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II. Fiscal policy

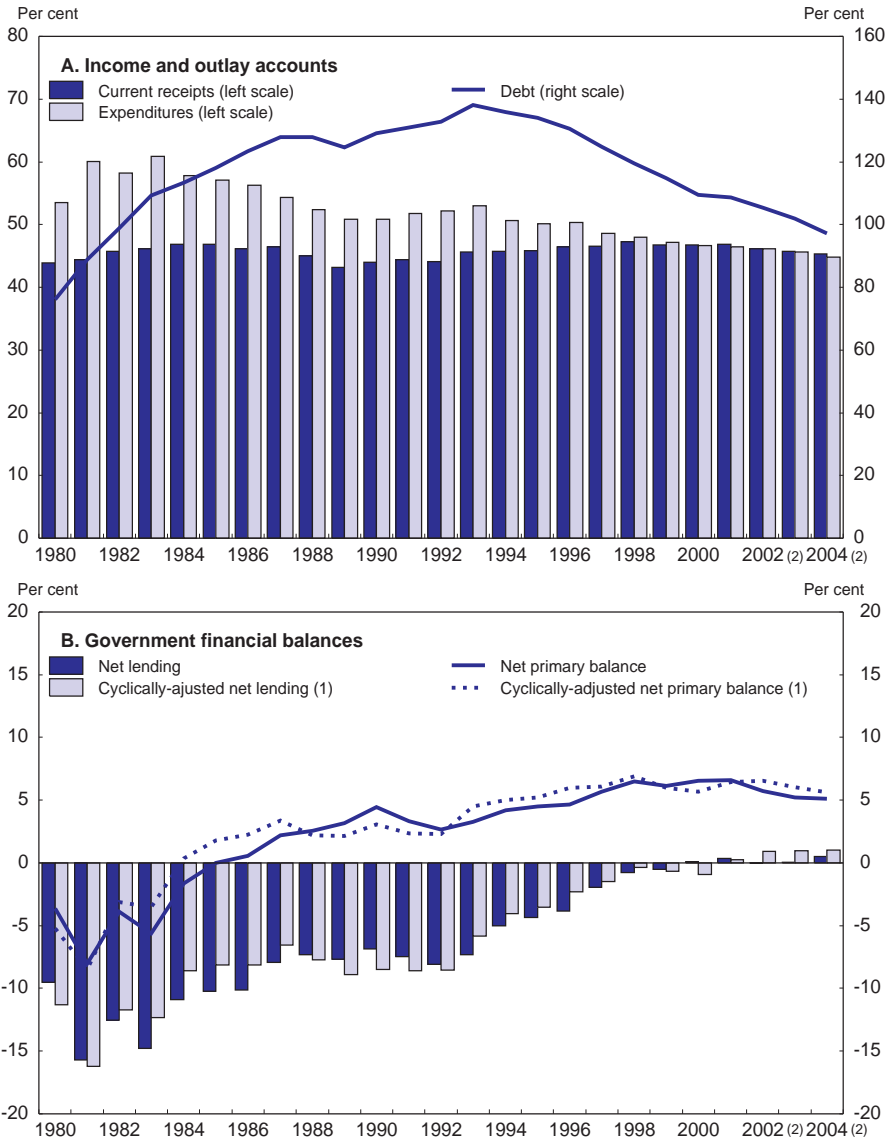
Overview

Fiscal consolidation is of paramount importance in Belgium. Since its peak less than ten years ago the debt-to-GDP ratio has come down by about 30 percentage points. This has been achieved without a substantial increase in the revenue/GDP ratio but through spending discipline and asset sales (Figure 10). A virtuous process of debt dynamics is underway with the interest charge decreasing year after year allowing for an even quicker debt reduction or for some gradual lowering of the high primary surpluses. The Government's medium- and long-term strategy consists of using this room for manoeuvre both for the accumulation of budget surpluses, with a view to pre-fund the costs of population ageing, and for tax cuts.

Despite the effect of the economic downturn, the general government budget ended in surplus in 2001 and remained close to balance in 2002. Compared with most of the previous downturns, growth in employment has held up well, sustaining growth in tax receipts and limiting the increase in unemployment-related outlays. Non-recurring factors such as asset sales also had a significant impact on the balance. Notwithstanding these effects, the Government did contribute to the ongoing consolidation process by holding current expenditures below potential GDP growth, with outturns below initial plans. Short-run spending limits decided in the course of the years 2001 and 2002 helped to keep the budget close to balance, although the tax burden on income was reduced.

If growth picks up later or less vigorously than anticipated, further measures will be needed to keep the budget close to balance for the fourth consecutive year in 2003. If this is achieved, the consolidation process will follow its course with moderate fiscal surpluses then building up as the output gap closes gradually. Given these policies and the economic outlook, gross public debt would fall below 100 per cent of GDP during 2004 and continue its downward trend thereafter. However, if the GDP growth composition effects were to reverse in a significant way, the return to budget surpluses, currently scheduled for 2004, could be delayed and debt would fall more slowly. Furthermore, the medium-term strategy foresees a disciplined path of government spending, especially at the federal

Figure 10. **General government finances**
Per cent of GDP



1. Per cent of potential GDP.

2. Projections.

Source: OECD.

level, requiring a clear definition of spending priorities. In the long run, the key challenge for the authorities is to cope with demographically-driven spending increases, which will be met only if the budget surpluses projected for the next 25 years actually occur.

Recent developments

The general government budget balance deteriorated only slightly during the 2001-02 period

In 2001 the general government budget balance achieved a small surplus in line with the plans announced one year earlier in the Stability Programme of December 2000. Whereas in 2000 achieving the first surplus in more than three decades was facilitated by very strong GDP growth, the 2001 realisation is remarkable given that GDP grew by only 0.8 per cent instead of the 2.5 per cent projected.¹⁰ In 2002, GDP remained below expectations once again, growing by 0.5 per cent instead of 1.3 per cent laid down in the Stability Programme of November 2001. However, the authorities stuck to their objective of a general government budget in exact balance. As indicated by the regular controls during the year, it can be expected that the budget will indeed end close to balance. The general government budget balance will therefore have deteriorated only slightly from 2000 to 2002 although the output gap fell by more than 3 percentage points.

The improvement in the cyclically-adjusted balance is due to a significant fall in interest payments and one-off measures, and to the relatively strong labour market

The counterpart of this remarkable budget outcome is a significant improvement in cyclically-adjusted net lending from 2000 to 2002 (Table 8). This reflects both a significant fall in debt interest payments and an increase in the OECD measure of cyclically-adjusted net primary surplus. However, this increase does not point to a lasting tightening in the structural fiscal policy stance. One reason for the increase is the sharp reduction in net government capital outlays, mainly reflecting temporary influences. Whereas the municipal election cycle led to a boom in local public investment in 2000, asset sales (accounted for as negative capital outlays) reduced public spending in 2002. These influences increased the net primary balance by 0.5 percentage point over 2000-02.¹¹ In addition, some gross public investment expenditure was postponed in 2002. Another reason for the increase in the OECD measure of the cyclically-adjusted net primary surplus is that direct tax revenues from households fell by less and current primary expenditure increased by less than what the change in the output gap would have suggested. This is mainly because of the relatively mild decline in employment and a correspondingly subdued rise in unemployment during the current downturn as compared with most downturns in the past. According to an analysis by the NBB

Table 8. **General government financial balances¹**

	2000	2001	2002 ²	2003 ²	2004 ²
Net lending	0.1	0.4	0.0	0.0	0.5
Cyclically-adjusted net lending	-0.9	0.3	0.9	1.0	1.0
Net primary balance	6.6	6.6	5.7	5.2	5.1
Cyclically-adjusted net primary balance	5.7	6.4	6.5	6.1	5.6
Current receipts	46.8	46.9	46.1	45.7	45.3
Current disbursements	45.7	46.3	45.9	45.4	44.5
Cyclically-adjusted current receipts	46.8	46.9	46.1	45.7	45.4
Cyclically-adjusted current disbursements	46.7	46.2	45.1	44.5	44.0
Current disbursement excluding interest adjustments	39.8	39.6	39.1	39.0	39.1
GDP growth	5.0	2.8	3.5	3.7	4.6
Output gap	1.7	-0.1	-1.5	-1.6	-0.9
Gross debt, Maastricht definition	109.6	108.6	105.4	101.9	97.3

1. In per cent of GDP (potential GDP for cyclically-adjusted numbers).

2. Projections.

Source: OECD.

using the methodology of Bouthevillain *et al.* (2001), these and other favourable effects from the composition of GDP growth added 0.8 per cent of GDP to the budget balance in the period 2000-02. Only part of these effects is reflected in the OECD numbers of cyclically-adjusted government balances.¹² As far as interest payments on public debt are concerned, they came down by 0.8 per cent of GDP from 2000 to 2002, reflecting both the ongoing reduction in the debt-to-GDP ratio and a moderate fall in the implicit interest rate.¹³ All in all, the pickup in cyclically-adjusted net lending is not due to a lasting tightening of the fiscal policy stance.

Short-term restraints to current expenditure did contribute to keeping the budget in balance...

As economic conditions worsened, the government took discretionary measures pertaining to current expenditure, which helped to stabilise the budget balance. In 2001 there were cuts to social security spending and to a smaller extent in expenditure by Federal ministries. The latter agreed on more substantial spending caps in 2002 after the spring budget review. The government decided on a spending cut of 1.5 per cent applying to all Federal Ministries except for staff expenditure, areas defined as political priorities, and debt service expenditures. In addition, the "anchor principle" was introduced for this year, saying that each department is obliged to hold the utilisation rate for programme credits below or

equal to the rate observed in 2001.¹⁴ In this context it was decided that investment spending by Ministries should not exceed its corresponding 2001 level in the first nine months of 2002, which contributed to the subdued development of net government capital outlays mentioned above. Together with a better control of health spending in 2002 than in the year before, the recent government initiatives contributed to bring down cyclically-adjusted primary disbursements relative to GDP. This ratio shrank by 0.3 percentage point in 2002 after falling by 0.1 percentage point in 2001.

