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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Belgium were reviewed by the Committee on 16 October 2019. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 29 October 2019.

The Secretariat's draft report was prepared for the Committee by Müge Adalet McGowan, David Law and Patrizio Sicari under the supervision of Pierre Beynet. The Labour Market Chapter also benefitted from contributions by Alexander Hijzen, Andrea Salvatori and Stefan Thewissen. Editorial support was provided by Sylvie Ricordeau.

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Basic Statistic of Belgium, 2018

(Numbers in parentheses refer to the OECD average)*

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	11.4		Population density per km²	377.2	(37.8)
Under 15 (%)	17.1	(17.8)	Life expectancy at birth (years, 2017)	81.4	(80.1)
Over 65 (%)	18.8	(17.1)	Men (2017)	79.0	(77.5)
Foreign born (%)	16.9		Women (2017)	84.0	(82.9)
Latest 5-year average growth (%)	0.5	(0.6)	Latest general election	May-2019	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	543.1		Agriculture, forestry and fishing	0.6	(2.4)
In current prices (billion EUR)	459.8		Industry including construction	21.4	(27.3)
Latest 5-year average real growth (%)	1.7	(2.3)	Services	78.0	(70.4)
Per capita (000 USD PPP)	52.3	(47.3)			
GENERAL GOVERNMENT					
Per cent of GDP					
Expenditure	52.1	(40.3)	Gross financial debt (OECD: 2017)	118.6	(109.4)
Revenue	51.4	(37.4)	Net financial debt (OECD: 2017)	84.6	(69.2)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.85		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.77		Chemicals and related products, n.e.s.	30.9	
In per cent of GDP			Machinery and transport equipment	21.9	
Exports of goods and services	82.6	(55.5)	Manufactured goods	15.5	
Imports of goods and services	82.7	(51.3)	Main imports (% of total merchandise imports)		
Current account balance	-1.0	(0.3)	Chemicals and related products, n.e.s.	25.8	
Net international investment position	40.1		Machinery and transport equipment	24.6	
			Mineral fuels, lubricants and related materials	13.7	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	51.0	(57.1)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	5.9	(5.3)
Men	55.3	(65.3)	Youth (aged 15-24, %)	15.9	(11.1)
Women	46.8	(49.4)	Long-term unemployed (1 year and over, %)	2.9	(1.5)
Participation rate (aged 15 and over, %)	54.2	(60.5)	Tertiary educational attainment (aged 25-64, %)	40.6	(36.9)
Average hours worked per year)	1 545	(1734)	Gross domestic expenditure on R&D (% of GDP, 2017)	2.6	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe)	4.6	(4.1)	CO2 emissions from fuel combustion per capita (tonnes)	7.9	(8.9)
Renewables (%)	7.9	(10.5)	Water abstractions per capita (1 000 m³, 2015)	0.4	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2017)	93.5	(58.7)	Municipal waste per capita (tonnes, 2017)	0.4	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2016)	0.266	(0.310)	Education outcomes (PISA score, 2018)		
Relative poverty rate (%, 2016)	9.7	(11.6)	Reading	493	(489)
Median disposable household income (000 USD PPP, 2016)	29.4	(23.6)	Mathematics	508	(492)
Public and private spending (% of GDP)			Science	499	(491)
Health care	10.4	(8.8)	Share of women in parliament (%)	38.0	(29.7)
Pensions (2015)	11.0	(8.5)	Net official development assistance (% of GNI, 2017)	0.5	(0.4)
Education (% of GNI, 2017)	6.3	(4.5)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table.
* Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, World Bank.

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*

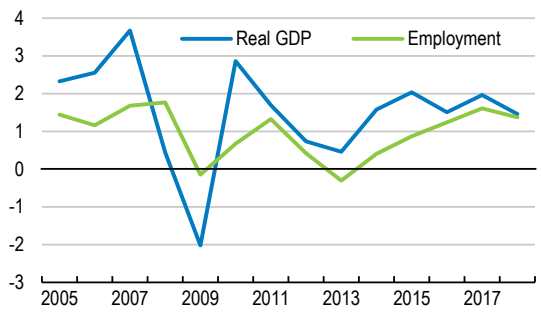
Belgium performs well in many economic and well-being dimensions, but some risks are building up

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

Year-on-year % changes



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

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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

	2019	2020	2021
Gross domestic product (GDP)	**1.4**	**1.1**	**1.1**
Private consumption	1.1	1.4	1.3
Government consumption	1.9	1.4	1.1
Gross fixed capital formation	3.8	1.7	1.4
Exports of goods and services	1.2	0.9	1.2
Imports of goods and services	1.3	1.3	1.5
Unemployment rate	5.5	5.5	5.5
Consumer price index	1.2	1.1	1.5

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.

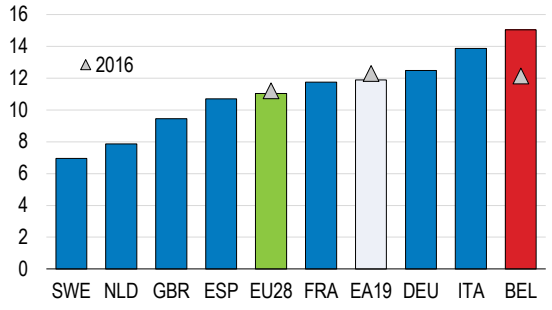
The composition and efficiency of public spending can be improved to create space for higher public investment. There is room to improve the efficiency of public spending in areas such as health and education. Despite the need to reprioritise expenditures, the use of spending reviews is limited. Using 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

Per cent of GDP, 2070



Source: European Commission (2018).

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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.

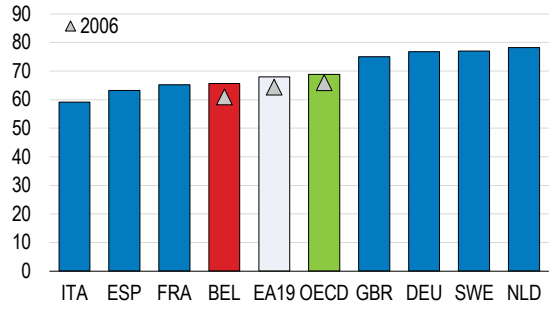
Improving labour market outcomes is key

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



Source: OECD (2019), *OECD Labour Force Statistics* (database).

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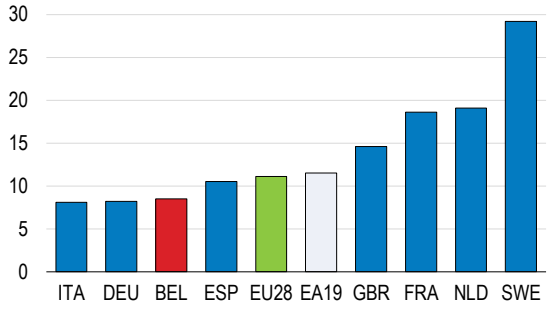
The targeting of activation measures could be improved further. Existing labour activation policies are less effective for second-generation jobseekers with a non-EU background and the long-term unemployed. Extending the use of tools for the profiling of individualised risks can be a good way to identify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

Figure D. Participation in lifelong learning is low

25-64 year-olds[1], % 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.

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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.

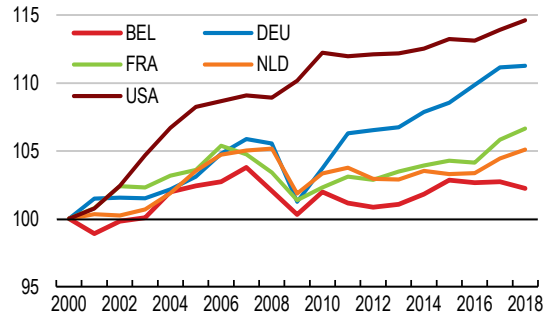
Boosting potential growth requires higher productivity growth

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



Source: OECD (2020), *OECD Productivity Statistics* (database).

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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.

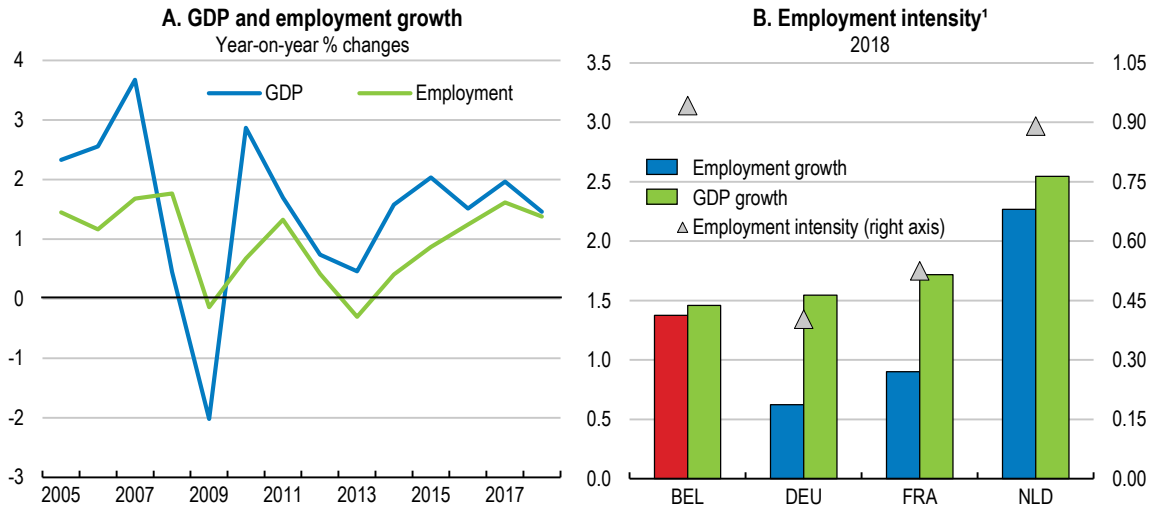
MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic and financial policies	
Despite a steady reduction, public debt remains high and elevated public spending requires high taxes.	Stick to medium-term fiscal consolidation targets to ensure a gradual durable reduction of public debt and use any fiscal windfall to reduce the debt faster.
The public spending mix fosters inclusive growth, but there is room to improve the efficiency of spending.	Make regular spending reviews at each level of government an integral part of the fiscal framework.
Taxation remains tilted towards labour, while a number of reduced regressive rates erode the value-added tax base, and environmental taxes are underutilised.	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.
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.	Develop policies to reskill older workers to facilitate their employment and link the statutory retirement age to life expectancy at retirement.
The pension system remains complicated, with varying schemes for different workers.	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.
The high contribution periods for minimum pensions are hard to meet for self-employed workers and workers without a full career.	Lower required number of career years for receiving minimum pensions.
Excessive credit growth and increasing share of mortgage loans can create risks for financial stability.	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.
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



1. Employment intensity is the ratio of employment growth to GDP growth.

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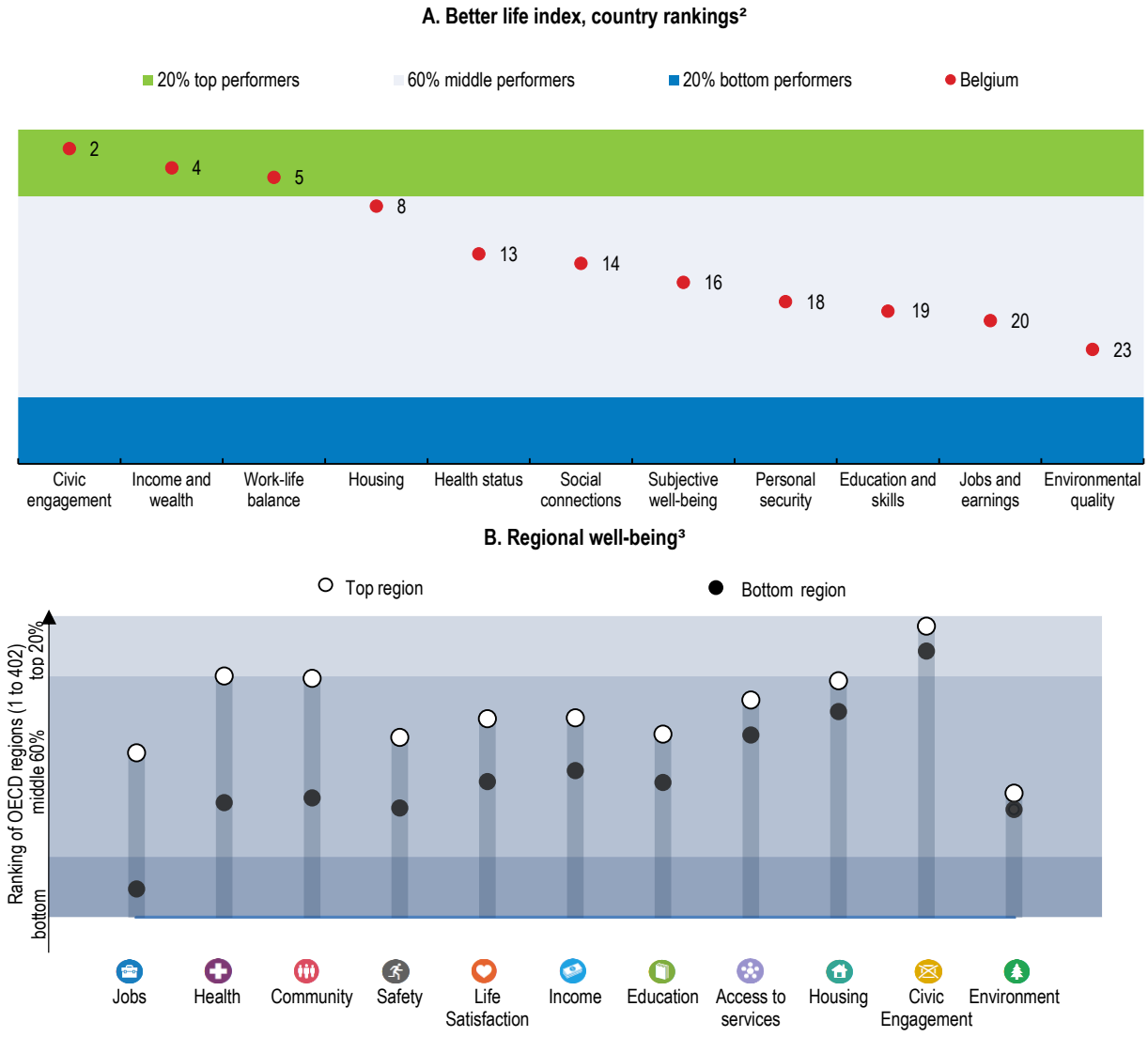
Belgium performs above or close to the OECD average across the different well-being dimensions (Figure 2, Panel A). Income inequality is relatively low, due to an effective tax and transfer system. However, average well-being remains lower than that in the pre-crisis period and the gap across different 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, 2017[1]



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*.

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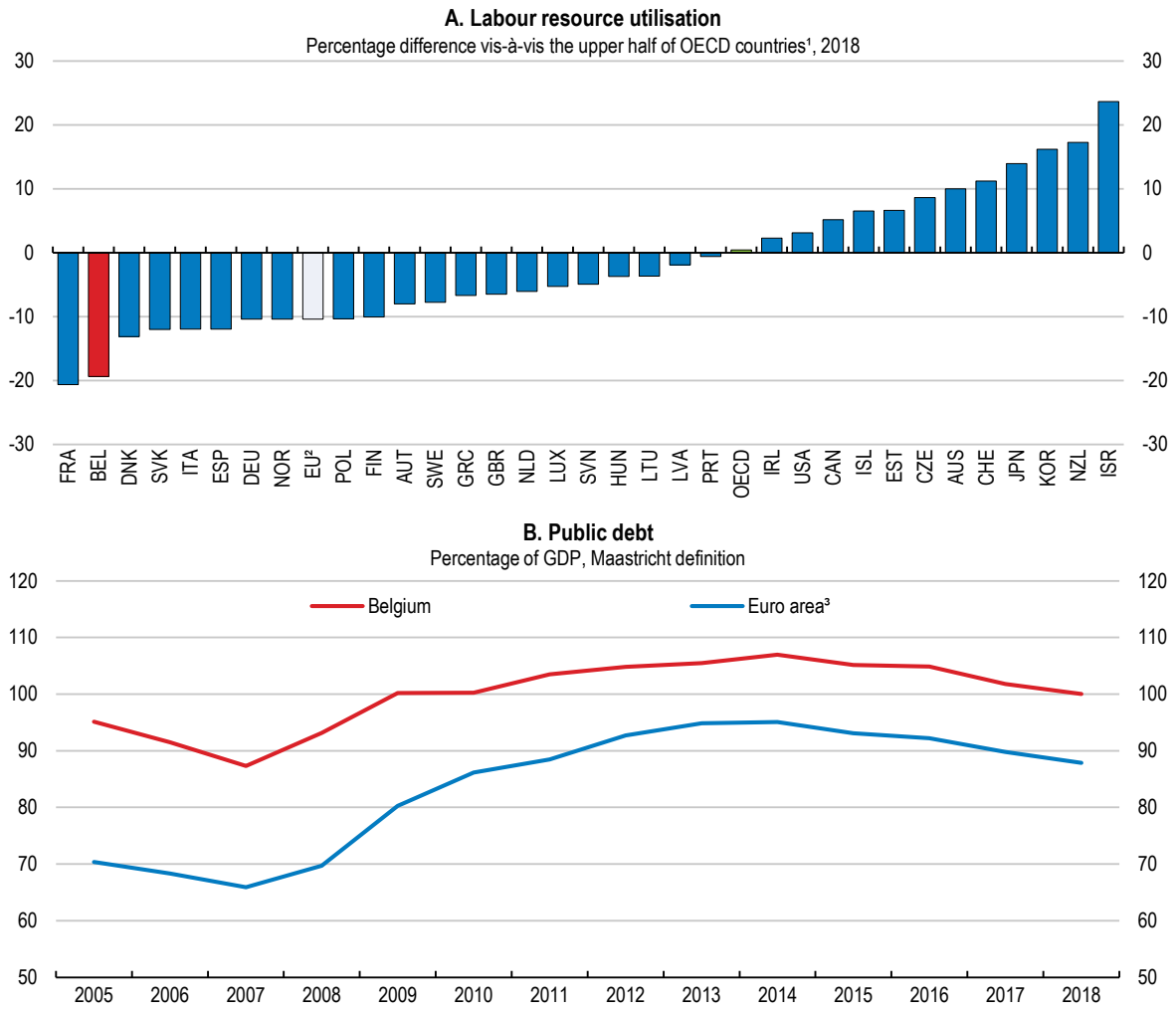
Box 1. Key recent reforms

- **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



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).
Source: OECD (2019), *Going for Growth* (database); OECD (2019), *OECD Economic Outlook: Statistics and Projections* (database).

