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- The gap in GDP per capita *vis-à-vis* the upper half of the OECD has recently widened as the limited growth in the labour force participation rate, which remains low by international standards, could not offset the decline in the positive labour productivity differential.
- The government took some steps to reduce labour costs, especially under the "Competitiveness and Employment Pact". Employment has been also supported by an intensification of job search monitoring and an increase, albeit modest, in financial incentives to postpone retirement. Measures to increase competition in the energy sector have led to a fall in prices, but regulatory fragmentation has increased.
- Raising employment is key to enhance growth. This requires a lower labour tax burden and further increases in the effective retirement age. Job creation would also benefit from a more flexible wage determination process and from improvements in the design and integration of unemployment benefits and active labour market policies. Reducing product market regulation in non-tradable sectors would boost competition and productivity growth.
- Raising environmental taxes to help finance reductions in labour tax wedges could favour both higher and more sustainable growth.

Growth performance indicators

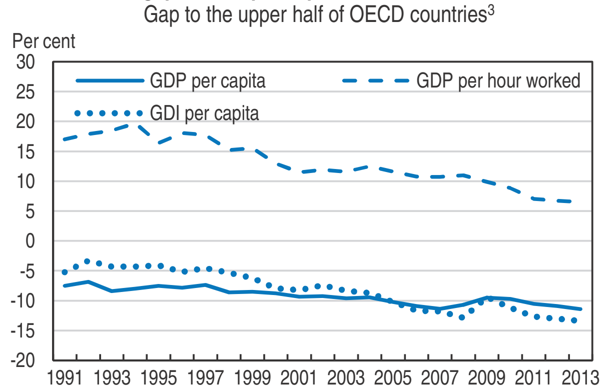
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		1.0	0.3
Potential labour utilisation		0.3	0.0
of which:	Labour force participation rate	0.3	0.0
	Employment rate[1]	0.0	0.0
	Trend employment coefficient[2]	0.0	0.0
Potential labour productivity		0.7	0.3
of which:	Capital deepening	0.1	0.2
	Labour efficiency	-0.1	-0.4
	Human capital	0.6	0.5

B. The gap in GDP per capita has widened somewhat

Gap to the upper half of OECD countries[3]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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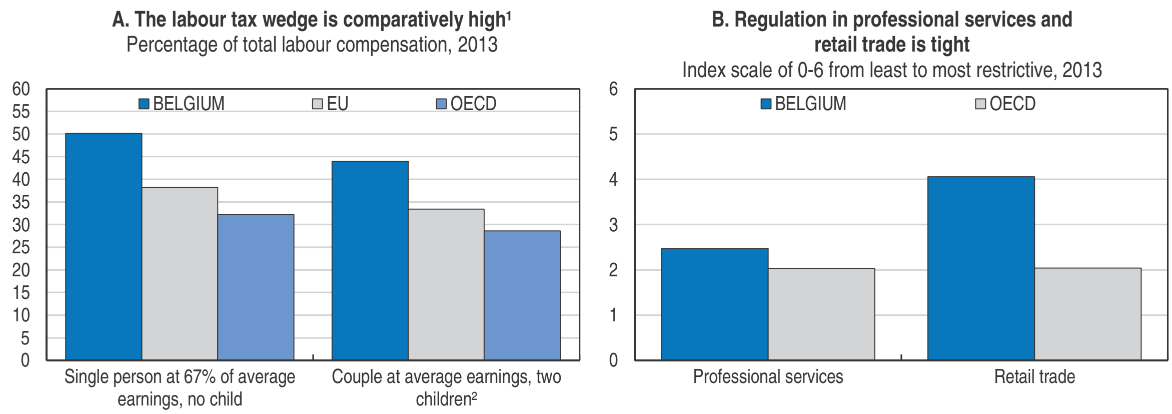
Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of average earnings for the first earner and average of the three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178131

Going for Growth 2015 priorities

Priorities supported by indicators

Reduce the labour tax burden and enhance work incentives in the tax system. The interaction of the tax and social security contribution systems hampers labour market participation.

Actions taken: In October 2013, the federal government agreed on several measures to reduce labour costs, in particular for SMEs and companies that hire young unemployed people, albeit the amounts involved are rather small. The important reductions in social security contributions outlined in the 2013 "Competitiveness and Employment Pact" are maintained by the new government, albeit with a different timing. These cuts are targeted at low-paying jobs as well as at tradable sectors that experienced stronger growth in labour costs than in productivity.