... but were offset by policies affecting revenues

On the revenue side, however, expansionary measures were taken. Further cuts in employers' social security contributions added up to 0.2 per cent of GDP over the 2001-02 period. Moreover, the first steps of the personal income tax reform were implemented (see below).¹⁵ Net VAT receipts declined very sharply in 2001 due to unusually high refunds but with the government announcing and carrying out tighter controls to combat malpractice and fraud, a normalisation of net VAT receipts could be observed during 2002.¹⁶ All in all, cyclically-adjusted receipts relative to-GDP ratio probably fell by 0.6 percentage points from 2000 to 2002 and thus slightly outpaced the fall in the cyclically-adjusted primary expenditure ratio.

Forces shaping the budget balance in the short and medium run

Tax cuts are being implemented

The room for manoeuvre arising from the fall in interest payments is being used to gradually build up budget surpluses and to lower the tax burden. Based on the hypotheses underlying the budget for the year 2001, the medium-term budget plan for 2001-05 identified a margin of 0.3 per cent of GDP for 2001, increasing to 1.6 per cent by 2005 at the level of Entity I (federal Government and the social security system). The government decided to use the larger part of this margin (1.1 per cent of GDP) to cut personal income tax rates, including the abolition of the additional crisis surcharge (ACS).¹⁷ The latter is being terminated in three steps at the beginning of 2001, 2002 and 2003, subtracting 0.1 per cent of GDP from the budget balance in each year. In the 2002-03 period, income tax cuts themselves withdraw 0.4 per cent of GDP, mainly, but not only, through reducing the top rate from 55 to 50 per cent and introducing an earned income tax credit (see Chapter III). Further measures, amounting to an even bigger order of magnitude, are planned to come into effect later, notably a broadening of the central tax brackets and the alignment of the tax-exempt income quotas. This will bring the total reduction of the income tax burden to 0.8 per cent of GDP by 2005 and to 1.3 per cent in 2006, when a final impact on local taxes will be felt (via the yearly

tax assessment). The government also plans to reform corporate taxation starting in 2003 but expects this reform to be revenue-neutral.

A budget close to balance in 2003 will entail substantial further cuts in discretionary spending...

In view of weaker-than-expected economic growth both in 2002 and 2003, the government has adjusted its budget target for 2003 from a surplus of 0.5 per cent of GDP to exact balance, the same as in the year 2002. These announcements are based on GDP growth of 0.7 per cent in 2002 and 2.1 per cent in 2003. Thus the authorities expect growth in 2003 to remain only slightly below potential and the cyclical deterioration of the budget balance to be so small that it will not offset the further fall in interest charges (0.5 per cent of GDP). The next step of the personal income tax reform will cost 0.3 per cent of GDP in 2003. The annual indexation on 1 January 2003 of income tax brackets for the withholding tax on earned income will remove another 0.2 per cent of GDP from revenues compared with 2002, when the indexation was applied to monthly withholdings only as from October. In some spending areas (health and long-term care reimbursements, adjustment of public pensions to rising living standards, and development aid) the budget 2003 is slightly more generous than initially planned, draining another ¼ per cent of GDP off the balance. On the other hand, the Federal Government announced to cut expenditure by ministries by an equivalent of 0.6 per cent of GDP, the strongest austerity arrangement since the beginning of the downturn. In the Stability Programme of November 2002, the government has confirmed its willingness to maintain the equilibrium as the objective and will announce further steps during the traditional budget controls, should tax receipts come in lower than expected. Therefore, the OECD projects the target of a budget in balance to be met in 2003 (Table 9).

... and require subdued increases in primary expenditure for the medium-term targets to be met

The medium-term budget plan for 2001-2005 set an objective of reaching a 0.7 per cent of GDP surplus for the general government budget balance until 2005, with an output gap close to zero. This is seen as an intermediate step in the long-run strategy of pre-funding the budgetary costs of population ageing by achieving a budget surplus of 1 per cent of GDP in 2008 and maintaining it at about that level until about 2020 (see section on sustainable retirement income). For the intermediate goal to be met in 2005 and tax cuts to be implemented, real primary expenditure from 2002 to 2005 would not be allowed to grow by more than 1.5 per cent at the federal level (Federal Government and social security) and 1.8 per cent for general government.¹⁸ Besides being well below potential output growth,¹⁹ this growth in primary expenditures corresponds to the average growth rate observed from 1997 to 2001, a period of relatively strong economic growth.

Table 9. **The Stability Programme of November 2002¹**

	2001	2002	2003	2004	2005
Growth of GDP at constant prices	0.8	0.7	2.1	2.5	2.5
Output gap	0.6	-0.9	-1.0	-0.8	-0.6
Actual financing balance	0.4	0.0	0.0	0.3	0.5
Cyclically adjusted financing balance ²	-0.1	0.5	0.6	0.8	0.8
Cyclically adjusted primary balance ²	6.4	6.6	6.1	6.1	6.0
Interest payments	6.5	6.1	5.6	5.3	5.1
Gross debt ratio ³	108.6	106.1	102.3	97.9	93.6

1. Figures in per cent of GDP.

2. Adjusted for UMTS revenues.

3. The figures for 2004 and 2005 do not take into account the federal government's potential take over of part of the SNCB's debt.

Source: Ministry of Finance (2002a), pp.13-14.

However it is lower than the average growth rate for the decade 1992-2001 (2 per cent), which is more representative because it includes the 1992-93 recession.²⁰ Primary expenditure growth at the federal level is scheduled to be lower than for other levels, reflecting, *inter alia*, that increasing transfers of federal tax revenues to the communities will enhance their spending capabilities at the expense of the Federal Government.²¹ Any room for deeper tax cuts than currently planned during the period 2003-05 is contingent on lower growth in structural primary spending. The latter would have to be restricted to 1.2 per cent (instead of 1.8), if additional personal income tax cuts (gradually implemented during the 2003-05) period led to a gradual reduction in the revenue-to-GDP ratio by a further 1 per cent of GDP.²²

Assessment

With the output gap closing the medium-term objectives remain achievable...

If the general government budget remains in (or close to) balance in 2003, the chances of moving towards the expected surpluses between 2004 and 2008 remain in place. The gradual closure of the output gap, which is projected from mid-2003 onwards, provides scope for an improvement in the budget balance by roughly 1 per cent of GDP and the ongoing fall in interest rates adds another $\frac{3}{4}$ per cent. This would leave room for manoeuvre to implement the next steps of the tax reform as announced. Public debt dynamics are sufficiently strong to resist the slight deterioration in the balance. The debt-to-GDP ratio will fall further and is projected to be below 100 per cent in 2004 for the first time in more than 20 years.²³ Thereafter, on the basis of the government's long-term strategy, gross debt is set to come down to three-quarters of GDP by 2008 and to about only one quarter by 2030.

... but there are risks surrounding this outlook

Several risks surround this assessment, however, the most important one in the short run being a possible reversal of the favourable GDP composition effects, leading to a less pronounced rise in revenues and to a weaker decrease in expenditure. The projection assumes that the positive swing in earned labour incomes will fall somewhat short of what it is in normal upswings. With an unchanged degree of compliance to the wage norm, the contribution to nominal wage increases stemming from indexation would be lower in 2003-04 than in the previous two years. Moreover, up to now fewer workers were shed in the current downturn than in comparable junctures in the past. This might point to the first sign that past labour market policies begin to favour employment, thereby compensating the cyclical downturn in employment by a structural upward-shift. A more pessimistic possibility is that Okun's ratio is temporarily lower as employers hoarded workers during the recent downturn, implying below-average growth in employment during the subsequent upswing. At this stage it is too early to discriminate between these two possibilities but earned incomes might pick up by less than in normal recoveries. If the more pessimistic possibility becomes true, the closing output gap would promote the budget improvement by less than expected, making additional consolidation efforts necessary. The other risk to the revenue side is that the corporate tax reform may not turn out to be revenue neutral given economic reactions by firms. On the other hand, no positive second-round effects were taken into account in the budget.

Another question is whether real primary expenditure growth can be contained at or below 1.8 per cent growth in the medium term. In recent years the Government has acquired credibility in sticking to spending discipline and the very fact that there is no political debate in Belgium on *whether* to consolidate public finances but only on *how* to consolidate, is a great achievement. However, the impressive arsenal of short-run expenditure controls should be supplemented with medium-term strategies to deal with new or strengthening expenditure pressures. According to the authorities, such pressures are most likely to arise for the civil service wage bill, in health care, for social benefits, development co-operation, national defence, and investment.²⁴ The government should adopt a more discriminatory approach to whatever expenditure restraint may be required than it has exercised in recent years, when it has tended to impose across the board caps on current expenditures to achieve budget balance objectives. The current public sector reform project ("Copernic", see Chapter IV) should evolve to integrate a systematic evaluation of government programmes using analytical tools such as cost-benefit analysis and cost-effectiveness analysis in order to have objective criteria to discriminate between high- and low-value public spending. Such an approach would facilitate the expenditure restraint required to achieve the government's medium-term objective.

To be successful, the consolidation process needs to involve all levels of government. In this respect, the fact that local authorities are not involved in the national process of co-operation in budget matters may pose a risk to the outlook for the budget balance (High Finance Council, 2002a, p. 66). In Belgium the Federal Government, the Regions and Communities have adopted a system of peer reviews aiming at achieving the objectives laid down in the Stability Programmes. Regions and communities have to respect a pre-determined path for the balance but are in principle free to achieve these by adjusting outlays or taxes.²⁵ Although a formal sanction mechanism is not in place and local authorities make no commitments to contribute to the respect of general government budget targets,²⁶ in the Belgian context the present co-operation mechanisms do improve the chance of reaching such targets.

Finally, the Government has made the implementation of the announced future tax cuts conditional on the necessary budgetary margin being available. This illustrates the high priority given to consolidation as a means to meet the challenge of population ageing. Therefore any “temptation” to raise expenditures above the path implied by the medium-term strategy has the price of sacrificing a tax reform announced well in advance and finalised by law, which may reduce the attractiveness of such additional spending.

Sustainable retirement income

Main issues

As in most OECD countries, population ageing will increase budget outlays for publicly provided retirement income and other ageing-related items in Belgium, mainly in the two decades from 2010 to 2030, while expenditure on younger groups in the population may fall. The key challenge for the authorities is to prevent spending increases on the elderly from de-stabilising public finances and at the same time to ensure that retired people have adequate income in retirement.

