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Despite increases in employment rates, labour utilisation remains low. Labour productivity growth has slowed, albeit from a relatively high rate.

Priorities supported by indicators

Reduce the implicit tax on continued work at older ages

Attractive publicly-subsidised routes to early retirement, notably unemployment insurance (UI) benefits and early retirement pensions, underpin low employment rates for the older working-age population.

Actions taken: Job-search requirements up to age 58 have been progressively introduced for new UI claimants. UI top-ups paid by employers to older workers made redundant are now subject to a (reduced) social security charge. The ceiling on wages taken into account in computing public pension benefits in the general scheme for wage earners has been indexed to wages instead of prices since the 1996 reform, reducing the disincentive to work extra years.

Recommendations: Reduce further the implicit tax on continued work by progressively aligning access conditions for early retirement schemes with those for early retirement pensions and, in the transition phase, by terminating the accumulation of pension rights for those in such schemes. Early retirement pensions should also be made actuarially fair.

Reduce the tax wedge on labour income

Labour utilisation is low, partly because of high effective tax rates on labour income. These in turn reflect a high overall tax burden and a narrow capital-income tax base.

Actions taken: Social security charges have been reduced, especially for low income earners, personal income tax has been lowered, and a non-wastable tax credit for those on low labour incomes has been introduced.

Recommendations: Room should be made for further reductions in taxes on labour income by cutting government expenditure, especially on social transfers, and by reducing tax expenditures.

Ease the regulatory burden on business operations

Government is not required to consider more cost-effective alternatives before adopting new regulations. Moreover, the administrative burden has risen.

Actions taken: The government is reviewing the few remaining price controls and sector-specific regulations with a view to liberalise existing practices. Administrative burdens are being reduced through simplification and greater use of e-government.

Recommendations: Regulators should be required to consider alternative policy instruments before adopting a new regulation and should receive guidance on alternatives. The government should continue to eliminate unnecessary sector-specific regulations, reduce the administrative burden and review laws and regulations governing the professions to eliminate unwarranted anti-competitive practices.

Other key priorities

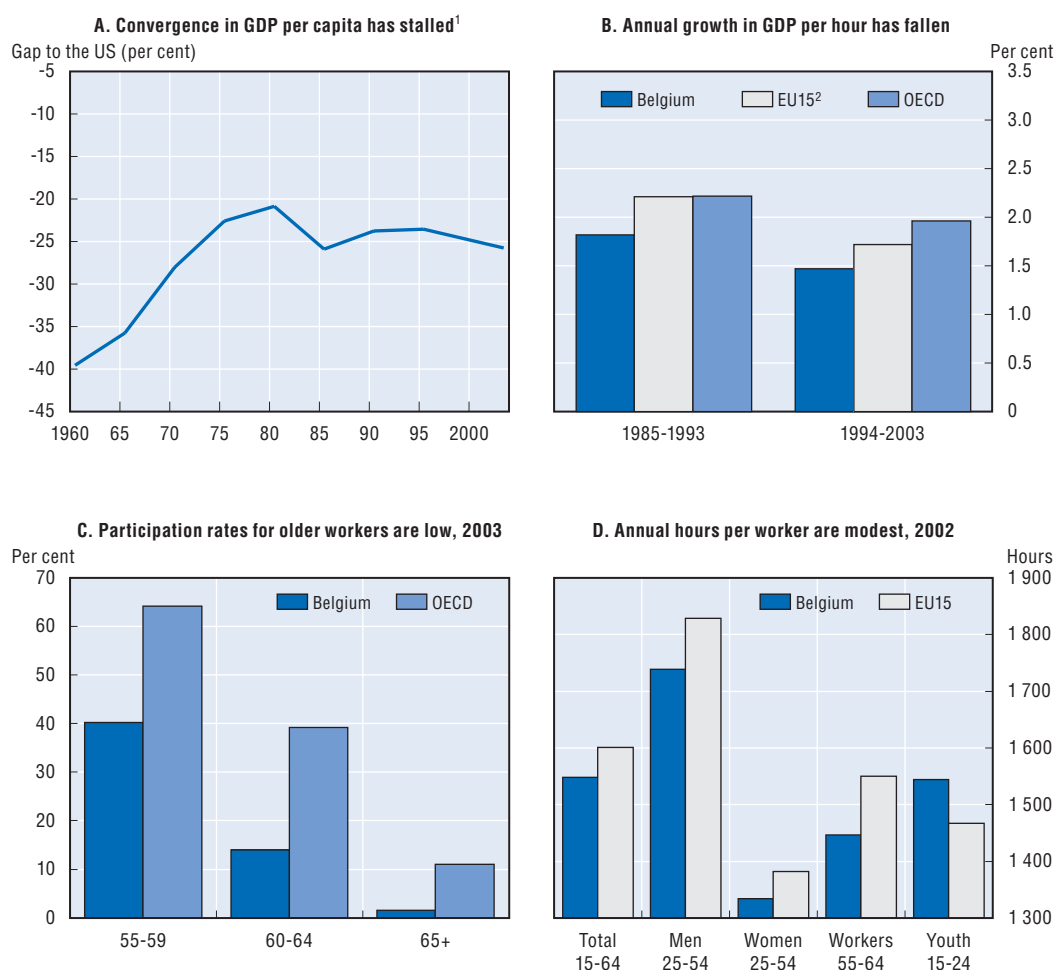
- Improve education outcomes for students from ethnic backgrounds and strengthen the enforcement of anti-discrimination laws to enhance this group's labour-market performance.
- Make UI conditional on properly enforced job-search requirements and increase efforts to upgrade skills for unemployed people.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	1.9	1.5	1.8	1.7
Trend employment rate	57.9	59.4	61.4	62.1
Trend participation rate	62.5	64.1	66.0	66.9
Structural unemployment rate (NAIRU)	7.3	7.4	7.0	7.2

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

Source: Charts A and B: *National Accounts of OECD Countries, 2004*; *OECD Labour Force Statistics, 2004*; *OECD Economic Outlook, No. 76*; Chart C: *OECD Labour Force Statistics, 2004*; Chart D: *European Union Labour Force Survey*.