurance that are backed by the government and belong to the largest institution of financial support (ECA Watch, n.d.).

Credendo is the Belgian public credit insurer. It is represented in the whole world as the fourth largest European Credit Insurance Group. Credendo is structured of the Export Credit Agency (ECA) and its five subsidiaries and offers various instruments for companies that aim to promote exports, imports, and Belgian investments abroad (SPF Economie, 2020b). The Credendo - Export Credit Agency is backed by the Belgian government and focuses on to support trade relations. Credendo's instruments and products are customized "insurance, reinsurance, guarantees, bonding and financing" (Credendo, 2020) solutions for domestic and international trade transactions and overseas investment. As a consequence, Credendo protects companies, banks and insurance by covering risks in international commercial relations, such as credit and political risks, and by supporting the financing of transactions (Credendo, 2020). The risks are either covered for Credendo – Export Credit Agency's own account via a State guarantee or directly on behalf of the Belgian government when the intensity and duration of these risks become too high (FPS Finance, n.d.).

4. Analytical Framework

The current state of research was confirmed by a comprehensive literature search of support measures of the Belgian government in times of corona. Due to the early stage of the corona crisis, websites and reports of Belgian trade institutions were used for data collection. As the technical literature and research on that current subject were partly insufficient, expert interviews were conducted to obtain more detailed information about the Belgian measures and problems exporters are facing in the corona crisis. In this paper, a qualitative analysis based on expert interviews is therefore appropriate, as they are open to unexpected results (Döring & Bortz, 2016:pp.192-193).

For the expert interviews, federal and regional trade institutions were contacted by e-mail. Finally, a total of five interviews were conducted – three via Zoom and Team Meetings and two in a written form with Credendo, the Belgian Foreign Trade Agency, Flanders Investment & Trade, AWEX and Hub.Brussel. Notes were taken during the interview by the two authors of this paper. The names of the experts are made anonymous. The interviews covered the following topics: supporting measures by the government and export credit insurers, the need for such measures and the effects of these measures.

The evaluation of the data was based on the qualitative content analysis according to Mayring and enables a rule-based and systematic analysis based on a process model of comprehensive text material. At the center of the analysis is the category system (Mayring, 2015:pp.50-55.). This method allows to extract and summarize material on specific topics and contents (Mayring, 2015:p.99)

In a first step, categories were deductively created from the existing interview questions and the research that has been done in order to create the interview. In a second step all applicable text passages were assigned to their corresponding categories. In a first run of an interview, it

was checked whether the categories match the corresponding text material. In case of ambiguous allocation, the categories were revised and inductively supplemented. The renewal of the category system was carried out several times until every extracted text material could be assigned to its category. Once the category system was built, the content was paraphrased and shortened to the essentials (Mayring, 2015:p.71). Finally, the paraphrased material was summarized per category.

5. Support Measures for Belgian Companies

Foreign Trade is a regional competence in Belgium. Both, the Belgian government, and the autonomous regions, have drawn up specific support measures to promote the Belgian economy. After an overview of the general economic measures by the federal government, this chapter presents the results of the interviews on a federal and regional level.

5.1 Federal Government measures

The Belgian government drafted ten measures to support and relieve the burden on domestic business operators. The two main objectives of these measures are to enable businesses to safeguard their employees and to ensure the liquidity of businesses through fiscal measures.

The former is achieved by offering businesses the possibility to register their employees as temporarily unemployed due to force majeure and economic reasons. The reference rate has been increased from 65% to 70%. In addition to this temporary unemployment measure, there is an exceptional bonus of € 5,63/day of unemployment (Weykman, 2020).

The second objective is achieved by spreading, postponing, and exempting from fiscal charges and taxes (Belgian Federal Government, 2020): The payment of social security contributions for the first and second quarter of 2020 has been extended until 15 December 2020. This applies especially for companies which were forced to stop their business (KPMG, 2020).

In order to overcome temporary financial difficulties, businesses can apply for a payment plan concerning their social contributions for the first and second quarter of 2020. The plan involves a payment that can be spread for a maximum of one year but only applies for those businesses which can prove that their payment difficulties are related to COVID-19 (KPMG, 2020). Under the same conditions, a payment plan for income tax, withholding tax and corporate tax can also be requested as well as a VAT payment plan with relief from usual fines and penalties (Belgian Federal Government, 2020).

