

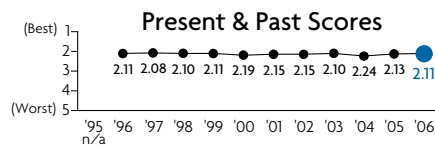


# BELGIUM

Rank: 22

Score: 2.11

Category: Mostly Free



## QUICK STUDY

### SCORES

Trade Policy	2
Fiscal Burden	4.1
Government Intervention	2.5
Monetary Policy	1
Foreign Investment	1
Banking and Finance	2
Wages and Prices	3
Property Rights	1
Regulation	3
Informal Market	1.5

**Population:** 10,400,000

**Total area:** 30,510 sq. km

**GDP:** \$241.4 billion

**GDP growth rate:** 2.7%

**GDP per capita:** \$23,211

**Major exports:** chemicals, machinery and equipment, transport equipment, transportation, travel services, financial services, computer services and information

**Exports of goods and services:** \$204.3 billion

**Major export trading partners:** Germany 17.5%, France 17.4%, Netherlands 12.9%, UK 8.6%

**Major imports:** machinery, chemicals, transport equipment, travel services, financial services, insurance services

**Imports of goods and services:** \$200.2 billion

**Major import trading partners:** France 19.9%, Germany 16.6%, Netherlands 13.7%, UK 7.8%, US 5.5%

**Foreign direct investment (net):** \$15.2 billion

2004 Data (in constant 2000 US dollars)

**B**elgium has one of the world's highest total tax burdens. Government spending amounted to 49.4 percent of GDP in 2004, and the social transfer system remains one of the world's most extensive and expensive; on average, one working-age adult supports slightly more than one benefit recipient. Prime Minister Guy Verhofstadt has concentrated on targeted cuts in income tax and social security contributions to achieve his goal of increased job creation, and the program has met with relative success in Western European terms. GDP increased by 2.7 percent in 2004, with unemployment at 7.8 percent. Another principal fiscal policy objective is budgetary consolidation. Public debt remains staggeringly high (95.9 percent of GDP in 2004) despite years of steady decline. Labor laws remain highly complex, particularly in terms of employment, health, and safety regulations, and lawmakers frequently add to the already onerous European Union labor regulations. Belgium is still run on a largely corporatist basis, with the business federation and unions negotiating a national collective bargaining agreement every other year. Belgium's fiscal burden of government score is 0.2 point better this year. As a result, its overall score is 0.02 point better this year.



## TRADE POLICY

Score: **2—Stable** (low level of protectionism)

As a member of the European Union, according to the World Bank, Belgium was subject to a common EU weighted average external tariff of 1.3 percent in 2003, down from the 2.4 percent for 2002 reported in the 2005 *Index*. The EU restricts or has quotas for many goods, especially agricultural products. Based on the revised trade factor methodology, Belgium's trade policy score is unchanged.



## FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **5—Stable** (very high tax rates)

Score—Corporate Taxation: **4.5—Stable** (very high tax rates)

Score—Change in Government Expenditures: **2.5—Better** (low decrease)

Final Score: **4.1—Better** (high cost of government)

According to Deloitte, Belgium's top income tax rate is 50 percent. The top corporate tax rate is 34 percent. (The corporate tax rate is composed of a 33 percent tax rate and a 3 percent surcharge.) In 2004, government expenditures as a share of GDP fell 1.6 percentage points to 49.4 percent, compared to a 0.8 percentage point decrease in 2003. On net, Belgium's fiscal burden of government score is 0.2 point better this year.



## GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **2.5—Stable** (moderate level)

The National Bank of Belgium reports that the government consumed 22.6 percent of GDP in 2004. In the same year, based on data from Statistics Belgium, Belgium received 4.9 percent of its total revenues from state-owned enterprises and government ownership of property.



## **MONETARY POLICY**

**Score: 1–Stable** (very low level of inflation)

Belgium is a member of the euro zone. From 1995 to 2004, Belgium’s weighted average annual rate of inflation was 1.95 percent.



