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Executive Summary

- Belgium performs well in many economic and well-being dimensions, but some risks are building up
- The resilience of public finances should be increased
- Improving labour market outcomes is key
- Boosting potential growth requires higher productivity growth
Belgium performs well in many economic and well-being dimensions, but some risks are building up

Moderate and steady economic growth, and an effective tax and transfer system help to support good well-being outcomes. Maintaining the reform momentum and addressing rising external and domestic risks will boost the resilience of the Belgian economy.

Over the past five years, economic growth averaged around 1.7% and was accompanied by strong employment growth (Figure A). GDP growth has slowed since 2018, reflecting weaker exports as world trade decelerated. Nevertheless, robust job creation has led to a fall in the unemployment rate to record low rates, also helping the inclusion of low-skilled workers.

Figure A. The recovery has been rich in employment creation


GDP growth is projected to moderate (Table A), driven by lower business investment and a slowdown in exports. Private consumption will be an important driver of growth, supported by past reductions in labour taxation and robust wage growth. Underlying price inflation will pick up gradually, due to wage pressures resulting from a tight labour market.

Tighter macroprudential regulation would curtail financial system risks. Low interest rates have led to strong mortgage credit growth and easing of lending standards. Lending with high debt-to-income and loan-to-value ratios can increase vulnerabilities and lower the resilience of the financial system.

Table A. The moderation in growth will continue

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>1.4</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1.1</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Government consumption</td>
<td>1.9</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>3.8</td>
<td>1.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>1.2</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>1.3</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>1.2</td>
<td>1.1</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: OECD, Economic Outlook (database).

The resilience of public finances should be increased

Rebuilding fiscal buffers should be a priority. The high level of public debt and pressures from population ageing create vulnerabilities.

The public debt-to-GDP ratio has declined, but remains high at 100%. Recent adjustments have been partly driven by supportive macroeconomic conditions and the temporary effect of the advance payment of corporate taxes, and partly by structural efforts.

The composition and efficiency of public spending can be improved to create space for higher public investment. There is room to improve the efficiency of public spending in areas such as health and education. Despite the need to reprioritise expenditures, the use of spending reviews is limited. Using spending reviews and policy evaluation at each level of government would allow a shift in expenditures to more productive uses.

Shifting the tax mix towards more growth friendly sources would boost employment. Taxation remains tilted towards labour income, which penalises growth and employment. Tax bases of value-added taxes are narrow with exemptions and reduced rates, lowering the efficiency of tax collection. In sectors other than transport, taxation of fossil fuel use is low, which can lower environmental outcomes.
The pressures on fiscal sustainability will rise due to population ageing. Public spending on pensions is projected to rise to 15% in 2070 (Figure B). Recent reforms have improved the financial sustainability of the pension system. While the statutory retirement age will increase to 67 by 2030, the effective retirement age remains low. Linking the retirement age to life expectancy could further lower the growth of pension spending, and should be accompanied by measures to re-skill older workers since boosting employment rates will also be key.

**Figure B. Public spending on pensions is projected to rise**

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2070</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWE</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>NLD</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>GBR</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>ESP</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>EU28</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>FRA</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>EA19</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>DEU</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>ITA</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>BEL</td>
<td>12</td>
<td>14</td>
</tr>
</tbody>
</table>


The pension system remains complicated, with varying schemes for different workers. The pension schemes for private and public sector workers are separate, with a large difference in replacement rates. The rising number of self-employed workers could further complicate the system. These workers could have difficulty meeting the number of career years required to qualify for minimum pensions, which may lead to old-age poverty. Continuing the integration of pension schemes covering different types of workers, for example through a points based system, should be a priority.

**Improving labour market outcomes is key**

Changes in the nature of work can exacerbate existing gaps in labour market outcomes. Differences in labour market and education outcomes according to socio-economic status and regions persist. Rising skill shortages, especially in information and communication technology, signals a need to better align skills with labour market needs and re-skilling.

Despite recent increases, the employment rate remains low (Figure C). Labour market participation is especially low for low-skilled, migrant and older workers. The long-term unemployed and inactive population face a number of employment barriers, which require tailored policies.

**Figure C. Employment rates are low**

Per cent of population, 15-64 year-olds, 2019-Q3


The targeting of activation measures could be improved further. Existing labour activation policies are less effective for second-generation jobseekers with a non-EU background and the long-term unemployed. Extending the use of tools for the profiling of individualised risks can be a good way to identify job-seekers who are more at risk of becoming long-term unemployed and boost their employment.

Increasing equity of opportunities in education and training would help improve labour market outcomes. Participation in lifelong learning is low (Figure D), especially for some disadvantaged groups. Training requirements, which are at the firm level, do not guarantee that workers that need it the most benefit from it. Individual training allowances, with guidance support on training programmes, could help. High performance gaps of disadvantaged students suggest the need to target individualised support to students at the risk of failing.
EXECUTIVE SUMMARY

Figure D. Participation in lifelong learning is low
25-64 year-olds¹, % of the population, 2018

1. Adults participating in education and training in the 4 weeks preceding the survey.

Source: Eurostat (2019), Adult learning statistics, Eurostat Database.

StatLink 2
https://doi.org/10.1787/888934048470

The current design of the unemployment benefit system provides good income support, but may discourage job search. Work incentives for low-wage workers, without reducing the level of income support for the unemployed, can be increased via benefits to top up wages or lower social security contributions. The system currently provides flat benefits to the long-term unemployed who potentially have different financial needs. To ensure that the long-term level of support for the unemployed reflects household needs more closely, benefits for the long-term unemployed could be means-tested.

Boosting potential growth requires higher productivity growth

There is ample room for policy to boost productivity growth, which remains subdued (Figure E). Weak business dynamism, reflected in low entry and exit rates, and slow technological diffusion are main challenges.

Weak competition is a barrier to productivity growth. Despite recent reforms, a complex permits and licence system continues to create administrative burdens on start-ups. Stringent regulations in several professional services, such as lawyers, architects and real estate agents, and retail services weigh on productivity. Important barriers remain in the telecommunication sector.

Figure E. Productivity growth needs a boost
Multifactor productivity, index 2000 = 100


StatLink 2
https://doi.org/10.1787/888934048489

Public support to R&D investment is high, but better diffusion of innovation is needed. The share of expenditure-based tax incentives in public innovation has increased, but direct support can better support long-term research in areas with high potential for spillovers. The existing R&D tax credit is not immediately refundable, which could lower its effectiveness in targeting young and innovative firms.

High congestion can limit the benefits of agglomeration economies and lower environmental outcomes. One potential correction mechanism would be the introduction of road congestion charges. Multimodal transport solutions could also be introduced. Given high congestion in larger cities, such as Brussels and Antwerp, these could be pilots for initial implementation. Abolishing the favourable tax treatment of company cars could also contribute to lower congestion. Alternatively, other options, such as greener vehicles, could be extended.

The efficiency of insolvency and judicial systems is relatively low. The 2018 insolvency reform and the steps to digitise the justice system are welcome initial steps, but gaps remain. There are no special procedures for small and medium-sized enterprises, which could lack resources to deal with complex insolvency proceedings. There is room to improve data collection on judicial efficiency. Monitoring and evaluation of court activities are not as widespread as in peer economies.
## EXECUTIVE SUMMARY

### MAIN FINDINGS

<table>
<thead>
<tr>
<th>Macroeconomic and financial policies</th>
<th>KEY RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Despite a steady reduction, public debt remains high and elevated public spending requires high taxes.</td>
<td>Stick to medium-term fiscal consolidation targets to ensure a gradual durable reduction of public debt and use any fiscal windfall to reduce the debt faster.</td>
</tr>
<tr>
<td>The public spending mix fosters inclusive growth, but there is room to improve the efficiency of spending.</td>
<td>Make regular spending reviews at each level of government an integral part of the fiscal framework.</td>
</tr>
<tr>
<td>Taxation remains tilted towards labour, while a number of reduced regressive rates erode the value-added tax base, and environmental taxes are underutilised.</td>
<td>Align those reduced value-added tax rates that are regressive with the standard rates. Introduce a carbon tax for sectors not subject to the EU Emission Trading Scheme, and develop flanking measures over the short term for the most affected poor households. Further lower social security contributions for low wages, financed by increases in less distortive taxes.</td>
</tr>
<tr>
<td>Population ageing will continue to put pressure on the pension system. The success of pension reforms will depend on keeping older workers attached to the labour market.</td>
<td>Develop policies to reskill older workers to facilitate their employment and link the statutory retirement age to life expectancy at retirement.</td>
</tr>
<tr>
<td>The pension system remains complicated, with varying schemes for different workers.</td>
<td>Continue to align the pension treatment of public and private sector workers, for example by introducing a points based system. Harmonise contribution rates and pension calculations between the self-employed and employees. Lower required number of career years for receiving minimum pensions.</td>
</tr>
<tr>
<td>The high contribution periods for minimum pensions are hard to meet for self-employed workers and workers without a full career.</td>
<td>In case the current measures prove ineffective, introduce additional borrower-based macroprudential instruments, such as binding caps on loan-to-value or debt-service-to-income ratios.</td>
</tr>
<tr>
<td>Excessive credit growth and increasing share of mortgage loans can create risks for financial stability.</td>
<td></td>
</tr>
</tbody>
</table>

### Improving labour market and education outcomes for inclusiveness

| The impact of socioeconomic background on education outcomes is high. | Target individualised support to students at risk of failing. |
| Participation in lifelong learning is low by older and low-skilled adults. Training requirements are at the firm level rather than the worker. | Introduce individual training allowances and for disadvantaged workers, provide targeted support, such as higher training time and/or funding requirements. |
| The long-term unemployment rate is high and different groups face multiple employment barriers. | Extend the use of statistical tools to identify job-seekers at risk of becoming long-term unemployed to develop tailor-made active labour market programmes. |
| The design of the unemployment benefit system provides good income support, but may discourage job search. The system provides flat benefits to the long-term unemployed with potentially different household needs. | Increase work incentives for low-wage workers by introducing in-work benefits. For the long-term unemployed, use means-tested benefits rather than flat benefits. |

### Boosting productivity growth

| Despite some progress, barriers to entry and competition in services and telecommunications remain high. | Streamline the licence and permits system, and reduce the number of restrictions in some professional services. Ease barriers to entry in the telecommunications sector. |
| The design of public innovation support does not facilitate diffusion of innovation. | Improve the efficiency of public support for business R&D by achieving an appropriate mix of direct and indirect measures. Introduce immediate refundability of R&D tax credits. |
| High congestion can lower productivity and increase pollution. | Introduce road congestion charges, for example around Brussels and Antwerp, with sufficient time differentiation within the peak period. Consider abolishing the favourable tax treatment of company cars or alternatively extend other options, such as greener vehicles. |
| Complex and costly insolvency procedures can fail to adequately meet the needs of SMEs. | Introduce special insolvency procedures for small and medium-sized enterprises. |
| Insufficient data availability and evaluation lower the efficiency of the judicial system. | Continue to digitise the judicial system to improve data collection and evaluation. |
Key Policy Insights

- The moderation in economic growth is set to continue
- The financial system is increasingly exposed to indebtedness risks
- Sustainability of public finances should be strengthened
- Low productivity growth is a major challenge
- There is scope to boost the well-being of vulnerable groups
- Additional efforts are needed in environment and energy policies
Recent structural reforms have supported a job-rich economic recovery in Belgium (Figure 1; Box 1). Real GDP per capita has surpassed pre-crisis levels, employment is at historical highs and the unemployment rate at 5.2% in the third quarter of 2019 is the lowest rate in the past four decades. Nevertheless, growth rates remain below those in the euro area and pre-crisis levels. Boosting potential growth will require product and labour markets reforms to enhance productivity and the capacity of the economy to adjust to shocks, which is important as a member of the euro area. Improving medium-term fiscal sustainability and closely monitoring the build-up of cyclical risks in the financial sector are needed to improve the resilience of the Belgian economy. Raising skills and work opportunities for vulnerable groups to make growth more inclusive is also key.