Recommendations: Remove spikes in effective marginal tax rates. Narrow the scope of wage subsidies and reductions of social security contributions to low-wage workers. Reduce taxes on labour income and offset the revenue shortfall by a higher reliance on property and environmentally-related taxes.

Reform the unemployment benefit system and strengthen the efficiency of activation policies. Search incentives are undermined by unemployment benefits that are unlimited in time and substantially above social assistance for up to four years. Active labour market policies have a very limited impact at encouraging return to work.

Actions taken: Job search monitoring was intensified in 2013 for newly unemployed people aged between 50 and 55 years and for recent graduates.

Recommendations: Shorten the period during which benefits are gradually decreasing towards their final level and lower the generous ceiling for higher income workers. Start earlier with activation during the unemployment spell, especially through job-search assistance, and widen the definition of suitable jobs as the spell gets longer. Replace age-related exemptions from job-search obligations by individual assessments of work capacity.

Reform the wage bargaining system. The highly co-ordinated wage bargaining system prevents the alignment of wages to productivity developments while automatic wage indexation hampers flexible wage adjustment.

Actions taken: No action taken on wage bargaining. Nevertheless, in early 2014 the price index used for automatic wage adjustments was revised to better reflect changes in consumption patterns. In addition, wage indexation will be temporarily suspended in 2015.

Recommendations: Reform the wage formation process to better reflect domestic productivity developments and preserve external cost competitiveness. To achieve this, remove links to foreign wage developments, decentralise wage negotiations and encourage social partners to phase out the automatic wage indexation mechanism.

Other key priorities

Reduce the implicit tax on continued work. Employment rates for older workers are low due to the widespread use of early retirement schemes and other possibilities for early exit from the labour market.

Actions taken: The 2013 revision of the pension bonus ensured consistency with the gradual tightening of early retirement rules agreed in 2012 and has somewhat increased incentives for longer careers.

Recommendations: Increase the minimum retirement age further and phase out occupational exemptions. Reduce the use of the unemployment benefit system as a gateway to early retirement by extending to all wage agreements the surtax on employer-provided top-ups to unemployment benefits.

Increase product market competition. Restrictive regulation of retail distribution and professional services hampers competition, as does the multi-layered regulatory set-up of network industries.

Actions taken: Costs of switching gas and electricity suppliers have been cut and contract termination penalties were abolished, which led to markedly higher competition since early 2013. However, regional regulators have become responsible for setting and enforcing distribution tariffs, which causes further regulatory fragmentation.

Recommendations: Loosen competition-inhibiting regulations regarding large outlets, opening hours and sales and make regulation for professional services less onerous. Streamline the complicated regulatory structure of network industries by establishing single regulators for each network industry. Simplify universal service obligations, including competitive tendering and government financing.

Reform areas no longer considered a priority in *Going for Growth*

For Belgium, all priority areas from the 2013 issue of *Going for Growth* are maintained.

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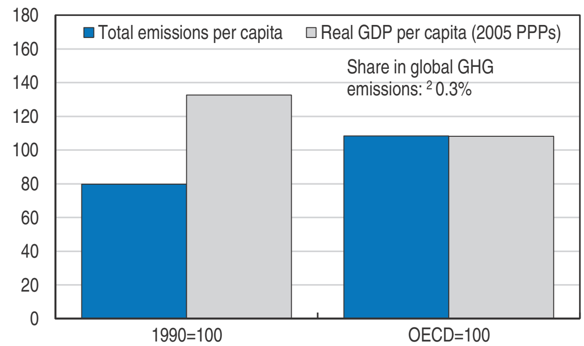
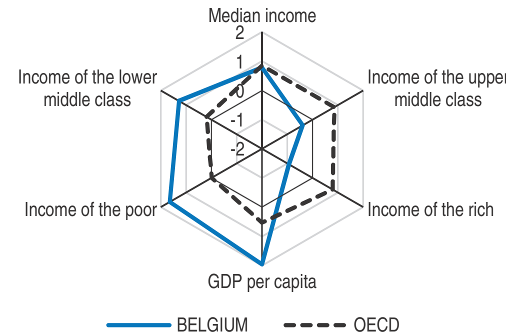
Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1990 level
Average 2008-12[1]



B. Households at the lower end of the income distribution have gained relatively more[3]
Average annual growth rate in real household disposable income, 2005-11[4]



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-10 for Belgium.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*..

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