

## 5. Structural issues

*Significant measures have already been taken to meet the challenge of population ageing and economic adjustment in the face of globalisation and technological changes. Nonetheless, the diagnosis of the Belgian economy's performance still presents a mixed picture. The balance of current transactions with the rest of the world has deteriorated since 2000, partly as a result of structural factors. The losses of export market share show that firms are not fully integrated into the international value chains. That integration concerns not only large industrial exporters but also their suppliers. Potential growth declined owing to weak productivity, while the employment rate of some population groups was low. There is scope for postponing the actual age of leaving the labour market and bringing it closer to the official retirement age, for supporting and encouraging job-seekers in finding work, and for enhancing the quality of human capital in order to boost the proportion of people in work. As for competitiveness, according to the Central Economic Council, the wage handicap in relation to the three neighbouring countries stabilised in 2013 at a cumulative total of 4.8% since 1996. Wage subsidies, excluding service vouchers and subsidies to promote employment in the non-market sector, reduce this gap by around 1.3 percentage points. Also, the relative movements in energy costs in the various economic regions are considerably affected by recourse to unconventional hydrocarbons, which are particularly intensively used in the United States. The implications for industry in Belgium are potentially significant. In general, the indicators also show that Belgium is not among the top-performing countries in terms of the efficiency of support activities – including government services – and the spread of innovations in more efficient processes or products coming onto the market.*

### 5.1 Belgium faces many challenges

Like neighbouring economies, Belgium has an advanced level of development and prosperity that few in the world enjoy. With per capita GDP of € 34 000 in 2012, or € 30 400 expressed as purchasing power parity, the Belgian population's incomes are relatively high. As stated in chapter 3, the financial assets of households as a ratio of GDP are the highest in the euro area. Additional indices show relatively low levels of poverty, thanks in particular to significant redistribution mechanisms. Finally, composite prosperity indicators covering factors outside the economic sphere generally place Belgium in a fairly good position, though in view of the criticisms of those indicators they should be used with caution.

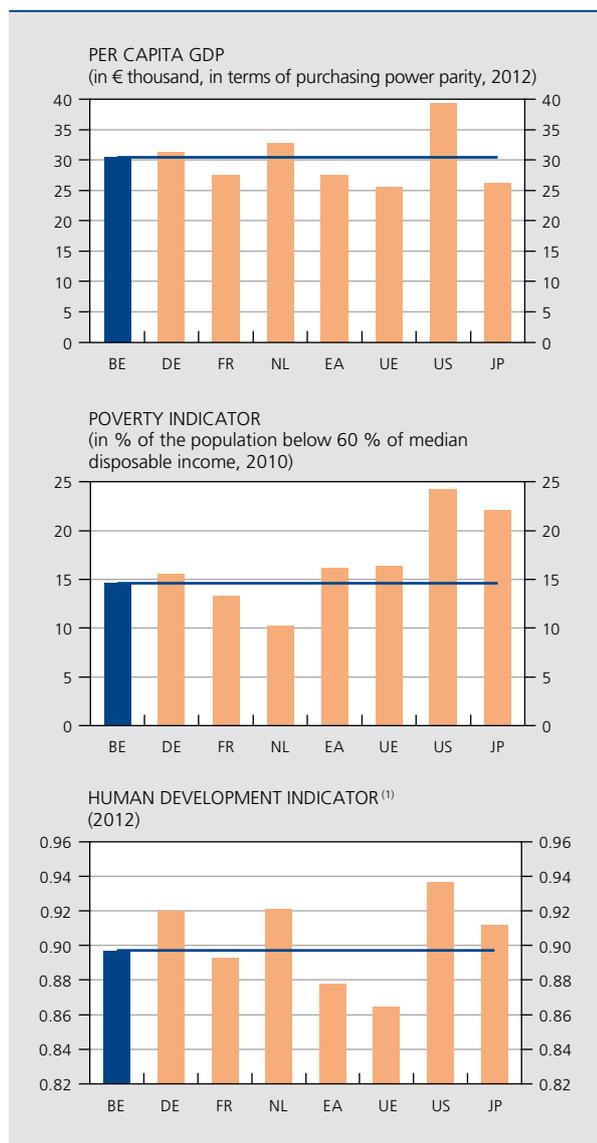
However, this relatively advantageous situation is certainly no guarantee for the future. The economic and financial crisis of 2008-2009 was a reminder that, to safeguard prosperity in the long term, there has to be a stable

economic environment with no major imbalances. The crisis weakened the foundations of growth: potential growth has fallen from an estimated 1.8% to just under 1% in Belgium. In 2013, the public debt and the unemployment rate were significantly higher than in 2007.

Against that economic backdrop still scarred by the crisis, domestic demand in the short term will lack the dynamism needed to restore vigorous growth as quickly as possible. The economic and financial adjustments yet to be made in Belgium and in other euro area countries will depress total demand there in the immediate future, even if those adjustments are essential to restore sustainable growth in the longer term.

Six years after the crisis, some of the pre-existing structural challenges are looming closer. On top of the deterioration in the public accounts, population ageing will generate substantial additional financing requirements in the medium term while at the same time impairing the

**CHART 89** PROSPERITY INDICATORS FOR BELGIUM



Sources: EC, OECD, UNPD.

(1) The human development indicator combines life expectancy, level of training and per capita income.

economy's production capacity by reducing the active labour supply. There is also a need to adapt to a global environment which has undergone rapid, radical change, though there has been steady expansion for the past quarter of a century. Progress in information and communication technologies, like the liberalisation of trade and the decline in transport costs, are in fact the source of increasing fragmentation of the production chains, not just at international level but also between the various branches of economic activity. In addition to these developments, there are the questions concerning sustainability of the environment and energy.

Significant steps were taken in 2013 and in earlier years, particularly to cut the public deficit and reform the pension and unemployment systems. Nonetheless, the scale of the challenges remains considerable, and efforts must therefore continue. In order to consolidate public finances and afford the costs of ageing, it is vital to use every lever to help the economy to secure its place in international value creation and, more generally, to create the broadest possible basis for the development of activity and employment. In that regard, the conditions for a dynamic, competitive and resilient economy encompass numerous factors. This chapter presents Belgium's overall position, first in terms of recent structural performance and then by taking a closer look at a range of levers relating to activity and employment conditions.

## 5.2 Muted economic performance

A general diagnosis of the Belgian economy's performance involves examining a number of indicators, ranging from Belgium's position in the production chains – now increasingly organised at global level – to potential growth and the employment rate. That information supplements the findings for public finances, reported in chapter 4.

### Deterioration in the balance of current transactions with the rest of the world

In providing a consolidated view of the balance between the expenditure and income of all resident sectors of the economy, the balance of current transactions is a useful indicator for detecting any domestic imbalances. It also makes it possible to detect their effect on external flows.

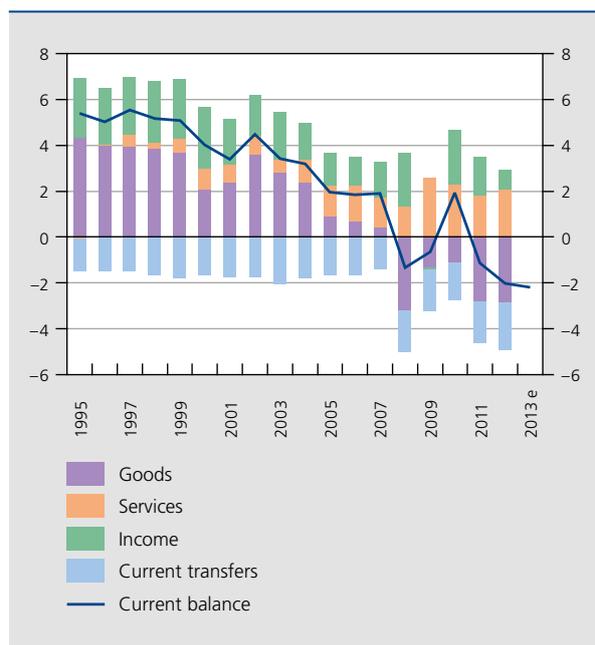
According to the balance of payments figures, Belgium's current account balance with the rest of the world has tended to deteriorate, ending in 2013 with a deficit estimated at 2.2 % of GDP, whereas in the period 1995-1999 it had recorded a surplus of more than 5 % of GDP. A period of recurrent deficits such as the one since 2008 had not been seen since the first half of the 1980s. At that time, Belgium and Luxembourg still had a common balance of payments.

Cyclical factors have certainly had an adverse effect on the current balance. For instance, the surplus on factor incomes, supported in particular by the remuneration that international institutions pay to their officials resident in Belgium, contracted sharply as a result of the unfavourable movement in portfolio and investment earnings.

CHART 90

BALANCE OF CURRENT TRANSACTIONS WITH THE REST OF THE WORLD

(in % of GDP, balance of payments data)



Sources: NAI, NBB.

Despite a still very positive overall net external position, Belgium's balance of portfolio and investment income deteriorated from 2009, being converted to a deficit in 2012, as the low yield environment had a greater impact on incomes received from abroad than on those paid to the rest of the world. The balance of trade in goods and services was also influenced by the flagging demand among some trading partners. However, these factors are insufficient to explain the whole of the decline in the current account balance.

Structural factors are therefore also at work. Thus, over the past decade, the Belgian economy has been unable to absorb all the effects of the rise in prices of imported commodities, especially oil. More generally, according to the estimate produced by the IMF on the basis of its External Balance Assessment methodology, the current account balance should have recorded a surplus of 1.3 % of GDP in 2012. Taking account of the negative effect of cyclical factors, estimated at 0.9 percentage point, there is still a considerable discrepancy in relation to the recorded deficit of around 2 % of GDP. Apart from estimation errors, that may reflect inappropriate policies or an unsatisfactory structural position.

(1) The estimates are based on the OECD's TiVA database, which centres on a global input-output matrix. It is based on the national input-output tables and the supply and use tables for which the latest available year is generally 2009.

## Loss of export market shares and integration in the international value chains

The deterioration in the balance of trade in goods is the main determinant of the downward trend in Belgium's current account with the rest of the world. In that regard, it is traditional to consider external performance from the angle of export market shares. Although differences are apparent between the various available statistical sources, they all show a tendency for Belgium to lose export market share over the past two decades.

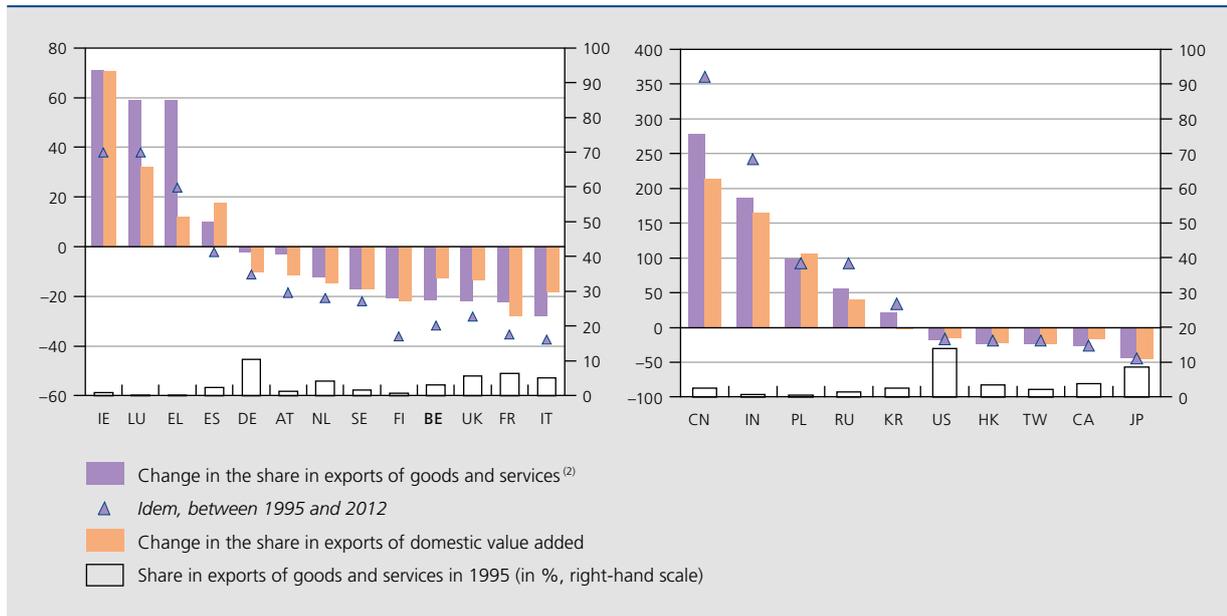
Assessed against a broad selection of 48 countries, Belgium's share in exports of goods and services declined from 3.2 % in 1995 to 2.5 % in 2009, and to 2.2 % in 2012. This downward trend is not specific to Belgium, given that some economies long active in international trade, such as Japan, the United States, France, Italy and the United Kingdom, have also lost market shares. Conversely, other advanced economies, including Germany, the Netherlands, Austria and Sweden, have experienced less severe erosion. The emerging economies, particularly China, India, Russia and, to a lesser extent, the new EU Member States, have significantly stepped up their stakes in international trade.

However, the traditional view whereby exports are produced at home to meet foreign demand is now rather out of date. For one thing, exports incorporate an increasing quantity of re-exported goods, particularly in the case of countries which, like Belgium, have port infrastructures on an international scale. Also, in their export production process, firms use intermediate inputs from abroad, such as commodities and energy products, but also manufactured components or even business services. These imported inputs are a fundamental determinant of export competitiveness, either because they enable resident firms to concentrate entirely on their core business, making best use of the comparative advantages of the various production units, or simply because they are indispensable. However, they remunerate foreign production factors and in that respect they do not form a direct source of income for the Belgian economy.

To assess the extent to which an economy relies on foreign demand to generate activity or employment, it is necessary to isolate the domestic value added created during the export production process. According to the OECD estimates<sup>(1)</sup>, switching from the traditional indicator relating exports to GDP to an indicator of the amount of exported value added in GDP reduces Belgium's degree of openness, with ratios of 74 and 34 % of GDP respectively in 2009. An international comparison indicates that the value added exported by Belgium as a share of

**CHART 91** INTERNATIONAL COMPARISON OF EXPORT MARKET SHARES<sup>(1)</sup>

(cumulative percentage change from 1995 to 2009, unless otherwise stated)



Sources: EC, OECD, NBB.

(1) Share in total exports of 48 countries (the 34 OECD member countries plus Brazil, Bulgaria, China, Taiwan, Hong Kong, India, Indonesia, Latvia, Lithuania, Malta, Romania, Russia, Singapore and South Africa).

(2) Data according to the balance of payments.

value added exported by a large selection of 48 countries declined from 2.1 % in 1995 to 1.9 % in 2009, a 12 % fall compared to a 21 % reduction for exports of goods and services. Although the figure is still negative, the loss of market share therefore seems less severe when it is based on value added. By way of comparison, in Germany's case the corresponding share contracted by 10 % from 10.3 to 9.3 % of the total selection of countries, whereas its share in exports of goods and services was only 2 % down.

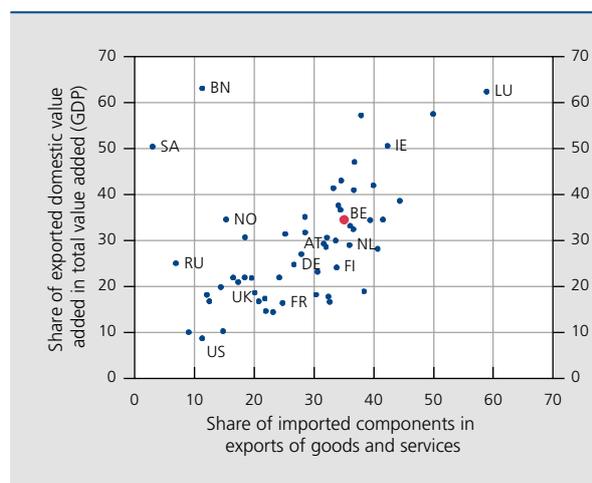
The adverse geographical structure of Belgian exports is one of the factors underlying the muted external performance over the past two decades. Belgium's direct exports to the emerging economies are still limited. In 2009, countries outside the euro area took 39 % of Belgium's goods exports, compared to an average of 50 % for the euro area Member States. Admittedly, the products exported to a partner country are not always consumed there, since they may in turn be re-exported to third countries, usually after processing. The OECD estimates indicate that domestic firms form part of production chains for goods and services which are ultimately also consumed in countries outside the euro area. The share of the latter in the final consumption of the total value added that Belgium exports thus came to 56 %. However,

that is low compared to the corresponding figure of 65 % for all euro area Member States.