**Figure 1. The recovery has been rich in employment creation**

![Graph showing GDP and employment growth](image1)


Belgium performs above or close to the OECD average across the different well-being dimensions (Figure 2, Panel A). Income inequality is relatively low, due to an effective tax and transfer system. However, average well-being remains lower than that in the pre-crisis period and the gap across different groups has been increasing (Buts et al., 2019). The level of relative income poverty is lower than the European Union (EU) average, but higher than some peer countries. Furthermore, for people in jobless households with children and people born outside the EU, the poverty rates are higher than the EU average. The performance in terms of education and labour markets is near the OECD average, but there are inequalities by gender, age and socio-economic status. Regional disparities can also contribute to lower equalities (Figure 2, Panel B).
Figure 2. Belgium’s relatively positive well-being indicators mask some significant regional disparities

Country and regional rankings, 2017¹

A. Better life index, country rankings²

B. Regional well-being³

1. Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set. Normalised indicators are averaged with equal weights.
2. Country rankings from 1 (best) to 35 (worst).
3. Relative ranking of the regions with the best and worst outcomes in the 11 well-being dimensions, with respect to all 395 OECD regions. The eleven dimensions are ranked according to the size of regional disparities in the country.

Source: OECD (2017), OECD Better Life Index 2017 (http://www.oecdbetterlifeindex.org) and OECD, Regional Well-Being Database.

StatLink  https://doi.org/10.1787/888934048527
Box 1. Key recent reforms

- **Tax shift**: This reform, adopted in 2015 and phased in over 2016-20, lowers social security contributions for employers and employees (targeted to low wage earners), and personal income taxes for employees. It was accompanied by measures to raise other revenues, such as higher taxes on some non-labour income, excise duties and the alignment of reduced value-added tax rates for some goods and services, such as electricity, to standard rates.

- **Corporate income taxation**: Adopted in 2017, the corporate income tax (CIT) rate is progressively cut from 33.9% to 25% between 2018 and 2020. For small and medium-sized enterprises (SMEs), the CIT rate on the first bracket of EUR 100 000 of net taxable income is reduced to 20.4% from 2018 and to 20% from 2020. The reform aims to be revenue-neutral through significant base broadening measures. These include the transposition of the EU Anti-Tax Avoidance Directive, limitation to certain deductions that companies can claim against income through a basket system with a minimum tax base and the modification of the notional interest deduction (OECD, 2018a).

- **Pension reform**: The most notable changes include a rise in the statutory retirement age from 65 to 66 in 2025 and 67 in 2030, stricter eligibility requirements for early retirement and pre-pension benefits (unemployment benefits with employer top-up), the ability to combine earned income and pensions, the better valuation of actual work periods (even after a full career), and the introduction of a mixed pension (differentiating between the pension rights as a contract agent and permanent civil servant in the public sector).

- **Labour markets**: Reforms aimed at strengthening incentives to work and flexibility of labour markets include shorter notice periods at the beginning of employment, extension of “flexi-jobs” and some tax exemptions for non-standard workers (Chapter 1).

- **Wage-setting system**: The wage-setting system was amended in 2017 to better safeguard cost competitiveness without removing wage indexation via a safety margin to address forecast errors and a mechanism to correct for past divergences in wage evolution between Belgium and the neighbouring countries (OECD, 2017a).

- **Competition**: The company law reform redefined the concept of “enterprise” to include liberal professions, farmers and the non-profit sectors. In 2018, insolvency law was reformed to apply to all enterprises, improve conditions for second chance for entrepreneurs and introduce new informal proceedings.

- **Education**: Both the French speaking and Flemish communities introduced major school reforms to improve outcomes, especially in equal opportunities (OECD, 2017a).

Despite recent increases, employment and labour force participation rates remain below the OECD average and the gaps in labour utilisation relative to the most advanced OECD countries is large (Figure 3, Panel A). The lower employment rate is mainly due to high rates of inactivity (Chapter 1). The high ratio of public debt-to-GDP at 100% is another key challenge (Figure 3, Panel B).
Figure 3. Low rates of labour utilisation and high public debt are key challenges

A. Labour resource utilisation
Percentage difference vis-à-vis the upper half of OECD countries¹, 2018

B. Public debt
Percentage of GDP, Maastricht definition

1. Compared to the weighted average using population weights of the 18 OECD countries with highest GDP per capita in 2017 based on 2017 purchasing power parities (PPPs). Labour resource utilisation is measured as the total number of hours worked per capita.
2. European Union member countries that are also members of the OECD (23 countries).
3. Euro area member countries that are also members of the OECD (17 countries).


StatLink ² https://doi.org/10.1787/888934048546

The level of productivity is high, but productivity growth has slowed down more than in peer countries, constraining potential growth (Figure 4, Panel A). Multifactor productivity growth, which is more closely related to innovation, remains flat (Figure 4, Panel B). The divergence between the most and least productive firms has risen, mostly driven by the worsening performance of firms at the bottom of the productivity distribution, especially in services. There are also regional differences in terms of productivity, which partly reflect regions’ economic structure, but the regional dispersion is not especially high in international perspective (Figure 4, Panel C).
Figure 4. Boosting growth potential requires higher productivity growth

A. Contributions to average annual labour productivity growth¹

<table>
<thead>
<tr>
<th>Period</th>
<th>Multifactor productivity</th>
<th>Capital deepening</th>
<th>Total labour productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-1994</td>
<td>1.50</td>
<td>0.50</td>
<td>2.00</td>
</tr>
<tr>
<td>1994-2007</td>
<td>2.00</td>
<td>1.00</td>
<td>3.00</td>
</tr>
<tr>
<td>2007-2017</td>
<td>2.50</td>
<td>1.50</td>
<td>4.00</td>
</tr>
</tbody>
</table>

B. Multifactor productivity

Index, 2000=100²

Belgium Germany France Netherlands United States

C. GDP per worker

At 2010 constant prices, EUR thousand³

1. Labour productivity is measured as GDP per hour worked in constant prices, USD 2010 purchasing power parities. The France-Germany-Netherlands number is the unweighted average.
2. In constant prices.
3. The region of a worker is the place of work, not the place of residence.


StatLink  https://doi.org/10.1787/888934048565
Against this background, the Survey has three main messages:

- Reducing macroeconomic and financial vulnerabilities should remain a priority, given high levels of public debt and private credit growth.
- Improving the labour market and education outcomes of vulnerable groups and ensuring that labour market institutions and the labour force are ready for the changing nature of work are key to inclusive growth.
- Boosting productivity growth, which remains subdued, and ensuring the growth of young and dynamic firms will require firms to be more exposed to competition and innovation.

The allocation of responsibilities is highly decentralised in Belgium, which highlights the importance of coordination and cooperation across different levels of government (Box 2). A recent benchmarking exercise of European countries classified Belgium as a country with a high degree of fragmentation and a low level of coordination (Thijs et al., 2018). Given regional disparities, some recommendations related to non-federal competencies will be more relevant to different regions and communities according to their policy needs and priorities in various areas.

**Box 2. Government of Belgium**

Besides the Federal government, the Belgian governance system comprises three regional authorities with significant autonomy, and three communities (cutting across the regions), with separate competencies (e.g., in education). The regions refer to the Flemish, Brussels-Capital and the Walloon regions. The communities refer to the French, Flemish and German-speaking communities. Each authority has its own legislative and executive powers for its field of competences, and its own parliament and government to exercise these powers. In Flanders, the community and regional institutions have been merged. It should also be noted that the federal state, the regions and the communities are on an equal footing. This means that no authority has precedence over another. The Concertation Committee, consisting of the head of each government, examines all issues requiring cooperation between governments and issues relating to competence sharing. Authority to tax and spend is spread across different levels of government, with complicated sharing arrangements and sometimes overlapping responsibilities.
### Table 1. Allocation of some responsibilities between levels of government

<table>
<thead>
<tr>
<th></th>
<th>Federal</th>
<th>Regions</th>
<th>Communities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>R&amp;D tax incentives, federal scientific institutes</td>
<td>Direct public support to R&amp;D, cluster policy, scientific research related to economy, energy (except nuclear), environment and transport</td>
<td>Scientific research</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>Adult learning</td>
<td>Pre-primary to higher and adult education</td>
</tr>
<tr>
<td>Environment</td>
<td>Product standardisation, protection against radiation, transit of ware, marine protection, most taxes</td>
<td>Land use planning, nature and environment protection of soil, water and air (waste management, etc.), environment subsidies</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Energy forecasting and security of supply, major energy infrastructure, storage and transport, nuclear power, off-shore wind energy, distribution and transmission tariffs</td>
<td>Local transmission and distribution of electricity and gas, heat networks, development of renewable energy sources, solutions for energy efficiency</td>
<td></td>
</tr>
<tr>
<td>Labour markets and social protection</td>
<td>Unemployment, pensions and health insurance</td>
<td>Active labour market policies, family benefits, care for the elderly, health, some aspects of social security (reduction of SSC for targeted groups)</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Car registration, implementation and control of regulations on transport by aviation and railways, taxation on fossil fuels, promotion of biofuels, company car taxation</td>
<td>Heavy duty vehicle road charge per km, vehicle registration duty based on CO₂, spatial planning and regional public transport, mobility plans to promote public transport, road safety and road management, waterway regulations</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>Mortgage tax credit for non-owner occupied housing</td>
<td>Social housing and property taxes, mortgage tax credit of owner occupied housing</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** This table does not include all types of policies, and lists only the main responsibilities and thus is not exhaustive.

### The moderation in economic growth is set to continue

Economic growth has eased from 2% in 2017 to 1.5% in 2018, with a negative contribution from net exports. Domestic demand remains the main driver of growth (Figure 5, Panel A). Private consumption is supported by past reductions in labour taxation. In an environment of rising uncertainty, trade tensions and sluggish euro area growth, business confidence in the trade sector has been declining. Labour costs have gradually started to increase with the end of the wage moderation and rising labour market constraints (Figure 5, Panel B). The unemployment rate has decreased, but displays large regional disparities (Figure 5, Panel C). Headline inflation has fallen recently, following a decline in energy prices (Figure 5, Panel D), but core inflation is gradually rising.
GDP growth is projected to moderate in 2020-21 (Table 2). Business investment will moderate, in line with the deterioration in global economic conditions and rising uncertainty. With the slowdown in export market growth, net exports will make a negative contribution to growth. Private consumption will continue to be an important driver of growth, supported by past reductions in labour taxation, and robust job creation and wage growth.


StatLink: https://doi.org/10.1787/888934048584
**Table 2. Macroeconomic indicators and projections**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current prices EUR billion</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>430.4</td>
<td>2.0</td>
<td>1.5</td>
<td>1.4</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Private consumption</td>
<td>221.1</td>
<td>1.8</td>
<td>1.5</td>
<td>1.1</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Government consumption</td>
<td>100.0</td>
<td>0.3</td>
<td>0.9</td>
<td>1.9</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>99.9</td>
<td>1.3</td>
<td>4.0</td>
<td>3.8</td>
<td>1.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Of which: Residential</td>
<td>20.9</td>
<td>0.1</td>
<td>1.0</td>
<td>6.6</td>
<td>1.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Non-residential</td>
<td>68.7</td>
<td>1.6</td>
<td>3.9</td>
<td>4.0</td>
<td>1.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Final domestic demand</td>
<td>421.0</td>
<td>1.3</td>
<td>1.9</td>
<td>1.9</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Stockbuilding</td>
<td>4.2</td>
<td>-0.1</td>
<td>0.3</td>
<td>-5.9</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>425.2</td>
<td>1.2</td>
<td>2.2</td>
<td>-3.9</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>341.6</td>
<td>5.3</td>
<td>1.2</td>
<td>1.2</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>336.5</td>
<td>4.4</td>
<td>2.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Net exports</td>
<td>5.1</td>
<td>0.7</td>
<td>-0.7</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.2</td>
</tr>
<tr>
<td><strong>Other indicators (% change, unless otherwise specified):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential GDP</td>
<td>-</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Output gap</td>
<td>-</td>
<td>0.1</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Employment</td>
<td>-</td>
<td>1.6</td>
<td>1.4</td>
<td>1.3</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>-</td>
<td>7.1</td>
<td>6.0</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>-</td>
<td>1.7</td>
<td>1.5</td>
<td>1.6</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>-</td>
<td>2.2</td>
<td>2.3</td>
<td>1.2</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Core consumer prices</td>
<td>-</td>
<td>1.5</td>
<td>1.3</td>
<td>1.5</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Household saving ratio, net</td>
<td>-</td>
<td>5.2</td>
<td>4.8</td>
<td>5.1</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Trade balance</td>
<td>-</td>
<td>1.4</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-1.0</td>
<td>-1.4</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-</td>
<td>1.2</td>
<td>-1.0</td>
<td>-1.2</td>
<td>-1.5</td>
<td>-1.8</td>
</tr>
<tr>
<td>General government financial balance</td>
<td>-</td>
<td>0.7</td>
<td>-0.7</td>
<td>-1.7</td>
<td>-2.0</td>
<td>-1.9</td>
</tr>
<tr>
<td>Underlying government financial balance</td>
<td>-</td>
<td>-1.2</td>
<td>-1.7</td>
<td>-1.9</td>
<td>-2.1</td>
<td>-2.0</td>
</tr>
<tr>
<td>Underlying government primary balance</td>
<td>-</td>
<td>0.8</td>
<td>0.1</td>
<td>-0.3</td>
<td>-0.7</td>
<td>-0.7</td>
</tr>
<tr>
<td>General government gross debt</td>
<td>-</td>
<td>120.6</td>
<td>118.6</td>
<td>117.9</td>
<td>118.1</td>
<td>118.0</td>
</tr>
<tr>
<td>General government debt, Maastricht definition</td>
<td>-</td>
<td>101.8</td>
<td>100.0</td>
<td>99.3</td>
<td>99.5</td>
<td>99.4</td>
</tr>
<tr>
<td>General government net debt</td>
<td>-</td>
<td>85.8</td>
<td>84.6</td>
<td>83.9</td>
<td>84.0</td>
<td>83.9</td>
</tr>
<tr>
<td>Three-month money market rate, average</td>
<td>-</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-0.4</td>
</tr>
<tr>
<td>Ten-year government bond yield, average</td>
<td>-</td>
<td>0.7</td>
<td>0.8</td>
<td>0.2</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. As a percentage of potential GDP.
4. As a percentage of the labour force.
5. As a percentage of household disposable income.
6. As a percentage of GDP.

