Accelerating productivity growth: a must, and within reach

If Belgium wants to safeguard long-term prosperity, its economy must grow. The key to achieving this growth lies in accelerating productivity growth. In this report, ThinkBeyond not only explains why such acceleration is essential, but by applying an uncommon managerial lens, also demonstrates that Belgium has the potential to deliver it. Crucially, the main levers for productivity growth: Excellence, Digital and Artificial Intelligence, have a direct impact and are largely independent of external factors. The real challenge does not lie in identifying these levers, but in implementing them at scale. Doing so requires a fundamental shift in mindset and a coordinated transformation program. The time to act is now.

In the first two chapters, the report lays out why growth matters, why the major driver will have to be growth in productivity and where we stand today. The third and fourth chapter introduce why a different look into the productivity growth debate, taking a managerial perspective, could be useful and outline the resulting insights from taking such a perspective: Belgium has the potential to accelerate growth and the levers available to achieve this acceleration are within control. In the final chapter, conclusions are discussed.

1. Growth matters and will have to be driven by productivity improvement

Economic growth is the main driver to safeguard future prosperity. Growth creates more welfare, more welfare is needed to ensure that future generations can still make progress while having the means to respond to upcoming challenges such as an aging population, climate change and the need to invest in safety and security.

Achieving higher growth:

- Enables more investment in education, skills, R&D and infrastructure,
- Strengthens the budget by increasing GDP and tax revenues,
- Allows to respond to future challenges as aging, climate and security,
- Supports rising real wages in a high-cost economy
- Helps to keep Belgium attractive as a place to work and do business.
- Must of course be realized without so-called “negative externalities” (climate and environmental damage, increasing inequality, etc)

Economic growth is created by putting more people to work (or work more hours) and by increasing the output that a working individual creates. This last factor is called productivity. It determines how much value a country can create with the people and resources it has. This is increasingly important for Belgium. With a rapidly ageing population, limited room to increase labor participation or working hours, and decreasing importance of capital in the productivity equation, productivity growth will be the main lever to drive economic growth (Exhibit 1). This was the main conclusion

of our first report (and simulation tool) on the effects of the demographic shock on Belgium.

In short: if Belgium wants to maintain its welfare state and remain attractive, it can no longer rely on adding more workers. It must become better at creating value per hour worked.

2. Current economic growth is too low to sustain our welfare.

The Belgian economy has continuously been growing over the past decades. This growth has been fuelled both by adding labor and by increasing productivity.

Belgium's productivity growth has steadily slowed down over the past decades. Annual growth rates fell from above 3% in the 1960s–1970s to below 1% today. The past ten years have been particularly weak, partly because of external shocks, but also because deeper structural issues have built up over time. (Exhibit 2, 3, 4).

Several elements have contributed to this slowdown:

- A shift from high-productivity manufacturing toward services and non-market sectors
- Lower investment in modernization of the country's industrial base
- Despite relatively high research and development investments, low overall innovation rate
- Delayed digital and technological adoption
- Administrative complexity and fragmentation
- Job creation concentrated in lower-productivity segments.

Belgium is a country with many high-performing sectors and companies, our average productivity is still relatively high, but its growth rate has been slowing down over a very long period now.

Over the past decade(s), to compensate for the slowdown in economic growth (and the corresponding shortage in the state budget), Belgium has borrowed against the promise of future growth. This leaves us now with a government debt of 105% of GDP. A future growth rate of 1% implies that Belgium will not be able to invest nor reduce its debt burden.

3. An alternative lens on where productivity growth can come from, taking a managerial perspective

A country is not a company and should not be considered as such. It is composed of a multitude of stakeholders, each with their own multi-facetted goals and ambitions, leading to specific governance requirements and a complex interplay between short and long-term horizons. However, to help progress the discussion on what it takes to increase productivity growth, we have taken the liberty to take an unusual but useful perspective the of a (hypothetical) management team of the Belgian economy.

A management team typically asks several powerful questions: Are we growing fast enough? Where are the bottlenecks? Where do we underperform and why? What capabilities do we need to build? And most importantly: which actions will have the biggest impact?