One determinant of the amount of exported value added is the degree to which the export production facilities

**CHART 92** INTEGRATION IN GLOBAL VALUE CHAINS

(in %, 2009 data)



Source: OECD.

use inputs from abroad. The countries where firms use more foreign inputs are also the ones that generate the most domestic value added in connection with their export production. The position of the production segment within the chain seems to play a crucial role here. Firms at the end of the value creation chains use far more inputs imported from companies further up the chain. In these final stages of production, close to the end user, the margins are bigger, notably because the finished products or services are more differentiated than the intermediate components.

In that regard, it seems that Belgium is relatively well integrated into international production chains. Thanks to such factors as its sea ports and pipeline infrastructure, Belgium has preferential access to imported inputs. In addition, a large share of the value added is exported. However, Belgian exports are in turn reused to a great extent by the countries of destination as inputs for their own export production, which indicates that, even though there are specific sectoral characteristics, Belgium belongs to an intermediate segment in the production chain. That position in this intermediate segment may prove precarious if high labour costs are combined with rising commodity prices or, at the very least, unfavourable movements in relation to potential competitors.

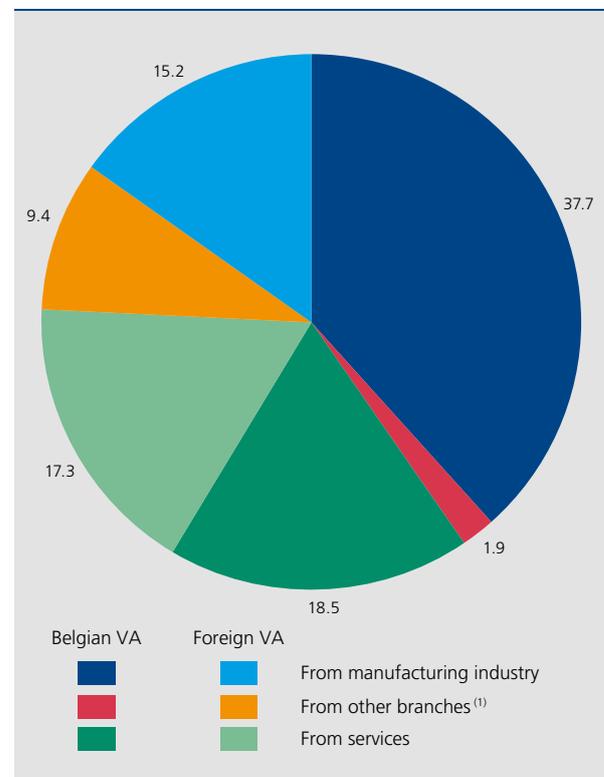
Characteristics specific to each economy influence the degree of participation and the position within supranational value creation chains. A small country generally makes greater use of foreign inputs, as its domestic resources are too limited to offer a full range of intermediate products and services. In addition, countries located along trade routes, be they sea or land routes, also use more foreign inputs, benefiting from their comparative advantage in supply costs. Finally, economies endowed with natural resources belong to an earlier stage in the production chains. Russia and Norway, for instance, which have abundant resources of energy and commodities, are quite naturally suppliers of intermediate inputs. Since those countries also use these products within their own borders, their production facilities generally have fairly limited reliance on imported intermediate components.

To maintain or strengthen their position in the global production processes, firms nowadays must concentrate on their core business, making greater use of foreign suppliers to obtain the inputs needed for their activities. At company level, it is the combination of these intermediate inputs and their own production factors that determines competitiveness. Apart from direct intermediate imports, which play a crucial role in competitiveness, a significant proportion of the inputs comes from

other domestic firms, triggering multiplier effects in the economy. In 2011, each of the large exporting companies based in Belgium purchased, on average, intermediate inputs for their production activities totalling at least € 10 000 from eight domestic firms, which were generally smaller, less productive companies.

These suppliers include a large number of service companies. Progress in information and telecommunications has in fact made it easier to integrate the provision of services into production, often indirectly. In 2009, intermediate inputs produced by the services branches accounted for almost 36% of the value of Belgian manufacturing industry's exports, almost half coming from abroad. Services higher up the production chain, namely R&D, branding and design, or those downstream, such as distribution, marketing and sales, today form a substantial and constantly growing component of the value of industrial products.

**CHART 93** BREAKDOWN OF MANUFACTURING INDUSTRY EXPORTS IN COMPONENTS OF VALUE ADDED  
(share of the total amount exported, in %, 2009)

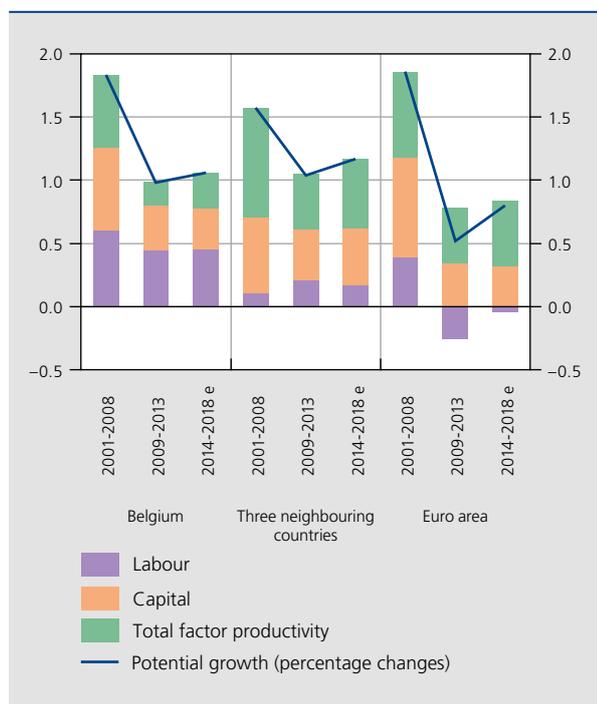


Source: OECD.  
(1) Including agriculture and fishing, extractive industries, production of gas, electricity and water, and construction.

CHART 94

GROWTH POTENTIAL <sup>(1)</sup>

(contributions to potential growth; percentage points, unless otherwise stated)



Source: EC.

(1) Calculated according to the EC's production function method (see EC (2010), The production function methodology for calculating potential growth rates and output gaps, Economic Paper 420, July).

These support activities therefore contribute fully towards the economy's external competitiveness. The analysis in Box 10 shows that an increase in their productivity could strengthen competitiveness by triggering a domino effect in other sectors, and that it would therefore benefit the whole economy. Moreover, it would ensure that these service activities remain in Belgium, thus contributing to employment. The creation of a competitive environment for market activities is a key factor which would boost the productivity of the service sector, especially in the retail trade and some network industries. In order to secure a place in the segments that generate value added, it is also vital to improve commercial creativity, marketing and design, and enhance the value that consumers place on retailers' own brands, e.g. by introducing trust labels.

Potential growth restrained by weak total factor productivity

In providing an estimate of production capacity, the analysis of potential growth offers useful information on the rate at which an economy can develop without generating major imbalances. It is true that the underlying methodology does have some weaknesses, so that there is a high degree of uncertainty surrounding estimates of potential growth. However, the economic crisis of 2008-2009 and the ensuing laborious recovery

Box 10 – A microeconomic view of the competitiveness of firms and of participation in global value chains

The increasingly widespread use of microeconomic data such as those supplied by the Bank's Central Balance Sheet Office sheds more light on the macroeconomic diagnosis of a relative deterioration in the competitiveness of the Belgian economy. The aggregate figures in fact mask very diverse actual situations at company level, as the productivity of some firms (branches) is higher or lower, or increasing at varying rates.

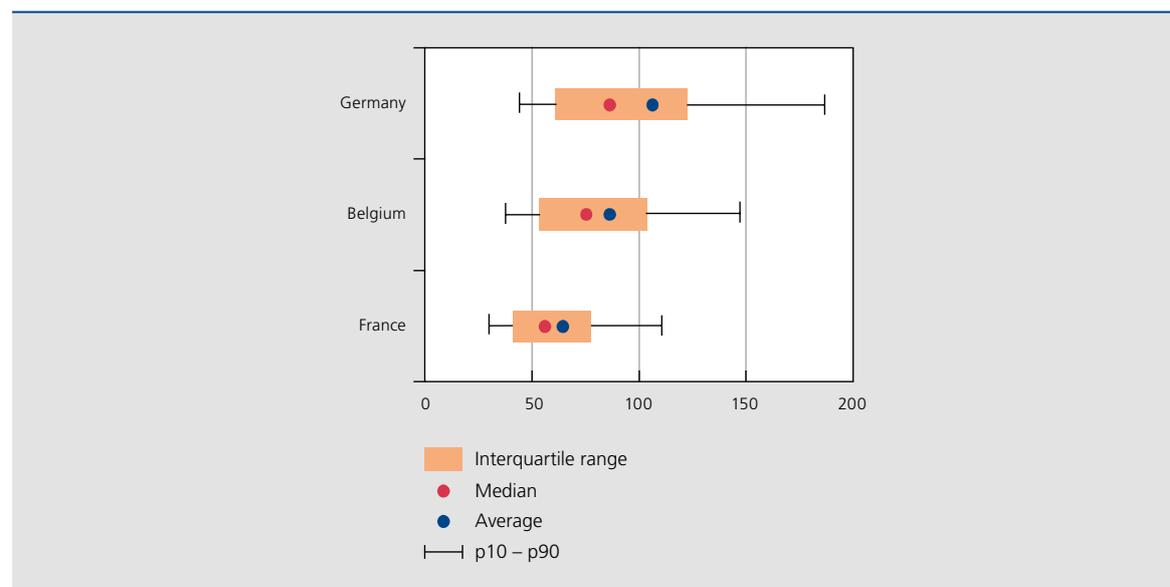
However, microeconomic data analysis traditionally had to contend with a lack of comparability between countries, because of wide variations in the available data or the methodologies used. So far, there are no representative databases containing microeconomic data that are comparable between the various EU Member States or the euro area countries<sup>(1)</sup>. In order to address that problem, a research initiative by the European System of Central Banks (ESCB) – the CompNet (Competitiveness Research Network) – resulted in competitiveness indicators based on microeconomic data, using definitions and analysis methods harmonised for 13 EU countries, including Belgium. Those indicators give a more accurate picture of the level of competitiveness of firms and how it is changing.

(1) International databases such as AMADEUS or ORBIS generally contain only the accounting data of large firms, which makes these various sources rather unrepresentative, especially for a country like Belgium where SMEs represent a large proportion of activity and employment.

More particularly, the Belgian economy features very wide variations in productivity within one and the same branch between the top performing firms (90th percentile of the productivity distribution) and the weakest performers (10th percentile of the productivity distribution). However, it has one of the highest average levels of productivity in Europe, as Belgium is ranked second among the countries participating in the ESCB CompNet, behind Germany.

#### DISTRIBUTION OF APPARENT LABOUR PRODUCTIVITY<sup>(1)</sup>

(averages 2003-2007, in € thousand per FTE)



Source: CompNet database, Lopez-Garcia *et al.* (2013).

(1) The various percentiles of the distribution are calculated per branch and then aggregated. Since small firms are under-represented in the German sample, that may cause the productivity distribution of that country to shift to the right. The productivity gap between Belgium and Germany is therefore probably smaller than that shown.

In these countries, the average productivity of firms is generally greater than their median productivity, reflecting significant asymmetry in the productivity distribution, indicated by a relatively large number of firms with low productivity plus a few superstars.

#### CONTRIBUTION OF BELGIAN FIRMS TO EXPORT ACTIVITIES IN 2011

(in € million, unless otherwise stated)

	Number of firms	Employment <sup>(1)</sup>	Value added	Exports
Export firms	10 472	922	101 329	215 843
Tier-1 suppliers <sup>(2)</sup>	79 291	665	53 035	–

Source: NBB.

(1) In thousands of full-time equivalents.

(2) Export firms may also supply other exporters. These are not considered to be tier-1 suppliers.

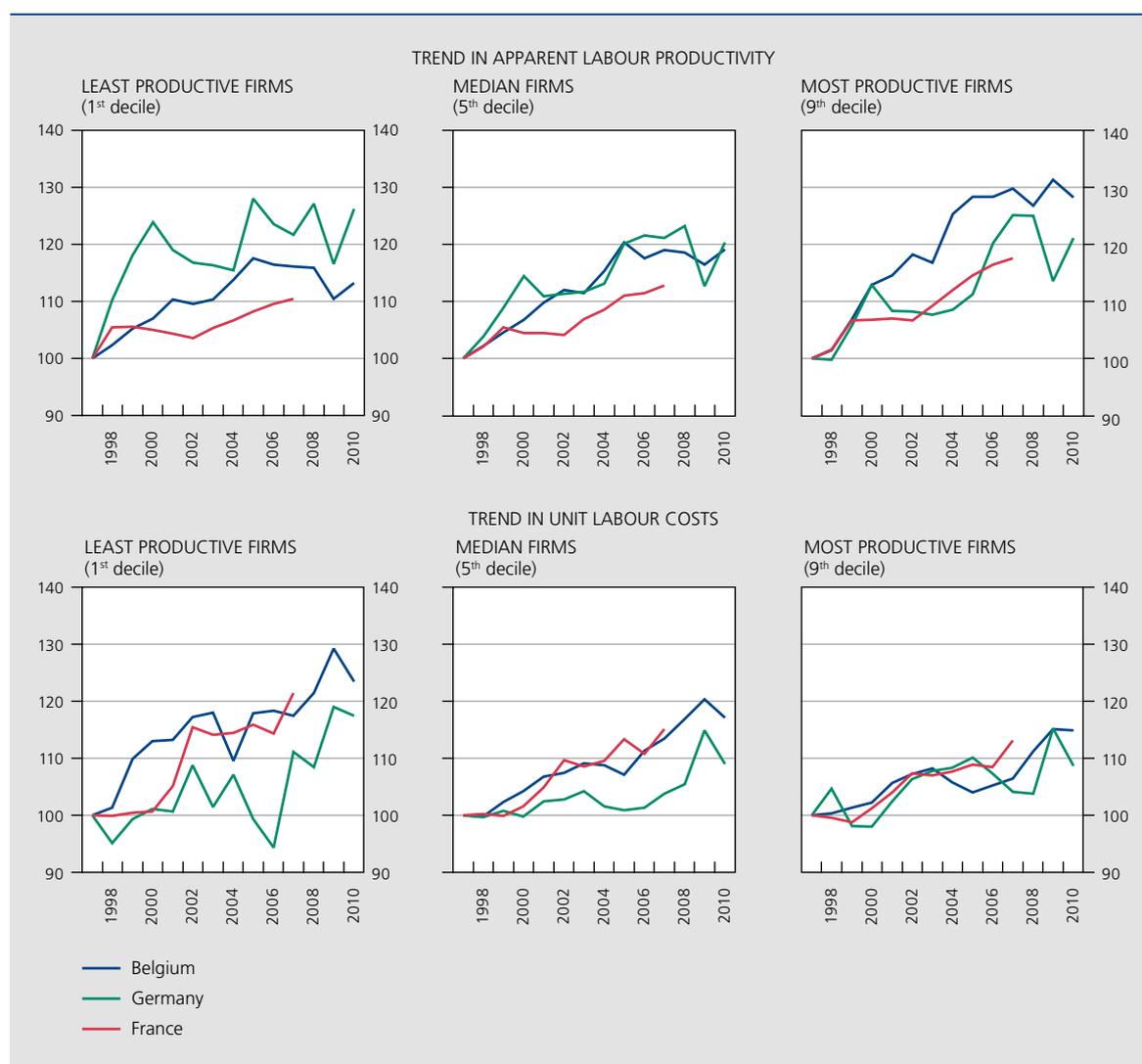
Many empirical studies have revealed that the great majority of a country's firms do not perform sufficiently well to secure a permanent place on the international markets. Only the best performers can achieve that. The structure of the Belgian economy is no exception in that respect. The most productive firms therefore play a vital role in the integration of the Belgian economy into the global value chains.