*Source: OECD (2019), OECD Economic Outlook: Statistics and Projections (database).*

Economic growth could be weakened by lower than expected growth in the European Union (EU), the main destination for exports, given rising trade tensions (Figure 6). A supply-driven increase in oil prices could lower growth prospects. A slow formation of a new federal government could delay reforms. On the upside, growth could be stronger if tax reductions enhance private consumption more than expected. In addition to these risks, the Belgian economy is exposed to major shocks, such as an increase in global protectionism and a stronger-than-projected impact of Brexit (Table 3), given the high share of exports to the United Kingdom (UK) at 8%.
Figure 6. EU countries remain the main Belgian trading partners

Per cent, 2018¹

1. 2017 in Panels C and D.
2. In Panel C, others include - in a decreasing order of relevance - mineral fuels and lubricants, non-elsewhere classified commodities, crude and inedible materials (except fuels), beverages and tobacco and animal/vegetable oils, fats and waxes; in Panel D, others include manufacturing services, charges for the use of intellectual property, construction and public administration services, insurance and pensions services, personal cultural/recreational services, construction and public administration services, maintenance and repair services.


While calculations vary with assumptions and models, the impact of Brexit is likely to be higher for Belgium than the EU on average in the medium and long-term. A literature review suggests GDP losses of around 1 percentage point of GDP in Belgium (based on trade channels only), higher than the 0.6 percentage point average in the EU in the medium-term (Bisciari, 2019). A number of studies suggest that Belgium would be one of the most affected economies from Brexit, together with the UK, Ireland and the
Netherlands, with a long-term GDP loss calculation of around 1% for Belgium (Dhingra et al., 2017; IMF, 2018a). Flanders is likely to be most affected. Analysis based on a gravity model at the sector level finds that value added in Belgium would be 2.3% lower than the baseline in a WTO Brexit scenario (Vandenbussche et al., 2017). Recent OECD analysis, accounting for trade and risk premia channels, suggests that the GDP losses could be up to 0.75-1% in the near-term, slightly higher than around 0.6% for the euro area (OECD, 2019a).

<table>
<thead>
<tr>
<th>Shock</th>
<th>Possible impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major house price correction.</td>
<td>A large correction in housing prices could trigger a fall in consumption, especially for vulnerable households, which could in turn adversely affect economic growth.</td>
</tr>
<tr>
<td>Disorderly exit of the UK from the EU.</td>
<td>Given its close economic ties with the UK, Belgium would be mostly affected through trade channels via lower foreign trade and investment. Indirect effects such as financial market disturbances and higher uncertainty could amplify the impact on output growth.</td>
</tr>
<tr>
<td>Escalation of global trade tensions.</td>
<td>As a small open economy deeply integrated in global value chains, Belgium is exposed to weakness in world trade, which can lower exports and output.</td>
</tr>
</tbody>
</table>

**Table 3. Shocks that could strongly impact the Belgian economy**

The financial system is increasingly exposed to indebtedness risks

The resilience of the financial system has improved in the aftermath of the crisis, but macro-financial vulnerabilities related to private and public debt have increased significantly (Figure 7). The assets of the banking system declined from 470% of GDP in 2008 to 250% in 2018. Regulatory Tier 1 capital ratio at 16.5% and the leverage ratio at 5.9% are around the OECD average. The share of Belgian government bonds in total bank assets declined from 6% in 2014 to 3% in 2018, lowering the risks arising from bank and sovereign links (NBB, 2019a). Nevertheless, contingent liabilities from the financial crisis related to the former bank Dexia remain sizeable at 7.4% of GDP.

The profitability of Belgian banks has improved, and return on equity at 8% is above the EU average. The post-crisis restructuring of the banking system has resulted in a renewed focus on more traditional banking models and domestic and less risky activities, which tend to be less profitable (IMF, 2018b). This has contributed to improved credit availability to the Belgian non-financial sector. However, in a prolonged low interest environment, the search for yield has also lowered lending standards, which can heighten vulnerabilities.

The housing market can create risks for financial stability in the case of interest rate or income shocks, although the high share of fixed mortgages should provide some protection. Real house prices have increased by 58% since 2000, partly driven by low interest rates and higher household incomes (Reusens and Warisse, 2018; Figure 8, Panel A). While indicators such as price-to-income and rent-to-income ratios are above long-run averages (Figure 8, Panel B), model based estimations point to a mild overvaluation of 6.5% (Warisse, 2017).

While unconsolidated corporate debt has increased and is higher than the European average, other measures taking into account intra-group lending point to moderate corporate leveraging. For example, the debt-to-equity ratio (unconsolidated) at 92% in 2018 is around the OECD average. Nevertheless, bank credit growth to the corporate
sector grew strongly at 6.9% in 2018, above the 4.1% average in the euro area. Real estate-related corporate loans as a share of banks’ total assets increased from 2% to 5% since 2007, which can exacerbate vulnerabilities (Figure 8, Panel C). The credit-to-GDP gap increased to 2.8% in the second quarter of 2019, above the 2% threshold recommended for the activation of counter cyclical capital buffers. These developments need to be monitored closely, as strong credit growth is a good early warning indicator for crises (Hermansen and Roehn, 2016). Hence, the introduction of a countercyclical buffer rate at 0.5% in June 2019 is welcome.

**Figure 7. Trends in macro-financial vulnerabilities show increased indebtedness risks**

Index scale of -1 to 1 from lowest to greatest potential vulnerability, where 0 refers to long-term average, period since 1970¹

1. Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from the long-term average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from the long-term average resulting in more vulnerability. Financial dimension includes: regulatory capital ratio, regulatory Tier 1 capital ratio and the return on equity ratio. Non-financial dimension includes: private bank credit (% of GDP), household credit (% of GDP) and corporate credit (% of GDP). The asset market dimension includes: growth in real house prices (year-on-year % change), house price to disposable income ratio and house price to rent ratio. Fiscal dimension includes: government budget balance (% of GDP) (inverted) and government gross debt (% of GDP). External dimension includes: current account balance (% of GDP) (inverted) and real effective exchange rate (REER) (relative consumer prices).

*Source: Calculations based on OECD (2019), OECD Resilience Database, October.*

*StatLink*: [https://doi.org/10.1787/888934048622](https://doi.org/10.1787/888934048622)

Household debt as a share of GDP increased from 52% in 2009 to 61% in 2018, in contrast to the decline from 64% to 58% in the euro area. While high household assets partly address concerns about high household debt, financial wealth is unequally distributed. Some groups of households can have problems servicing their debt out of their income and some lack the financial resources to cope with income loss, for example due to a severe unemployment shock (du Caju, 2017). This can have implications for the financial system since mortgage loans as a share of total assets increased from 8% in 2007 to 21% in 2018. Strong mortgage credit growth has been accompanied by easing of lending standards. In 2018, one third of new mortgage loans had maturity of over 20 years, one
fourth had debt-to-income ratios of over 50% and over half had loan-to-value ratios (LTVs) of more than 80% (Figure 8, Panel D).

Figure 8. Vulnerabilities from housing markets and credit growth should be closely monitored

In April 2018, the National Bank of Belgium (NBB) introduced a macroprudential measure to address these potential risks. The measure includes a 5 percentage point increase in risk weights on exposures for all mortgage loans, and an additional component that further increases risk weights for banks with a riskier mortgage loan portfolio. These changes increased the resilience of the financial system, but a substantial decrease in the share of risky mortgages and, in particular, a reduction in high LTV ratio loans (more than 90%) remains necessary (NBB, 2019a). In October 2019, to improve lending standards,
the NBB introduced supervisory expectations of benchmark thresholds for LTVs and debt and repayment burdens, to come into force in January 2020 (NBB, 2019b). The thresholds include some margins, where a percentage of new loans are exempt from complying with the measures (e.g. 35% of new loans for first time buyers of owner-occupied housing can have LTVs above 90%). Financial institutions are expected to comply with these supervisory expectations or explain in the event of non-compliance. This additional measure is welcome. In case the supervisory expectations do not result in the desired improvements in credit standards, the authorities should implement additional and stricter macro-prudential tools, such as binding limits on LTVs and debt-service-to-income.

Climate change policies can generate new financial risks and opportunities. A recent survey by the NBB has highlighted that Belgian banks lack the data to adequately assess their exposure to climate-related risks, as is the case in most other OECD countries (NBB, 2019a). The preliminary findings suggest that most polluting sectors represent 31% of banks’ corporate loan portfolios. In addition, the collateral of mortgage lending might be subject to risks from a shift in energy efficiency requirements. This welcome assessment of climate-related risks could be a good step towards in incorporating them in quantitative risk assessments of the financial sector. Once granular data are available, the authorities could require financial intermediaries to report their climate-related exposures, as has been the case in the UK since April 2019.

**Sustainability of public finances should be strengthened**

Public debt remains high at 100% of GDP and the deficit has not returned to pre-crisis levels, limiting the fiscal space to address future shocks. The pressures on fiscal sustainability will also rise due to an aging population (see below). The budget deficit fell to 0.7% of GDP in 2018, partly driven by an increase in the advance payments of corporate taxation (of which, part is temporary) and structural efforts. The deficit is projected to increase to 2% of GDP by 2020. Furthermore, there have been slippages in reaching structural targets in recent years and significant measures will be needed to reach a structural budget balance in the medium term (HCF, 2019a and 2019b; EC, 2019a).

The high public debt-to-GDP ratio poses risks for medium-term sustainability. According to a scenario offsetting ageing costs, public debt will gradually decline to 87% of GDP by 2060 (Figure 9). In a positive scenario of higher growth by 1 percentage point, the debt-to-GDP ratio would fall further to 58%. The path of public debt will also be highly dependent on the government’s ability to introduce new measures that offset the rising costs of ageing. Hence, it is important that the government adheres to its medium-term fiscal targets outlined in its Stability Programme to ensure a steady reduction of the debt-to-GDP ratio and all windfall revenues should be used to reduce the debt ratio. This also highlights the importance of structural reforms to boost potential growth and fiscal sustainability.
Figure 9. High ageing-related costs highlight the importance of a durable reduction of public debt

As a percentage of GDP¹

1. The scenario offsetting ageing related spending consists of the Economic Outlook No. 105 projections up to 2020, and the long-term projections of the Economic Outlook No. 105 database afterwards, except for the primary surplus, which is kept constant at its deficit of 0.2% of GDP in 2020. The “higher growth” scenario assumes higher real GDP growth by 1% each year compared to this scenario. The “higher interest rate” scenario assumes higher interest rate by 0.5 percentage point from 2020. The “without offsetting ageing costs” scenario includes European Commission projections for gross public pensions, long-term care and health costs (reaching 21.6% of GDP by 2060). There is no information on the pension contributions over this period for Belgium as all social security contributions are lumped in one global fund, which precludes the exercise from calculating net ageing costs.