Performance

The public pension system for private sector workers provides a level of benefits that lies in the middle of those provided by OECD governments. Benefits are related to career earnings but are subject to a relatively low ceiling.²⁷ This ceiling, together with of a number of other factors,²⁸ resulted in the average replacement rate for newly retired head of household being just over 46 per cent of average earnings in 2000 and about 40 per cent for a single man. With the pensions of women and older people being lower, the average pension paid to all private sector pensioners was 30 per cent of average earnings in 2000, with a lower replacement rate for self-employed people. On the other hand, the replacement

rate for public sector workers was double that paid to private sector employees. With most people affiliated to one of these three public pension schemes and the existence of a minimum pension²⁹ there is a low and diminishing call on the minimum income guarantee for the elderly.³⁰ While the legal retirement age is at present 65 for men and 62 for women³¹ (although pensions can in well-defined conditions be paid to men and women from age 60, with a penalty proportional to the number of missing years from a full career), many individuals aged between 50 and 64 receive other state benefits. Indeed, in this age group, only a little over half of men and a quarter of women work. In 2000, the average estimated age of the transition to inactivity was 58½ and 57 years for men and women, respectively, representing one of the youngest ages for withdrawal from the labour market in the OECD area.

Private saving provides considerable resources for the elderly. Households have a high saving rate that generates a substantial stock of both physical and financial capital at retirement. Home ownership rates (at 70 per cent) are amongst the highest in the world (see Chapter III, Figure 21) and households also have one of the highest stock of net financial assets in the OECD area³² (see Chapter III, Figure 20). Part of these assets are held in pension funds. In 1999, about one-third of private sector labour force were members of occupational pension schemes and 13 per cent of all retirees received an occupational pension. In addition, long-term voluntary saving (either through private pension plans or life insurance) is widespread. Indeed, contributions to these second and third tier long-term saving schemes are equivalent to about half of the contributions made to the private-sector employees state pension scheme in 1999.

Given the authorities' strategy to ensure fiscal stability (see below), the growth in pension payments should be limited to 3.1 per cent of GDP (Table 10), while a similar increase may be expected for health care expenditure. Measures designed to lower other forms of demographically related expenditure should help offset these two elements. Nonetheless all age-related expenditure is expected to jump by over 3 percentage points of GDP in the next 40 years. These projections were made on the basis that, after retirement, pensions would only be increased by the growth of prices. Nevertheless, in the Ageing Committee's main scenario where the pensions would be increased half a percentage point above the growth in prices, the expected level of spending on pensions would be increased by half a percentage point of GDP by 2050.

Policies

The authorities' strategy to ensure fiscal sustainability (as shown in Table 10) in the face of the demographic pressures rests on the following main elements:

- Pension spending will be pre-funded through structural fiscal surpluses. The authorities project continuous budget surpluses up to 2030. These projections entail a very large reduction in public debt, from 105 per

Table 10. **Public finances and ageing: 2000 to 2050¹**

	2000	2010	2020	2030	2040	2050	2000-2050 change
	Per cent of GDP						
Pensions	8.7	8.2	9.5	11.1	11.8	11.8	3.1
Health care	6.2	6.9	7.5	8.2	8.8	9.3	3.1
Invalidity benefits	1.2	1.2	1.3	1.2	1.2	1.2	0.0
Unemployment benefit	1.9	1.5	1.2	1.0	0.9	0.9	-1.0
Early retirement benefits	0.5	0.4	0.5	0.5	0.4	0.4	-0.1
Child allowances	1.8	1.4	1.2	1.1	0.9	0.8	-1.0
Other social security benefits	1.9	1.7	1.7	1.8	1.8	1.7	-0.2
Teaching staff	4.3	3.8	3.7	3.7	3.7	3.7	-0.6
Age-related spending	26.5	25.1	26.6	28.6	29.5	29.8	3.3
Other government spending	15.3	14.8	14.8	14.9	15.1	15.3	0.0
All primary spending	41.8	39.9	41.4	43.5	44.6	45.1	3.3
Tax receipts	48.8	46.1	46.3	46.5	46.5	46.6	-2.2
Primary balance	7.0	6.2	4.9	3.0	1.9	1.5	-5.5
Unspecified spending increases or tax cuts	0.0	1.2	1.3	1.5	1.5	1.5	1.5
Interest payments	7.0	4.0	2.7	1.4	1.3	1.2	-5.8
Budget surplus	0.0	1.0	0.9	0.1	-0.9	-1.2	-1.2
Debt ratio	112.9	67.1	45.0	22.7	22.2	21.7	-91.2

Note: Italicised numbers have been interpolated.

1. This scenario refers to the alternative scenario developed to assess the movement of the budget surplus in the period 2000-2050. Main assumptions are 1.75 per cent productivity growth in line with average growth between 1990 and 2000 and real wage growth, total structural unemployment rate of 7.9 per cent, real long term interest of 4 per cent, wage drift of 0.5 per cent, full adjustment of public sector pensions to prices and most of productivity growth, no adjustment of private sector pensions to productivity growth, constant fiscal policy, constant non age-related spending relative to GDP. The plan adopted by the government differs from these projections in that private sector pensions are projected to increase half a percentage point above the growth in prices. This change adds 0.5 per cent of GDP to the cost of pensions in 2050.

Source: Englert *et al.* (2002), pp. 65, 107, 112.

cent of GDP presently to 23 per cent of GDP by 2030, with the debt-to-GDP ratio remaining stable thereafter. This will reduce debt interest charges, creating budget room for extra age-related outlays.

- Given present legislation and policy, the replacement rate for first-pillar pensions will decrease. As from 2005, past earnings, used to calculate the initial pension of a retiree will only be revalued by prices. In addition, the maximum allowable pension will only increase at the same pace as conventional wages, *i.e.* at a lower pace than the average wage due to the wage drift, adding to the fall in the initial replacement rate.
- Increasing the employment ratio through increasing effective retirement ages. The standard age of entitlement to old-age pensions is in the process

of being raised for women to that of men. Moreover, some early retirement schemes have been closed to new entrants and the age limit for exemption from job-search requirements in the unemployment benefit system is being raised to 58.

- Increasing other work incentives and reducing non-wage labour costs, *e.g.* through the personal income tax reform and lowering employers' social security contributions (see Chapters III and IV);
- Limiting the growth of child allowances to that of prices rather than wages, and reducing unemployment benefits relative to average earnings, so lowering expenditure in this area.

In addition, the authorities have also recently introduced measures designed to encourage occupational pension schemes, and hence to expand their role in providing retirement income in the future, notably amongst low-wage earners (see Chapter III).

The authorities' strategy is crucially dependent on the maintenance of continuous fiscal surpluses for the coming decades. The difficulty with this approach, apart from the short-term uncertainty associated with a possible worse-than-expected near-term budget outcomes, is that the current government cannot commit future governments to adhere to its policy. In an attempt to address this issue, the government has put in place an Ageing Fund (*Fonds de vieillissement*). This fund is to be financed (on a non-obligatory basis) by surpluses from the social security system and the federal budget and by non-recurrent non-fiscal receipts (such as asset sales) that are then invested in government bonds. However, the legislation governing the Ageing Fund does not limit the deficit of the core budget. Consequently, the legislation only presents a soft budget constraint for the government. Nonetheless, it is hoped that the law will increase the political cost of deviating from the path of fiscal sustainability by obliging policymakers to justify why receipts from asset sales or social security surpluses would not lead to contributions to the Fund.³³ Greater transparency may also flow from the obligation on the government to publish an annual report with updated projections on the costs of ageing until 2050.³⁴

The planned reduction in the replacement rate is unlikely to compromise the income adequacy of older people. The impact of falling replacement rates for individuals on income adequacy is likely to be broadly offset by the effect of rising female-labour-force participation rates over the past decades, which should lead to increases in replacement rates for dual-income households and single women. Moreover, the occupational pension schemes are still maturing and so the role of private pensions in financing retirement in the future may increase. The new law on supplementary pensions (see Chapter III) should raise the coverage of second-tier schemes, as the tax benefits on this type of saving have been increased.³⁵

Measures to increase the average age of retirement from its current very low level play an important role in the authorities' strategy to deal with the challenges of ageing population. The reforms that have been carried out in this area are recent and it is not possible to say to what extent their long-term effects will exceed their so far very limited impact. In any case, certain features of social security programmes continue to discourage work at older ages. The old-age pension system acts as an implicit tax for those with very long contribution records, extra contributions to the system not being rewarded by higher pensions. More importantly, the unemployment benefit system becomes a *de facto* early retirement system for those 58 years or older since they are exempted from any job-search requirements. Indeed, the closing of special early retirement systems has been accompanied by large inflows of older people into the unemployment benefit system. Measures may also be required to increase the retention and hiring of older workers. In this context, industrial relations arrangements in Belgium may impede work at older ages, preventing the adjustment of earnings to the lower productivity of older workers. Moreover, more flexible working time arrangements could also help to stimulate demand for older workers.

Conclusion

The authorities have chosen to deal with the consequences of ageing through a major programme of debt reduction. Provided that planned budget surpluses occur in the coming three decades, future increases in pension outlays may be accommodated by lower debt interest payments. Such a favourable development might be made more credible by a legal requirement that constrains the current and future governments to achieve such a target. Coping with ageing would also be helped by raising the employment rate for older people by enforcing job-search conditions for those drawing unemployment benefits so raising the effective retirement age. Not only would this help to contain the increase in public spending and further diversify resources of older persons, but also raise the productive potential of the economy.