By adopting this lens, the complex politico-economic reality is simplified into a manageable set of levers. Belgium's productivity performance is assessed as if it were the performance of an organization with clear activities, persistent weaknesses, and a need for strategic focus.

Benchmarking with peers and sector level analysis, are the two methodologies that we have applied on the Belgium economy. Both are described in the next chapter.

This perspective shifts the conversation from abstract macroeconomic analysis to actionable priorities. The results of the analysis cannot be translated into policy without careful reflection. They indicate that Belgium does not lack potential and describe the levers available to accelerate productivity growth.

4. Doubling our productivity growth is feasible. The main levers have direct impact and are under our control.

Even though the trend is negative, the potential to re-accelerate productivity is real. Benchmarking and sector-level analysis show that Belgium could significantly increase its productivity growth — potentially doubling it. (Exhibit 5)

4.1 Benchmarking with peers

Compared to countries like the Netherlands, Denmark or Germany, Belgium underperforms despite similar fundamentals.

Some elements that these peer-countries benefit from are:

- a stronger industrial base
- faster adoption of automation and digital tools
- higher business dynamism

- a clearer national focus on productivity.

Their productivity levels and growth rates structurally exceed Belgium's. This indicates that Belgium has the capacity to improve significantly.

A detailed benchmark with Denmark underlines this potential. While Belgium has grown 0.9%, Denmark has grown 1.7%. (Exhibit 6)

4.2 Sector level analysis

A comprehensive analysis of the Belgium economy sector-by-sector looking at different levers available to grow productivity, indicates that Belgium can bring back its productivity growth to **1.9 to 2.8% p.a**. between 2024 and 2040. In the following paragraphs we describe the levers, indicate how we have estimated their potential impact and list underlying action. (Exhibit 7, 8)

The **Baseline productivity growth** on the back of positive economic and trade forecasts, forecasted for the period. This baseline productivity growth is taken from existing sources (Oxford Economics, Plan Bureau) that forecast the impact of the external environment on our economy. Most baseline figures forecast a **1% p.a.** growth in line with the current numbers.

Improving **Sector efficiency excellence** by focusing on Operational Excellence, Digital Automation & Analytics, and GenAI & Agentic AI. For the sector efficiency excellence lever, productivity gains from Operational Excellence, Digital Automation & Analytics, and GenAI & Agentic AI were analysed. This was based on 100 real-world use cases across various sectors. To ensure these insights were applicable to entire sectors, factors such as automation potential per sector, overlaps between initiatives, Europe's automation adoption forecasts, and the fact that not all transformations will fully succeed were included in the projections. We also looked at workforce shifts over the next 15 years, reflecting how labor transitions between sectors could impact productivity. The Oxford Economics database further supported our analysis alongside the use cases. The results of those analyses indicate an additional productivity growth potential of **+0.9% to +1.5% p.a.** Capturing this potential would require, across sectors, the following actions:

- Operational excellence: streamlining workflows, removing waste and complexity, improving reliability and quality.
- Digital automation & analytics: automating repetitive tasks, using data for better forecasting, resource planning and decision-making, applying tools like process mining and workflow digitalization.
- AI and advanced digital tools: using generative and agentic AI to support knowledge work, decision processes and customer interactions

Steering **Sector-mix evolution** by implementing targeted strategies to cultivate and expand high-productivity, high-growth sectors (e.g., Industry, Manufacturing). For sector-mix evolution, we used productivity forecasts from Oxford Economics and workforce distribution data to evaluate how reallocating labor across sectors could affect overall productivity. While we believe choices can and should be made to target investment mainly toward sectors with major growth potential, the outcome will be harder to estimate. Figures range from **-0.1% to + 0.2% p.a.**.

