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Reigniting growth: trends and challenges
for business dynamism in Belgium

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Summary

Belgium isn't short on new companies, but it is short on ones that are growing. The country's business start-up rate is comparable to its neighbours, but too few young firms scale up to become major employers. As a result, the share of jobs in young, fast-growing companies ("gazelles") is low. Using a concise indicator (the gap between the fastest-growing and fastest-shrinking firms), this article shows that business dynamism in Belgium declined steadily between 2000 and the mid-2010s and only recently started to pick up again. This rebound has been driven mainly by the services sector and older incumbent firms rather than by start-ups. What lies behind this trend? Global forces (e.g. digital technologies, globalisation) reward large "superstar" firms, while Belgium's rigid labour market slows down reallocation and the significant number of firms without employment boosts entry statistics without adding much growth. A shift from counting start-ups to cultivating scale-ups is needed. This could imply easing hiring and growth frictions, adjusting the design of subsidies that keep firms small, and investing in things that help firms expand, such as management skills, growth finance and support with exporting to and operating in foreign markets. To achieve faster productivity growth, Belgium needs more young firms to grow into large enterprises, rather than just more start-ups.

1. Introduction

"Death is very likely the single best invention of life ... It clears out the old to make way for the new," according to Steve Jobs, one of the greatest entrepreneurs in recent decades. This vivid metaphor can be applied to the entrepreneurial economic model. Business dynamism, or the fact that firms are constantly being born, growing, shrinking and dying, is essential to a well-functioning, entrepreneurial economy. This perpetual churn underpins the Schumpeterian concept of creative destruction, whereby new, smarter and more innovative companies replace older, less productive ones. High business dynamism enables resources (capital, labour and ideas) to flow to their most productive uses, thereby driving innovation and aggregate productivity growth. In fact, studies suggest that the reallocation of resources through firm turnover and growth accounts for roughly three-quarters of total productivity gains in advanced economies (Syverson, 2011). Young, fast-growing firms – often called "gazelles" – play an outsized role in job creation and productivity improvements, despite accounting for only a small fraction of all firms (Bravo-Biosca *et al.*, 2016). In short, the quality of entrepreneurship (i.e. the growth potential of new firms) matters more for economic growth than the quantity of new start-ups.

Against this backdrop, a worrisome trend has been documented in many developed economies, namely declining business dynamism. The United States, often seen as a paragon of entrepreneurial vigour, has experienced decades-long declines in indicators such as new firm entry and job reallocation rates (Decker *et al.*, 2016). Europe, meanwhile, is again showing signs of what economists previously dubbed “Eurosclerosis” – a slowdown in economic dynamism (Schoefer, 2025). Over the past twenty to thirty years, European countries have lagged behind the US in terms of productivity growth, disruptive innovation and the creation of giant technology firms (Bergeaud, 2024), which analysts increasingly link to their lower churn of firms and jobs. Rigid labour market institutions in Europe (e.g. strong employment protection, high labour costs) may have contributed to stifling labour and business dynamism by making restructuring and risk-taking more difficult. In Belgium, for instance, strict labour market regulations are often cited as factors that impede the easy reallocation of workers between firms.

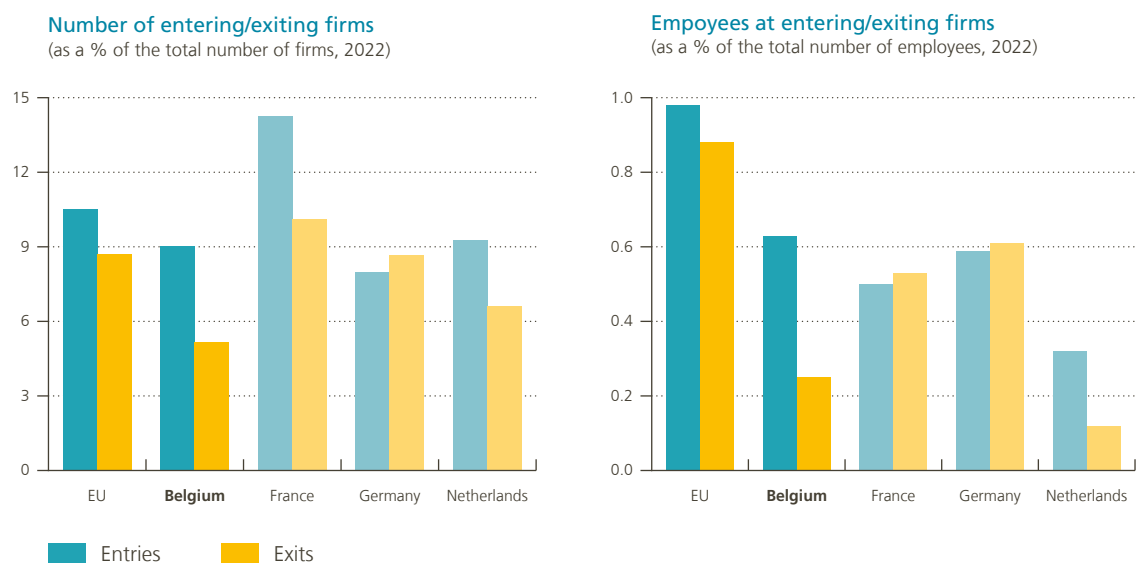
Indeed, where does Belgium fit into the picture? The country is sometimes characterised as being less entrepreneurial, with middling scores in competitiveness rankings and a tightly regulated business environment. Yet it is not alone in experiencing a decline in dynamism: this appears to be a global trend that is affecting even the most liberalised markets (Bijnens and Konings, 2020). To understand the situation in Belgium it is necessary to take both international comparisons and long-term trends into consideration. This article explores recent trends in business dynamism in Belgium, drawing on new research and data, and examines the policy challenges to reigniting growth through greater dynamism. We will see that, for Belgium, the concern is not so much the creation of new firms – plenty of start-ups enter the market – but rather what happens after they emerge: in practice, too few grow into scale-ups. Our analysis looks at how we can move beyond a reliance on counting start-ups in order to measure business dynamism; what the data reveal about Belgium’s declining (and recent rebound in) business dynamism; what is driving these trends (from technological change to the prevalence of firms without employment); and how policies can better support the emergence of a greater number of fast-growing companies. Academic research and international data are used throughout to shed light on Belgium’s performance.

2. Belgium in an international context: lots of start-ups but not enough scale-ups

Is Belgium’s economy really as sluggish as it appears at first glance? Judging by the figures for new firm creation, Belgium does not seem to be short on entrepreneurial activity. In fact, recent data show that Belgium’s entry rate – the number of new firms as a percentage of all firms – is on a par with or even higher than that of neighbouring countries. Figure 1(a) shows the entry and exit rates for Belgium and its neighbours and illustrates that roughly the same proportion of firms are born each year in Belgium as in the Netherlands, France and Germany. New firm entry does not seem to be a concern for Belgium, as businesses are created at a healthy rate and the number of entrants is not unusually low.