Notes

1. Exports of goods comprise 85 per cent of exports of goods and services.
2. The reclassification of public radio and television enterprises from the market sector to the government administration sector also reduces measured growth in consumption expenditures in 2002. This change in national accounts classification was made following the decision to transfer control over television licence fees to the regions. This reduced the share of own revenues for those enterprises below the minimum required to be classified as an enterprise. Consequently, television licence fees are recorded in the national accounts as a tax, not private consumption, and collective private consumption expenditure now only includes the value of inputs.
3. This is based on a partial elasticity of private consumption with respect to financial wealth of 5 per cent.
4. Direct listed share holdings only accounted for 8.3 per cent of households' financial assets at the end of 2001. Taking into account some assets directly linked to listed shares, the proportion rises to 12.3 per cent if equity mutual funds are taken into account and to 15.9 per cent if index-linked mutual funds are also included.
5. There is normally a three quarter delay between commitments with architects and construction getting underway.
6. This includes unemployed persons entitled to a benefit, young workers during the waiting period, voluntarily registered persons and other unemployed jobseekers.
7. This reduced inflation by 0.3 percentage point in April and will have the same effect in October. The fact that the trimmed mean of underlying inflation (see Figure 9), which excludes extreme price movements such as that related to the abolition of the television licence fee, is falling underlines that other factors are also contributing to the decline in underlying inflation.
8. The health index excludes petroleum products for transport and cigarettes and alcohol from the consumer price index.
9. It should be noted a monetary conditions index abstracts from many important factors in the monetary transmission mechanism, including asset prices, long-term interest rates and the credit channel. However, it is doubtful that taking these factors into account would alter the current assessment of monetary conditions.
10. The initial autumn 2000 projection by the National Accounts Institute ("Budget économique") expected GDP growth to be 3.1 per cent in 2001 but the government decided to base the Federal budget on 2.5 per cent growth. Unlike in many other countries of the euro area, the government in Belgium has been providing itself with a safety margin since several years to meet the budget target even in case of lower-than-projected GDP growth ("golden-hamster-principle"). Over the cycle, this should ensure

government projections that are at best cautious and at worst realistic. A variety of the hamster principle was to neglect that the implicit interest rate on public debt had come down until mid-2001.

11. Other one-off government receipts and negative outlays equivalent to 0.3 per cent of GDP occurred in 2001 and therefore do not affect the two-year comparison 2000-02. Sales of public buildings and restitution by private companies of reductions in social security contributions under the "Maribel" arrangement (incompatible with EU legislation), contributed 0.3 per cent of GDP. The auction of UMTS licenses held in 2001 yielded another 0.2 percentage point. This was less than in other European countries due to the small size of the Belgian market, the unexpected withdrawal of a fourth bidder and the date of the auction well after the peak in telecommunication share prices.
12. The OECD estimates for Belgium of the GDP-elasticity of direct tax revenues from households and of current expenditure are 1.3 and 0.4, respectively (Van den Noord, 2000, p. 19). The OECD measure of the adjusted fiscal balance is cruder than Bouthevillain *et al.* (2001) in that it does not take into account changes in the composition of growth in GDP by expenditure in different years (*e.g.* stronger-than-average consumption *versus* stronger-than-average export growth) although these might affect the government budget balance.
13. The implicit interest rate on public debt came down only in 2002. In 2001 it remained stable as the rate on bonds with a maturity of up to one year increased – this rate follows reductions in market rates by the ECB with a time lag – and the share of long-term debt in total debt kept rising. Interest payments relative to GDP came down in 2001 on average because of the significant fall in the debt-to-GDP ratio in the course of the year 2000 and a moderate further reduction in 2001.
14. In general the funds available to Ministries are not spent to 100 per cent. A constant utilisation rate of credits implies a special saving effort in Ministries, which had seen their budget reduced and in those, where the credit utilisation rates for whatever reason had been low in 2001.
15. Another net stimulus of 0.1 per cent came from regional and local initiatives. The Flemish region abolished the radio and television fee, reduced registration taxes from 12.5 to 10 per cent and granted a one-off tax reduction by € 62 on revenues of 2000. These Flemish measures were partly offset by increases in personal income tax supplements levied at the municipal level.
16. Net VAT receipts usually swing around substantially at cyclical turning points, since refunds have a longer lag than gross receipts. Nevertheless the deterioration of revenues between 2000 and 2001 appeared to be extraordinary. The sustained buoyancy of refunds (driving down net receipts) can be explained partly by the strength of exports in the second half of 2000 when the domestic economy had already cooled down. After the announcement of tighter controls by the government in July 2001 refunds fell sharply suggesting that the measure was a success. Refunds have been corrected since mid-2001, leading to growth in net VAT receipts during the first nine months of 2002 (+2.4 per cent) despite sustained weakness in the economy.
17. The remaining part of the margin was dedicated to spending priorities identified in the fields of Community finance, social security, and social transfers to the poor.
18. These calculations are based on primary expenditure deflated with the national index of consumer prices.
19. Potential output is projected to grow by an average 2.3 per cent in the 2002-04 period.
20. The OECD output gap for Belgium (in per cent of potential GDP) averaged 0.1 from 1997 to 2001 but only –1.5 from 1992 to 1996 (whole decade: –0.7).

21. The level of tax revenues reshuffled to the communities as a percentage of GDP will be higher by 0.3 in 2005, 0.6 in 2010, and 1.1 in 2020 compared with the level in 2001.
22. This results from a sensitivity analysis by the NBB.
23. This projection does not yet take into account government plans to take over gradually the debt of the national Railway Company. A first step of debt assumption equivalent to about 2 per cent of GDP is planned for the end of 2004, provided that the debt-to-GDP ratio remains below 100 per cent after the debt takeover.
24. By contrast, spending pressures are going to ease in the field of security after full implementation of the police reform.
25. As the Flemish Region has decided tax cuts, the scope for the Walloon and Brussels Regions reaching their targets by tax increases is limited by inter-regional tax competition.
26. The regions, however, being the responsible authority, do subscribe to the commitment to convince the local authorities to respect their budgetary targets.
27. For an individual benefits are based on 1.33 per cent of career average earnings per year of employment, with a maximum of 45 years employment taken into account. A married couple can choose between a pension based on the earnings of each spouse or can draw the highest of the two pensions increased by 25 per cent. Earnings more than 27 per cent above the pay of the average production worker do not give the right to a pension.
28. Past earnings have not always been up-rated in line with average earnings and not all employees work for 45 years.
29. For people with career-average earnings less than 40 per cent of average pay, there is a minimum pension equivalent to 30 per cent of the earnings of the average production worker, provided the person has worked for 15 years. Thus a low-paid person, earning 30 per cent of average earnings, would have a replacement rate of 80 per cent.
30. No matter how few years a person has worked, there is a guaranteed minimum pension that is equal to 20 per cent of average earnings. The share of pensioners receiving this minimum fell from 6.7 to 5.3 per cent of all pensioners between 1990 and 2001.
31. The legal retirement age for women is progressively raised to that for men. It will be 63 in 2003 and 65 in 2009.
32. 260 per cent of GDP compared with 244 per cent in the United Kingdom and 308 per cent in the United States.
33. Proceeds of the fund are invested in government bonds, as occurs with similar arrangements in the United States (the social security fund) and the Netherlands (the silver fund). In common with these other arrangements, transfers to the fund amount to an accounting entry within the public sector: they have no direct effect on the public debt ratio.
34. In April 2002 the Study Group on Ageing (*Comité d'Étude sur le Vieillessement*) published its first report (High Finance Council 2002). It was prepared by the Federal Planning Bureau (FPB) which serves as the Secretariat to the Study Group and ensures consistency of the scenarios with the FPB's medium-term macroeconomic projections (*e.g.* FPB, 2002b). The report was then used by another section of the High Finance Council (*Section "Besoin de financement des pouvoirs publics"*) in its annual report 2002 (July 2002), which gives general recommendations concerning the budgetary position.
35. Second-pillar pension benefits paid out as annuities are now also taxed at 16.5 per cent as lump sum withdrawals of accumulated savings. The complementary savings scheme (including employees' contributions to pension saving funds, life insurances

- and the second pillar) receive the following favourable tax treatment: a personal income tax reduction amounting to between 30 and 40 per cent; exemption from the withholding tax on interest (assumed to accrue at a rate of 4.75 per cent per year); and a tax rate on benefits of 17.5 per cent (see Chapter III, Box 1).
36. Measured on a System of National Accounts (SNA) basis for all levels of government.
 37. Part of the high share of personal income taxes in the total (and low share of property taxes) is explained by the fact that the real estate withholding tax is included in personal income taxation whereas the comparable tax (rates) in other countries is included in property tax. Even allowing for this factor, however, the share of personal income taxation in the total remains high in Belgium by international comparison.
 38. The average effective tax rate on labour equals the labour tax wedge expressed as a share of gross labour costs. The labour tax wedge is the difference between labour costs to the employer and the wage that the employee receives after all taxes have been paid. It is calculated by applying tax rules to a hypothetical worker. The main alternative approach to measuring the tax burden on labour is to calculate the labour tax ratio (see Carey and Rabesona, forthcoming, for a discussion of the advantages and disadvantages of this approach). Such calculations also show that Belgium's tax burden on labour is one of the highest in the OECD, though not the highest, as suggested by the AETR calculations. When consumption taxes are included, the labour tax ratio in Belgium is still high, although there are now six countries with higher ratios; this ratio was 50 per cent in Belgium in 2000, compared with EU and OECD averages of 46.5 per cent and 43.1 per cent, respectively (*op. cit.*).
 39. A number of studies were used to make assumptions for the elasticities of labour demand with respect to real labour costs and of wages with respect to unemployment.
 40. The government has also reduced employers' social security contributions for workers aged 58 or more, although the fiscal scale of this measure is very small in relation to the structural reductions (targeted on low-income earners). The reductions for older workers, which came into effect in 2002, are proportional to the age of the employee and are intended to discourage employers from making such employee redundant and to encourage employers even to hire such workers.
 41. Stockman (2002) distinguishes between low-skilled, high-skilled and special programme (for which wage cost reduction measures are conditional on creating additional employment or meeting other regulatory conditions) employment. Low wages are defined as 65 per cent of APW or less. Low wage earners represented 27 per cent of full-time equivalent employment in 2001 while special programme employment accounted for only 2 per cent. With a wage benchmark, the low-wage measure generates 4 040 extra jobs by 2007, compared with 1 530 for the same reduction but focused on high-wage earners and 1 840 for a general measure (the same percentage reduction in social security charges at all wage levels). Net substitution between low- and high-wage labour is particularly strong with the low-wage measure (one high wage job is lost for three additional low-wage jobs) but weaker if the high-wage measure is implemented (one low-wage job lost for 10 additional high-wage jobs). The reduction in real labour costs per employee (market sector) is larger with the low-wage measure (-0.21 per cent) than with the high-wage measure (-0.07 per cent) or the general measure (-0.09 per cent). He also finds that the increase in employment and decline in labour costs is smaller in the absence of a wage benchmark; on the other hand, labour productivity is higher.
 42. These arise when net replacement rates from unemployment and related benefits are sufficiently high that it is not worth while for an unemployed person to accept a job.