Increasing **R&D output** in Belgium to achieve the next productivity improvement wave. The assessment of R&D investment returns relied on reports published by Voka, … highlighting the potential ROI from increased public and private R&D activities. The impact is estimated to increase productivity growth by **+0,1% p.a.**. Action points here include:

- Improving the translation of R&D into economic outcomes, especially for SMEs
- Strengthening the ecosystem for scaling and commercializing new technologies
- Ensuring that innovation capacity spreads beyond a small number of sectors

Putting in place **Economy-wide enablers** like skilling/reskilling, regulatory simplification and stability, labor market fluidity, exposure to international competition. These enablers will be needed to create an environment that nurtures the implementation of the levers mentioned above. The supporting conditions required to capture the full potential include:

- Establishing a labor market that supports mobility, reskilling and transitions
- Organizing education and training systems that keep pace with technological change
- Remove administrative friction
- Foster a more dynamic business environment where scale-ups can grow

Taking action across all levers would increase the productivity growth rate to 2%-2,8% p.a., more than doubling it from where we are today. Hence the question shifts from debating whether there is potential and where the potential could come from, toward the question what is needed to capture the potential.

5. Path Forward

The managerial lens makes Belgium's productivity challenge actionable. The ambition to double the current growth rate in productivity is realistic and the levers tangible and actionable.

In order to effectively address this productivity challenge (and opportunity), we would advocate the launch of a productivity program.

Major elements of the **"Productivity program"** would be:

- Continuing to build broad consensus across society and among social partners that productivity growth is indeed the best way forward to safeguard our welfare state (and not just another way towards more cost efficiency and corporate profits). Countering the push-back that productivity would be another way towards more cost efficiency and increasing profits or fighting the reluctance to implement operational efficiency initiatives despite tightening labor markets in several sectors.
- Gathering and motivating all sector organizations (and their industry leading employers) to increase the adoption rate of the 3 types of projects. Both market sector (typically referred to as private sector) as non-market sectors (public administration, education, health care) should be part of this mobilization effort. Existing vehicles like the National Productivity Board, Flemish productivity Agenda could be adapted to enable mobilization.
- Leading by example by implementing such very visible projects. E.g. primary and secondary teachers in the Netherlands teach 8% more hours than OESO average; in Flanders, it is 11% below that average. Total working hours for teachers are similar however (suggesting they might be spending more time on administrative tasks).
- Broad public communication in order to create a countrywide atmosphere of
    - change readiness,
    - progress awareness (and desire),
    - support and belief ("Yes, we can").

Taking and communicating around bold decision will be critical. E.g. Without entering into the merits of the decision, Denmark's move to phase out paper post illustrates the level of ambition such decisions may entail.

Turn the mindset around labor practices around from "we have an unemployment problem" to "we have an employment issue". We have a shortage of labor, so let's make sure there are very productive. E.g. in the Netherlands the working population will shrink with 6% or 0,5 million persons by 2050.

- Ambitious target setting, tracking and reporting of (periodical – at least annual) results and progress; insisting on or even suggesting repair and fallback plans in case of delays or shortfalls. E.g. continuous and repetitive efficiency improvement should become a mindset, like in the automotive sector (2% better every year)
- Ensuring continuous attention for the supporting conditions required. E.g. in the Nordic countries, continuous education, reskilling and job flexibility are very much part of people's careers. Both individuals and companies are incentivized to pro-actively manage their careers.
- Installing the whole project structure in a coalition-independent public administration (and not in a cabinet) – this is a long-term project that spans multiple subsequent coalitions

To support such a program, ThinkBeyond believes a structured approach is necessary. End responsibility could be with a **"Minister of Productivity"**. This could e.g. become the new focus of the current Minister of Work. That latter function could become a side responsibility, more in the sense of helping people to change to more productive jobs, rather than on creating new ones. Today's focus on just job creation risks only adding low productivity jobs, not a longer-term sustainable solution.

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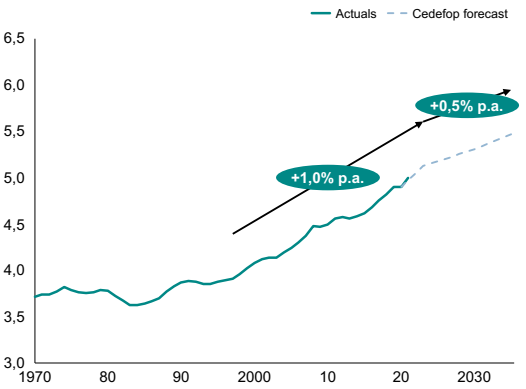
Doubling productivity growth is ambitious but realistic — and necessary. The question is not whether Belgium can improve, but whether it will decide to act.