Self-employed affected by the consequences of COVID-19 can submit an application at their social security fund for a one-year postponement or an exemption from payment of social security contributions without any increase and without any impact on social benefits. This measure applies for the first and second quarters of 2020 (Weykman, 2020). If self-employed are forced to stop or interrupt their activity because of COVID-19 they can apply for a replacement income (bridging right). It is also possible to request a reduced tax payment if the self-employed estimates that his income is lower than the amount which is used to calculate his contribution (Belgian Federal Government, 2020).

For all public contracts, the Federal State will not impose penalties or fines on companies, self-employed or service providers as long as it is proven that COVID-19 is the cause of delays or non-implementation (Weykman, 2020).

In addition to these ten measures, the following federal and regional measures are the result of the analysis of the expert interviews and presented by institution. For further information on the above measures, a URL is provided if possible.

Credendo, as the Belgian export credit insurance agency revealed, that they prepared two measures to counteract the decrease in exports. On the one hand Credendo offers export-oriented companies a so-called "Bridge Guarantee", on the other hand they provide a "Reinsurance Programme".

The aim of the "Bridge Guarantee" is to ensure that medium-sized companies in particular receive the necessary bank loans they need in times of the crisis. Credendo assumes 80% of the risk of the bridge loans granted. Bridging loans with a term of up to one year and an amount of up to € 10 M per company are covered. The aim is to encourage banks to loan money to companies even with such a higher risk.

The "Reinsurance Program" enables to support the private-insurance sector. It provides the setting up of a reinsurance programme enabling private credit insurer to continue to ensure short-term risks from 30 up to 180 days caused by international business transactions. Under this reinsurance programme, the credit insurers undertake to keep the credit limits that were actually used in the 12 months preceding 1 March 2020. In exchange for this commitment, Credendo undertakes to reinsure the risks underwritten by the credit insurers located in Belgium. Euler-Hermes (Germany), Atradius (Netherlands), Coface (France) and Credendo's subsidiary company for short-term risks are covered by this guarantee. The aim is to maintain commercial relations and trade flows despite the COVID-19 crisis.

The Belgian Foreign Trade Agency, together with public service of economies and Belgian chambers, issued a certificate confirming that a company is being subjected to force majeure. The Belgian Foreign Trade Agency specified that due to trade relations with eastern countries (especially Russia and Ukraine) there was a need for such a certificate. Belgium as an open and free market did not have such a certificate until now. Within existing distribution contracts, Belgian companies had to comply with certain delivery and purchase obligations, unless a force majeure certificate could be presented. To avoid complaints and possible legal consequences, a corresponding certificate was introduced.

It was also stated that there is a proposal made to organize an economic mission with a scope on nearby markets. The proposal is not established in a final way yet. The aim will be a support for exports in countries like Germany, the United Kingdom and France. Some budgets which were reserved for other economic missions in 2020 were already cancelled. So, these budgets can be used for fighting the COVID-19 crisis.

5.2 Regional Government measures

Measures for exports are identified through the interviews below. Each government of the three regions has implemented other general measures for self-employed and small to medium-

sized enterprises which are not listed in this paper (1819, 2020; AWEX, 2020; Flanders Investment & Trade, 2020).

The interview partner of the bilingual area of Brussels was **the business support agency hub.brussels**. The Brussels government set up a one-off premium for specific sectors which are affected by the emergency measures and companies who have been forced to close down temporarily. They can receive a premium of € 4.000 for each company unit in Brussels region (Hub.Brussels, 2020). The Brussels government supports to relieve cash-flow issues of companies by granting public guarantees on bank loans for an amount of € 20 M (KPMG, 2020). Hub.brussels mentions that government measures mainly focused on survival of business and that not much was done directly to encourage export.

Flanders Investment and Trade presented the Flemish part of Belgium in the interviews. The Government of Flanders set up a hindrance premium and a compensation premium. The hindrance premium with an amount of € 4.000 can be taken by companies that had to close their businesses due to the COVID-19 virus. If the companies did not have to close their businesses but lost minimum 60% of their turnover, they could apply for the compensation premium with an amount of € 3.000. On top there is a compensation premium of € 2.000 for sectors that are still hard hit.

Other measures were implemented by the Flemish loan and equity provider **PMV**. PMV set up a subordinated loan for medium-term-financing for an amount of up to € 800.000 and with a duration of three years where interests don't have to be paid in the first two years and capital repayment is bullet after three years. They also set up a crisis warranty which gives a guarantee of 75% for a private bank loan. This loan targets companies having delays in payment and that cannot pay existing debts due to COVID-19. The interviewee states that due to the high demand of this loan, the budget was increased from € 250 M to € 500 M. The interviewee also compares the measure to the financial crisis of 2007/2008 and declares it to be a unique instrument. In order to encourage export after summer two packages were implemented in the Corona Exit plan: one is to substantially lower the price for trade fair stands and the other is a premium of € 5.000 for mature exporters and another premium of € 7.000 for new exporters.