This problem mainly concerns low-income earners with dependants; replacement rates in Belgium are lower for unemployed persons without dependants, decline over time for such persons, and are capped in all cases, resulting in low replacement rates for high-income earners (see Annex I for details).

43. Individual social security contributions were cut by € 82.5 per month for full-time employees earning up to € 1 150 per month. This reduction is progressively withdrawn, falling to zero for salaries of € 1 350 and above and adding 41.25 per cent to the marginal effective tax rate on incomes in the withdrawal range.
44. This measure should stimulate increased labour supply and, for persons earning sufficiently more than the minimum wage for their wages to be flexible, reduce labour costs and hence, increase labour demand. For persons earning the minimum wage, this measure does not reduce labour costs and hence, increase labour demand. It could even contribute to higher unemployment among persons only able to find employment at the minimum wage rate.
45. The following complimentary measures aimed at specific unemployment traps have been taken:
 - A one-off payment of € 75 is paid to a single parent families taking up employment after a long period of unemployment so as to help with the costs of returning to employment;
 - A one-off payment of € 75 is paid to long-term unemployed persons accepting a job which requires them to travel far;
 - So as to encourage older unemployed persons to accept a lower-paid job than their last one, social security rights are based on the previous (higher) salary;
 - The statute of persons without employment who become unemployed again after a part-time job has been improved;
 - The part of earnings between € 849 and € 912 that could be confiscated has been reduced; and
 - The increased family benefit given to long-term unemployed persons is maintained during the first two quarters of taking up employment and continues if the new job lasts less than six months (previously, a stand-down of six months after taking up a job was required before being able to claim again an increased family benefit).
46. The tax credit is progressively withdrawn as (full-time) income rises above 56 per cent of the average production wage (APW) and is completely phased out by 67 per cent of APW.
47. This reform is complemented by transforming deductions for dependants into refundable tax credits. This will enable families that don't have enough taxable income to benefit fully from the current deductions to do so in the new system.
48. The tax credit rises from € 78 per year in 2002 to € 500 per year in 2005.
49. For example, the *Working Families Tax Credit* in the United Kingdom for a single-earning couple at 54 per cent of APW (the highest income at which the tax credit in Belgium is € 500) with two children aged under 16 family was £4 470 (23 per cent of APW) in 2001.
50. Net replacement rates were still high – 79 per cent or more for all family types except singles – at the minimum unemployment benefit.
51. This margin, which is considered to be appropriate by the High Employment Council (*Conseil supérieur de l'emploi*), is necessary at least partially to compensate for the costs of working, such as for transport, childminding, and clothing.

52. The ACS was phased out earlier for low-middle income earners. The schedule for phasing it out is as follows:

Taxable income €	Additional crisis surcharge (per cent)				
	Income earned in:				
	1999	2000	2001	2002	2003
0-19831.47	2	1	0	0	0
19831.48-21070.94	phased transition	phased transition	phased transition	0	0
21070.95-29747.21	3	2	1	0	0
29747.22-30986.68	3	phased transition	phased transition	phased transition	0
30986.69 and above	3	3	2	1	0

53. The allowance for the first income bracket (€ 0-4 320) increases from 20 to 23 per cent in 2002 and to 25 per cent in 2003. But the upper limit to the deductible amount (€ 2 880) remains unchanged. This means that taxpayers with a tax base exceeding around € 55 000 do not get any additional allowance.
54. Feedback effects refer to the effects on employment via the impact of the reform on other economic variables. For example, an increase in employment will increase consumption demand and output, raising demand for labour and hence, employment.
55. Stock options are taxed at grant rather than at vesting, as in most other countries. This is done to preserve consistency with the general exemption of capital gains (not related to a professional activity, such as property development, for example) from taxation under Belgian law. However, it is difficult to see why gains on stock options should not be considered as labour income and taxed accordingly, as is already the case, for example, for property developers.
56. The overall social security contribution rate is about 48 per cent (35 per cent for the employer, less € 979, plus 13 per cent for the employee) while the standard company tax rate is presently 40 per cent (including the ACS of 3 per cent). Although stock options grants are not subject to social security contributions, personal income tax receipts from taxation of them is entirely handed over to the National Social Security Office.
57. These are that:
- the exercise price is fixed at grant;
 - the option cannot be exercised either before the end of the third calendar year following that in which the grant is made or after the end of the tenth year following that in which the grant is made;
 - the option cannot be transferred to other living persons;
 - the risk of a fall in the value of the underlying shares after granting of the option cannot be directly or indirectly covered either by the persons granting the option or by someone with a link to that person; and
 - the underlying shares are in the firm for which the beneficiary provides labour services or in a firm that has a direct or indirect equity interest in the former firm in the sense of the Royal Decree of 8 October 1976 concerning firms' annual accounts.

58. If these conditions are not satisfied, options are valued at 15 per cent of the underlying shares, rising by 1 per cent per year beyond five years.
59. The profit-sharing plan:
- must be voluntary, organised by the firm and elaborated within the firm;
 - must result from collective negotiations between employers and workers;
 - must be proposed to all employees of the firm;
 - must contain a predetermined formula which clearly shows the link to the firm's profits;
 - must not replace regular remuneration – profit-based payments are supposed to be an income supplement;
 - is not subject to the same rules for taxation and social security contributions as regular remuneration;
 - shall enable workers to take their share of profits either in cash or in the firm's shares or in a combination of the two, in proportions fixed in the plan.
60. Employers may not deduct distributions of profits to employees from taxable corporate income but do not have to pay social security contributions either (although one half of corporate tax paid on these distributions is transferred to the social security system). If the distribution is paid in shares or in cash that is lent back to a SME employer, employees pay 15 per cent tax. In the event that the distribution is in cash, employees pay a 13.07 per cent solidarity contribution plus a 25 per cent tax on the distribution net of the solidarity contribution.
61. Taking the example of a firm that wishes to grant its workers € 100 out of post-corporate tax profits, this would give workers € 85 after tax if paid as shares or in cash that qualifies for the same tax treatment or € 66 after-tax if paid in cash. For a regular salary payment that reduces after-tax profits by € 100, the after-tax benefit for the employee is € 65. (It is assumed that the corporate tax rate is 33 per cent, the marginal income tax rate is 50 per cent, the employer social security contribution rate is 25 per cent and the employee rate is 13 per cent.) As noted above, profit-share payments are not tax deductible for companies. As employers equally do not have to pay social security contributions on such payments, the cost to after-tax profits of a € 100 profit-share payment is € 100. If the payment is made in shares (including the equivalent SME case of cash lent back to the employer), the employee pays a 15 per cent final tax, giving a final after-tax benefit of € 85. If the profit share is paid in cash, the employee pays a final tax of 34.8 per cent [$13.07 + (1 - 0.1307) * 25$], giving an after-tax benefit of € 65.9. Finally, a regular salary payment that reduces after-tax profits by € 100 is € 199 [$= 100 / [1 - (0.33 + 0.25 * (1 - 0.33))]$]; all labour costs, including social security contributions, are tax deductible. Out of this amount, the gross wage received by the employee is € 149.5, which falls to € 129.85 after the deduction of employee social security contributions. Personal income tax reduces this amount to € 64.9.)
62. The dividend is first taxed as part of company profits at 40.17 per cent and is then taxed again at the dividend withholding tax rate of 25 per cent, giving a total tax rate of 55 per cent [$0.4017 + (1 - 0.4017) * 0.25$]. This was the top personal income tax rate before the current personal income tax reform.
63. The lowest rate is for companies with taxable profits of less than € 25 000. In this case, the corporate income tax rate is 29.71 per cent, giving a total tax rate (including the 25 per cent withholding tax) of 47 per cent [$0.2971 + (1 - 0.2971) * 0.25$]. There is a phasing out range for companies enjoying reduced rates, so that the average corporate

- income tax rate is 39 per cent (excluding the ACS) at the € 323 750 limit for progressive corporate income tax rates, the same as the standard corporate income tax rate.
64. If the property is purchased and re-sold within this period, a capital gains tax of 16.5 per cent applies. To calculate the gain, the purchase price is increased either by the notary fee paid or by a lump sum rate of 25 per cent and by 5 per cent per year since the purchase year.
 65. Since 1986, there is an additional interest deduction which can exceed the amount of imputed rentals. It concerns only building, purchase of a newly-built house or renovation work [minimum amount of € 22 261 (2000 value, indexed)]. In addition, this deduction only applies to the principal residence, which has to be owner occupied, and financed by a mortgage loan with a duration of at least 10 years. The tax deduction is limited to the first income bracket of € 55 652 (2000 value, indexed and increased for dependent children) for building or purchasing a new house and to the first bracket of € 27 838 (2000 value, indexed) for renovation work. Up to 80 per cent of the amount obtained after the first limitation is taken into account may be applied in the first 5 years (sliding proportion to 10 per cent in the 12th year).
 66. Incidentally, the high rate of owner-occupied housing is another factor to take into account when considering the adequacy of Belgians' savings for retirement.
 67. However, Belgium's real estate property withholding tax is recorded as income tax in OECD *Revenue Statistics*, whereas rates are recorded as a property tax. There is also a tax reduction on the first € 12 500 of the purchase price of a principal residence.
 68. The second principal residence must be bought within two years of the sale of the first.
 69. The tax-exempt amount is € 60 000 in a Reinforced Development Zone for Housing and Urban Renewal (Espaces de développement renforcé du logement et de la rénovation urbaine) and € 45 000 elsewhere. There is no "imputation through time" system, as in Flanders.
 70. These are 12.5 per cent. It is assumed that the property is held indefinitely.
 71. As noted above, effective tax rates are negative on second pillar savings.
 72. For example, for a long-term government bond yielding 5 per cent in nominal terms and 3 per cent in real terms, the real effective tax rate is 25 per cent (*i.e.* the 15 per cent final withholding tax on 5 per cent expressed as a percentage of 3 per cent).
 73. While Flanders and Brussels-Capital have respectively implemented and announced small reductions in duty rates on direct-line successions recently, they have not reduced the rates on other successions.
 74. This and a number of the following sections on corporate taxation draw heavily on Valenduc (2002b).
 75. These were the following:
 - "Upstream taxation" and anti-abuse rules were introduced (1990, 1991, 1996) to ensure that the participation exemption system (which allows a company to deduct 95 per cent of a dividend it receive from a company in which it has a significant shareholding) did not lead to a double exemption of distributed profits.
 - The notional withholding tax credit of 15/85 for interest received from abroad was replaced by a credit for foreign withholding tax effectively paid (1991).
 - The notional tax credit for resident companies providing new equity or lending money to a co-ordination centre was repealed (1990-91), although the preferential tax regime for co-ordination centres remains in force.