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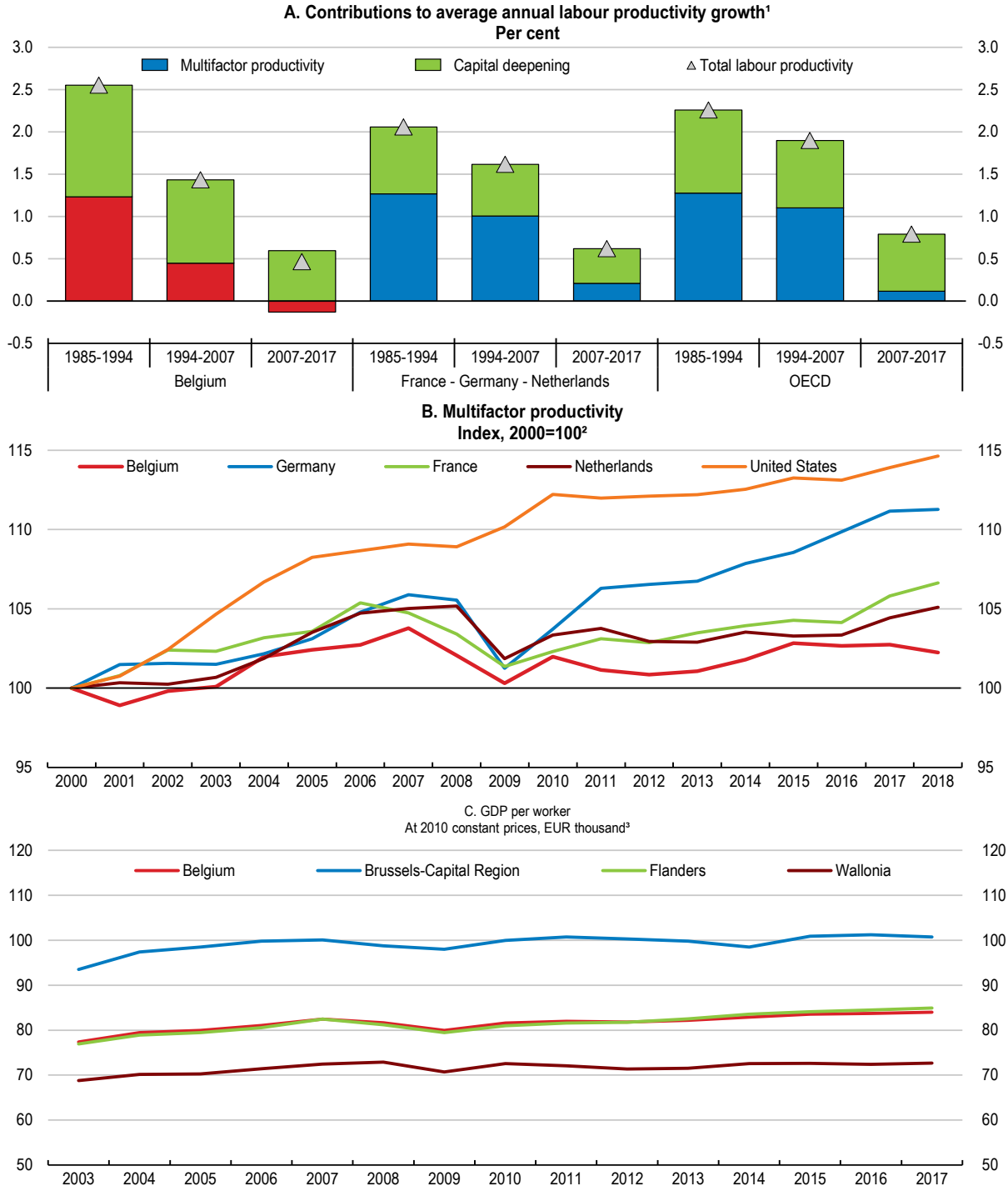
The level of productivity is high, but productivity growth has slowed down more than in peer countries, constraining potential growth (Figure 4, Panel A). Multifactor productivity growth, which is more closely related to innovation, remains flat (Figure 4, Panel B). The divergence between the most and 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



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.
Source: OECD (2020), *OECD Productivity* and *OECD Regional Statistics* (databases).

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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 co-operation 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

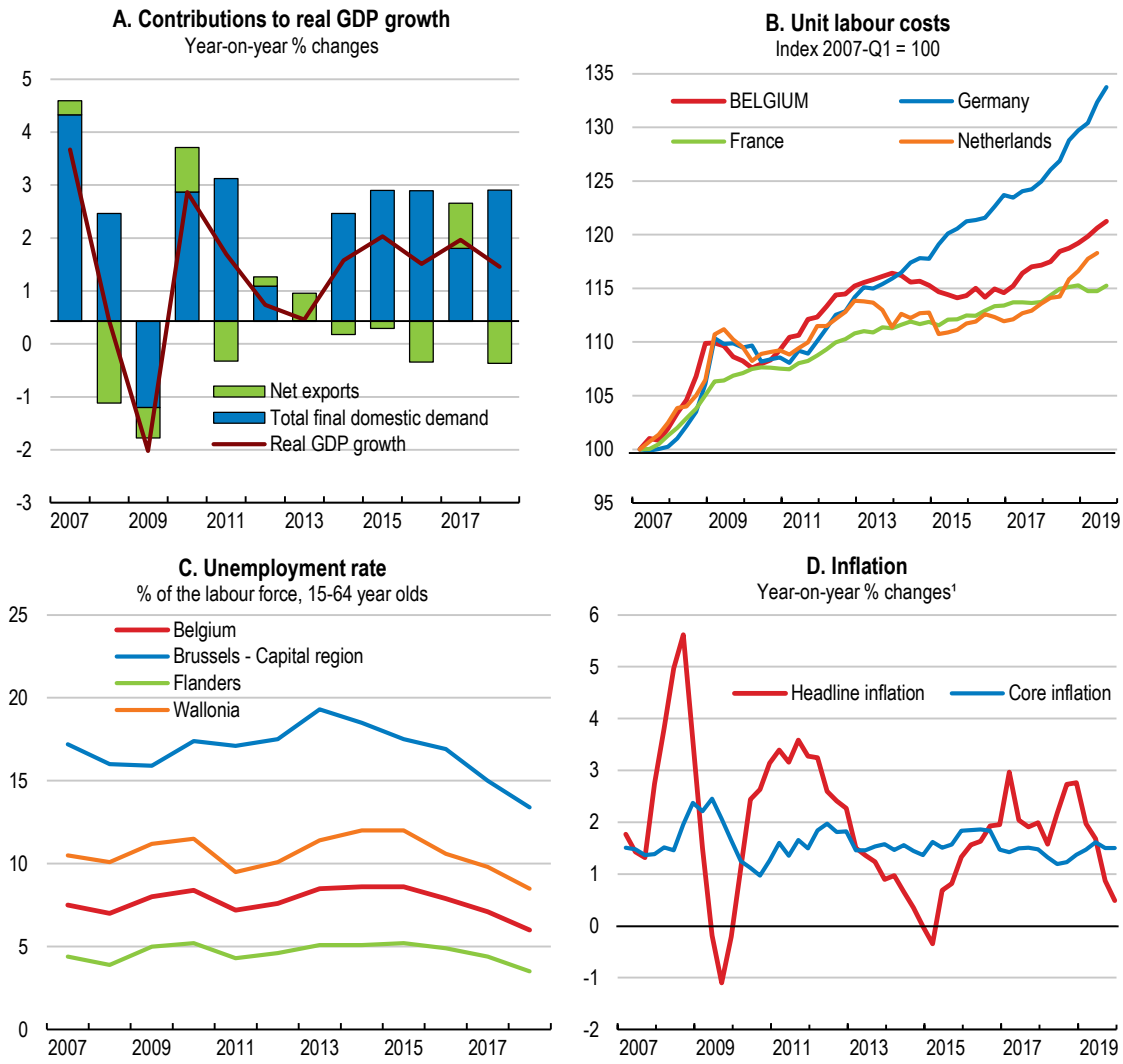
	Federal	Regions	Communities
Innovation	R&D tax incentives, federal scientific institutes	Direct public support to R&D, cluster policy, scientific research related to economy, energy (except nuclear), environment and transport	Scientific research
Education		Adult learning	Pre-primary to higher and adult education
Environment	Product standardisation, protection against radiation, transit of ware, marine protection, most taxes	Land use planning, nature and environment protection of soil, water and air (waste management, etc.), environment subsidies	
Energy	Energy forecasting and security of supply, major energy infrastructure, storage and transport, nuclear power, off-shore wind energy, distribution and transmission tariffs	Local transmission and distribution of electricity and gas, heat networks, development of renewable energy sources, solutions for energy efficiency	
Labour markets and social protection	Unemployment, pensions and health insurance	Active labour market policies, family benefits, care for the elderly, health, some aspects of social security (reduction of SSC for targeted groups)	
Transport	Car registration, implementation and control of regulations on transport by aviation and railways, taxation on fossil fuels, promotion of biofuels, company car taxation	Heavy duty vehicle road charge per km, vehicle registration duty based on CO_2, spatial planning and regional public transport, mobility plans to promote public transport, road safety and road management, waterway regulations	
Housing	Mortgage tax credit for non-owner occupied housing	Social housing and property taxes, mortgage tax credit of owner occupied housing	

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.

Figure 5. Macroeconomic developments



1. Harmonised indices.
Source: OECD (2019), *OECD Economic Outlook: Statistics and Projections* (database); National Bank of Belgium.

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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.

Table 2. Macroeconomic indicators and projections

	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2016 prices)				
GDP	430.4	2.0	1.5	1.4	1.1	1.1
Private consumption	221.1	1.8	1.5	1.1	1.4	1.3
Government consumption	100.0	0.3	0.9	1.9	1.4	1.1
Gross fixed capital formation	99.9	1.3	4.0	3.8	1.7	1.4
Of which: Residential	20.9	0.1	1.0	6.6	1.6	1.2
Non-residential	68.7	1.6	3.9	4.0	1.9	1.2
Final domestic demand	421.0	1.3	1.9	1.9	1.5	1.3
Stockbuilding[1, 2]	4.2	-0.1	0.3	-5.9	0.0	0.0
Total domestic demand	425.2	1.2	2.2	-3.9	1.4	1.3
Exports of goods and services	341.6	5.3	1.2	1.2	0.9	1.2
Imports of goods and services	336.5	4.4	2.1	1.3	1.3	1.5
Net exports[1]	5.1	0.7	-0.7	-0.1	-0.3	-0.2
Other indicators (% change, unless otherwise specified):						
Potential GDP	-	1.2	1.3	1.3	1.2	1.2
Output gap[3]	-	0.1	0.3	0.3	0.2	0.1
Employment	-	1.6	1.4	1.3	0.7	0.5
Unemployment rate[4]	-	7.1	6.0	5.5	5.5	5.5
GDP deflator	-	1.7	1.5	1.6	1.1	1.4
Consumer price index	-	2.2	2.3	1.2	1.1	1.5
Core consumer prices	-	1.5	1.3	1.5	1.4	1.5
Household saving ratio, net[5]	-	5.2	4.8	5.1	5.2	5.2
Trade balance[6]	-	1.4	-0.2	-0.4	-1.0	-1.4
Current account balance[6]	-	1.2	-1.0	-1.2	-1.5	-1.8
General government financial balance[6]	-	-0.7	-0.7	-1.7	-2.0	-1.9
Underlying government financial balance[3]	-	-1.2	-1.7	-1.9	-2.1	-2.0
Underlying government primary balance[3]	-	0.8	0.1	-0.3	-0.7	-0.7
General government gross debt[6]	-	120.6	118.6	117.9	118.1	118.0
General government debt, Maastricht definition[6]	-	101.8	100.0	99.3	99.5	99.4
General government net debt[6]	-	85.8	84.6	83.9	84.0	83.9
Three-month money market rate, average	-	-0.3	-0.3	-0.4	-0.4	-0.4
Ten-year government bond yield, average	-	0.7	0.8	0.2	-0.1	0.0

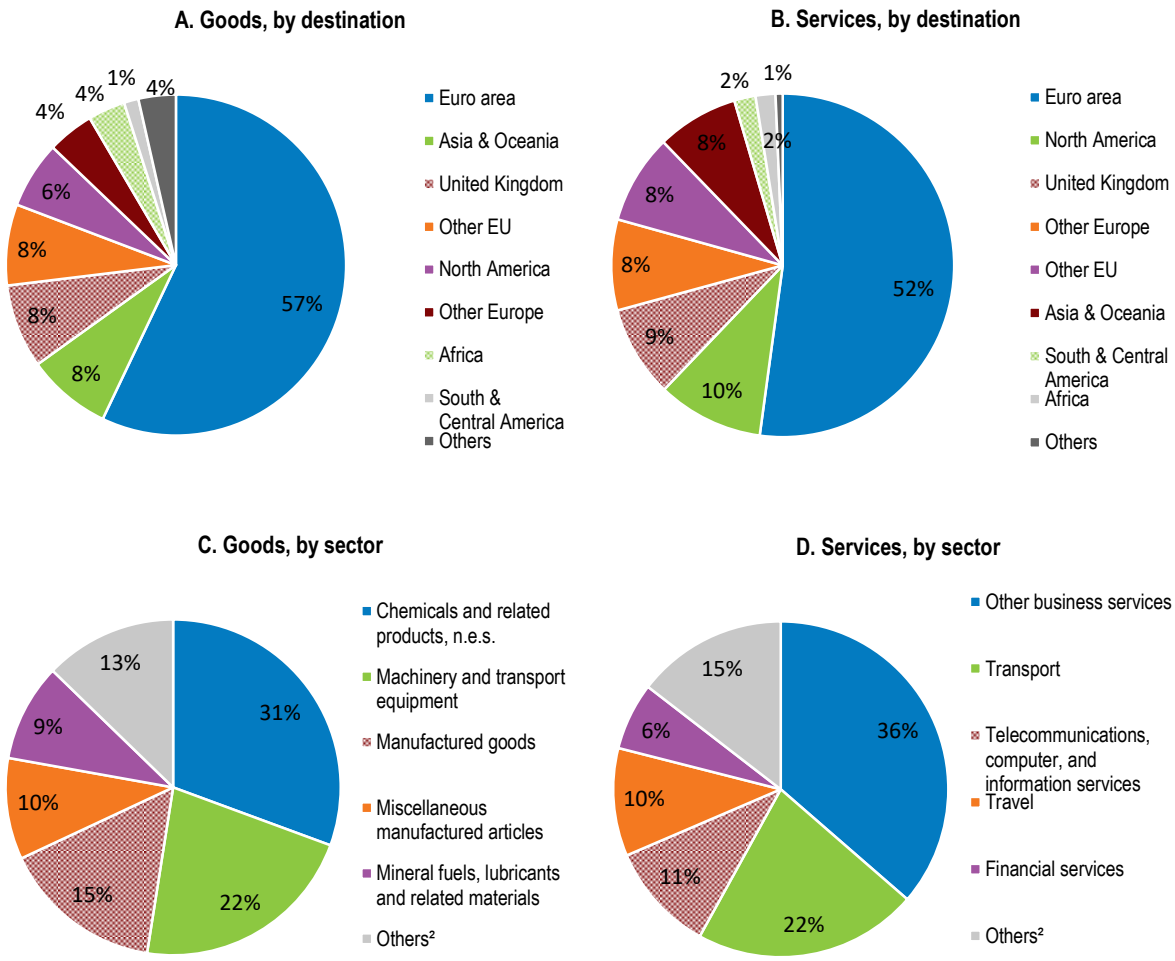
1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. As a percentage of potential GDP.
4. As a percentage of the labour force.
5. As a percentage of household disposable income.
6. As a percentage of GDP.

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, 2018[1]



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.
Source: OECD (2019), *OECD International Trade Statistics* (database).

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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 3. Shocks that could strongly impact the Belgian economy

Shock	Possible impact
Major house price correction.	A large correction in housing prices could trigger a fall in consumption, especially for vulnerable households, which could in turn adversely affect economic growth.
Disorderly exit of the UK from the EU.	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.
Escalation of global trade tensions.	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.

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.

