



Placing the economy on  
a broader footing

## 5. Raising the growth potential and resilience of the economy

### 5.1 Integrating in a constantly changing world

The repercussions of the successive crises experienced in the 2008-12 period continued to be felt in 2015, and the economic recovery remained fragile. On top of this, Belgium – together with Europe's other economies – had to contend with fundamental structural changes that presented both opportunities and threats.

Against the backdrop of a globalising economy, the past two decades have been marked by the accelerated development of new economic powers in the world, most notably China. The emerging economies are both a manufacturing base and – as the income level of their population rises – a source of demand. At the same time, production chains have been organised on an increasingly international basis, resulting in a large-scale worldwide reallocation of value creation and employment. This has been made possible by factors such as the use of more efficient and less expensive technologies in the transport of goods and exchange of data.

Viewed more broadly, new technologies are bringing about extremely rapid change to the environment in which companies, workers, consumers and governments operate. This relates on the one hand to innovation in specific fields of activity, such as the biosciences and biotechnology, and nano materials, and on the other to transversal technological progress based on digitisation. This is having a far-reaching impact on production practices, market operation and the organisation of society more generally. It is no longer simply the kind of business that has traditionally been exposed to international competition that is having to deal with these forces: every company, regardless of sector, is having to reconsider its

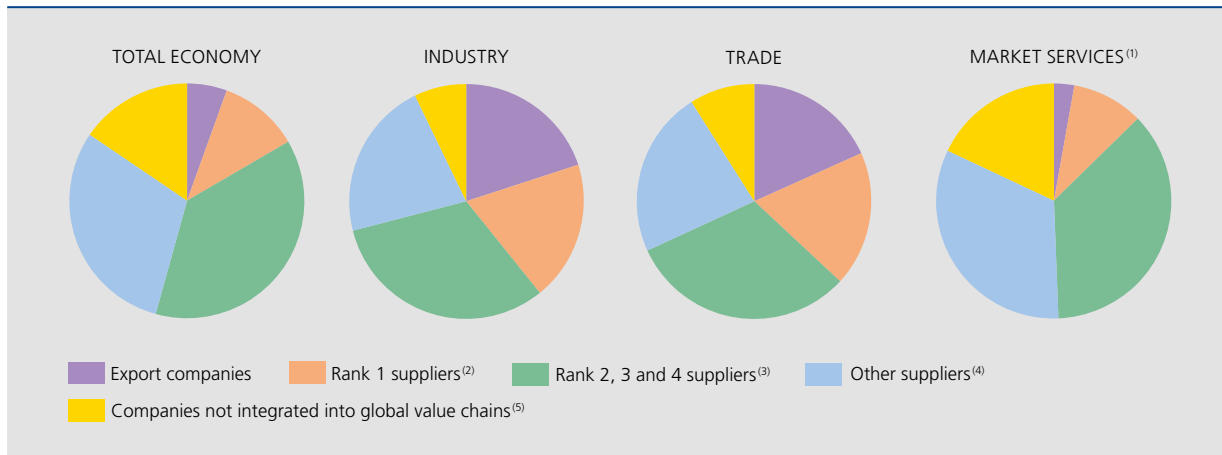
business model in response to the rise of digital businesses operating all over the world in fields such as e-commerce, tourism, media, culture and financial services. Economic agents are also being confronted at local level by competitors based far away. Even locally based firms are now able to forge relationships with partners and customers all over the world.

The international fragmentation of value chains and technological developments are accompanied by a transformation of the form and content of labour. The necessary skills are constantly evolving. It is difficult to align the organisation of the economy as a network with an approach to labour that has traditionally been heavily centralised and vertical.

These fundamental changes are occurring at a time in which it is also necessary to address the consequences of an ageing population and when the environmental sustainability of economic activity has become a primary concern. They pose significant challenges to the continued existence of the current social model and the well-being of the population through the danger of exclusion from the labour market or the drying up of the finances needed for the State to operate and for the viability of social protection to be maintained.

These various developments have already had an impact on the organisation not only of industrial sectors, but also that of a considerable proportion of market services in the advanced economies. As a small, open economy traditionally specialising in semi-finished goods, Belgium has naturally had to contend with these fundamental changes. Recent studies show that a substantial proportion of Belgian businesses have been able to integrate themselves into these global value chains. Just over 5% of them are export

**CHART 89** ALL MAJOR SECTORS PARTICIPATE IN GLOBAL VALUE CHAINS  
(breakdown of Belgian businesses, in 2012)



Source: NBB.

(1) Sectors H to N as classified by NACE Rev. 2, excluding banks and insurance companies.

(2) A rank 1 supplier is a non-export company that supplies inputs or services to at least one export company.

(3) A rank i supplier is a non-export company that supplies intermediate inputs or services to at least one rank i-1 supplier.

(4) Other non-export companies located in earlier stages of the production chain than the export companies.

(5) Non-export companies that are not located in earlier stages of the production chain than the export companies.

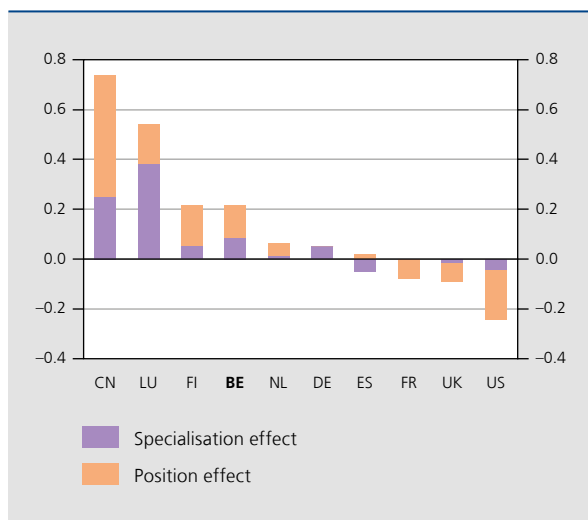
companies, 11% are suppliers to export companies, and 54% may be viewed as having a significant involvement – direct or indirect – with export-related activities.

Merely participating in global value chains is not sufficient to gain optimum benefit; a good position within the chain is also important, as a company's position within the production process has a decisive influence on its results. Businesses at the end of the chain tend to record better economic results than those at an earlier stage, in terms of both productivity growth and the expansion of the workforce. Viewed in this light, the Belgian economy might suffer from its traditional role of turning intermediate products into semi-finished goods, which means that Belgian companies are positioned at a relatively earlier stage of these chains compared with the EU average. For one thing, they are more concentrated than their counterparts in neighbouring countries in sectors active at the beginning of chains (specialisation effect). Moreover, even though they are active in the same industries as their counterparts in other countries, they generally tend to be positioned at an earlier stage (position effect). This is the case, for instance, for basic chemicals in the chemicals industry and basic metal-working in the metal-working industry, both of which are highly developed in Belgium due to ready access to raw materials via the ports.

In a more fragmented economic environment of this kind, economic policy to safeguard a country's competitiveness

**CHART 90** AVERAGE DISTANCE BETWEEN BUSINESSES AND END USERS<sup>(1)(2)</sup>

(differences compared with the average of the EU15, 2011)



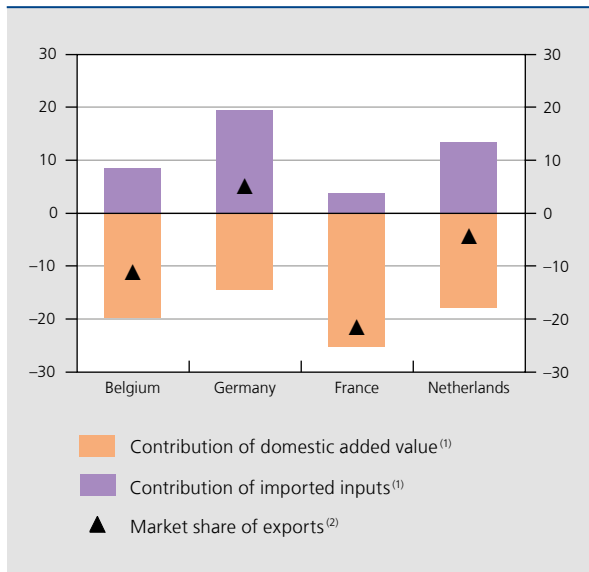
Source: NBB, based on WIOD data.

(1) The average distance to the end user measures the average number of processes undergone during production before a product reaches its end users. The greater the distance, the more specialised a country is in production phases situated in early stages of the chains.

(2) A positive contribution from the specialisation effect indicates that a country's businesses are represented more strongly – compared with the EU15 as a whole – in industries situated in the initial processing stages of global value chains (e.g. iron and steel industries and the chemicals industry). A positive contribution from the position effect means that a country's businesses in the same industry are generally concentrated more strongly in the earliest processing stages (e.g. basic chemicals and basic metal-working) than is the case for the EU15 average.

**CHART 91** REDUCTION IN DOMESTIC VALUE ADDED TO EXPORTS

(export market shares<sup>(1)</sup>; percentage changes for the 1995-2011 period, unless otherwise stated)



Source: NBB calculations based on OECD data (TiVA).

(1) In percentage points.

(2) Share of the export of goods and services by value in the total exports of OECD countries.

may not be limited solely to the results of export companies. The domestic contribution to the added value and labour components of those exports ought equally to be consolidated and developed.

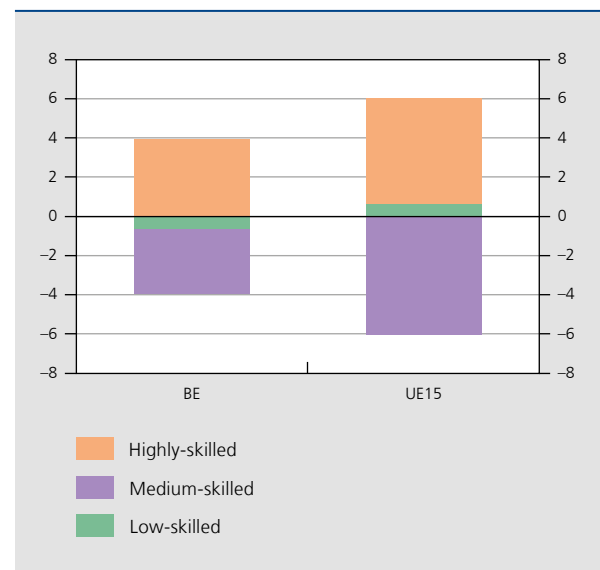
After all, the international reorganisation of production systems did not have a neutral impact on the pattern of Belgium's market share and those of its three neighbouring countries within total OECD exports. Between 1995 and 2011 – the most recent year for which it is possible to estimate the value added domestically to exports – Germany, Belgium, France and the Netherlands all registered a fall in the content of domestic added value. The decline partly reflects the transfer of certain production segments to countries where production costs are less steep (Eastern Europe or emerging economies). The fall of about 20% in Belgium was similar to that for the Netherlands, greater than in Germany (-15%) but less than in France (-25%). The decline in the content of domestic added value to exports in Belgium, France and the Netherlands was partially offset by the rise in the import content of exports, due to the re-export of imported products, whether or not after further processing. In Germany, the contribution of the import content of exports compensated for the reduction in the domestic content, thereby raising the market share for exports.

Fundamental organisational changes also had an impact on demand for labour. By changing production techniques and intensifying international competition, these phenomena had a highly polarising effect. Highly-skilled professions, such as IT specialists, engineers, architects, accountants and financial experts, are more sought after, as their skills offer a fairly good fit with technological progress. Certain more conceptual phases of the production chain have also developed in Belgium, thanks in particular to the quality of the human capital.

These developments have, by contrast, put pressure on professions with an intermediate skills level, especially those whose tasks are of a more routine nature, and which can therefore be more readily relocated. Administrative jobs, such as typists, and certain skilled professions in industry (such as textiles, metal-working and printing) have suffered from computerisation, the automation of production chains and greater outsourcing and relocation opportunities. Fiercer international competition means that businesses can select the production location for certain segments based on comparative advantages in respect of production costs, availability of labour, or even flexibility in terms of prevailing tax, social and environmental laws.

**CHART 92** DECLINING SHARE OF MEDIUM-SKILLED PROFESSIONS<sup>(1)</sup>

(share of total employment, change in percentage points between 2000 and 2013)



Source: EC.

(1) According to the International Standard Classification of Occupations (ISCO), low-skilled jobs include basic occupations such as domestic helpers. Medium-skilled occupations include administrative personnel, providers of personal services, tradespeople, artisans and machine and systems operators. Highly-skilled jobs include managers and the intellectual, scientific and artistic professions.

Low-skilled jobs have been less affected by these major changes, although supportive economic policy measures, including those to benefit domestic services, contributed to this. Demand for certain occupations has not diminished, however, especially where these are not routine and, as in the case of domestic help, involve interaction between providers of the service and customers.

Despite the fundamental changes they have brought about in production practices as well as in the content and organisation of work, the changes in the economic and technological environment have not prevented Belgium from maintaining its level of prosperity. The Belgian economy, like those of its neighbours, continues to display a high degree of economic development. GDP per capita stood at about € 35 750 in 2014, which means the average per-capita income generated in the economy was within the same margin as in the neighbouring countries – 12 % higher than the average of the 15 countries belonging to the EU at the beginning of 2003, prior to

the expansion that took in primarily the Baltic states and certain Central and Eastern European countries.

The result reflects higher productivity per hour worked and a longer average working time per worker. The first of these advantages is declining, however, as average productivity growth was less than that in neighbouring countries in the 2000-2014 period. The second is chiefly attributable to Belgium's small number of part-time workers and to the fact that they work longer hours than in the other countries. By contrast, the workforce participation rate was significantly lower in Belgium than in the other countries. This gap has widened in recent years, as the employment rate has risen less strongly in Belgium. The difference is measured based on administrative data, to ensure consistency with other elements of the breakdown of GDP per resident. Belgium's position relative to the other countries considered does not change if the measurement of the employment rate is based on the labour force survey although the results are higher than those based on administrative sources.

**TABLE 24** BREAKDOWN IN THE PATTERN OF GDP PER CAPITA  
(average annual percentage changes, by volume, unless otherwise stated)

	GDP per capita	Share of the working-age population <sup>(1)</sup>	Employment rate <sup>(2)</sup>	Average working time per year <sup>(3)</sup>	Productivity per hour <sup>(4)</sup>
<b>2000-2014</b>					
BE .....	0.9	-0.1	0.2	-0.1	0.8
FR .....	0.7	-0.2	0.2	-0.4	1.1
DE .....	1.3	-0.2	0.9	-0.5	1.1
NL .....	0.8	-0.2	0.3	-0.3	0.9
EU15 .....	0.8	-0.2	0.3	-0.3	1.0
<b>2009-2014</b>					
BE .....	-0.2	-0.2	-0.2	-0.1	0.4
FR .....	-0.1	-0.4	0.0	-0.4	0.7
DE .....	1.0	0.0	1.1	-0.6	0.6
NL .....	-0.6	-0.4	-0.3	-0.1	0.2
EU15 .....	-0.4	-0.3	-0.3	-0.4	0.6
<b>Level, 2014</b>					
	(in € <sup>(5)</sup> )	(in %)	(in %)	(in hours)	(in € <sup>(5)</sup> )
BE .....	35 759	65.2	62.3	1 560	56.5
FR .....	32 391	63.4	65.3	1 473	53.1
DE .....	36 099	66.0	80.1	1 366	50.0
NL .....	39 382	65.7	79.0	1 420	53.4
EU15 .....	31 892	65.1	69.3	1 574	44.9

Source: EC.

(1) Ratio of population aged 15 to 64 to the total population.

(2) Based on employment in the national accounts.

(3) Based on employment and labour volume in the national accounts.

(4) Real GDP per hour worked.

(5) At current prices.

While trends in contributions to growth have not changed fundamentally since the great recession, growth in income per capita has been abruptly curtailed. Germany has distinguished itself in this respect from Belgium and its other partners by maintaining a positive, albeit slightly slower, dynamic.