Attachments

1 | The Belgian workforce growth is expected to slow down over the next decade as the population ages

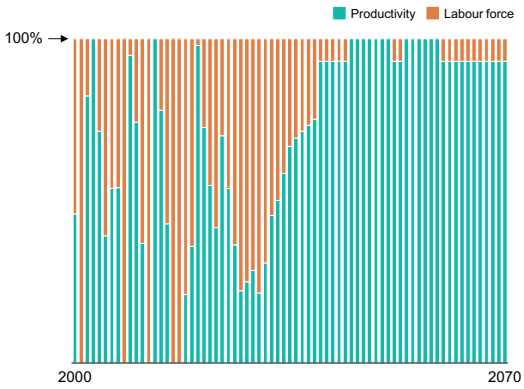
Growth of the number of persons employed is expected to plateau as the population ages

Persons employed in Belgium, Mn



Future GDP growth will rely on productivity growth, unlike the past which was driven by labor force expansion

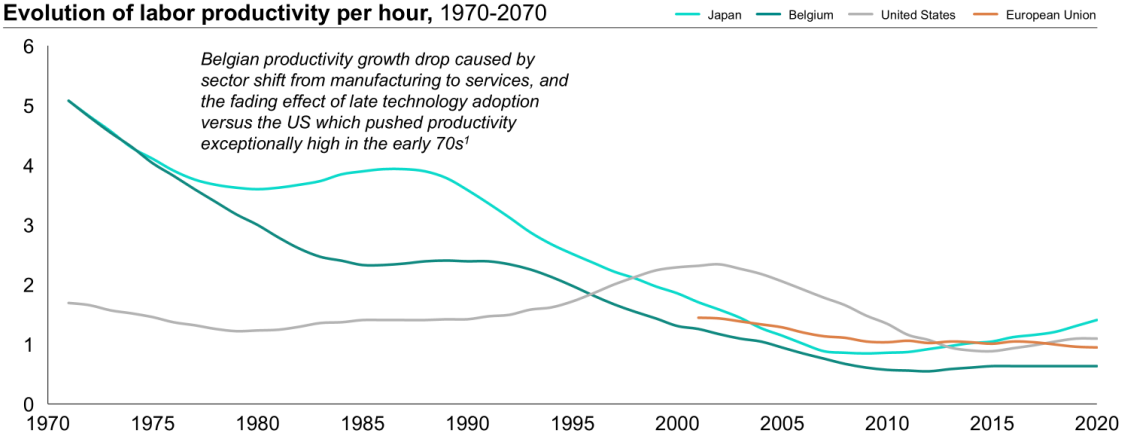
Proportion of GDP growth from productivity or labor force growth, %



Source: Our World in Data based on Herrendorf et al 2014 and EUKLEMS (post-1995), CEDEFOP 2025 Skills forecast Belgium, Belgian Federal Planning Bureau, 2025 Annual Report o f the Study Committee on Ageing (baseline projection) 1