- The large investment allowance introduced in the early 1980s to compensate for high inflation was restricted to small businesses or investments that generate externalities (such as R&D or environmental investments) with the rate linked to the inflation rate (1992).
 - The conditions to be met to qualify for reduced corporate tax rates for small businesses were made more restrictive (1993).
 - Disallowed expenses were expanded (including, for example, part of car expenses) and a thin capitalisation rule for interest deductions was introduced (various measures from 1989 to 1995).
 - A tax credit was introduced for new equity raised by SMEs (1996).
76. This measure uses tax statistics to obtain a corporate profit series that excludes losses. The reason for excluding losses is that they cause the standard tax ratio measure to vary over the business cycle even when there is no change in tax policy. To construct this modified tax ratio, tax data on corporate profits must be adjusted to exclude deductions that are considered to be tax expenditures (increasing the tax base) while disallowed expenses that are genuine economic expenses are deducted from the tax base. See Valenduc (2002b, p. 60) for more information.
77. This approach adapts the King-Fullerton (KF) (1984) methodology to deal with investment projects that earn some economic rent. The resulting Average Effective Tax Rate (AETR) is a useful indicator in the case of imperfect competition. By contrast, the KF approach only considers marginal investments and thus is only appropriate to discuss the effects of the tax system under perfect competition.
78. Capital export neutrality means that taxation is the same regardless of where an investment is made. These reforms improved capital export neutrality by making exemptions of foreign-source dividends and interest from Belgian taxation more dependent on the foreign taxes actually paid on such income.
79. A closed economy framework is used because SMEs do not have direct access to world capital markets. Shareholders are thus subject to personal income tax in Belgium. Accordingly, the AETR must integrate both taxation of the SME and the taxation of private savers in Belgium. In fact, SME managers play a major role in financing their companies.
80. Belgian co-ordination centres are subject to income tax on a cost-plus basis but interest paid is not included in the cost-base. Combined with the fact that the tax base includes neither interest, nor dividends received, nor retained earnings, this means that co-ordination centres are not subject to tax on investment income. Despite this, the Belgian parent can still benefit from a 95 per cent tax exemption on dividends received from a co-ordination centre and from a full exemption on capital gains on shares in the co-ordination centre (Valenduc, 2002a).
81. Personal income tax reductions since the government took office (abolition of the 3 per cent ACS, reindexation of tax brackets and abolition of the top two tax brackets (52.5 per cent and 55 per cent)) have reduced marginal income tax rates by around 15 per cent, approximately the same amount as the announced reduction in progressive company tax rates.
82. Benefits are also considered because they are a close substitute for taxes in redistribution. For example, if benefits are indirectly means tested through withdrawing tax concessions, as occurs in Belgium, this will tend to reduce the redistribution effect of the benefit system but to increase that of the tax system relative to direct means testing, as occurs in Australia or the United Kingdom. For the purposes of an international

comparison, it is also preferable to focus on the working-age population as high reliance on public old-age pension systems in some countries, such as Belgium, exaggerates the initial inequality of income distribution and the redistribution effect of government transfers.

83. See Box 3 for a summary of the main recommendations for tax reform.
84. Series have been smoothed with a Hodrick Prescott filter up to and including 2001. To mitigate the so-called endpoint problem, series have been extended up to 2005 on the basis of projections in the OECD *Economic Outlook 72* (OECD, 2002a) and by the Federal Planning Bureau (FPB, 2002). A lambda of 30 was chosen to obtain a symmetric distribution of filtering weights up to 2001. At this lambda for annual data, for cycle lengths up to nine years, at least 90 per cent of the cyclical components is excluded from the original series (Bouthevillain *et al.*, 2001).
85. These data at the branch level were only available for 1995.
86. Figures calculated by Kegels *et al.* (2002) before the upward revision of employment figures in November 2002.
87. Aggregate figures on employment and participation rates in this section incorporate the upward revision in November 2002 (by around 3 percentage points). Revised disaggregate data are not yet available.
88. Percentages on the basis of the European Labour Force Survey. Other goals are halving the number of youngsters with only primary education and an increase in the employment rate of women to 60 per cent.
89. In 2000, the employment rate, measured in terms of persons, was about 3 percentage points lower than in the OECD and even 9 percentage points lower than in the Netherlands. Already before the upward revision of employment data, however, Belgium ranked more favourably, if employment rates were measured in full time equivalents (relative to the Netherlands, for instance, the lag would decrease to 2 percentage points European Commission, 2002a).
90. Due to these exemptions in 2001 only 57 per cent of the persons entering the early retirement programme were replaced.
91. The official pre-pension age is 60, but social partners are allowed to set a minimum age of 58 in sectoral agreements. The pension age for women is being progressively raised to 65 by 2009.
92. According to Cockx (2001), the chances to find a job are particularly small for low-skilled workers, for which there is insufficient demand. In 2000, the unemployment rate among Belgians born outside Europe was about 35 per cent (Federal Ministry of Employment and Labour, 2002a).
93. OECD (2002c). Figures refer to 1999 and have been calculated using purchasing power parities.
94. This is due to lower tax rates, higher child and other allowances and lower municipality taxes. Other allowances may concern the costs of healthcare, electricity and public transport.
95. In that case the number of years worked must be at least 15 years.
96. Université catholique de Louvain (2000); OECD (1998a). Workers with a tertiary degree had a 17 per cent higher wage than workers with a secondary education.

97. HEC (2002), p. 122. According to the broader national definition, used by the Federal Ministry of Employment and Labour, the unemployment rates were 7.9, 17.1 and 19.8 per cent respectively (September 2002).
98. The above figures imply that an increase in outward mobility of Walloon workers by around one-quarter (from 20 to 25 per cent) would halve the unemployment rate in the region.
99. The cost of commuting by public transport is, however, limited. Reimbursements by employers are fully deductible from personal income taxes up to a commuting distance which in 2003 will be raised from 25 to 50 km.
100. For more details on the measures taken up till 2000, see Federal Ministry of Employment and Labour (2001).
101. Social security contributions by workers with a monthly wage below € 1 500 (around half a million employees), are to be further lowered in 2003, resulting in net income increases of up to 4 per cent, part of which would lead to a further reduction in the replacement rate.
102. Having worked for at least 20 years is a condition many women under the previous scheme did not meet, but those already in the old scheme were allowed to switch to the new scheme.
103. The bonus corresponds with the wage for 2 hours (age 45) to 6 hours (workers 55 and over).
104. In 1999, 11 000 unemployed lost their benefit because the duration of their inactiveness exceeded the average duration of their reference group of unemployed by more than 50 per cent.
105. Communication by the Federal Ministry of Employment and Labour.
106. Since January 2002 these jobs are integrated in the so-called ACTIVA plan.
107. <http://meta.fgov.be/pdf/pd/frdf25h.pdf>
108. Federal Ministry of Employment and Labour, Press release 28-08-2002
109. Vouchers represent a subsidy of € 30 for each amount of € 30 spent by a firm on training. In 2001, for vouchers the government had reserved some € 50 million.
110. The budgetary cost in 2000 was around € 50 million.
111. For 2001 and 2002 the total increase was limited to 6.4 per cent, except for very well performing industries, which were allowed to increase wages by an additional 0.6 per cent.
112. Written communication by the Central Economic Council.
113. In Belgium a merger is subject to notification if at least two of the firms involved have a turnover higher than € 15 million and at the same time the combined Belgian turnover exceeds € 40 million.
114. For example, in 2001 only two mergers notified earlier led to a Phase II investigation. No merger decision was appealed against at the Brussels Court of Appeal. This compares with a total of 48 notified mergers. During the eight years from 1994 to 2001, 5 decisions not to approve a merger were taken, 32 cases are outstanding (OECD, 2002d, p. 6).
115. In the Netherlands, the turnover threshold for the individual firms engaging into a merger was lifted from € 14 million to € 30 million in 2002.

116. This gives other stakeholders (service providers without network and consumers) a chance of articulating their interests.
117. This requirement is met in Belgium by the annual reports of the regulators for the electricity and gas markets (CREG) and of the telecommunications and postal sectors (BIPT).
118. Another measure to increase the personal distance between the regulator and the regulated firm consists in sector-to-sector job rotation within the regulation agency, a common practice in the German Cartel Office.
119. See Knieps (2000, p. 20) for technical progress and Kumkar (2000b, p. 374) for finding optimal allocation rules for network access revenues by a learning process.
120. The benefits of bringing telecommunications and electricity regulation under a common roof are discussed in Kumkar (2000, pp. 26-27).
121. In the Netherlands, for example, the regulation agency for electricity and gas is affiliated to NMa, the overall competition authority. It is also interesting to note that the Australian Competition and Consumer Commission regulates access pricing in several sectors including telecommunications.
122. Due to technical, administrative and legislative barriers, trains lose most of the travel time at boundaries. The average speed of international rail freight haulage is only 18 km/hour (European Commission, 2001c, p. 28).
123. Market entry is prevented by falling marginal and huge sunk costs in infrastructure management, *i.e.* this stage of railway service production is a natural monopoly, whereas traction presents ample scope for competition. In analogy to air traffic, some authors consider capacity management and security services as a separate stage of production "in between", since fixed costs are not sunk, making the market for these services contestable and thus removing the static inefficiency implied by its monopolistic provision (Knieps 1996). At each stage, vertical disintegration involves efficiency gains from actual or potential competition, which have to be assessed against higher co-ordination costs.
124. The somewhat better result for Belgium from input distance function estimates in Coelli and Perelman (2000) is called into question when using the stochastic frontier method (rather than a deterministic approach) to account for cross-country differences in exogenous factors (Trujillo 2003, forthcoming).
125. One insight from a comparison between the six studies reported is that results are sensitive to the measure chosen. Rank correlation coefficients for the ten countries covered by all six studies are broadly positive (but mostly below 0.5) only after ignoring the Gathon-Pestieau results. This makes the consistently low performance of Belgian railways all the more striking.
126. This holds in application of the theory of effective tariff protection, which states that lower tariffs on inputs than on final goods and services strengthen the protection for domestic value added. In the current situation, tariffs on goods imports are virtually zero whereas access to essential service input markets is nearly prohibitive.
127. A vertically disintegrated network owner maximises revenues from (regulated) user fees and therefore has an incentive to get a maximum number of trains on his network. In a vertically integrated firm such a strategy would cost market shares to the in-house transport services branch and joint profit maximisation would account for the trade-off between the market share of own transport services and revenues from third-party access.

