

Belgium economy

Countries



? Belgium's economy is 71.5 per cent free, according to our 2008 assessment, which makes it the world's 20th freest economy. This is a 0.9 percentage point decrease from last year, primarily reflecting increased government spending. Belgium is ranked 10th freest among the 41 countries in the European region, and its overall score is above the regional average. Belgium scores very high in investment freedom, property rights, monetary freedom, and business freedom and is above the world average in eight areas.

A member of the European Union, it has a standardized monetary policy and relatively low inflation despite some government distortion in the agricultural sector. Its transparent rule of law protects property and encourages confidence among foreign investors. Belgium's extensive welfare state is supported by exceptionally high government spending and income tax rates. Overall tax revenue is an uncommonly high per cent of GDP, and Belgium's government size score is 50 percentage points worse than the world average. Background

Belgium is a federal state consisting of three economically different regions: Flanders, Wallonia, and the capital city of Brussels, which houses the headquarters of NATO and the EU and has been at the forefront in driving the supranationalisation of power within the EU. After eight years, Guy Verhofstadt and his Liberal Party were ousted from power in 2007. His previous Socialist Liberal coalition sought to ease the income tax burden and succeeded in balancing the budget, but growth remained sluggish. Christian Democratic leader Yves Leterme has since been invited to form a coalition government.

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Services account for around three-quarters of GDP. The leading exports are electrical equipment, vehicles, diamonds, and chemicals. BELGIUM Rank: 20 Regional Rank: 10 of 41 Population: 10. 5 million GDP (PPP):\$336. 6 billion 1. 5% growth in 2004 1. 7% 5-yr. comp. ann. growth \$32, 119 per capita Unemployment: 8. 4% Inflation (CPI): 2. 5% FDI (net inflow):\$766 million Off. Dev. Assist. None External Debt: \$1. 1 trillion Exports: \$318. 8 billion Primarily machinery and equipment, chemicals, diamonds, metals and metal products, foodstuffs. Imports: \$308. 4 billion

Primarily machinery and equipment, chemicals, diamonds, pharmaceuticals, foodstuffs, transportation equipment, oil products. BELGIUM'S TEN ECONOMIC FREEDOM Business freedom - 93. 7% The overall freedom to start, operate, and close a business is strongly protected by Belgium's national regulatory environment. Starting a business takes an average of four days, compared to the world average of 43 days. Obtaining a business license requires less than the world average of 19 procedures and 234 days. Regulation is transparent, and the laws are enforced effectively. Closing a business is easy and straightforward. Trade freedom - 86%

Belgium's trade policy is the same as those of other members of the European Union. The common EU weighted average tariff rate was 2 per cent in 2005. Non-tariff barriers reflected in EU policy include agricultural and manufacturing subsidies, import restrictions for some goods and services, market access restrictions in some service sectors, non-transparent and restrictive regulations and standards, and inconsistent customs administration across EU members. Enforcement of intellectual property

rights remains problematic. Consequently, an additional 10 percentage points is deducted from Belgium's trade freedom score.

Fiscal freedom - 43.9% Belgium's income tax rate is one of the world's highest, and its corporate tax rate is also high. The top income tax rate is 50 per cent, and the top corporate tax rate is 34 per cent (a 33 per cent tax rate and 3 per cent surcharge). Other taxes include a value-added tax (VAT), a transport tax, and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 44.9 per cent. Freedom from

Government - 17.9% Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending equaled 52.3 per cent of GDP.

Monetary freedom - 80.4% Belgium is a member of the euro zone. Between 2004 and 2006, its weighted average annual rate of inflation was 2.3 per cent. Relatively stable prices explain most of the monetary freedom score. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Price-control policies affect water supply, waste handling, homes for the elderly, medicines and implantable medical devices, certain cars, compulsory insurance, fire insurance, petroleum products, cable television, and certain types of bread.

An additional 10 percentage points is deducted from Belgium's monetary freedom score to account for these policies. Investment freedom - 90% Most restrictions on foreign investment also apply to domestic investment. Permits and licenses required for certain industries are not hard to obtain.

Regional and national incentives are generally open to foreigners and Belgians, but taxes and certain employment criteria are federally controlled. Performance requirements, when present, are linked to job creation. EU regulations require some restrictions on non-EU investment in public works.

There are no restrictions on the purchase of real estate, residents' and non-residents' accounts, repatriation of profit, or transfer of capital. Financial freedom - 80% Belgium has one of the world's most developed financial systems, with 104 banks, including over 70 foreign banks, and numerous financial service providers, but the five largest banks still hold 85 per cent of deposits. An independent commission supervises the financial sector. Banks must provide a minimum set of services. Credit is allocated at market terms to both foreign and domestic investors. Belgian law differentiates between EU and non-EU banks, financial institutions, and insurance companies, although firms from European Economic Area or World Trade Organization countries may be treated equally. Regional authorities may subsidize medium- and long-term borrowing. The insurance sector is smaller and less robust than banking. The world's first stock market was organized in Antwerp, and Belgium's sound capital markets were recently integrated into Euro next, a broader European exchange.

Property rights - 80% Property is well protected, and contracts are secure. The laws are codified, and the judiciary and civil service, while often slow, are of high quality. Intellectual property rights are well protected, but implementation of relevant EU directives has been slow. Freedom from corruption - 73% Corruption is perceived as minimal. Belgium ranks 20th out

of 163 countries in Transparency International's Corruption Perceptions Index for 2006.

Belgium outlaws both active bribery and " passive bribery," whereby an official requests or accepts a benefit for himself or somebody else in exchange for certain behavior. Labor freedom - 69. 9% Employment regulations are relatively flexible, but further reform is needed to foster employment creation and productivity growth. The non-salary cost of employing a worker can be very high, and dismissing a redundant employee is relatively costly. Belgium's high labor costs are sustainable for high-value-added processes, but market rigidities remain a considerable barrier to employing a worker.