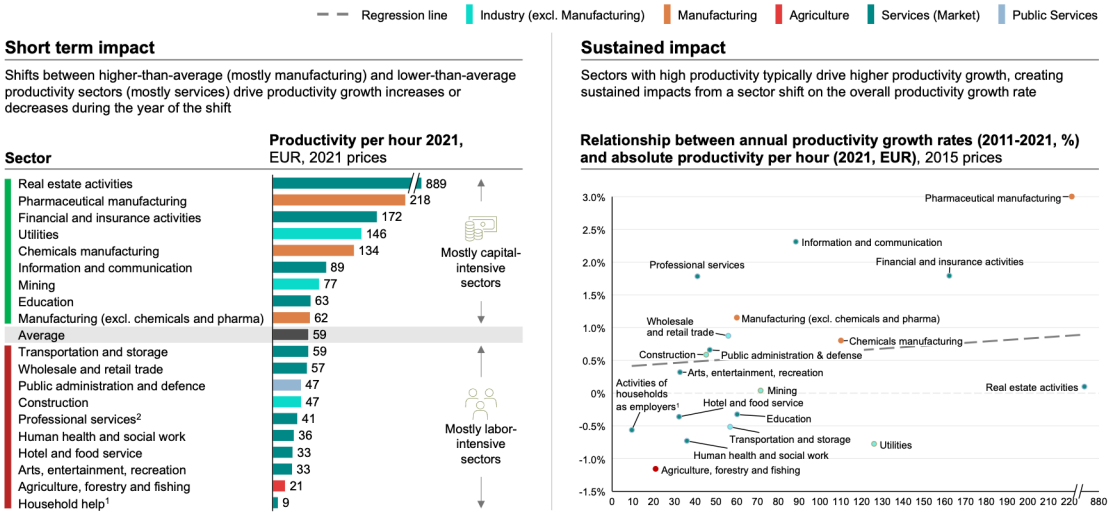
2 | The average productivity growth per hour in Belgium decreased from 5% to 0,5-1% p.a. mostly from a shift to service sectors

Evolution of labor productivity per hour, 1970-2070



Source: National Productivity Board Belgium – Annual Report 2023 (Growth rate filtered by Hodrick Prescott Ameco. DG-ECFIN, May 2023) ; Study group on Aging Annual Report 2024, and (2020) P. Bauer et al. - Productivity in Europe: Trends and drivers in a service-based economy 2

3 | Sector shifts have both a short-term and sustained impact on productivity growth since high productivity sectors grow faster

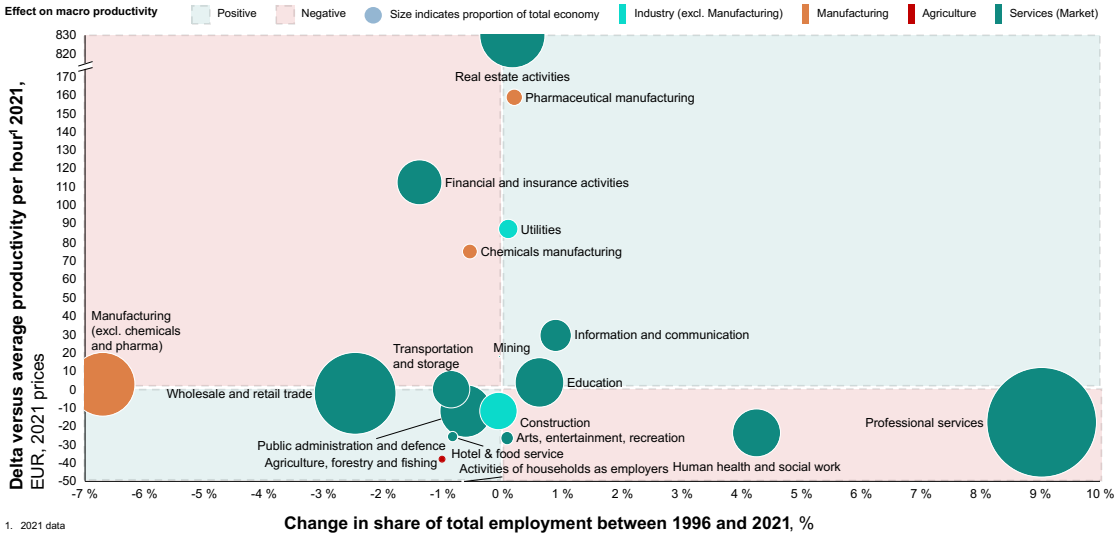


1. This class includes the activities of households (individuals) as employers of domestic personnel such as maids, cooks, waiters, etc. 2. Professional, scientific and technical activities

Source: Euklems & INTAN Prod database, 2024 release

3

4 | Activity shifted from high- to below-average productivity sectors like professional services, and human health & social work