At individual level, employment participation is also a factor in mitigating the risk of poverty. In 2014, one Belgian aged 18 to 64 in five was confronted with the threat of poverty or social exclusion. Although this percentage is well below the European average, it remains higher than in France and the Netherlands, and has seen very little change in the past ten years. There are certain groups in Belgium that only participate in employment to a limited degree. This is particularly the case for young people, the over-55s, non-EU citizens and, transversally, low-skilled people. Within these groups, it is the low-skilled as well as non-EU citizens who are at greatest risk of poverty, with a third and more than a half of them affected, respectively. This indicator highlights

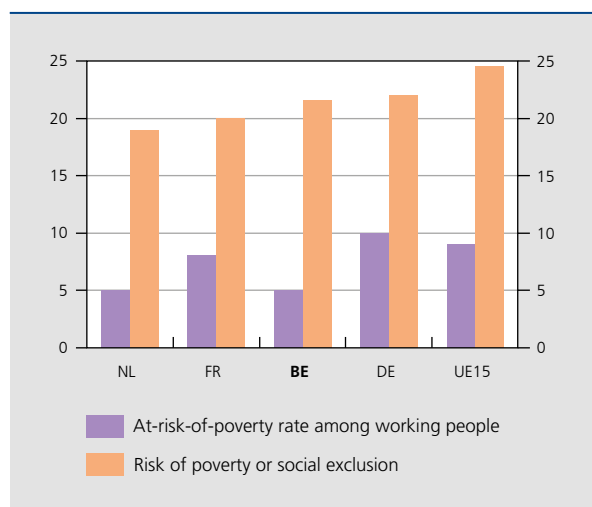
the importance of achieving better labour market integration for everyone, especially these target groups, by offering them quality jobs with decent pay.

Generally speaking, sustainable consolidation of the economy's development potential, alongside measures to mitigate the budget impact of demographic ageing, should not just help safeguard the long-term viability of public finances but also increase resilience to external shocks. This must be based on the creation of additional jobs as well as on efficiency gains and on an economy that functions so as to allow smooth adjustment to the constant changes occurring within the economic environment. Belgium's various governments have introduced fundamental reforms in this regard in recent years, the consequences of which must be tracked continuously and precisely. Where necessary, they should also be consolidated through other measures.

A variety of measures have already been taken since 2011 in order to mitigate the crisis and tackle the structural weaknesses of the Belgian economy, primarily in the shape of labour market reforms, extended working life, restored competitiveness and reduced labour costs. Significant new steps were taken in 2015. The intention is to lay a solid foundation not only for employment and economic activity, but also for healthy public finances and to ensure that the Belgian social model remains affordable.

This final chapter will look in greater detail at the measures that have been taken with respect to the labour market and the general functioning of the economy. A number of remaining points will also be considered, without claiming to offer an exhaustive summary or comprehensive analysis. The most recently available data will be drawn on. They relate to earlier periods in some cases, chiefly where the availability of data usable for international comparison is limited, or where there is a need for granular information that reflects the heterogeneous nature of Belgium's businesses. Such data are only considered if they continue to offer relevant information on current fundamental features of the economy.

**CHART 93** WORK REDUCES THE RISK OF POVERTY OR SOCIAL EXCLUSION  
(in % of the population aged 18 to 64, 2014)



Source: EC.

### Box 9 – Supplementary indicators for Belgium in addition to GDP: summary of the first publication

In accordance with the Law of 14 March 2014, the Federal Planning Bureau (FPB), under the auspices of the National Accounts Institute (NAI), has developed a series of indicators in order to measure quality of life, human



development, social progress and the sustainability of the economy. A first report was published at the beginning of February 2016, in which these supplementary indicators in addition to GDP are discussed.

The FPB has selected twelve themes, following careful analysis of the various initiatives that have been taken for almost ten years now by international institutions (EC and Eurostat, OECD, and the UN Economic Commission for Europe) and by countries such as the Netherlands, France and the United Kingdom. Sixty-four indicators were selected from existing statistics. These must be calculated using robust methodology, must be relevant to the themes being considered, and must allow comparisons over time or with other countries.

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#### THEMES AND NATURE OF THE SUPPLEMENTARY INDICATORS IN ADDITION TO GDP

Themes	Nature of the selected indicators
Subjective well-being	Two indicators that show satisfaction with life, based on data from the European Social Survey.
Standard of living and poverty	Ten indicators relating to household consumption, official development aid, the risk of poverty or social exclusion, income inequality, the number of subsistence benefit recipients and over-indebtedness.
Work and leisure	Six indicators relating to socio-economic position in the employment market and to stress at work and leisure.
Health	Six indicators on life expectancy and health risk factors.
Education and training	Three indicators concerning education and training.
Society	Seven indicators of general confidence and interpersonal contacts, participation in civil life, and safety and insecurity.
Environment	Five indicators on pollutants.
Climate and energy	Five indicators relating to greenhouse gas emissions and energy consumption, including renewable energy.
Natural resources	Seven indicators for the consumption of raw materials (including fuel and water) and for waste.
Land and ecosystems	Five indicators on diversity of fauna and land use.
Economic capital	Six indicators relating to investment, fixed capital stock and intellectual capital stock, and also to financial variables – the net financial position compared with other countries, and public debt.
Mobility and transport	Three indicators on the share of cars in passenger transport and on the transport of goods by road, as well as the number of traffic deaths.

Source: FPB (2016), *Supplementary indicators in addition to GDP*.

### Summary of results

The law requires the publication of a summary of the results in the Bank's Report. This task is rendered more difficult by the diversity of the studied themes and the heterogeneous nature and characteristics of the indicators



taken into account – in terms of availability, for instance. The supplementary indicators in addition to GDP serve, in fact, to reflect the multidimensional nature of the factors influencing well-being and development, so that emphasising certain specific indicators or deriving a synthetic indicator would be contrary to this approach. The analyses described in the Bank's Report also match this approach, incidentally, as they draw on the supplementary indicators where these offer relevant information on the themes covered. This is the case, for instance, for the indicators relating to the employment market and the risk of poverty, but also to those for the net financial position of the public debt relative to other countries.

The summary presented here, which was prepared according to the approach described in the FPB publication, nevertheless relies on a transversal breakdown of the indicators according to three dimensions: "Here and now", "Later" and "Elsewhere". For the purposes of evaluation, it examines whether the indicators have developed positively in terms of the political objectives set at Belgian and European level.

The "Here and now" dimension comprises the indicators that might offer answers to questions about the situation and development of the well-being of the Belgians and of Belgian society. It consists of 36 indicators, from which no clear trend can be inferred:

- Subjective well-being remained stable between 2002 and 2012, the most recent year for which this survey data is available.
- Most of the indicators relating to the "Health" and "Education and training" themes developed positively, as did emissions of particulates (PM<sub>2.5</sub>) and nitrogen oxides (NO<sub>x</sub>), and those relating to the number of road traffic accidents.
- Energy dependence has increased since 1990, but there has been a positive turn in the past five years.
- Developments for the themes "Standard of living and poverty", "Work and leisure" and "Society", by contrast, have mostly been negative over the past five years.

The "Later" dimension relates to the question of whether Belgians and Belgian society will be able to maintain their level of well-being in the future or even to increase it. It comprises 34 indicators, mostly related to environmental factors ("Environment", "Climate and energy", "Natural resources", "Land and ecosystems") and economic themes ("Economic capital", "Mobility and transport"), and to the "Health" and "Education and training" themes. General confidence and contacts with friends and family are likewise included, as is the proportion of young people not in employment, education or training. For the most part, these indicators moved steadily closer to the adopted targets. The most noteworthy exceptions are:

- An initial deviation from the targets set for indicators regarding use of natural resources and primary energy consumption, followed once again by a turn for the better in the past five years.
- The indicator for the meadow bird population ("Land and ecosystems" theme) – one of the rare indicators for biological diversity that have been available for a prolonged period – deviated increasingly widely from the target.
- As stated in the chapter on public finances, the level of public debt rose from 2007 onwards, moving away from the target of 60 % of GDP.
- Within the "Mobility and transport" theme, the share of the car in passenger transport moved steadily closer to the target from 1990 onwards, but has begun to move away from it again in the past five years. The opposite occurred in freight transport.

The "Elsewhere" dimension incorporates indicators that help answer the question: "How does the development of society in Belgium influence the capacity of other countries to develop and the well-being of their people?". It comprises seven indicators relating to the "Natural resources" and "Climate and energy" themes, together with the indicator for official development aid.

- The indicators for the "Natural resources" and "Climate and energy" themes relate to global environmental capital, such as the climate system and raw materials resources. All these indicators have been converging with their targets in the past five years.
- Official development aid showed a very slight improvement over the period as a whole.





## Breakdown of results by population group

A large number of indicators (25 of the 64) have been broken down according to relevant population categories – primarily gender, education and/or age, although other breakdowns are also presented.

The situation for women is better than or equal to that of men in terms of health and its determinants, with the exception of depression, which affects women more frequently. Men are also more likely to be the victims of fatal road traffic accidents. The differences are narrowing in this regard, probably reflecting increasingly similar lifestyles. Men's pay, by contrast, remains higher than that of women, although the gap is narrowing. Women are more likely than men to receive higher education, the female employment rate is converging with that of males, and men still have significantly more leisure time than women. What is more, women rate a number of themes differently to men, as seen primarily in their lower general confidence and greater sense of insecurity. They also have less confidence than men in institutions, although the difference is shrinking.

The level of education is a determinant not just of labour market status but also of health. The two dimensions are, incidentally, linked through employment and working conditions, as well as the generally higher income levels of highly-skilled professions. The employment rate, unlike the unemployment rate, rises with the level of education, while people whose qualifications are not so high have more leisure time. Health, as measured in terms of life expectancy and healthy life expectancy, is better for the highly-skilled. Moreover, education levels correlate positively with other determinants of health: there are fewer regular smokers and fewer cases of obesity among highly-skilled workers, while the lowest-skilled are more likely to experience depression.

When broken down by age, the figures show that the situation of people nearing the end of their careers and of retirees has improved relative to that of people at the beginning of their careers. This reflects the fact that the risk of poverty or social exclusion has fallen over the past ten years for people aged 65 and over, thanks primarily to the reduction in the proportion of pensioners on incomes below the poverty level. This reduction was structurally influenced by the raising of the employment rate among 55-64-year-olds and among women, which had the effect of consolidating the accrual of pension entitlements, particularly for women. The unemployment rate among 15-24-year-olds has, by contrast, remained roughly four times higher than that of 55-64-year-olds over the past two decades. It is also apparent from indicators broken down according to socio-economic status that the unemployed are more likely than other socio-economic categories to experience poverty or social exclusion. The proportion of unemployed people with incomes below the poverty level, for instance, has remained higher than that of retired people throughout the past decade. The gap has actually widened.

The indicators broken down by household type showed that one-parent families – almost exclusively adults in the first half of their professional career and their dependent children – are more likely than other types of household to experience problems in entering the employment market and to suffer serious material deprivation. Families of this sort also have to get by more often on an income below the poverty threshold.

## Future developments in the supplementary indicators in addition to GDP

All the supplementary indicators in addition to GDP will be updated annually. The series can be adjusted in line with new thinking and social debates, but also in response to other international and Belgian initiatives, the latter at both federal and regional level. The FPB's next report will include international comparisons, primarily at European level.

## 5.2 Raising the employment rate by strengthening both labour supply and demand

Increasing the number of people in work is key in terms of safeguarding the long-term funding of the social security system and improving social integration. At the same time, the need to raise the employment rate is part of a range of specific challenges for the labour market. The ageing of the Belgian workforce – like that of the population as a whole – is already clearly visible. Moreover, the economy can only adapt to globalisation and new technologies if it – and more specifically the labour market too – functions in such a way as to allow smooth shifts in production factors towards promising new activities. These same forces not only lead to a change in the nature of the required tasks, but also alter the expectations of (potential) employees as to how these tasks should be performed.

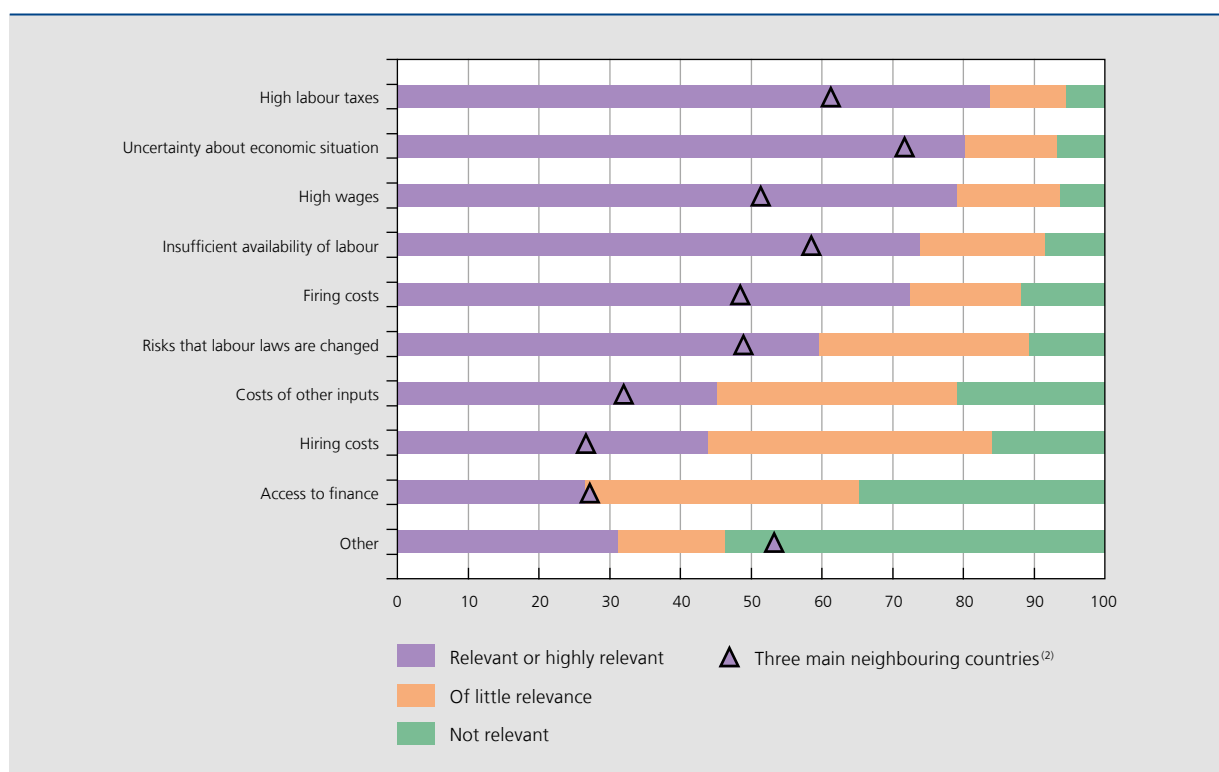
Growth in employment should be aided by the recovery in competitiveness and by the tax shift, as well as by the

pension reform. It will also be stimulated by a comprehensive approach supported by all stakeholders in the labour market. The equilibrium point between labour supply and demand needs to be raised in order to create more jobs.

### *Raising demand for labour by scaling back obstacles to hiring*

The results of the Wage Dynamics Network (WDN) survey of wage-setting carried out in 2014 by the ESCB showed that companies considered “uncertainty about economic conditions”, “high payroll taxes” and “high wages” to be the biggest obstacles to hiring new employees with permanent, open-ended contracts in the 2010-13 period. Other key factors were insufficient availability of labour with the required skills and high firing costs. Wage levels and high payroll taxes are particularly relevant for Belgian companies – even more so than for businesses in the main neighbouring countries. A reduction in payroll taxes, as the tax shift entails, could therefore help break down obstacles to job creation. Strategies to mitigate uncertainty and to increase the availability of labour would also seem

**CHART 94** SUBSTANTIAL UNCERTAINTY, HIGH TAXES AND HIGH WAGES ARE SEEN BY BELGIAN COMPANIES AS THE BIGGEST OBSTACLES TO HIRING WORKERS WITH PERMANENT, OPEN-ENDED CONTRACTS (2010-13 period, in %<sup>(1)</sup>)



Source: ESCB (WDN survey).

(1) Weighted results based on employment and sector, according to the structure of the overall business population. Unweighted results for Germany.

(2) Unweighted average results for France, Germany and the Netherlands.

appropriate, as a large percentage of companies take the view that the labour market has become less flexible.