Figure 1

Entry and exit rates in Belgium and neighbouring countries

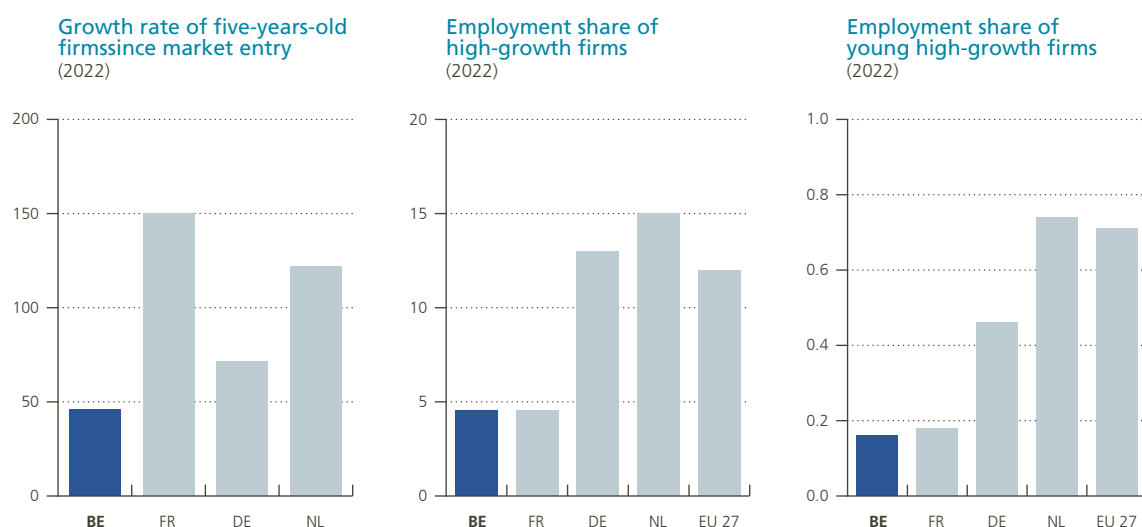


Source: Eurostat.

Looking at exit rates alongside entry rates reveals a more nuanced story. In a dynamic economy, we would expect significant churn: not only lots of new firms entering the market but also lots of underperforming firms exiting, thereby freeing up resources for more productive businesses. Figure 1(b) shows that exits are occurring in Belgium, but their impact on the labour market (i.e. the number of affected jobs) remains comparatively limited. In contrast, more dynamic European economies (using the EU average as a proxy) tend to see a larger churn in jobs and more inefficient firms shrinking or closing.

Figure 2

Scale-up rates in Belgium and neighbouring countries



Source: Eurostat.

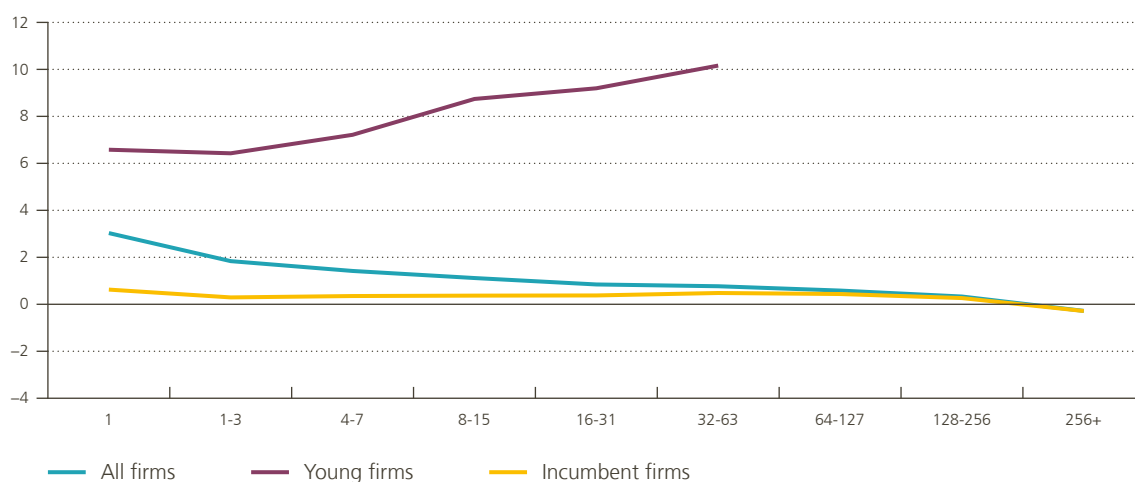
1 High-growth firms are defined as enterprises with at least ten employees in year $t-3$ and with average annualised growth in the number of employees above 10% per annum, over a three-year period ($t-3$ to t). Young high-growth firms are a subset of high-growth firms that are four or five years old at the time of observation (i.e. they were born in $t-4$ or $t-5$).

Examination of the growth of young firms reveals the weak spot for Belgium: ideally, a large share of the country's start-up businesses should be surviving and growing rapidly, boosting employment. Figure 2(a) compares the average five-year growth rate of new firms in Belgium with that of neighbouring countries. The results are eye-opening: average employment growth since market entry is only ~46% for five-year-old Belgian firms, whereas in France, these firms are more than double their original size (~150%) on average. The rates for Germany and the Netherlands fall somewhere in between, but both significantly outpace Belgium's tepid scale-up performance. In simple terms, the average five-year-old Belgian firm is still small, while many start-ups in neighbouring countries have grown dramatically by that point. This disparity points to scale-up difficulties: Belgian enterprises that survive infancy struggle to grow.

Another telling metric is the prevalence of (young) high-growth firms, which have a disproportionate impact on net job creation. There are relatively few of these firms in Belgium, where companies classified as high growth account for only around 5% of total employment (Figure 2(b)) – roughly half the EU average. Moreover, if we focus only on young high-growth companies (gazelles) – i.e. fast-growing firms that are also relatively new and typically the most innovative – the figures are minuscule. Gazelles represent only ~0.2% of total employment in Belgium, compared to an EU average of ~0.7%. Practically speaking, truly fast-growing start-ups are extremely rare in Belgium, whereas, while still rare, they play a somewhat more noticeable role in neighbouring economies. This aligns with findings from international research: a small minority of firms generate a disproportionate share of new jobs and, in Belgium, this minority is even smaller than elsewhere (Bravo-Biosca *et al.*, 2016). Therefore, it is crucial to scale up young firms rapidly, in order to reach a critical mass. Geurts and Vanbiesebroek (2016) show that the growth rate of young firms accelerates as they expand, before levelling off once the cohort matures (Figure 3). This highlights the disproportionate benefits to employment that come from helping young firms scale up quickly.

Figure 3

Growth rate of surviving Belgian firms by size: young firms versus incumbents



Source: Geurts and Van Biesebroeck (2016).

In summary, Belgium does not lack the entrepreneurial energy needed to create firms. Rather, it lacks the capacity to scale them up successfully. Entry rates are fine, but post-entry growth is subpar. Belgium's start-up scene might best be described as a broad landscape of "subsistence" entrepreneurs, i.e. sole traders or owners of a firm without employment. Many individuals start lifestyle businesses, self-employment ventures or firms that enable labour income to be shifted to capital income, but relatively few become "transformational" entrepreneurs that lead a firm out of the garage to become a major employer.

Next, we will clarify how business dynamism can be measured in a way that captures these scale-up issues, before delving more deeply into historical trends in business dynamism in Belgium.

