2017 OECD ECONOMIC SURVEY
OF BELGIUM

PROMOTING INCLUSIVE PRODUCTIVITY
GROWTH


Brussels, 20 June 2017
Main messages

- Belgium has undertaken important reforms
  - Wage-setting system
  - Tax shift
- Many challenges remain:
  - Productivity growth has weakened
  - The population is ageing and public debt is high
  - Competitiveness is recovering following a period of high wage growth
  - Inflation is higher than in neighbouring countries
  - Inequalities in educational outcomes and the labour market threaten inclusiveness
The economy has recovered

GDP per capita index

Index 2000 = 100

Source: OECD Productivity Database.
Social and economic well-being is high

B. OECD Better Life Index$^{1,2}$

1. Each well-being dimension is measured using one to three indications from the OECD Better Life Indicator set with equal weights.
2. Indicators are normalised by re-scaling to be from 0 (worst) to 10 (best).

Source: OECD "Better Life Index 2016".
Belgium has been a top reformer

Responsiveness rate to OECD Going for Growth recommendations, 2015-16

The responsiveness rate measures the share of total policy recommendations formulated in the last issue of Going for Growth on which governments in each country have taken some action. It considers only legislated changes as opposed to announced changes.

Competitiveness is recovering  

Unit labour costs are moderating 

Source: OECD, Economic Outlook 101 database, OECD Economics Department database.
Inflation has picked up

Inflation is higher than in neighbouring countries

Source: OECD, Economic Outlook 101 database, OECD Economics Department database.
Public debt is falling, but remains high

Public debt to GDP ratio

Source: OECD Economic Outlook 101 database

1. Maastricht criterion.
The population is ageing

Old age dependency ratio projections
Population 65 and over to population 15 to 64 years

Source: Eurostat.
Productivity growth has slowed

Multifactor productivity

Index 2000=100

Productivity varies widely between firms

Real value added per employee, average, latest available data

Source: CompNet, 2016.
Youth, seniors and low-skilled workers have low employment rates

Employment rate amongst some groups
% of population in each group, 2016

The labour market integration of immigrants can be improved.

Employment status by country of origin and gender

First challenge: boosting productivity and economic growth
The tax mix could be adjusted to support growth

Note: Shares of fiscal revenues for a selection of tax categories. These are calculated as a % of total tax revenue and displayed as a percentage of the OECD average which equals 100.

Sources: OECD, Environment Database - Instruments used for environmental policy and; OECD, Revenue Statistics database.
More public investment would boost growth

Public investment has been declining since the 1980s
As a percentage of GDP, 1970-2016

Source: OECD Economics Department database.
Sustaining R&D expenditure will raise productivity

Gross domestic expenditure on R&D
As a percentage of GDP, 2015 or latest available

Note: For Australia, Canada, Ireland and Turkey, data refer to 2014.

Source: OECD, Main Science & Technology indicators.
Boosting business dynamism would raise productivity

Entry and exit in the business sector
Latest available data

Source: European Commission
The business environment is favourable

Framework conditions for entrepreneurship
Relative to EU average, 2009-15

Note: Lower scores indicate lower performance. Scores are expressed relative to EU (unweighted) average equal to zero for each indicator.

Source: De Mulder and Godefroid, 2016.
Reducing administrative burdens would boost firm dynamism

Barriers to entrepreneurship
Administrative burdens on start-ups, latest available data

Source: OECD, PMR indicators database.
Start-ups would benefit from more venture capital

Venture capital
As a percentage of GDP, 2015

Note: For Australia, Canada, Ireland and Turkey, data refer to 2014.

Second challenge: making growth more inclusive
Further reducing high labour taxes would support job creation.

Social security contributions remain high\(^1\)
As a percentage of gross wage, 2015

* 2021, following the tax shift

1. Average rates of social security contribution, calculated for a single person, with no children, at 100% of the gross wage.

Source: OECD, Tax-Benefit Models; OECD, Taxing Wages database.
Adult education and training is key to improving employment prospects

Participation in adult education and training
As a percentage of the population aged 55-64, latest available data

1. Participation over the year.
Source: OECD, PIAAC 2013.
High seniority wages reduces job mobility

Wages of males workers aged 60-64 relative to workers aged 30-35
Latest available data

Note: For Belgium, data refer to Flanders. Relative wages are obtained using HECKIT 2-stage estimation, regressing (log) gross hourly wages on age group, controlling for years of schooling, PIAAC scores and occupational status.

Source: OECD, PIAAC 2013.
Growth in tertiary education attainment has slowed

Share of individuals aged 25-34 with tertiary education attainment

Average number of years of education

Source: OECD, Education at a Glance 2016 database.
Youth with an immigrant background are less likely to complete tertiary education

Share of people aged 25-34 with tertiary education in each population group

Source: OECD, PIAAC 2013
Firms are struggling to fill ICT vacancies

ICT skills shortage
Share of firms that offered jobs for ICT specialist that were difficult to fill, 2015

Source: Eurostat.
## Main Findings

- Public investment should be increased to boost potential growth.
- The tax mix could be altered to support growth and make it more inclusive.
- Commuting and traffic congestion contribute to air pollution.
- Regulations are generally business friendly, but productivity growth has slowed.
- There is scope to improve R&D activity, innovation and transfers of technology.
- Business dynamism is weak. Start-ups face several barriers.
- Educational outcomes of socio-economically disadvantaged individuals are comparatively poor.
- The labour force participation of seniors and low-skilled workers, many of whom are first or second generation immigrants, is low.
- The current model of financing tertiary education may not be sustainable.
Recommendations for fiscal and financial policies to support the economy

- Shift taxes further away from labour by lowering employer social security contributions on low wages.

- Increase less distortionary taxes, such as green, capital gains and recurrent taxes on property.

- Finance growth-enhancing public investment by reducing inefficient public spending, considering user fees and private sources of finance.
Recommendations to boost productivity

- Streamline public support for R&D and innovation within each region. Step up innovation support cooperation across regions and communities.

- Reduce administrative burdens on SMEs. Reduce the level of the paid-in minimum capital requirement and increase the VAT threshold.

- Strengthen contract enforcement by strengthening court automation and case management

*More in Chapter 1 of the Economic Survey*
Recommendations to make growth more inclusive

- Improve the employability of seniors by encouraging adult education and training, flexitime and new organisational practices, and work with social partners to reduce seniority wages.

- Enhance pre-primary language education for the children of immigrants. Expand controlled school-choice schemes to reduce the concentration of pupils with an immigrant background in particular schools.

- Improve teacher training and incentives to attract teachers to schools with a high concentration of disadvantaged students.

- To help sustain spending on tertiary education consider increasing tuition fees, while maintaining grants and waivers along with post-study income-contingent student loans.

More in Chapter 2 of the Economic Survey
More Information…

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