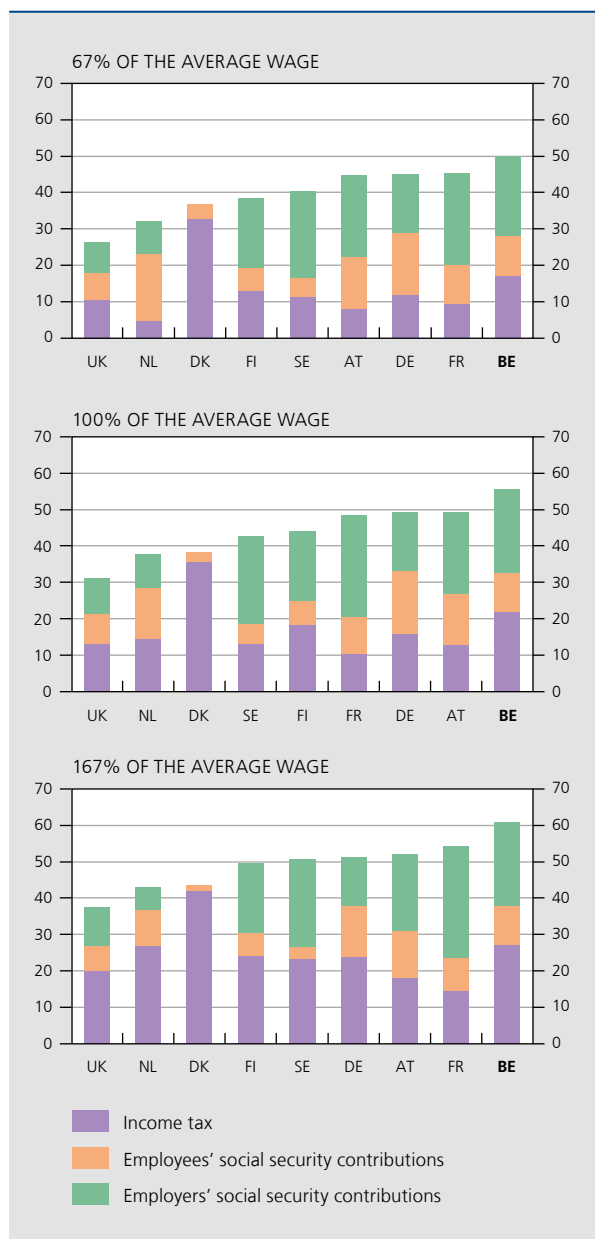
**Fiscal and parafiscal wedge higher in Belgium than in the euro area and neighbouring countries**

Fiscal and parafiscal pressure on employment – most frequently cited by employers as a relevant or highly relevant hindrance to hiring workers in Belgium – does

indeed remain particularly heavy when viewed internationally. The tax wedge, equal to the difference between the labour costs paid by an employer and the net earnings received by the employee, is the largest of any EU country for which data is available, regardless of wage levels. A high tax wedge has a negative influence on the labour supply as it makes working less rewarding, and it undermines demand for labour as hiring and retaining workers is more expensive. Social security contributions are the largest part of labour taxes in Belgium and it is the employers' contributions that provide most of them. They therefore account for a considerable proportion of total labour costs.

**CHART 95 BELGIUM HAS LARGEST TAX WEDGE<sup>(1)</sup> IN EU**

(levies on income from labour in % of labour costs for employers, 2014, by wage levels)



Source: EC.

(1) Businesses with at least ten employees. Tax wedge for a single person with no children. This comparison does not take account of wage subsidies.

One of the aims of the tax shift is to reduce employers' social security contributions significantly in the years ahead: employers' actual contributions to social security, including extra reductions for low and average wages, should be brought down from a percentage varying between 19% and 29% in 2015 to between 15% and 25% by 2018. To that end, additional resources have been added on top of those already set out in the 2014 Pact for Competitiveness, Employment and Recovery and to the amount that was already being used for the 1% exemption from passing on payroll tax for businesses in the market sector. The planned budget for measures relating to the tax shift that have an impact on wage costs in the business sector totals € 1 389 million (or approximately 1% of the wage bill) in 2016; by 2020, it will amount to a total reduction of € 3 293 million.

In addition to this, the first hire by SMEs is wholly exempt from social security contributions as from 1 January 2016, and reduced social security contributions apply to the second to sixth employee. Moreover, the partial exemption from passing on payroll tax for night and shift work has been raised with effect from 1 January 2016 from 15.6% to 22.8%, with an additional specific exemption for companies producing high-technology products.

However, the tax shift does not only consist of measures designed to enhance businesses' competitiveness by reducing wage costs; it is also intended to widen the labour supply through measures to stimulate purchasing power. Action has been taken to fund this shift. The following box describes a simulation of the macroeconomic impact of these measures.

**TABLE 25** TAX SHIFT: OVERVIEW OF MEASURES WITH AN IMPACT ON WAGE COSTS

Instrument	Target group	Year	Mesure
Generic employers' social security contributions	All employers	2016	Rate: 30 % Extra reduction for low and medium wages Lower flat-rate reduction
		2017	–
		2018	Rate: 25 % Extra reduction for low wages Scrapping flat-rate reduction and reduction for high wages
Social security contributions first hire	SMEs	2016	Hiring first worker: no employer's contributions Hiring second to sixth worker: reduced social security contributions, also applies retroactively to employees hired in 2015
		2017	Extra reduction third to sixth worker
		2018	–
Payroll tax exemption	All employers	2016	Structural 1 % payroll tax exemption converted into budget to reduce generic employers' social security contributions
Payroll tax exemption for night and shift work	Companies where night and shift work is carried out	2016	Exemption: 22.8 % of payroll tax instead of 15.6 % in 2015 2.2 percentage points extra for high-tech products

Sources: FPB, NBB.

### Box 10 – Macroeconomic impact of the tax shift on the Belgian economy

The federal government decided in 2015 to implement a major tax shift. Phased in over a period from 2015 to the end of 2020, this should primarily reduce fiscal and parafiscal pressure on employment. The tax shift will be funded by raising a number of taxes on consumption, levying additional taxes on income from capital, and increasing several specific company taxes.

The object of the exercise is to create higher growth and additional jobs in the Belgian economy. The chief goal on the demand side of the labour market is a substantial reduction in wage costs by reducing employers' contributions and hence improving the competitiveness of businesses. The more favourable relative price of labour compared with capital, together with increased export demand due to the improvement in Belgian companies' prices compared with those of foreign competitors, should create additional jobs. On the supply side, working will be made more attractive by raising net pay. The boost to household purchasing power will be further intensified by a work bonus for low-paid workers, by an increased funding for the adjustment of social insurance benefits to the standard of living and by adding a number of social corrections, designed to help mitigate the negative consequences of funding the tax shift for weaker members of society. A total of € 11.4 billion in new structural



measures aimed at boosting purchasing power and competitiveness will be taken within the framework of the tax shift, representing 2.2 % of forecast GDP in 2020.

The funding measures required if an excessive burden on the public sector budget is to be avoided tend to curb positive impacts on growth and employment. Taxes on consumption reduce household disposable income and partly cancel out the competitive advantage gained by businesses, as higher prices feed through into higher wages due to automatic index-linking. Taxes on income from capital and a wide range of specific increases in business taxes included in the package of measures will exert upward pressure on bank interest rates and businesses' capital costs, causing them to scale back investment. The total impact of the measures to fund the tax shift is estimated at € 4.8 billion – 0.9 % of forecast GDP in 2020.

Taken together, the purchasing power and competitiveness measures should deliver an initial boost that is € 6.6 billion greater than the initial financing costs. The positive payback effects of the tax shift for the economy will, however, temper the ultimate impact of the tax shift on the government's financing balance.

#### INITIAL IMPACT OF THE TAX SHIFT ON GOVERNMENT ACCOUNTS

(in € million)

	2015	2016	2017	2018	2019	2020	Cumulative
New measures .....	1 024	4 407	691	2 237	2 147	1 303	11 449
Purchasing power .....	883	2 293	331	1 675	1 834	311	7 328
Competitiveness .....	141	1 754	360	562	313	992	4 121
Funding .....	915	2 136	885	565	204	127	4 832
VAT and excise duties .....	368	1 130	400	525	157	67	2 647
Non-labour-related .....	537	1 011	410	40	47	60	2 105
Other net funding measures .....	10	-5	75	0	0	0	80
Balance not funded in advance .....	110	1 911	-194	1 672	1 943	1 176	6 617

Source: NBB.

The table shows the scale and phasing for each year of the amounts relating to the newly introduced measures. The final column indicates the total *ex-ante* estimated costs or gains of all the measures set out under that heading, leaving aside effects arising from changes in behaviour on the part of the economic agents in response to the new measures.

The macroeconomic impact of the complete package of measures on the Belgian economy in the 2015-21 period<sup>(1)</sup> has been estimated using the Bank's econometric quarterly model. This is based on the hypothesis that the real component of hourly labour costs in the private sector will not be renegotiated, compared with the assumed wage trajectory in a baseline scenario without a tax shift. This implies that neither employees nor employers will use the extra scope opened up by the tax shift in terms of competitiveness and purchasing power as an argument for bringing new wage conditions to the negotiating table. Price movements resulting from the package of measures may, by contrast, influence the nominal component of hourly labour costs through the operation of automatic

(1) The NBB paper "Incidences macroéconomiques sur l'économie belge du scénario de tax shift élaboré par le Gouvernement" contains further details of the measures incorporated in these calculations. It also describes at greater length the macroeconomic influence exerted both by the overall package of measures and by that of the grouped measures on competitiveness and purchasing power measurement and funding side of the tax shift.

index-linking. The Bank's model does not contain a behavioural equation for the labour supply, which means that reduced taxes on pay in particular do not affect the participation rate.

Only part of the calculated macroeconomic effects can be attributed to the tax shift itself. The remainder is the result of the positive impact of the implicit budgetary stimulus on the Belgian economy, due to the initial deterioration in the primary government budget balance. However, the total effect cannot be split unambiguously between these two elements.

These calculations show that, over a seven-year period, the Belgian economy would receive an additional boost to growth of 1.5 %, and that approximately 64 500 new jobs would be created, although the positive impact would remain fairly modest until 2017.

#### IMPACT OF THE TAX SHIFT ON THE BELGIAN ECONOMY AFTER SEVEN YEARS, BROKEN DOWN BY SIGNIFICANT TRANSMISSION CHANNELS

(deviation in % from a baseline scenario; cumulative growth differentials, unless otherwise stated)

	New measures			Funding			Balance	
	Purchasing power	Competitiveness	Total	Indirect taxes	Non-labour-related	Other		Total
GDP .....	1.4	1.1	2.4	-0.7	-0.2	0.0	-0.9	1.5
Private consumption .....	3.7	0.6	4.3	-0.8	-0.2	0.0	-1.1	3.2
Gross fixed capital formation ...	2.1	1.0	3.1	-0.8	-1.1	0.0	-1.9	1.2
Exports of goods and services ...	-0.1	1.3	1.3	-0.6	-0.1	0.0	-0.7	0.6
Employment in thousands of persons .....	44.2	53.2	97.4	-23.5	-9.4	0.0	-32.9	64.5
Nominal labour costs per hour ...	0.1	-3.9	-3.8	1.2	0.1	0.0	1.3	-2.5
Consumer prices .....	0.1	-1.8	-1.6	1.8	0.2	0.0	1.9	0.3
Primary balance (in % of GDP) ..	-0.7	-0.3	-0.9	0.3	0.3	0.0	0.6	-0.3
Public debt (in % of GDP) .....	3.2	4.0	7.2	-3.5	-2.5	-0.1	-6.1	1.1

Source: BNB.

The competition element of the tax shift in particular is supposed to create a relatively large number of jobs in the long term. This is not only because of the combined effect of the substitution of capital for labour and increased demand for exports, but also because about 20-25 % of the new reductions in employers' contributions are aimed at low wages, which should create more jobs than an identical amount would if spent on linear measures. At the same time, however, when calculating the impact of the tax shift on the Belgian economy, it ought not to be forgotten that jobs created via the competition element are also subject to greater uncertainty. It is obviously important that businesses actually take advantage of reduced labour costs to lower prices. What is more, competitive advantages will diminish and the effects calculated will be partly neutralised if – contrary to the hypothesis used in the calculations – domestic real wages nevertheless experience upward pressure compared with the wage levels used in the baseline scenario, or if foreign competitors themselves lowered their prices.

Lastly, the positive payback effects for the public finances, generated primarily by additional receipts related to extra jobs and reduced spending on unemployment benefits, will reduce the initial budget deficit. The impact on the primary balance, however, will remain negative for the whole of the period considered in these calculations: it



would hit a trough in 2019 and after that the effect would reduce. Still, further funding measures will be needed to achieve the budgetary targets set out in the stability programme. Guaranteeing sustainable public sector finances remains crucial if the budgetary costs of demographic ageing are to be met and buffers built up for the future.

#### IMPACT OF TAX SHIFT ON BELGIUM'S ECONOMY AND PRIMARY BALANCE

(deviation in % from a baseline scenario; cumulative growth differentials, unless otherwise stated)

	2015	2016	2017	2018	2019	2020	2021
GDP .....	0.0	0.2	0.5	0.7	1.0	1.3	1.5
Private consumption .....	0.1	0.5	1.2	1.6	2.2	2.9	3.2
Nominal labour costs per hour .....	0.0	-0.8	-0.8	-1.2	-1.5	-2.2	-2.5
Consumer prices .....	0.2	0.5	0.6	0.8	0.7	0.5	0.3
Employment (in thousands of persons) ..	0.4	6.1	16.3	26.7	38.6	52.5	64.5
Primary balance (in % of GDP) .....	-0.1	-0.4	-0.1	-0.3	-0.6	-0.4	-0.3
<i>p.m. Balance not funded in advance</i> (in % of GDP) .....	0.0	-0.5	-0.4	-0.8	-1.1	-1.3	-1.3

Source: NBB.

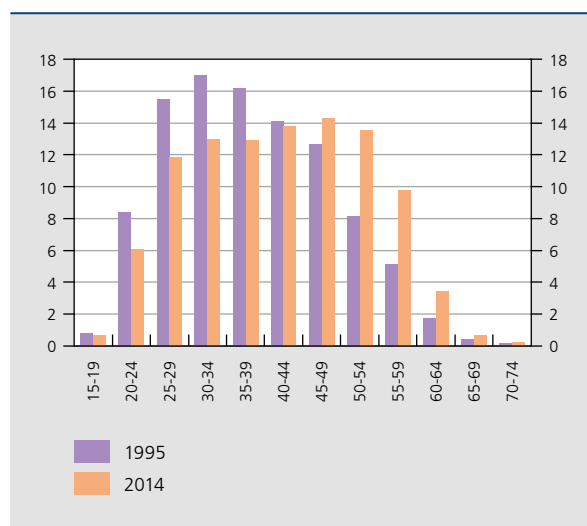
The substantial moderation of real conventional adjustments, the index jump and the tax shift should help reduce growth in labour costs considerably for companies in the private sector and hence diminish the wage gap relative to the neighbouring countries. Moreover, the coalition agreement provides for an adjustment to the Employment and Competitiveness Law to introduce provisions that will prevent the growth of labour costs in the reference countries from being exceeded again, after the existing situation has been rectified. This revision will occur in consultation with the social partners prior to the beginning of the next round of negotiations on collective labour agreements.

#### Wages heavily influenced by structure of employment

In addition to the heavy tax burden, employers cited high wage levels as an obstacle to hiring. The high level of wages is partly attributable to the high productivity of employees and to the structure of employment. Wage patterns for white-collar workers in Belgium are heavily influenced by an employee's seniority within a company and by their level of education. Most collective labour agreements in which job categories and the corresponding minimum pay for white-collar staff are determined include a pay scale based on seniority; this kind of differentiation is very rare, however, for blue-collar workers.

CHART 96 COMPOSITION OF EMPLOYMENT REVEALS AGEING OF WORKING POPULATION

(by age, in % of total employment)



Source: EC.

For employees aged over 50 in particular, growth in pay related to seniority is stronger in Belgium than in other countries. In the case of blue-collar workers, by contrast, growth in experience-related pay generally accompanies changes in function and hence in pay scale.

Owing to the ageing of the Belgian workforce, seniority-based pay scales will have a growing impact on wage patterns. Whereas the 30–34-year-old age bracket still accounted for the largest proportion of people in work in 1995, in 2014 it was the 45–49-year-olds. More than a quarter of workers were aged over 50 in the latter year, compared with 15% in 1995. The ageing of the workforce not only reflects demographic trends in Belgium, but also measures such as stricter early retirement rules that the government has introduced with a view to lengthening working careers. Raising the retirement age further in the years ahead will likely only intensify this phenomenon.