3. Measuring business dynamism: moving beyond start-up counts

Traditional metrics of entrepreneurship, such as start-up counts or the share of small firms in the overall population, can paint a misleading picture of business dynamism. Most small firms show little to no growth, and many new firms remain micro-enterprises. In policy discussions, there is often an undue emphasis on small businesses or start-ups as a driver of growth, given that the contribution of start-ups is, in reality, highly skewed: a few rapidly growing firms account for the bulk of the impact. What matters for dynamism is therefore not just the enterprise birth rate or the growth rate of the average firm but how the outcomes beyond infancy are distributed, i.e. how many firms expand rapidly, how many stagnate and how many exit. Recent research therefore emphasises the usefulness of indicators that capture the magnitude of growth and decline in the firm population. One such approach is to look at the dispersion of firm employment growth rates in the economy (Bijmens and Konings, 2020; Davis *et al.*, 2016) using a metric such as the gap between high-performing and low-performing firms, i.e. the difference between the growth rate of a firm in the 90th percentile and one in the 10th percentile of the firm growth rate distribution (often called the 90–10 growth differential).¹ If the 90-10 growth differential is 0.30, this means that employment at a fast-growing firm in the 90th percentile expands by 30 percentage points more than at a slow-growing (or shrinking) firm in the 10th percentile, for example growing by +25% compared to –5%.

A large differential means that the fastest-growing firms are far outpacing the laggards, indicating a high rate of reallocation (i.e. resources are flowing from shrinking or slow-growing firms to booming businesses). A small differential indicates that there are fewer fast-growing firms in the population or that laggards are not shrinking as much and, in either case, less upheaval. This approach allows us to gauge the effect of firm entry and exit by comparing employment growth to average firm size over a given period. This is in contrast to the conventional growth rate which illustrates percentage growth in relation to the initial size of the firm at the start of the observation period.² Furthermore, since we wish to distinguish between structural changes in dynamism and temporary booms or recessions, the long-term trend³ and three-year moving average of the 90-10 differential are also calculated. Firm-level employment is measured by the average number of full-time equivalents (FTEs) reported in the annual accounts filed with the Central Balance Sheet Office.

In the following sections, we use these more nuanced measures to examine how Belgian business dynamism has changed over time. We first consider the broad trends of the last two decades and then look more closely at what lies behind them.

1 The employment-weighted distribution of firm employment growth rates is used to ensure micro-enterprises do not have a disproportionate impact.

2 Following Davis *et al.* (1996), the growth rate of firm i in period t is defined as $(Emp_{it} - Emp_{it-1})$ divided by average employment $\frac{Emp_{it} + Emp_{it-1}}{2}$, instead of employment at the first time period. This transforms the domain of growth rates from $[-1, +\infty]$ to the symmetric domain² around 0 $[-2, +2]$ and allows for firm entry (+2) and exit (–2) to be accounted for. Note that where growth is low, the result derived from this approach closely resembles the rate calculated using the traditional method.

3 The trend is calculated using a Hodrick–Prescott filter.

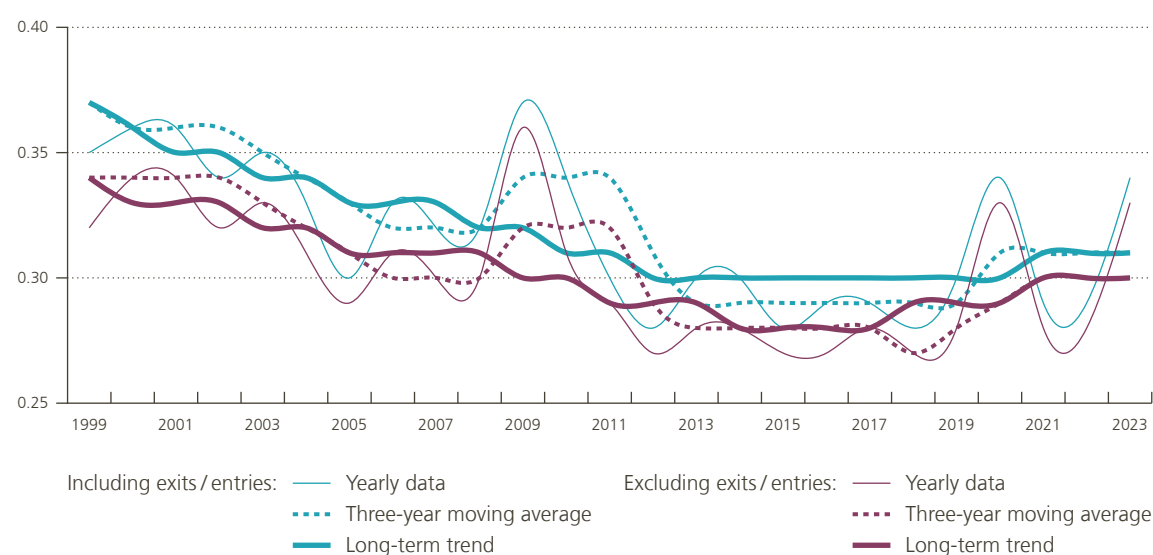
4. The rise and fall of (and potential rebound in) business dynamism in Belgium

Business dynamism in Belgium peaked around the turn of the millennium and then entered a lengthy period of decline, mirroring trends observed in other countries (Bijmens and Konings, 2020). The 90–10 growth differential across the population of Belgian firms was about 35 percentage points in the late 1980s, rising slightly to around 37 percentage points by 2000 and then falling to roughly 29 percentage points by 2015. The higher the value, the greater the reallocation of human resources and the higher the level of business dynamism. By 2015 the gap between the fastest-growing and fastest-shrinking firms had narrowed significantly compared to ten to twenty years earlier. This secular decline in dynamism persisted across multiple business cycles, indicating a structural trend rather than just the after-effects of, for instance, the global financial crisis.

Figure 4

Business dynamism in Belgium since 2000

(90–10 growth differential, i.e. the difference between the fastest-growing 10% and the slowest-growing 10% of firms)



Source: own calculations.

Figure 4 shows the 90–10 differential in firm growth rates from 2000 to 2023, the yearly value, the three-year moving average and the long-term trend. After falling from 2000 onwards, business dynamism in Belgium flattened out somewhat from 2015; the yearly dynamism indicator turned upward from 2020, signalling a reversal in the long-term trend. By 2022–2023, the gap between the fastest-growing and shrinking firms had widened to a level not seen since perhaps the early 2000s (except during the global financial crisis), while the long-term decline in dynamism had, at least temporarily, been arrested or reversed. Figure 4 illustrates the trend in business dynamism both when taking firm entries and exits into account and when focusing solely on incumbent firms. Both approaches point to the same conclusion, namely that the reversal in the long-term trajectory was not driven by changes in entry or exit dynamics.