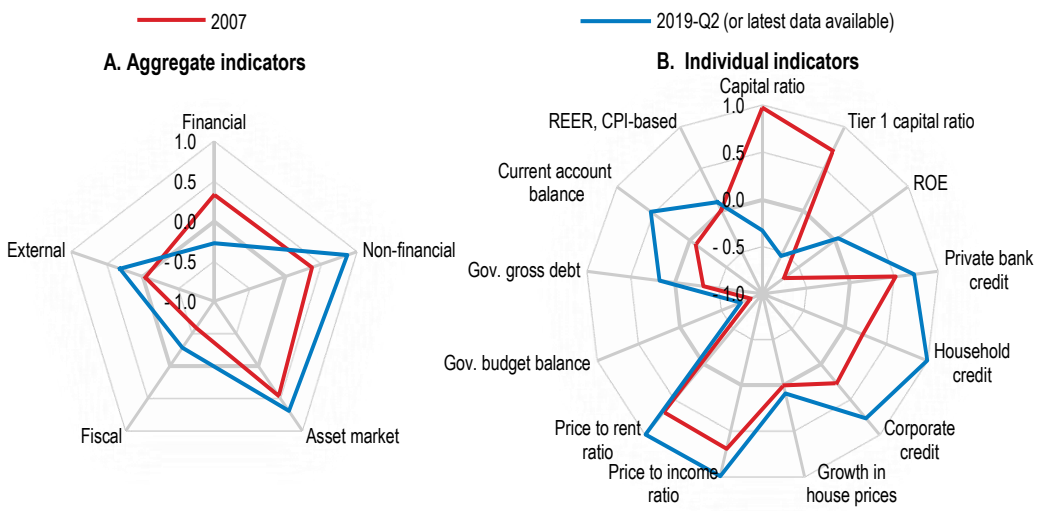
The housing market can create risks for financial stability in the case of interest rate or income shocks, although the high share of fixed mortgages should provide some protection. Real house prices have increased by 58% since 2000, partly driven by low interest rates and higher household incomes (Reusens 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 1970[1]



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.

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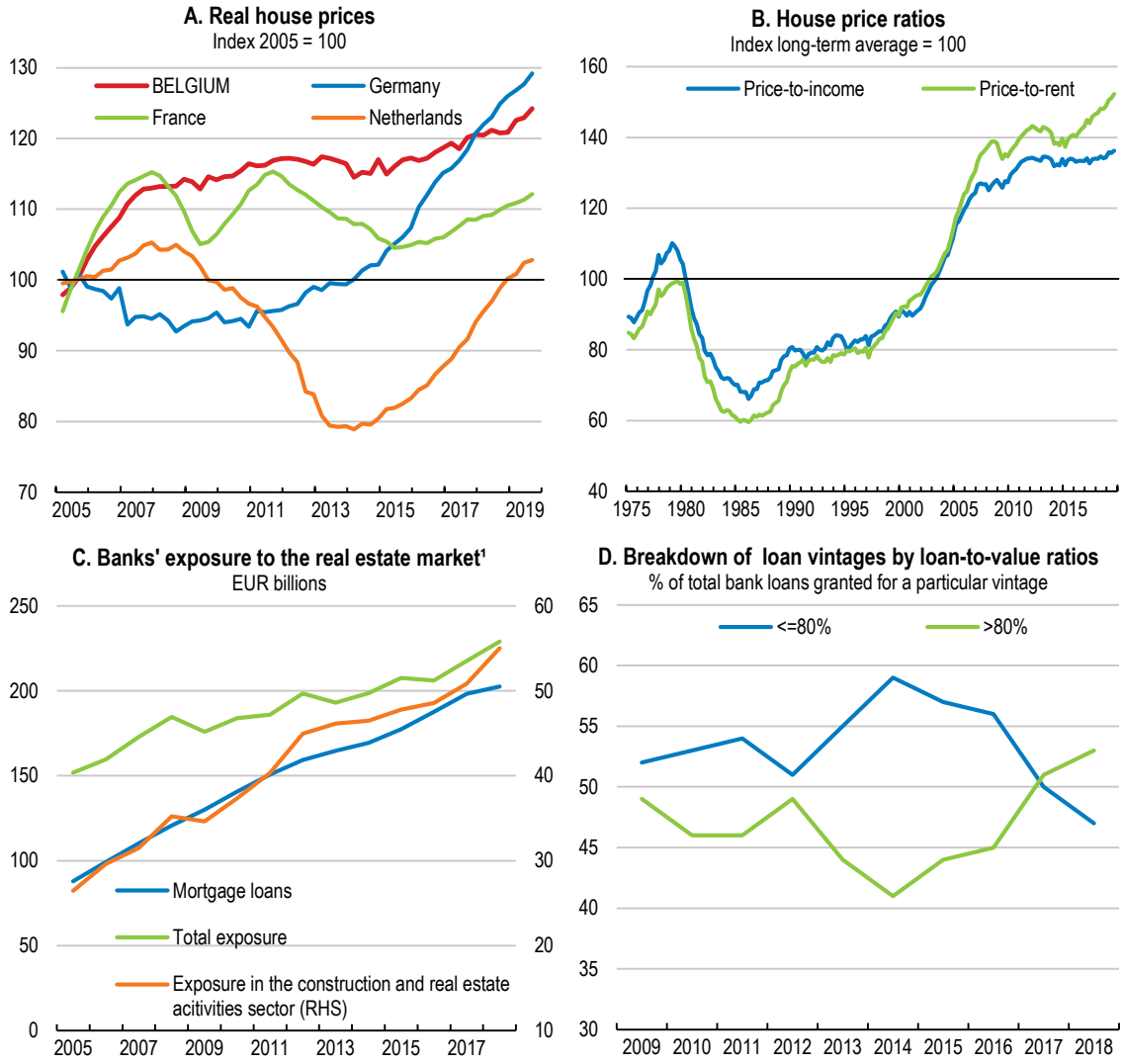
Household debt as a share of GDP increased from 52% in 2009 to 61% in 2018, in contrast to the decline from 64% to 58% in the euro area. While high household assets partly address concerns about high household debt, financial wealth is unequally distributed. Some groups of households can have problems 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



1. Exposure to domestic companies.
Source: OECD (2019), *OECD Analytical House Prices Indicators* (database)*;* NBB (2019), *Financial Stability Report 2019,* National Bank of Belgium, Brussels.

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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.

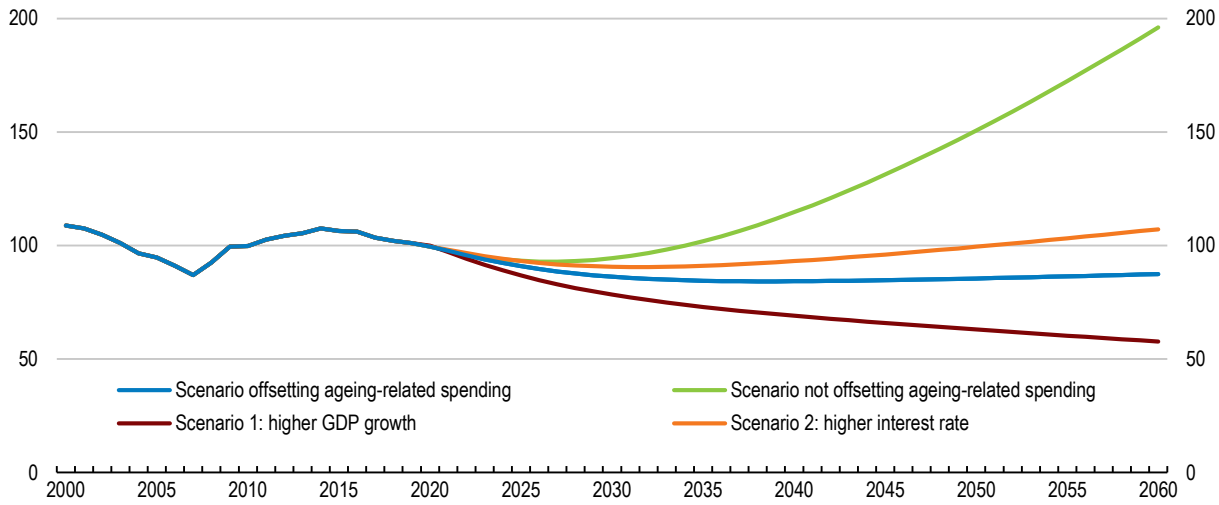
Sustainability of public finances should be strengthened

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 GDP[1]



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.

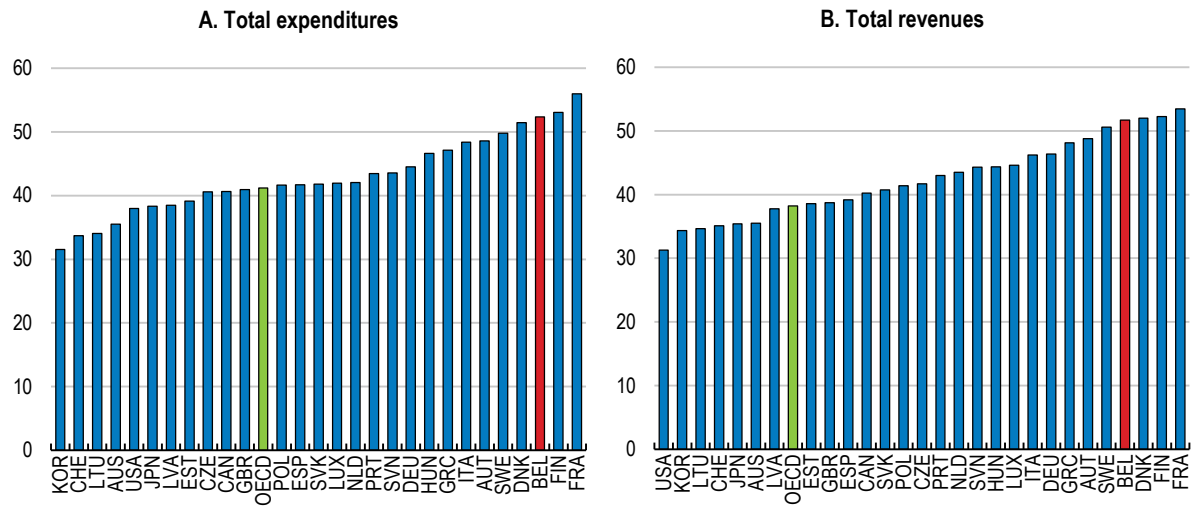
Source: Adapted from OECD (2019), *OECD Economic Outlook*: *Statistics and Projections* (database), June; and European Commission (2018), *The 2018 Ageing Report - Economic and budgetary projections for the 28 EU Member States (2016-2070)*, Brussels.

StatLink https://doi.org/10.1787/888934048660

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, 2018[1]



1. Or latest year available.
Source: OECD (2019), *OECD Economic Outlook*: *Statistics and Projections* (database), November.

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

(+): improvement and (-): deterioration	% of GDP
Expenditures	
- Increased spending on active labour market policies	-0.2
- Reduced spending on pensions	+0.1
- Increased spending to support poorer households affected by higher taxes	-0.1
Revenues	
- Increase in value-added taxes	+0.3
- Increase in environmental taxation	+0.4
- Reduction in labour taxation	-0.7

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).
Source: OECD calculations and European Commission (2018b).

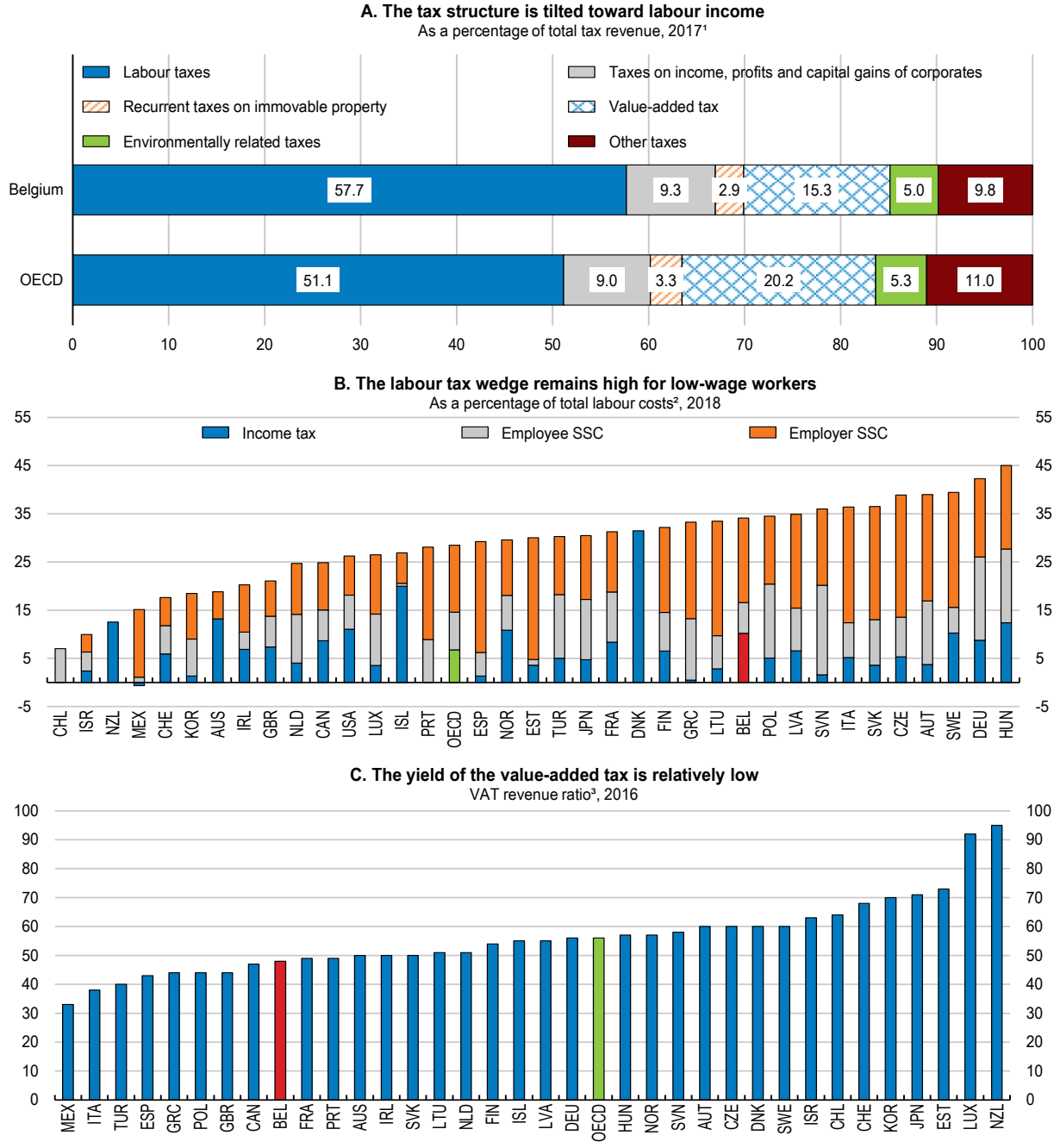
Making taxation more efficient and growth friendly

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



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.

Source: OECD (2019), *OECD Global Revenue Statistics* and *OECD Taxing Wages* (databases); OECD (2018), *Consumption Tax Trends 2018 - VAT/GST and Excise Rates, Trends and Policy Issues*, Consumption Tax Trends, OECD Publishing, Paris.

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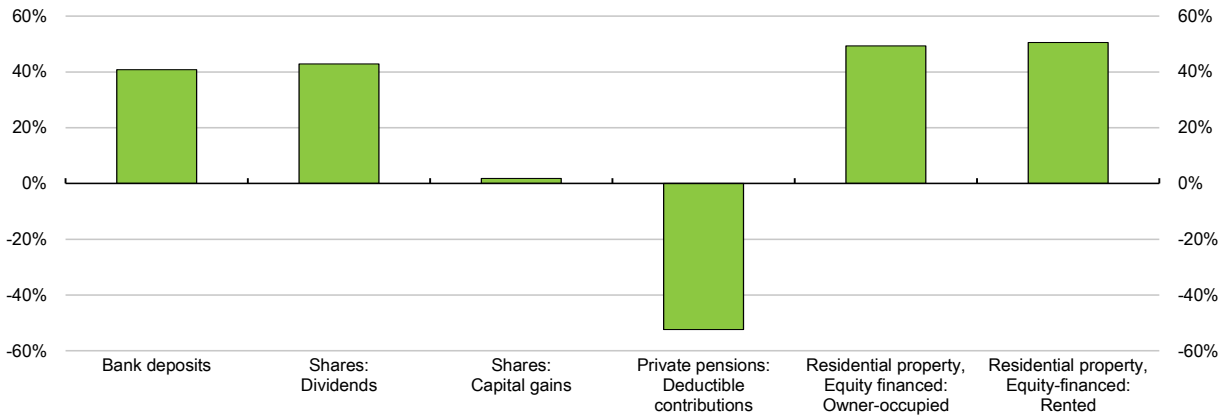
Corporate income taxation was reformed in 2017, reducing the statutory tax rate from 33.9% to 25% in 2020, as recommended in the *2017 Economic Survey of Belgium*. This reduction should help improve competitiveness and attractiveness for foreign investment. A number of measures broadened the tax base, 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 Belgium[1], 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.