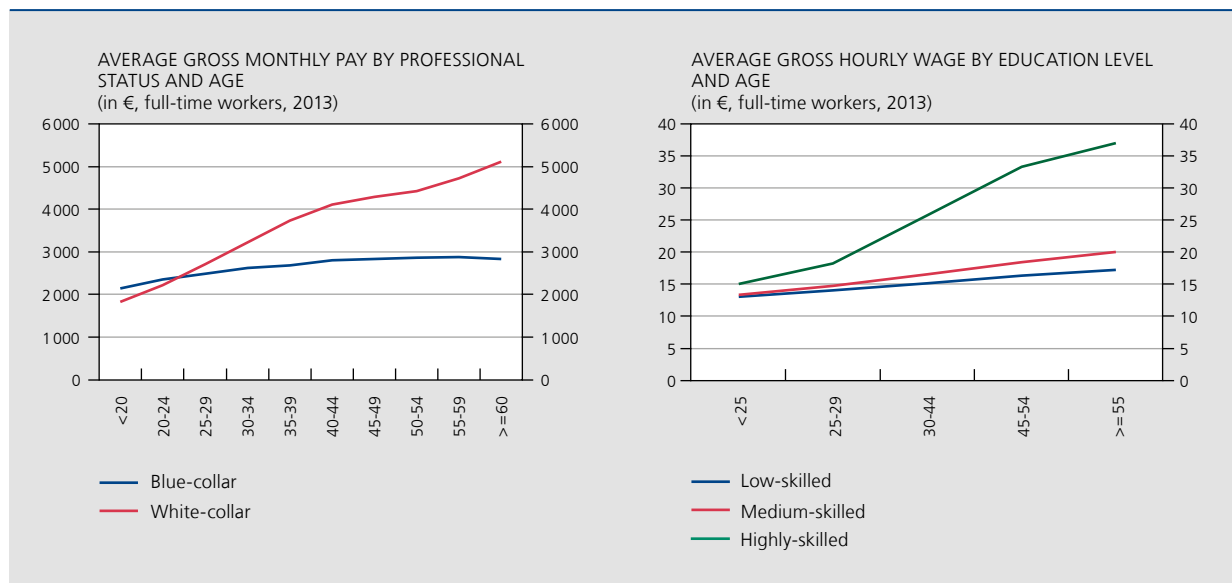
In theory, an employee’s productivity initially rises sharply, following which it continues to grow slightly, before levelling off or even falling towards the end of their career. More rapid increases in pay after the age of 55 – probably only rarely matched by the pattern of productivity – undermine the position of these workers in the labour market and make them more expensive for employers. This illustrates yet again that it is crucially important to invest in lifelong learning throughout people’s careers to maintain or even increase their employability. It is worth noting, however, that higher pay levels in the statistics above the age of 55 are partially attributable to composition effects, since the composition of employment in terms of education level changes for the oldest age cohorts. The proportion of highly-skilled workers, who earn more than average, increases, while that of the low-skilled

shrinks, as the latter often leave the labour market earlier than their highly-skilled counterparts. This is because low-skilled workers tend to start work at a younger age, which means they are entitled to a full pension sooner and likewise qualify at an earlier age for early retirement schemes. The opportunity costs associated with retirement are also lowest for low-skilled staff, as they suffer the smallest loss of income in terms of their pension compared with their previous wage level.

Employment structure and demographic ageing also play an important role in pay patterns in the public sector. This is because civil servants’ pay rises with seniority in a similar way as in the private sector, albeit with a few differences. The federal government, for instance, pays a basic salary for more senior positions that is almost always higher than in the private sector. The ratio is reversed at lower levels, basic salaries are, with a few exceptions, lower than in the private sector. Although seniority-related differentials are similar for higher positions to those in the private sector, they are larger in the case of lower-status staff.

It is also the case that pay patterns in Belgium correlate strongly with educational levels. Pay has been rising much more steeply for the highly-skilled than for low- and medium-skilled staff. Demand for medium-skilled jobs has fallen in the last few years – due in particular to technological developments and to the emergence of global value chains – while demand for highly-skilled staff has

**CHART 97** SHARP INCREASE IN PAY ACCORDING TO AGE, PARTICULARLY FOR HIGHLY-SKILLED WHITE-COLLAR STAFF<sup>(1)</sup>



Source: DGS.

(1) Only for companies with more than ten employees. Certain sectors, such as agriculture, fisheries, public administration, education, health care and other personal services were not taken into account.



increased. These social trends are changing the structure of employment in Belgium, which is affecting average wage levels.

### Influence of redundancy costs on hiring

According to the employers surveyed for the WDN, obstacles to hiring – in terms of costs – are not just related to labour costs, but are also influenced by redundancy expenses. OECD data show that employment protection rules for temporary contracts and for the individual dismissal of permanent employees were not much stricter in 2013 than on average in the euro area. The specific requirements for collective redundancies, by contrast, were more restrictive in Belgium. Since the harmonisation of blue-collar and white-collar status in 2014, blue-collar staff have enjoyed greater protection, and the trial period has been scrapped. In other words, legislation governing individual redundancies has been tightened up for blue-collar workers in Belgium since 2013. The rules for white-collar staff – particularly those with low high seniority – have, by contrast, been loosened. Over time, this harmonisation ought to reduce the obstacles to mobility between blue-collar and white-collar jobs during an employee’s career and, possibly,

make technical education more attractive. Moreover, the government’s intention, as expressed in the coalition agreement, to simplify company closure and collective redundancies procedures (the Renault Law), in order to obtain shorter procedures that offer greater clarity sooner to the affected company and its employees, could make redundancy rules more flexible.

### Supporting the labour supply

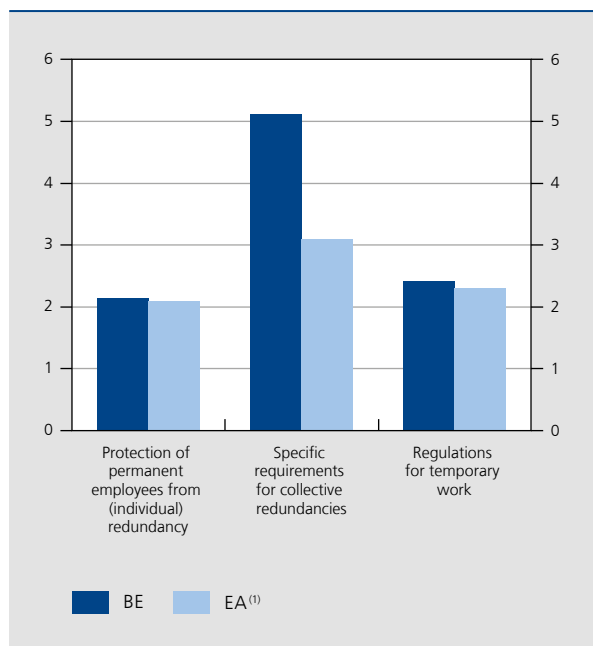
Measures designed to boost demand for labour will not be enough in themselves to raise the employment rate in any lasting way. If they are not accompanied by an increase in supply, the shortage of workers that is already affecting certain functions and regions will grow rapidly. This means not only facilitating access to work in general, through policies such as offering an appropriate financial stimulus, but also concentrating particularly on those groups that are currently the least active in the labour market. The paradigm of the modern labour market relies much more on the development of talent than on selection. Above all, the focus must be on education, guidance and a smoother transition between the different forms of education and the labour market.

### Insufficient transition into work

Compared internationally, the transition from unemployment to work is low in Belgium: on average, barely 20 % of unemployed people found a job after one year,

**CHART 98** EMPLOYMENT PROTECTION IS MORE STRICTLY REGULATED IN BELGIUM FOR COLLECTIVE REDUNDANCIES

(index figures, scale of 0 to 6, from less to more restrictive, in 2013)

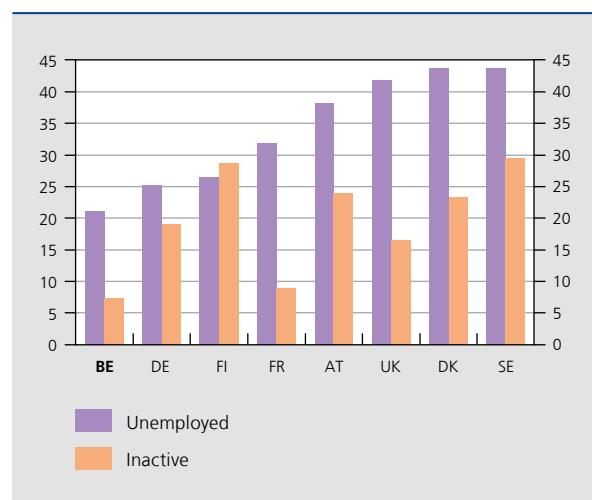


Source: OECD.

(1) Unweighted average. No figures available for Cyprus, Malta, Lithuania and Latvia.

**CHART 99** LESS TRANSITION INTO WORK IN BELGIUM

(transition from unemployed or inactive status in 2012 to employed in 2013, in % of initial socio-economic status)



Source: EC.

while this rate is as high as 25 % in Germany, 31 % in France and more than 40 % in Denmark and Sweden – all countries with similar economic situations to that of Belgium.

The federal and regional governments in Belgium have bolstered their activation and guidance measures with a view to shortening the duration of unemployment. Alongside the measures taken by the public employment services to help unemployed people seek work, they have for instance broadened the definition of what constitutes a “suitable position” in terms of the vacancies that unemployed people must consider. There are now also more frequent checks on whether unemployed people are genuinely seeking work. In addition, the degressive nature of unemployment benefits, which was tightened up from the end of 2012, has now come into full force.

Harmonised data suggest that there is far less transition in Belgium from inactivity into employment, especially compared with Germany, Austria and the Nordic countries. There is more part-time work in those countries, and it is more common to have shorter-term employment contracts (temporary work, etc.). Countries where apprenticeships are common, such as Germany, achieve better results in terms of the transition from study to work. Other factors also influence the transition into employment, such as an activation policy offering specific guidance and training. These are discussed at more length later in this chapter.

### *Stimulating labour market participation by reducing unemployment traps*

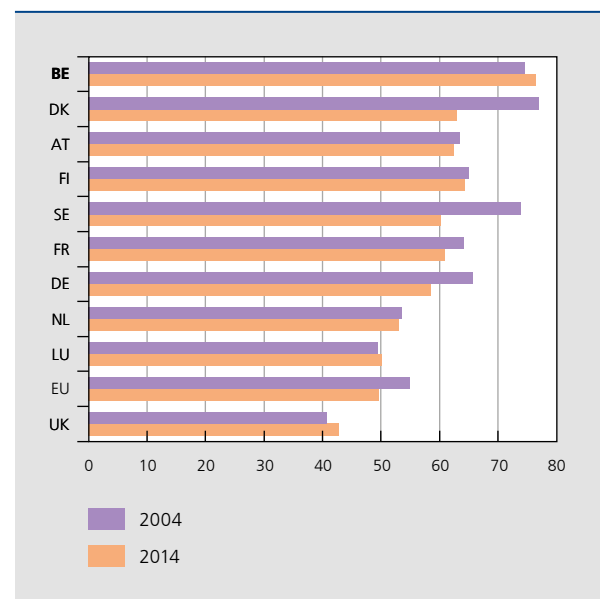
Financial stimuli ought not to be disregarded. The income of those in work must be sufficiently higher than their replacement income, since taking up a job entails certain costs (commuting, child care, etc.) and may lead to the loss of certain advantages enjoyed by benefit recipients, such as higher health care subsidies or access to particular public services.

This dilemma is swiftly solved for most unemployed people, as the individuals concerned have qualifications and skills that command a professional income that is clearly higher than the benefits they receive when they are unemployed or inactive. The financial unemployment trap is a reality, however, for several population groups facing greater difficulties in the labour market. It can be a factor for the low-skilled, for instance, who generally only qualify for low-paid work, above all in the case of a part-time job. In Belgium in 2014, unemployment benefits for people who had a relatively low-paid job (earning 67 % of the average wage) amounted

to 76.4 % of the wage earned prior to unemployment, the highest level in the whole of the EU. Although unemployment benefits have been reformed in recent years, Belgium’s position has not altered structurally, as the relevant benefits were raised at the beginning of the period of unemployment and made more degressive at the same time.

As part of the tax shift, measures have also been taken with a view to raising the net wages of people in work, particularly for low and mid-level incomes. These have taken the form, for example, of a staged increase in the flat-rate allowance for professional expenses in 2015, 2016 and 2018. The calculation of the tax-free amount has also been adjusted and – with effect from 2020 – only a single tax-free amount will be applied, regardless of income. In addition, the government is proposing the phased integration of the 30 % tax band with the 25 % band (in income year 2016 and income year 2018), and the widening of the 40 % tax band by raising the lower threshold for the 45 % band from € 13 530 to € 13 940 (income year 2018) and then to € 14 330 (income year 2019). Both the social and the fiscal parts of the work bonus were raised on 1 August 2015. Moreover, further increases in the fiscal work bonus (a refundable tax credit) are planned for 2016 and 2019. Net income from work will also rise for the self-employed: as from 2018, they will enjoy reduced social security contributions, equal

**CHART 100** RISK OF FINANCIAL UNEMPLOYMENT TRAP<sup>(1)</sup>  
(ratio of net benefits to last net wage, in %)



Source: EC.

(1) Before becoming unemployed, the person in question had a job earning 67 % of the average employee wage. Average situation for six types of household and for five different durations of employment (2, 7, 13, 25 and 60 months), unweighted averages, only taking account of unemployment benefits.

**TABLE 26** EMPLOYMENT RATE FOR AT-RISK GROUPS AND 2020 TARGETS COMPARED WITH EUROPEAN AVERAGE

(in % of the corresponding population aged 20 to 64, unless otherwise stated)

	Belgium			EU <sup>(1)</sup>	
	2015 <sup>(2)</sup>	<i>p.m.</i> Change since 2000 <sup>(3)</sup>	2020 target	2015 <sup>(2)</sup>	<i>p.m.</i> Change since 2000 <sup>(3)</sup>
Total	67.2	1.2	73.2	69.9	3.4
Women	62.9	6.9	69.1	64.2	6.9
Aged up to 30	57.8	-8.6		61.3	-2.3
Aged 55 and over	43.8	17.6	50.0	53.2	16.3
Low-skilled	45.6	-5.2		52.5	-2.5
Difference between Belgian and non-EU citizens <sup>(4)</sup>	23.1	<i>n.</i>	16.5	14.0	<i>n.</i>

Source: EC.

(1) EU27 (excluding Croatia); second-quarter data were used for 2000.

(2) Average of the first three quarters.

(3) In percentage points.

(4) The employment rate for non-EU citizens is 45.5% in Belgium, compared with an average of 56.5% for the EU.

to the reduced contributions for starters which already apply to them.

### *Selected target groups require specific measures*

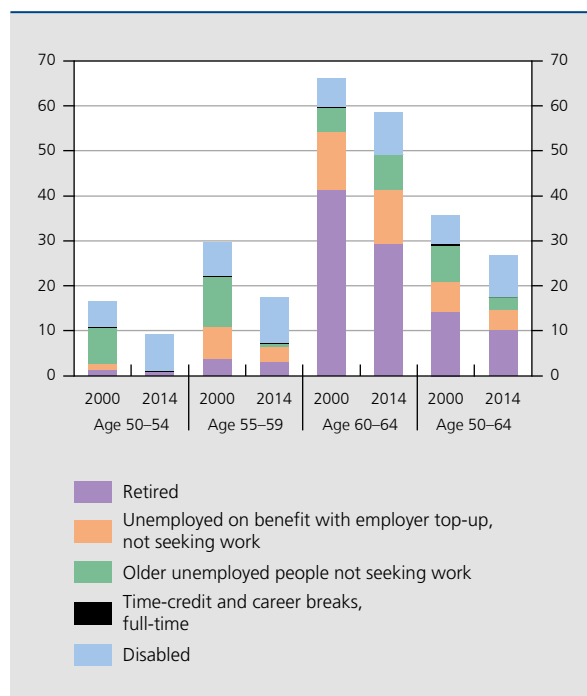
With just over two-thirds of 20-64-year-olds in work, Belgium remains well below the 73.2% target set for 2020. This situation is attributable to various risk groups, so-called because their employment rate is considerably below the average. Despite an improvement compared with the figures in 2000, the employment rate for women is 1.3 percentage points lower than the European average and that for over-55s 9.4 points lower. The same applies to young people and the low-skilled, for whom the situation has deteriorated faster in Belgium over the past 15 years than in the EU as a whole. The fall in employment among young people is partly due to the larger percentage of students and longer study periods. Among European countries, Belgium has the lowest employment rate for non-EU citizens and the difference in the employment rate between this population group and the country's own citizens is much bigger than the European average. Each of these groups thus requires special attention, particularly in terms of training and tackling discrimination.

