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Net capital stock

Capital stock, available in the national accounts, provides information on the value at a given time of the assets accumulated in the economy. It is composed of different fixed assets and comes from the investment made by the different economic agents.

Authors: Bernadette Biatour, bbi@plan.be and Chantal Kegels, ck@plan.be

Low net capital stock compared to neighbouring countries

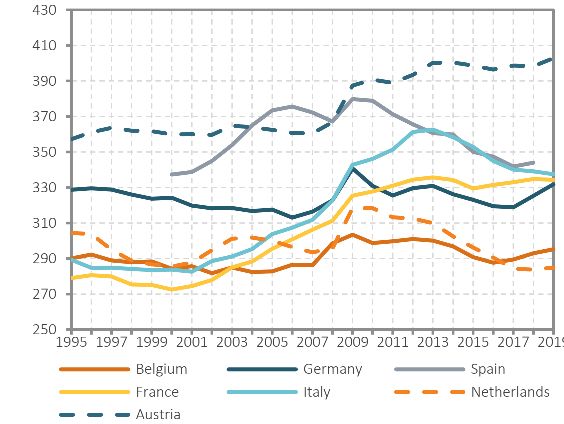
Net capital stock measures the value at a given time of the fixed assets present in a territory. It consists of the tangible (e.g. machinery, buildings) and intangible (e.g. R&D, software) assets that are used in production processes for more than one year. In the absence of direct observation, net capital stock is estimated using the Perpetual Inventory Method (PIM). According to the PIM, net stock is the sum of all past investments adjusted for wear and tear (loss of value) and decommissioning over time.

The stock is expressed as a percentage of GDP, so Belgium's net stock can be compared with that of other European countries. The use of data at current prices is preferred to volumes because there are discrepancies between countries in the estimation of the stock deflator for some assets, such as ICT and housing. A task force is currently working at European level on harmonising the methodology for estimating stocks, including taking into account the improvement in asset quality.

Although Belgium's net capital stock has increased steadily since 1995 at current prices and in volume, it has experienced periods of decline when linked to GDP. As a percentage of GDP, Belgium's net capital stock fell slightly between 1995 and 2004, then rose steadily until 2009. Between 2009 and 2016, the stock as a % of GDP again decreased and fell below the intensity observed in 1995. The capital stock has again been growing faster than GDP since 2017, and in 2019 reached an intensity slightly higher than in 1995.

On average over the period 1995-2019, Belgium had a lower net capital stock in relation to GDP than that observed in neighbouring European countries. In contrast to Belgium, Austria, Italy and France recorded strong growth in their stock as a percentage of GDP, widening the gap with Belgium. Germany and the Netherlands recorded a change in their ratio closer to that of Belgium.

Chart 1 Net capital stock (at current prices)
As a % of GDP

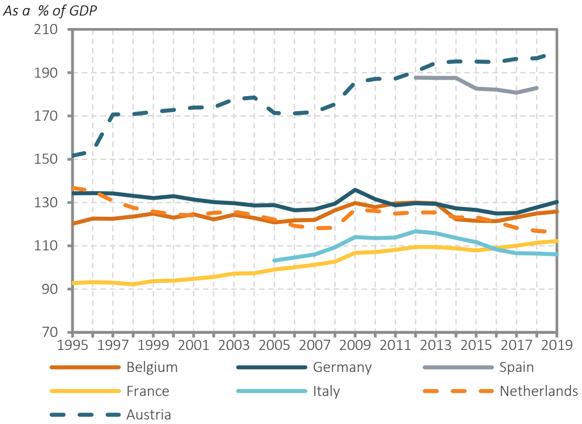


Source: Eurostat.

Weak public capital stock that is gradually deteriorating

Who owns the national capital stock? In Belgium, on average over the period 1995-2019, 43% of net capital stock was held by financial and non-financial corporations, almost the same percentage by households and non-profit institutions serving households and 15% by general government.

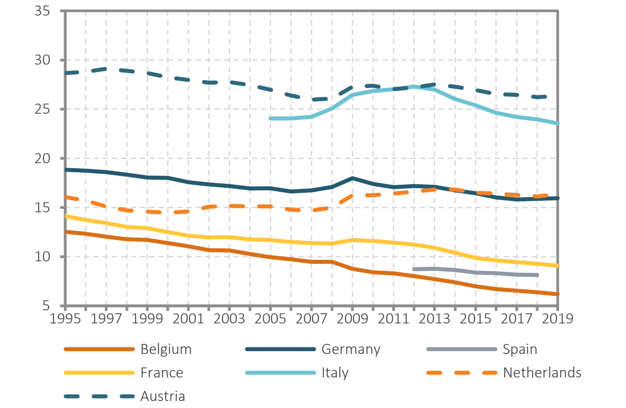
Chart 2 Net capital stock (at current prices) of financial and non-financial corporations
As a % of GDP



Source: Eurostat.