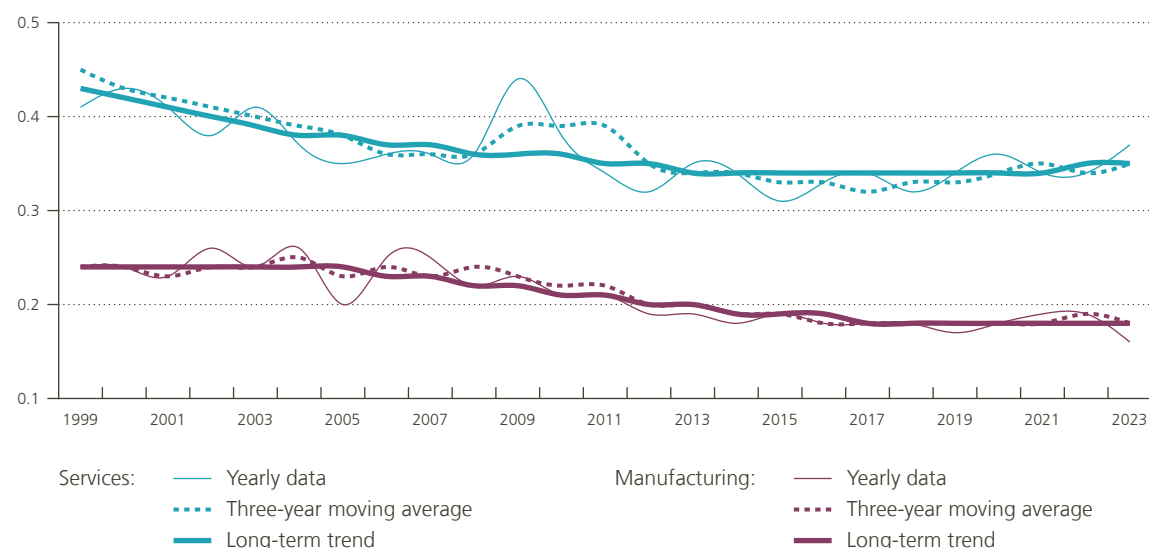
What, then, is behind the recent rise in business dynamism? A clue emerges when we use a sector-specific approach. Figure 5 shows the 90–10 differential for the manufacturing and services sectors. The reversal in the aggregate trend appears to have been driven entirely by the services sector, with no corresponding uptick in dynamism in manufacturing. Indeed, dynamism in the latter sector was lower than in services throughout

the period concerned and, if anything, there appears to be a persistently low differential in manufacturing firm growth rates (consistent with a mature sector, potentially in structural decline). On the other hand, dynamism in the services sector appears to have rebounded since 2020, suggesting that whatever is reigniting dynamism in Belgium is happening in services rather than factories.⁴

Figure 5

Business dynamism in Belgium since 2000

(90-10 growth differential, i.e. the difference between the fastest-growing 10% and the slowest-growing 10% of firms)



Source: own calculations.

This makes sense. The Covid-19 shock and its aftermath disproportionately impacted segments of the services sector (e.g. digital services, e-commerce, retail, hospitality) and likely created new opportunities in those areas. The pandemic accelerated the adoption of digital technologies and adjusted consumer behaviour, perhaps enabling some services firms – especially those leveraging new technologies – to grow extremely fast. For example, tech start-ups and online retailers could rapidly scale up to meet demand in ways that traditional manufacturers could not. Additionally, many services firms were forced to adapt (e.g. restaurants pivoting to deliveries, firms embracing remote working). Such turbulent times often weed out weaker actors and allow nimble firms to expand their market share. The Belgian manufacturing sector, on the other hand, was constrained by global supply chain issues coupled with high energy prices and did not see a comparable wave of new firm entries or expansion during this period. Thus, the uptick in aggregate dynamism can be attributed to services firms riding a wave of reallocation and growth spurts.

It is also instructive to examine whether the Covid-19 period fundamentally changed the dynamics of firm entry and exit. Was the rebound in dynamism the result of a flood of new firms or due to a wave of closures that freed up market space? The data suggest that Covid-19 did not dramatically alter the entry and exit patterns when considering the impact on employment. Figure 6 shows that the share of total employment held by entering and exiting firms remained relatively stable throughout the observation period, including during 2020–2021: entering firms had a roughly 1% share of employment each year, with a similar share at exiting firms, with no huge spikes. The absence of an unusual peak in the share of employment at entering

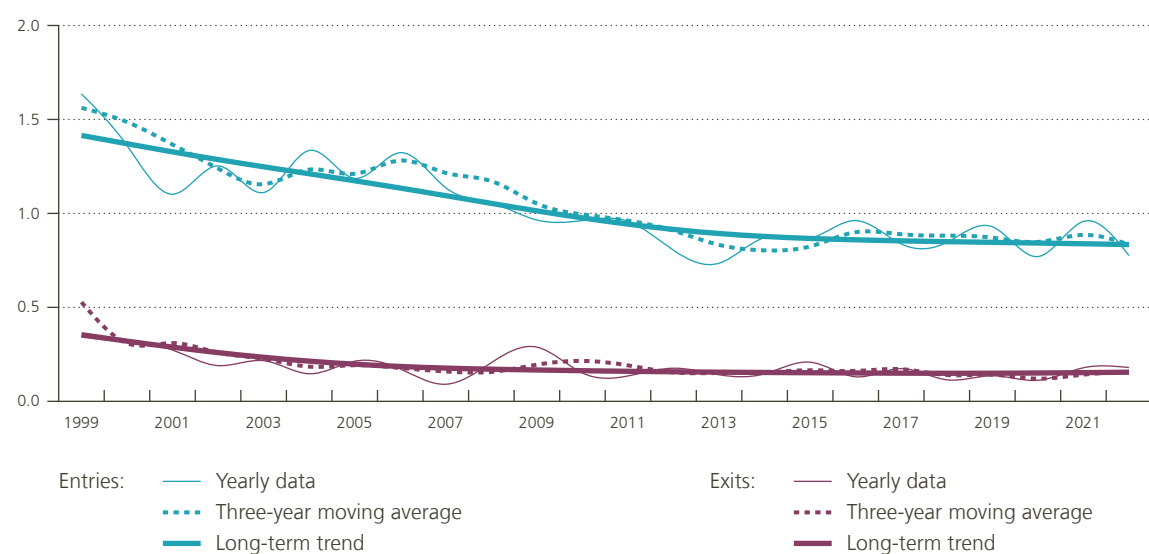
⁴ Bijmens and Konings (2017) show that over recent decades, a substantial share of jobs in Belgium has shifted from manufacturing to the more dynamic services sector, thereby mitigating the overall decline.

firms during the Covid-19 period indicates that the pandemic had only a modest, at best, effect on start-up job creation. If anything, Belgium experienced a minor increase in start-ups in 2021, but this was not large enough to influence total employment, nor was there an abnormal surge in firm failures thanks in part to government support measures. The recent uptick in dynamism is therefore not due to unusually high entry or exit volumes per se, but rather to changes among surviving firms, i.e. differences in growth rates within the existing firm population, particularly in the services sector.

Figure 6

Employment share at entering and exiting firms

(as a % of total employment)



Source: own calculations.