The **Wallonia Foreign Trade and Investment Agency (AWEX)** is representing the French speaking part of Belgium in the interviews. The Walloon Government has taken a series of measures, in particular through the creation of an extraordinary fund of 518 million euros to support companies and self-employed people experiencing cash flow difficulties. The Walloon financial instruments consisting of SRIW, SOGEPAGROUP, SOWALFIN will grant a general freeze on outstanding loans until the end of April 2020. A one-off compensation premium of € 2.500 was created for self-employed and businesses that had to interrupt their activities in March and April. An additional one-off compensation premium of € 5.000 is set up for small business that were also forced to close.

SOWALFIN set up a ricochet loan (prêt ricochet) for a maximum of € 45.000 at a favorable interest rate for companies and self-employed persons who need financial resources to overcome this crisis. This loan will benefit from a capital franchise of six months maximum and cannot be combined with the above compensation measures (AWEX, 2020).

In addition to the measures selected and mentioned above, it should be noted that all the institutions are in constant contact with affected companies from their region and are trying to counteract the economic effects of the COVID-19 crisis by constantly improving existing measures and providing informative webinars, webpages and network.

Also mentioned by all interviewees was the high importance of EU measures in the context of counteracting the economic impact of the COVID-19 crisis. Border and trade policy measures as well as financial measures were mentioned.

6. Summary and Conclusion

This paper examined the economic impact of the COVID-19 crisis in Belgium as far as it is possible in the current situation. It was shown that Belgium is a very open economy and that a large majority of the GDP is generated by imports and exports. As a result, the impact of the COVID-19 crisis on the economy is extremely high due to the barriers in the transport of goods and the high dependency on imported and exported goods.

This underlines the need for government measures to support export-oriented companies in Belgium. Due to a literary research and analyses of expert interviews federal and regional measures for exporting companies were determined.

It has been shown that the regional measures aim at a quick and effective remedy for all companies. Companies with financial difficulties resulting from the crisis can therefore apply for compensation payments in all regions and are supported in various ways in restructuring or refinancing their debts. In addition, the different regions try to suspend or postpone payments of the affected companies. This benefits export-oriented companies and non-export-oriented companies, where liquidity problems are significantly counteracted. However, businesses stand in uncertainty about the current situation and worry that - in the long term and with a possibility of a second wave - the measures will not be enough.

At the federal level there are general measures in favour of all companies by reducing tax liabilities on the one hand and supporting wage and salary payments on the other. With the support of personnel costs, an attempt is made to secure existing human capital. This also benefits export-oriented companies.

Measures which can be used specially to support export-oriented companies can be derived from the interviews with Credendo, the Belgian Foreign Trade Agency and Flanders Investment and Trade with Flanders having the largest export quota of the three Belgian regions.

Credendo offers with the "bridge guarantee" for export-oriented companies a further possibility to counteract liquidity problems by obtaining an additional bank loan. Special attention should be paid to the amount of the loan facility of up to € 10 M per company. Credendo's "Reinsurance Programme" is probably the instrument with the greatest importance for export-oriented companies, as it aims at the maintenance of international business relations by involving private export credit insurers.

Also, an outstanding economic mission through the initiative of the Belgian Foreign Trade Agency with special attention to the surrounding markets could be of great importance, as these surrounding markets represent a large part of the export trade. Flanders Investment and Trade has created some premiums to support export-oriented companies and has already established two more premiums for the period after the summer break to encourage experienced and especially new companies for export.

This means that various regional and, in particular, federal measures are in front of the export-oriented companies in the COVID-19 crisis, enabling them to overcome their difficulties and continue to hold on to their business model.

First feedback of the interviewees is consistently positive, many measures are accepted by the companies and could contribute to their support. However, a final summary cannot yet be drawn. The real impact and effects of the measures can only be determined at a later stage as well as the number of businesses that did not survive the crisis.

Export-oriented companies have to inform themselves about supporting measures and hold on to their market position. Maybe now is even the time to open up new business fields and generate orders, because now there is partly the capacity available to pursue this. The export risks have been counteracted by the above-mentioned measures. In order to further minimise the risk associated with exports, it can be helpful to focus first on the European market and on already existing markets and clients without being too dependent on only one market.

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