### *Increased labour-market participation by over-50s*

While the total population in Belgium continues to grow relatively robustly, the rate at which the working age (15-64) population is growing has been coming down steadily. In 2014, it grew by just 9 000 people, the outflow being offset

**CHART 101** DECLINE IN EARLY RETIREMENT FROM THE LABOUR MARKET AMONG 50-64-YEAR-OLDS

(in % of the corresponding population<sup>(1)</sup>)



Sources: DGS-FPB, NIHDI-INAMI-RIZIV, NEO, NPO, PSPS.

(1) Estimated totals, obtained by combining data that do not necessarily relate to the same period. Possible double-counting for mixed careers cannot be ruled out in the data for pensions from 2000. The chart assumes that that proportion of mixed careers in the total number of pensions was equal to that in 2014. For this reason, the total figures are only indicative.

less and less by an inflow of young people from the age of 15. Demographic forecasts suggest that the working age population will actually begin to fall in 2018.

The labour force has grown more strongly than the working age population, due in part to more workers aged 50 and above participating in the job market. Although the number of older people in work is growing, the total number of unemployed job-seekers aged 50 and above also continues to rise. These increases are the result of policy measures intended to exempt fewer unemployed people from seeking work and of increased career length.

In 2014, a total of 27 % of 50–64-year-olds use one or other early retirement scheme prior to the statutory retirement age. Although this percentage remains high, it nevertheless shows a sharp reduction compared with the year 2000, when almost 36 % of 50–64-year-olds opted for one of the different schemes. This decline is noticeable in each age category for this population group, as it is for each of the relevant schemes, with the exception of disability.

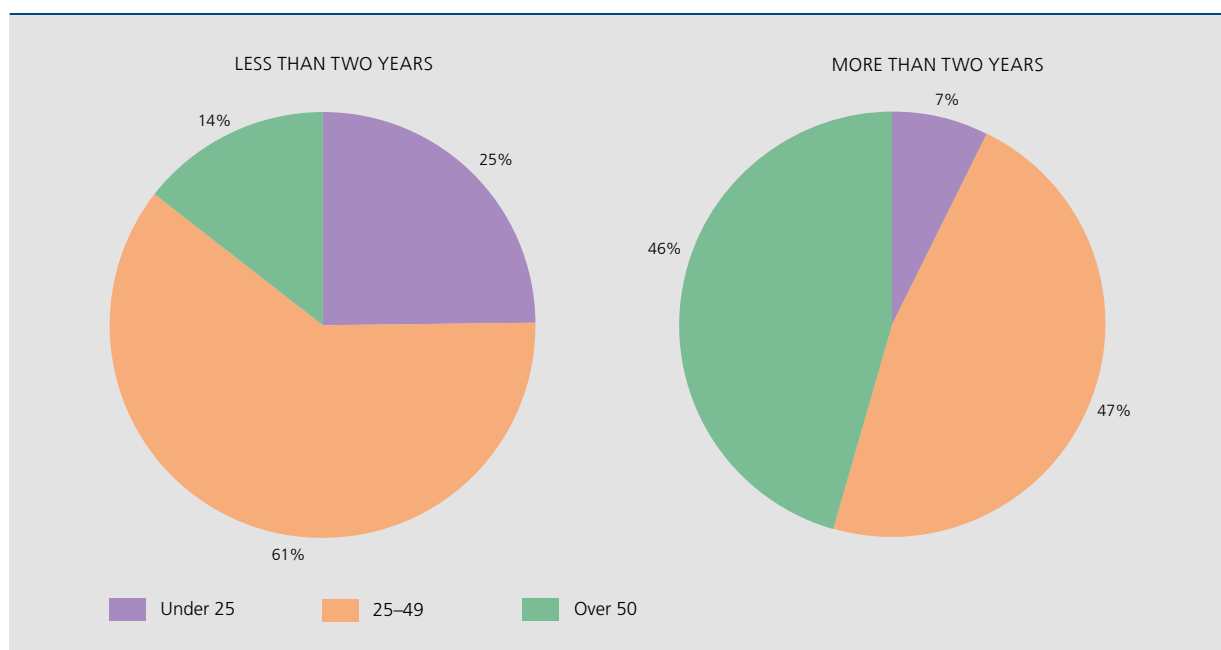
The proportion of retired people in the 50-64-year-old category fell from 14.2 % to 10.2 % between 2000 and 2014, due primarily to the raising of the statutory retirement age for women. What is more, the successive reforms carried out since 2011, which include tightening the conditions for access to early retirement, have yet to take full effect.

The system of unemployment benefits with employer top-up and exemption from job-seeking – the former pension scheme – has undergone numerous rule changes since 2000, with the age criteria raised and career length conditions tightened. In principle, these benefits can no longer be accessed before the age of 62, although numerous exceptions continue to apply. The age requirement to qualify for the job-seeking exemption linked to the rule has meanwhile been gradually raised to 65. In 2014, this system applied to 3.2 % of 55-59-year-olds and to roughly 12 % of 60-64-year-olds.

The status of older unemployed people not seeking work – which was introduced in 1985 to reduce differences in treatment between redundant older employees qualifying for an early retirement scheme and other employees – had already been frequently modified. While in 2000 this status was still accessible from the age of 50, the minimum age has been raised several times since 2002. From 2015, newly unemployed people remain obliged to seek work until the age of 65: only unemployed people who previously held this status are able to retain it. The proportion of people belonging to this category in 2014 was 0.9 % for 55-59-year-olds and approximately 8 % for 60-64-year-olds.

The increase of over 2.5 percentage points recorded between 2000 and 2014 in the proportion of disabled people in the 50-60-year-old bracket illustrates the need

**CHART 102** PEOPLE AGED 50 AND OVER ARE MORE FREQUENTLY AFFECTED BY LONG-TERM UNEMPLOYMENT  
(unemployed job-seekers by age and duration, share of the corresponding total, 2015)



Source: NEO.

to closely monitor working conditions, given that people are having longer careers.

### Long-term unemployment common among over-50s

The number of job-seekers and the average duration of unemployment are determined in part by the socioeconomic, demographic, regulatory and institutional context. The relative scale of long-term unemployment is an indicator of structural unemployment, which does not fall when there is an upturn in activity. The duration of unemployment can exert a negative influence in itself, as it can reduce the employability of the long-term jobless; their skills gradually atrophy, and they can feel discouraged. The level of structural unemployment in Belgium is partly explained by the rise in the average age of the unemployed, due both to demographic ageing and to the measures taken to encourage unemployed people aged 55 and over to actively seek work.

### Lifelong learning increases employability

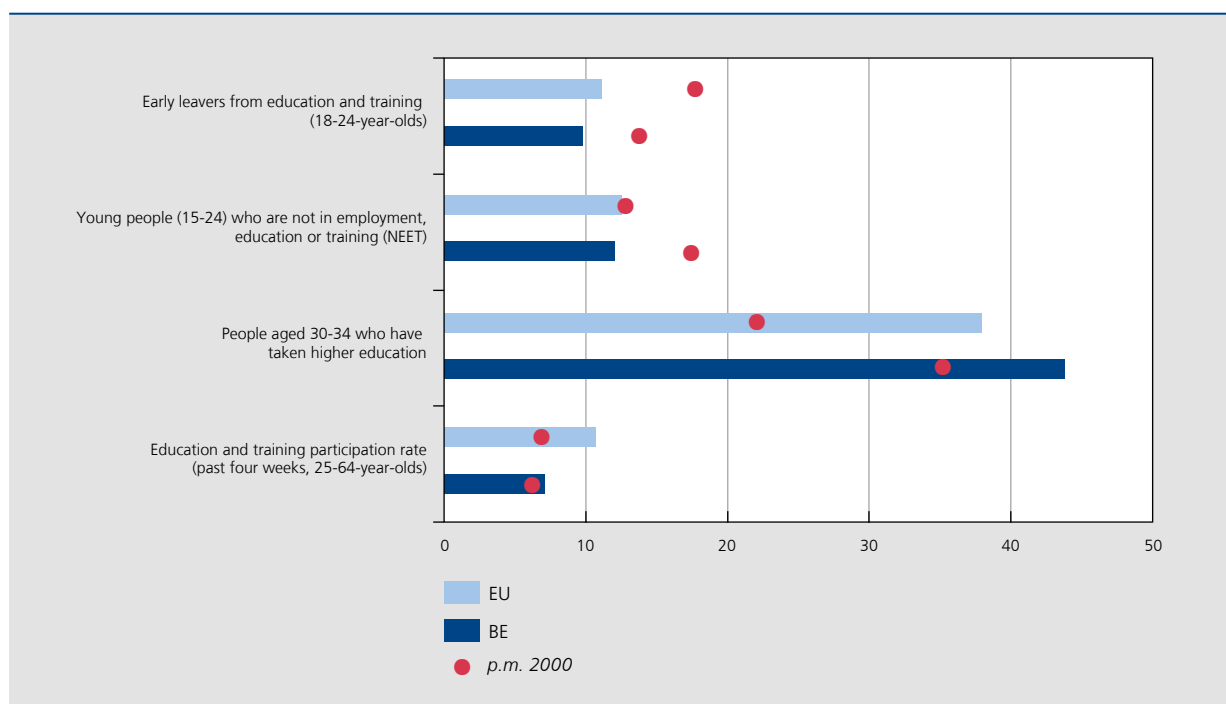
The creation of new activities and jobs is what drives economic dynamism in an increasingly competitive international environment. This dynamism relies in turn on skilled workers who are capable of adapting to a constantly

changing society. Lifelong learning is vital in this context, and even more so given the relative ageing of the working-age population – but it is not sufficiently accessible to all groups in society. According to the labour force survey, barely 7% of workers in 2014 had undertaken any training in the four weeks prior to the survey. The amount of training was especially meagre for low-skilled workers and for employees aged 55 and over, even though these groups would benefit considerably from training: it would enable the former to bring their skills levels into line with the demands of the labour market and the latter to maintain their skills throughout the course of their careers.

### Efficient education system enhances entry into the labour market

The speed and quality of young people's entry into the labour market depends primarily on their level of education. In 2014, however, almost one pupil in ten left school without a certificate of higher secondary education or the equivalent. In other words, these youngsters lack the minimum skills required by employers, and which are necessary for lasting integration in the labour market. The percentage of early school leavers has fallen steadily since the year 2000, bringing it close to the 9.5% target set for 2020, but considerable differences remain between the three Regions. The rate

**CHART 103** IMPROVEMENT IN EDUCATION AND TRAINING INDICATORS  
(in % of the corresponding population, 2014)



Source : EC.

in Flanders is 7% and this Region targets a 5.2% rate for 2020. It is therefore successfully stemming the flow of insufficiently skilled young people into the labour market. This is not the case for Wallonia and Brussels, where the percentage of early school leavers is twice as high.

This indicator does not provide any *de facto* information about socioeconomic status. The percentage of young people neither in employment nor in education and training offers a better illustration of the difficulties youngsters experience in entering the labour market. Belgium's results have improved sharply since 2000, bringing them into line with the EU average. The differences mentioned earlier are visible again at regional level. The unemployment rate among the low-skilled is much higher in Brussels and Wallonia than it is in Flanders. This incurs considerable human and economic costs, both for the community and for the individuals themselves, in terms of budget, activity and income.

To address these difficulties, it is necessary to strengthen the connection between education and employment, to re-evaluate vocational and technical education, and to develop apprenticeships and internships. In 2014, almost 44% of the Belgian population aged 30-34 held a higher education diploma, with the proportion rising to 50% for women. However, women were less likely to hold a qualification in the STEM subjects (Science, Technology, Engineering and Mathematics).

Yet, STEM graduates are highly sought after by employers and thus able to integrate themselves in the labour market more readily and sustainably. In fact, a lot of 'critical occupations' are in these subject areas, but the proportion of STEM graduates (male and female together) in Belgium was only 16.9%, compared with 22.9% in the EU based on the most recently available figures, which date from 2012.

### *Non-EU citizens still under-represented in the labour market*

Labour market policy also needs to pay particular attention to people of non-European origin, mainly because of their low employment rate. It is essential, given the current inflow of asylum-seekers, to ensure that these people are integrated into the labour market. This population group offers a number of advantages; it could, for instance, help alleviate population ageing. After all, while 21% of the Belgian population is aged between 18 and 34, some 51% of asylum-seekers fall into this category. Moreover, they appear to be better educated than previous waves of refugees. OECD data for Germany show that 20% of Syrian asylum-seekers hold a tertiary education diploma, compared with 15% of all other nationalities together. The large proportion of high-skilled people among Syrian refugees is confirmed by survey data from the Office of the United Nations High Commissioner for Refugees.

**TABLE 27** EDUCATION AND TRAINING INDICATORS BY REGION  
(in % of the corresponding population, 2014)

	Brussels	Flanders		Wallonia
			2020 target	
Early school leavers (18-24 years)	14.4	7.0	5.2	12.9
NEET (15-24 years)	15.8	9.8		14.7
Higher education graduates (30-34 years)	47.5	44.8	47.8	40.1
Continuous training (25-64 years)	10.0	7.5		5.4

Source: EC.

### Box 11 – Some statistics on the wave of asylum applications in 2015

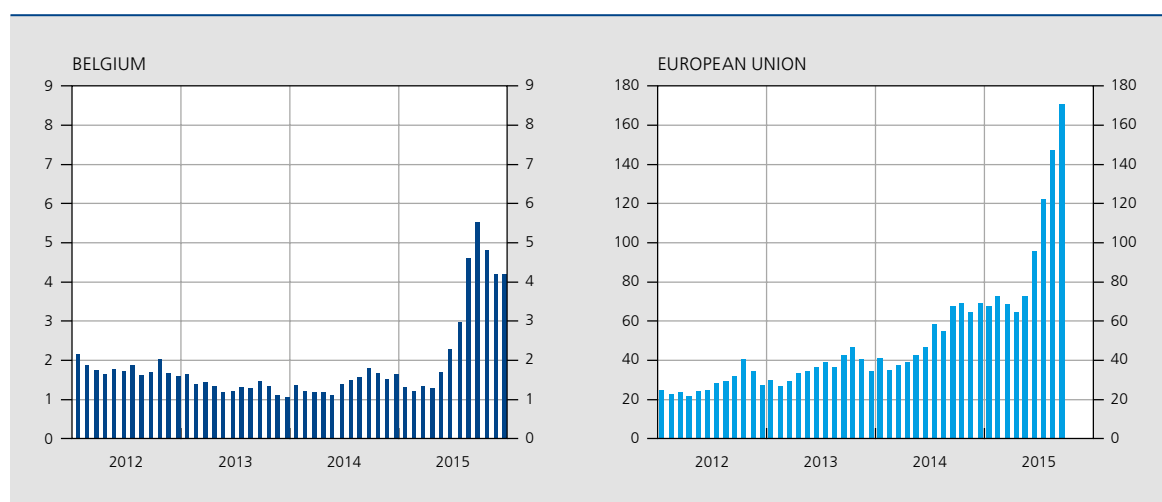
A total of 35 476 applications for asylum were registered in Belgium between 1 January and 31 December 2015 – twice the number in 2014. The Office of the Commissioner General for Refugees and Stateless Persons (CGRS) recorded a peak of 5 512 applications in September 2015, which was three times as high as in the same month in 2014.



This sharp increase did not only occur in Belgium. Severe geopolitical tensions and the deterioration in living conditions and security in the countries of origin have caused the number of asylum applications in the EU to rise inexorably since May 2015, reaching 171 000 in September and a total of 883 000 since the beginning of 2015. The number for the EU, too, is twice that for the same period of 2014, with Belgium accounting for 3.1% of the total number of asylum applications in the EU during the first nine months of 2015, putting it in seventh place for the number of registered asylum-seekers. The first two places were occupied by Germany and Hungary (35% and 20% of applicants respectively). In terms of asylum-seekers per capita, Hungary has received the largest number, with 18 per 1 000 residents, followed by Sweden (8), Austria (7) and Germany (4). Belgium occupied seventh place with 2 asylum-seekers per 1 000 residents.