Belgium has one of the highest ratios of tax revenues and public expenditures to GDP in the OECD (Figure 10). Box 3 shows that recommended reforms whose fiscal impact lends itself more easily to quantification will have a neutral effect on total expenditures and revenues. A number of recommendations (e.g. efficiency gains in public spending and improvements to the fiscal framework via the use of expenditure rules) discussed below are not quantifiable in terms of their fiscal impact. Gains from these reforms can be used to lower the public debt.
Figure 10. Public expenditures and taxes are relatively high
As a percentage of GDP, 2018¹

A. Total expenditures
B. Total revenues

1. Or latest year available.
StatLink https://doi.org/10.1787/888934048679

Box 3. Quantification of the fiscal impact of selected policy recommendations

Table 4 presents the rough quantification of the impact on the fiscal balance of selected recommendations in this Survey. These results should be interpreted with care. Additional positive effects could be expected from other recommendations in Box 5, but these are not quantifiable with the existing models, given available information.

Table 4. Illustrative fiscal impact of recommended reforms

<table>
<thead>
<tr>
<th>(+): improvement and (-): deterioration</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
</tr>
<tr>
<td>- Increased spending on active labour market policies</td>
<td>-0.2</td>
</tr>
<tr>
<td>- Reduced spending on pensions</td>
<td>+0.1</td>
</tr>
<tr>
<td>- Increased spending to support poorer households affected by higher taxes</td>
<td>-0.1</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>- Increase in value-added taxes</td>
<td>+0.3</td>
</tr>
<tr>
<td>- Increase in environmental taxation</td>
<td>+0.4</td>
</tr>
<tr>
<td>- Reduction in labour taxation</td>
<td>-0.7</td>
</tr>
<tr>
<td>- Impact of structural reforms</td>
<td>+0.2</td>
</tr>
</tbody>
</table>

Note: The estimated effects abstract from behavioural responses that could be induced from policy changes, in line with past OECD work modelling long-term scenarios (Johansson et al., 2013). They are based on the following assumptions: i) an increase in active labour market spending as a share of GDP to the average of the three neighbouring countries (from 0.7% to 0.9% of GDP); ii) the estimated change in public pension spending in line with an increase in retirement age with life expectancy, calculated by the European Commission (2018b) over 10 years; iii) an increase in VAT as a share of GDP to the average of the OECD (from 6.8% to 7.1% of GDP); iv) an increase in environmental taxation as a share of GDP to close half the gap to the average of the top third of OECD countries (from 2.2% to 2.6% of GDP), with flanking measures to support poor households most affected costing about one quarter of the increase in revenues; and v) the annual GDP impact stemming from higher employment of the structural reforms quantified in Table 6 in Box 5 (two-year effect).
**Making taxation more efficient and growth friendly**

The structure of taxation is heavily tilted towards labour income, which penalises growth and employment (Akgun et al., 2018; Johansson et al., 2008). In contrast, less distortive consumption and environmental taxes are underutilised (Figure 11, Panel A). While the recent tax shift (Box 1) reduced the tax wedge for the lowest income earners, the labour tax wedge for low-wage workers remains relatively high (Figure 11, Panel B). The tax wedge for the average worker is also the highest in the OECD at 52.7% in 2018, compared to the OECD average of 36.1%. Further shifting the tax burden away from labour would boost employment and improve resource allocation. However, given the fiscal sustainability challenges outlined above, this shift could be targeted at low-wage workers and should be complemented with revenue increases in other areas.

The extensive use of tax expenditures reduces the efficiency of the tax system. For example, VAT bases are eroded by various exemptions and reduced rates (6% on basic necessities, hotels and renovation works and 12% on restaurants and certain energy products), which implied a foregone revenue of 2.2% of GDP in 2017 and contribute to the low efficiency in VAT collection (Figure 11, Panel C). Reduced rates on food and other basic necessities tend to be progressive, supporting the poor more as a proportion of household income, but they are a poor distributive tool as richer households benefit more in absolute terms (HCF, 2014). Other reduced rates, such as those on hotels and restaurants, are regressive as benefits to the richer households are higher (OECD, 2018b). The authorities should abolish reduced VAT rates that are regressive.

Housing taxation in Belgium is tilted towards non-recurrent taxes, which include taxes on property transfers and transactions, at 2.3% of GDP, which is higher than the EU average of 1% in 2017. In contrast, the recurrent taxes on immovable property, which typically are paid annually and are linked to some measure of the value of the property, are 1.3% of GDP (1.6% in the EU). The transaction tax deduction for first home was increased (keeping the tax rate at 12.5%) in the Brussels-Capital region in 2017 and Wallonia in 2018. The transaction tax rate for the purchase of a sole dwelling was reduced from 10% to 7% in 2018 and 6% in 2020 in Flanders, with some additional measures further lowering the effective transaction rate and improving labour mobility. These efforts should continue as there is room to further shift away from transaction taxes towards recurrent property taxes, which would lower distortions while keeping revenues constant (Johansson et al., 2008). In addition, reforming recurrent taxes on immovable property by updating the tax base (still based on cadastral values from January 1975, but indexed to consumer price inflation since 1991) to make them reflect market values, and phasing out mortgage tax credits, would improve the efficiency and fairness of property taxation, as recommended in the 2015 Economic Survey of Belgium.
Figure 11. The tax structure is tilted towards labour income

A. The tax structure is tilted toward labour income
As a percentage of total tax revenue, 2017\(^1\)

B. The labour tax wedge remains high for low-wage workers
As a percentage of total labour costs\(^2\), 2018

C. The yield of the value-added tax is relatively low
VAT revenue ratio\(^3\), 2016

---

1. 2016 for the OECD.
2. The height of the bar corresponds to the countries' tax wedge for a single worker without children, at 50% of the average wage and excluding cash benefits.
3. The VRR is an indicator of the loss of VAT revenue as a consequence of exemptions and reduced rates, fraud, evasion and tax planning. It measures the difference between the VAT revenue actually collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a “pure” VAT regime and all revenue was collected.


StatLink: [https://doi.org/10.1787/888934048698](https://doi.org/10.1787/888934048698)
Corporate income taxation was reformed in 2017, reducing the statutory tax rate from 33.9% to 25% in 2020, as recommended in the 2017 Economic Survey of Belgium. This reduction should help improve competitiveness and attractiveness for foreign investment. A number of measures broadened the tax base, including the calculation of the notional interest deduction used to determine the allowance for corporate equity. It will now be calculated based on the incremental equity over a five year period rather than being based on the total stock of qualifying equity in the previous year. This should help limit aggressive tax planning. It will be important to monitor the effects on firm investment decisions. The new changes to the taxation of SMEs lower the potential adverse effects of the previous regime of size-contingent policies on firm growth. Nevertheless, the preferential treatment of SMEs via a lower tax rate remains and should be evaluated.

The taxation of financial income remains complex, with reduced rates, which can lower resource allocation. The withholding tax on financial income was raised to 30% in 2017 and a tax on securities accounts was introduced in 2018. The latter is low and excludes certain accounts, which can create distortions. Capital gains and private pensions are taxed less than other types of assets (Figure 12). Pensions tend to make up a greater share of wealth for higher income households, who benefit more from this favourable treatment and moving from deductions to tax credits for private pension savings could be considered (OECD, 2018c). The lack of a personal capital gains tax also exacerbates the bias towards corporations as an organisational form, even for individuals, and the tendency for corporations to retain profit and realise income as a capital gain rather than pay dividends (de Mooji, et al., 2018). To remove incentives that can distort capital allocation, the taxation of different sources of income of financial assets should be made more neutral. The increase in taxes on capital income at the individual level could also create room to cut the corporate income tax rate further, which can boost investment.

Figure 12. Taxation of capital income can be more neutral

Marginal effective tax rates across asset types in Belgium¹, 2016

1. Data refer to the average-rate taxpayer - at 100% of the national average wage. The approach assumes a fixed pre-tax real rate of return and calculates the minimum post-tax real rate of return that will for that asset, at the margin, make the investment worthwhile. The marginal effective tax rate is then calculated as the difference between the pre- and post-tax rates of return divided by the pre-tax rate of return. Source: OECD (2018), Taxation of Household Savings, OECD Tax Policy Studies, No. 25, OECD Publishing, Paris.
**Boosting public spending efficiency**

Despite some recent decreases, public expenditure in Belgium remains among the highest in the euro area at 52.1% of GDP in 2018, suggesting scope for a more spending-based fiscal adjustment. While the price indexation of wages and social transfers generates automatic growth trends, lack of evaluation prevents the use of targeted spending cuts and results in a greater reliance on across-the-board spending containment (EC, 2019b).

Social public expenditures have increased from 24% of GDP in 2000 to 29% in 2018, in contrast to the OECD average, which declined from 28% to 20%. All categories of social spending are higher than the OECD average (Figure 13, Panel A). Recent reforms to early retirement and unemployment benefits have contributed to a lower number of recipients in these areas, but this was accompanied by a rise in the recipients of disability and sickness benefits, which should be monitored closely (Figure 13, Panel B). It will be important to ensure that any unemployment benefit reform (Chapter 1) does not lead to unwarranted inflows into other benefit schemes.

*Figure 13. There is room to improve the public spending mix*

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1. Or latest year available.


StatLink [https://doi.org/10.1787/888934048736](https://doi.org/10.1787/888934048736)
Public investment, which offers the greatest estimated potential for lifting long-term output, remains relatively low (Figure 13, Panel C). Simulations suggest that a permanent budget neutral increase in government investment of 0.5% of GDP is associated with an increase in real GDP of 0.24% after one year and 2.77% after 20 years (Biatour et al., 2017). Specifically, infrastructure investment is low in international perspective (Figure 13, Panel D) and 55% of firms cite transport infrastructure as an obstacle to investment, higher than the EU average of 47% (OECD, 2019b).

Overall, Belgium has an effective social redistribution system, but some pockets of vulnerabilities remain. 20.3% of households were at risk of poverty or social exclusion in 2017, higher than that in neighbouring countries with similar levels of public social spending. This is generally the case for people in quasi-jobless households with children and those born outside the EU. Around 25% of cash transfers go to the bottom quintile, which is only slightly above the OECD average (Figure 14).

Better targeting low-income households could improve the efficiency of spending. For example, evidence suggests that in countries where the share of means-tested family cash benefits is higher, a larger share of the benefits go to the bottom 40% of the income distribution (OECD, 2019c). For the very long-term unemployed, unemployment benefits converge to long-term fixed levels such that all households receive the same level of income support, despite potentially having different financial needs (Hijzen and Salvatori, 2020; Chapter 1). In this context, means-testing long-term benefits to remove differences in income support that are hard to justify, as is the case in other OECD countries, would ensure a fairer long-term unemployment support.

Figure 14. Targeting of cash transfers to low-income households could be improved

Working-age population, 2014 or latest available year¹, per cent

1. Data refer to 2012 for Japan; 2015 for Chile, Finland, Israel, Korea, the Netherlands, the United Kingdom and the United States; and 2014 for the rest.
2. Armed forces pension and older pension system not included. Data specially provided by Chilean statistical sources.


StatLink  https://doi.org/10.1787/888934048755
While education and health outcomes are relatively good, there is room to improve the efficiency of spending in these areas (Dutu and Sicari, 2016). Pressures will further increase for education spending, as the student-age population is projected to grow, with the number of 3 year-old children reaching an all-time high in 2018 (EC, 2018a). The recent education reforms should improve education outcomes and further policies to reduce grade repetition and early school leaving can lower fiscal costs (see below). In the area of health spending, strengthening prevention and primary care and early screening campaigns have been identified as areas of potential efficiency gains (Cornille et al., 2017).

The use of spending reviews to improve the efficiency of public spending is limited, despite the need to reprioritise expenditures. Both federal and regional authorities have initiated cooperation with the European Commission to possibly integrate spending reviews in their budgetary processes. So far, only a pilot project on service vouchers is being carried out in Flanders. Using regular spending reviews at each level of government would increase the efficiency of public spending by easing medium-term expenditure control and allowing a shift in expenditures to more productive uses.

