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PRESS RELEASE

Reductions in social security contributions and alternative financing arrangements

This analysis was conducted in 2010 by the National Bank of Belgium and the Federal Planning Bureau in response to a request by the federal government to carry out an overall study of the financing of social benefits and to examine the impact of the changes in that financing, the aim being to examine the extent to which various scenarios for the reform of the funding of social protection could encourage employment and bolster firms' competitiveness. It therefore aims to analyse how the reorganisation of the fiscal and parafiscal burden would impact on those two objectives, while also taking account of such factors as the desire to ensure the long-term funding and sustainability of social security.

Belgium is one of the European countries with the largest tax wedge on earned incomes, notably because of the predominant role of social contributions in the financing of social security. The simulations carried out therefore analysed the effects, on the one hand, of a reduction in employers' social security contributions - either applicable in general or targeting low wages - and personal contributions, and on the other hand, a compensatory increase in a number of levies. The refinancing options envisaged are VAT (with or without neutralisation of the mechanical impact of the increase in VAT rates on wage indexation), excise duty, a tax on CO2 emissions, a general social contribution, a levy on value added, personal income tax, corporation tax, and withholding tax on movable assets. The allocation of an "index jump" to the funding of social security was also analysed. The NBB and the FPB used their respective macro-econometric models to study the effects of these changes in the method of funding social benefits.

The main findings are summarised in the covering note. The report also contains, in addition to an executive summary, a statistical section produced by the National Bank of Belgium, the results of the econometric simulations carried out by the Federal Planning Bureau, the results of the National Bank of Belgium's econometric simulations, and a technical annex describing some of the differences between the two models.

Communication

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