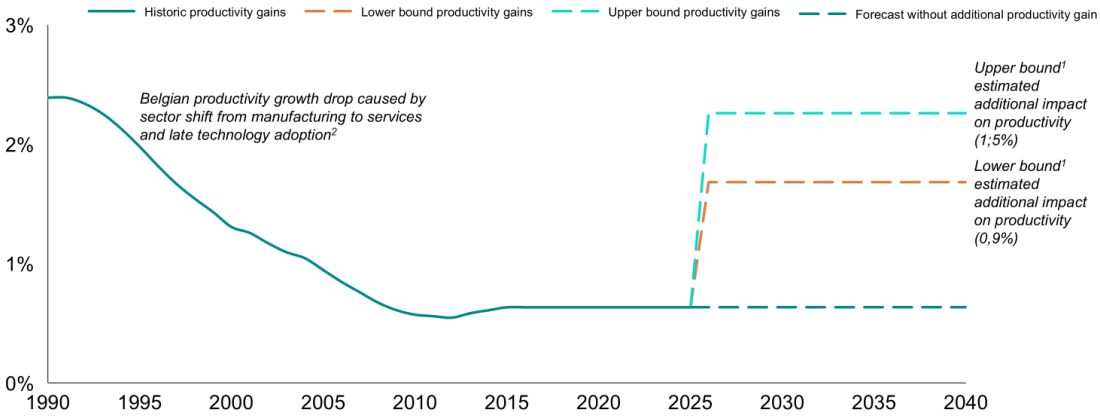
1. 2021 data

Source: Euklems & INTANProd database, 2024 release

4

5 | Reversing productivity declines since the 1990s with a targeted 0,9–1,5% growth increase

Evolution of labor productivity per hour and growth potential, 1990-2040



1. The upper and lower bounds vary based on the estimated adoption rate and other factors, as detailed on slide 9
2. Source: (2020) P. Bauer et al. - Productivity in Europe: Trends and drivers in a service-based economy

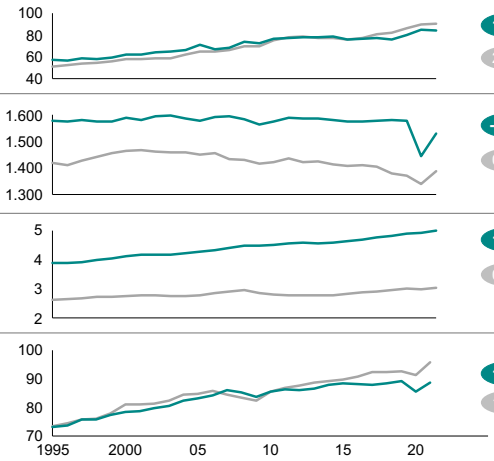
Source: National Productivity Board Belgium – Annual Report 2023 (Growth rate filtered by Hodrick Prescott Ameco. DG-ECFIN, May 2023) ; Study group on Aging Annual Report 2024,

5

6 | Denmark's productivity enables workers to achieve higher output with ~15% fewer hours compared to their Belgian peers



		CAGR, 1995-2010	CAGR, 2010-21	
1	**Productivity per hour worked[1],** USD	1,9% / 2,6%	0,9% / 1,7%	Denmark's **productivity outgrew Belgium** due to higher manufacturing, and pharma focus
2	**Hours worked per person employed[2],** #	-0,0% / 0,0%	-0,2% / -0,2%	**Danes work ~15% hours less versus Belgians** due to more leave, and a shorter workweek (37h versus 38h)
3	**Persons employed[3]** M#, % employment rate	1,0% / 0,4%	1,0% / 0,8%	**Belgium slowly closes the activation gap with Denmark** (82% Denmark versus 73% Belgium)
4	**Gross value added per person employed[4],** K EUR	1,0% / 1,0%	0,3% / 1,0%	



Source: 1. Our world in data (Productivity: GDP per hour worked), 2021 prices 2. OECD Data Explorer Average annual hours actually worked per worker 3. Our World in Data based on Herrendorf et al 2014 and EUKLEMS (post-1995) 4. World Bank, 2015 prices