However, the integration of an economy in these value chains is not confined solely to the exporters. Indeed, a large number of non-exporting firms are suppliers for these exporters and are therefore also part of the global value chains.

In 2011, on the basis of the data from the Central Balance Sheet Office, foreign trade and FPS Finance, it was possible to identify 10 472 firms with annual turnover of € 100 000 or more in exports of goods and/or services.

### TREND IN APPARENT LABOUR PRODUCTIVITY AND UNIT LABOUR COSTS

(indices 1997 = 100)



Sources: CompNet database, Lopez-Garcia *et al.* (2013), Eurostat.

Those firms in turn relied on a network of 79 291 tier-1 suppliers, i.e. non-exporting firms which supply goods and/or services amounting to € 10 000 or more to at least one export company. In 2011, these two categories covered 24 % of firms and almost 80 % of employment and value added as reported in the annual accounts registered with the Central Balance Sheet Office.

Analysis of these customer/supplier links reveals a hierarchy of corporate productivity. Tier-1 suppliers tend to be less productive than export firms: on average, the suppliers' productivity is only 73 % of the figure for exporters.

While the level of productivity varies considerably between firms, and while it is a major determinant of their degree of integration in the global value chains, the trend in the productivity of Belgian companies over the period 1997-2010 – for which a comparison with Germany is possible – also varied greatly from one firm to another. The growth of apparent labour productivity was much less favourable in the weakest performing Belgian firms than in their German counterparts, whereas the opposite applied to the best performing firms.

Apart from the movement in productivity alone, there is also a negative movement in unit labour costs compared to Germany at macroeconomic level. However, according to the company data, it seems that this deterioration was particularly noticeable in the lower part of the productivity distribution, while highly productive firms managed to keep the rise in unit labour costs down to a level similar to that seen in Germany, partly thanks to the relatively favourable improvement in their productivity. This result could perhaps be influenced by selection effects, as only the best performing firms are able to maintain their position in the population of exporters. In contrast, the less productive firms were unable to compensate for nominal pay increases with sufficient growth in their productivity, and therefore suffered a sharp deterioration in their unit labour costs. This less favourable situation could prompt exporters to turn to other sources of supply for their intermediate inputs, including foreign sources.

Analysis of the links between firms shows that the question of the Belgian economy's competitiveness cannot be reduced to a problem of direct participation by those firms in international trade. It must encompass the integration of the maximum number of companies in the global value chains, whether they be exporters or firms higher up the production chain.

undoubtedly raise questions regarding the structural growth of the Belgian economy.

According to the EC, potential growth slowed sharply from 2008, in the wake of the economic crisis in the euro area. Over the past five years, growth has fallen to around 1 % in Belgium and in a weighted average of the three neighbouring countries, and to 0.5 % for the euro area. In Belgium, potential growth reached 1.8 % during the period immediately preceding the crisis. According to the forecasts, that loss of momentum will persist, especially in Belgium, and in the medium term potential growth is unlikely to return to the level prevailing at the start of the millennium.

Potential growth depends both on the quantity of the production factors used – labour and capital – and their efficiency, which is reflected in total factor productivity (TFP). This breakdown into three determinants reveals the characteristics specific to Belgium, both in relation

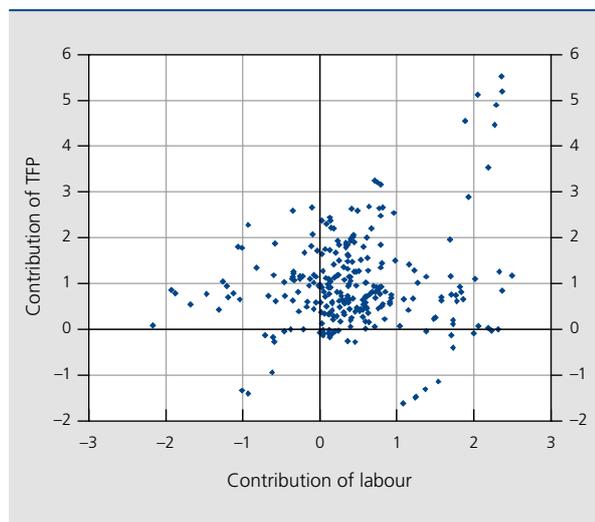
to the three neighbouring countries and compared to the average for the euro area. Over the period considered as a whole, labour's contribution was larger in Belgium. Conversely, that of TFP was much smaller.

Of the three determinants of potential growth, the most striking fall recorded in Belgium over the past decade concerned the level of TFP. That decline contrasts with the weighted average trend in the three neighbouring countries and in the euro area. Admittedly, TFP is a multidimensional concept which is difficult to grasp, comprising both the respective qualities of labour and capital and their returns when they are combined. The scientific conference to be held by the Bank in October 2014 should promote a better understanding of the determinants. However, a number of explanatory factors can be put forward.

The contrasting labour and TFP trends could be partly linked. In recent years, the increase in the number of hours

**CHART 95** CONTRIBUTIONS OF LABOUR AND TFP<sup>(1)</sup> TO POTENTIAL GROWTH

(percentage points, annual data for the EU15 countries between 1995 and 2012)



Source: EC.

(1) Calculated according to the EC's production function method (see EC (2010), The production function methodology for calculating potential growth rates and output gaps, Economic Paper 420, July)

worked has occurred mainly in the non-market sector, but the productivity of workers joining the labour market recently, for instance via government subsidies, is generally below the average for the economy. It is important to ensure that the problem of reconciling a large contribution from labour and TFP is only temporary, in particular by boosting the initially low productivity of newcomers on the labour market. While the European countries in general have experienced the same contrasting trends between labour and TFP over the past five years, a similar analysis for the period 1995-2012 as a whole does not reveal any significant negative link between the two contributions.

In any case, various studies show that investment in R&D, a high level of innovation, and better-quality jobs generate TFP gains. Similarly, the factors favouring the reallocation of resources to the best performing firms, both existing and new, help to boost the aggregate productivity of the economy. Government efficiency could also play a part here.

Although the contribution of capital to growth potential remained positive, it lost impetus from 2009. In particular, since the start of the millennium the volume of the net capital stock has shrunk in manufacturing industry, and also in education and public transport (except for the Belgian national rail company, the SNCB). These are elements crucial for the economy's development.

The contribution of labour remained relatively constant, partly as a result of demographic factors and, before the crisis, the increase in the employment rate. Compared to the average in other European countries, however, the rate is still low.

### Slower growth of the population of working age ...

The growth of the population of working age resident in Belgium has slowed sharply since 2010. Thus, while the rise in the number of people in the 20 to 64 age group – the section of the population that, according to the definition decided in the context of the Europe 2020 strategy, best corresponds to the group that could be in employment – declined to 26 000 in 2013, against an annual average of around 40 000 since 2000, and a peak figure of 60 000 in 2007. The reasons for this slow-down are twofold. First, the flow of net migration has moderated, partly as a result of tightening of the rules on family reunification in 2010, but probably also because of the less buoyant economic environment. According to the Federal Planning Bureau's population forecasts, net migration will continue to fall, among other factors because of the gradual narrowing of the discrepancies in the standard of living within the EU, which would make Belgium relatively less attractive. Also, owing to a cohort effect, numbers exiting the labour market have increased more sharply than the number of entrants. Between 2000 and 2013, the number of potential labour market entrants, namely the 20-24 age group, expanded by almost 10 %, while the number leaving, namely people in the 60-64 age group, was up by more than 25 %. Up to now, the inflow has outpaced the outflow in absolute terms, but that will no longer apply in a few years' time, in view of population ageing.

### ... and a low employment rate for certain population groups

The employment rate in Belgium averaging 67.3 % over the first three quarters of 2013 is not particularly low compared to the average for the EU (68.3 %), where the economic crisis had a severe impact on the labour market of certain countries, but it is low in relation to the economies that do best in this respect (the Nordic countries, Germany, the United Kingdom and the Netherlands), and compared to the target set by the Belgian federal government in 2010, aiming at an employment rate of 73.2 % of the population aged 20-64 years by 2020. At regional level, only Flanders has committed to such a target, namely 76 %, or 4 percentage points above the

average employment rate over the first three quarters of 2013. For the same period, the proportion of people in employment within the 20-64 age group in Wallonia and Brussels stood at 62.3 and 56.8% respectively. Certain groups are particularly under-represented in employment, either because they are less active on the labour market or because they face high unemployment, or as a result of both these factors.

Although the male employment rate remained above-average, it still declined by 3 percentage points between 2000 and 2013. That fall is due mainly to the heavy toll on the workforce exacted by the crisis in certain branches of industry and construction, which employ mainly men. Conversely, the female employment rate increased; over the first three quarters of 2013 it averaged 62.1%, or around 7 percentage points below the target for that group. In the 55-64 age group, for which the target is 50%, employment participation has

also recorded a notable increase since 2000, even though it is still only 41.7%. For these last two groups, the low employment rate is accompanied by a below-average activity rate, as their unemployment rate is also lower than average. More particularly, while the unemployment rate of women generally exceeded that of men, the situation has been reversed in the past two years, for two reasons. First, male unemployment has risen, owing to job losses and the fact that the skills and qualifications of some of those men losing their jobs are probably not sufficiently tailored to meet the current labour demand, making it hard for them to find employment. Also, the unemployment rate among women has fallen, which is partly a result of their specific characteristics, for instance because the women entering the labour market have a higher level of education. It is also necessary to take account of the positive impact of job creation programmes such as the service voucher system which recruits mainly low-skilled women.

**TABLE 29** LABOUR MARKET PARTICIPATION  
(in % of the population aged from 20 to 64 years; annual averages, unless otherwise stated)

	Employment rate			Activity rate	Unemployment rate <sup>(1)</sup>
	2000	2013 <sup>(2)</sup>	Europe 2020 targets	2013 <sup>(2)</sup>	2013 <sup>(2)</sup>
Total	65.8	67.3	73.2	73.3	8.2
<i>p.m. EU</i> <sup>(3)</sup>	66.5	68.3	75.0	76.4	10.6
By sex					
Women	56.0	62.1	69.1	67.6	8.0
Men	75.5	72.4		79.0	8.3
By level of education					
Low-skilled <sup>(4)</sup>	50.5	47.1		55.6	15.3
By age					
From 20 to 29 years	66.0	58.1		68.6	15.3
From 55 to 64 years	26.3	41.7	50.0	44.1	5.6
By nationality					
Other EU nationals <sup>(5)</sup>	61.0	63.7		72.3	11.9
Non-EU nationals <sup>(5)</sup>	36.1	40.3	< 16.5 <sup>(6)</sup>	57.2	29.6
By Region					
Brussels	59.7	56.8		70.2	19.1
Flanders	69.4	72.0	76.0	75.7	4.8
Wallonia	61.1	62.3		70.1	11.1

Sources: EC, DGSEI.

(1) Job-seekers in percentage of the active population aged from 20 to 64 years.

(2) Average over the first three quarters of 2013.

(3) For 2000, the average is calculated on the basis of the second quarter's figures and excludes Croatia.

(4) Lower secondary education qualifications at most.

(5) Excluding Croatia.

(6) Difference between Belgians and non-EU citizens must be less than 16.5 percentage points.

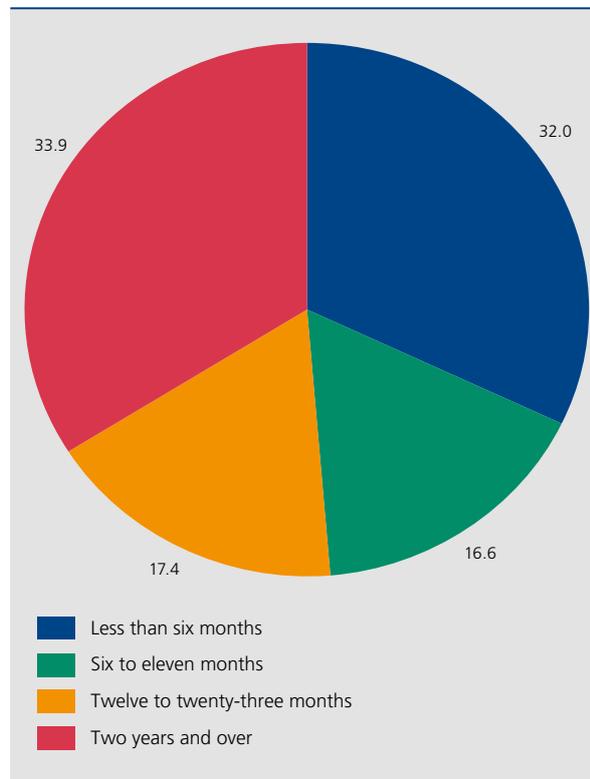
Low-skilled persons and non-EU nationals combine a low activity rate and a high unemployment rate. The second of these groups, comprising only 4 % of the 20-64-year-old population, is still one of the least integrated on the Belgian labour market. At 28.6 percentage points, the gap in the employment rate compared to the average for Belgian nationals is the second largest in the EU. According to the targets, that has to drop below 16.5 percentage points in 2020. Young people are also hard hit by unemployment, especially those with the lowest skills. If they do have a job, they are generally paid close to the minimum wage, which is relatively high in Belgium compared to the median wage. Many empirical studies have shown that the corresponding labour cost has an adverse impact on employment, and hence on the integration of the unemployed people concerned. A reduction in the fiscal and parafiscal pressure specifically for the low-skilled could help them to find work without increasing the risk of an unemployment or inactivity trap – or even the risk of poverty – that would result if net wages were too low. There are various provisions for this, some of which, such as the work bonus or reductions in charges in favour of young people with very low skills, were stepped up during the year under review. It should be noted that the social partners have agreed to phase out the age-related reduction in the minimum wage for young people in the 18 to 21 age group by 1 January 2015.

In 2013, an average of 584 000 job-seekers were registered with the public employment services (Actiris in Brussels, Arbeitsamt in the German-speaking Community, FOREM in Wallonia and VDAB in Flanders). These people represent the main component of the available labour reserve and can, in theory, be mobilised more quickly than inactive workers, in view of their closer link to the labour market. Nonetheless, this group also contains unemployed workers who are more difficult to integrate. Among the low-skilled and the 20 to 29 age group, job-seekers make up around 15 % of the corresponding active population. Their situation has worsened in comparison to 2000 when that figure was just over 10 %. Also, as stated above, the unemployment rate of non-EU nationals is particularly high, since 29.6% of the corresponding labour force was out of work, on average, over the first three quarters of 2013.

### Serious imbalances on the labour market

The mismatch between labour supply and demand, among other things in regard to qualifications, reduces the likelihood of finding work, even when the economy picks up. In Belgium, around 200 000 job-seekers, or

**CHART 96** UNEMPLOYMENT BY DURATION IN BELGIUM  
(in % of the total number of unemployed job-seekers, 2013)



Source : NEO.

almost 34 % of the total number of unemployed, have been jobless for more than two years. Almost 90 000 of them have been looking for work for more than five years. In regard to knowledge and skills, these long-term unemployed are very remote from the labour market and form the most difficult group to reintegrate even if economic activity picks up. At regional level, the specific cyclical dynamics mentioned in chapter 2 inevitably influence the average duration of unemployment episodes. On average, in 2013, those who had been seeking work for less than six months accounted for 40 % of the unemployed registered in Flanders, while in Wallonia a very similar proportion, namely 37 %, had been unemployed for over two years; in Brussels, that applies to no less than 46 % of unemployed job-seekers. These differences also reflect the fact that the chance of making the transition from unemployment into work, measurable by the labour market statistics, is lower in these two Regions than in Flanders.