**Strengthening the fiscal framework**

The 2013 cooperation agreement among the federal and regional and community governments to define overall and regional multiannual fiscal paths to implement the EU Fiscal Compact strengthened the fiscal framework. Accordingly, the High Council of Finance (HCF) makes a recommendation on fiscal targets, which needs to be agreed upon by the Concertation Committee followed by a political agreement. The HCF monitors and activates correction mechanisms, if needed. The autonomy of the HCF was increased in May 2018 via a separate budget and additional staff, including a full-time secretariat. Access to information has been improved through new protocols and the comply or explain principles have been formalised. The necessary next steps should be taken to operationalise these changes and implement them fully.

Full implementation of the 2013 cooperation agreement is key to the medium-term fiscal sustainability of public finances. However, since 2014, there has been no formal agreement on individual targets at each level of government, which can increase the risk of budgetary slippages. Furthermore, this prevents the HCF from carrying out its monitoring mission of budgetary outcomes, which is key to a sound fiscal framework. The authorities are also exploring the use of expenditures rules to improve the fiscal framework, which is welcome. With the exception of a ceiling for health care spending, no level of government in Belgium is bound by domestic expenditure rules. Expenditure rules have been successful in contributing to decreases in debt ratios, for example in Switzerland.

**Continuing reforms to address challenges from population ageing**

Public expenditure on pensions at 12.1% of GDP is slightly above the EU average of 11.2%, but is projected to increase to 15% in 2070 (Figure 15). The old-age dependency ratio is projected to increase from 31% in 2017 to 50% in 2070 (EC, 2018b). Recent reforms have improved the financial sustainability of the system, but further reforms could be considered, in line with several proposals already made by the National Pension Committee.
The effective average age of labour market exit was 61.7 for men and 60.1 for women in 2017. Tightening of early retirement conditions and the increase in the statutory retirement age to 67 by 2030 are projected to increase the effective age of labour market exit, but life expectancy is projected to increase faster. Calculations suggest that the introduction of an automatic link between the retirement age and life expectancy would lower pension spending by 1.1 percentage points of GDP in 2070, higher than the EU average of 0.8 (EC, 2018b). Introducing such a link, to be phased in after 2030, would improve the financial sustainability of the pension system. To ensure its effectiveness, this reform should be accompanied by policies to enhance older workers’ incentives and ability to stay in the labour market (e.g., lifelong learning), and to prevent unwarranted switches to other benefit schemes (Chapter 1). In addition, efforts to define “arduous jobs” for private sector workers, as was the case for public workers, should continue.

Belgium is one of the few countries with completely separate schemes for public and private sector workers and displays a large replacement rate difference of about 30 percentage points (Boulhol, 2019). The gap is due to different reference periods for calculations of pensions (last 10 years for public employees) and the preferential public sector system of bonuses. A mixed pension, differentiating between the pension rights of contract agents and permanent civil servants in the public sector, was introduced in 2018, and the valuation of the years of study for the calculation of pensions has been harmonised in 2017. The pension system for self-employed workers has also been strengthened in 2018, with a view to reconcile the various regimes available to different types of workers. The gradual alignment of the pension treatment of public and private sector workers should be continued (OECD, 2015a). For example, this could be achieved by switching from a defined benefit to a point system. This reform would create a clear link between
pension contributions and benefits, and increase labour mobility and transparency of the pension system.

Public spending on long-term care is also projected to increase from 2.3% of GDP to 4% in 2070. Long-term care spending is mostly in the form of in-kind benefits (EC, 2018c). In-kind benefits tend to be concentrated on institutional care, which is more costly than home care in Belgium (EC, 2018d). Further encouraging home care by giving patients autonomy to organise their own care to stimulate the emergence of competitive integrated care services, as recommended in the 2013 Economic Survey of Belgium, could lead to efficiency gains in spending and increased well-being. The completion of transfer of competencies of long-term care to regions in 2019 can exacerbate the complexity of the system, but also bring benefits, given regional differences in terms of long-term care challenges.

Table 5. Past OECD recommendations on fiscal policies

<table>
<thead>
<tr>
<th>Main OECD Recommendations</th>
<th>Actions taken since 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance growth-enhancing public investment by reducing inefficient public spending, considering user fees and private sources of finance.</td>
<td>The National Pact for Strategic Investment in September 2018 outlined plans for investment needs. In the Brussels-Capital Region, investment was made in the renovation of tunnels and the extension of the metro network. EUR 654 million and EUR 415 million were allocated to additional investment in infrastructure in Flanders and the Brussels-Capital Region, respectively.</td>
</tr>
<tr>
<td>Shift taxes further away from labour by lowering employer social security contributions on low wages and broaden the capital income tax base, including by considering the introduction of a federal capital gains tax, as part of a balanced broader reform of household savings taxation.</td>
<td>The last part of the tax shift is being phased in, with increases in the limit for reduced contributions for lower wages and the non-profit reduction in 2019. The withholding tax on financial income was raised to 30% in 2017 and a tax on securities accounts was introduced in 2018.</td>
</tr>
<tr>
<td>Reduce the federal statutory corporate tax rate. Broaden the tax base by reforming exemptions that facilitate tax avoidance such as the notional interest rate deduction.</td>
<td>The corporate income tax rate is progressively cut from 33.9% to 25% between 2018 and 2020. For SMEs, the CIT rate on the first bracket of EUR 100 000 of net taxable income is reduced to 20% from 2020. Base broadening measures include the transposition of the EU Anti-Tax Avoidance Directive and the modification of the notional interest deduction.</td>
</tr>
</tbody>
</table>

Low productivity growth is a major challenge

Despite high levels of labour productivity, productivity growth declined strongly since the late 1990s, and more than in other advanced economies. Since 1998, productivity growth averaged 0.8% in Belgium, against 1.4% in high-income OECD countries and 1% in neighbouring countries (OECD, 2019d). Slow productivity growth in Belgium has been linked to weak technological diffusion, business dynamism and competition in services sector, and a deterioration in physical infrastructure (de Mulder and Godefroid, 2018; Biatour and Kegels, 2017). Furthermore, new OECD research suggests that the divergence between the most and least productive firms has risen, mostly driven by the worsening performance of firms at the bottom of the productivity distribution, especially in services.

Boosting productivity growth will require better digital skills (Chapter 1) and effective adoption of digital technologies by firms. While the share of firms purchasing cloud computing or using big data analysis is high in international perspective, the take-up of these digital technologies varies by firm size. Indeed, the gap in the adoption of digital technologies between small and large firms is among the highest in the OECD (OECD, 2019e). Hence, there is scope to boost productivity through further digital adoption by reforms in the areas of labour and product market regulations and insolvency regimes (Sorbe et al., 2019, Figure 16).
A welcome initiative with respect to productivity is the *National Pact for Strategic Investment*, a report submitted by a committee of six experts to federal and regional authorities in September 2018. The report identifies public and private investment needs in six major areas: digital transition, cyber security, education, health, energy transition and transport. Additional investment of EUR 144 to 155 billion, with the government accounting for 45%, is recommended to increase the investment rate from 2% to 3-3.5% of GDP (Strategic Committee, 2018). In March 2019, four initial projects were validated with a view to improve the investment environment: inter-federal governance and synergy with European authorities, regulatory and administrative environment, the public and private partnerships framework and the revision of European budgetary rules (Government of Belgium, 2019).

**Figure 16. Reforms to regulatory barriers to competition and reallocation can boost productivity**

Effect on productivity\(^1\) (through digital adoption) of closing half the gap relative to countries with the least strict regulation, %

1. Estimated effect on multi-factor productivity of the average firm from reducing employment protection legislation on regular contracts, reducing administrative burdens on start-ups (a subcomponent of the OECD PMR indicator) and improving the insolvency regime, as measured by the indicator in Adalet McGowan and Andrews (2018). For each of these indicators, it is assumed that half of the gap to the country with the least strict regulation in the sample is closed.


Another recent welcome initiative is the creation of the Belgian National Productivity Board (NPB), consisting of 12 federal and regional members, which became operational in June 2019. Some other OECD countries have long-standing traditions of productivity commissions, which have been influential in shaping policies. For example, the Australian Productivity Commission has a large full-time staff and an overall budget that allows it to hold public inquiries, carry out research studies and undertake performance monitoring and benchmarking services (Banks, 2015; Box 4). It is too early to assess the efficiency of the current design of the NPB. However, the fact that it brings together staff from the main institutions and experts already working on productivity seems a good feature for a country the size of Belgium, where there is already extensive research on productivity. Nevertheless, the current design should be evaluated in due course.
### Box 4. Productivity commissions in OECD countries

Existing productivity commissions differ in many aspects, including their overall size, mandate, deliverables, and budget, but a number of best practices emerge (Renda and Dougherty, 2017). The Commissions should be independent, have sufficient budget and human resources to allow for high-quality research, engage with stakeholders through the evaluation of the long-term impact of existing legislation, preliminary impact analysis of proposed reforms and ex-post evaluation.

The Australian Productivity Commission, created as an independent authority in 1998, provides research and advice on a range of economic, social and environmental issues. Twelve commissioners (one of which acts as Chair) are appointed for periods of up to five years. The Commission holds public inquiries and carries out research studies requested by the government, undertakes performance monitoring and benchmarking services to government bodies, provides advice to the government on private sector complaints of unfair competition from the public sector complaints of unfair competition from the public sector and reports on productivity, industry assistance and regulation every year. The Commission has generally been funded at a level sufficient to support its functions, having until recently a staff of around 200 and a substantial research capacity. It also has control over how its budget is allocated (Banks, 2015).

### Boosting competition

Subdued productivity growth is linked to weak business dynamism, measured by low rates of entry and exit and a low prevalence of high-growth firms (firms with at least 10 employees that experience annual employment growth of more than 10% over three years, HGFs) (Figure 17). Young HGFs invest more in innovation and are responsible for a disproportionate share of employment (Haltiwanger et al., 2013). Indeed, the low prevalence of HGFs is identified as a key challenge for innovation in Belgium (Kelchtermans and Robledo, 2018), and 85% of all net job creation came from HGFs during 2013-16 (Dillen and Crijns, 2018).

According to the OECD’s 2018 Product Market Regulation (PMR) indicators, the administrative burden for start-ups remains above the OECD average, due to a complex permits and licenses system (Figure 18). For example, it is not standard procedure to use the ‘silence is consent’ rule for issuing the permits and licenses required to open up a business. Recent estimates suggest that reducing the stringency of the overall PMR indicator to the best practice could increase firm entry rates by 10% (OECD, 2019d). A number of initiatives summarised in Table 7 are welcome. Efforts to reduce administrative burdens on start-ups should continue by the use of digital tools to improve services, simplify procedures and shorten licenses and permits processing times. OECD analysis of the impact of structural reforms suggests that reforms in these areas could improve performance and boost productivity (Box 5).
Barriers to competition in some professional services also remain high. Low competition in services can increase markups and indirectly raise costs for other industries that use services as inputs. Some business services have higher price cost margins than the national average in Belgium (Price Observatory, 2018; Biatour and Kegels, 2017). A simulation suggests that liberalisation of regulated professions (legal, accounting, architecture and engineering) would increase Belgian labour productivity by 0.23% (Ingelbrecht, Kegels and Verwerft, 2018). In 2019, access to the accounting profession was improved, and in 2018, the professional qualification requirements for craft professions, which recently became a regional competency, were abolished for all types in Flanders and some in Wallonia. Nevertheless, mandatory training, chamber membership and insurance requirements continue to be a barrier in some professional services, and should be further liberalised.

The restrictions in the retail sector are the third highest in the OECD. Between 2010 and 2016, labour productivity growth of large firms in the wholesale and retail trade sector was -2.3% in Belgium, compared to 0.6% in Germany and 5.5% in the UK. At the same time, grocery prices are higher in Belgium than in neighbouring countries (Price Observatory, 2018). Entry rates in the retail sector are also lower than the national average, with a rising market concentration. The churn rate of retail companies is also among the lowest in Europe (EC, 2018e). A number of recent measures, such as the introduction of a one-stop-shop for application to all types of permits and some relaxation of evening work restrictions, are welcome. Rules on shop opening hours and sales promotions and authorisation for the establishment of retail outlets, which remain relatively restrictive, should be relaxed further.
Figure 18. Product market regulations remain relatively stringent in some sectors

2018

A. Overall regulations
Index scale from 0 to 6 (most restrictive regulations)

B. Regulations in some services sectors
Index scale from 0 to 6 (most restrictive regulations)

1. The OECD best performers is the average of the 5 OECD countries with the least distortive regulations.
2. Entry regulation refers to the regulation of new entrants in the profession.
3. Conduct regulation refers to the regulation of the conduct of existing professionals.