6

7 | Achieving 1,9-2,8% productivity growth in Belgium can be achieved through 3 focus levers supported by economy wide enablers

Lever	Description	Estimated impact on annual growth rate, % p.a.
1 **Baseline productivity**	Build on basic productivity improvements forecasts between 2024 and 2040 assuming an extrapolation of current trends	1,0
2A **Sector efficiency excellence**	Implement sector-specific productivity levers (e.g., automation and adoption of AI)	0,9-1,5%
2B **R&D spending**	Focus on increasing the level of fundamental research to identify the next breakthrough (e.g., biotechnology)	0,1%
3 **Sector-mix evolution**	Target strategies to cultivate and expand high-productivity, high-growth sectors (e.g., Industry, Manufacturing)	-0,1-+0,2%
4 **Economy wide enablers**	Build an economy with the education, regulatory stability, labor market fluidity, etc. that nurtures productivity	Enabling
Target growth rate 2040		1,9-2,8%

Source: Internal analysis.

8 | Top 6 sectors drive positive GVA uplift of €50-87bn or 80-85% of the sector-specific levers

Lower bound % | Upper bound % | Provided data

Top 6 Sectors	Productivity gain by 2040: Impact AI, %	Impact Digital Automation,%	Impact Ops & Cust Excellence, %	Total impact, %(*corrected for overlap*)	GVA impact: GVA, Bn EUR	Sector Wide adoption[1], %	Correction for Productivity Leakage[1], %	GVA Uplift, Bn EUR	
Professional Services	19-23%	9-10%	26%	38-41%	116	47-72%	0%	18-28	1
Retail & Wholesale	33-38%	22-26%	32%	54-59%	50	50-75%	-1%	10-17	3
Manufacturing	22-25%	39-44%	23%	54-60%	52	47-72%	-3%	10-17	2
Information & Communication	13-15%	39-47%	18%	50-58%	23	47-72%	0%	4-8	
Public Administration	14-17%	40-48%	37%	63-71%	33	42-69%	1%	7-12	
Financial Services	23-28%	20-23%	27%	42-45%	25	47-72%	-9%	2-5	
								4 *Total: 50 – 87*	

Comments

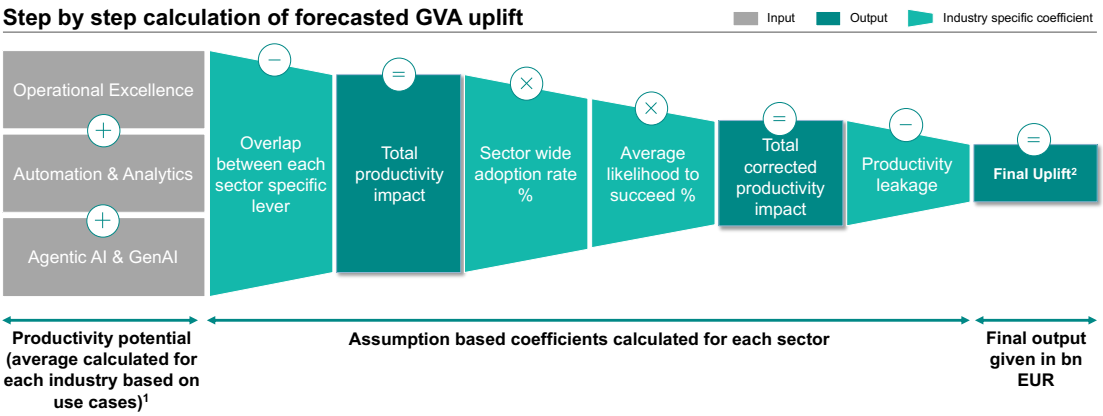
Productivity improvements will most strongly contribute to GVA in Belgium in:

1. Professional Services: +€20 – 28Bn
2. Manufacturing: +€10 – 17Bn
3. Retail & Wholesale: +€10 – 17Bn
4. **The total GVA uplift** across levers for the top 6 most impacted sectors, **amounts to €50 – 87Bn**

1. Excluding the successful implementation rate which is set between 74-83% until 2040

Source: Sector-specific Benchmarks per Oxford Economics, 2024, case study analysis