The degree of mismatch between demand for labour and the labour supply can be examined by comparing the distribution of employment by level of qualifications required against the distribution of the active population by

level of initial education. Graduates of higher education and people who did not progress beyond secondary level formed two groups each representing around 39 % of the labour force in 2012, while those who had not completed secondary education made up 21 %. At the same time, jobs regarded as highly-skilled and medium-skilled each accounted for 45 % of the total jobs, leaving 10 % of jobs requiring lower qualifications. This is the primary source of the mismatch, as the qualifications required are higher than those possessed by the labour reserve.

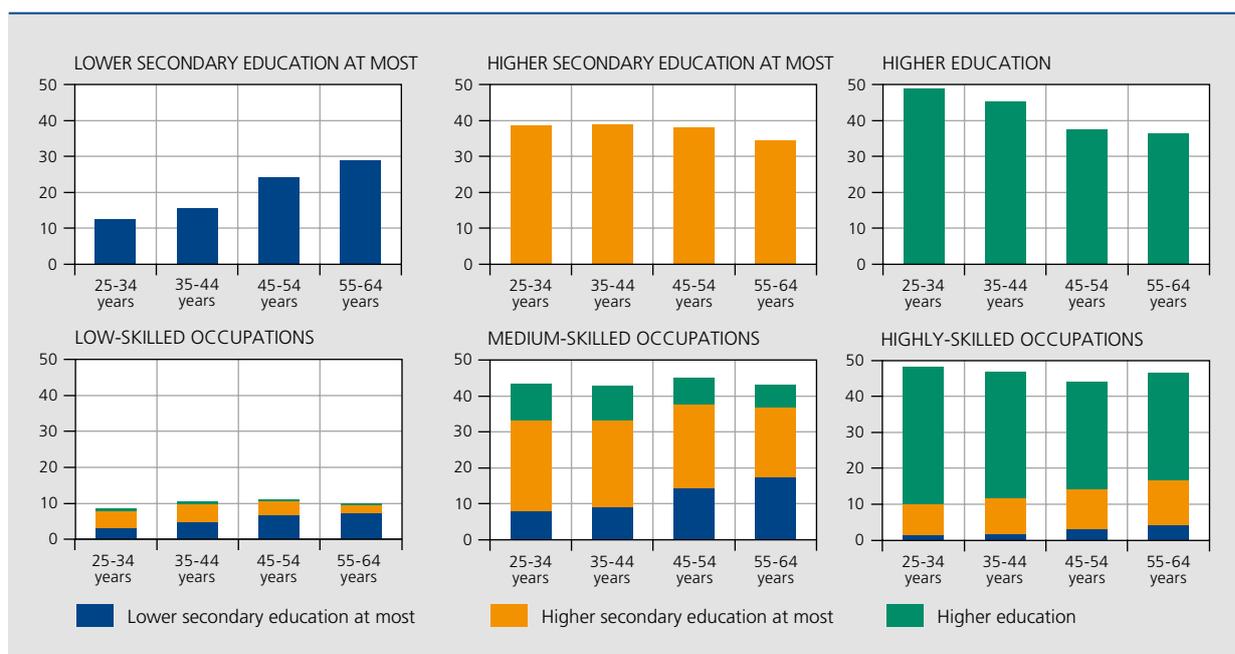
However, this approach disregards the possibility that skills may improve or become outdated after the diploma has been obtained. The distinction between formal qualifications and “know-how” can be assessed by breaking down the adult population in work according to the level of education, and by type of occupation.

The increase in the initial training level of the new cohorts of workers is obvious: the younger they are, the higher their level of education, whereas the older cohorts are divided almost equally among the three levels of education. But whatever their age, nine out of ten employed people work in medium to highly-skilled jobs. That means that older people, though they did not complete secondary

education, are employed in medium-skilled jobs or – as a result of the experience gained – have progressed during their working life towards jobs which are more exacting nowadays in terms of the initial level of training required. In the case of highly-skilled occupations, a tertiary education degree is normally required, but in certain cases experience may also accord access. Among the medium-skilled occupations, it is quite common for people in the 55-64 age group to have no certificate of secondary education. That is far less common in the under-35 age group: in this type of occupation, a quarter have actually attended higher education. In the case of low-skilled occupations, there is again a generation gap: most of the older people in employment did not complete secondary education, whereas the opposite is true of young people.

The skills can therefore be acquired on the job. However, it seems increasingly common for people leaving education early to be squeezed out by medium-skilled workers, even for jobs not needing any specific qualifications, because they are likely to lack certain capabilities, notably social skills. It is also possible that the recruitment requirements are set too high, leading to a poor allocation of resources that ultimately benefits neither employers nor workers, nor the rejected low-skilled candidates.

**CHART 97** STRUCTURE OF EMPLOYMENT BY AGE ACCORDING TO LEVEL OF EDUCATION AND TYPE OF OCCUPATION<sup>(1)</sup>  
(in % of the corresponding total population in work, 2012)



Source: EC.

(1) The highly-skilled occupations comprise directors, administrators and managers, intellectual and scientific occupations, and intermediate occupations (ISCO 1 to 3). Low-skilled occupations comprise elementary occupations (e.g. transport workers or cleaners, ISCO 9). Between these two categories are the medium-skilled occupations (e.g. clerical workers, sales assistants and skilled industrial workers).

The group of skilled persons is not uniform. Among other factors, the (potential) employer's assessment of the qualifications obtained depends on the subject studied, as some choices increase the risk of a horizontal mismatch (doing a job for which one has the right level of education, but in a different field from the one studied), or even a vertical mismatch (holding higher qualifications than required for a given occupation). In 2012, 22 % of higher education graduates were overqualified for their job, compared to 11 % with secondary level qualifications.

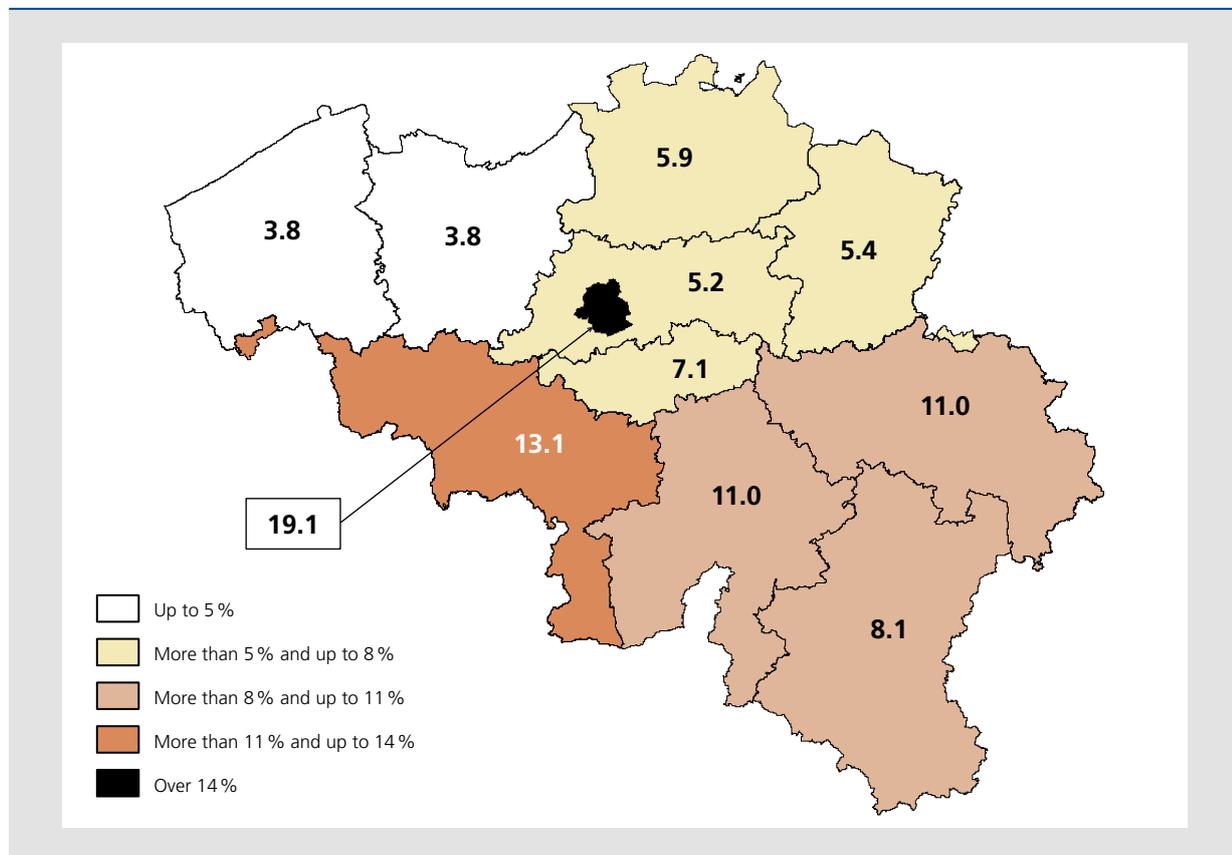
However, there are opportunities for the low-skilled. Analysis of the job offers registered with the public employment services and for critical functions shows that, rather than formal qualifications, it is skills, attitudes, subject studied and possibly experience that matter to employers. At VDAB, more than four out of ten job offers do not specify the level of formal qualifications required. That also applies to almost half of the offers received by FOREM and a third of those at Actiris. If qualifications are specified, the requirement is usually higher education (in most cases

a professional bachelor's degree). The necessary number of years' experience is not always specified either. In regard to language skills, most of the time, the offers received by the public employment services do not require a command of a second language, except in Brussels and the German-speaking Community.

However, most of the job offers do specify one requirement or another in terms of schooling, experience, driving licence or language skills. Lifelong training therefore remains a key element of support for job-seekers in order to match the labour supply more closely to demand.

During the year under review, the public employment services received an average of 27 000 job offers a month through the ordinary economic channels (excluding temporary work), down slightly against 2012. At the end of the year, some 45 000 jobs, most of them in Flanders, remained vacant. The number of vacancies can be attributed to both frictional factors (the mismatch between the labour supply and demand takes some

**CHART 98** UNEMPLOYMENT RATE PER PROVINCE IN BELGIUM  
(in % of the active population aged from 20 to 64 years)



Source : DGSEI.

time to correct) and structural factors, such as qualification or geographical mismatches. In that respect, offers concerning critical jobs are likely to remain open for longer than the average. In Flanders, an estimated one in ten remains open for more than six months. However, the public employment services cover only part of the demand for labour in the economy, but it is not possible to measure the relative importance of the many other recruitment channels for which no data are recorded.

Unemployed people with the lowest skills are generally more reluctant to commute long distances in order to accept a job, because the financial benefit that they may gain in relation to the amount of the unemployment benefit received is less than for higher-skilled workers. Yet that is not sufficient to explain the disparity in unemployment rates recorded between regions which are geographically very close. For instance, the provinces of West Flanders and East Flanders, where unemployment stands at 3.8%, are adjacent to Hainaut, where 13.1% of the active population is seeking work. This means that the regional frontiers remain a barrier to worker mobility; that is not the case in Brussels, where many Walloon and Flemish commuters travel daily to work.

### 5.3 Levers for supporting growth potential

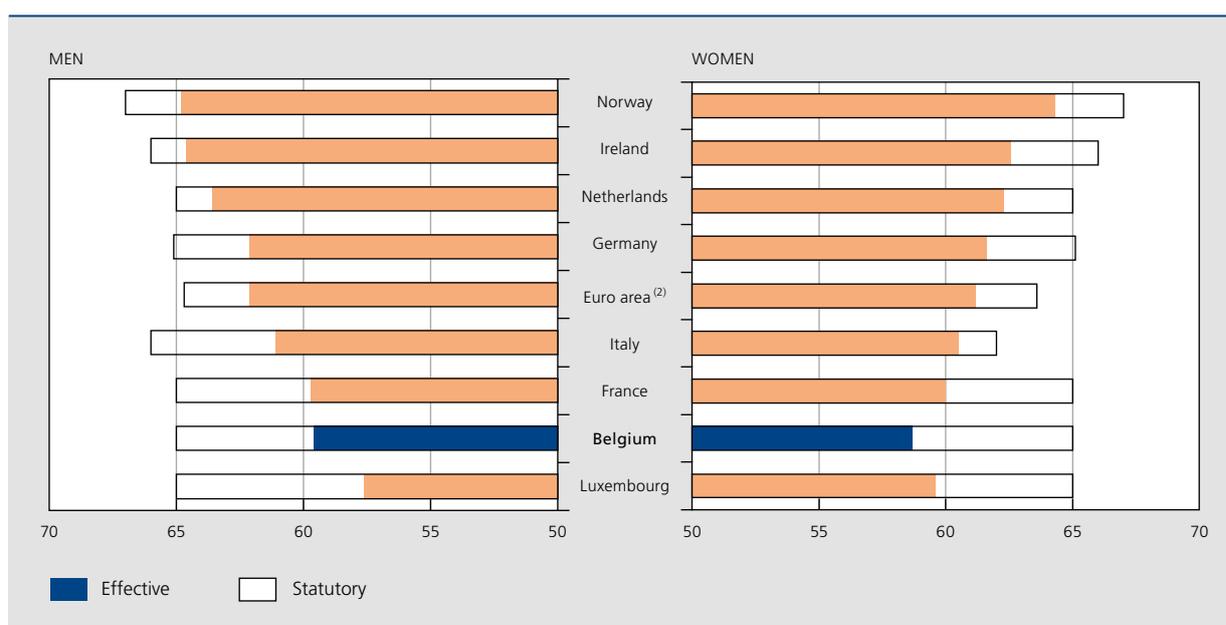
#### Raise the proportion of people in work

Various measures concerning the labour market were approved at the end of 2011 under the federal government agreement, and implemented in the ensuing two years. In general, they are intended to help alleviate a number of the problems mentioned above.

In view of population ageing and the low employment rate of people in the 55 to 64 age group, increasing the number of active people within that group could make a big contribution towards improving the labour supply and the employment rate. One approach is to reduce the number of workers leaving the labour market prematurely.

In this respect, OECD statistics put Belgium at the bottom of the ranking in terms of length of working life. Although the statutory retirement age is 65 years, the effective age of exit from the labour market is under 60 years for both men and women. Belgium thus underperforms most OECD countries. Several European countries have already raised the statutory retirement age, or plan to increase it to over 65 or link it to life expectancy. In Belgium, life expectancy at the age of 60 is 21.5 years

**CHART 99** AVERAGE EFFECTIVE AGE OF EXIT FROM THE LABOUR MARKET AND STATUTORY RETIREMENT AGE <sup>(1)</sup>



Source: OCDE.

(1) The effective age of retirement is calculated over a five-year period (2007-2012). The statutory retirement age relates to 2012.

(2) Unweighted average of the euro area countries, excluding Cyprus and Malta.

for men and 25.5 years for women, the same as the European average.

The (early) retirement system is currently being reformed in order to delay this age of departure from the labour market. On the one hand, the age at which workers can claim early retirement is being gradually raised from 60.5 years in 2013 to 62 years in 2016. At present there are no plans for further increases. On the other hand, the age of eligibility for the system of unemployment with employer top-up (previously known as “pre-pension”) has also been raised. The minimum age applicable to the general scheme has increased from 58 to 60 years. Since 2013, firms in economic difficulties have only been allowed to use this system for workers over the age of 52.5 years. By 2018, that age is to be raised to 55 years. In the case of firms undergoing restructuring, the age limit is 55 years. In addition, employers arranging collective redundancies involving proportionately more workers aged 55 and over will have to pay a special social security contribution. The age criteria adopted in these various measures are still significantly below 65 years, and therefore cannot entirely fill the gap in relation to the statutory retirement age.

To raise the employment rate, it must also be more advantageous for workers to remain active for longer. The reform of the pension bonus is helping by making it financially more attractive to postpone retirement. Workers in fact build up a pension supplement via steadily increasing fixed amounts received for each day of full-time work. In addition, the conditions for combining pensions and work have been relaxed. For instance, the wage limits for pensioners under the age of 65 years have been raised. Since 1 January 2013, pensioners aged 65 or over who have worked for at least 42 years are no longer subject to any limit on their additional earnings. However, these cases are very rare in Belgium. In 2012, 4.7 % of people in the 65 to 69 age group were working, compared to an average of 11 % in the EU.