Source: OECD (2019), OECD Product Market Regulation Indicators.

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Table 6 quantifies the potential impact on growth of some structural reforms recommended in this Survey. Some tax measures, considered in Box 3, will also affect employment and output, but are not able to be quantified here. The approach is illustrative and results should be interpreted with care.

<table>
<thead>
<tr>
<th>Total effect on GDP per capita</th>
<th>5 year effect</th>
<th>10 year effect</th>
<th>Long-term effect</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product market regulations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower barriers to entrepreneurship</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Innovation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher business R&amp;D via increased efficiency of public support to R&amp;D</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Labour market policies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher spending on training in active labour market policies and profiling tools</td>
<td>0.2%</td>
<td>0.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.5%</td>
<td>2.1%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Note: Calculations are based on an illustrative 10% policy change scenario, which corresponds to changes to current values: i) lowering the PMR indicator for administrative burdens on start-ups from 1.88; ii) increasing current business R&D as a percent of GDP from 1.8%; and iii) increasing ALMP spending as a share of GDP from 0.7%.


According to the OECD’s Services Trade Restrictiveness Index, telecommunications, legal services and broadcasting are the most restrictive sectors in Belgium. The telecommunications market is characterised by a high level of concentration and weak competition (BIPT, 2018; Figure 19). There are also regional differences to grant permits to telecoms operators (EC, 2019b). A number of recent measures, such as strengthening the incentives to switch suppliers (“easy switch”) and the independence of the market regulator, are welcome. The majority stake of the government in one of the largest suppliers of telecommunications (Proximus) was also reduced, but remains high at 50%. There have been delays in the agreement across regions on the framework for the introduction of the 5G network and the planned entry of a fourth mobile operator. Implementing these measures would boost competition and ensure that Belgium continues to keep its good performance in terms of digital infrastructure.
Figure 19. Service trade barriers remain relatively important in the telecommunications sector

Index scale from 0 to 1 (most restrictive regulations), 2018

1. The STRI regulatory database records measures on a most-favoured-nation basis; preferential trade agreements are not taken into account.

Source: OECD (2019), Services Trade Restrictiveness Index (database).

StatLink 2  https://doi.org/10.1787/888934048850

Enhancing the efficiency of public innovation support

Well-designed innovation support can facilitate the diffusion of knowledge and lower the productivity gap between low and high productivity firms (OECD, 2015b). R&D spending as a percentage of GDP in Belgium has increased from 1.9% in 2008 to 2.6% in 2017. Business R&D is high but concentrated in old large firms, which are often subsidiaries of multinationals and in certain sectors such as chemicals and pharmaceuticals. The share of business R&D spent on information technologies, which is a key driver of digital innovation, at 0.3% of GDP, is lower than the OECD average of 0.6% (OECD, 2019f).

Belgium has the highest public support to business R&D as a share of GDP, and recorded an increase in the share of R&D expenditure-based tax incentives in total government support from 41% in 2007 to 75% in 2016 (Figure 20; OECD, 2019g). While tax incentives are better at encouraging R&D activities oriented to the development of applications that can be swiftly brought to the market, direct support is more suitable to support SMEs and long-term research in areas with high potential for spillovers (Appelt et al., 2016; Busom et al., 2014). Indeed, recent research on Belgium finds significant links between the catch-up of laggard firms to the domestic frontier and direct public R&D support, but not R&D tax credits (OECD, 2019d). Hence, a more balanced mix of R&D support could be considered. This will require cooperation across different levels of government, since the federal government is responsible for R&D tax credits and the regions for direct R&D support.
Public R&D is mostly concentrated on R&D tax credits

As a percentage of GDP, 2016¹

Another option is to improve the design of some of the R&D tax incentives. Firms can choose between a tax deduction (which is not refundable, but can be carried forward for an unlimited period if profits are insufficient) and a tax credit (refundable after 5 years), but the choice between the two schemes is irreversible for a firm. SMEs tend to use the tax deduction, despite the two offering equivalent rates (Dumont, 2019). A potential reason could be that SMEs may benefit from reduced CIT rates by choosing the tax deduction.

International evidence suggests that SMEs benefit disproportionally from R&D tax incentives (i.e., beyond their contribution to business R&D), when they are refundable (OECD, 2018d). Hence, introducing immediate refundability of the tax credit could further improve its effectiveness in terms of targeting young and innovative firms. In addition, these changes to the tax credit could improve its efficiency, as evaluations find no significant evidence of additional R&D investment from the R&D tax credit (Dumont, 2019).

Reforming transport infrastructure

A number of measures have been taken (Table 7) and are planned to improve the efficiency and sustainability of transport infrastructure at the federal and regional levels (Governments of Belgium, 2019; Strategic Committee, 2018; NCC, 2018). Measures in this area will not only boost productivity via agglomeration economies, but also contribute to the achievement of 2030 climate and energy targets (OECD, 2015c; ITF, 2018). These plans are in line with OECD best practices in aligning infrastructure investment to long-term climate objectives such as mobilising private sector involvement and ensuring coordination across different levels of government (OECD, 2018e). The latter will be key given the decentralised nature of climate, energy and transport policies.

1. Or latest available year.


StatLink ²  https://doi.org/10.1787/888934048869
Despite recent increases, infrastructure investment remains low in Belgium in international perspective and the perceived quality of infrastructure is weak (Figure 21). The share of road transport is expected to increase to 86% for passengers and 75-80% for freight by 2040 in Belgium (FPB, 2019a). The increased demand can hamper mobility and create further congestion, lowering productivity. For example, recent calculations suggest that the agglomeration benefits firms get from being located in cities is neutralised by congestion costs in Flanders (Baert and Reynaert, 2018).

Figure 21. The perceived quality of infrastructure is low

Global Competitiveness Index, scale from 1 to 7 (best), 2018

Passenger road transport is heavily subsidised in Belgium. One major tool is the company car tax deduction scheme, which contributes to congestion and is estimated to have a high cost of public revenues of around EUR 2 billion annually (FPB, 2019b). Some recent alternatives are the “cash for car” scheme, which allows employees to choose alternative options such as additional net pay, in 2018; and the “mobility budget”, which allows the budget to be spent on alternative modes of transport in 2019. The authorities have also increased electric charging stations and introduced green parameters in vehicle taxation to encourage a shift to low-emission vehicles, which could also help align infrastructure investment with decarbonisation needs. Abolishing the favourable tax treatment of company cars could be considered as a first option to make the tax system less complex, boost inclusiveness (it favours a subgroup of workers), and reduce congestion and pollution. Alternatively other options, such as greener vehicles, could be extended, in addition to improving transport infrastructure further.

Ensuring incentives for driving a car reflect the true costs of its use, which has been achieved in some OECD countries through higher charges on driving into a city, is key to higher productivity and decarbonisation of urban transport (OECD, 2015c; ITF, 2018). In 2016, a kilometre charge was introduced for heavy goods vehicles of more than 3.5 tonnes. Some regions are exploring different options for road pricing for cars, such as using differentiation by time and place, or a vignette.
There is neither an agreement nor concrete details on the potential implementation of the different options. To ease the implementation, congestion pricing could be started in the largest cities, for example Brussels, before expanding into a national scheme, which would require a coordinated policy initiative. A number of design features are crucial for success (Arnott, et al., 1993; Anas and Lindsey, 2011; Anderstig et al., 2016). Most importantly, sufficient differentiation according to time and place (e.g. every 15 minutes within the peak period) is needed, as is the case in Stockholm, rather than a uniform congestion charge. In addition, the effects on the labour market in terms of improved labour matching should be taken into account. Finally, all vehicles should pay the congestion charge (see OECD, forthcoming). Another option could be the introduction of multi-modal transport solutions.

Road pricing should be accompanied by an affordable and reliable public transport system (ITF, 2017). A number of subsidies (80% from employers is matched by 20% from the federal government for employees and other subsidies for students, retirees and large families) makes Belgium one of the countries with the largest subsidy rate for public transport in the EU. In an international comparison with comparable railway companies, the Belgian SNCB railway has the lowest revenue and the highest subsidy rate per passenger kilometre (Figure 22; Gautier and Salem, 2016). High subsidies can put pressure on the budget and the physical capacity of the public transport system in peak periods.

Figure 22. Subsidies to public railroads are high

Low public transport prices are often advocated as an effective policy to address road congestion. However, evidence suggests that the diversion rate, the share of former car users in the total number of new public transport users that is attracted by an improvement of price of public transport, is relatively low (Dunkerley et al., 2018), while high quality of public transport can help reduce road congestion (Proost, 2018). Despite the peak times of morning travel towards Brussels, there is hardly any differentiation as a function of

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1. The company operates only on the main lines while regional lines are entirely franchised.


StatLink: [https://doi.org/10.1787/888934048907](https://doi.org/10.1787/888934048907)
time, which increases congestion and reduces reliability. In order to reduce saturation in public rail transport at peak times, the use of differentiated fares depending on time, accompanied by targeted subsidies to lower income groups to ensure that they are not disproportionately affected, should be considered. The savings from reduced subsidies can be used to improve the public transport system.

**Improving the efficiency of judiciary and insolvency regimes**

Strong contract enforcement, judicial efficiency and timely insolvency procedures are important to the growth of productive start-ups and the ability to learn from new innovations at the frontier (Calvino et al., 2016). Insolvency reform can also enable the allocation of resources to their most productive use (Adalet McGowan, et al., 2018). The stringent insolvency regime in Belgium may be linked to low exit rates and the high prevalence of “zombie firms”, firms which are older than 10 years with operating profits amounting to less than their financial expenses for at least three successive years (NBB, 2017).

According to an OECD indicator, which measures the characteristics of insolvency regimes that may carry adverse consequences for productivity growth, Belgium has room to improve in three dimensions: high personal costs for failed entrepreneurs, lack of prevention and streamlining and high barriers to restructuring (Figure 23; Adalet McGowan and Andrews, 2018). The insolvency reform of May 2018, with a view to foster the exit of zombie firms, made resolving insolvency easier by streamlining the insolvency framework, expanding the scope of the law to all businesses and introducing the distinction between honest and fraudulent bankrupts (see OECD, forthcoming for details). This reform is welcome, but there remains a number of design features that can be reformed further:

- Only debtors can initiate restructuring in Belgium, but providing creditors with the ability to initiate restructuring would help ensure the timely initiation of restructuring.

- The existence of out-of-court settlements could be further reinforced with the introduction of special procedures for SMEs (e.g., simplified or pre-packaged in-court proceedings targeting SMEs or the possibility to have instalments in the payment of administrative expenses).

- Lowering court involvement could improve the efficiency of insolvency proceedings. Smaller firms lack scale to cover the associated fixed costs and in Belgium, courts are involved in all the main stages of insolvency proceedings.
Figure 23. Insolvency regime reform can boost productivity

Increasing in the extent to which the insolvency regime delays the initiation and resolution of proceedings¹, 2016

1. The composite index includes 13 design features of insolvency regimes, which relate to personal cost to failed entrepreneurs, lack of prevention and streamlining and barriers to restructuring and other features. The 2018 update for Belgium is not an official update of the OECD indicator and has been calculated by the OECD Secretariat, based on the 2018 reform.


StatLink https://doi.org/10.1787/888934048926

According to the World Bank Doing Business Indicators, contract enforcement and judicial efficiency are relatively weak, which is mainly due to low court automation and weak case management (Figure 24). A new case management system (MACH) has been introduced in 2019, which should help address these gaps and could help provide nationwide standardised court statistics, which are not well-developed (see OECD, forthcoming for details). The system is not fully operational yet and full adoption should be implemented. This should be accompanied by increased ICT training of judges, which is low in international perspective (EC, 2019c).

Improved data collection and digitalisation can also enhance the monitoring and evaluation of court activities. In Belgium, only annual reports and publication of the number of cases are utilised, in contrast to some other European countries where performance and quality indicators, information on the age of cases and a regular evaluation system are also common (EC, 2019c).