9 | Forecasted GVA uplift calculation using sector specific use-cases and multi-coefficient adjustments

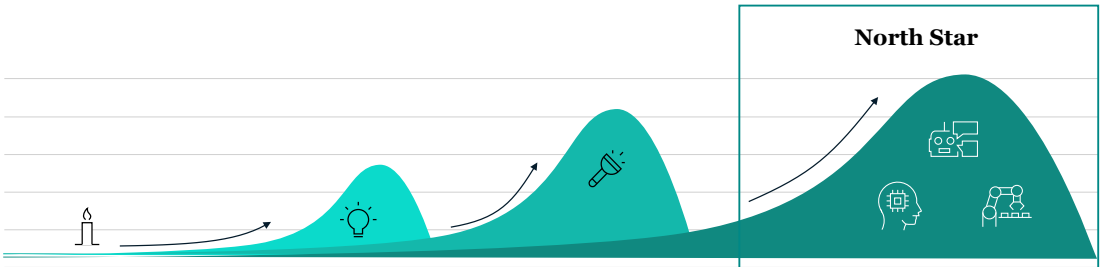


1. Corrected for automation potential
2. Final uplift percentage (after correction for productivity leakage) times sector specific GVAs

Source: Team productivity gains case study analysis

9

10 | Productivity potential can be reached through 3 levers: Operational Excellence, Digital Automation & Analytics and GenAI & Agentic AI



Operational Excellence

Streamlined processes, including the use of robots, will lead to more efficient workforces and subsequently increased customer satisfaction

Digital Automation & Analytics

Through the digital automation of repetitive tasks in addition to proper analytics, time is freed up that can be used in a more productive manner

GenAI & Agentic AI

Leveraging GenAI and Agentic AI to enhance, for instance, decision making and document creation, will free up time for high value tasks

Optimized productivity through the 3 levers

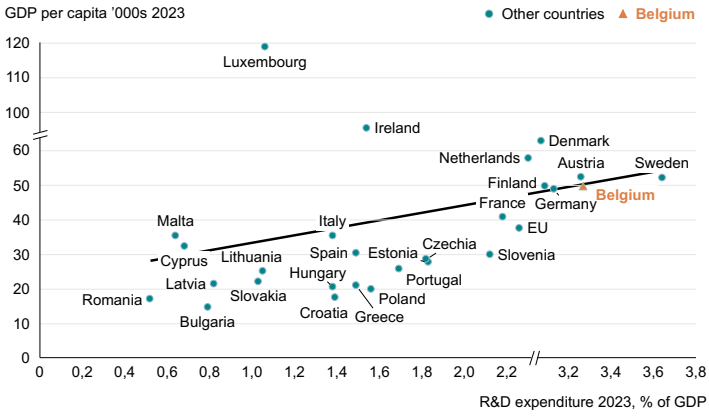
Highest impact on productivity through compound effect of 3 levers

Further details and risks of each lever are found on the next slide

10

11 | Little absolute R&D upside for Belgium GDP given current high spending levels

Correlation GDP and R&D expenditure



Source: Eurostat R&D expenditure numbers & Centraal Bureau voor Statistiek GDP per capita numbers, OECD Economic Surveys: Belgium 2024 (numbers reflect 2019), VOKA "productiviteitsgroei" report

Key insights

R&D spending and GDP per capita (productivity) have a positive correlation, but Belgium was unable to increase its productivity despite high R&D spending rates due to

- **Pharma research accounting to 35-40% of Belgium's R&D**, while only contributing 20% to GDP
- **A weak industrial base slows innovation implementation** despite 55% of R&D investments in high-tech sectors
- **Overstating R&D spending in reporting to profit from tax benefits**, inflating R&D figures without boosting innovation
- **Belgium lags peers in STEM graduates**, limiting technology absorption and R&D's productivity impact

Public R&D spending is only at 0,8% of GDP (below the EU average of 1%), and private SME R&D spend only makes up 20% of private R&D spending versus the OECD average of 34% offering most upside when focusing on public, and SME R&D spend