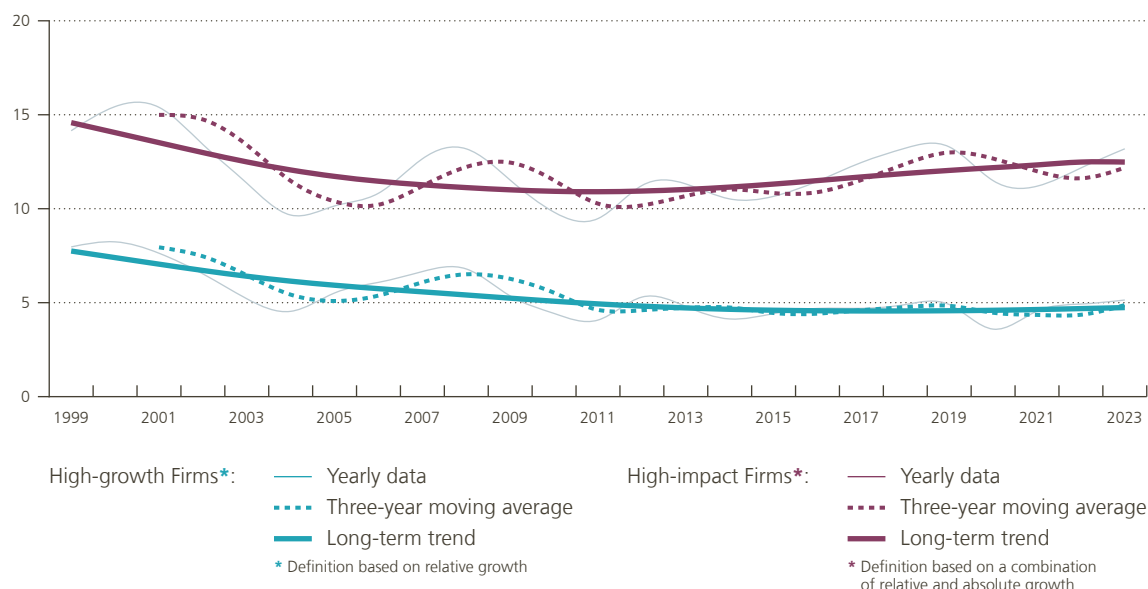
The long-run decline is also not primarily about a lack of start-ups. Even when firm entries and exits are excluded, dynamism in Belgium was waning. Bijmens and Konings (2020) found that only about one-third of the post-2000 fall in dynamism was explained by a weakening of start-up activity, while two-thirds was due to a decreasing incidence of high-growth episodes among incumbent firms. In other words, after 2000 it became less likely that a small or medium-sized firm (even an established one) would take off suddenly and grow quickly.

What does the trend for fast-growing firms reveal? The data for Belgium echo an international pattern: the prevalence of high-growth firms has been on a long-term downturn but may recently have stabilised. Figure 7 shows the share of total employment at these fast-growing firms over time. In the early 2000s, around 8% of Belgian employment was in high-growth firms, but this share had fallen steadily to under 5% by around 2015, meaning fewer workers were employed in fast-growing companies. Starting in around 2020, however, this downward trajectory appears to have halted.

Figure 7

Employment share at fast-growing firms

(as a % of total employment)



Source: own calculations.

1 High-growth firms are defined based on relative growth, according to the Eurostat definition.

High-impact firms are defined based on relative and absolute growth.

Eurostat defines high-growth firms as those with at least ten employees, relying solely on relative growth rates. This approach, however, excludes a large share of the firm population: many young firms have fewer than ten employees while it is more difficult for larger firms to achieve high relative growth. To address this, Hölzl (2013) puts forward the concept of high-impact firms (HIF) using a broader definition which combines both relative and absolute growth and lowering the workforce threshold to eight employees.⁵ In our analysis, we focus on high-impact firms with fewer than 500 employees, as we are mainly interested in younger firms. For larger firms, absolute rather than relative growth is typically the main driver of high-impact status.

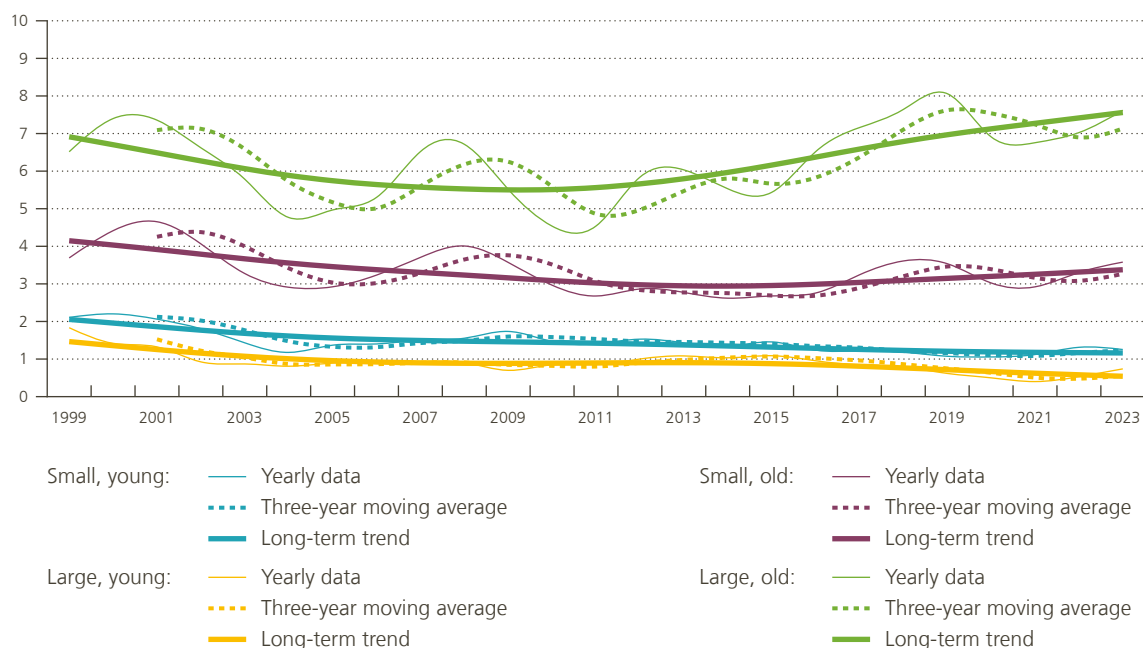
Figure 7 shows that the prevalence of high-impact firms was also on a downward trend post-2000, before bottoming out after 2010 and following an upward trajectory since then. Figure 8 reveals more about these resurgent high-impact firms, breaking down their employment share by age and size. The main finding appears somewhat counterintuitive: the recent increase in HIF activity in Belgium is entirely driven by older (incumbent) firms, not by start-ups. Specifically, the share of employment at “large, old” HIFs has risen, while that at “small, young” firms has not (and in fact, it remains very low). This suggests that some incumbent firms, perhaps medium-sized or even large corporations, experienced a growth spurt in recent years (e.g. through the scale-up of new divisions or the acquisition of rivals), boosting overall dynamism. In the meantime, the number of gazelles did not suddenly proliferate. This is consistent with the earlier observation that the rebound in the services sector drove the uptick in aggregate dynamism: the category of fast-growing services firms may include older firms adopting new technologies (for example, a decades-old retailer that massively enlarges its online sales arm or a logistics firm that expands in response to increased e-commerce demand).

5 A high-impact firm is defined as $(Emp_t - Emp_{t-3}) \left(\frac{Emp_t}{Emp_{t-3}} \right) \geq 25.15968$ and $Emp_{t-3} \geq 8$.

Figure 8

Employee share at high-impact firms

(as a % of total employment)



Source: own calculations.