The increase in the effective age of departure from the labour market should also be accompanied by better use of the potential labour reserve. Some of the workers currently employed part-time would like to work more hours, and that could expand the volume of labour in hours, or employment in full-time equivalents (FTEs). In 2012, the proportion of part-time workers in Belgium who wanted to increase their working time was estimated at around 9.5 % or 100 000 people.

Moreover, raising the employment rate of low-skilled persons and ethnic minorities also entails training – including apprenticeships and work experience combined with

training courses – and the establishment of measures to promote diversity.

In order to stimulate geographical mobility among job-seekers, the definition of a “suitable job” was amended in 2012 so that the job may now be located within a 60 km radius of the place of residence, instead of the previous 25 km. With the same goal in view, the cooperation between public employment services has been stepped up, among other reasons to facilitate the exchange of job offers, and to intensify language training. Moreover, a new agreement was concluded between the Regions and the federal government on monitoring and guidance for job-seekers, in preparation for the planned transfer of powers under the State reform.

To encourage the transition from unemployment into work, unemployment benefits were made more degressive for cohabitants in November 2012, and that applied to all existing and new job-seekers. From 1 March 2013, it was also expanded to other types of household, although some groups are still exempt, namely those over 55, people with at least 33 % disability, and the unemployed with at least 20 years’ work experience (25 years by November 2017). In addition, according to NEO figures, during the first three quarters of 2013 around 75 000 people benefited from an activation measure in support of job creation. That is considerably fewer than in previous years, owing to the termination of the Activa “win-win” scheme.

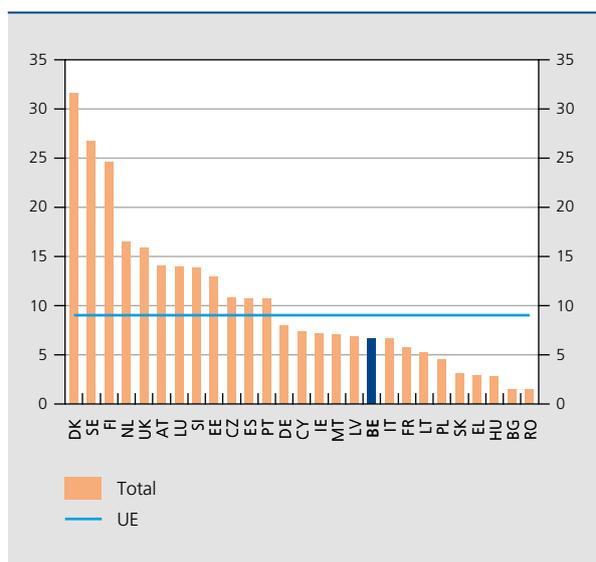
Adjustments to social legislation could also influence the functioning of the labour market. One example is the harmonisation of the status of blue-collar and white-collar workers by reform of the laws on redundancy (notification period and compensation) and the first day without paid benefit in case of illness. The new system came into effect on 1 January 2014 for all new contracts. Entitlements under existing contracts will be retained, and new entitlements will be calculated on the basis of the new system. Manual workers will receive compensation from the NEO to cover the difference between the period of notice calculated under the old rules up to 31 December 2013 and the same period of notice according to the new rules. Finally, some branches of activity, and in particular large parts of the construction sector, will not be subject to the new system.

## Enhance the quality of the human capital

As an investment in human capital, lifelong learning contributes towards the efficient functioning of the labour market and strengthens the economy’s growth potential.

**CHART 100** LIFELONG LEARNING

(in % of persons aged from 25 to 64 years stating that they took part in training in the four weeks preceding the survey, 2012 data)



Source: EC.

Given the rising demand for skilled workers in the advanced countries – at the expense of repetitive tasks – in the wake of globalisation and the fragmentation of production chains, improving the skills of the labour force is an important lever for employment. It also promotes the application and spread of innovation, and hence external competitiveness and productivity gains.

In Belgium, 6.6 % of adults participated in lifelong learning in 2012, while the European average was 9 % and some Nordic countries, such as Denmark, Sweden and Finland, recorded participation rates of around 25 % or even more.

For young people, the level of initial education remains decisive for access to employment. Analysis of the progress of school-leavers by the public employment services shows that each additional grade of education increases the chance of rapid entry into the labour market. In Flanders, the proportion of young people still unemployed after one year declines from 38 % to 12 % according to whether they completed the lowest or highest grade of general secondary education. In Wallonia, the rate of insertion into employment after six months rises from one in four to one in two, taking all forms of education together, for the same variation in level of education. At secondary level, an apprenticeship certificate ensures the best employment opportunities, while at tertiary level

a professional bachelor’s or master’s degree offers the best chance.

However, too many young people leave school without at least obtaining a certificate of higher secondary education or the equivalent. In 2012, that applied to 12 % of young people aged between 18 and 24 years. Under the Europe 2020 strategy, Belgium undertook to reduce that to 9.5 %. The percentage of early school-leavers varies greatly from one Region to another, since it stands at 20.1 % in Brussels, 14.8 % in Wallonia and 8.7 % in Flanders, which aims to cut that figure to 5.2 % by 2020. Except in the latter Region, these proportions varied only very slightly between 2000 and 2012. In Belgium, the proportion of people in this age group not having completed their schooling and not in training or employment came to 6.6 % in 2012.

The latest results of the OECD’s PISA assessment programme showed that almost a quarter of French-speaking pupils aged 15 did not have the minimum skills in mathematics necessary for participating fully in society. In Flanders and in the German-speaking Community, the figures were 15 and 16 % respectively for the pupils assessed.

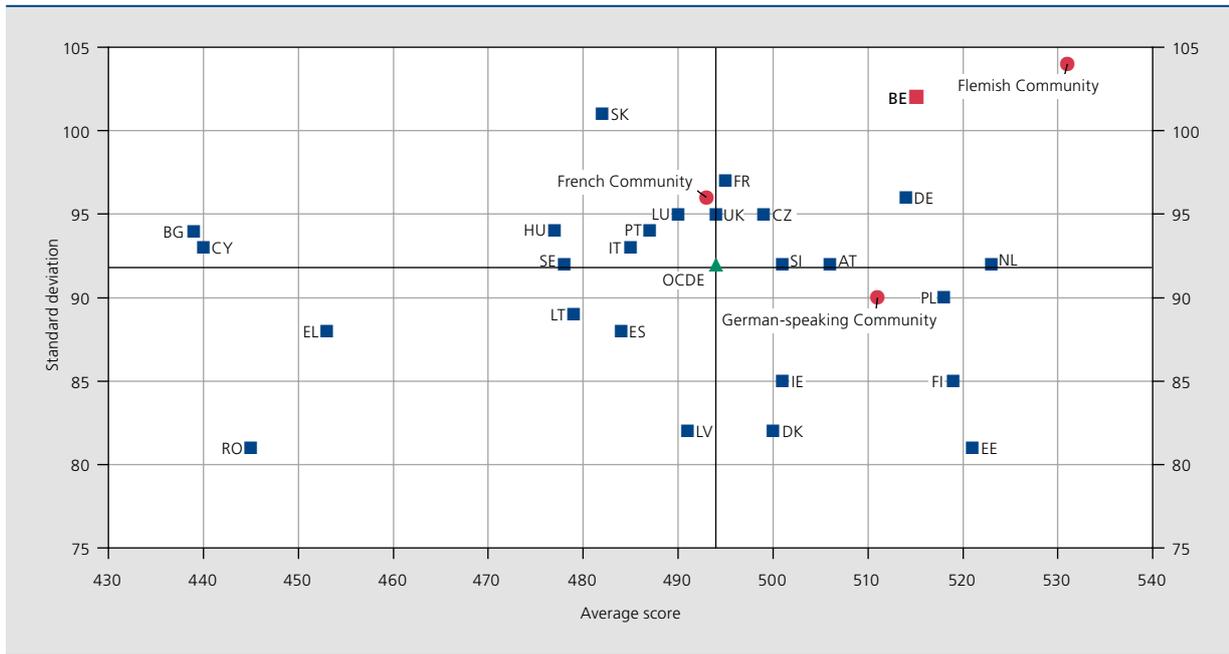
The quality of education can be measured by its efficiency (mean score) and its equity (dispersion of the results around the average). There are wide variations between and within the three Communities in Belgium. The average results for Flanders are at the top of the OECD ranking, well ahead of the international average, and even higher than the score for Finland, which usually heads the rankings for EU countries. Belgium’s German-language schools are likewise among the most efficient in the EU. Conversely, French-language education scores slightly below the OECD average. The dispersion of the results of French-speaking, and particularly Dutch-speaking

**TABLE 30** PROPORTION OF EARLY SCHOOL-LEAVERS  
(young people not having completed at least higher secondary education in % of the population aged between 18 and 24 years)

	2000	2012
Belgium .....	13.8	12.0
Brussels .....	20.7	20.1
Flanders .....	11.6	8.7
Wallonia .....	15.5	14.8

Source: EC.

**CHART 101** RESULTS OF THE PISA 2012 ASSESSMENT FOR MATHEMATICS IN THE EU COUNTRIES



Source: OECD.

pupils exceeds the average for the countries studied. The reasons for the variations in performance between both pupils and institutions lie partly in the structure of the education system. The system of successive selection creates a hierarchy of types of education and schools that tends to homogenise groups of pupils, with the “strong” on one side and the “weak” on the other. In addition, performance depends very much on the socio-economic situation of the pupil’s family. In the Flemish and French Communities, around 20% of the variations in performance can be attributed to that factor; in the German-speaking Community, the figure is only 4%.

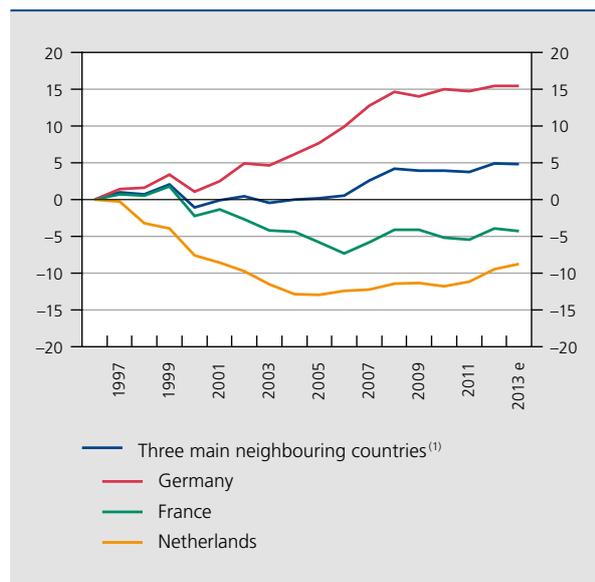
### Labour costs

#### Cumulative labour cost handicap in relation to the three partners

Labour costs are one of the crucial factors for job creation and firms’ competitiveness. A legal framework for the movement in wages in the private sector has therefore been provided under the 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness. Its central feature is monitoring by the Central Economic Council (CEC) secretariat of the movement in hourly labour costs in the Belgian private sector

**CHART 102** BELGIUM’S WAGE HANDICAP IN RESPECT OF HOURLY LABOUR COSTS IN THE PRIVATE SECTOR, ACCORDING TO THE CEC

(cumulative differences since 1996 compared to the three main neighbouring countries, in %)



Source: CEC.

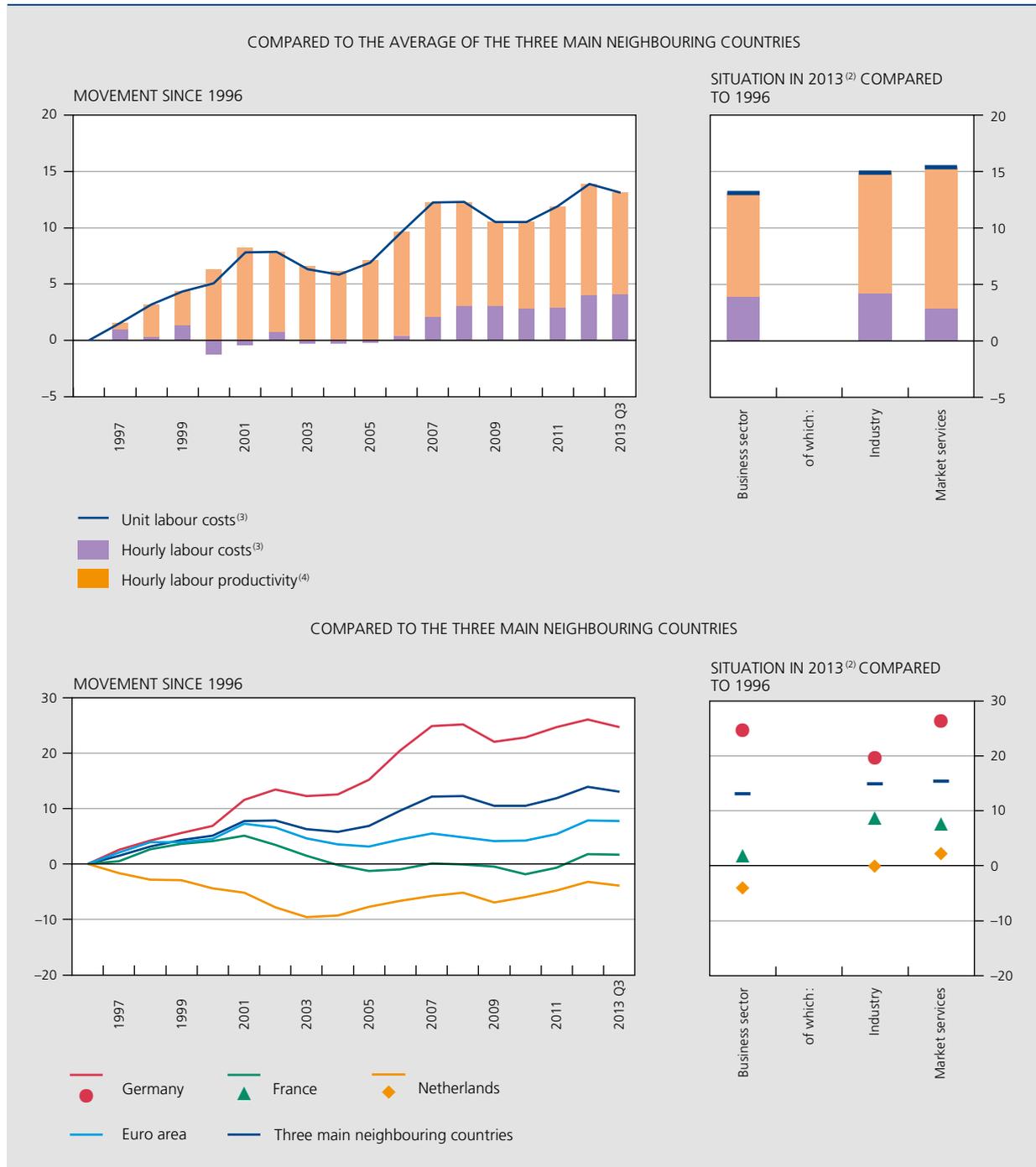
(1) Weighted average based on relative size of GDP.

compared to Germany, France and the Netherlands, the three main neighbouring countries which are also Belgium's principal trading partners.

Thanks to the increase in the available information, the CEC now bases its work entirely on the national accounts data to assess hourly labour costs, including as regards

**CHART 103** UNIT LABOUR COSTS IN THE BUSINESS SECTOR<sup>(1)</sup> IN BELGIUM

(differences in %, cumulative since 1996)



Source: EC.

- (1) The business sector comprises the NACE branches of activity B to N inclusive, and therefore includes industry, construction and market services. It can be taken as an approximation of the private sector.
- (2) Average of the first three quarters.
- (3) A positive sign implies that unit labour costs and hourly labour costs are rising faster in Belgium than the average for the three main neighbouring countries.
- (4) A positive sign implies that labour productivity is rising more slowly in Belgium than the average for the three main neighbouring countries.

the number of hours worked, whereas in the past it had to produce its own estimates for that. This methodological improvement explains some of the revisions of the previous publications by that institution.