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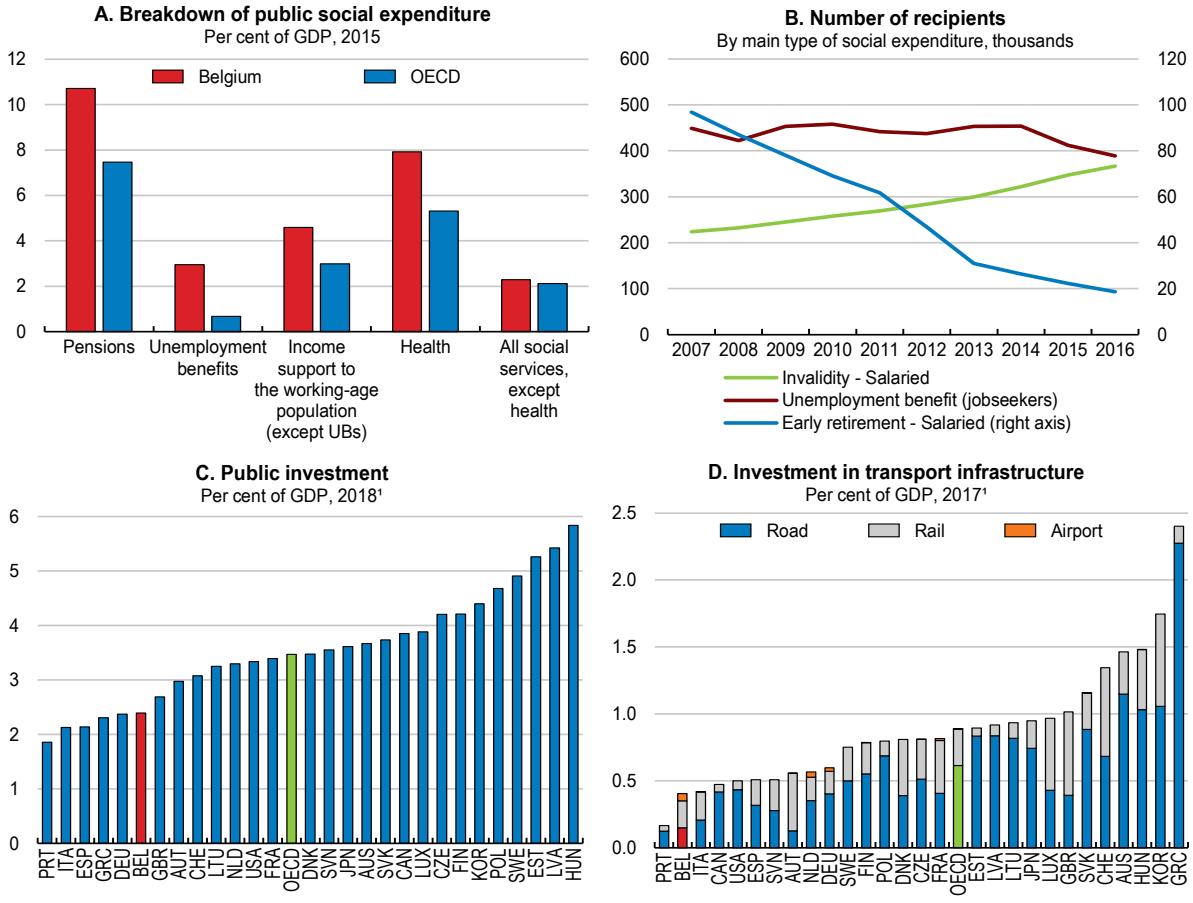
Boosting public spending efficiency

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



1. Or latest year available.

Source: OECD (2019), *OECD Social Expenditure (SOCX)* and *OECD Economic Outlook*: *Statistics and Projections* (databases); International Transport Forum (2019), *Transport Infrastructure Statistics* (database); Belgian Statistical Office.

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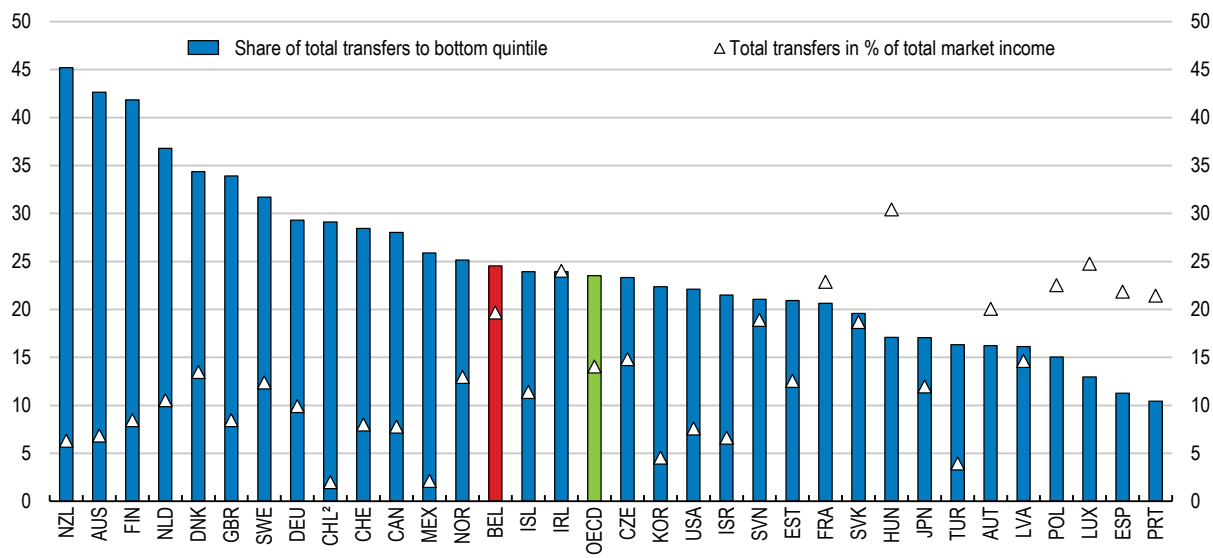
Public investment, which offers the greatest estimated potential for lifting long-term output, remains relatively low (Figure 13, Panel C). Simulations suggest that a permanent budget neutral increase in government investment of 0.5% of GDP is associated with an increase in real GDP of 0.24% after one 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 year[1], 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.
Source: Causa, O. and M. Hermansen (2017), "Income Redistribution through Taxes and Transfers across OECD Countries", *OECD Economics Department Working Papers*, No. 1453, OECD Publishing, Paris.

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.

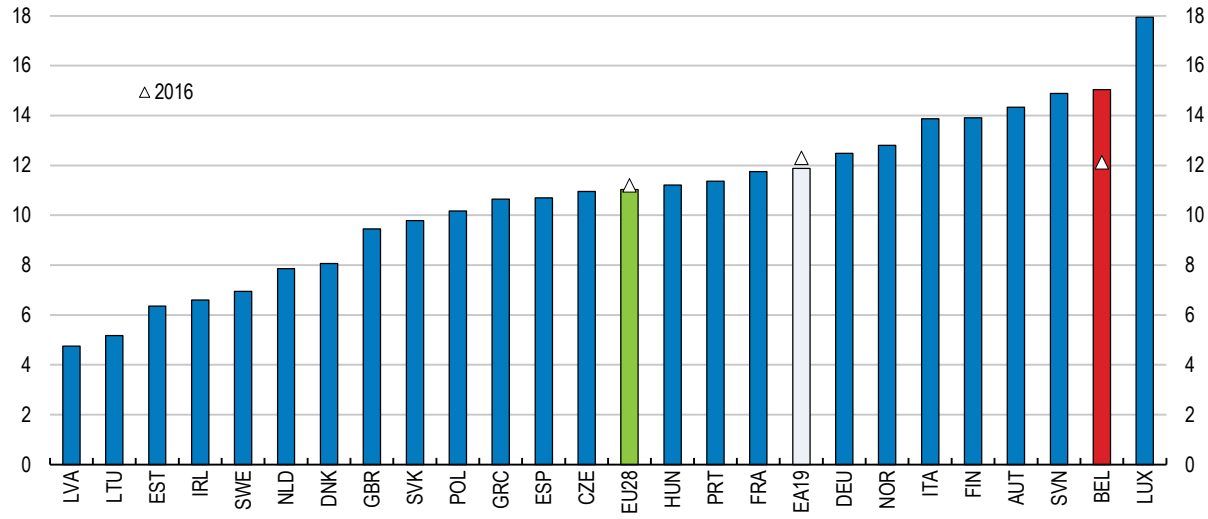
Full implementation of the 2013 cooperation agreement is key to the medium-term fiscal sustainability of public finances. However, since 2014, there has been no formal agreement on individual targets at each level of government, which can increase the risk of budgetary slippages. Furthermore, this prevents 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.

Figure 15. Public spending on pensions is projected to rise

Percent of GDP, 2070[1]



1. European Commission projections (2018).
Source: European Commission (2018), *The 2018 Ageing Report - Economic and budgetary projections for the 28 EU Member States (2016-2070)*, Directorate-General for Economic and Financial Affairs.

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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

Main OECD Recommendations	Actions taken since 2017
Finance growth-enhancing public investment by reducing inefficient public spending, considering user fees and private sources of finance.	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.
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.	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.
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.	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.

Low productivity growth is a major challenge

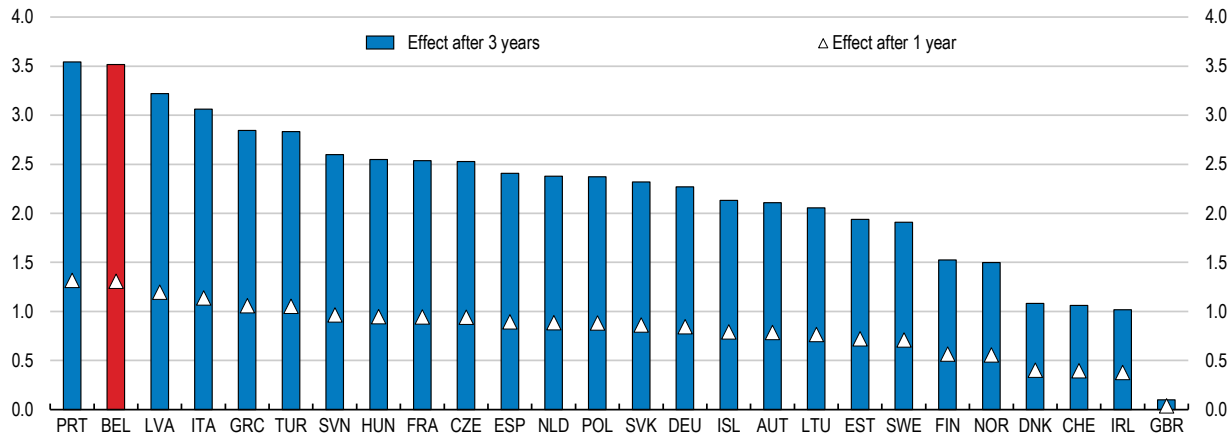
Despite high levels of labour productivity, productivity growth declined strongly since the late 1990s, and more than in other advanced economies. Since 1998, productivity growth averaged 0.8% in Belgium, against 1.4% in high-income OECD countries and 1% in neighbouring countries (OECD, 2019d). Slow 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.

Source: Sorbe et al. (2019), "Digital dividend: Policies to harness the productivity potential of digital technologies", OECD Economic Policy Papers, No. 26, OECD Publishing, Paris.

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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 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).

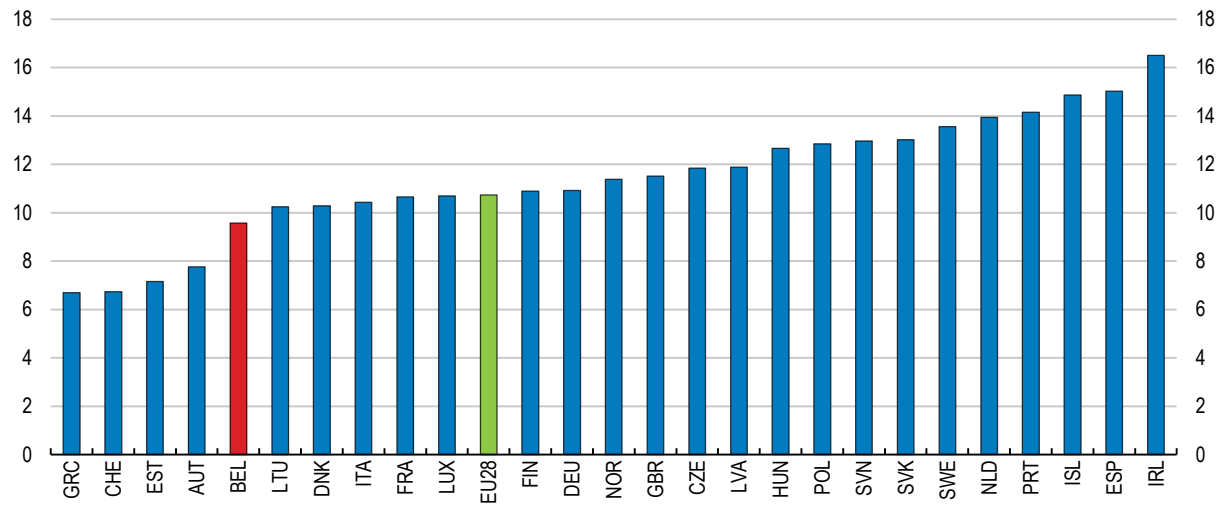
Boosting competition

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).

Figure 17. The share of high-growth firms is low

Per cent[1], 2017



1. Percentage share of high growth enterprises measured in employment; active enterprises with at least 10 employees in the business economy (excluding holding companies).
Source: Eurostat (2019), *Business Demography Statistics*, Eurostat Database.

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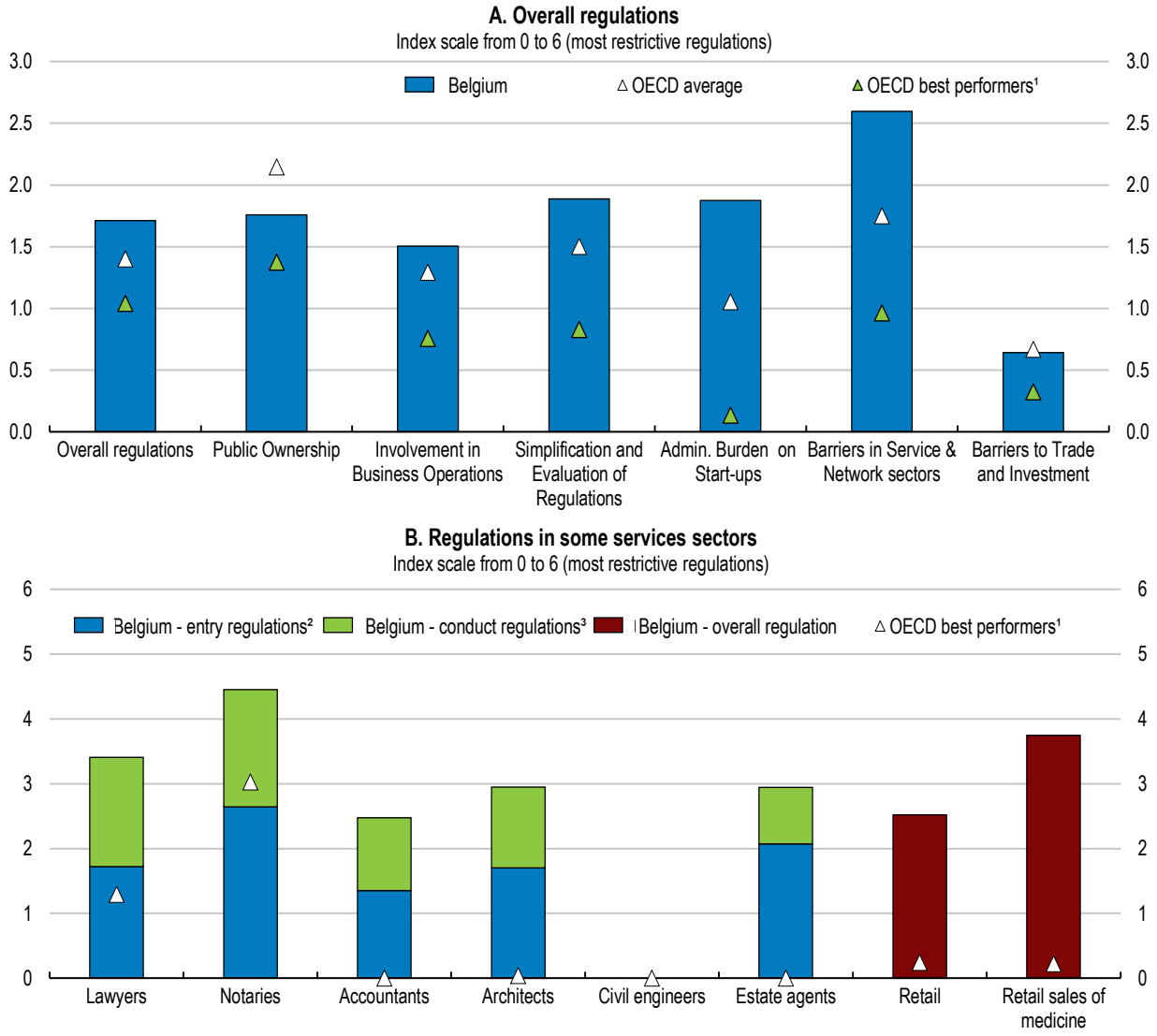
Barriers to competition in some professional services also remain high. Low competition in services can increase markups and indirectly raise costs for other industries that use services as inputs. Some business services have higher price cost margins than the national average in Belgium (Price Observatory, 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



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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Box 5. Quantification of the impact of structural reforms

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 6. Illustrative impact of structural reforms on GDP per capita

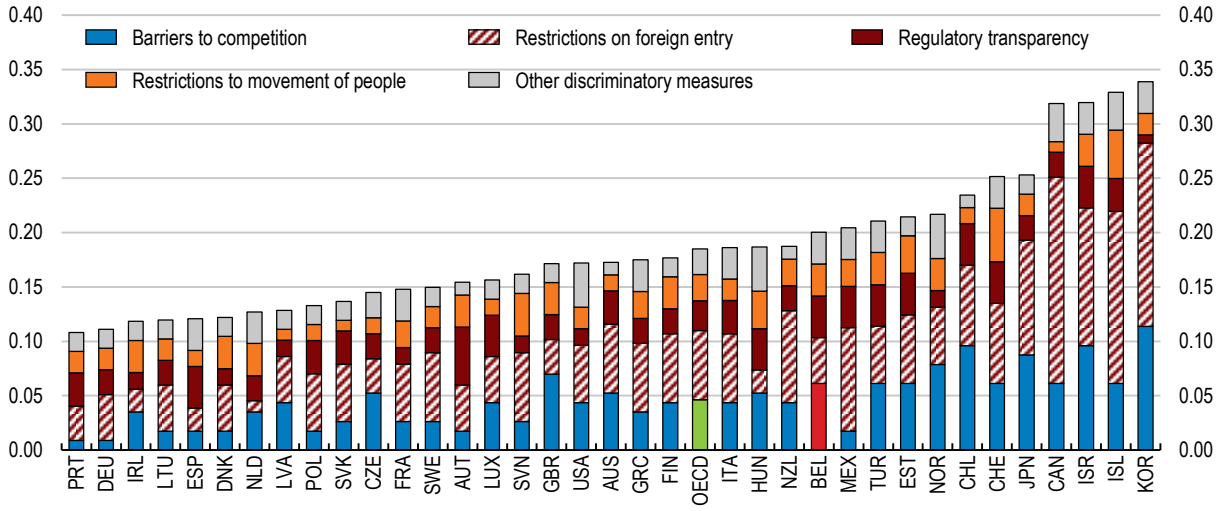
	Total effect on GDP per capita		
	5 year effect	*10 year effect*	*Long-term effect*
Product market regulations			
Lower barriers to entrepreneurship	1.2%	1.3%	1.5%
Innovation			
Higher business R&D *via* increased efficiency of public support to R&D	0.1%	0.3%	0.7%
Labour market policies			
Higher spending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

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%.
Source: OECD calculations based on Egert and Gal (2017).