According to several indicators, Belgium’s corruption is at or above the OECD average (Figure 25). Fighting corruption is important for ethical and economic reasons, as it harms the business climate, distorts competition and diverts public resources into overpriced projects. Only 15% of respondents to the 2017 Eurobarometer report being affected by corruption in their daily lives, compared to 22% in the EU. Firms do not see corruption as an obstacle to doing business, and Belgium is ranked 28th in terms of transparency in government policy making (WEF, 2018).
Figure 24. There is room to boost judicial efficiency

1. The indicator measures the efficiency and quality of commercial dispute resolution through a local first-instance court. It is the simple average of the scores for the following component indicators: number of days to resolve the dispute; costs of the enforcement procedure and the quality of judicial processes.

2. The indicator measures the extent by which each economy has adopted good practices promoting quality and efficiency in the court system. It is constructed based on component indicators assessing: court structure and proceedings, case management, the degree of court automation and the existence of alternative options for dispute resolution.


In 2013 and 2015, the OECD Working Group on Bribery in International Business Transactions called on Belgium to address the lack of priority given to the fight against bribery of foreign public officials and the lack of resources of the authorities in charge of investigations, prosecutions and sentencing (OECD, 2013b; 2015d). Belgium was also asked to address several legislative shortcomings in relation to its corporate liability regime, the level of sanctions available for foreign bribery and its statute of limitations. Some progress has been made, including on the two of the key legislative recommendations made by the OECD Working Group on Bribery, by increasing fines for foreign bribery in 2016 and amending the corporate liability regime in 2018 (OECD, 2018f; 2017b). However, Belgium has yet to take steps to ensure that the possibilities to suspend the statute of limitations are extended to allow adequate time for the effective investigation and prosecution of foreign bribery.

According to an assessment of the enforcement of the OECD’s Anti-Bribery Convention, Belgium ranks among the countries with little enforcement (Transparency International, 2018). This is linked to the shortage of resources in courts and the Central Office for the Repression of Corruption, and the lack of statistics made available on the number of opened foreign bribery investigations, cases commenced or concluded. Improved and internationally harmonised data reporting in this area would boost transparency.
Figure 25. Indicators of corruption are around or above the OECD average

A. Control of Corruption, 2017
Worldwide Governance Indicators (WGI)
Scale: -2.5 (worst) to 2.5 (best)

B. Corruption Perceptions Index, 2017
Transparency International
Scale: 0 (worst) to 100 (best)

C. Evolution of "Control of Corruption", WGI

D. Components of VDEM, Corruption by sector
Scale: 0 (worst) to 1 (best)

E. Tax Transparency: Exchange of Information on Request

F. Anti-money laundering measures
scale: 1 (low effectiveness) - 4 (high effectiveness)

Note: Panel A shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the “Control of Corruption” indicator by the Varieties of Democracy Project. Panel E summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions’ ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standards. Panel F shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country’s measures are effective against 11 immediate outcomes.


StatLink 2 https://doi.org/10.1787/888934048964
A number of public integrity issues, such as curbing political patronage and prevention of policy capture, deserve particular attention. Policy responses to address recent cases of political patronage in service delivery structures at the subnational level have increased the transparency of public mandates, but did not improve the structural governance issues of service delivery entities itself (HATVP, 2016 and 2018). Legislative efforts have been made to prevent policy capture and to strengthen integrity in political decision-making processes. However, effectiveness has been unsatisfactory, as witnessed by the unused lobbying register (Council of Europe, 2017; de Tijd, 2019). Further implementation efforts are needed to curb potential undue influence in policymaking.

Table 7. Past OECD recommendations on improving productivity and the business climate

<table>
<thead>
<tr>
<th>Main OECD Recommendations</th>
<th>Actions taken since 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate the results of the Federal government’s wage-setting reform, and make further changes if needed.</td>
<td>No action taken.</td>
</tr>
<tr>
<td>Further streamline public support for R&amp;D and innovation within each region. Regions and communities could step up their innovation support co-operation where appropriate.</td>
<td>In 2018, a partial exemption for the remuneration of R&amp;D employees with a bachelor’s degree in qualifying study fields was introduced. In September 2018, a cooperation agreement was signed by the regions for applied research and innovation. Streamlining efforts were increased in 2018 via the launch of the Proof of Business Program in the Brussels-Capital Region, the digitalisation of all R&amp;D support forms in Wallonia and changes to the grant system in Flanders.</td>
</tr>
<tr>
<td>Further reduce administrative burdens on SMEs stemming from federal and regional measures.</td>
<td>Two institutes of accountants and tax experts were merged in March 2019 to improve guidance for SMEs. In Wallonia, a one-stop shop was established in 2018. In Flanders, the requirements for self-employed activities were relaxed. The Brussels-Capital region introduced simplified support to entrepreneurs.</td>
</tr>
<tr>
<td>Reduce the level of paid-in minimum capital requirements and strengthen contract enforcement by strengthening court automation and case management.</td>
<td>A tailor-made application that allows complete end-to-end management of the court case workflow (MACH) is being gradually introduced. A central solvency register has been established.</td>
</tr>
<tr>
<td>Ensure appropriate financing tools are available for scaling up of young, innovative firms.</td>
<td>The Belgian Growth Fund was set up to channel savings from institutional investors to venture capital funds. An income tax credit was introduced for individuals who invest in shares issued by young and growing SMEs.</td>
</tr>
<tr>
<td>Increase investment in transport infrastructure around major urban areas through joint federal and regional initiatives and when possible through increased private sector involvement.</td>
<td>Since October 2018, the federal and regional governments have committed EUR 1 billion to complete the Brussels suburban railway network. An Interministerial Conference for Strategic Investments was created to facilitate the concertation for investments, which necessitates cooperation across federal and regional governments. In Flanders, the project for the Oosterweel link commenced in February 2018. From the period 2009-14 to 2014-19, there was a 33%, 36% and 40% increase in infrastructure investment in Flanders, the Brussels-Capital Region and Wallonia, respectively.</td>
</tr>
</tbody>
</table>

There is scope to boost the well-being of vulnerable groups

Despite low income inequality, differences in labour market and education outcomes according to socio-economic status and regions persist. According to the OECD Job Strategy, the employment gap for disadvantaged groups is relatively high compared to the OECD average and lowering their employment barriers is crucial (OECD, 2018g; Hijzen et al., 2020). Employment growth has increased in recent years. However, job creation has been concentrated in low productivity and low wage industries, suggesting the need for upskilling of the labour force (Figure 26; Chapter 1).
Figure 26. Job creation has been concentrated in low productivity and low wage industries

Net employment between 2000 and 2017 in industries with labour productivity and labour compensation above and below average in 2010¹

1. Average labour productivity and average labour compensation per employee are measured as gross value added per person employed and compensation per employee in the total economy of the country. Information provided for the United States follows a broader industry breakdown and information for Belgium on labour costs does not take into account wage subsidies, and hence, comparisons with other countries need some caution. The sum of jobs created/destructed in both groups (above and below average) corresponds to total change in employment in the country.


StatLink https://doi.org/10.1787/888934048983

Boosting employment for reducing inequalities

Belgium has a low gender pay gap of 3.7% in 2017, but the female employment rate is relatively low, mainly reflecting overall low labour utilisation (Figure 27, Panel A). The share of women working part-time, which can carry a penalty in terms of pay and job security, and the gap between the employment rate of native and foreign-born females are high (Figure 27, Panels B and C). These trends contribute to a gender gap in pensions of 26.6% in 2016 and a gender gap of pension coverage three times the EU average (EC, 2018f). As this gap is projected to decrease with increased female labour market participation (HCF, 2018), policies to boost employment are key (Chapter 1).
Figure 27. Belgian women’s employment rate is low

A. Employment rate, 2018
15-64 year olds, per cent of the population

Female employment rate (left axis) ▲ Gap between male and female employment (right axis, % points)

B. Share of women working part-time, 2018
Per cent of total female employment¹

Women on part-time work ▲ Women on involuntary part-time work

C. Female employment rate of natives and foreign-born, 2017
Per cent of the population

Native born ▲ Foreign born

1. As a percentage of total female dependent employment, for the United States.

StatLink 2: https://doi.org/10.1787/888934049002
Belgium has significant tax disincentives for second earners, which can lower female labour force participation (Figure 28; OECD, 2019h; Thevenon, 2013). In general, family-based tax systems create work disincentives for second earners, when marginal tax rates are progressive (OECD, 2018g). While the Belgian system is based on individual taxation, it uses a partial splitting system where a notional amount of income can be transferred between spouses if one earns 30% or less of the total family income. With the employment of the second earner, the part of the primary earner’s income that had been attributed to the spouse reverts to the primary earner (Thomas and O’Reilly, 2016). While about half of the beneficiaries of this system are already retired or close to retirement, it could be a barrier to the employment of certain vulnerable groups of female workers. Such tax disincentives could be lowered.

Figure 28. Tax disincentives for second earners are high

Income tax as a % of gross wage earnings¹, married family with 2 children and first earner's wage at 100% of the average wage, 2018

Enrolment is almost universal for early childhood education and care (ECEC) for children aged 3 and older, which can raise female employment. However, there are regular attendance gaps, especially for those with an immigrant background (EC, 2019b). The Flemish Community has introduced financial incentives to boost attendance for 3 and 4 year olds in 2019. For children under 3 years old, enrolment at 60% is still high, but the gap in participation for children with a mother with a tertiary degree (65%) and without one (44%) is twice the difference in the EU (OECD, 2018h). Increasing the provision of ECEC to children between 0 and 3 years old, and introducing measures to boost attendance rates, would improve the labour market participation of women and future skill formation, especially for children from disadvantaged backgrounds (OECD, 2018g). For example, France plans to increase financing for day care centres in underprivileged areas, which could boost attendance rates.

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1. Including employee social security contributions.
2. European Union member countries that are also members of the OECD (23 countries); unweighted average.


StatLink  https://doi.org/10.1787/888934049021
The integration of migrants into labour markets can be improved, as they tend to have poorer labour market outcomes (Figure 29; HCE, 2018). The gaps are especially high for some groups. For example, immigrants born outside the EU have about 22% less probability of being in work than a person born in Belgium, which is among the highest gaps in the EU, although close to neighbouring countries. Continuing efforts to cooperate with social partners to improve diversity in firms and expand training offers, including on languages, as recommended in the 2015 Economic Survey of Belgium, is key.

The labour market outcomes of second generation migrants are hardly better than that of first generation migrants, in contrast to neighbouring countries (Vandermerschen et al., 2017; Corluy et al., 2015). Indeed, natives with low-educated parents born outside the EU have an 18 percentage points lower probability of being employed, compared to those with native-born parents (OECD, 2017c). While education differences partly explain these outcomes, the weaker labour market performance of second generation migrants persists, even after controlling for socio-economic characteristics (de Cuyper et al., 2018). Continued activation efforts, for example through extending the use of statistical tools for the profiling of individualised risk to adapt active labour market programmes to the needs of jobless individuals, would help (see Chapter 1).

Figure 29. Immigrants have poorer labour market outcomes


StatLink: https://doi.org/10.1787/888934049040

The employment rate of older workers (aged 55-64) doubled between 2001 and 2018 to 50%, but is still below the OECD average of 61%. Increasing employment rates among older workers requires improved incentives to continue working and employment opportunities at old age (OECD, 2018g). Strengthening lifelong learning policies and reducing the role of seniority in wage formation are key to improving the employability of older workers (Chapter 1). Introducing work organisation practices, which combine practical guidelines and financial incentives for employers to promote well-being at work especially for older workers, as was the case in Denmark and Germany, and boosting flexible working time arrangements, as recommended in the 2017 Economic Survey of Belgium, would also help.
**Increasing equity of opportunities in education**

While the overall educational performance is good in Belgium, regional differences in education outcomes persist (Table 8). Children’s socio-economic background has an important influence on education outcomes (Figure 30). After accounting for performance, the likelihood of grade repetition among disadvantaged students is higher than their advantaged peers (OECD, 2016a). In terms of intergenerational educational mobility, Belgium ranks at the OECD average, despite higher spending on education (OECD, 2018i). Lowering early school leaving rates, which also display large differences according to region and socio-economic background, remains a top priority (Governments of Belgium, 2019).