#### TOTAL NUMBER OF ASYLUM APPLICATIONS IN THE EU

(in thousands)



Source: EC.

To ease pressure on a number of countries, the EU Council approved plans in September 2015 to disperse refugees. A total of 160 000 asylum-seekers from Italy, Greece and Hungary were allocated to other Member States, based on a formula taking account of the characteristics of the receiving country: total population (40%), GDP (40%), number of asylum applications in the past (10%) and unemployment rate (10%). These criteria would require Belgium to receive 5 928 additional asylum-seekers over the next two years.

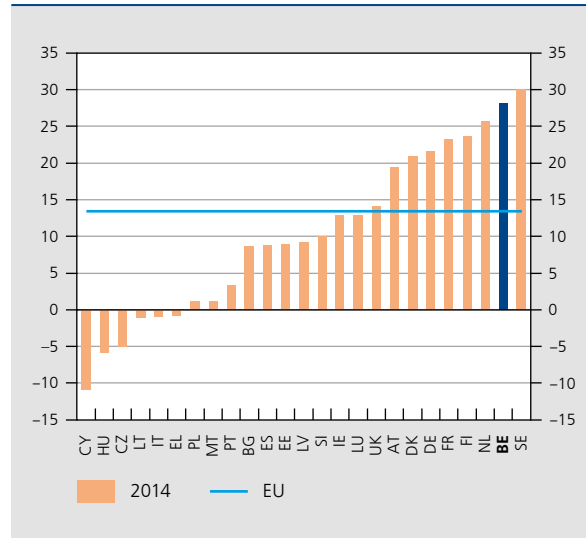
In 2015, the main countries of origin of people seeking asylum in Belgium were Iraq (21.8% of applications), Syria (21.3%), Afghanistan (20%) and Somalia (5.4%). A worrying element in the recent wave of asylum-seekers is the growing proportion of unaccompanied minors representing 10% of total applications, with the CGRS registering 3 520 applications in 2015 compared with 531 in 2014.

Despite the higher number of minors, 18–34-year-olds make up the largest age group (51.4%) among migrants. This age structure contrasts with that of the Belgian population, in which the same category only represents 21.3%. The relatively young refugee population could therefore be a positive factor, given the relative ageing of the Belgian population. In quantitative terms, however, the scale of this group currently remains limited: the roughly 29 000 asylum-seekers aged 14 to 64 who were received in 2015 account for just 0.4% of the working-age population and 0.5% of the working population. Their contribution will depend on factors such as the degree to which they integrate into

society and enter into the labour market. Nevertheless, in Belgium, the participation of people of foreign origin in the labour market is much lower than that of natives – more so than anywhere else in Europe. Combating obstacles to employment for non-EU citizens will therefore be crucial if full use is to be made of the potential of this wave of refugees in terms of employment and economic growth.

#### INTERNATIONAL COMPARISON OF EMPLOYMENT RATE GAPS BETWEEN NON-IMMIGRANTS AND NON-EU CITIZENS

(in percentage points, working population aged 20 to 64)



Source: EC.

### Regional employment and unemployment differentials

At regional level, Flanders differed from Belgium's other two Regions in its higher average employment rate in the first three quarters of 2015: 72 % compared with 61.4 % in Wallonia and 58.5 % in Brussels. It was also the first of the three Regions to set a target for employment in 2020 (76 %).

This is also reflected in the marked differences in unemployment levels between the Regions. Differences were detected within individual Regions as well, with wider gaps between the respective Walloon provinces than between the Flemish ones. The unemployment rate in Flanders was 5.1 %, compared with 12 % in Wallonia and 17.6 % in Brussels. Antwerp was the Flemish province with the highest rate of unemployment, at 6.1 %, which is still considerably less than the lowest unemployment figure in Wallonia, 8.2 % in Walloon Brabant.

**TABLE 28** EMPLOYMENT RATE OF RISK GROUPS BY REGION

(in % of the corresponding population aged 20 to 64, unless otherwise stated, averages for the first three quarters of 2015)

	Brussels	Flanders	Wallonia
Total .....	58.5	72.0	61.4
Women .....	52.9	68.3	56.9
Aged up to 30 .....	45.8	65.5	49.4
Aged 55 and over .....	44.8	45.3	40.8
Low-skilled .....	41.1	50.4	40.4
Difference between Belgians and non-EU citizens <sup>(1)</sup> .....	18.9	20.3	24.5

Source: EC.

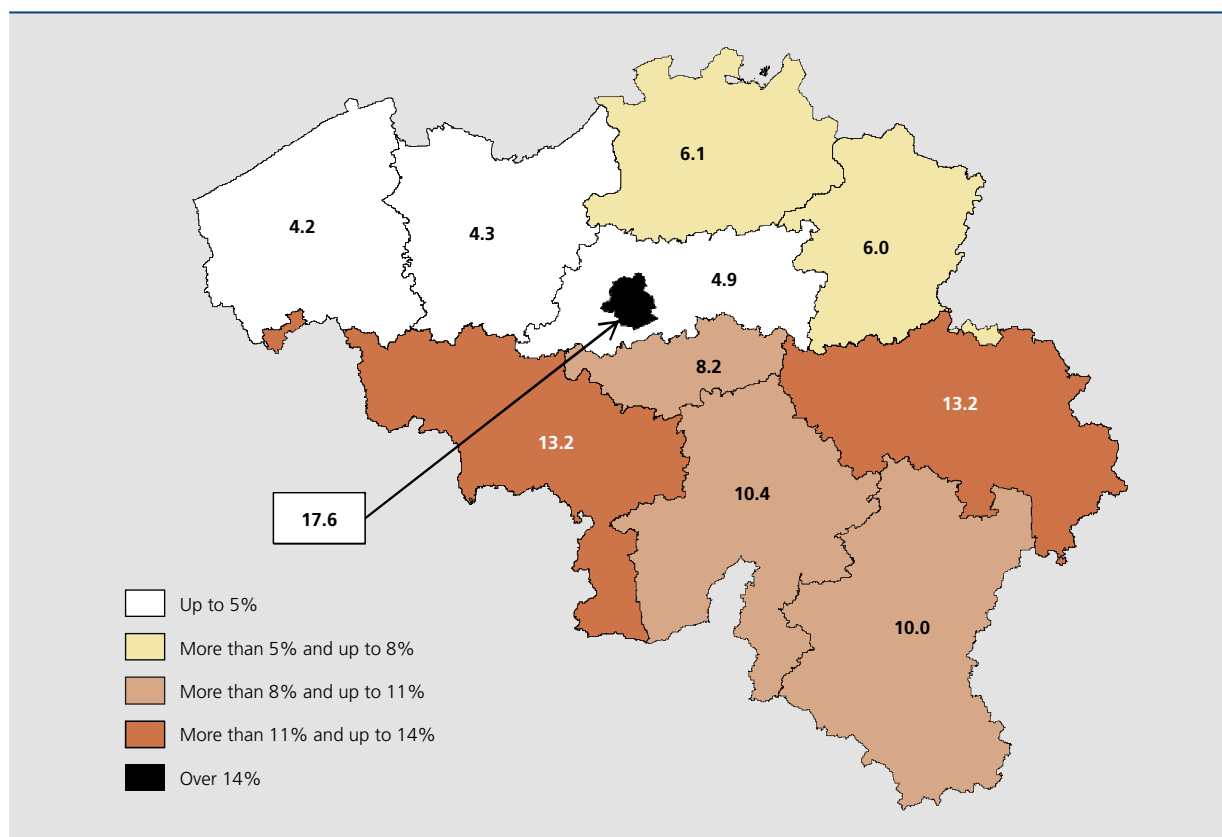
(1) The employment rate for non-EU citizens is 40.2 % in Brussels, 52.3 % in Flanders and 38.3 % in Wallonia.



CHART 104

CONSIDERABLE DIFFERENCES IN UNEMPLOYMENT RATES BETWEEN NEIGHBOURING AREAS

(in % of the corresponding labour force aged 15 to 64, averages for the first three quarters of 2015)



Source: DGS.

These regional differences highlight possible hindrances to geographical mobility in Belgium. Large numbers of Walloon and Flemish commuters travel into Brussels every day and an increasing number of Brussels residents work outside their Region; but mobility between the two other Regions is much lower, even between neighbouring provinces. The first factor that might explain this phenomenon is the language barrier and a second possible explanation is that the lowest-skilled unemployed generally gain less financial benefit from accepting a job far from home than more highly skilled job-seekers do. The regional public employment services have been increasing their efforts to exchange vacancies for some years now, and they are collaborating more intensively to organise language courses.

### 5.3 Imbuing the Belgian economy with greater vitality and resilience

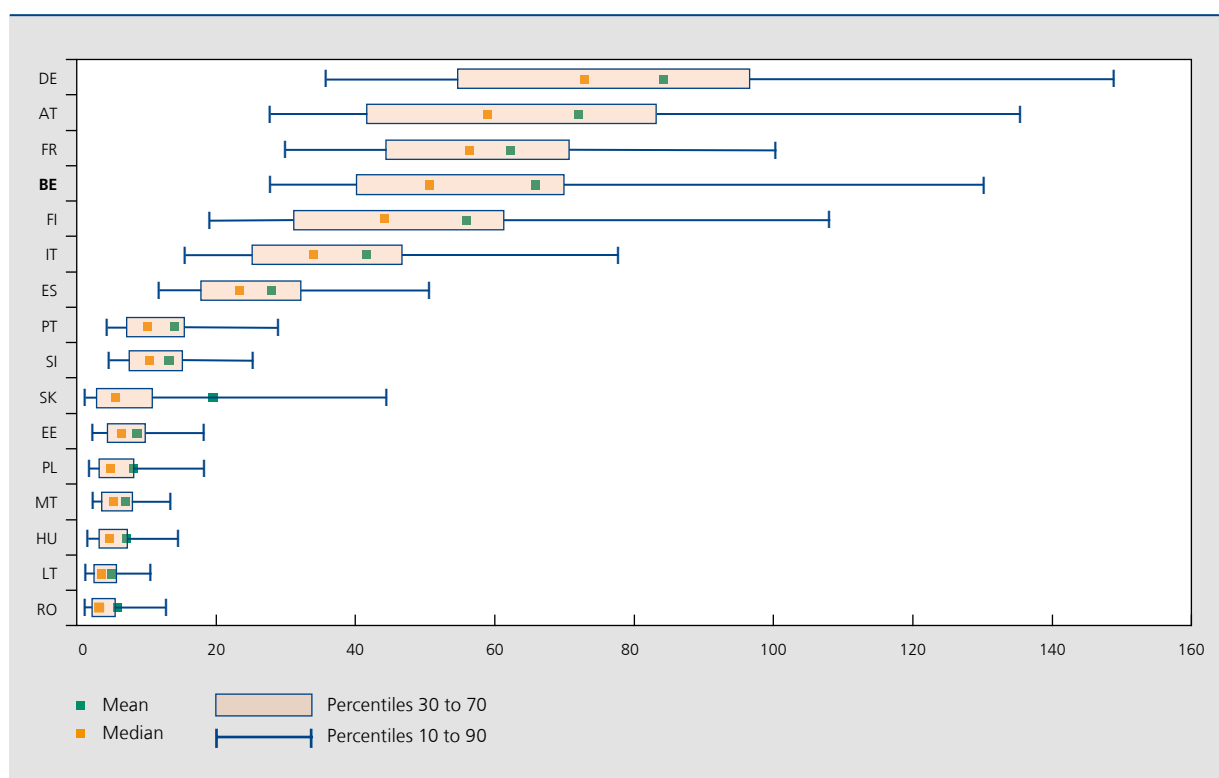
To bolster growth potential and enhance productivity, Belgium needs to encourage an entrepreneurial

mind-set and innovation, and remove factors that stand in the way of creating companies and access to the markets. After all, the economy is a dynamic process. In the rather longer term, the key drivers of income creation are both the development of existing companies – particularly as part of global added value chains – and churning, with new companies, new products and/or new production processes taking the place of others. These dynamics will be able to keep ticking over smoothly if administrative, legal and tax barriers are broken down, an effective and transparent regulatory framework is in place, and financial intermediation operates efficiently.

International productivity comparisons generally put Belgium at the top of the league table. In fact, some Belgian companies actually push the technological frontier and rank among the most efficient in their industries. However, such first-class companies' superior performances mask highly diverging results, as business productivity shows a strongly asymmetrical distribution in most countries. For example, Belgium's 10% of companies

**CHART 105** BELGIAN COMPANIES AMONG THE MOST EFFICIENT IN EUROPE

(apparent labour productivity<sup>(1)</sup>, in € thousands)



Source: CompNet.

(1) Results based on individual data for companies with 20 or more employees, in manufacturing industry and market services (NACE 2008 branches C to N, with the exception of branches D and E). Averages of the various moments of the distribution of apparent labour productivity assessed at the level of NACE 2-digit sectors of activity over the 2003-07 period. Data on the 2011-13 period for Belgium confirm the very asymmetrical and highly heterogeneous nature of the productivity distribution of its companies. Data not available for the other countries.

with productivity levels among the highest in Europe have a counterpoint in huge numbers of companies – nearly 70% – with results below, and sometimes far below, the average in their sectors.

The most efficient companies – i.e. the ones in the top 30 percentiles of productivity distribution – typically also prove the most strongly integrated in global value chains. These exporters/importers of goods or services and/or subsidiaries of multinational corporations are key players in the market because of the international trade they generate and as drivers of technology diffusion. In 2013, they accounted for only 10% of the companies registered with the Bank's Central Balance Sheet Office, but contributed 71% of the added value and 65% of employment.

Productivity levels influence both participation in value chains and the degree to which companies are integrated in their domestic components. The more productive a company exclusively focused on the domestic markets,

the better it will fit into the domestic processing phases at an earlier stage than – but close to – export companies. As a result, it should benefit from global demand as much as from technological transfers holding out opportunities to push at the frontiers of efficiency.

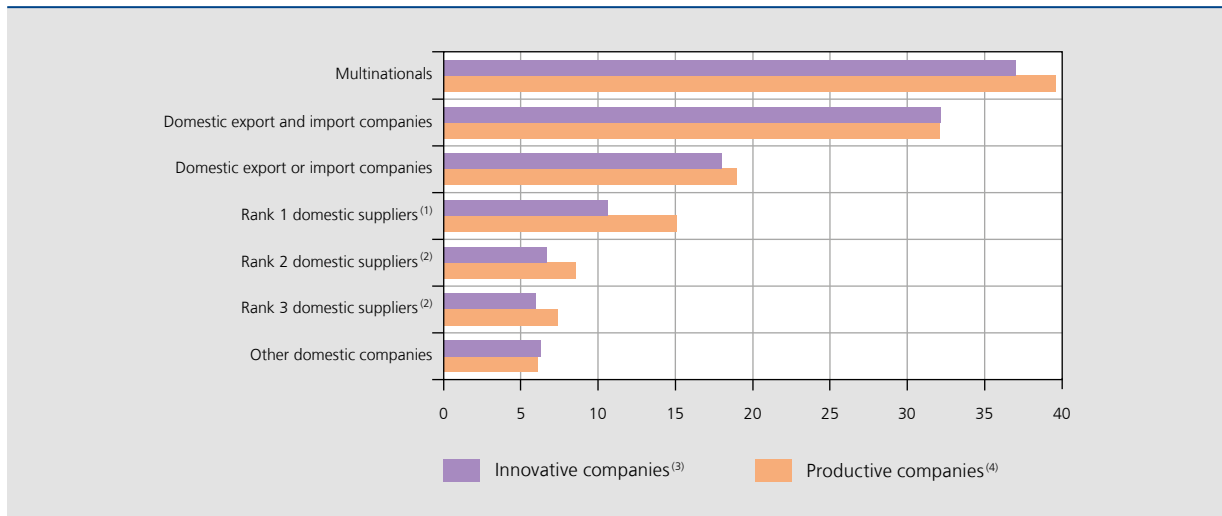
Belgian companies' generally high productivity levels cannot disguise the fact that productivity has hardly budged in the past couple of years. Achieving higher levels of productivity growth is possible both by enhancing productivity gains in existing companies and by encouraging the creation of new and promising companies.