1 A firm is defined as young if it is no more than six years old.

The big picture is that there was a steady secular decline in business dynamism in Belgium from about 2000 to at least 2015, echoing international trends, and that since 2020, a modest rebound has occurred – albeit driven by a narrow set of firms (older firms in the services sector). The current level of dynamism in Belgium is still not high by historical standards, and we are merely seeing a partial recovery from a low base. Young, truly entrepreneurial fast-growing firms remain as scarce as ever, which is concerning for the longer term.

5. What is driving these trends?

Multiple forces have been identified as potential drivers of the decline in business dynamism across advanced economies. Many of these are global, structural trends rather than country-specific policies. The timing is telling: in the late 1990s and early 2000s, the world experienced major economic shifts, such as the rise of the internet, rapid advances in digital technology and the acceleration of globalisation (e.g. China's entry into the WTO and the growth of emerging markets). These forces fundamentally changed competitive dynamics in many industries and countries.

One hypothesis is that these changes disproportionately benefited large incumbent firms that were better positioned to exploit new technologies and global markets. Indeed, Bijmens and Konings (2020) argue that larger firms in Belgium (and elsewhere) managed to harness the advantages of the ICT revolution and global integration, allowing them to further entrench their market positions. Smaller firms, in contrast, struggled to grow or to compete, contributing to the observed decline in the number of small firms making the leap to high-growth status. This hypothesis aligns with the notion of “superstar firms” discussed in the international

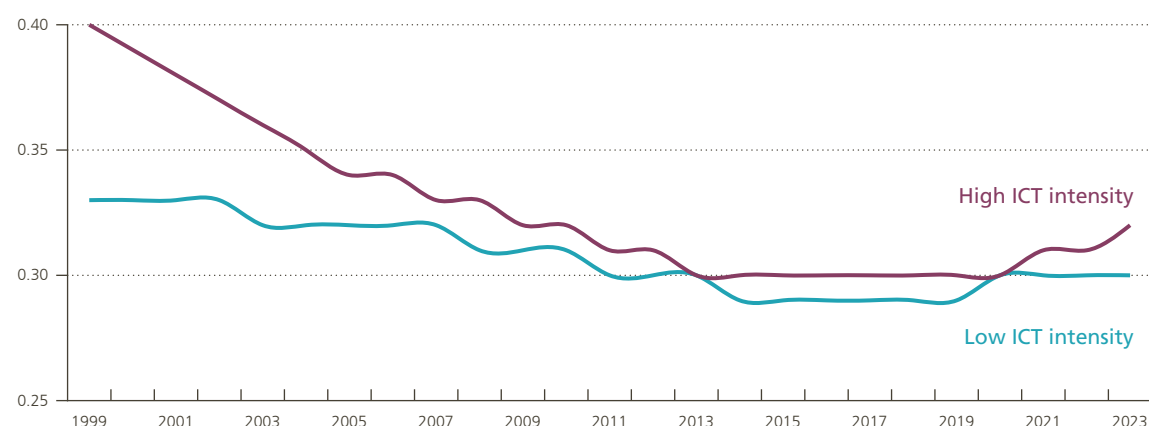
literature (Autor *et al.* 2020): over the past two decades, many sectors have seen increasing market concentration, with a handful of highly productive, tech-savvy firms (often multinational in scope) pulling away from the rest. These superstar firms scale up and achieve high productivity, but their dominance can make it harder for new entrants to break into the market or for smaller competitors to thrive, thereby potentially reducing overall dynamism.

Research indicates that the ICT revolution has played a significant role in the secular decline of dynamism. This might seem counterintuitive at first: shouldn't tech be fostering start-ups and dynamism? The reality may in fact be that a "winner takes most" dynamic has emerged in certain sectors, such as telecommunications, software and internet services, where network effects and high fixed costs can lead to a few big winners rather than many small ones.

Figure 9

Business dynamism in Belgium (activities with high and low ICT intensity)

(90-10 growth differential, i.e. the difference between the fastest-growing 10% and the slowest-growing 10% of firms, including exits and entries)



Source: own calculations.

1 The following NACE sections and divisions are considered to be ICT intensive (all other economic activities are considered to be non-ICT intensive): computer programming, consultancy and other information service activities (62–63); telecommunications (61); publishing, audiovisual, programming and broadcasting activities (58–60); professional, scientific, technical, administrative, and support service activities (M–N); financial and insurance activities (K); wholesale and retail trade (G); arts, entertainment, and recreation (R); manufacture of machinery and equipment n.e.c. (28); manufacture of chemicals and chemical products and of basic pharmaceutical products and preparations (20–21); manufacture of coke and refined petroleum products (19); and electricity, gas, steam and air conditioning, and water supply, sewerage, waste management and remediation activities (D–E). See Bijmens and Konings (2020) for the detailed methodology.

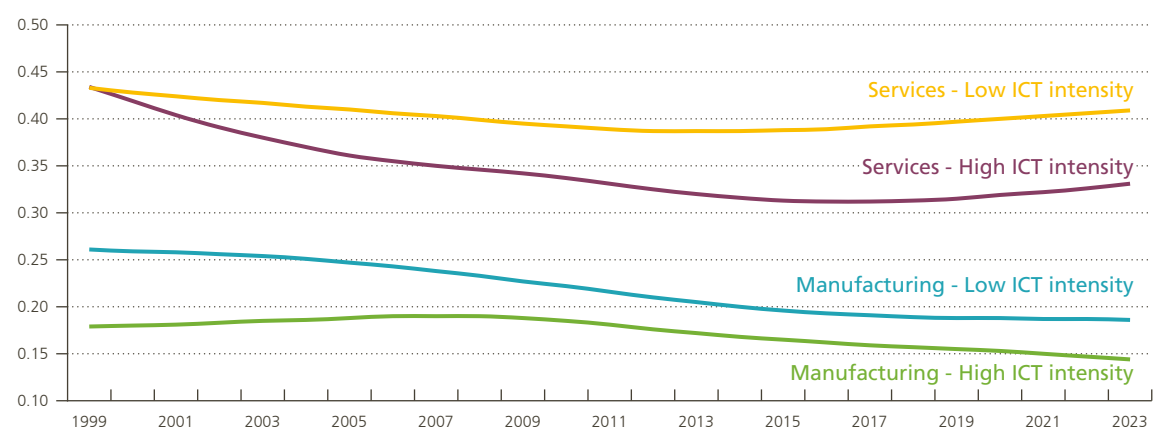
Figure 9 underscores this point and shows the trend in dynamism in industries characterised by high and low ICT intensity in Belgium. Both the initial decline and the recent rebound in dynamism were much more pronounced in highly ICT-intensive sectors. In less ICT-intensive industries, dynamism was lower to begin with and developed less dramatically over time. Furthermore, there are sector-specific differences within the ICT-intensive cohort. Figure 10 delves deeper: it suggests that in ICT-intensive services sectors, the post-2020 rebound in dynamism was especially strong, whereas this was not the case in ICT-intensive manufacturing. High-tech services (e.g. fintech, IT services, digital platforms and artificial intelligence) saw new growth opportunities, while high-tech manufacturing did not experience the same jump in reallocation dynamics in Belgium. One reason for this may be that manufacturing, even when technology-intensive, often entails large capital investment and a longer business cycle, making it harder for new entrants to suddenly displace incumbents. Digital services, in contrast, can scale up quickly, facilitating disruption by new entrants.