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)[1], 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).

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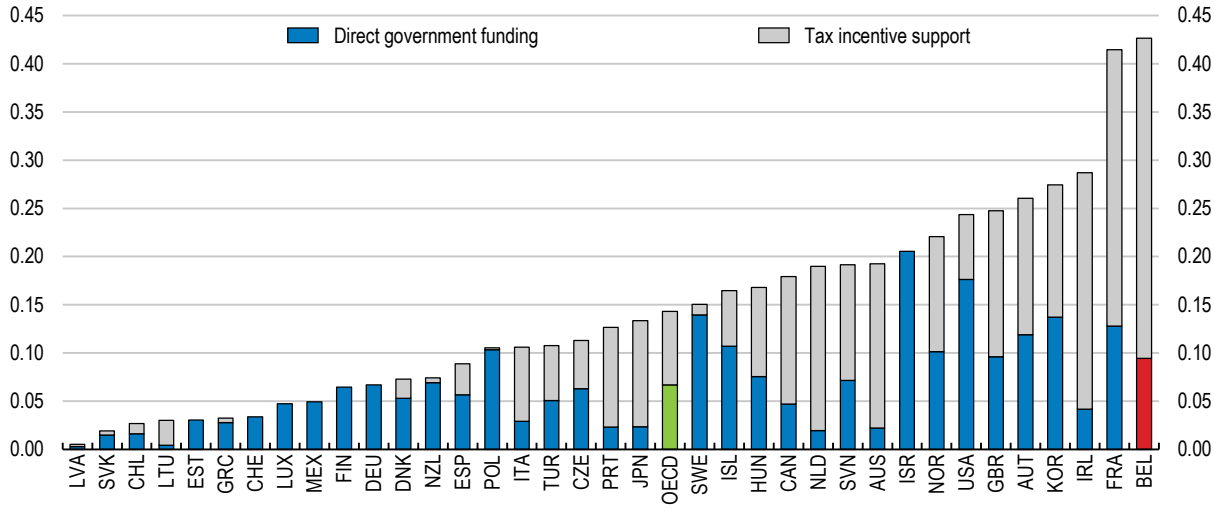
Enhancing the efficiency of public innovation support

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.

Figure 20. Public R&D is mostly concentrated on R&D tax credits

As a percentage of GDP, 2016[1]



1. Or latest available year.
Source: OECD (2019), *OECD R&D Tax Incentive Indicators* (database).

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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).

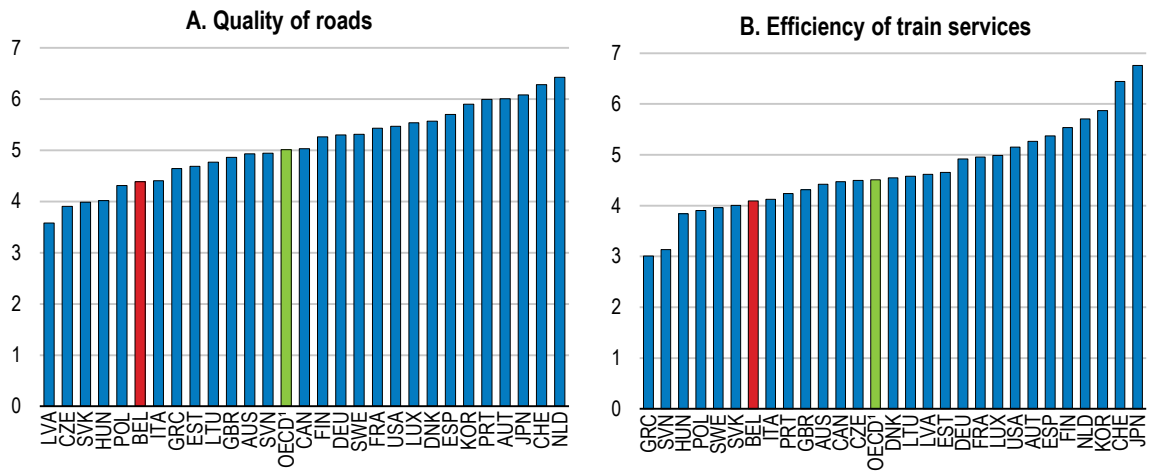
Reforming transport infrastructure

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.

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



1. Unweighted average.
Source: World Economic Forum (2019), *The Global Competitiveness Report 2019*, World Economic Forum, Geneva.

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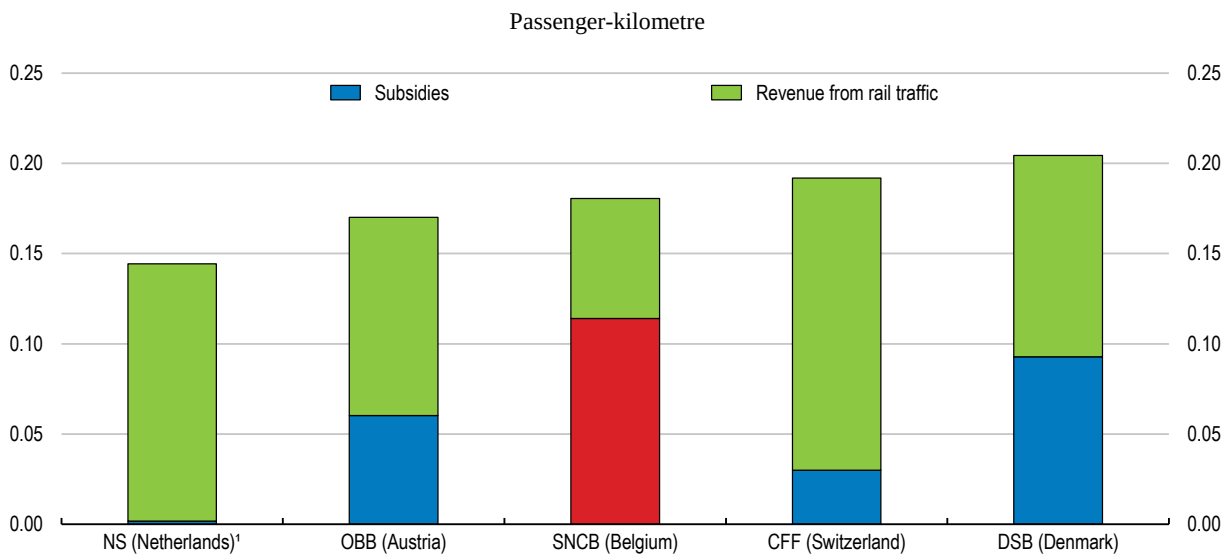
Passenger road transport is heavily subsidised in Belgium. One major tool is the company car tax deduction scheme, which contributes to congestion and is estimated to have a high cost of public revenues of around EUR 2 billion annually (FPB, 2019b). Some recent alternatives are the "cash for car" scheme, 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



1. The company operates only on the main lines while regional lines are entirely franchised.
Source: Gautier, A. and I. Salem (2016), "La SNCB : Prête pour la libéralisation totale du rail ?", *Regards économiques*, Numéro 128.

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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 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

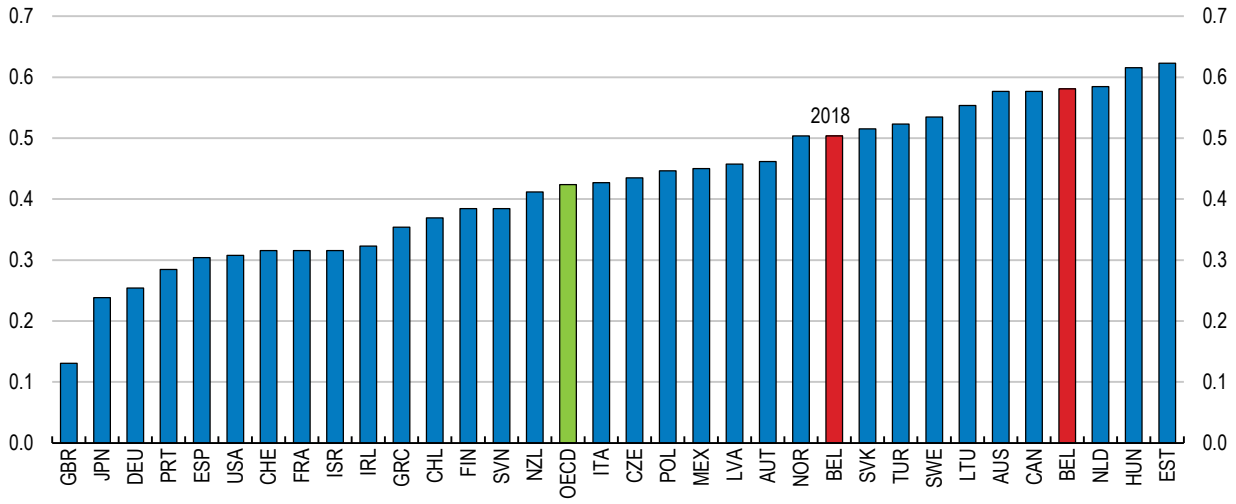
Strong contract enforcement, judicial efficiency and timely insolvency procedures are important to the growth of productive start-ups and the ability to learn from new innovations at the frontier (Calvino et al., 2016). Insolvency reform can also enable the allocation of resources to their most productive 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 proceedings[1], 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.

Source: Adalet McGowan, M., D. Andrews and V. Millot (2017), "Confronting the Zombies: Policies for Productivity Revival", *OECD Economic Policy Paper*, No. 21, OECD Publishing, Paris.

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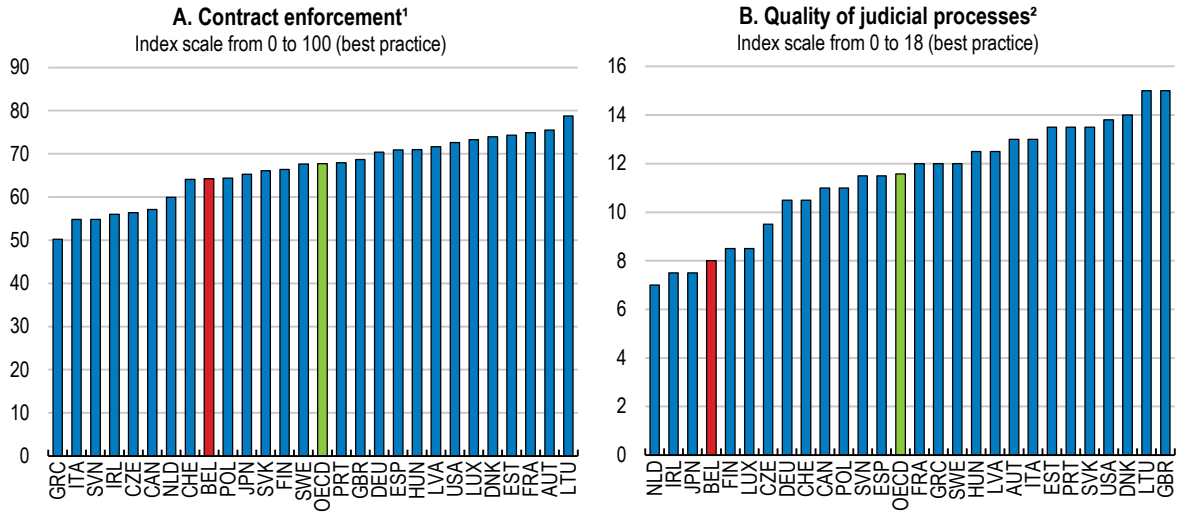
According to the World Bank Doing Business Indicators, contract enforcement and judicial efficiency are relatively weak, which is mainly due to low court automation and weak case management (Figure 24). A new case management system (MACH) has been introduced in 2019, which should help address these gaps 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

2018



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.
Source: World Bank (2019), *Doing Business 2019*: *Training for Reform*, The World Bank Group, Washington D.C.

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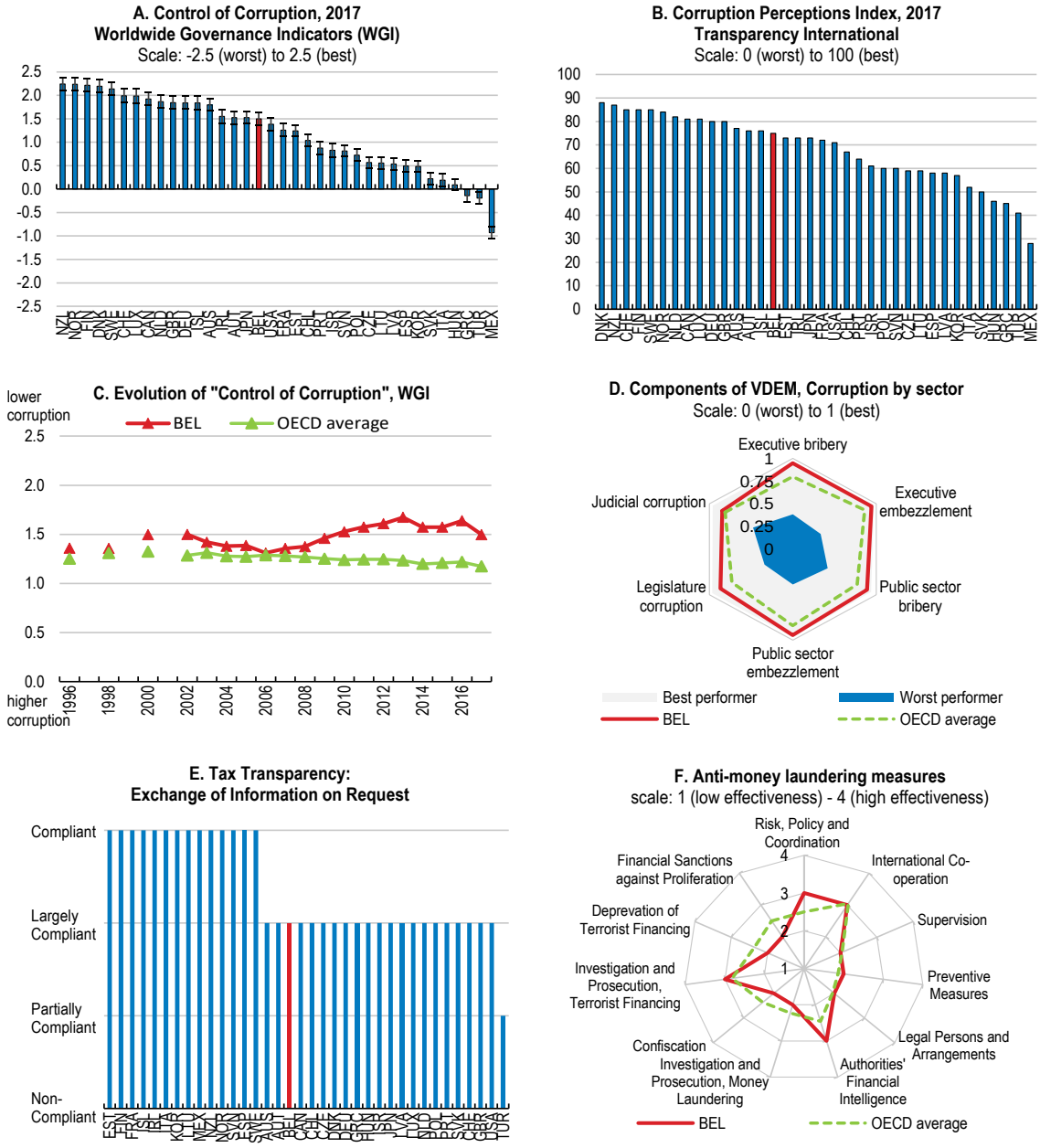
In 2013 and 2015, the OECD Working Group on Bribery in International Business Transactions called on Belgium to address the lack of priority given to the fight against bribery of foreign public officials and the lack of resources of the authorities in charge of investigations, prosecutions and sentencing (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



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.
Source: World Bank; Transparency International; Varieties of Democracy Institute; OECD calculations based on information from the Global Forum on Transparency and Exchange of Information for Tax Purposes, and OECD, Financial Action Task Force (FATF).