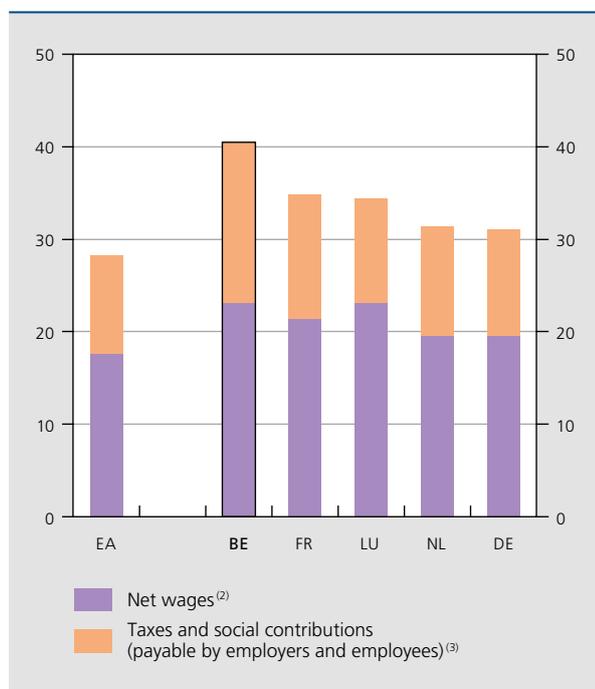
In its December 2013 technical report, the CEC estimated that the wage handicap accumulated since 1996 in relation to these three countries came to 4.8% for the year under review, exactly the same as in the previous year. Again according to the CEC, that should decline by 1 percentage point in 2014. This reduction is expected to be apparent in relation to each of the three countries, but would be greater in regard to Germany where negotiated wage increases approved in 2013 are in line with an acceleration that began in 2010. Nonetheless, as the average duration of the pay agreement periods in that country is shorter than previously, there is still a high degree of uncertainty surrounding the outlook for wages. In that connection, it should be noted that the wage projections for the reference countries have often been overestimated in the past.

This difficulty in both estimating exactly how labour costs will move in the neighbouring countries, and in predicting inflation in Belgium, and hence the effect of indexation in a context of repeated upward shocks, has contributed to the wage slippage in relation to neighbouring countries. That was one reason why the government planned to revise the 1996 Law. Although that modernisation has not yet materialised, the government has adopted various measures to promote the goal – announced in November 2012 – of closing the wage gap accumulated since 1996 in relation to the average of the three neighbouring countries. Those measures concerned additional cuts in social contributions in 2013, with others scheduled for future years, the freezing of real wages in 2013 and 2014, while maintaining the indexation mechanism and scale increase, and modernisation of the price index. This last measure essentially had a small moderating effect in 2013.

Moreover, in order to clarify the diagnosis of the wage slippage, the government instructed the Group of Experts on Competitiveness and Employment (GECE) to compute among other things the impact of subsidies reducing labour costs in Belgium and in the neighbouring countries, and to conduct a detailed analysis by branch of activity. This research revealed that the scale of wage subsidies in the broad sense is considerable in Belgium. Since these subsidies are also used as a way of funding employment in the non-market sector or in personal services via the service vouchers, they represent a significant percentage of the wage bill. According to the national accounts methodology (ESA 95), these subsidies are not deducted from labour costs, which may impair the international comparability of those costs. In its report, the GECE assessed the impact of the subsidies on the wage handicap in 2011 at between 4.1 and 0.5 percentage points, depending on whether account is taken of measures which more or less target specific categories of workers, and the estimated impact of the secondary effects of the targeted subsidies on the structure of employment. By encouraging the growth of activities where the wage level is below average, targeted measures could in fact drive down the average hourly labour costs. According to the approach that comes closest to the spirit of the 1996 Law, and which disregards the subsidies corresponding to measures whose effects are concentrated on the non-market service branches and service vouchers, that impact is estimated at around 1.3 percentage points.

In addition, if a reduction in labour costs resulting from targeted subsidies is taken into account, that can lead to undesirable spillover effects. In general, subsidies expand the scope available for any pay increases in firms as a whole. Since the subsidies vary in size from one branch of activity to another – or more particularly, from one joint

**CHART 104** LEVEL OF HOURLY LABOUR COSTS IN THE BUSINESS SECTOR <sup>(1)</sup> IN 2012  
(in €)



Source: EC.

(1) In firms with ten or more employees.

(2) Labour costs minus estimated fiscal and parafiscal levies.

(3) Estimated by applying the implicit rate of tax on labour (employers' and employees' contributions to social security and personal income tax) in 2011 to hourly labour costs in 2012.

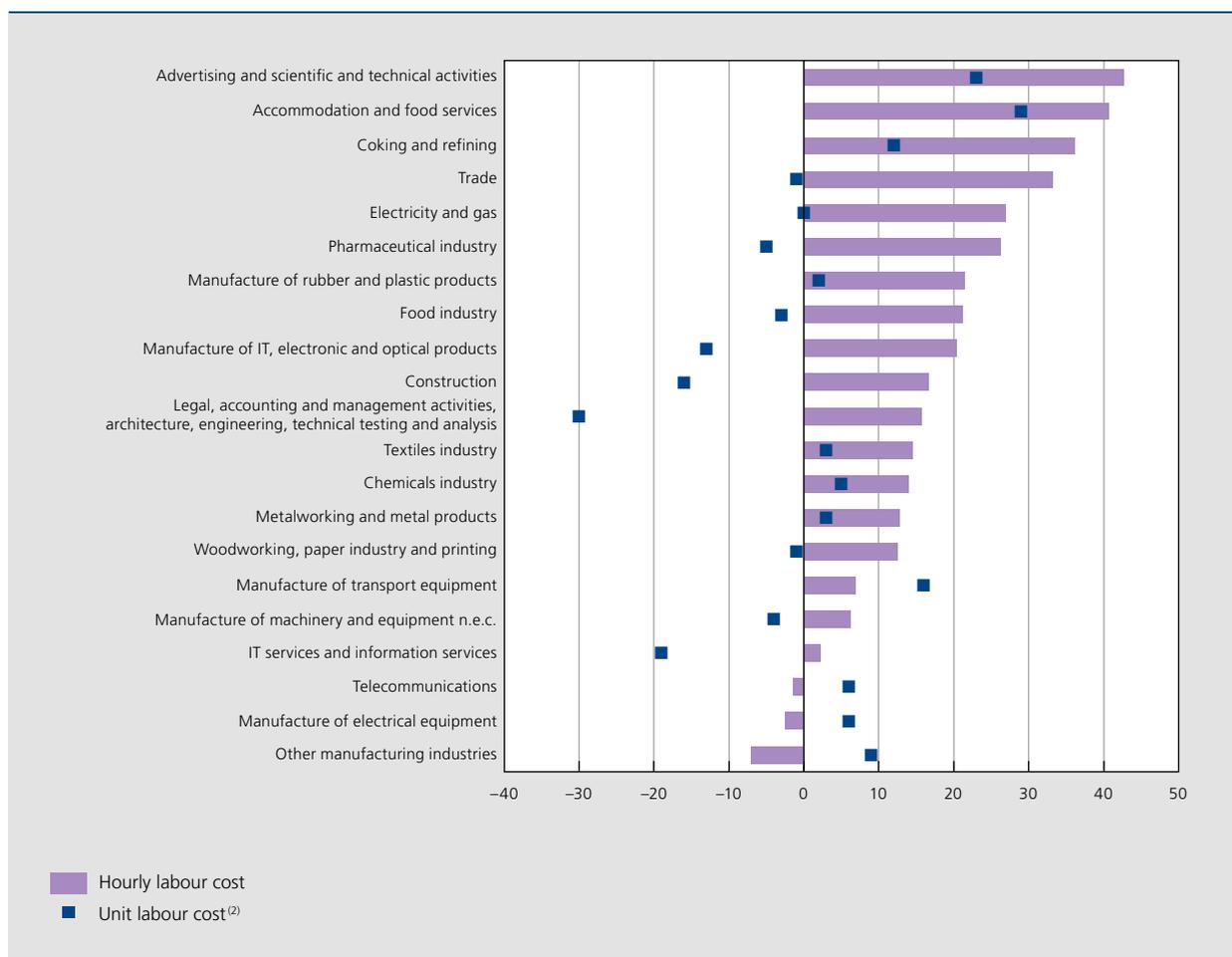
committee to another – companies receiving relatively lower subsidies will see their labour costs outpace those in the rest of the economy, in relative terms.

For all branches of activity together, if hourly labour costs rise more steeply than in the case of the main competitors that does not necessarily impair the cost competitiveness of the economy provided there is an accompanying, equally strong rise in labour productivity. Analysis of unit labour costs takes account of these two factors. An international comparison for the business sector – a concept similar to that of the private sector – shows that since 1996 unit labour costs in Belgium have risen faster than in the three neighbouring countries almost every year. Averaging 13.1 % over the first three quarters of 2013, the cumulative handicap since 1996 is smaller

than in 2012 but still much bigger than the handicap in terms of hourly labour costs. In 2013, it was mainly labour productivity in each of the three neighbouring countries that grew more slowly than in Belgium.

The gap for the business sector as a whole is attributable mainly to market services and to industry, the latter being the branch of activity most directly exposed to foreign competition. Although hourly labour costs in firms belonging to these branches rose much more sharply than the average for their counterparts in neighbouring countries, the gap is due mainly to the decidedly less favourable movement in productivity, the figure for 2013 only slightly attenuating this factor. Since cost increases may be reflected in prices, especially in the case of services, such gaps may have repercussions on consumer prices

**CHART 105** DIFFERENCE IN LABOUR COST LEVELS BETWEEN BELGIUM AND THE WEIGHTED AVERAGE OF THE THREE NEIGHBOURING COUNTRIES<sup>(1)</sup>, 2010  
(differences in %)



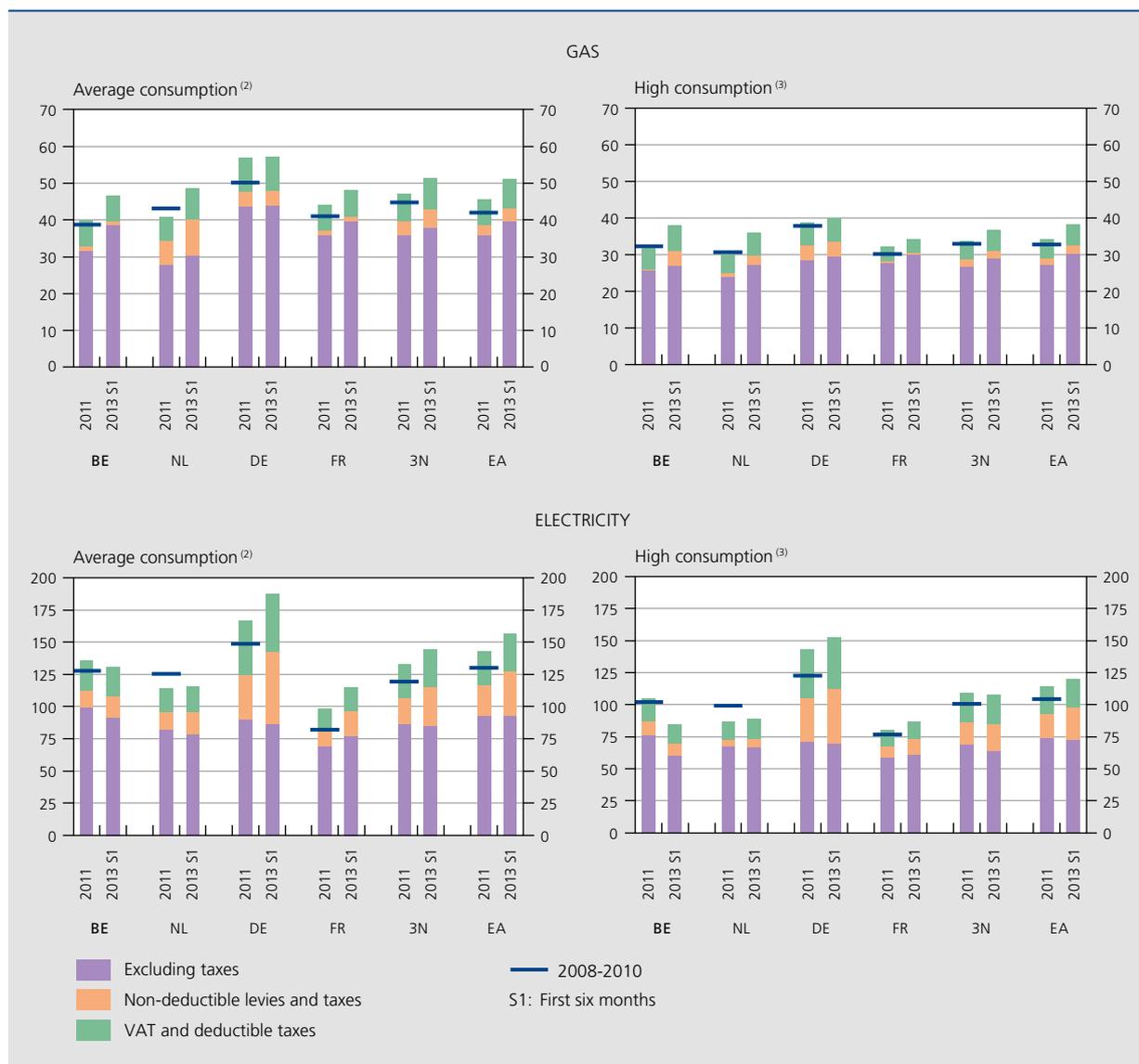
Source: GECE.

(1) As the total amount of the wage subsidies in the neighbouring countries is very small and the available information does not permit a breakdown by branch of activity, the GECE disregarded those subsidies for the three neighbouring countries.

(2) Difference between Belgium and the average labour cost in relation to average hourly productivity in the three neighbouring countries.

**CHART 106** TOTAL PRICE OF GAS AND ELECTRICITY INVOICED TO INDUSTRY IN BELGIUM AND IN THE THREE NEIGHBOURING COUNTRIES<sup>(1)</sup>

(in € per MWh)



Source: EC.

(1) Half-yearly average of the prices invoiced to end users.

(2) For gas: between 10 000 GJ and 100 000 GJ; for electricity: between 500 MWh and 2 000 MWh.

(3) For gas: between 10 000 GJ and 400 000 GJ; for electricity: between 20 000 MWh and 70 000 MWh.

and on the costs of other firms for which they constitute intermediate inputs.

Taking the position in relation to each of the neighbouring countries individually, Belgian firms accumulated a unit labour cost handicap vis-à-vis Germany of no less than 25% between 1996 and the third quarter of 2013. In contrast, in relation to the Netherlands they accumulated an advantage of around 3.9%, while their competitive position in relation to France has deteriorated

since 2012, from a small 0.7% advantage to a moderate handicap of 1.7% over the first three quarters of 2013. The picture is similar for industrial firms, although the advantage in relation to the Netherlands is much smaller. Conversely, for market services in general, Belgium has had a cumulative disadvantage since 1996 in relation to the three countries.

In comparison to the euro area as whole, the divergence in the movement in labour costs was smaller than in

relation to the three main partners owing to faster increases in certain peripheral countries up to the outbreak of the economic and financial crisis. The significant adjustments that those countries have made to wages and productivity have rectified that situation to some extent.

### Higher level of labour costs than in neighbouring countries

Apart from the comparison of cumulative developments since 1996, which – by law – is the benchmark for assessing any derailments, the comparison in terms of levels puts Belgium among the countries with the highest hourly labour costs, even if the comparison is confined to countries at the same stage of development.

In comparison with the neighbouring countries, hourly labour costs in the business sector as a whole are significantly higher, being estimated at around € 40 in Belgium in 2012, against € 35 in France and just over € 30 in the Netherlands and Germany. The difference is even greater in relation to the average for the euro area, although that figure is influenced by the Southern European countries where living standards and costs are well below the average.

The gap in relation to the neighbouring countries is due to the combined effect of higher net wages – except compared to Luxembourg – and a heavier fiscal and parafiscal burden. The implicit tax on labour, calculated as an aggregate and taking account of employers' and employees' social security contributions and personal income tax, is in fact higher.