Globalisation may also be playing a role. The rise of China and the expansion of global value chains since the late 1990s have exerted competitive pressure on Western manufacturing. Some argue that this may have led to a shakeout of less productive firms (thereby initially increasing dynamism) but also potentially to consolidation (with surviving firms growing larger and imports displacing some new entries). The exact relationship remains unclear, but it is plausible that globalisation has reinforced existing trends: it enables superstar firms to expand globally, meaning some Belgian firms that could not compete globally may have either exited or ceased to grow rapidly. At the same time, being part of a multinational group may shield some firms from local competitive pressures (i.e. if the parent company dominates the market). In any case, adjustments to local policy are likely to have had less influence than global developments in technology and changes in the international markets. The fact that Belgium and the US, two very different economies, both saw a strikingly parallel decline in dynamism from around 2000 is evidence of this and strongly suggests that the main drivers were global causes rather than country-specific regulatory or tax policies.

Figure 10

Business dynamism in Belgium (activities with high and low ICT intensity, by sector)

(90-10 growth differential, i.e. the difference between the fastest-growing 10% and the slowest-growing 10% of firms, including exits and entries)



Source: own calculations.

1 The following NACE sections and divisions are considered to be ICT intensive (all other economic activities are considered to be non-ICT intensive): computer programming, consultancy and other information service activities (62–63); telecommunications (61); publishing, audiovisual, programming and broadcasting activities (58–60); professional, scientific, technical, administrative, and support service activities (M–N); financial and insurance activities (K); wholesale and retail trade (G); arts, entertainment, and recreation (R); manufacture of machinery and equipment n.e.c. (28); manufacture of chemicals and chemical products and of basic pharmaceutical products and preparations (20–21); manufacture of coke and refined petroleum products (19); and electricity, gas, steam and air conditioning, and water supply, sewerage, waste management and remediation activities (D–E). See Bijnens and Konings (2020) for detailed methodology.

Nevertheless, the fact that Belgium is a relatively rigid economy may have amplified the effects of the decline. The country has long had strict labour protections and placed a heavy administrative burden on businesses. While these factors were not the cause of the decline (since the US also saw a downturn, despite its flexible market), they may have exacerbated the difficulty in adjustment and recovery. For instance, studies by the OECD (2025) and others show that countries with a more flexible labour market tend to have a higher job reallocation rate and can more quickly redeploy workers from shrinking firms to growing ones. In Belgium, extensive collective bargaining requirements can slow down this reallocation. Labour market fluidity is a component of business dynamism: Schoefer (2025) emphasises that Europe's lower job-switching rate and geographic and occupational mobility contribute to weaker business dynamism and innovation performance. If workers are not moving, it is often because incumbent firms are not growing and poaching them or new firms are not emerging to hire them. It is a connected ecosystem. Thus, Belgium's institutional environment likely dampens some forms of dynamism, particularly with regard to market exit (i.e. firms may be slower to shed labour or close). This can lead to the survival of more small, low-productivity firms (as they feel less

pressure to exit) and fewer resources being freed up for high-productivity firms. Hence there is a sort of misallocation that reduces overall dynamism.

Another factor specific to Belgium is the high incidence of “subsistence entrepreneurs”. This term refers to individuals who start very small businesses primarily as a means of self-employment, sometimes for tax optimisation reasons, without the ambition to grow or innovate. Such businesses include many sole traders and micro-enterprises providing local or consultancy services. They boost the entry statistics, but not dynamism in the sense of creative destruction. If a large share of new firms essentially consists of sole traders and firms without employment content to stay small, there will be lots of churn in the business register but little impact on growth and productivity. This is precisely the pattern that has been observed in Belgium. Government policies may inadvertently be encouraging this type of entrepreneurship over more growth-oriented ventures. For instance, schemes that provide support or tax advantages for starting a business (regardless of the outcome) will boost the start-up count, but unless they encourage expansion, they may simply be inducing more people to become sole traders or owners of firms with little or no employment.

6. Discussion

Thus far, the analysis posits that Belgium does not have a firm entry problem but rather a scale-up problem. To reignite growth via business dynamism, the policy focus needs to shift accordingly. This means placing less emphasis on simply increasing the number of start-ups and more on creating the conditions for young firms to grow and thrive. A dynamic economy needs young, fast-growing firms. A vibrant start-up scene is not enough if those firms remain small forever. What, then, are the obstacles preventing Belgian start-ups from scaling up and how might public policy address them?

Below are a number of frictions and barriers that may be impeding the growth of innovative firms.

- **Regulatory burden:** Complex regulations, administrative hurdles and compliance costs can disproportionately impact growing firms. Belgium has made improvements to ease this business, but expanding a business (e.g. getting permits for larger facilities, navigating labour regulations as headcounts grow) can still be daunting. If entrepreneurs believe that growing beyond a certain size will drag them into a morass of red tape, they may intentionally hold back from growing or sell out early.
- **Labour costs and rigidities:** High labour costs in Belgium are frequently cited by businesses as an inhibitor to growth, particularly for labour-intensive SMEs. Hiring additional employees is expensive, and firing remains costly and legally fraught despite reforms in recent decades. This often leads firms to hesitate before expanding their workforce, preferring to keep operations lean and opting for alternatives like flexi-jobs, outsourcing or working with students and/or freelancers. Successive federal governments have implemented targeted reductions in labour costs in Belgium (e.g. exempting firms from social security contributions for their first employee)⁶ but beyond the first hire, wage costs remain generally high. Additionally, strong job protections for permanent employees can make firms hesitant to take on staff in the first place or to adjust their workforce to meet growth opportunities. International evidence reinforces this point: a study by the OECD (2025) shows that countries with more flexible labour markets achieve higher rates of job reallocation and faster redeployment of workers from shrinking to growing firms. Likewise, Denmark’s “flexicurity” model illustrates how easing dismissal rules, while maintaining a strong safety net, can support both firm dynamism and worker security. For Belgium, moving gradually in this direction could reduce firms’ aversion to the risks of expansion.

⁶ Since 2016, employers have benefited from a permanent exemption from social security contributions for their first hire. This exemption was initially unlimited but later capped at €4 000 per quarter and then at €3 100. Under the current government agreement, this ceiling will be reduced further to €2 000 per quarter, making the scheme less generous over time. Smaller temporary and progressive reductions for the second and third hires are also available. Reductions for the fourth to sixth hires were abolished as of 2024.

