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PRESS RELEASE

Belgium's inward and outward foreign direct investment
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Many governments aim to attract foreign direct investment (FDI). Though this implies some disadvantages, such as the loss of control over decision-making in certain key sectors, the lesser concern for social aspects and the environment among multinationals, or the more volatile tax base, inward FDI also offers advantages for the host countries, bringing productivity gains and economies of scale by optimising the production chains, and leading to a transfer of knowhow and expertise. In Belgium, the federal government has introduced various fiscal measures to attract FDI, such as the notional interest deduction, tax rulings, dividend withholding tax exemption, etc.

In contrast, Belgian direct investment in other countries receives less attention. Traditionally, this outward FDI makes the public uneasy, because people often see it as a first step towards relocation of the activity. Furthermore, Belgium has fewer major international players than neighbouring countries. Nevertheless, in 2014 almost 600 Belgian parent companies effected outward FDI.

This article aims to examine the financial and real implications of inward and outward FDI for Belgium. That investment is substantial in Belgium: at the end of 2015 it amounted to almost 210 % of GDP in each case. However, those figures are driven up by the significant volume of capital in transit, due partly to the notional interest scheme which gives foreign parent companies an incentive to increase the capital of their Belgium-based subsidiaries. In general, however, this inward FDI finances loans which are in turn granted to group companies established in other countries. Only a very small percentage of the incoming foreign capital (around 1%) potentially finances real investment in Belgium (purchase of machinery or land, construction projects, expenditure on research and development, etc.).

In net terms, and thus corrected for capital in transit, the direct investment that Belgium receives exceeds its direct investment in other countries. At the end of 2015, net outward investment thus stood at -0.5% of GDP. This is an atypical situation for a developed economy with a substantial net savings surplus (62% of GDP at the end of 2015). The Belgian economy builds up its assets in other countries in the form of portfolio investment and investment via the financial sector, rather than via direct investment.

Belgium loses net income to other countries on its direct investment relationships (-1.8% of GDP at the end of 2015), which weighs on the current account. This adverse financial outcome is due both to the weakness of net outward FDI and to a relatively low return on Belgium's outward direct investment (2.5% over the period 2013-2015) in comparison with the return that other countries achieve on investment in Belgium. The relatively low yield – also compared to what neighbouring countries make on their FDI – is attributable partly to the composition of the investment. For instance, Belgium's outward FDI comprises a large volume of intra-group loans (and therefore relatively few participations in the form of equity), and markets outside the euro area are under-represented.

Firms that establish direct investment relationships with other countries are of great economic importance to the real economy. Although they are relatively few in number (1% of the total number of firms in the private sector in 2014), they create a substantial share of the value added (38 %) and employ a large number of workers (29 %). However, they have also suffered as a result of the economic crisis, which primarily affected jobs in Belgium-based subsidiaries of foreign groups to a much greater extent than jobs in Belgian parent companies and purely domestic firms.

Moreover, multinationals play a key role in external competitiveness by making a considerable contribution to Belgium's net exports (1.3 percentage points of GDP in 2014). They boost growth potential by accounting for 33% of real investment in the private sector (and in particular 63 % of research and development), though the bulk of that is not funded by incoming foreign capital.

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The considerable weight of multinationals in Belgium shows the importance of a policy caring about the attractiveness of the Belgian economy. Nonetheless, tax incentives like the notional interest deduction often result in FDI that comprises a significant proportion of capital in transit, which is not a source of funding for real investment. At the same time, FDI by Belgian firms in other countries should not be disregarded. A larger volume of outward FDI would diversify the Belgian savings surplus and could potentially yield a higher income for the Belgian economy, certainly if the return on outward FDI would approach that in neighbouring countries.

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