According to the figures in the GECE report, labour costs – even taking account of subsidies – are higher than in the other countries in the great majority of the branches of activity considered. The aggregate gap for the private sector as a whole therefore does not seem to be attributable to activity structure effects. It should be noted that in most of the branches studied, as well as in the economy as a whole, productivity levels are higher in Belgium. Thus, while acknowledging the methodological problems of such a comparison, it seems that the picture is more balanced if productivity differentials are taken into account, since unit labour costs are higher in Belgium in 11 of the 21 branches analysed by the GECE, while they are lower than those in the neighbouring countries in ten cases. However, such a comparison encounters methodological problems. Also, it is hard to determine whether these higher levels of productivity are the cause or the consequence of the higher labour costs, owing to the endogenous relationship between these two variables.

## The energy cost issue

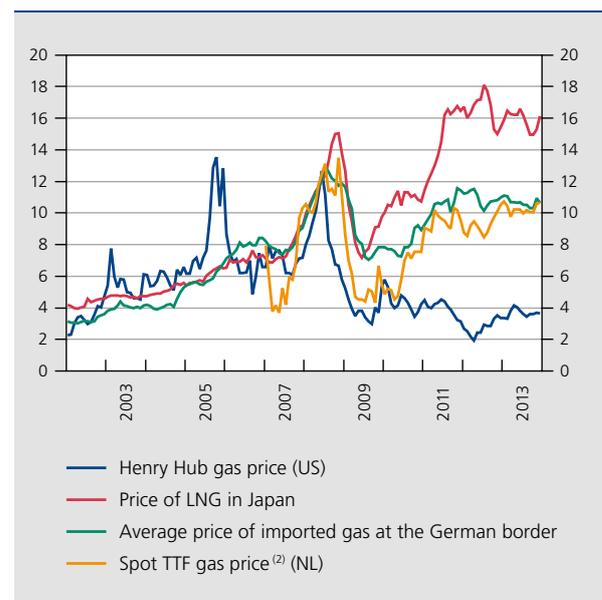
Whether used as sources of energy and fuel or as specific inputs in the manufacture of products, energy represents a significant, or in some cases even predominant, element of production costs in the various branches of activity. Like the other cost components, the price level and movement in the prices paid by industrial users influence the profitability of their business and their competitiveness. That is particularly true where the conditions diverge from those confronting competitors.

### The extraction of unconventional gas is a fundamental game-changer ...

The cost competitiveness of Belgian firms as regards energy prices is considered at two levels: in relation to competitors within the EU and in relation to competitors outside the EU.

The principles of the EU's energy policy apply to all Member States. This concerns in particular the liberalisation of network energy (gas and electricity), which took effect in Belgium on 1 January 2007 as part of the completion of the Single Market, and the European climate and energy package for a reduction in greenhouse gas

**CHART 107** WHOLESALE GAS PRICES  
(in \$ per MBtu<sup>(1)</sup>)



Sources: World Bank, BAFA, CREG.  
(1) MBtu = Million British thermal units.  
(2) TTF: Title Transfer Facility; gas marketplace in the Netherlands.

emissions, in particular via the development of renewable energy. Belgium aims to cut greenhouse gas emissions by 15 % from their 2005 level in the sectors not covered by the European emission quota trading system, and to see renewable energy sources accounting for 13 % of gross final energy consumption by 2020. However, there are wide variations in the implementation of these principles on national – or even regional – markets, depending on the rate of progress towards liberalisation or the ambition concerning the development of renewable energy. The resulting financial impact for firms using renewables varies according to the implementing details of the surcharges applied, e.g. those intended to finance public service obligations or to support renewable energy. There are therefore price discrepancies between countries and between the various categories of industrial consumers, since the surcharges are often degressive as consumption rises.

According to EC data, gas prices for industrial users in Belgium match the average for the three main neighbouring countries. For average consumption, they are 20 % lower than prices in Germany, where network charges are high by international standards. The lower pre-tax prices enjoyed by the Netherlands as a gas producer are not passed on to Dutch consumers, owing to higher taxes and other levies aimed at encouraging energy saving and cutting CO<sub>2</sub> emissions, especially on the part of small consumers.

In general, unit prices excluding tax are tending towards more similar levels in the case of high annual consumption, probably as a result of the greater price negotiating power of large industrial users, and the proximity to the European gas markets which have developed since the liberalisation and where prices usually converge. In addition, at national level, industries using large quantities of gas are often granted reductions or exemptions from the levies. Belgium plans to exempt electricity producers from excise duties on gas, in the same way as major industrial users, in order to support the profitability of essential power stations and to keep them in operation to ensure normal supply of electricity.

In regard to electricity prices, the situation is more varied since these prices are more affected by regulatory provisions. Belgium is in an intermediate position. In France, energy costs are still influenced by measures aimed at giving French consumers the benefit of the competitiveness of the nuclear power stations. In Germany, industrial users pay various surcharges funding support for renewable energy (guaranteed purchase tariffs, combined heat and power generation, connection to offshore facilities), but they are granted exemptions once their consumption

exceeds 10 000 MWh and their energy bill comes to 15 % of their value added. For large industrial electricity users (i.e. with annual consumption in excess of 100 000 GWh), other exemptions may apply, such as the one enjoyed by German industrial users since 2011 in respect of transport costs.

Various surcharges are also incorporated in the industrial tariffs in Belgium, most of them relating to the funding of support mechanisms for 'green' electricity, at both federal level (offshore wind farms and the (extra) cost of connection to them) and at regional level (certificates for green electricity and for combined heat and power generation). The amounts actually imputed vary according to different parameters specific to the firm, such as location, annual consumption, participation in a voluntary agreement on energy (according to entitlement to sliding-scale tariffs) or connection to a distribution network or to the Elia transmission network. On 1 July 2013, a degressive tariff and an absolute ceiling were introduced for the surcharge concerning the federal funding of the offshore wind farm. Conversely, the level of the regional surcharges relating to renewable energy for consumers in Wallonia differs considerably from that in the case of installations in Flanders and Brussels: in 2013, the respective ratios stood at 3 to 1 and 4 or 5 to 1 for firms connected to the distribution networks; they are proportionately higher for lower annual consumption levels, and for those with no voluntary agreement on energy. Apart from the inherent complexity of these multiple mechanisms, the frequent changes make it difficult to calculate costs in the medium term and to plan investment.

At global level, the exploitation of unconventional gas in the United States since 2006 has had radical implications for gas trading between regions, and especially for the prices charged on the various regional markets. That has had a significant knock-on effect on the competitiveness of Belgian and European industries, especially those involving energy-intensive activities.

Up to 2005, gas prices on the regional markets moved broadly in parallel, though there were occasional differences owing to local supply conditions. Since then, there have been greater discrepancies, as the rise in crude oil prices drove up the price of liquefied natural gas (LNG) in Japan and gas prices on the European continent, which were largely fixed under long-term contracts indexed to oil prices. In contrast, the Henry Hub gas price is derived from the equilibrium on the American gas market, where over 80 % of the gas comes from the numerous domestic suppliers. Shale

gas exploration and production, initiated by the smallest of those producers, are gradually reducing the need for the United States to import LNG, thus freeing up substantial volumes for other markets. Apart from diverting shipments originally intended for its domestic market, the United States has now begun modifying its LNG installations for export, in order to make use of arbitrage opportunities.

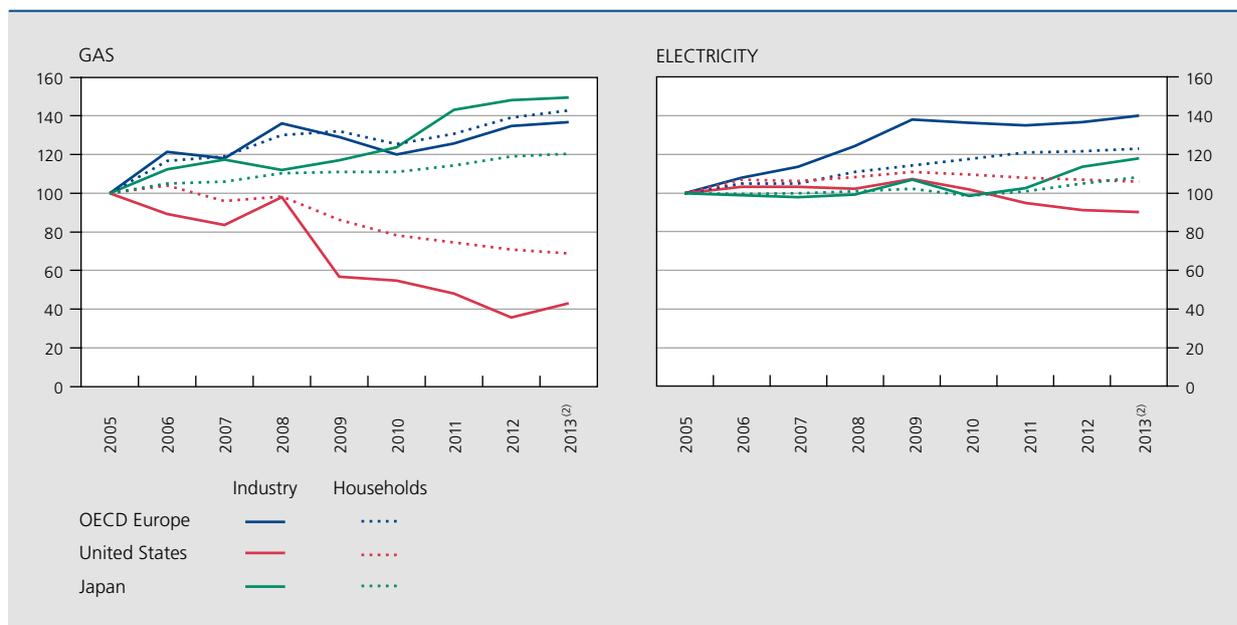
Considerable price differences have in fact emerged between the various regional markets in the United States, Europe and Asia, creating opportunities for selling LNG in the short term, provided those transactions cover the differences in transport costs between markets. The European market initially benefited from this supply of LNG via shipments from Qatar which had originally been destined for the United States, while European demand was depressed by the economic and financial crisis, leading to a gas glut. From April 2010, spot prices in Europe rose as the surplus on the European market diminished owing to the cold winter, followed by the tensions generated by the Arab spring. The nuclear accident in Fukushima on 11 March 2011 boosted demand and in the short term led to a large-scale diversion of shipments from the Middle East, helping to absorb the available LNG surplus.

Compared to the floor price on the American market, purchase prices for gas in 2013 were 4.4 times higher for Japanese buyers of LNG and 2.4 times higher for (major) European consumers. That situation had a considerable impact on the production costs of activities making heavy use of both gas and electricity. In fact, the low gas price in the United States favoured the use of (highly efficient) steam and gas turbines, benefiting the selling price of electricity for American industry and households; prices dropped to their 2005 level or even much lower in the case of gas, which was not true of the selling prices charged to European and Japanese consumers.

with potentially significant implications for industry in Belgium

These energy cost differentials have influenced the relative competitiveness of industries. First to be affected were firms whose production processes use shale-gas-derived products. That applies more particularly to petrochemicals, for which the ethane extracted from natural gas liquids present in the shale gas can be used as an input in ethylene production. The growth of the associated production of ethane led to a steep fall in the price of ethylene on

**CHART 108** REAL UNIT VALUE OF GAS AND ELECTRICITY FOR END USERS<sup>(1)</sup>  
(indices 2005 = 100)



Source: IEA.

(1) Unit values of gas and electricity purchases/sales in national currencies, deflated by the consumer price index for prices to households and by the producer price index for prices to firms.

(2) Average of the first two quarters.

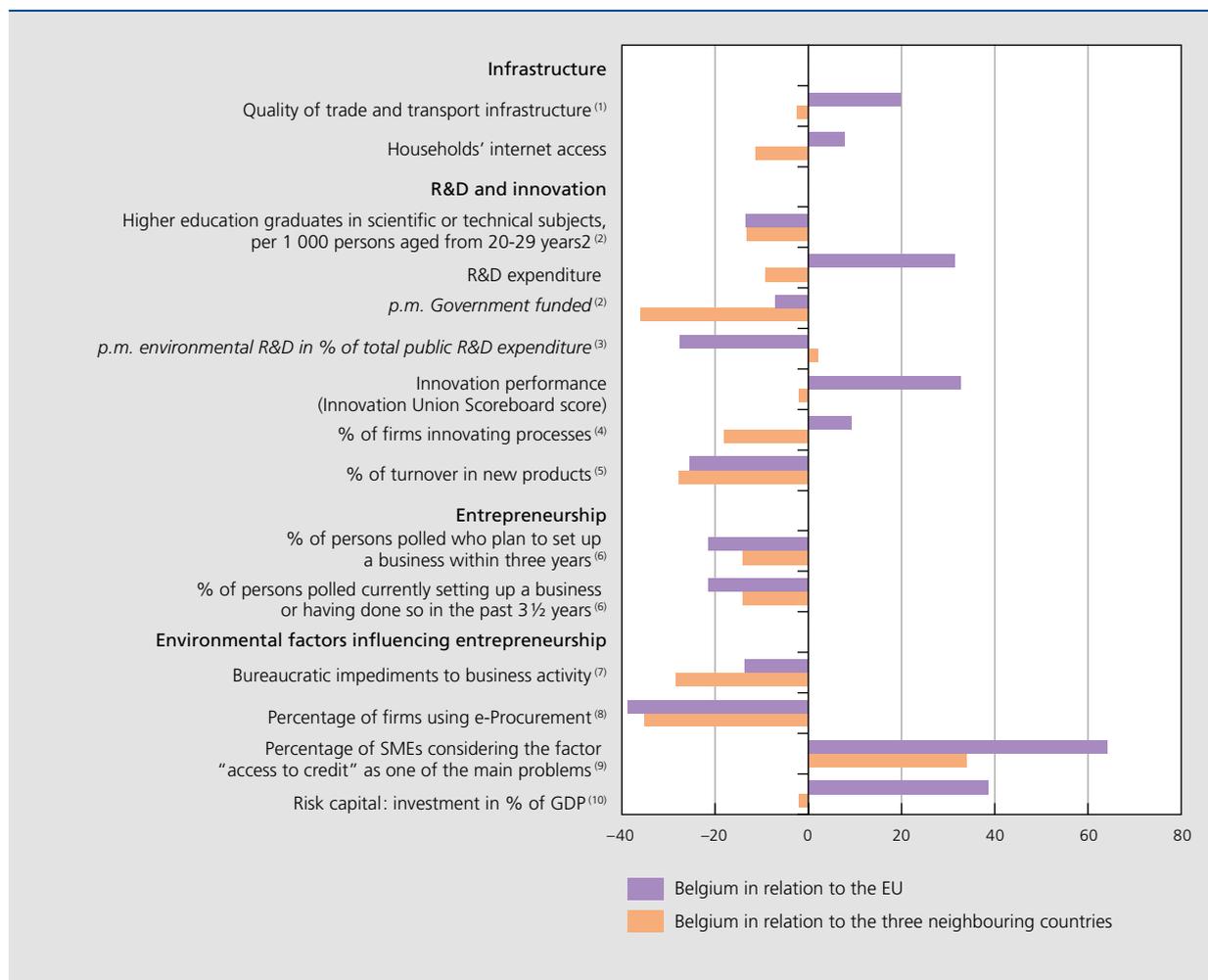
the American market, further strengthening the competitiveness of this energy-intensive industry compared to its European and Asian competitors who mainly use naphtha derived from crude oil refining, a less advantageous process. Since ethylene forms the basis for numerous polymers and polyethylene, PVC and PET, that situation has implications beyond the sphere of petrochemicals, affecting the entire value chain of derived products made of plastic and, downstream, the sectors that incorporate those products in their own output, such as the motor vehicle sector, the packaging industry and construction.

The refining industry in the United States also benefits from this growing use of unconventional hydrocarbons, especially the cheap gas being used as a source of heat and a hydrogen input. In addition, the production of unconventional light (tight) oil and the development of shale oil are weakening the position of European refiners on the United States market, where European petrol surpluses have traditionally been sold.