## **CAPITAL FLOWS AND FOREIGN INVESTMENT**

**Score: 1–Stable** (very low barriers)

Belgium has an attractive foreign investment climate. There are few restrictions on foreign investment that do not also apply to domestic investment. Authorization is required for investment in Belgian flag vessels operated by shipping companies that do not have their main offices in Belgium. There are some restrictions on non-European Union investment in public works as required under EU regulations. There are no restrictions on the purchasing of real estate, repatriation of profit, or transfer of capital.



## **BANKING AND FINANCE**

**Score: 2–Stable** (low level of restrictions)

Belgium’s domestic banking system has undergone privatization in the past few years and is now almost all privately owned. There are 66 banks, including 12 branches of foreign banks. There is government oversight, but foreign banks are allowed to operate and are subject to relatively few restrictions. According to the U.S. Department of Commerce, “Belgium has in place policies to facilitate the free flow of financial resources. Credit is allocated at market rates and is available sufficiently to foreign and domestic investors without discrimination.” Belgian law distinguishes between foreign banks coming from a country that is part of the European Economic Area (EEA) and those coming from another country. Credit institutions and other issuers of financial instruments that are authorized to conduct banking activities in another EEA country do not need to seek authorization from the Banking and Finance Commission, but institutions outside the EEA may face greater scrutiny or reporting requirements. The U.S. Department of Commerce reports that financial institutions “are subject to simplified notification procedures if they are from another European Union country because they are governed by their home-country legislation and by mutual-recognition procedures.” The government affects the allocation of credit; according to the Economist Intelligence Unit, “An interest-rate subsidy may be available from regional authorities on medium- and long-term borrowing.”



## **WAGES AND PRICES**

**Score: 3–Stable** (moderate level of intervention)

The market determines most wages and prices. The Economist Intelligence Unit reports that “companies with an annual turnover of 7,436,805.74 [euros] or more must notify the Federal Public Service Economy of any price increase or decrease.... [T]he principle that prices must be ‘normal’ is still enshrined

in legislation and can be enforced in the courts to prevent price gouging.” In addition, “Permission is sometimes necessary to put a new product on the market or to increase a price.... The sectors affected are those where there is a deemed monopoly or an explicit social character (water, electricity and gas distribution; waste handling; homes for the elderly, medicines and implantable medical devices; certain cars; compulsory insurance; fire insurance; petroleum products; taxi transport; cable television; and certain types of bread).” The government affects agricultural prices through its participation in the Common Agricultural Policy, which heavily subsidizes agricultural goods. Belgium maintains a minimum wage.



## **PROPERTY RIGHTS**

**Score: 1–Stable** (very high level of protection)

Property is well protected. The Economist Intelligence Unit reports that “contractual agreements are secure in Belgium. The country’s laws are codified, and the quality of the Belgian judiciary and civil service is high, though the process is often slow.”



## **REGULATION**

**Score: 3–Stable** (moderate level)

Regulations are moderately burdensome, especially for small and medium-size enterprises. According to the Economist Intelligence Unit, investors find that “Belgium’s high labour costs are sustainable only for high-value-added processes.” According to the World Bank, the cost of starting a business, hiring and firing, and registering property in Belgium is moderate in terms of both bureaucracy and money. The EIU reports that “part-time and temporary work has increased significantly. But rigidities in the system are still a major bar to hiring and firing....” In addition, “Listed companies are [now] expected to comply with a new corporate-governance code drawn up by the Euronext exchange—the Belgian enterprise federation and the financial services regulator—or explain why they have different governance rules.”



## **INFORMAL MARKET**

**Score: 1.5–Stable** (low level of activity)

Transparency International’s 2004 score for Belgium is 7.5. Therefore, Belgium’s informal market score is 1.5 this year.

If Belgium were to improve its regulation score, it would qualify for the Global Free Trade Alliance.