The net capital stock held by financial and non-financial corporations was more or less stable over the period considered (see Chart 2). This means that as a percentage of GDP, wear and tear and asset decommissioning were offset by new investment. On average over the period, the Belgian net stock of companies was equivalent to that of the Netherlands, but below the stock of Austria, which rose steadily, Spain and Germany.

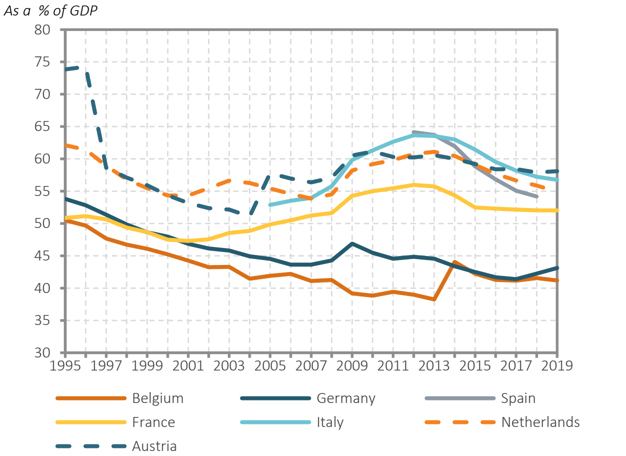
Chart 3 Net capital stock (at current prices) of households and non-profit institutions serving households (excluding housing)
As a % of GDP



Source: Eurostat.

The net capital stock of the household sector, including the self-employed (in natural persons) and non-profit institutions serving households, consisted almost exclusively of dwellings. Despite an increase over the period, the Belgian net housing stock in this sector was, on average, below that of France, Italy and Germany, which are also increasing. Compared to neighbouring European countries, the capital stock excluding the dwellings of households and NPIs is low in Belgium and declined steadily throughout the period (Chart 3).

Chart 4 General government net capital stock (at current prices)
As a % of GDP



Source: Eurostat.

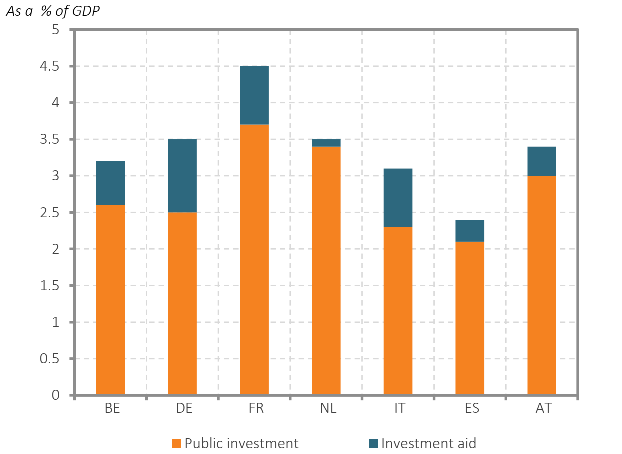
The net capital stock of general government as a percentage of GDP fell continuously over the entire period, with the exception of 2014, the year in which Infrabel was classified in the general government sector (Chart 4). This means that new investments did not compensate for the wear and tear of the installed stock. In relation to GDP, the net stock level in Belgium was lower, on average over the period, than that observed in all the comparison countries.

Among the various assets, the stock of civil engineering structures declined the most over the period. This stock contains the transport infrastructure. It was followed by non-residential buildings. The R&D stock increased over the period relative to GDP. The effect of public investment on the long-term growth of the economy and on private sector productivity depends on the nature of the investment. Investments in infrastructure, R&D and education play a particularly important role.

Belgium lagging behind in public investment

The evolution of public capital stock is linked to a public investment deficit. Even if a broad definition of public investment is used (public investment plus investment subsidies to other sectors), public investment in 2019 amounted to 3.2% of GDP (€15.3 billion), which was lower than in the comparison countries, with the exception of Spain, and equivalent to investment in Italy (Chart 5).

Chart 5 Government investment and investment aid, 2019
As a % of GDP



Source: Eurostat.

In Belgium, after the increase in investment aid (as a % of GDP) following the 2008 crisis, there was a sharp decline from 2013 to 2016. The situation has been stable since then. This decline was partly offset by an increase in investment by the general government sector. Broader public investment fluctuated around an average of 3.3% of GDP, equivalent to the average intensity in Germany but well below that of the other comparison countries.

The European Union is making €5.925 billion available to Belgium over the 2021-2026 period (estimated at 0.2% of the GDP for these six years) under the NextGenerationEU Recovery and Resilience Facility. Most of the Belgian national plan (88%) corresponds to public investments and aid to private investment. Two thirds of the investments will be in tangible assets (mainly buildings and civil engineering works) and one third in intangible assets (half in R&D).

In conclusion, an increase in public investment would be required to halt the decline in net public capital stock relative to GDP and not jeopardise the quality of the infrastructure. This increase should be targeted at the most productive investments.