***Raising productivity by encouraging research and innovation ...***

Although many aspects – improving the quality of production factors, say, or making management more efficient – can boost internal productivity growth, it is investment in intangibles, and R&D spending in particular, that makes the difference. At this juncture, however, such investment

**CHART 106 COMPANIES INTEGRATED INTO GLOBAL VALUE CHAINS ARE MORE PRODUCTIVE AND INNOVATIVE**

(in % of population, 2013)



Source: NBB, based on individual data provided by the Central Balance Sheet Office, foreign trade and the balance of payments.

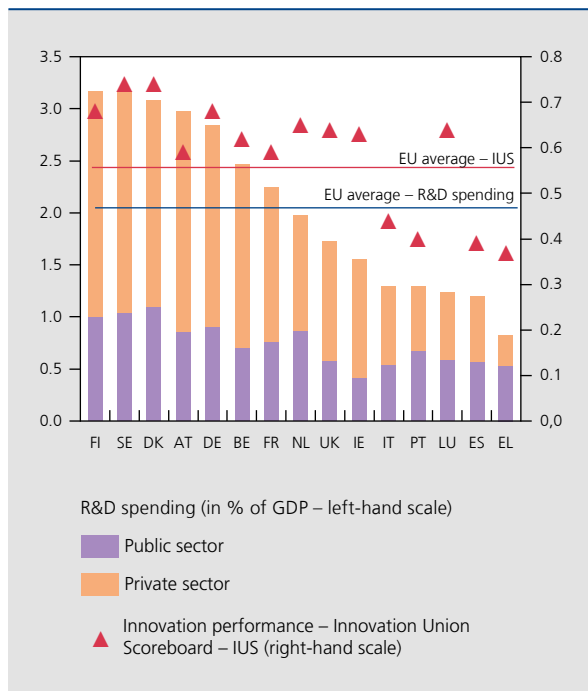
- (1) A rank 1 supplier is a domestic company that supplies intermediate inputs or provides services to at least one export company or multinational.
- (2) A rank i supplier is a domestic company that supplies intermediate inputs or provides services to at least one rank i-1 supplier.
- (3) A company is considered innovative if it invested in intangible assets in 2012 and/or 2013, e.g. R&D, concessions, patents, licences, know-how, trademarks and related rights, or in goodwill.
- (4) A company is considered very productive if its apparent labour productivity is in the top 30 percentile of productivity distribution.

is typically concentrated in companies that are already highly productive and that want to stay at the top of their technological game. The challenge is to get more companies to make these types of investment and to get them more focused on innovation.

In Belgium, a lot is already happening in this arena. A great many fiscal or parafiscal benefits are in place, such as an 80 % tax deduction on income from patents and partial exemption from payroll tax for researchers, making Belgium relatively competitive. The country's three Regions have each developed their own innovation policies, for instance by reducing administrative burdens and simplifying government aid procedures, but also by designing investment programmes to favour innovative economic clusters. Belgium's R&D spending as a percentage of GDP may be above the EU average, but it still lags the 3 % target agreed in the country's Europe 2020 strategy. Over two-thirds of research and development is carried out by the private sector, while the government's financial resources earmarked for R&D remain below those in the three neighbouring countries.

In the private sector, it tends to be the bigger enterprises that give priority to R&D. In 2012, 7.9% of innovative companies in Belgium – regardless of whether they launched new products, developed new production processes or introduced innovations in marketing or organisation – belonged to companies with head offices

**CHART 107 R&D INVESTMENT AND INNOVATION PERFORMANCE ABOVE EUROPEAN AVERAGE (2014)**



Sources: EC (IUS) and Eurostat.

outside Belgium, compared with an average 3.7% in the EU and 3.6% in Belgium's three neighbouring countries. In addition, R&D spending is typically focused in selected sectors, such as pharmaceuticals and chemicals. The pharmaceuticals sector, for one, has greatly increased its share of R&D in the private sector in recent years, to 31% in 2011 (from 25% in 2005). Services, particularly in information and communication technology, also saw their share go up, to 21% in 2011 (compared with 17% in 2005), pushing down the relative shares of research and development in other sectors of industry, such as the manufacture of electronic and computer equipment.

The European Innovation Union Scoreboard (IUS) continues to rank Belgium among the so-called innovation followers, performing above the average in the EU, but below the leading innovators. The chart captures a broader perspective of innovation than just R&D and presents an overview of the innovation ecosystem, a nexus of complex links between, among other factors, human capital, access to finance, investment, intellectual property and regulatory frameworks.

Belgium does well on the numbers of people who have completed higher education, but despite this European

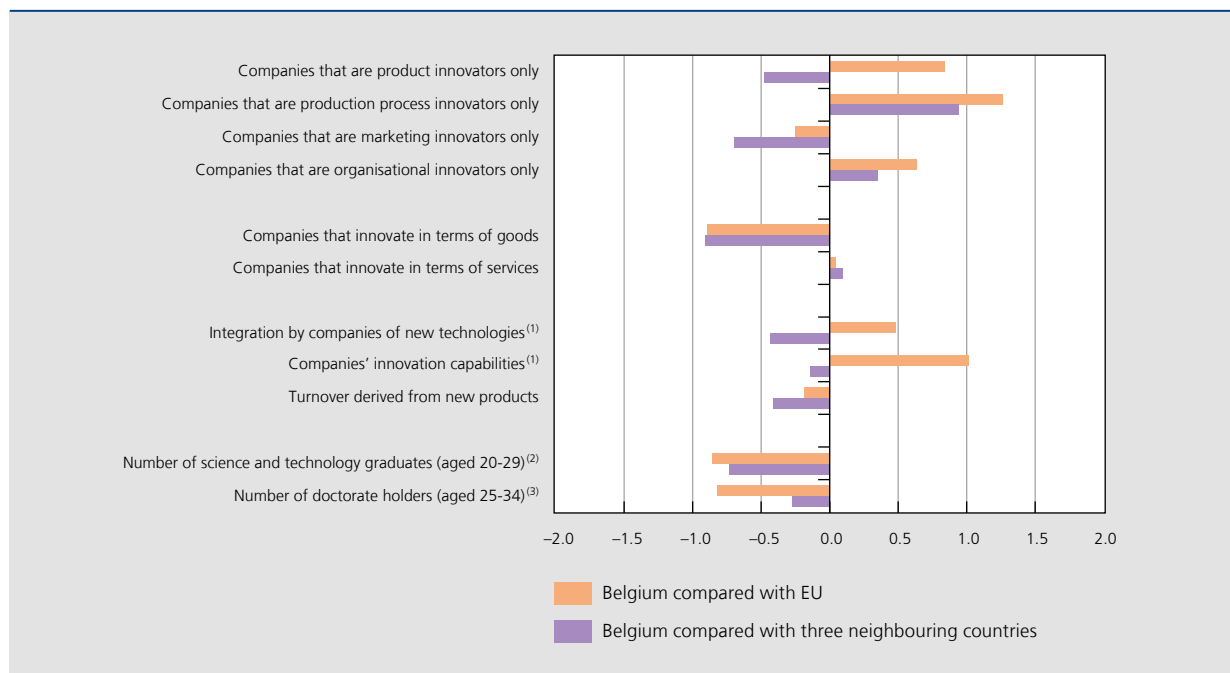
recognition for the country's education system, the number of science and technology graduates is lagging behind. As they are often crucial players in the innovation process, this could put a brake on the development of ideas and new technologies. Belgium's research system may have expanded strongly, but there is still scope for improvement in terms of access to funding and the diffusion of innovation effects across the broader economy. In fact, the innovation process often gets stuck at the design stage and fails to be taken to the next level in terms of developing new products.

Business productivity growth is not merely a product of spending in R&D or other intangible assets; it implies optimum diffusion of technology trends. Companies integrated in global value chains, and more particularly multinationals, are key to the spread of innovations, as R&D and innovations developed in international groups will typically be dispersed to all of their entities irrespective of their locations.

On top of this direct impact in multinational group companies, spillover effects may reach domestic companies earlier in the chain. Belgian companies enjoying direct relationships with multinationals show a smaller productivity

**CHART 108** INNOVATION IN BELGIUM: PROCESS IMPROVEMENT BEFORE NEW PRODUCTS

(normalised standard deviations between Belgium and its reference group; 2012, unless stated otherwise)



Sources: Eurostat (CIS) and World Economic Forum (WEF).

(1) 2015 results.

(2) 2011-12 averages.

(3) 2011 results.

**TABLE 29** PRODUCTIVITY GAPS BY CLOSENESS TO MULTINATIONAL COMPANIES<sup>(1)</sup>

(in %, average in 2006-2013 period)

	Difference in productivity levels compared with multinationals	Difference in productivity growth relative to multinationals
Rank 1 <sup>(2)</sup> suppliers	-27.6	1.5
Rank 2 <sup>(3)</sup> suppliers	-35.9	-1.7
Rank 3 <sup>(3)</sup> suppliers	-45.3	-4.1
Other domestic companies	-44.4	-4.6

Source: NBB.

(1) Any company at least 10 %-owned by foreign investors.

(2) A rank 1 domestic supplier is a company that supplies intermediate inputs or services to at least one multinational.

(3) A rank i domestic supplier is a company that supplies intermediate inputs or services to at least one Rank i-1 supplier.

gap (-28 %) than those that are further removed from these multinationals (-45 %). Their closeness also helps improve their total factor productivity (TFP) faster than multinationals and enables them to catch up with these.

**... by better integrating information and communication technology ...**

Yet another source of internal productivity growth is increased integration of new information and communication technology (ICT) in production and distribution processes. Like most of its European peers, Belgium has yet to fully leverage new possibilities and opportunities; and this is especially the case with its SMEs.

Belgium now faces the twin challenge of encouraging and keeping up to date its digital infrastructure, and better leveraging elements already in place. ICT's share of the added value remains lower in Belgium than in its three neighbouring countries, the OECD average and the United States. And ICT needs to be integrated into other sectors of the economy, as there are more profits to be earned by using technology than by developing it.

In the most recent 2014-15 period, the percentage of Belgian companies selling their products and/or services online (24 %) exceeded the EU average (16 %) as well as the average in the three neighbouring countries (17.6 %). By contrast, the number of companies buying online (18.5 %) fell below the EU average (22.5 %) and that for the neighbouring countries (25.7 %). These commercial online activities have pushed e-commerce's proportion of overall turnover to 15 %, close to the European average. However, e-commerce in Belgium is constrained by

a range of regulatory conditions that do not affect its neighbours, and the end-2015 agreement on the legal framework for night and shift work in e-commerce should benefit trade and distribution, and help Belgium catch up.

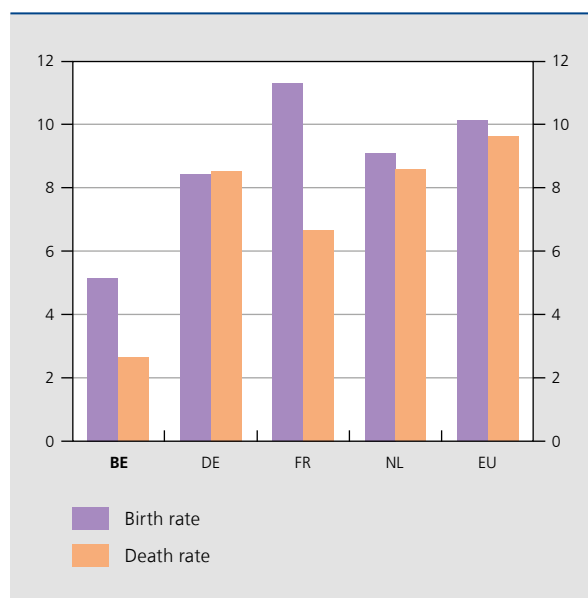
**... and by efficiently allocating resources**

Enhancing companies' internal performance is one way of boosting a country's average productivity levels; the other is business creation and closure dynamics. An economy running at its full potential will see the least productive companies go under and so free up resources (physical capital, labour and/or financial resources), boosting the expansion of existing players and creating fertile ground for new companies with better growth prospects to emerge.

The recent crisis caused the collapse of many a company in Belgium, and to re-energise the country's productive network new companies will need to be created, preferably players with high growth potential. This is a challenge, as Belgium has been known for years for its low number of new businesses; in this arena it lags behind its three neighbouring countries and even the broader EU. Statistics on company demographics reveal that the new business creation ratio in Belgium – an average 5.2 % in the 2010-12 period – is well below these two reference areas, i.e. 9.6 % in the neighbouring countries and an average 10.1 % in the EU. At the same time, company closure rates are also significantly lower in Belgium and make

**CHART 109** BUSINESS CREATION AND CLOSURE RELATIVELY LOW IN BELGIUM

(in % of the number of active companies, 2010-12 averages)



Source: EC.

for very weak rotation in its population of companies. All that said, Belgium did see the net number of companies grow by 2.1 % in the period and so beat the EU average (1.5 %). More recent data for Belgium only would seem to suggest that business creation dynamics have somewhat improved in the past two years.

However, these negative observations on gross business creation numbers require some qualification: though relatively low in numbers in Belgium, these would appear to be of a higher quality than in the main neighbouring countries.

New companies can be broken down into two main categories depending on their long-term growth potential. The first category – necessity- or opportunity-driven entrepreneurship – comprises people creating their own jobs (retail, self-employed, the liberal professions, etc.) or seeing the creation of their company as a way to earn a living or generate an income. The second category – entrepreneurship focused on growth – comprises people aiming to develop an economic project generating wealth and employment beyond their primary need to secure their livelihoods. A sample of Belgian companies created in the past two decades shows examples of both profiles, as not even 27 % of these new players saw their turnover make significant strides in the first five years of their existence – 29 % if only SMEs are considered – while 32 % sustained or reduced their activity levels. Belgium's

potential high-growth players are slightly more strongly represented in manufacturing and construction.

Contributions made by necessity- or opportunity-driven entrepreneurs should not be dismissed, of course, but ultimately it is growth-driven entrepreneurs that are likely to spark buoyant TFP and employment growth, provided they are not greatly discouraged either at the start or at a later stage of their development. Compared with the situation in Belgium's three neighbouring countries and in the EU, this latter category accounts for a bigger proportion of the population of Belgian entrepreneurs. Surveys conducted by Global Entrepreneurship Monitor (GEM) revealed a higher number of growth-driven entrepreneurs in Belgium, except at the peak of the recent economic crisis when reduced employment opportunities in both private and public sectors may have encouraged more people to start their own business. What is more, Belgium's growth-driven entrepreneurs are much more focused on developing and exporting new products than their counterparts in its neighbouring countries.

Both types of entrepreneurship can run into a range of obstacles. Whereas regulatory barriers may hinder market entry for entrepreneurs driven by necessity or opportunity (rules about starting a retail business, say, or entry barriers to selected professions), growth-focused entrepreneurs undoubtedly face greater funding issues. Banks may have recently loosened their bank lending conditions for companies, but venture capital remains very hard to come by.

**TABLE 30** GROWTH PROFILE, AFTER FIVE YEARS, OF COMPANIES CREATED BETWEEN 1996 AND 2010  
(in % of number of companies created)

	<i>p.m.</i> Share of total at time of creation	Five years after creation			
		Closed	Zombie <sup>(1)</sup>	Stable <sup>(2)</sup>	Significant growth <sup>(3)</sup>
Total		41.5	3.5	28.2	26.9
Breakdown by initial size <sup>(4)</sup>					
Small	58	48.3	0.7	22.8	28.1
Medium-sized	31	33.3	6.9	28.5	31.4
Large	10	27.9	8.4	57.6	6.1
Breakdown by sector					
Industry	6	34.6	2.1	34.5	28.7
Construction	16	36.9	2.7	27.0	33.4
Market services	78	43.3	3.7	28.1	24.8

Source: NBB, based on VAT returns and data from the Crossroads Bank for Enterprises.

(1) A zombie company is one with turnover in its fifth year of business at least two deciles lower than at the outset of operations.

(2) A company is rated as stable if its turnover in its fifth year of business is in the same decile – or one notch up or down – as at the outset of operations.

(3) A company is considered to stage significant growth if its turnover in its fifth year of business is at least two deciles higher than at the outset of operations. In construction, a company cannot be classified as staging significant growth if it ranked in the top two deciles at the outset.