128. Already in 1998 the European Commission noted the insufficiency of mere accounting separation, since it leaves incumbent railway undertakings closely linked to infrastructure managers who control access (European Commission, 1998).
129. Unit costs are likely to come down following liberalisation. Reform experience in other countries (*e.g.* Germany) shows that niche market suppliers are capable of providing transport services at terms accepted by customers on routes given up by the former incumbent (OECD, 2001h, p. 80).
130. One motivation for cheap transports is to combat labour market mismatches. However, this is better achieved with specific labour market and labour tax policies (Chapters III and IV). Besides, receipts from pricing congestion can be used to lower distortionary taxes on labour.
131. Belgian households still pay higher electricity prices than the EU average (they used to have among the highest prices in the European Union), whereas companies pay less than the EU average according to the authorities.
132. In most cases, Electrabel is a capital co-owner in these trusts ("*intercommunales mixtes*").
133. In line with an OECD-wide trend, fixed charges were increased and bundled with set-up charges – occurring when the first time unit costs more than subsequent units – in the basic subscription. In terms of prices, Belgacom *de facto* abolished the distinction between local and long-distance calls (OECD, 2001b, p. 171). The incumbent, which has still a 95 per cent market share for long distance calls, reduced prices for national calls in 2001 from € 1.74 (ten minutes call) to € 0.54. On the other hand, the price of local calls increased from € 0.49 to € 0.54, staying among the highest of the EU (32 per cent higher than the EU average. These price evolutions initiated by the incumbent may have created difficulties for other operators mainly active on international and long distance calls. More recently, new types of subscriptions combining a higher monthly fee with some amount of free time were introduced together with moderate increases of variable charges for national calls.
134. Press Release by the Ministry of Telecommunications of 6 February 2002. http://belgium.fgov.be/fr_index.htm. This calculation system also applies to binary access services for large band Internet access.
135. This means that gross costs for public services provision, currently estimated at € 62 to 86 million, would have to be lowered by the receipts from fees for public services and the intangible benefits in terms of enhanced visibility.
136. Currently the incumbent firm takes more time than agreed on for breakdown services and for connecting new users to the network (BIPT 2002).
137. Measured in US dollars at purchasing power parities (PPP), the average costs of 40 hours Internet use per month at peak hours increased by 44 per cent between September 2000 and August 2001. This is more than what could be explained by the "rebalancing" of local call prices by incumbent operators observed in many OECD countries (OECD, 2001b, p. 173). For off-peak Internet use, the price increase reached 12 per cent over the same period.
138. Demand pressures also contributed to a quicker coverage of the territory. The ombudsmen of the telecommunication sector reported 333 complaints in 2001 referring to non-availability of high-speed Internet access.
139. An SSL protocol is to encrypt information before transmitting it *via* the Internet to protect client data but also to ensure privacy of information subscribers pay for, thereby overcoming the failure inherent to markets for information (OECD, 2001b, p. 103).

140. According to an EU-wide survey, uncertainties about the conditions of use appear to be the main obstacle for e-purchasing, whereas high costs are the main obstacle for e-sales (OECD, 2002e, p. 2).
141. They usually consist of an initial connection charge, a monthly rental charge including an unlimited or limited amount of free flows and – in the latter case – a charge per Megabyte beyond the threshold.
142. On a more positive note, users of Belgacom ADSL Internet access are exempted from initial charges, and the monthly charge ranges on an intermediate position among incumbent suppliers within the OECD area (OECD, 2001i, p. 53). Note, however, that price comparisons in the field of broadband Internet access have to be interpreted with caution due to the huge diversity of service qualities – especially connection speeds. Assuming that a Belgian user remains below the included allowance, he gets about 15 Kbps per USD PPP spent, which is the eighth most competitive offer by all incumbent firms in the OECD.
143. In North America, non-metered access is the standard pricing model. In Australia and New Zealand, broadband access usually implies a per-unit cost beyond specified thresholds. However, in all four countries flat rates are applied to the traditional dial-up connections (PSTN), by which most persons got acquainted to the Internet in recent years.
144. About one-quarter of the subsidy is to cover the costs for a number of free financial services la Poste delivers. Discussion is under way to replace the subsidy by a universal banking service funds financed by all banks.
145. La Poste took away most of the market shares from a private competitor in a classical business-to-business mailing service by combining this mailing service with preferential general mail tariffs. The European Commission stopped this practice considering it as an abuse of dominant position (European Commission, 2002d, p. 32).
146. A characteristic of the Basle II Accord is that capital requirements will become more responsive to banks' individual risk profiles. A number of banks will have to increase their own funds; others will be allowed to relax them. Yet the repercussions of Basle II on the banking sector as a whole will be limited, according to preliminary results from the NBB's quantitative impact study (NBB, 2002b, p. 136).
147. The Banking Supervision Committee, composed by ECB staff and national regulators, is in charge of macro-prudential co-operation. Regarding international co-operation on the micro-prudential level, an EU directive on financial conglomerates is being prepared by the EU Commission. In the meantime, given the presence of two bi-national conglomerates, the BFC and OIC signed Memoranda of Understanding with other national authorities.
148. In this context, the CFS will have to decide which activities should be pooled and manage these pooled activities. The modalities of this pooling of resources will have to be precised in a protocol between the three institutions. If this protocol is not signed six months after the appointment of the new Boards, the Minister of Finance may impose a pooling of resources.
149. The Minister of Finance backs such a merger (L'Echo of 11 July 2002).
150. See OECD, 2002f, pp. 8-9, for further details.
151. This becomes especially likely when the managers of a subsidiary and of the controlling firm are the same persons. A typical case of tunnelling with a Belgian subsidiary (Flambo) as the loser is described in Wymeersch (1993).

152. The strongly negative correlation between minority protection and ownership concentration around the world (La Porta *et al.*, 1998) further strengthens the relevance of this point.
153. Kortum and Lerner (2000) show that \$1 of venture capital generates 5 to 10 times as many patents as \$1 of R&D investment in big companies.
154. In case of *ex ante* subsidies promising and less promising projects get the subsidy due to asymmetric information and moral hazard problems. By contrast, payments that are made conditional on success (*ex post* subsidies) would increase private actors' marginal utility of additional efforts.
155. This is particularly obvious for interest subsidies. In case of a well-established big company the probability of bankruptcy is low even if an innovative project fails. Thus the subsidised credit crowds out a normal bank credit. This is different for a start-up the survival of which depends on the success of the innovative project. Bank credits are generally not available in this case and the venture capitalist asks for high dividends to compensate his high risk. If part of the investment is financed by a subsidised loan, the outcome is the same in case of failure but the start-up has to pay back less high dividends in case of success.
156. Further insights of the study are that regulations themselves are the major source of dissatisfaction and that often interactions with the administration depend on the person contacted and decisions lack explanation.
157. The harmonisation of conditions for cuts in employers' social security contributions provides a successful example of how not only the readability but also the *content* of legislation can be made less complex.
158. First an indicator of the burden is obtained as a weighted average of "marks" for various aspects (*e.g.* fees, proper guiding information, number and readability of forms, possibility of electronic exchange). This indicator is then multiplied with the frequency of the formality and the number of persons concerned (OECD, 2001j, p. 45).
159. More than 80 projects were implemented at the time of writing. About the same number of further projects are scheduled until 2005 (<http://premier.fgov.be/topics/reports/sav/mix-corr.ppt>).
160. The government shall not ask the citizen one and the same information twice. Agency B shall get an information from Agency A rather than from the citizen.
161. Technological foundations of e-government include a metropolitan area network for Brussels, Internet portals for citizens and companies and a "back-office" with the Business Crossroads Databank for data exchange between government agencies. Further elements are a single identification number for citizens and companies, the electronic identity card, and a public key infrastructure for interactive communication.
162. The policy preparation unit, composed by civil servants, provides technical expertise and policy options. The policy council, composed by the Minister, the president and managers of the FGS, and external experts, gives strategic advice and controls the implementation of measures.
163. Moreover, the current economic environment of low activity is favourable to the implementation of the reform as finding the high number of ICT consultants needed to modernise information systems and provide training services is much easier than during in a boom.
164. This incentive mechanism was implemented for the senior level of ministerial staff under the "at risk pay" scheme in Canada and led to conditional pay rises of between 15 and 25 per cent. The lessons learned include that corporate priorities should be