These developments have potentially significant implications for Belgian industry. The Antwerp port zone is in

**CHART 109 INDICATORS OF NON-PRICE COMPETITIVENESS**

(differences in % between Belgium and the reference group, a positive result reflecting a position more favourable to competitiveness in Belgium; average 2009-2012, unless otherwise stated)



Sources: World Bank, EC, Global Entrepreneurship Monitor, IMD Competitiveness Yearbook, ECB.

(1) Data covering the years 2010 and 2012.

(2) Data covering the years 2009 to 2011.

(3) EU excluding Poland, Bulgaria, Cyprus, Croatia, Latvia, Lithuania, Malta and Romania.

(4) Data from the CIS 2010 survey. EU excluding Greece.

(5) Data from the CIS 2008 survey.

(6) EU excluding Bulgaria, Cyprus, Luxembourg and Malta.

(7) EU excluding Malta and Cyprus.

(8) Data covering the years 2011 and 2012.

(9) Data covering Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Spain.

(10) EU excluding Cyprus, Croatia and Malta.

**TABLE 31** IMPORTANCE OF THE PETROCHEMICAL AND REFINING BRANCHES IN BELGIUM – 2010-2012

(in € million, unless otherwise stated)

	Value added	Direct jobs, in thousands	Exports <sup>(1)</sup>	Trade balance <sup>(1)</sup>
Coking and refining . . . . .	1 030	4.5	21 841	-11 627
Chemical industry, excluding pharmaceuticals . . .	6 494	44.0	40 695	12 895
of which:				
Manufacture of plastics in primary forms and other organic chemicals in primary forms . . . . .	3 494	16.8 <sup>(2)</sup>	9 999	-

Sources: NAI, NBB.

(1) Foreign trade figures according to the national concept.

(2) Expressed in FTEs.

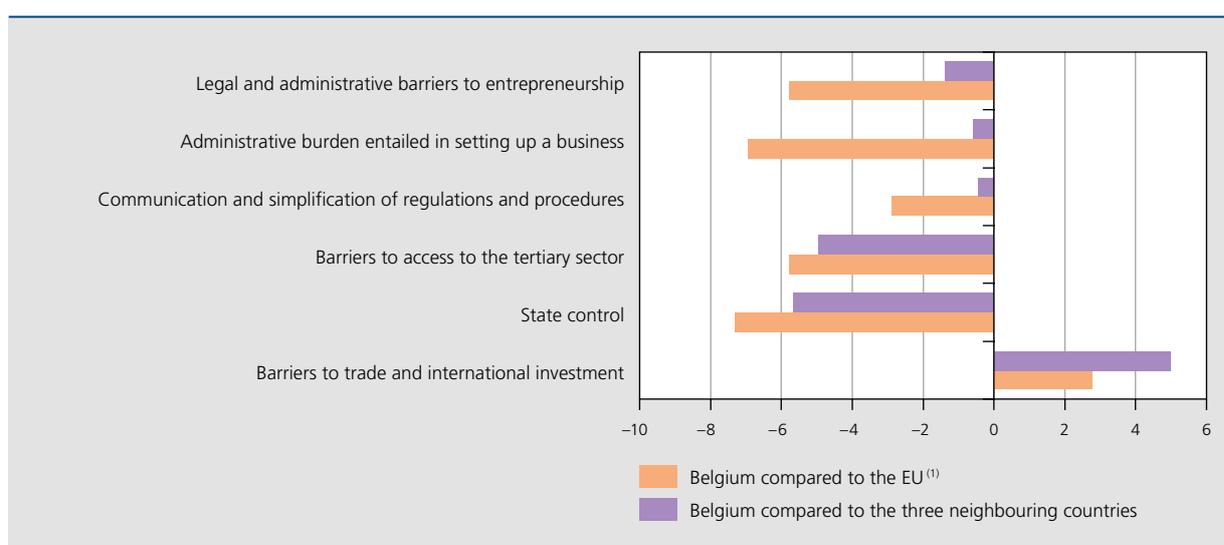
fact home to the second largest chemical cluster in the world, after Houston, and is based on the presence of refining units. There are also other major production centres elsewhere in Belgium. During the period 2010-2012, around 4 % of industrial jobs and 0.6 % of total employment were in the branches directly concerned – coking and refining and the manufacture of plastics in primary forms – and the proportion was even larger in downstream sectors. In terms of the foreign trade balance, plastics in primary forms (of which 25 % come from net exports of polymers derived from ethylene) accounted

for almost six-tenths of the surplus of 3.2 % of GDP in trade in chemicals, excluding pharmaceuticals, in 2012. For these products, cost competitiveness depends in particular on the price of gas and electricity (notably for production processes based on electrolysis).

Since Europe has less abundant gas resources than the United States, it is all the more important for European industry – and particularly the chemicals industry – to position itself in segments where products have high value added, in order to compensate for the loss of cost

**CHART 110** MARKET REGULATION

(differences between Belgium and the reference region, a positive result reflecting a position more favourable to entrepreneurship in Belgium; percentage points)



Source: OECD.

(1) No data for Bulgaria, Cyprus, Croatia, Latvia, Lithuania, Malta and Romania.

competitiveness in certain segments. For industry in the broad sense, that is an incentive to tailor the supply of products and processes more closely to the needs of an economy which uses less energy and the emergence of 'green' growth via innovation in cleaner technologies, or even the development of new segments, by pioneering a new value chain.

## General conditions for the operation of the economy

Apart from the increase in the employment rate, the improvement of the quality of human capital and control over production costs, there is a wide range of conditions determining the economy's ability to generate activity and jobs and to adapt flexibly to the constantly changing environment.

To some extent, the slower pace of productivity gains in the advanced countries may be due to a tendency towards de-industrialisation and the accompanying growth of services activities, as productivity rises faster in industry than in the services sector. Although these trends are apparent in all economies, the slowing of productivity gains is more pronounced in Belgium. Inhibiting factors are therefore at work, preventing the economy from exploiting all the development potential.

### Improve the services offered by the infrastructure

By favouring personal mobility, trade in goods and services, and the spread of ideas, a high-quality infrastructure – be it publicly owned or not – is an asset in supporting productivity growth.

As for the quality of its **trade and transport infrastructure** – roads, railways, ports – Belgium is highly rated, ranking fourth in Europe, behind Germany, the Netherlands and Sweden. The Belgian ports are in fact a nodal point for overseas goods transport in Europe, and the port of Antwerp is among the top three European ports in terms of the volume and weight of the goods that it handles. Improvements to the river links, via cooperation between the Flemish sea ports and the Walloon inland waterway ports, are enhancing the efficiency of freight traffic, which should benefit the busy domestic road network. Brussels and Antwerp, in particular, are among the most heavily congested cities in Europe, so that Belgium ranks first among European countries for traffic hold-ups. The economic costs that the congestion entails detract from the benefits of the economy's

location, as regards not only its links to the rest of the world but also its central position in a densely populated region with a high income level. In Brussels, the congestion is attributable mainly to commuters, whereas in Antwerp the transport of goods to and from the port is an additional cause.

Another component of the infrastructure is **internet access**. In that respect, Belgium outperforms the EU average, but does less well than the neighbouring countries. Apart from its role in enhancing transparency of social life, internet access boosts economic efficiency. Indeed, information technologies contribute towards the better and faster spread of information, which in turn facilitates innovation and increases productivity in a broad range of activities.

Some limitations in the functioning of the infrastructure available in Belgium show that improvements are possible, notably via the implementation of innovative solutions. In this field, cooperation between the various competent authorities is crucial to obtain satisfactory results.

### Spread the innovation efforts and results more widely

On the one hand, innovation makes processes more efficient, reducing the costs and improving the quality of the goods and services offered. It also leads to the creation of new products to meet demand on new markets. Proper training for workers helps to bring about innovation. Despite the acknowledged quality of the Belgian education system and the high rate of participation in higher education, the number of scientific and technical graduates is low compared to other European countries, and that hampers the development of ideas and new technologies.

Turning to R&D expenditure, Belgium does better than the EU average, but is outperformed by the three neighbouring countries. With R&D expenditure averaging just over 2% of GDP for the past four years, Belgium has not yet met the target under the Europe 2020 strategy of 3% of GDP, two-thirds of which being attributable to the private sector. Out of the total R&D expenditure, the government accounts for around a quarter, which is a smaller share than in other European countries.

According to the European Innovation Union Scoreboard, while Belgium's performance more or less equals that of the three neighbouring countries and is considerably better than that of the rest of the EU, it is nevertheless significantly inferior to that of the partners most active in this sphere. This scoreboard examines innovation

from a broader perspective than just R&D expenditure, since it takes account of factors such as enablers (qualifications of the population, quality of research institutions, funding), firms' activities (investment, cooperation on innovation, patents) and the outcome in terms of innovation.

The data from Eurostat's Community Innovation Survey reveal that Belgian firms do not necessarily try to conquer new markets but instead aim to improve production processes. That could be the reason for their low sales of new products. However, in this respect too, Belgium is outperformed by the neighbouring countries. In other words, the main innovators in Belgium tend to invest in established sectors. They do devote resources to R&D, but in order to develop better versions of existing products rather than invest in totally new fields requiring particularly intensive R&D efforts.

To encourage R&D, the federal government has already taken a set of measures such as relaxing the conditions for tax deduction of patent incomes (extending it to SMEs), increasing the percentage of payroll tax exemption for scientific research, and promoting scientific cooperation with the BRICS countries.

While the federal government tends to contribute more indirectly to promoting investment in R&D via cuts in contributions, the regional governments offer more direct support, notably by allocating subsidies or by structuring the innovation efforts in order to generate synergy. With their industrial policy, the three Regions aim at "intelligent specialisation" in favour of the economy and employment, the intention being to support the steady international growth of SMEs geared to innovation. In that respect, the sustainability of economic activities has become increasingly important. That is evident from the stimulation of environment-friendly, energy-saving technologies and processes and the more efficient use of commodities. Efforts are also intensifying in support of projects in new innovative sectors, such as the energy and environment sectors, but also information and communication technologies, nanotechnologies and life sciences. In particular, Belgium has a relatively high number of firms operating in these last two sectors, compared to other European countries – although neighbouring countries do even better – and spends a substantial amount on R&D in the fields of biotechnology and nanotechnology. That discipline is generally considered to be very promising in view of its applications in various aspects of industry and daily life. In contrast, in the other innovative sectors, Belgium lags behind the EU in terms of investment in R&D, and even farther behind its neighbouring countries.

Moreover, the amount spent on R&D in Belgium by firms and public authorities is concentrated mainly on four sectors, namely pharmaceuticals, chemicals, IT services and telecommunications equipment. In addition, the expenditure is attributable to a small number of firms which are generally large and often belong to an international group. Thus, little R&D spending is devoted to green technologies, for example. The low level of public spending on R&D for environmental technologies in overall public R&D expenditure is an illustration of that, even though the neighbouring countries do even less well. The European countries allocating the highest percentage of their R&D expenditure to environmental topics are Estonia, Italy and Spain. One of the challenges that Belgium will have to tackle therefore concerns stepping up R&D efforts.

Finally, it should be noted that the level of private investment in Belgium is below the EU average. Over the 1995-2012 period, the Belgian private sector spent on average 12.6 % of GDP on real investment, compared to an average of 13.2 % of GDP in the EU. However, private investment has proved more resilient than in the rest of the EU since the crisis, as it has remained more or less steady in Belgium while declining sharply in the EU. Public investment has been considerably more modest in Belgium than in the EU. In fact, during this period, the Belgian government's investment averaged only 1.7 % of GDP, compared to almost double that figure in the EU, at an average of 3.3 % of GDP. Since the crisis there has nevertheless been more emphasis on the importance of investment, and the government's role in that, the aim being to at least maintain the quality and volume of the facilities to ensure a sufficiently broad basis for the economic recovery.

### Stimulating entrepreneurship

Another challenge concerns actually implementing the results of the innovation process in order to make them available on the markets in the form of innovative products. Entrepreneurship plays a fundamental role here, as new companies, or new activities within existing companies, can anticipate the new needs of consumers and thus conquer new markets. Their presence also heightens the pressure of competition, encouraging established firms to develop innovations. Apart from producing innovations, new businesses also generate jobs. In view of the recent closure of several major industrial establishments, the creation of new businesses ought to be encouraged.

The establishment of new businesses depends to a large extent on the presence of an entrepreneurial culture. Entrepreneurs have to be willing to take the step of

setting up their own company and be ready to take risks. This entrepreneurial culture is influenced by two aspects of the operating environment for the (future) entrepreneur: first, the business needs flexible funding, with efficient access to capital; second, the administrative procedures entailed in setting up a business must be minimised, and the government must offer an appropriate framework.

In general, it seems that the culture of entrepreneurship is deficient in Belgium. The percentage of the population which has recently set up a business or intends to do so in the near future is very low compared to the figures for the EU and the neighbouring countries. Various measures were taken to address this in 2012 and in 2013, such as the reduction in contributions for the first three staff recruited by SMEs starting up in business, the reform of the bankruptcy law, and the second chance entrepreneurship for bankrupt entrepreneurs acting in good faith.

Although some of the environmental factors are relatively favourable in Belgium, the “costs of entrepreneurship” are fairly substantial at certain levels. Belgian entrepreneurs in fact see the government as a hindrance to entrepreneurship. The OECD indicators concerning product market regulation, for which the latest available findings relate to 2008, also show that the quality of the regulation aimed at promoting competitiveness is mediocre in Belgium compared to the rest of the EU and the neighbouring countries. The update of the indicators for 2013 is scheduled for early 2014; that might be used to assess the changes which have taken place not just in Belgium but also in other countries. Generally speaking, the strengths and weaknesses that these indicators reveal are largely confirmed by the opinion of the economic agents in various surveys.

The administrative costs associated with setting up a business are perceived as onerous: they concern the number of compulsory procedures to be followed in order to set up a company, the multiplicity of contact points, the number of days’ work taken to complete the formalities, and the total cost of registering a company. Although the number of days’ work entailed in launching a business is very small in Belgium compared to other countries, the costs of setting up a business are considerable, as is the required minimum capital. On top of that, there is the strong feeling of a lack of communication and administrative simplification. The regulations and procedures are singularly unclear, and the government’s efforts to reduce the administrative burden are too meagre, not only in relation to the rest of the EU but also, and above all, compared to the neighbouring countries. Access to

the service sector is also more complicated in Belgium, notably because of the number of licences to be obtained in order to pursue a commercial activity in the service sector, the formal qualifications required and the protection of existing companies. This poor access is striking in the case of the Belgian economy, in view of the importance of the tertiary sector. Government control is far-reaching in Belgium compared to other countries. The State owns businesses and is actively involved in the operation of certain companies. Conversely, the commercial barriers are few, which is not surprising given the very open character of the Belgian economy. In addition, that leads to a significant inflow of foreign direct investment.

Just as in other countries, the Belgian government has already embarked on administrative simplification in favour of businesses. Thus, there are plans to simplify the legislation and the administrative procedures, and e-Procurement roll-out is continuing. This application offers firms an electronic option for completing certain stages of the public procurement procedure (publication, registration, award) with the government. However, the efforts fall short of those in some other European countries.

Chapter 3 explained that Belgian SMEs had more difficulty than large firms in obtaining loans. However, the SMEs’ perception of access to credit is more positive in Belgium than in other European countries. The percentage of firms considering that access to credit is one of the main problems is in fact much lower in Belgium than elsewhere in Europe. Instead, Belgian SMEs see production and labour costs as the main problem, and ever-increasing numbers of them consider that the regulations are one of the major obstacles.

Firms wanting to market innovative products also have to find the capital to proceed with their often substantial investments. In regard to risk capital, Belgium performs much better than the EU average, though the results of the neighbouring countries are better still.

Generally speaking, in Belgium as in many European countries, a lasting improvement in the growth prospects involves structural reforms to boost the efficiency of the labour and product markets. In recent years, these reforms have gathered pace in Spain, Greece, Ireland, Italy and Portugal, as the debt crisis in the euro area and the market pressures have acted as a catalyst. After all, in the assistance programme countries, the financial assistance was dependent on the implementation of such reforms. However, according to the international institutions, less progress has been achieved in other euro area countries, including Belgium.