(4) A company is considered small if its turnover in its first year of business is in the lowest three deciles of that year; it is considered large if its initial turnover is in the top three deciles.

**TABLE 31** ENTREPRENEURSHIP POTENTIALLY GENERATING MORE GROWTH  
(in % of total new entrepreneurs<sup>(1)</sup>)

	Necessity or opportunity	Growth
2008		
Belgium	55.4	44.7
Neighbouring countries	76.0	24.0
EU average	79.6	40.4
2011		
Belgium	82.9	17.2
Neighbouring countries	76.8	23.2
EU average	71.8	28.3
2014		
Belgium	73.8	26.2
Neighbouring countries	83.0	17.0
EU average	70.7	29.3

Source: Global Entrepreneurship Monitor.

(1) Entrepreneurs starting a business or running a business that is no more than three-and-a-half years old.

According to OECD figures, Belgium invested 0.028 % of GDP in venture capital in 2014, just above the EU15 average, but the amount of funding that goes into early-stage projects – e.g. start-ups – is below the EU15 average and invested amounts have stalled at below pre-crisis levels. To improve access to this type of funding, the federal government launched a tax shelter mechanism for start-ups in the year under review, particularly aimed at innovative SMEs.

Cultural factors also influence the dynamics of both types of entrepreneurship. Belgium’s cultural conditions are less conducive to business creation than the average in Europe, with a greater fear of failure and risk aversion often cited as impediments when establishing companies in Belgium. By contrast, Belgium puts few objective obstacles or red tape in the way of the budding entrepreneur. From a rather longer-term perspective, the country would do well to pursue education policies that encourage student creativity and reward an entrepreneurial mind-set, for the benefit of both individuals and society at large. Policy measures to help bankrupt entrepreneurs’ transition to a new occupational activity might tempt greater numbers of aspiring entrepreneurs to flesh out their projects.

***A growth-promoting framework requires high-quality infrastructure ...***

In addition to intangible capital, physical transport and communications infrastructure is of course also crucially

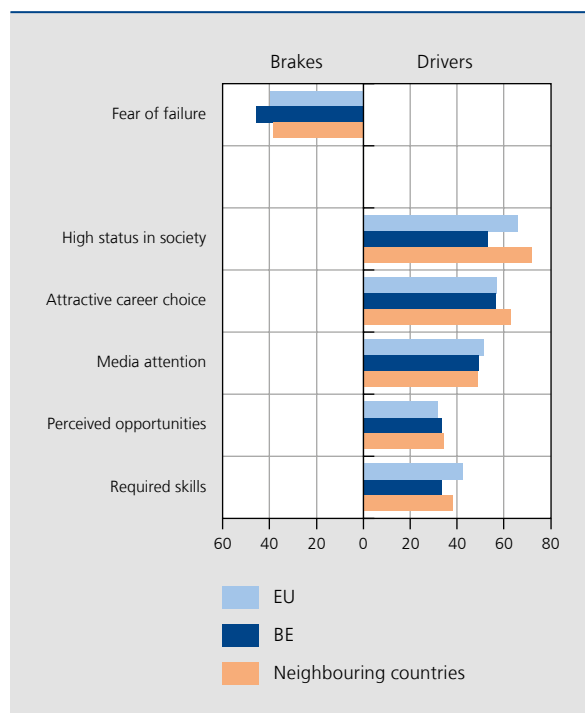
important for any country to foster its economic potential, to earn and keep its place in the globalised economy and to make it more attractive for foreign direct investment (FDI). It also helps to ensure an efficient economy by facilitating labour mobility and physical and information flows.

A key contributor to the Belgian economy, logistics is supported by a port infrastructure – which is among the best performing in the EU – and by the country’s geographical position in the middle of a hinterland of various key centres. Belgium ranked third in the World Bank’s 2014 Logistics Performance Index, after Germany and the Netherlands, and it is also among the European leaders in terms of transport infrastructure density (road, rail and waterways).

But this superior infrastructure is deteriorating, particularly the country’s roads, which are facing serious congestion, especially in and around the large conurbations and not least because taxation favours car use.

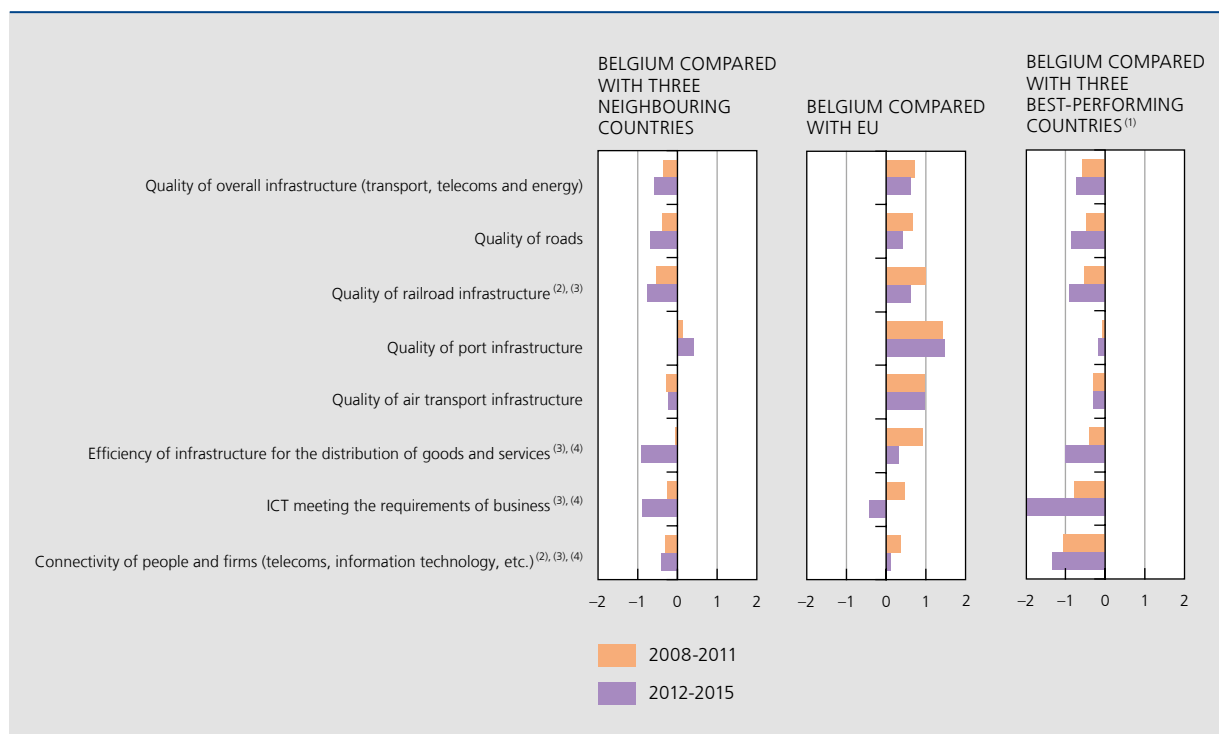
INRIX’s report, which is based on observations of real-time average speeds and traffic volumes in major conurbations in particular, notes that Belgium is the most congested country in Europe; three of its cities – Brussels, Antwerp

**CHART 110** CULTURAL FACTORS IN THE WAY OF BUSINESS CREATION  
(in % of 18-64 age bracket, average in the 2012-14 period)



Source: Global Entrepreneurship Monitor.

**CHART 111** BELGIAN TRANSPORT INFRASTRUCTURE GETTING WORSE  
(normalised standard deviations between Belgium and its reference group)



Sources: IMD, Global Competitiveness Report (WEF).

(1) Selection of the three best performing countries based on the average in the years under review, by indicator.

(2) Data for 2010 and 2011, and not for the 2008-11 period.

(3) EU excluding Cyprus and Malta.

(4) Data for Latvia only pertain to the 2013-15 period.

and Ghent – made it to the Top 10 of most traffic-jam-prone European cities in 2014. Investment in transport infrastructure should not merely emphasise closer integration of the various transport resources (roads, rail and inland waterways) and more complementarity between them, but should also find solutions to bottlenecks in the system. Such spending should also take account of global ecological considerations and promote modes of transport that impact less on the environment. In fact, environmental considerations should be extended beyond transport to encourage environmentally friendly production practices and responsible behaviour across the board. This will require efficient coordination between the various entities of the State.

*... a suitable regulatory framework ...*

Appropriate regulation is equally important to an efficiently-run economy. If excessive, it nips in the bud the rise of new players, promotes the continued existence of poorly performing companies and slows TFP growth. However, improving economic efficiency should never be the only criterion by which to judge a regulatory

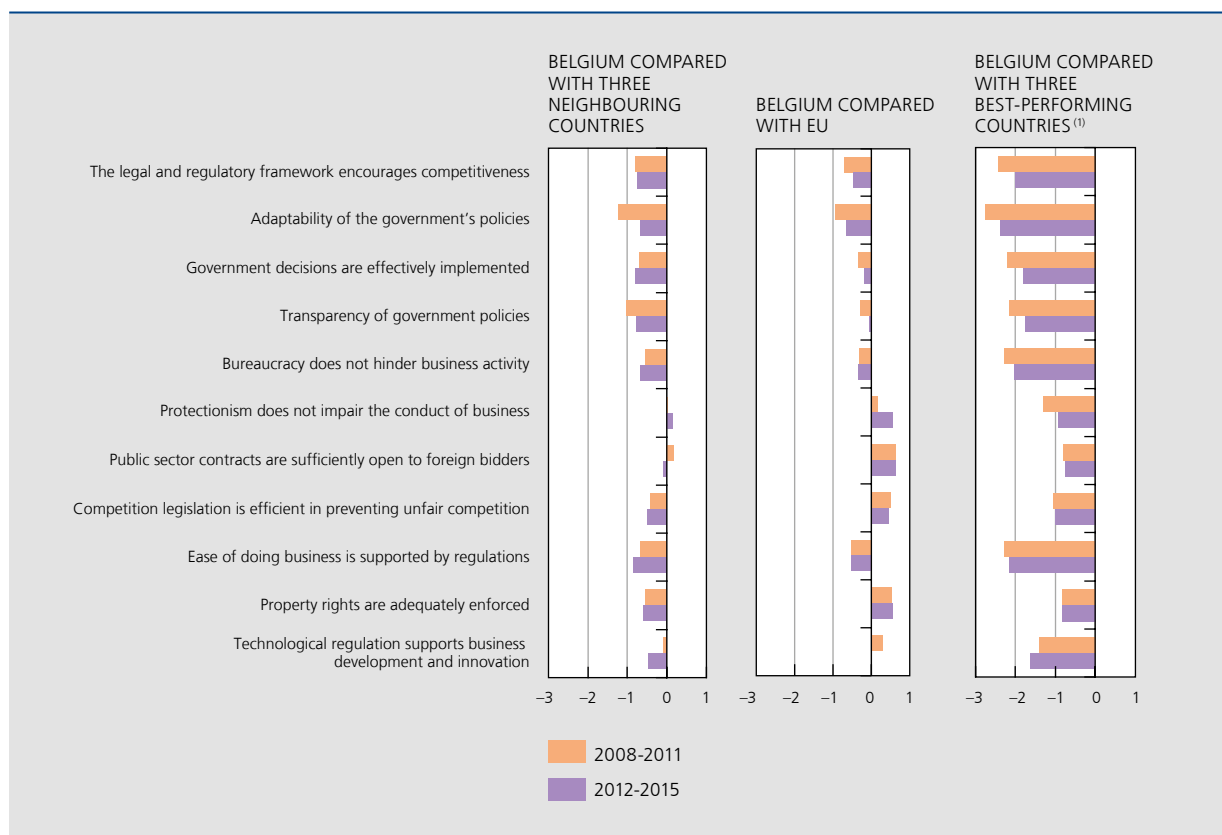
framework, and specifically not at the expense of failing to protect consumers and/or the environment. Similarly, market imperfections may call for a rigorous regulatory framework, as the absence of rules and regulations could cause companies to undermine the public interest by not taking account of the negative externalities caused by their operations. OECD indicators on regulation suggest that the rules governing product markets – which might depress economic efficiency – are generally agreed to be less heavy-handed in Belgium, as well as in its neighbouring countries and in the other countries of the EU.

Nonetheless, there are some notable differences between Belgium's performance and that of its three neighbouring countries. The legal and regulatory framework, the adaptability of government policy, bureaucracy and the efficiency of doing business all leave room for improvement in Belgium. It is worth noting that the sixth State reform transferred some of these powers – e.g. access to selected professions – to the Regions, and that diverging regulatory developments might hinder the growth of economic activity, especially for companies active in more than one of Belgium's three Regions.



**CHART 112** GOVERNMENT POLICIES AND LEGAL AND REGULATORY FRAMEWORK NEED TO BE BETTER ALIGNED TO COMPETITIVE CHALLENGES

(indicators for regulation and market functioning, normalised standard deviation between Belgium and its reference group)



Source: IMD.

(1) Selection of the three best performing countries based on the average in the years under review, by indicator.

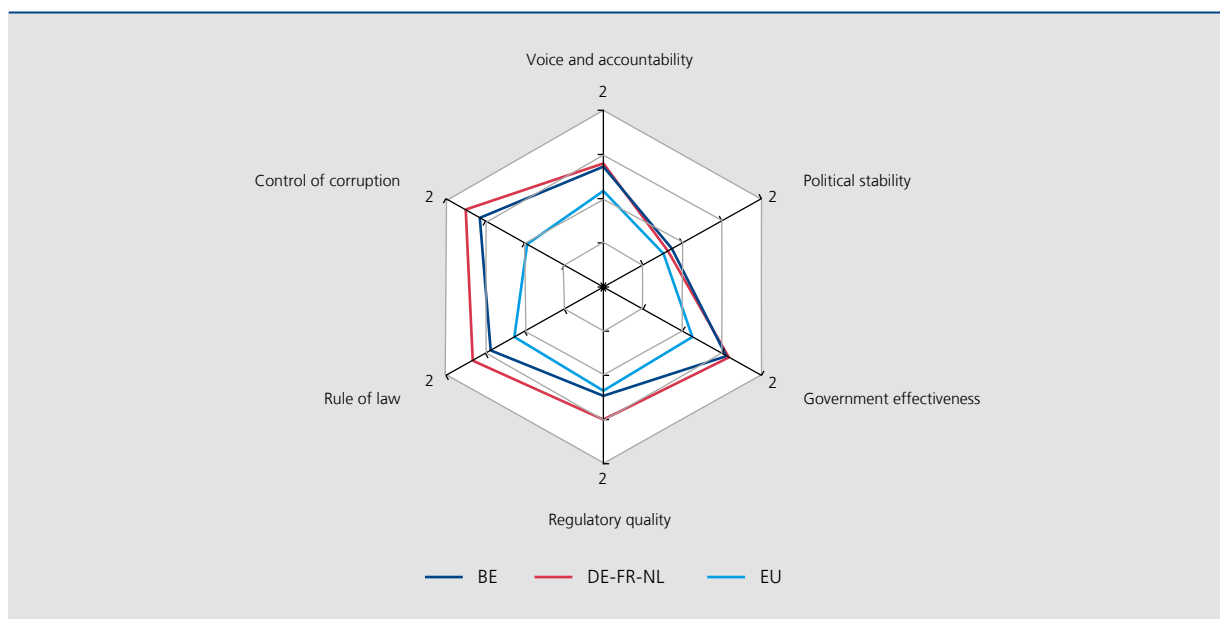
**... and robust governance on the part of the government**

In addition to appropriate regulation, a sound economy also benefits from the confidence business and private individuals have in their government and the country's institutions. The World Bank's Worldwide Governance Indicators have shown such confidence

to have been higher for Belgium than the EU average for many years. Some indicators nevertheless point to less favourable conditions in Belgium than in its three neighbouring countries, particularly in the government's ability to enforce rules and policy measures that foster the development of the private sector as well as the rule of law – e.g. intractably slow legal procedures.

**CHART 113** SOME ASPECTS OF GOVERNMENT GOVERNANCE SCORED AS LESS FAVOURABLE IN BELGIUM THAN IN NEIGHBOURING COUNTRIES<sup>(1)</sup>

(averages in 2011-14)



Source: World Bank.

- (1) High values reflect good governance scores.
- (2) "Voice and accountability" captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.
- (3) "Government effectiveness" captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- (4) "Regulatory quality" captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.