

World Rank: **30**

Regional Rank: **16**

Belgium's economic freedom score is 70.1, making its economy the 30th freest in the 2010 *Index*. Its overall score has decreased 2.0 points from last year, primarily due to reductions in investment freedom and financial freedom. Belgium is ranked 16th freest among the 43 countries in the Europe region, and its overall score is above the regional and global averages.

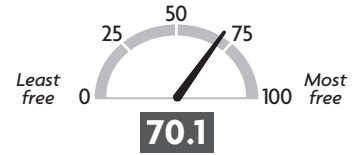
The global financial crisis has sparked a sharp economic slowdown in Belgium. In response to the turmoil in the banking sector and the subsequent contraction in overall economic activity, the government has intervened to support the financial system and implement a moderate-sized fiscal stimulus package.

Although Belgium's economy has benefited from a long-standing commitment to economic freedom, there are lingering structural weaknesses that hinder reforms to enhance economic freedom and competitiveness. The tax system still relies too much on relatively growth-distorting taxes, and individual and corporate income tax rates are burdensome. Belgium's extensive welfare state is supported by exceptionally high government spending, and labor market rigidities remain a considerable barrier to facilitating productivity and job growth.

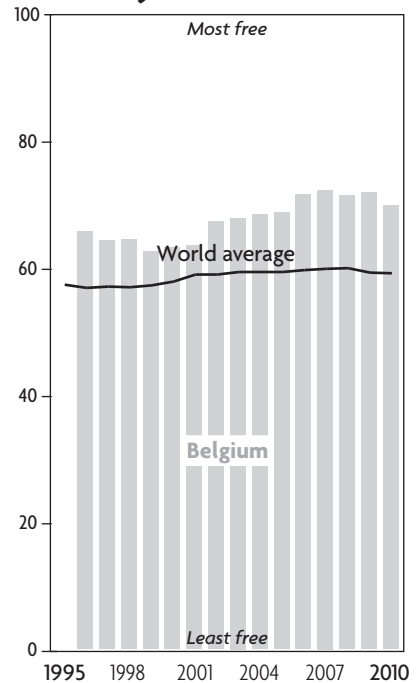
BACKGROUND: Belgium is a federal state consisting of three culturally different regions: Flanders, Wallonia, and the capital city of Brussels, which houses the headquarters of NATO and the European Union. Services account for 75 percent of economic activity. Leading exports are electrical equipment, vehicles, diamonds, and chemicals. After eight years in office, Guy Verhofstadt and his Liberal Party lost the 2007 general election, although they remained in office until March 2008 because of political deadlock. Christian Democrat Yves Leterme took over as premier, but his government resigned *en masse* in the wake of a bank scandal in December 2008. Christian Democrat Herman van Rompuy, formerly president of the Chamber of Representatives, became prime minister on January 5, 2009.

BELGIUM

Economic Freedom Score



Country's Score Over Time



Quick Facts

Population: 10.7 million

GDP (PPP): \$369.2 billion

1.1% growth in 2008

2.2% 5-year compound annual growth

\$34,493 per capita

Unemployment: 7.0%

Inflation (CPI): 4.5%

FDI Inflow: \$59.7 billion

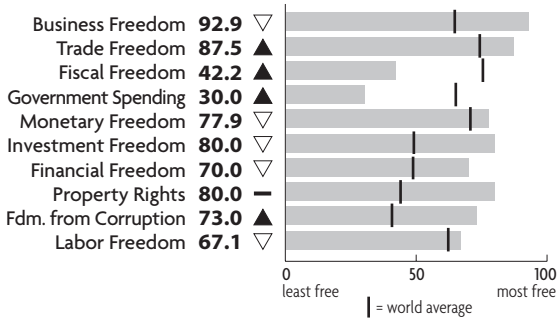
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

BELGIUM'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 92.9

The overall freedom to establish and run a business is strongly protected under Belgium's regulatory environment. Starting a business takes an average of four days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures and 218 days.

TRADE FREEDOM — 87.5

Belgium's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Belgian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Belgium's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 42.2

Belgium's income tax rate is one of the world's highest, and its corporate tax rate is moderately high. The top income tax rate is 50 percent, and the top corporate tax rate is effectively 34 percent (33 percent plus a 3 percent austerity tax charged on the income tax due). Other taxes include a value-added tax (VAT), a real property tax, and an estate tax. Rates of the latter two vary by region. In the most recent year, overall tax revenue as a percentage of GDP was 46.1 percent.

GOVERNMENT SPENDING — 30

Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending equaled 48.3 percent of GDP. A stimulus package includes utility subsidies, reduced social security contributions, and higher unemployment benefits.

MONETARY FREEDOM — 77.9

Belgium is a member of the euro zone. Between 2006 and 2008, the weighted average annual rate of inflation rose

to 3.6 percent. 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. Ten points were deducted from Belgium's monetary freedom score to account for these policies.

INVESTMENT FREEDOM — 80

Foreign investors may enter into joint ventures and partnerships on the same basis as domestic parties, except for such professions as doctors, lawyers, accountants, and architects. Permission is required to open department stores, provide transportation and security services, produce and sell certain food items, cut and polish diamonds, or sell firearms and ammunition. Bureaucracy can be cumbersome. There are no restrictions on the purchase of real estate, resident and non-resident foreign exchange accounts, repatriation of profit, or transfer of capital. If the government acquires property for a public purpose, adequate compensation is paid.

FINANCIAL FREEDOM — 70

Belgium's five largest banks account for around 85 percent of deposits, but domestic and foreign banks operate in a very competitive environment. Credit is allocated at market terms, but regional authorities may subsidize medium- and long-term borrowing. The insurance sector is smaller than the banking sector. Capital markets are integrated into Euronext, a broader European exchange. Responding to the global financial crisis, the government has bailed out several major banks. Other financial groups have received additional recapitalization, and the government has offered inter-bank loan guarantees.

PROPERTY RIGHTS — 80

Property ownership is protected, and contracts are secure. Laws are codified, and the judiciary and civil service, while often slow, are of high quality. Intellectual property rights are protected, but implementation of relevant EU directives is slow.

FREEDOM FROM CORRUPTION — 73

Corruption is perceived as minimal. Belgium ranks 18th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Belgium outlaws both active bribery and "passive bribery," whereby officials request or accept bribes to benefit themselves or others in exchange for certain behavior.

LABOR FREEDOM — 67.1

Employment regulations are relatively flexible, but further reform would foster job creation and productivity growth. The non-salary cost of employing a worker remains high, and dismissing a redundant employee is relatively costly.