

Belgium

Prime Minister: Yves LETERME	Population (2007 est.): 10,584,534
Finance Minister: Didier REYNDERS	GDP (2007): €330.8 billion
Central Bank Governor: Guy QUADEN	GDP/capita: €31,100
	GDP by sector:
Joined the EU: 1957	Agriculture 1.1%
Adopted the Euro: 1999	Industry 24.5%
Currency prior to Euro: Belgian Francs	Services 74.4%
	Life Expectancy (women / men): 82 / 77
	2005 2006 2007 2008*
Real GDP growth rate	1.8% 3.0% 2.8% 1.4%
Inflation	2.5% 2.3% 1.8% 4.7%
Unemployment Rate	8.5% 8.3% 7.5% 7.1%

* forecast

Belgium in the EU and the Euro Area

Belgium was one of the first six Member States of the EU. In 1957 it joined what was then called the European Economic Community (EEC) and prior to this it was a member of the Benelux customs union. This was an area of reduced/abolished tariffs on trade and is often regarded as a precursor to the EU. Belgium was also one of the founding members of the Euro Area. It adopted the Euro in 1999 and introduced Euro notes and coins in 2002, replacing the Belgian Franc.

Economic Overview of Belgium

Belgium has capitalized on its central geographic location, highly developed transport network, and diversified industrial and commercial base. Industry is concentrated mainly in the populous Flemish area in the north. With few natural resources, Belgium must import substantial quantities of raw materials and export a large volume of manufactured goods, making its economy unusually dependent on the state of world markets. The economy of Belgium is therefore heavily based on trade.

Although it only inhabits 0.2% of the world's population, Belgium accounts for 3% of global imports and 3.2% of global exports. 60% of these exports are comprised of intermediate goods, such as machinery, and 20% are comprised of consumer goods. In particular, Belgium is the largest exporter of diamonds and carpets and the second largest exporter of plant fibers, margarine and chocolate. Roughly three-quarters of its trade is with other EU countries.

For Belgium, economic activity in 2007 was stronger than anticipated, with annual GDP growth at about 2.8%, but the Belgian economy started losing momentum in the course of 2007, as net exports became increasingly negative with the weakening of external demand. From the beginning of 2008, also domestic demand softened as a result of the sharp increase in inflation, related to the rise in commodity prices and, more recently, the financial crisis. Looking ahead, the spike in oil prices, euro appreciation, the spillovers from the global financial turmoil and dimmer economic prospects in partner countries will contribute to an economic slowdown. Demographic trends are projected to contribute to this slowdown, as population aging curbs labor supply. Despite recent increases, employment rates remain among the lowest in the industrialized world. At the same time, skill mismatches and geographical differences in growth and income persist, amid limited labor mobility.

The Executive Board of the IMF¹ considered that the main challenges faced by the Belgian authorities are to promote labor market reforms, therefore reducing unemployment and boosting productivity, to improve training and education, and to phase out early retirement schemes.

Some Economic Challenges Facing Belgium

The GDP-per-capita gap vis-à-vis best performing countries remains substantial. This reflects low employment rates of older workers and immigrants as well as geographical labor market mismatches.²

High Unemployment of Older Workers

The growth of the per capita GDP in Belgium is hindered by the high unemployment rates of older workers. Elements of the Belgian pension system encourage early retirement, including high public subsidies on early retirement via unemployment insurance benefits and special early retirement pensions. The government has made some attempt to curb early retirement, including raising the age of early retirement via the pension system from 58 to 60 and closing down a number of alternative paths to early retirement. In addition, the female age for normal retirement has been raised to align it with that of men – 65. However, early retirement remains widespread, limiting the tax base and GDP capacity, and there is thus still a great deal of work to be done in terms of encouraging more prolonged employment.

Low Labour Market Participation of Immigrants and Low Income Workers

High unemployment of low income workers and immigrants poses challenges to the economy similar to those of high unemployment of older workers. Part of the problem is that unduly high taxes on low incomes act as a disincentive to find employment, whilst also impoverishing further those that are already in work. Thus one solution would be to ease tax burdens on these groups. In addition, the welfare benefit system might be reformed so as to create more incentives to find work. The government has already made some inroads in this respect by implementing a multi-year tax reform and a reduction in individual social security contributions targeted at low-income workers. Despite this, many feel that unemployment benefits should be tapered further so as to encourage more people to look for work. Further it was recommended that regulations of shop opening hours be relaxed, to stimulate job creation and competition in the retail sector. Finally though, high unemployment levels are also a reflection of the fundamental features of the Belgium economy, in particular the fact that it tends to foster more skill-based activities rather than unskilled industrial labor, thus leaving little in the way of opportunities for less educated workers.

¹ International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn0840.htm> 03/28/2008

² "Economic Reform: Going for Growth." OECD. 2008

Strengthen efficiency of active labor market policies

To reduce the large and persistent geographical mismatches in the labor market, the scope for individual companies to opt out from sectoral agreements should be increased. To facilitate return to work, job-search requirements for the unemployed should be strengthened, funds for active labour market policies should be redirected from subsidised employment to training, and co-ordination between placement agencies in different regions should be improved.