**Table 8. Differences in education outcomes across Communities**

<table>
<thead>
<tr>
<th>Share of students with science proficiency at Level 1 or below</th>
<th>Share of students with mathematics proficiency at Level 1 or below</th>
<th>Difference in reading performance of migrants and natives, after accounting for gender, and students’ and schools’ socio-economic profile</th>
<th>% of students with grade repetition at least once in primary, lower secondary or upper secondary school</th>
<th>Percentage of teachers who attended a programme of professional development in the previous three months</th>
<th>Staff provides help with homework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flemish community</td>
<td>18.0</td>
<td>17.3</td>
<td>32.0</td>
<td>24.3</td>
<td>40.1</td>
</tr>
<tr>
<td>French community</td>
<td>22.6</td>
<td>22.8</td>
<td>11.0</td>
<td>46.0</td>
<td>68.6</td>
</tr>
<tr>
<td>German community</td>
<td>20.0</td>
<td>15.1</td>
<td>32.0</td>
<td>30.5</td>
<td>64.2</td>
</tr>
<tr>
<td>OECD</td>
<td>22.0</td>
<td>24.1</td>
<td>24.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: OECD, PISA 2018 and PISA 2015.*

**Figure 30. Education outcomes vary by socio-economic conditions**

Percentage of variance in science performance explained by socio-economic background


[StatLink](https://doi.org/10.1787/888934049059)
There was a comprehensive education reform to reduce inequalities in the French-speaking and Flemish communities in recent years. The implementation of the Pact for Excellence is progressing in the French-speaking community, while the Flemish community introduced some further reforms in 2019 to modernise secondary education. It is too early to assess the impact of these reforms, which include refining learning targets to hold schools accountable and improved guidance to students. The focus on targeted support during school time in both communities is welcome since there is evidence that individualised learning can lower grade repetition rates, as was the case in Finland (Välijärvi and Sahlberg, 2008). Belgium has a number of initiatives for homework support to disadvantaged students outside the school environment. These efforts should continue and could be complemented with after-school help at the school. For example, the percentage of students enrolled in schools where staff helps with homework is 47% in Belgium, below the OECD average of 60%. Furthermore, in contrast to some OECD countries, help with homework is not concentrated on disadvantaged students, but offered equally to all students. Individualised support time should be targeted at students at risk of failing, to reduce inequalities in education outcomes.

Early tracking of students might have adverse effects on equality and student achievement, especially for those with an immigrant background (OECD, 2018j; Hanushek and Woesmann, 2006). There is also some evidence that performance differences between disadvantaged and advantaged schools are magnified in countries that practice early tracking (OECD, 2016b). The tracking age at 12 in Belgium is lower than the OECD average of 14. Delaying the tracking age can improve social mobility by weakening the association between pupils’ educational achievement and parental background. Hence, the planned reforms in the French speaking community are welcome.

There are large performance differences across schools (Figure 31), especially connected to the programmes they offer. While disadvantaged schools have smaller classes than advantaged ones, there is a lack of clear allocation of the most qualified and experienced teachers to the most challenging schools (OECD, 2018k). Teacher mobility is constrained by the system of school “networks”, which classify schools according to legal status. The incentives for mobility of well-qualified teachers across schools should be improved. For example, in Japan and Korea, there are policies to ensure that high-quality teachers go to disadvantaged schools, via formal and informal schemes to ensure that teachers periodically change schools, and extra incentives, such as additional salary, less instruction time and the ability to choose their next school.
Figure 31. Performance differences between schools are large

Variation in reading performance between schools as a % of total variation in performance

1. Data refer to PISA 2015 for Spain. 

StatLink 2 https://doi.org/10.1787/888934049078

Table 9. Past OECD recommendations on education, skill and labour market policies

<table>
<thead>
<tr>
<th>Main OECD Recommendations</th>
<th>Actions taken since 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure firms comply with the new federal legislation to provide workers with at least five working days of education and training per year. Develop flexitime and abolish remaining early retirement schemes. Where appropriate, expand controlled school-choice schemes in the communities to reduce the concentration of pupils with a non-EU immigrant background. Improve teacher training and incentives to attract teachers to schools with a high concentration of disadvantaged pupils. Where appropriate, consider increasing or adjusting tuition fees, while maintaining the grant and waiver system for disadvantaged students along with income-contingent loans. Better publicise labour market shortages and wage premia to motivate students to choose fields of study more relevant to the labour market.</td>
<td>The Jobs Deal includes measures to encourage training, in particular in professions facing labour shortages. In 2018, the ‘flexi-jobs’ scheme, which was introduced in the Flexible and Workable Work Act, was extended to additional sectors. In February 2019, the French speaking community reformed the initial training of teachers and introduced a differentiated framework allocating more resources to disadvantaged schools and pupils at risk of failing. In April 2019, Flanders reinforced the regulation on the right to school enrolment to reflect student and parental choice. In 2019, the French Community adopted two decrees improving the system of study allowances, aimed at reinforcing support for disadvantaged students. In 2018, Training in figures website was launched in Flanders to provide more information on study choices.</td>
</tr>
</tbody>
</table>

Additional efforts are needed in environment and energy policies

Energy intensity is higher and the share of renewables smaller than the OECD average (Figure 32, Panels A-C). On current policies, Belgium is expected to miss its 2020 and 2030 targets for greenhouse gas emissions not covered by the EU’s emission trading scheme (ETS). Emissions would fall by only 14% below 2005 levels by 2030, compared to a reduction target of 35% (EC, 2019b). Most population is exposed to small particle pollution above the WHO-recommended limit of 10 micrograms per m³ (Figure 32, Panel D), causing about 5000 premature deaths per year. Air pollution affects children’s
health the most (WHO, 2018). Education outcomes for young children attending schools exposed to higher air pollution are substantially and lastingly lower (Heissel, et al., 2019).

Figure 32. Green growth indicators: Belgium

Source: OECD (2019), Green Growth indicators (database).

StatLink  
https://doi.org/10.1787/888934049097

Built-up surfaces in Belgium are large, with the conversion of close to 10% of cropland to artificial surfaces over the past 25 years (Figure 32, Panel F). This can diminish biodiversity and deteriorate soil quality (Haščič and Mackie, 2018). Belgium has one of the largest shares of low-density populated areas in metropolitan areas across OECD countries and urban sprawl has increased (OECD, 2018I). These trends raise energy
demand and car dependency, contributing to pollution and transport-related CO₂ emissions. Densifying housing in areas with good access to public transport can help counter this trend (OECD, 2015c). Reforming transport policies will be key to reaching the 2030 emission reduction targets (see above; NCC, 2018).

Belgium has recently raised tax rates on diesel used in road transport to the same rate as petrol. This is welcome, as the impact of diesel combustion on air pollution is stronger than the impact of petrol. In 2018, the report of the National Debate on Carbon Pricing suggested the implementation of a carbon price in building and transport sectors, which are responsible for 31% and 35% of non-ETS emissions, respectively (NDCP, 2018). There is some evidence that such a shift would have positive effects on employment and GDP in the short-run (Berger and Bossier, 2016).

In sectors other than transport, fossil fuel use is either untaxed or taxed at low rates, including when emissions are not priced by the ETS (OECD, 2018m and 2018n). As a result, most CO₂ emissions are priced at rates below a low-end estimate of their current climate cost of EUR 30 and those priced above EUR 60 are relatively low (Figure 32, Panel H). Belgium therefore needs to raise the pricing of CO₂ emissions substantially. It should do so according to a predictable timetable and ensuring equal pricing of the climate externality from CO₂ emissions so that emission reductions are cost-effective. Offsetting the negative effect of increasing taxes on fossil fuel for low-income households may require using part of the revenues for income-tested cash transfers (Flues and van Dender, 2017). The share of Belgium’s innovation effort devoted to environment-related inventions has been less dynamic than elsewhere in the OECD (Figure 32, Panel I). A robust approach to carbon pricing has been shown to be a driver of eco-innovation (Dechezleprêtre, et al., 2016).

The commitment to phase out nuclear energy by 2025 is ambitious given the high share of nuclear power in electricity generation (Figure 33). The recent maintenance shutdown of several nuclear reactors and subsequent need for electricity imports highlighted the importance of policy coordination and interconnections to neighbouring countries’ networks and the need for new investments (EC, 2019d). The foreseen launch of a capacity remuneration mechanism by 2021 could help ensure the stability and the security of Belgium’s power supply, by supporting electricity producers’ continued investment and promoting greener power generation technologies.

Additional efforts will be necessary to reach the planned increase of the renewable energy target of 18.3% by 2030 (NCC, 2018). Reduced costs will support investment in renewable energy, which can face barriers from persistently low wholesale energy prices, the planned downscaling and closure of subsidy programmes for the residential photovoltaic segment and civil resistance to new wind power installations. Overcoming the latter could require implementing sharing economy approaches into tariff formulation to soothe the opposition of directly affected stakeholders, while pursuing public engagement with local communities (IEA, 2018).

Supporting the development of storage and demand management solutions will also be key (NCC, 2018). For example, progressively cheaper energy storing facilities, combined with smaller and more decentralised generation units, could help limit the cost of grid modernisation. However, public R&D spending on renewable energy storage remains modest (Figure 34). For demand management solutions, generalised deployment of smart electricity meters could foster energy efficiency in buildings, especially residential, whose average consumption is above 250 kWh/m², one of the highest in Europe (BPIE, 2017).
Figure 33. Electricity generation predominantly originates from nuclear power

Electricity generation by main source¹, %, 2018


StatLink [https://doi.org/10.1787/888934049116](https://doi.org/10.1787/888934049116)

Figure 34. Public R&D budgets for key transition-related technologies are relatively modest

2017 or latest year available¹

1. Data refer to total public research, development and demonstration (RD&D) budget.


StatLink [https://doi.org/10.1787/888934049135](https://doi.org/10.1787/888934049135)
# Table 10. Other recommendations on macroeconomic and selected structural policies

<table>
<thead>
<tr>
<th>FINDINGS</th>
<th>RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macroeconomic and financial policies</strong></td>
<td></td>
</tr>
<tr>
<td>Risks and opportunities from climate change and climate change mitigation policies can be monitored more closely.</td>
<td>Strengthen the disclosure of climate-related risks by financial intermediaries, as granular data become available.</td>
</tr>
<tr>
<td>Taxation of financial income differs across different types of assets and there is no personal capital gains tax.</td>
<td>Ensure the neutrality of taxation of different sources of income of financial assets.</td>
</tr>
<tr>
<td>Housing taxation is tilted towards non-recurrent taxes, which can increase commuting.</td>
<td>Shift away from transaction taxes on housing towards recurrent property taxes. Update the property tax base in line with market values. Phase out mortgage tax credits.</td>
</tr>
<tr>
<td><strong>Improving labour market and education outcomes for inclusiveness</strong></td>
<td></td>
</tr>
<tr>
<td>The impact of socioeconomic background on education outcomes is high.</td>
<td>Delay tracking age in order to improve equity in education outcomes. Improve incentives for the mobility of well-qualified teachers across schools. Consider lowering tax disincentives for second-earners.</td>
</tr>
<tr>
<td>Labour force participation is relatively low for some groups of women, which is in part explained by tax disincentives.</td>
<td></td>
</tr>
<tr>
<td>Despite high participation in early childhood education, there are regular attendance gaps, especially for those with an immigrant background.</td>
<td>Increase the provision of early childhood education to children between 0 and 3 years old and introduce measures to boost attendance rates.</td>
</tr>
<tr>
<td><strong>Boosting productivity growth and making growth greener</strong></td>
<td></td>
</tr>
<tr>
<td>Despite some progress, some restrictions remain in the retail sector.</td>
<td>Relax further restrictions in the retail sector, such as rules on shop opening hours and sales promotions. Use higher fares for peak times in public rail transport, together with targeted subsidies to lower income groups.</td>
</tr>
<tr>
<td>Saturation in public rail transport at peak times and subsidies are high.</td>
<td>Speed up the deployment of smart electricity meters to ease the development of demand-side management solutions.</td>
</tr>
<tr>
<td>On average, Belgium’s residential energy consumption per m² is among the highest in Europe.</td>
<td></td>
</tr>
</tbody>
</table>

*Note: This table includes non-key recommendations from this chapter. The key recommendations of the chapter are included in the beginning of the Survey.*
References


European Commission (2019c), Justice Scoreboard, Brussels.