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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

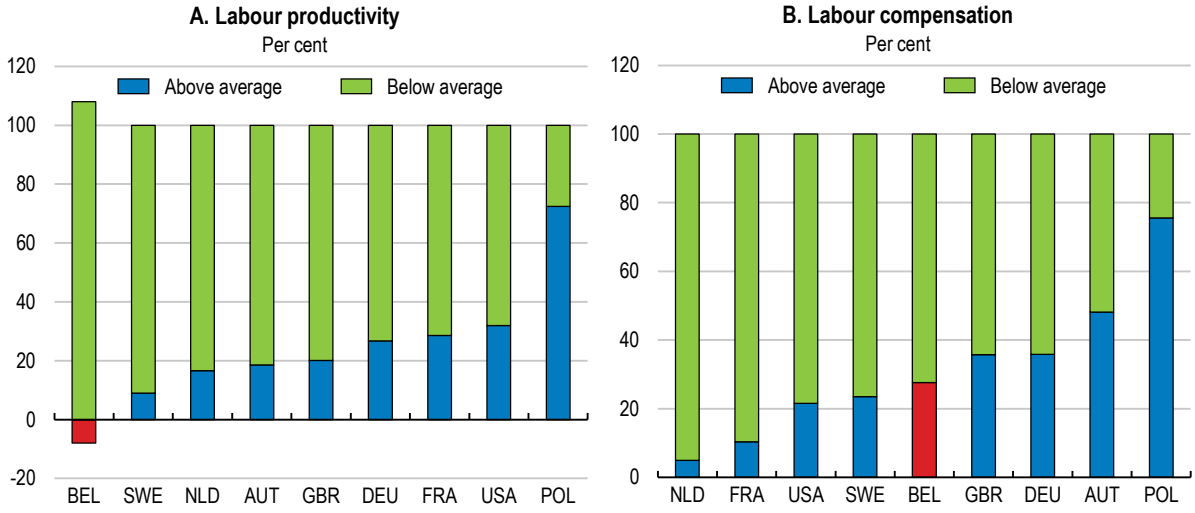
Main OECD Recommendations	Actions taken since 2017
Evaluate the results of the Federal government's wage-setting reform, and make further changes if needed.	No action taken.
Further streamline public support for R&D and innovation within each region. Regions and communities could step up their innovation support co-operation where appropriate.	In 2018, a partial exemption for the remuneration of R&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&D support forms in Wallonia and changes to the grant system in Flanders.
Further reduce administrative burdens on SMEs stemming from federal and regional measures.	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.
Reduce the level of paid-in minimum capital requirements and strengthen contract enforcement by strengthening court automation and case management.	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.
Ensure appropriate financing tools are available for scaling up of young, innovative firms.	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.
Increase investment in transport infrastructure around major urban areas through joint federal and regional initiatives and when possible through increased private sector involvement.	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.

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 2010[1]



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.

Source: OECD (2019), *OECD Compendium of Productivity Indicators 2019*, OECD Publishing, Paris.

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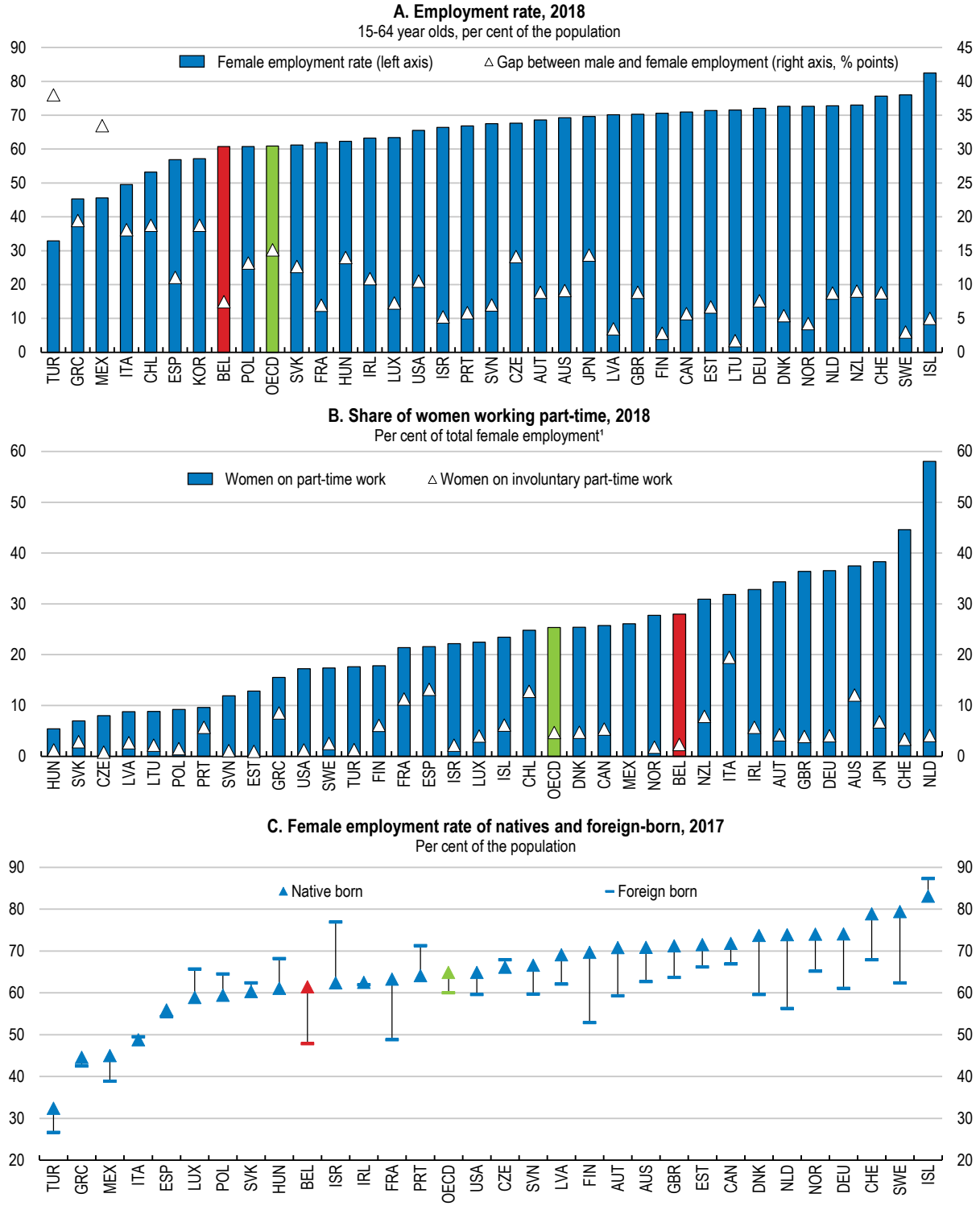
Boosting employment for reducing inequalities

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



1. As a percentage of total female dependent employment, for the United States.
Source: OECD (2019), *OECD Labour Force Survey Statistics* and OECD *International Migration Statistics* (databases).

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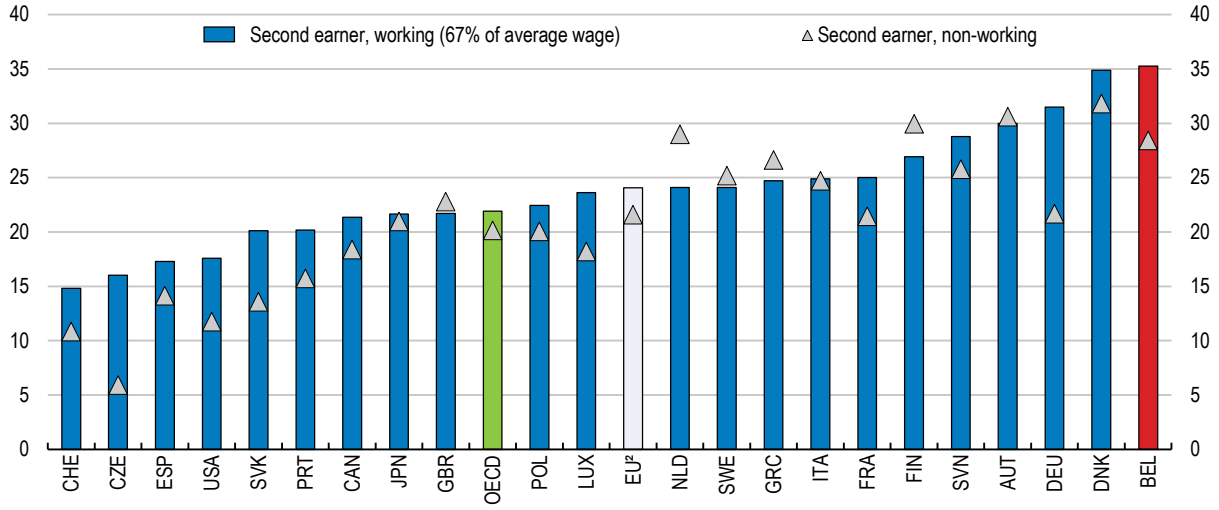
Belgium has significant tax disincentives for second earners, which can lower female labour force participation (Figure 28; OECD, 2019h; Thevenon, 2013). In general, family-based tax systems create work disincentives for second earners, when marginal tax rates are progressive (OECD, 2018g). While the 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 earnings[1], married family with 2 children and first earner's wage at 100% of the average wage, 2018



1. Including employee social security contributions.
2. European Union member countries that are also members of the OECD (23 countries); unweighted average.
Source: OECD (2019), *OECD Taxing Wages 2019* (database).

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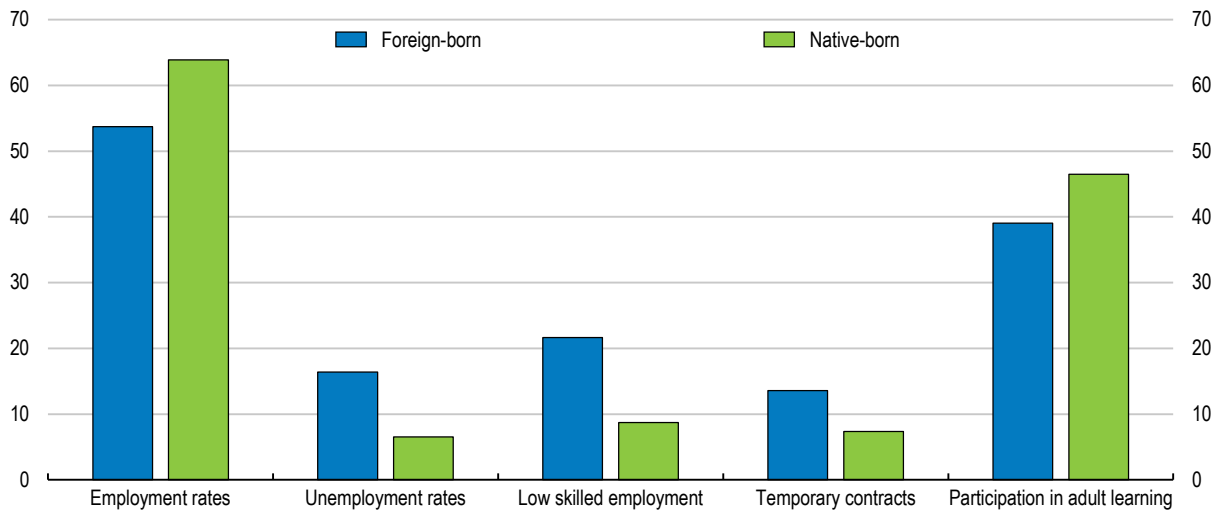
Enrolment is almost universal for early childhood education and care (ECEC) for children aged 3 and older, which can raise female employment. However, there are regular attendance gaps, especially for those with an immigrant background (EC, 2019b). The Flemish Community has introduced financial incentives 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.

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 (Vandermeerschen 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



Source: OECD (2018), *Indicators of Immigrant Integration 2018: Settling In*, OECD Publishing, Paris.

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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).

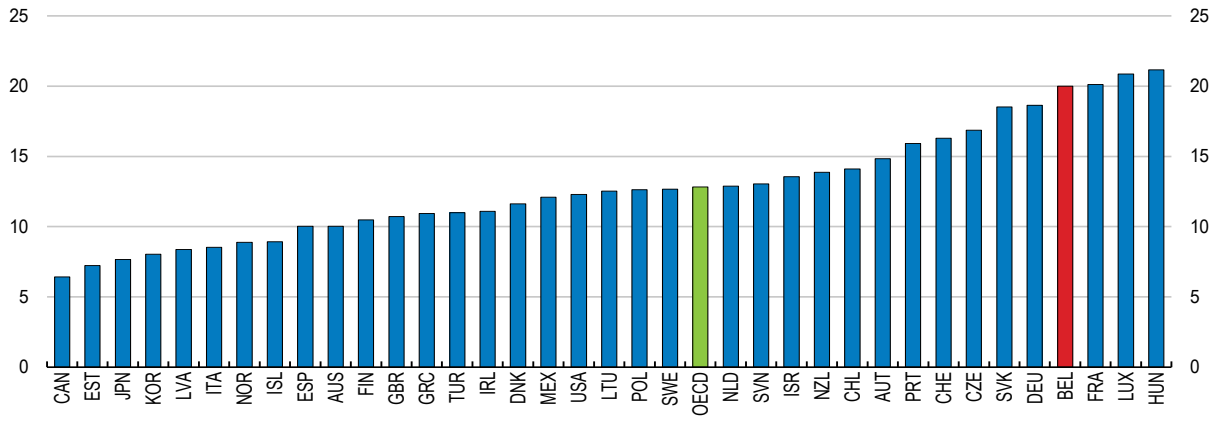
Table 8. Differences in education outcomes across Communities

	Share of students with science proficiency at Level 1 or below	Share of students with mathematics proficiency at Level 1 or below	Difference in reading performance of migrants and natives, after accounting for gender, and students' and schools' socio economic profile	% of students with grade repetition at least once in primary, lower secondary or upper secondary school	Percentage of teachers who attended a programme of professional development in the previous three months	Staff provides help with homework
	2018	**2018**	**2018**	**2015**	**2015**	**2015**
Flemish community	18.0	17.3	32.0	24.3	40.1	51.3
French community	22.6	22.8	11.0	46.0	68.6	41.7
German community	20.0	15.1	32.0	30.5	64.2	37.4
OECD	22.0	24.1	24.0			60.0

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



Source: OECD (2019), *PISA 2018 Results (Volume II): Where All Students can Succeed,* OECD Publishing, Paris.

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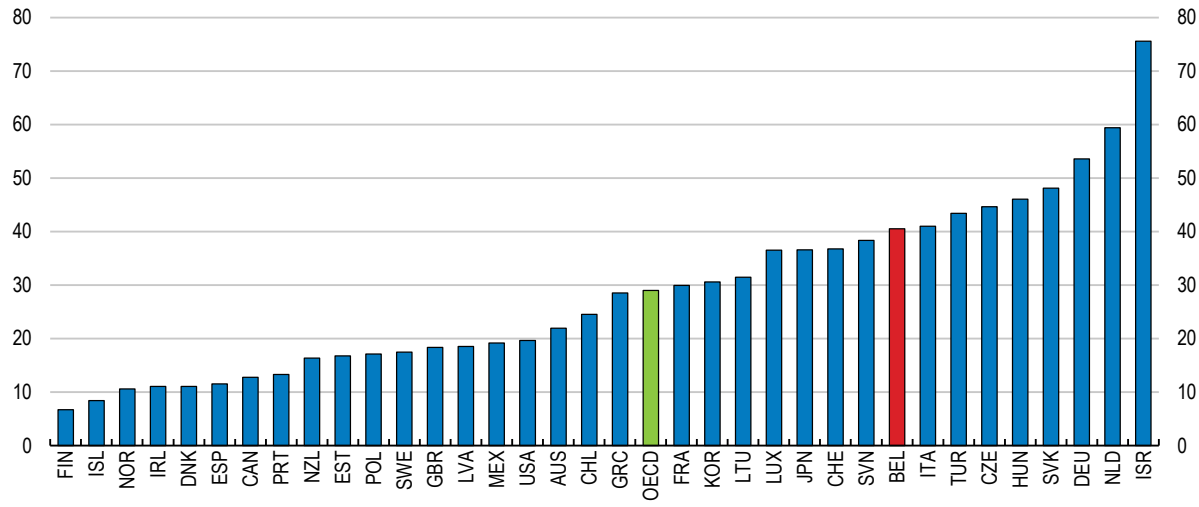
There was a comprehensive education reform to reduce inequalities in the French-speaking and Flemish communities in recent years. The implementation of the *Pact for Excellence* is progressing in the French-speaking community, while the Flemish community introduced some further reforms in 2019 to modernise 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 Woessman, 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]



1. Data refer to PISA 2015 for Spain.
Source: OECD (2019), PISA 2018 Results (Volume II): Where All Students Can Succeed, PISA, OECD Publishing, Paris.