- precise enough to enable executives of making comparable, measurable and “stretching” commitments that cannot vary arbitrarily between services (OECD, 2002h).
165. Such concerns led the OECD Ministerial Council to ask the Organisation to initiate peer reviews of sustainable development.
 166. Such a cost is similar to that estimated for Austria and France in 1996. The estimated cost of particle pollution is much lower in Switzerland, reflecting lower use of diesel vehicles in that country (Künzli *et al.*, 1999). However it is extremely difficult to separate the cost of particle pollution from that of other pollutants (Sommer *et al.*, 2000). Consequently, these estimates are best seen as overall estimates of the car air pollution. About three-quarters of these health costs relate to the value placed on the loss of life, the remainder being reduced morbidity costs. The value placed on loss of life would be markedly less if it were to reflect just lost income and consumption, rather than the willingness-to-pay to avoid death as revealed by labour market and survey data.
 167. A study concluded that dioxin emissions from an incinerator in the vicinity of Antwerp did not produce any statistically significant effect on human health (Nouwen *et al.*, 2001). Exposure to dioxin was even found to decline while incineration activity increased twofold.
 168. The ceilings for Belgium under the EU agreement are lower than its commitments within the framework of the UNECE convention on long-range transboundary pollution.
 169. The higher estimate refers to initial Commission proposals which were slightly more demanding than the objectives in the final version of the directive. The lower estimate refers to a scenario with significantly less demanding objectives than in the directive.
 170. The issue is complicated, however, by the fact that some pollution avoidance technologies result in higher energy consumption which in the absence of appropriate pricing of carbon emissions could compromise the least cost achievement of Kyoto limits. Consequently, requirements regarding both greenhouse gases and conventional air pollutants should be simultaneously implemented for comparable time horizons and the regional systems should be connected with each other and with wider international efforts through permit trading.
 171. The EU auto/oil policy will limit the sulphur content of motor fuels to 50 parts per million by 2005. US regulations require diesel fuel to contain less than 15 parts per million by 2007.
 172. For diesel cars, there is an excise compensating duty (*taxe compensatoire d'accise*) in addition to a higher annual vehicle tax (*taxe de circulation*). This tax penalty on diesel cars is offset, on average, by the lower duty on diesel fuel for motorists insofar as they do more than 22 000 kilometres per year. There is also a registration fee which has to be paid when the car is bought (*taxe de mise en circulation*). Between 2003 and 2005 that fee will be differentiated in favour of less polluting cars, with a permanent reduction for liquid petroleum gas (LPG) powered cars. Over the same period, the registration fee will cease to be higher for EURO4 compliant diesel cars.
 173. By 2010, motorcycles may account for 14 per cent of hydrocarbon emissions but only 2½ per cent of road traffic by 2010. Currently, the emissions of hydrocarbons from the average motorcycle are the equivalent of those from 200 cars compliant with present EU standards.
 174. Diesel-engined cars with almost zero particulate emissions are currently price competitive on European markets. In the United States, significant progress has been made in

- the development of filters for diesel trucks (EPA, 2002). Even without these advances on the cost side, benefits of a major reduction in particles emitted by trucks were estimated to be 17 times greater than the costs (EIA, 2000).
175. This does not mean that Belgium transport prices take into account all externalities. A major one, congestion, is not adequately reflected in prices (Prost *et al.*, 2002). Fuel taxes are not well suited for internalising congestion costs which would better be contained through road pricing.
 176. The only exceptions are federal taxes and the regulation of product quality for which the federal government is responsible within the limits of EU internal market rules.
 177. In Flanders, only one out of ten existing landfills for household waste is planned to operate after 2010. In Wallonia, a public enquiry to identify new landfill sites ended in 1999 with the decision not to create new landfills. The Brussels-Capital region has no space available for new landfills.
 178. FOST Plus does not intervene directly to either collect or recycle waste in contrast to the position in Germany. Moreover, there is competition amongst recycling companies. There is, however, a lack of transparency in determining the payments that are made to recyclers and local authorities.
 179. This increase reflects one-off investment costs, while the amount of recycled packaging waste subsidised by FOST Plus rose by just 21 per cent in the same period.
 180. Municipal waste collection and treatment costs € 155 per household (€ 62 per person). Just under 5 per cent of this cost is met by regional subsidies.
 181. For 2002, the threshold is set at 240 kilograms per inhabitant and the tax rate is € 35 per tonne. The introduction of this levy may have been one reason behind the fall in the collection of mixed waste from 310 to 175 kg per capita between 1998 and 2000.
 182. Euro per tonne for plastics and euro per tonne for other drink containers against euro per tonne for incineration.
 183. According to FOST Plus's annual report, a 4 per cent increase in quantity of material recycled would result in a 40 per cent increase in cost.
 184. Such a difference between the actual and optimal recycling rate led the Chairman of FOST Plus to write "Is this additional cost still justified when one takes into account the existence of other environmental black spots, especially in the light of the larger social context?" and "Is it not a waste of time and energy to consider packaging as the scapegoat on the debate on the environment?" (FOST Plus, 2002).
 185. In this section, the year 2010 is a synonym for the target period 2008-12 for which all policy commitments pertaining to the Kyoto protocol are formulated.
 186. In the Walloon region, CO₂ emissions by energy-producing industries fell by 28.8 per cent from 1990 to 1993 (Federal Department of the Environment, 2002).
 187. The forecast that the target is missed at current policy settings is not very sensitive to the assumption on energy prices. If oil and natural gas prices were 20 per cent higher, the final energy consumption would lie 3 per cent below the baseline projection in 2007 (FPB, 2002, p. 109).
 188. House insulation and building insulation, energy audits and certification are the main actions that will be carried out, in order to reduce the contribution of residential warming and industrial consumption to total CO₂ emissions.

189. In its Regional Development Plan the Brussels Region sets a target of 20 per cent reduction for road traffic by 2010 compared with 1999. Besides the RDP the Brussels Region has a Mobility Plan with the objective of stabilising the number of car trips in the morning rush hour at its 1991 level by 2005.
190. The broad aim is to enhance the technical and environmental performance of transport (through “green” taxes).
191. Moreover, worse congestion mitigates the ecological benefits from the expected reduction in road use as lower speed and more stop-start-driving boost CO₂ emissions per vehicle (OECD, 2002i, p. 35).
192. Operational rail subsidies should not only be removed on competition policy grounds. Oversupply of public transport results in higher emissions than adequately priced private transport (Sustainable Mobility Programme, 2001).
193. A co-operation agreement on the implementation of the national climate plan and the co-ordination of the international reporting obligations should be launched early in 2003.
194. United Nations Framework Convention on Climate Change (UNFCCC).
195. To increase the efficiency of such a measure, EU governments should ensure that a considerable share of emission permits would be auctioned rather than grand-fathered.
196. This section provides a short follow-up on assessments and recommendations of the previous *Survey* (OECD, 2001f). It will therefore deal with sewage in the Brussels region, bathing water in the Walloon region and effects from livestock on groundwater quality in Flanders, although each region has policies on other water quality issues than those described here.
197. Following a legal action by the EC, the Walloon region and the EC reconsidered the classification of bathing zones. There is still some disagreement since the EC identifies 21 bathing zones down from 30.
198. Article 174 section 3 of the EU Treaty requires such a review.
199. A large information campaign also helped to obtain better surface water quality in some rural areas.

List of acronyms

AAS	Agency of Administrative Simplification
ACS	Additional Crisis Surcharge
ADSL	Asymmetrical digital subscriber line
AETR	Average effective tax rate
ALE	Local employment agencies
APW	Average Production Worker
BFC	Banking and Finance Commission
BIPT	Belgian Institute for Postal services and Telecommunication (Regulator of post and telecommunications)
BPG	Belgian Post Group
BRP	Business re-engineering programmes
CFS	Council for Financial Stability
CO	Carbon monoxide
CO₂	Carbon dioxide
CREG	Regulator of the electricity and gas market (<i>Commission de régulation de l'électricité et du gaz</i>)
DSL	Digital Subscriber Line
ECB	European Central Bank
EEA	European Environment Agency
EMEP	Co-operative Programme for Monitoring and Evaluation of the Long-range Transmission of Air Pollutants in Europe
FGS	Federal Government Service
FPB	Federal Planning Bureau
FTE	Full-time equivalent
GHG	Greenhouse gas
HEC	High Employment Council
ICT	Information and communications technology
INS	National Institute of Statistics
KWh	Kilowatt hour
LNG	Liquefied natural gas
LPG	Liquid petroleum gas
METR	Marginal effective tax rate
MFP	Multifactor productivity
MNE	Multinational enterprise
NBB	National Bank of Belgium
NMVOC	Non-methane volatile organic compound
NO₂	Nitrogen dioxide
NO_x	Nitrogen oxides
OIC	Office for Insurance Control

ONEM	Federal body administering unemployment benefits (<i>Office national de l'emploi</i>)
PM	Particulate matters
PPP	Purchasing power parities
PSTN	Public Switched Telephone Network
SBIC	Small business investment companies
SME	Small-and-medium-sized enterprises
SNA	System of National Accounts
SNCB	Belgian National Railway Company (<i>Société nationale des chemins de fer belge</i>)
SO₂	Sulphur dioxide
SO_x	Sulphur oxides
SSC	Social security contributions
SSL	Secure socket layer
TSO	Transmission System Operator
ULCM	Unit labour costs in the manufacturing sector
VAT	Value added tax
VDAB	<i>Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding</i> (placement service of the Flemish region)
VOC	Volatile organic compound

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BASIC STATISTICS OF BELGIUM, 2001

THE LAND

Area (1 000 km ²)	30.5	Major urban areas (thousand inhabitants)	
Agricultural area (1 000 km ²)	13.4	Brussels	964.4
		Antwerp	931.6
		Liège	584.4
		Ghent	496.6

THE PEOPLE

Population (thousands)	10 263	Total labour force (thousands)	4 494
Inhabitants per km ²	337	Total domestic employment (thousands):	4 148
Net increase (31.12.2 000)	24 048	Agriculture	28
Net migration (thousands, 31.12.2 000)	14	Industry and construction	838
		Other	3 282

PRODUCTION

Gross domestic product (billion euro)	254	Gross domestic product by origin, at market prices (per cent):	
Gross domestic product per head (US\$)	22 189	Agriculture	1.3
Gross fixed investment:		Industry	19.5
Per cent of GDP	20.7	Construction	4.7
Per head (US\$)	4 601	Other	74.5

THE GOVERNMENT

General government (per cent of GDP):		Composition of the House of Representatives (number of seats):	
Current expenditure	46.3	Liberals	41
Current revenue	46.9	Socialists	33
Gross debt	108.6	Christian-socials	32
		Ecologists	20
		Others	24
		Last election: 13.6.1999	

FOREIGN TRADE

Exports of goods and services (per cent of GDP)	85.6	Imports of goods and services (per cent of GDP)	82.0
Main exports (per cent of total), SITC, Rev. 3 :		Main imports (per cent of total), SITC, Rev. 3 :	
Iron and steel products (67 + 68)	5.8	Iron and steel products (67 + 68)	4.2
Chemical products (5)	19.8	Chemical products (5)	18.3
Machinery and equipment (71 to 77)	14.9	Machinery and equipment (71 to 77)	18.0
Textile products (65)	3.2	Textile products (65)	1.9
Transport equipment (78 + 79)	15.2	Transport equipment (78 + 79)	12.9
		Energy (3)	8.7

THE CURRENCY

Irrevocable conversion rate :	40.3399	Currency units of euro per US\$, average of daily figures:	
		Year	1.1166
		December 2002	0.9817

Note: An international comparison of certain basic statistics is given in an annex table.

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•

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•

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