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The GDP-per-capita gap vis-à-vis *best performing countries has narrowed slightly in recent years, but continues to reflect a low level of labour utilisation. There has been some progress in raising the low employment rates of older workers, though little has been done in terms of addressing geographical labour market mismatches. Weaknesses remain and reforms are needed in the following areas.*

Priorities supported by indicators

Phase-out remaining early retirement schemes

Employment rates for older workers are low due to the widespread use of early retirement schemes and other possibilities for early exit from the labour market.

Actions taken: In 2009, the legal retirement age for women was equalised with that for men at 65. Some previously agreed restrictions on early retirement were implemented.

Recommendations: Early retirement schemes should be phased out more rapidly and other exit routes from the labour market should be closed. This includes extending the surtax on negotiated top-ups on unemployment benefits to all wage agreements and phasing out occupational exemptions from the minimum retirement age.

Further ease regulation in the retail sector and the network industries

The retail sector is subject to unusually extensive sectoral regulation, including rules on large outlets, shop opening hours and restrictions on sales, hampering efficiency. Network sectors, particularly energy, are also subject to extensive (multilayer) regulation and unusually broad universal service obligation requirements.

Actions taken: The Trade Practices Act of April 2010 lifted or liberalised a number of Belgian-specific restrictions on sales in the retail sector.

Recommendations: Competition-inhibiting regulation should be scrapped, zoning laws for large outlets should be restricted to evaluating spatial effects and shop opening hours liberalised. In network industries, the complicated regulatory structures should be streamlined, preferably by establishing single independent (nationwide) regulators. Universal service obligation requirements should become less onerous, subject to competitive tendering and financed by the government if retained.

Further reduce the labour tax burden and enhance work incentives in the tax system

The tax wedge is among the highest in OECD countries. Low-income households are faced with high marginal effective tax rates that hamper their labour market participation and increase structural wage pressures.

Actions taken: The government lowered employers' social security contributions and introduced wage subsidies to promote employment prospects for low-skilled, younger, older, R&D and shift-and-night workers as well as for long-term unemployed. In 2010, social security contribution cuts were refocused towards low wage workers.

Recommendations: Wage subsidies and reductions of social security contributions should only be targeted to low-wage earners. Other reductions of social security contributions should be phased out. Remaining labour market traps should be addressed by removing spikes in the effective marginal tax rates. A growth enhancing tax reform should lower rates while broadening bases and move the tax burden away from labour and capital to consumption and immovable property.

Other key priorities

Make wage setting more flexible

The centralised wage bargaining system prevents adjustments to local labour market conditions while wage indexation hampers flexible wage adjustment.

Actions taken: No action taken.

Recommendations: Wage negotiations should become more decentralised and wage indexation should be phased out.

Improve job-search incentives in the unemployment benefit system

Unemployment benefit duration is not limited in time, while the level of benefits barely declines over the unemployment spell, reducing job-search incentives and effectively leading to early exit from the labour market.

Actions taken: No action taken.

Recommendations: Unemployment benefits should be reduced over the unemployment spell to raise job-search incentives. Initial net replacement rates may have to go up in order to make room for such a phasing-out.

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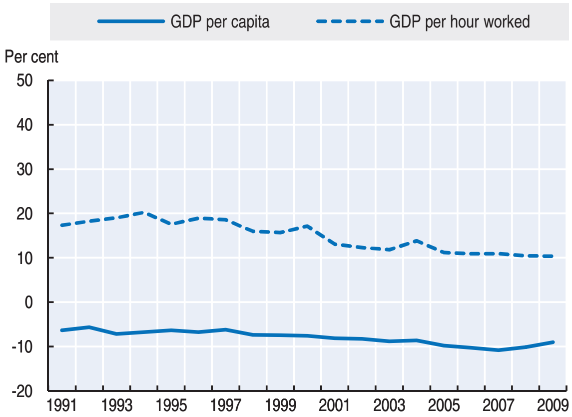
Structural indicators