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

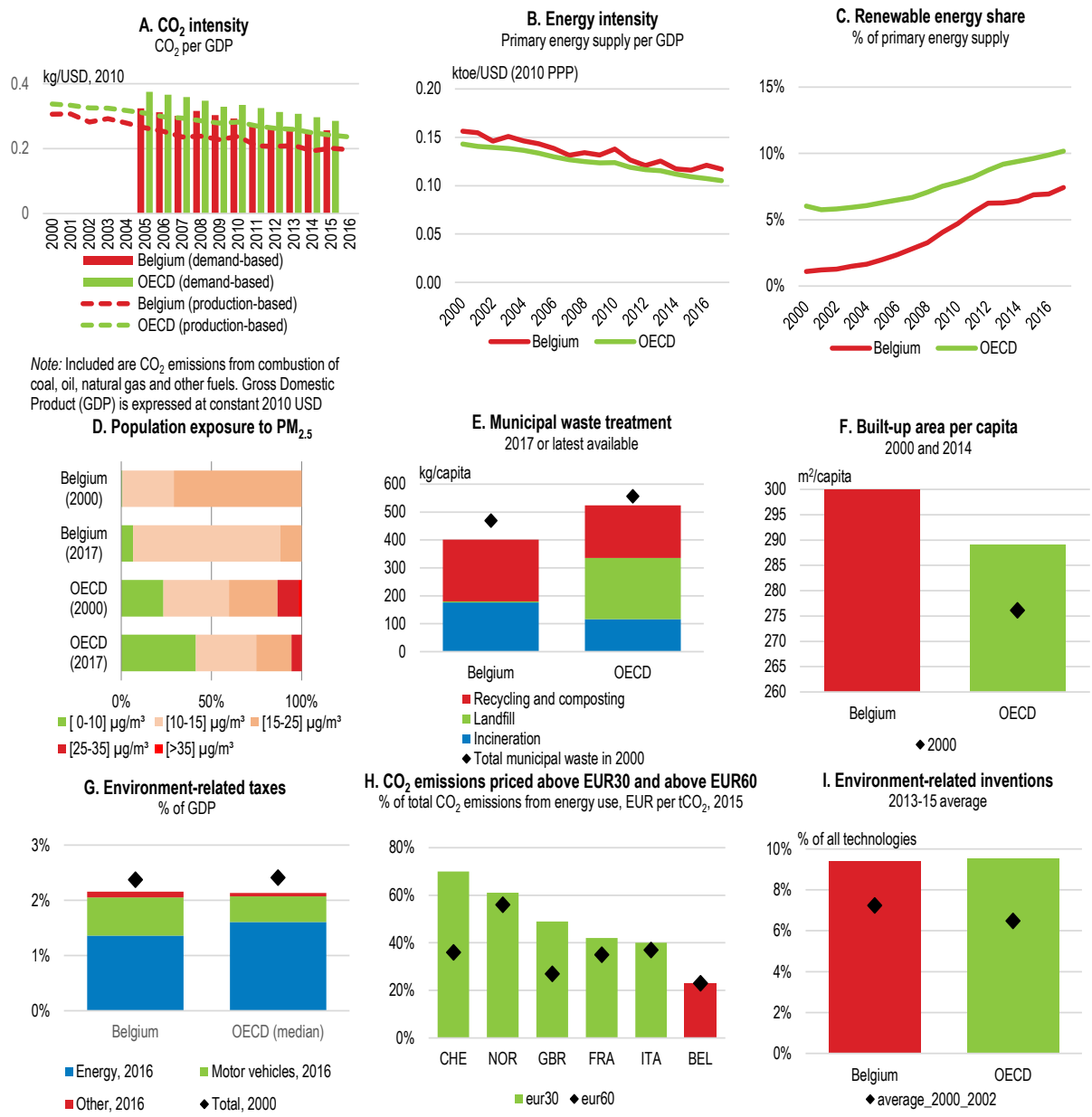
Table 9. Past OECD recommendations on education, skill and labour market policies

Main OECD Recommendations	Actions taken since 2017
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.	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.
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.	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.
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.	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.

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 m^3 (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, 2018l). These trends raise energy demand and car dependency, contributing to pollution and transport-related CO_2 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 CO_2 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 CO_2 emissions substantially. It should do so according to a predictable timetable and ensuring equal pricing of the climate externality from CO_2 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).

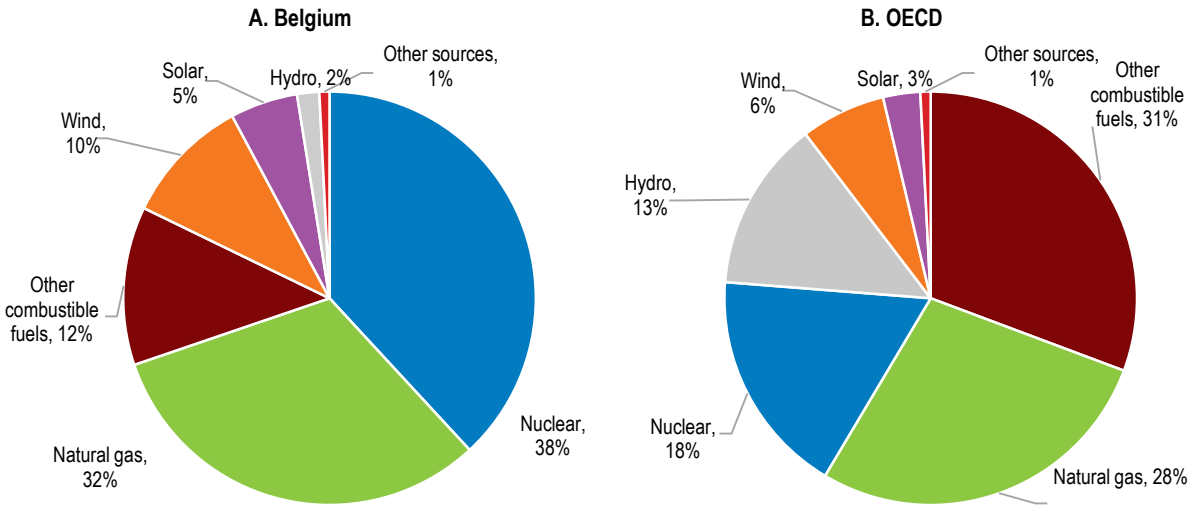
The commitment to phase out nuclear energy by 2025 is ambitious given the high share of nuclear power in electricity generation (Figure 33). The recent maintenance shutdown of several nuclear reactors and subsequent need for electricity imports highlighted the importance of policy coordination and interconnections 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 source[1], %, 2018

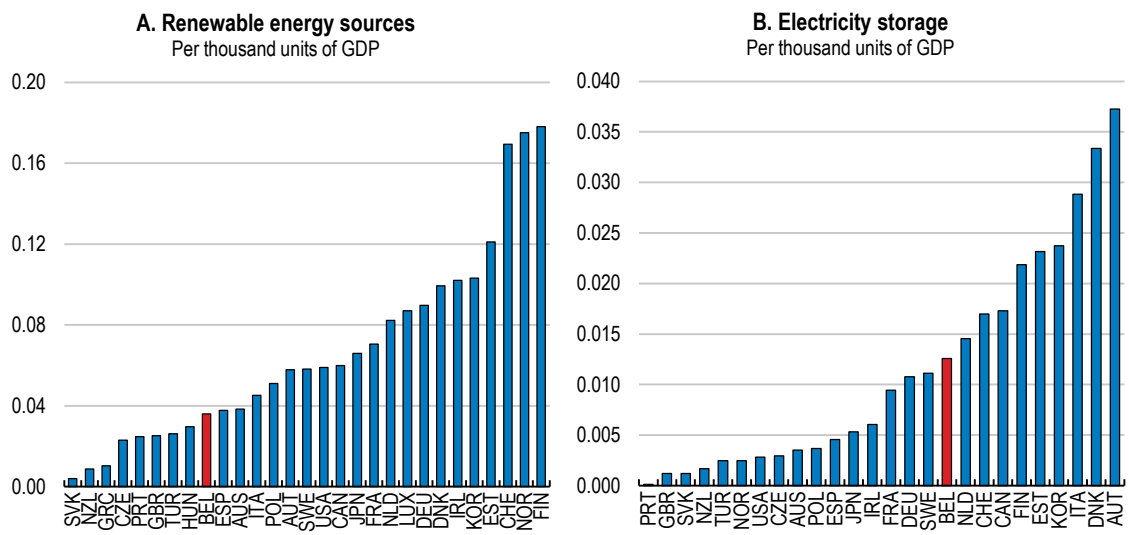


1. Gross electricity production.
Source: IEA (2019), *Electricity Information Statistics - OECD Electricity and Heat Generation* (database), International Energy Agency, Paris.

StatLink https://doi.org/10.1787/888934049116

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

2017 or latest year available[1]



1. Data refer to total public research, development and demonstration (RD&D) budget.
Source: IEA (2019), *Energy Technology R&D Statistics* (database).

StatLink https://doi.org/10.1787/888934049135

Table 10. Other recommendations on macroeconomic and selected structural policies

FINDINGS	RECOMMENDATIONS
Macroeconomic and financial policies	
Risks and opportunities from climate change and climate change mitigation policies can be monitored more closely.	Strengthen the disclosure of climate-related risks by financial intermediaries, as granular data become available.
Taxation of financial income differs across different types of assets and there is no personal capital gains tax.	Ensure the neutrality of taxation of different sources of income of financial assets.
Housing taxation is tilted towards non-recurrent taxes, which can increase commuting.	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.
Improving labour market and education outcomes for inclusiveness	
The impact of socioeconomic background on education outcomes is high.	Delay tracking age in order to improve equity in education outcomes. Improve incentives for the mobility of well-qualified teachers across schools.
Labour force participation is relatively low for some groups of women, which is in part explained by tax disincentives.	Consider lowering tax disincentives for second-earners.
Despite high participation in early childhood education, there are regular attendance gaps, especially for those with an immigrant background.	Increase the provision of early childhood education to children between 0 and 3 years old and introduce measures to boost attendance rates.
Boosting productivity growth and making growth greener	
Despite some progress, some restrictions remain in the retail sector.	Relax further restrictions in the retail sector, such as rules on shop opening hours and sales promotions.
Saturation in public rail transport at peak times and subsidies are high.	Use higher fares for peak times in public rail transport, together with targeted subsidies to lower income groups.
On average, Belgium's residential energy consumption per m^2 is among the highest in Europe.	Speed up the deployment of smart electricity meters to ease the development of demand-side management solutions.

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

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Annex. Progress on structural reform

This annex reviews action taken on recommendations from previous Surveys since the June 2017 Survey that are not reported elsewhere in this Survey.

Recommendations in previous *Surveys*	Actions taken
A. Education and skills	
Increase spending per student in elementary education to at least the level of that of secondary education.	In the French speaking community, the number of teachers for pre-primary education has been increased since 2017. In the Flemish community, investment in elementary education has increased gradually in recent years up to 2019.
Support dissemination of intermediate ICT skills (including coding) through both adult education and training and by generalising access to ICT minors for all tertiary education students.	In 2018, *Digital Wallonia,* which aims to increase digital skills of young people, was launched. *BeCentra*l, a digital hub in Brussels, established in 2017, provides training in digital skills to unemployed youth, while *Women In Tech.Brussels* targets young girls and women. Flanders launched a 5-year *ICT-impulse programme* aimed at children.
B. Productivity and business climate	
Critically assess the effectiveness of the tax credit/investment deduction for R&D program, with a view to improving the existing programmes.	In 2019, the Federal Planning Bureau conducted an evaluation of R&D tax incentives.
Continue to strengthen entrepreneurship education, promote identifiable role models and champions, and expand existing mentor and patron panels of retired business people to counsel new company founders.	In Flanders, entrepreneurship was introduced as a learning outcome in primary and secondary education in 2018 and higher education in 2019. In the Brussels-Capital Region, Young Entrepreneurs of Tomorrow was launched, which raises awareness in schools and brings together entrepreneurs. In Wallonia, in 2017, SOWALFIN was given the mandate to reform entrepreneurship awareness and support.
Improve the effectiveness of existing tax incentives for retail investors based SME funding by a more neutral tax treatment of income from savings deposits. Encourage simple transparent and standard securitisation of SME loans by banks. Improve coordination between public sector entities responsible for SME financing.	An income tax credit was introduced for individuals who invest in shares issued by young SMEs.
Foster efforts to reduce the steepness of seniority profiles through the well-established bargaining wage process.	The authorities asked the Central Economic Council to prepare a report on this issue.
C. Environmental sustainability	
Suppress the favourable tax treatment of company cars, extend the use of congestion charges and continue increasing the tax rate on fuel.	The tax rates on diesel used in road transport has been raised to the same rate as petrol. The cash for car scheme, which allows employees to choose alternative options, such as cash, was introduced in 2018. The Mobility Budget, which allows the company car budget to be spent on alternative modes of transport, was introduced in 2019.
Articulate a clear medium to long-term strategy for energy production to reduce policy uncertainty and thus facilitate long-life-cycle investments.	The inter-federal Energy Pact was approved by regional and federal governments in March 2018. A number of additional commitments have been made, such as the establishment of a federal Energy Committee and the National Energy and Climate Plans 2021-30 (both at the federal and regional levels).
D. Labour markets	
As one way to improve labour market outcomes, in particular for the low-skilled, consider reintroducing lower statutory minimum wages for young workers.	Reductions of employer social security contributions for young workers were introduced at the federal level and in Flanders in 2019, and in Wallonia in 2017. In the Brussels-Capital Region and the German speaking community, labour cost-reducing support is provided to disadvantaged groups *via* Activa and Aktif programmes, respectively.
Continue to cooperate with social partners to further expand diversity plans in firms. Expand training offers, including on languages, and skill validation, as well as their articulation with diversity plans.	Mandatory integration programmes have been put in place in all region and communities. Measures were taken in 2018 at the federal and regional levels to promote diversity and fight against discrimination, such as the possibility for social inspectors to prove “discriminatory” infringements through mystery calls or anonymous field tests in companies, an action plan to promote diversity in the public sector and the offering of social interpreting services to people lacking language skills.

Thematic chapter

Chapter 1. Addressing labour market challenges

Job creation has lowered unemployment, but the Belgian labour market still faces many challenges. Employment rates remain low, reflecting barriers to finding a job such as low levels of skills and weak work incentives. In addition, the changing nature of work will require faster adaptation of workers. In order to address these challenges, this chapter presents a detailed analysis of policy priorities, drawing notably on insights from the OECD Jobs Strategy. One priority should be that each worker has access to lifelong training, with additional allowances targeted to disadvantaged workers. To improve transitions into work, the use of tools for the profiling of individualised risks should be extended. A better combination of income support and incentives could be achieved through reforming both unemployment and in-work benefits. Reforming some aspects of employment protection legislation, such as those related to collective dismissals, and the wage formation system, would boost flexibility. Although Belgium has made good progress in addressing the social assistance needs and tax systems related to non-standard employment, some gaps remain vis-à-vis regular workers.

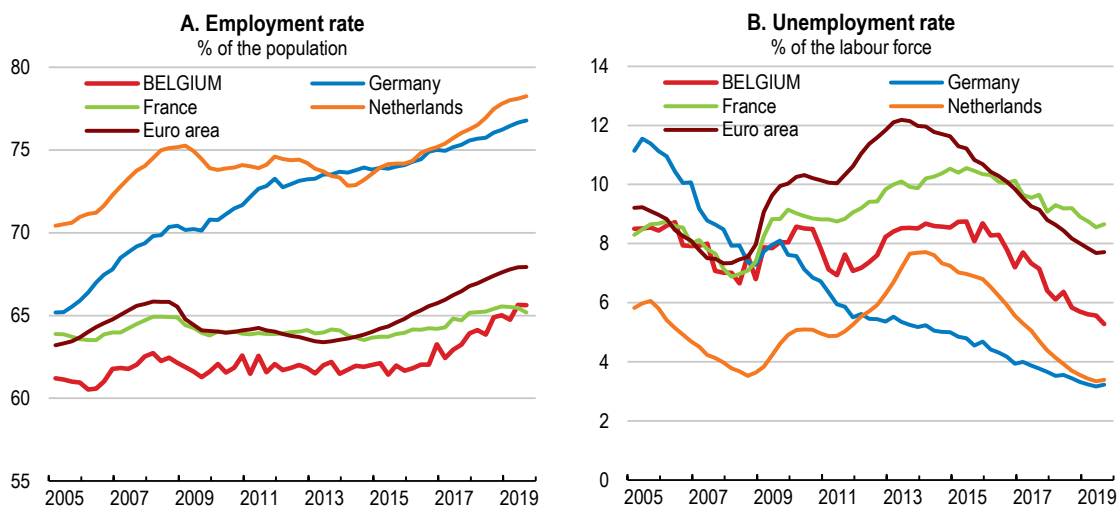
There have been a number of important recent reforms to increase labour force participation and employment in Belgium. Labour taxation has been reduced, with reductions being targeted, in particular, at low wage earners. Social security contribution reductions have been granted to new employers hiring their first worker. Construction related wage subsidies have been introduced in 2018. In addition, pension reforms, including increases in the statutory retirement age and stricter eligibility requirements for early retirement, have helped to increase the participation and employment of older workers in the labour market.

To lower the rigidity of labour markets, the flexibility of working hours was increased in some industries and notice periods during the initial months of employment have been shortened. Furthermore, the scope for the *Flexijob* scheme, which allows an employer to employ an employee – who works at least 4/5 for another employer – on flexible hours (e.g. at peak moments) and at favourable terms (e.g. reduced taxation and social security contributions), has been extended. To better take into account international cost competitiveness, wage indexation was temporarily suspended to help close the wage gap, which had accumulated between Belgium and its neighbouring countries. To prevent gaps from re-emerging, the definition of the wage norm, which sets a ceiling on the maximum increase in wages in sectoral collective agreements, was amended in 2017.

These reforms, combined with moderate but sustained economic growth, have contributed to an improvement of the labour market in Belgium in recent years. The employment rate of the population aged 15 to 64 years increased from 61.8% in 2015 to 64.5% in 2018. The unemployment rate fell to historically low levels, from a peak of 8.5% in 2015 to 5.2% in the third quarter of 2019 (Figure 1.1).

Figure 1.1. The labour market has improved

15-64 year olds



Source: OECD (2019), *OECD Short-Term Labour Market Statistics* (database).

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This marked improvement, however, masks a number of challenges. According to the OECD's new *Job Strategy* indicators, low employment, primarily due to high levels of inactivity, and a large employment gap for disadvantaged groups are key weaknesses of

Belgian labour markets (Figure 1.2, Box 1.1). Growing shortages of high-skilled workers constrain productivity growth, which has been chronically low. There is low job turnover, potentially limiting the speed and effectiveness of efficiency-enhancing reallocation, and it is not clear that wage differentials across firms and individuals reflect productivity differences sufficiently. In addition, the changing nature of work, including through digitalisation, has the potential to significantly alter the content and organisation of work, the skills individuals need over their lives, and the risks they face in the labour market.