- **Financing constraints:** High-growth ventures often require significant external financing to expand (e.g. for product development, marketing or to enter new markets). Belgium's financial system is bank-oriented and historically not as geared toward equity financing for start-ups as, say, the US venture capital (VC) scene. Although this is slowly changing (e.g. there are now more VC funds and government seed funding programmes in Belgium/Europe), many Belgian entrepreneurs still find it challenging to raise growth capital domestically, especially in order to scale up their international presence. Banks tend to be conservative and may not lend to unprofitable young firms, while equity investors may be scarce. This can lead promising start-ups either to grow more slowly than they otherwise could or to sell out to foreign investors early (meaning scaling-up happens abroad or under foreign ownership). The OECD (2022) emphasises that the real policy gap is not in start-up creation but in support for scaling-up. Effective policies therefore focus on scale-ups rather than the sheer number of start-ups, e.g. tailored advisory programmes (such as the UK's network of Growth Hubs), managerial training support, and export promotion schemes. These initiatives underline that financing is only part of the challenge: targeted support for business growth, the raising of management skills to match capital with capability, and the internationalisation of activities are also crucial.
- **Management skills:** Evidence from multi-country studies shows that managerial quality and practices are key to the successful scale-up of SMEs (e.g. Bloom *et al.*, 2016). Firms with more robust management tend to grow faster, adopt new technologies earlier, export more and survive longer. Conversely, weaknesses in firm leadership and middle management often become binding constraints just when the business is trying to professionalise and expand. International assessments highlight that initiatives providing targeted managerial support (e.g. executive training, structured mentorship, peer-learning networks and "temporary management" for export/internationalisation) are high-return investments for scale-ups. Recent evidence from Belgium also shows that external consultants can raise productivity, highlighting that the structured upgrading of managerial skills is an effective lever for dynamism (Bijmens *et al.*, 2025).
- **Market fragmentation and a small domestic market:** Belgium's domestic market is relatively small and regionally (linguistically) fragmented. Dhyne *et al.* (2023) show that most Belgian firms conduct business mainly with partners located in their immediate surroundings. A start-up may find initial success in Belgium but quickly reach saturation and face hurdles when trying to expand abroad (e.g. regulatory differences, the need to internationalise operations, etc.). International comparisons suggest that supporting export-oriented scale-ups, for example via temporary export manager schemes (Italy) or diplomatic start-up missions (Netherlands), can help overcome these hurdles (OECD, 2022). Some entrepreneurs in Belgium may not attempt to make the leap to international expansion, choosing instead to remain a big fish in a small pond or to exit (sell up) rather than continue independent growth.
- **"Subsidy bias" towards remaining small:** If government support is structured in such a way that firms lose benefits once they grow beyond a certain threshold, it may create a perverse incentive to stay small. For example, if generous support is given for the first employee but nothing for the second, a firm may not feel it can afford to hire a second person. While the first-hire subsidy, which cost €488 million in 2023 alone, has been undeniably helpful for small business owners, it is not an effective way to stimulate business dynamism or sustainable job creation (Cockx *et al.*, 2025; Desiere *et al.*, 2025). It is essentially a quantity-over-quality policy that boosts the count of firms (especially firms with one employee) without fostering the emergence of more robustly growing firms. International evidence confirms this pattern: size-dependent subsidies and thresholds often distort firm behaviour. For example, France's 50-employee threshold is estimated to have reduced GDP by more than 3% as firms deliberately stay below the cut-off (Garicano *et al.*, 2016). The OECD (2022) likewise stresses that resources spent on broad subsidies to small firms could be better redirected to targeted support for scale-ups, managerial training and export promotion. In Belgium, shifting away from indiscriminate start-up subsidies toward policies that reward firms once they grow would reduce misallocation and encourage more transformative entrepreneurship. Furthermore, the widespread and untargeted use of short-time work or furlough schemes can lead to distortions and hinder swift reallocation (Bermúdez-Barrezueta *et al.*, 2025).

7. Conclusion

Business dynamism in Belgium is a tale of two periods: decades of decline followed by a tentative revival. After 2000, the country saw a worrying drop in the reallocation and growth dynamics that drive productivity: fewer new firms, even fewer scale-ups and a shrinking cadre of high-growth companies. This situation was not unique to Belgium and reflected broader global trends that placed a drag on creative destruction. However, in the wake of the Covid-19 shock, there are signs that business dynamism in Belgium has picked up, putting a halt to the long-term downward trend. This recent rebound is encouraging but, as described in this article, the recovery is being driven mostly by older firms and specific sectors. The fundamental challenge is how to transform more of Belgium's plentiful start-ups into successful scale-ups.

The main findings of this study can be summarised as follows:

- Business dynamism in Belgium is not constrained by a lack of start-ups; rather it is hindered by a lack of successful scale-ups. Entry rates are healthy, but comparatively few entrants grow into larger businesses. The country has a vibrant SME landscape, yet too many firms remain small. The growth of an average five-year-old Belgian firm lags far behind that of its counterparts in neighbouring countries. Belgium needs to foster an environment where more new firms can sustain high growth beyond the startup phase.
- Fast-growing firms are crucial but remain rare in Belgium. A tiny fraction of firms generates a large share of new jobs and productivity gains, but Belgium has even fewer of these "gazelles" than other advanced economies. Reviving overall dynamism will require increasing the presence of such high-impact firms.
- The recent uptick in dynamism has been driven by older firms, not young start-ups. While it is good news that business dynamism has improved since 2020, it appears that the charge is being led by established companies in the services sectors rather than by start-ups and scale-ups. This suggests that the underlying youthfulness of business dynamism has yet to be restored. Younger firms are not (yet) contributing more to the dynamism index. To achieve sustained, long-term growth, Belgium will need to pass the torch to the next wave of young innovators.
- Current policies often emphasise the quantity of firms over their quality or growth potential. The exemption from social security contributions for the first hire is an example of a policy aimed at encouraging firm creation or protecting small businesses, with little regard for whether these firms grow or become more productive. This approach can lead to misallocation and keeps marginal firms afloat or results in the creation of many micro-enterprises that contribute little to aggregate growth. A recalibration is welcome so that policy success is measured not just by the start-up count but also by metrics such as the number of jobs created by young firms and the number of scale-ups.
- Reigniting dynamism and productivity in Belgium could well require a strategic shift in focus from the creation of start-ups to the encouragement of scaling-up and risk-taking. In practice, this would mean nurturing an ecosystem in which entrepreneurs are incentivised to take risks to grow, where barriers to expansion (i.e. labour market frictions and regulatory, financial and cultural hurdles) are minimised, and where ambition is rewarded. It could entail phasing out or reforming policies that inadvertently encourage firms to remain small and instead deploying resources to facilitate growth. In addition, embracing reform in areas such as the labour market and competition will be essential to create the conditions conducive to creative destruction.

Belgium has strong fundamentals, including a skilled workforce, good infrastructure, a central location in the EU single market and many innovative entrepreneurs. However, in order for the country to escape the trap of low productivity growth, unlocking its potential for dynamism is critical. Recent decades have shown that there is a natural tendency toward consolidation and stagnation, especially in a globalised, technology-driven economy. Government policies can help by supporting new, growing firms that challenge established players instead of reinforcing the status quo.

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Conventional signs

e.g.	<i>exempli gratia</i> , for example
€	euro
<i>et al.</i>	<i>et alia</i> , and others
i.e.	<i>id est</i> , that is
%	per cent

List of abbreviations

EU	European Union
FTE(s)	Full-time equivalent(s)
GDP	Gross domestic product
HIF	High-impact firm
ICT	Information and communication technology
NBB	National Bank of Belgium
OECD	Organisation for Economic Cooperation and Development
SME	Small and medium-sized enterprise(s)
VC	Venture capital
WTO	World Trade Organization

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