Average annual trend growth rates, per cent

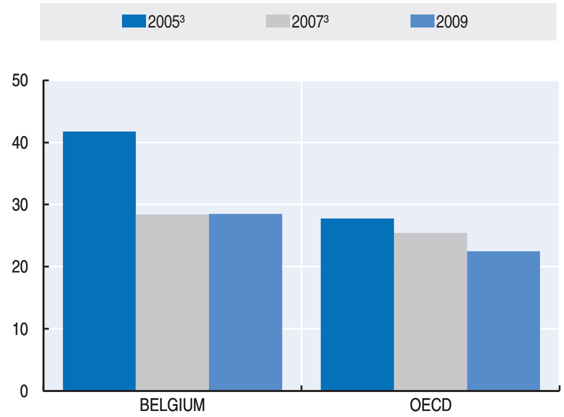
		1999-2009	1999-2004	2004-09
GDP per capita		1.6	1.8	1.5
Labour utilisation		0.4	0.5	0.4
of which:	Employment rate	0.4	0.5	0.3
	Average hours	0.0	0.0	0.0
Labour productivity		1.2	1.3	1.1
of which:	Capital intensity	0.5	0.5	0.5
	Multifactor productivity	0.7	0.8	0.7

Source: Estimates based on OECD (2010), *OECD Economic Outlook* No. 88: *Statistics and Projections Database.*

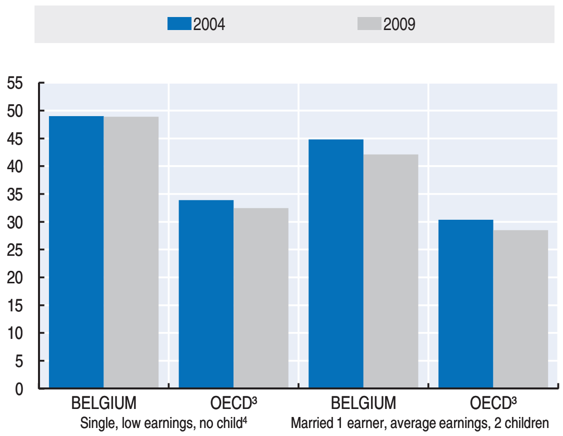
A. There has been little progress in narrowing the gap in GDP per capita
Gap to the upper half of OECD countries[1]



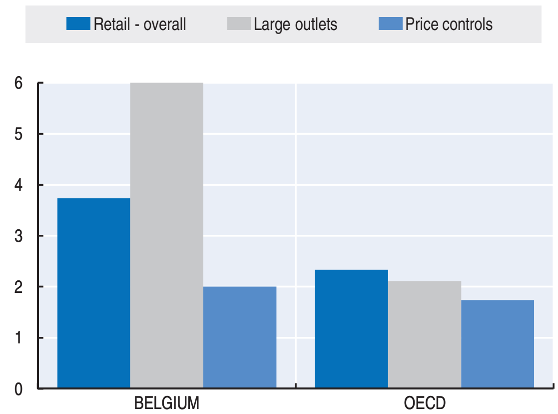
B. Implicit taxes on continued work remain higher than the OECD average[2]
Percentage of average worker earnings



C. The average tax wedge on labour income is high
Percentage of total labour compensation



D. Regulations in the retail sector remain restrictive, 2008
Index scale of 0-6 from least to most restrictive



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Implicit tax on continued work in early retirement route, for 55 and 60-year-olds.
3. Average of OECD countries excluding Chile, Estonia, Israel and Slovenia.
4. Low earnings refer to two-thirds of average earnings.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook* No. 88 *Databases*; Chart B: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", OECD *Economics Department Working Papers*, No. 370 and OECD calculations; Chart C: OECD, *Taxing Wages Database*; Chart D: OECD, *Product Market Regulation Database.*

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