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PRESS RELEASE

Economic effects of the Services Directive in Belgium: an ex ante assessment

The National Bank of Belgium (NBB) and the Federal Planning Bureau (FPB) are publishing a study on the potential effects on the Belgian economy of the transposition of the European Services Directive. That study comprises both an assessment of the macroeconomic impact of the Directive and an analysis at the level of the sectors falling within its scope. The most important among these are construction, wholesale and retail trade, and business services. The main results of this study are as follows:

Implementation of the Directive could lead to a significant increase in exports in the sectors covered, particularly those where it is possible to provide cross-border services, such as real estate, construction, rental, IT activities and business services.

Since exports represent only a relatively small proportion of the activities of these sectors, the effect on turnover is likely to be limited, and the impact on foreign investment and imports of services is also unlikely to be substantial. It is worth noting that Belgium has relatively few regulations hampering the access of foreign providers to service activities.

At macroeconomic level, the expected effect on GDP should be positive at between 0.5 and 1.0%, creating between 6,000 and 9,000 new jobs.

A more detailed analysis of the wholesale and retail trade seems to suggest that the Directive's provisions could also encourage competition on the domestic market and productivity.

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The Member States of the European Union have to transpose Directive 2006/123/EC on services in the internal market by the end of December 2009. Known simply as the Services Directive, it aims mainly to eliminate barriers to freedom of establishment and the development of service activities between the EU countries. It applies to practically all market services for which European regulations did not previously exist. The most important are construction, wholesale and retail trade, and business services, but the Directive also applies to the hotel and restaurant trade, the real estate sector, rental, IT activities and research and development.

In connection with its transposition in Belgium the FPB and the NBB were asked to conduct a study on this Directive's potential impact on the economy, under the supervision of a guidance committee comprising representatives of the Central Economic Council, the National Labour Council, and the regional economic and social councils. The report summarises this joint project.

The European Commission presented the Services Directive as a key step in the establishment of the internal market. Following its transposition, it will be easier for service providers to offer their services in other Member States or to establish themselves there. To that end, the Directive provides for considerable simplification of administrative procedures and prohibits all discrimination between national and foreign service providers. Despite the substantial progress which it represents for the internal market, this Directive is not expected to have any major economic implications.

The level of foreign trade in services is relatively low. Although the service sectors produce 83% of value added in Belgium, it is estimated that they represent only 20% of exports and 18% of imports. That contrast is due not only to the regulations, but also to other barriers and to the specific characteristics of the services. The often essential geographical proximity between service providers and service recipients is an important aspect here. However, it seems that services account for a much higher proportion of foreign investment than of foreign trade. Foreign service providers have invested substantial amounts in Belgium, and Belgian service providers have similarly invested heavily abroad.

The most active sectors in this regard are the wholesale and retail trade and business services. The high level of foreign direct investment also shows that much has already been done to facilitate the foreign activities of service providers, even before the introduction of the Services Directive.

On the basis of economic analyses for Belgium, the study by the Federal Planning Bureau and the National Bank confirmed that the likely impact of the implementation of the Services Directive should be slightly positive. At macroeconomic level, the effects in Belgium were assessed on the basis of two authoritative European studies. Those studies date from 2004 and were based on the draft Directive (the "Bolkestein" Directive). Compared to the original draft, the final version of the Services Directive was watered down in various respects. Moreover, measures in line with the Directive have already been taken since 2004, particularly in regard to administrative simplification. The analysis took account of these two factors, and the results of the studies were therefore revised to assess the Directive's potential current impact. As far as Belgium is concerned, the Directive should promote expansion of up to around 37% in intra-Community trade in the services falling within its scope. It should also lead to an increase in the stock of foreign capital amounting to around 24% maximum in the service activities covered. As already stated, however, that only concerns a relatively small proportion of foreign trade, and the net effect on the total capital stock should also be fairly limited. The Directive's impact on GDP is likely to be between 0.5 and 1.0%, thus leading to the creation of 6,000 to 9,000 new jobs.

This small but positive impact should also be felt in the sectors covered by the Directive. A database on Belgian businesses was used to estimate how various factors affect decisions by entrepreneurs concerning the export or import of services or the establishment of a foreign subsidiary. This revealed that the regulations only have a significant influence on export decisions, and practically no influence on the other two types of decision. The other factors which could influence those decisions are the size and efficiency of each business and non-regulatory barriers, which will be unaffected by the Directive. Implementation of the Services Directive could have an impact on exports, but the effects are likely to vary according to the size of the businesses and the branch of activity in which they operate. Exports could increase very significantly in some sectors, effectively according to the size of the business, notably in real estate, construction, rental, IT activities and business services. However, the effect on turnover is small, once again reflecting the relatively marginal importance of exports for service firms. Ultimately, the microeconomic findings are therefore in line with the analysis based on macroeconomic studies.

The NBB/BFP study also looked at the specific case of the wholesale and retail trade. Although this sector has only a minor role in international trade in services, it is still important to the Belgian economy, accounting for 13% of GDP in 2007. The administrative simplification resulting from the Directive could also have a considerable impact on its performance, especially in the retail sector. The deregulation which has taken place in the past ten years (such as the law governing the setting-up of commercial outlets, administrative simplification and the simplification of the legislation on economic competition) has in fact been accompanied by stronger productivity growth. In addition, some indicators suggest that competition in the sector has increased, though without as yet attaining the same level as in some other European countries. That trend could continue following the transposition of the Services Directive.

In the end, the effects of the reduction in barriers will also depend on the way in which the Directive is actually implemented in European countries. Nonetheless, these results confirm the assumption that, despite the fact that the Services Directive will lead to an increase in cross-border activities in some sectors, its overall effect is likely to be small, but positive. The potential impact of the Directive – particularly the section on administrative simplification – in terms of efficiency at the domestic level should not, however, be underestimated, although it was not possible to estimate the scale of that impact in this study. Moreover, the Directive certainly chimes with the European philosophy underlying the establishment of an internal market which is as complete as possible, and in which there is no longer any distinction between national and foreign producers.

" Economic effects of the Services Directive in Belgium: an ex ante assessment", Ch. Piette, J. van der Linden, December 2009. Contact: christophe.piette@nbb.be, jvdl@plan.be

The study can be downloaded either in French or in Dutch on the websites of the National Bank of Belgium (www.nbb.be) and the Federal Planning Bureau (www.plan.be).