Box 1.1. The OECD's New Jobs Strategy

The digital revolution, globalisation and demographic change are transforming labour markets just when weak productivity growth is limiting the space for public action. These deep and rapid transformations raise new challenges for policy makers. The new *OECD Jobs Strategy*, launched in December 2018, provides a coherent framework and detailed recommendations in a wide range of policy areas to help countries address these challenges. The new *Jobs Strategy*, in particular, goes beyond job quantity and considers job quality and inclusiveness as central policy priorities, while stressing the importance of resilience and adaptability for good economic and labour market performance in a changing world of work. The key message is that flexibility-enhancing policies in product and labour markets are necessary but not sufficient. Policies and institutions that protect workers, foster inclusiveness and allow workers and firms to make the most of ongoing changes are also needed to promote good and sustainable outcomes.

The OECD actively supports countries with the implementation of the *OECD Jobs Strategy* through the identification of country-specific policy priorities and recommendations. This is done through the preparation of chapters in the OECD Economic Surveys as well as analytical background papers on the implementation of the *OECD Jobs Strategy* in specific countries. The process will be concluded with a synthesis report that will draw lessons from the country reviews and highlight good practices across the full range of policy tools identified by the *OECD Jobs Strategy*.

The *OECD Jobs Strategy* makes use of a dashboard to assess the strengths and weaknesses of labour markets in different OECD and non-OECD economies. Belgium performs comparably well in terms of unemployment and earnings quality. The principal weaknesses of the Belgium labour market are low employment, primarily due to high levels of inactivity, and a large employment gap for disadvantaged groups, particularly in terms of the employment gaps of older and migrant workers relative to prime-age males. Belgium also ranks below the OECD average in terms of growth in labour productivity (Figure 1.2).

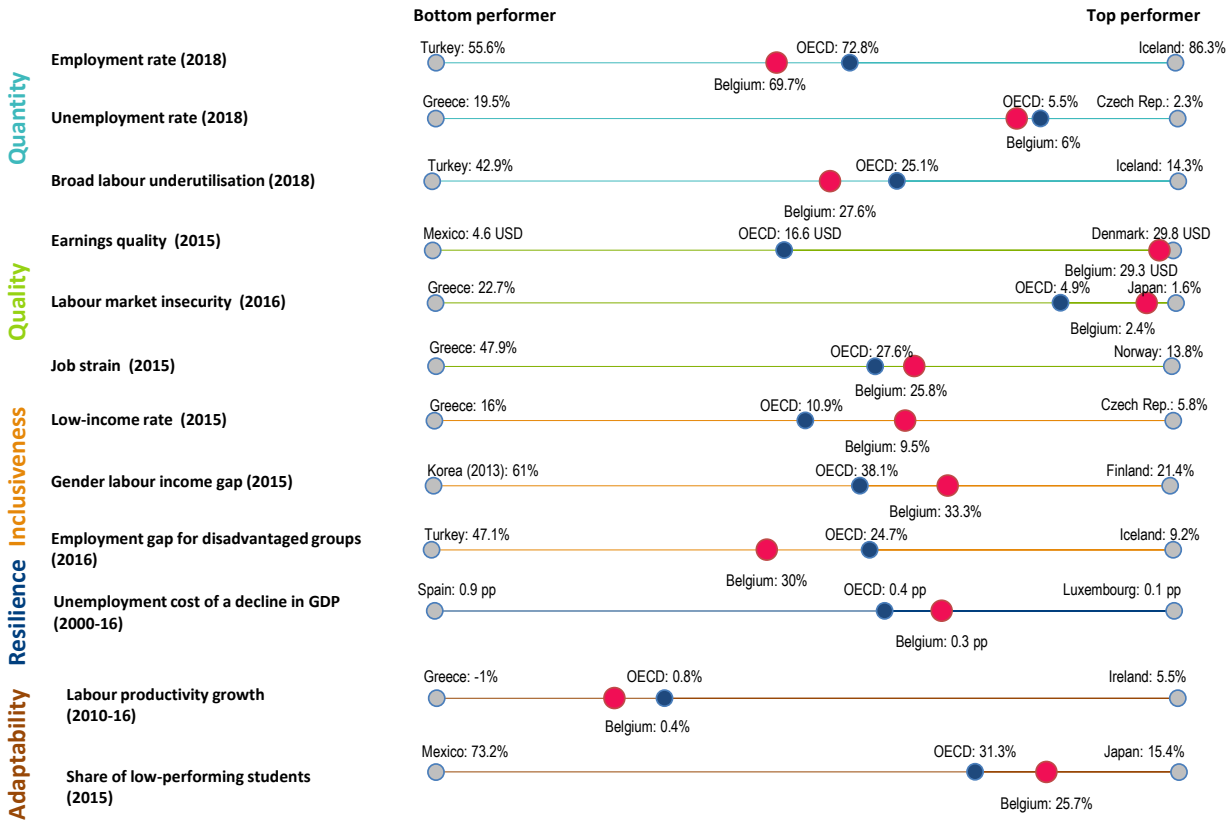
Source: OECD (2018a), *Good Jobs for All in a Changing World of Work - The OECD Jobs Strategy*, OECD Publishing, Paris.

This chapter assesses the capacity of Belgium to adjust to both new and existing challenges in the labour market, drawing notably on insights from the new *OECD Jobs Strategy*. It first positions Belgium in international perspective in terms of the key challenges it faces, including the changing nature of work. Then it discusses policies that could help adapt to these changes and promote a more inclusive labour market. These policies include those: *i)* to enhance skills to boost the employment of low-skilled workers and to align skills with evolving labour market needs and digitalisation (e.g. adult learning policies); *ii)* to increase the dynamism of labour markets to enable transitions from

unemployment/inactivity to employment and across jobs (e.g. active labour market policies, wage policies and employment regulation); and *iii)* to increase the ability of the tax and benefit system to incentivise work (e.g. unemployment benefit schemes).

Figure 1.2. Aspects of job quantity and labour market inclusiveness show room for improvement

Dashboard of the labour market according to the new OECD Jobs Strategy[1]



1. Employment rate: share of working-age population (20 to 64) in employment (%). Broad labour underutilisation: share of inactive, unemployed or involuntary part-timers (15 to 64) in the population (%), excluding youth (15 to 29) in education and not in employment. Earnings quality: gross hourly earnings in US dollars adjusted for inequality. Labour market insecurity: expected monetary loss associated with becoming and staying unemployed as a share of previous earnings. Job strain: share of workers in jobs in which there typically exists a high level of professional demand and insufficient resources to meet that demand. Low income rate: share of working-age persons living with less than 50% of median equivalised household disposable income. Gender labour income gap: difference between average annual earnings of men and women divided by average earnings of men (%). Employment gap for disadvantaged groups: average employment gap between prime-age male workers and five disadvantaged groups (women with children, young people not in education or full-time training, workers aged between 55 and 64, people born abroad, people living with disabilities), as a percentage of the employment rate for prime-age male workers. Resilience: average increase in unemployment rate over three years after a negative shock to GDP of 1% (2000-16). Labour productivity growth: average annual labour productivity growth per worker (2010-16). Share of low-performing students: share of 15-year-olds not in secondary school or scoring below Level 2 in PISA (%) (2015).

Source: OECD calculations based on statistics for 2018 or the last available year and various sources; OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, Paris.

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Key labour market challenges in Belgium

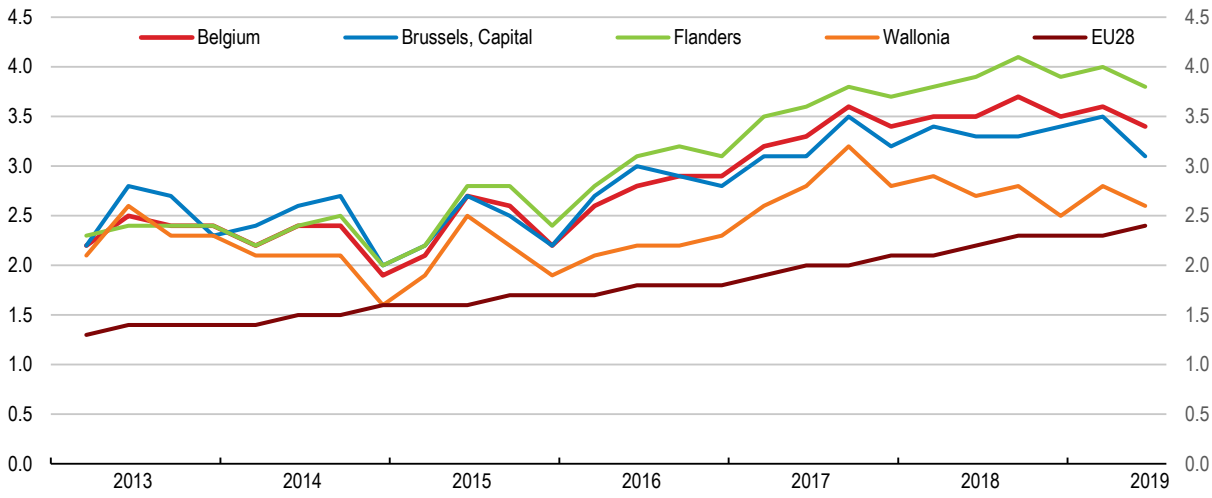
Low employment reflects worker-related barriers to employment

If accompanied by decent employment conditions, having greater numbers of people in work reduces their risk of poverty and promotes social inclusion. However, the employment rate (for those aged 15 to 64 years) in Belgium at 64.5% is lower than the OECD average of 68.6%. This low employment rate in part could reflect the presence of important worker-related barriers to employment rather than a shortage of job opportunities.

The job vacancy rate in Belgium has increased markedly since 2015, and at 3.4% is now well above the EU average of 2.4% (Figure 1.3). Together with low labour market participation, this could suggest some skills shortages, with the skills that firms need not necessarily corresponding to those of potential job-seekers. Indeed, according the *OECD Jobs for Skills Database*, the share of high-skilled occupations in total skill shortages at 67% is higher in Belgium than 54% in the OECD (OECD, 2019a). Labour shortages could also be compounded by insufficiently attractive working conditions and financial incentives, in part related to the design of taxation and social protection systems, particularly in the case of low wages.

Figure 1.3. Vacancy rates remain relatively high

Per cent



Note: Vacancy rates are computed as the ratio of the number of job vacancies to the sum of the latter and the number of occupied jobs. Jobs in the industry, construction and services sectors, excluding activities of households as employers and extra-territorial organisations and bodies.
Source: Eurostat (2019), *Job Vacancy Statistics*, Eurostat Database.

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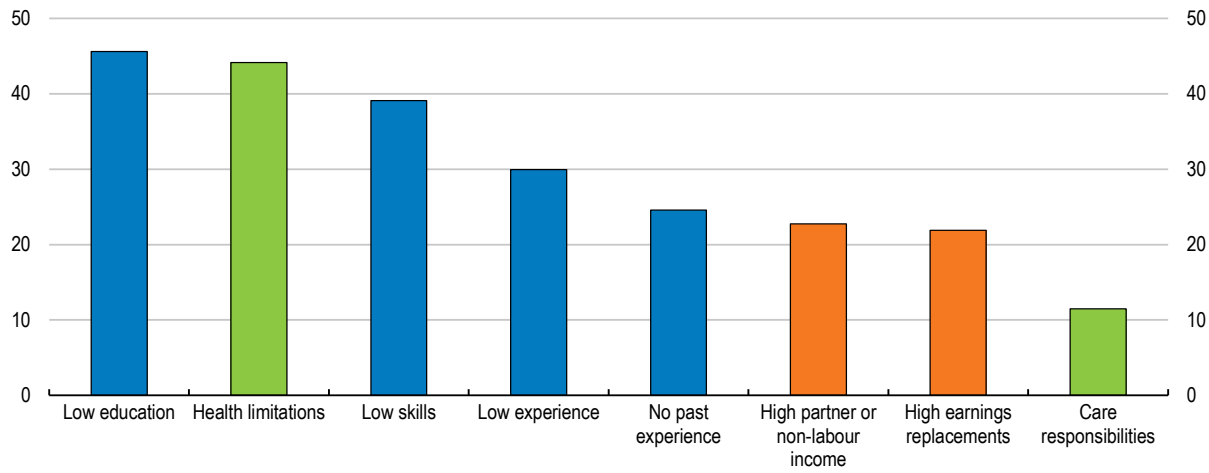
New OECD empirical evidence based on micro data for Belgium identifies three types of barriers to employment: work-readiness (low education and skills, low or no past experience), work-availability (health limitations or care responsibilities) and work-incentives (high partner or non-labour income, or generous income-support). Low skills, both in terms of education and work experience, and health limitations represent the most common barriers in Belgium (Hijzen et al., 2020; Figure 1.4). Furthermore, more than 50% of those aged 18-64 that report to be long-term unemployed, inactive or to have a weak labour market attachment face a combination of these individual barriers to

employment, which highlights the importance of tailored interventions (Box 1.2). In this context, profiling tools could help identify the multiple barriers faced by each unemployed person.

Figure 1.4. There are multiple worker-related barriers to employment

Per cent of the population that faces each identified employment barrier



Note: The population experiencing major employment difficulties is defined as those aged 18-64 that report to be long-term unemployed, inactive or to have a weak labour market attachment (an unstable job, restricted working hours or with near-zero earnings), excluding full-time students and those in compulsory military service. Blue bars denote the prevalence of work-readiness barriers, green bars work-availability barriers and orange bars work-incentive barriers. The figure reports the proportion of this population that faces each identified employment barrier. As individuals can face multiple employment barriers, the bars do not sum to 100. See (Fernandez et al., 2016) for more details.
Source: Hijzen et al. (2020), "Lowering employment barriers in Belgium and Norway", *OECD Social, Employment and Migration Working Papers.* Calculations based on EU-SILC 2017.

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Box 1.2. Developing tailored interventions to tackle individual barriers to employment

The population of individuals, who are long-term unemployed, inactive or have a weak labour market attachment, in Belgium can be divided into ten groups that each face a different combination of the employment barriers identified in Figure 1.4. Table 1.1 presents the extent to which these ten groups face barriers related to the three categories of work availability, work readiness and work incentives.

Given individuals can face multiple barriers, it will be crucial to identify the needs of each individual worker for a tailored policy response. For example, Group 1 (*relatively well-educated unemployed*) will need assistance in job search, application and matching, while Group 5 (*early retirees with low work incentives*) will require lifelong learning policies (see below). Work incentives for two groups, which mainly consist of *women with a working partner* (Groups 3 and 4), could be improved by changing the taxation of second earners, while members of the group of *women with childcare responsibilities* (Group 6) could benefit from improved childcare services.

Table 1.1. Groups facing different combinations of employment barriers

Group	Label	Work readiness	Work availability	Work incentives
1	Relatively well-educated unemployed	More ready	More available	Stronger incentives
2	Young lower educated part-time workers	More	More	Stronger
3	Part-time working women with a working partner	More	More	Weaker
4	Inactive women with high non-labour income	More	Medium	Weaker
5	Early retirees & low work incentives	More	Medium	Weaker
6	Women with care responsibilities	More	Less	Stronger
7	Inactive, no past experience & low education	Less	Medium	Stronger
8	Disabled, low education & high earnings replacement	More	Less	Medium
9	Women, care responsibilities & no past experience	Less	Less	Stronger
10	Low education & health limitations	Medium	Medium	Stronger

Note: The columns refer to the extent the groups face a barrier related to work availability (health limitations; care responsibilities), work readiness (low education; low work-related skills; no past experience) and work incentives (high non-labour income, high earnings replacements), calculated as an average across individual barriers and expressed in relative terms (whether a group faces a barrier less or more compared to other groups).
Source: Hijzen et al. (2020), "Lowering employment barriers in Belgium and Norway", *OECD Social, Employment and Migration Working Papers.* Calculations based on EU-SILC 2017.

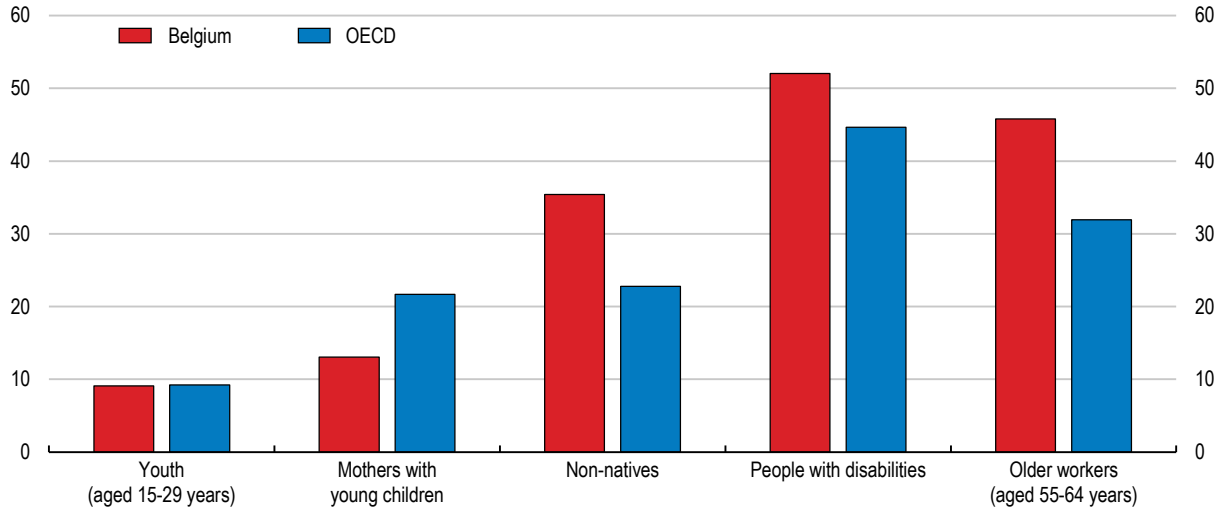
There are large disparities in employment between socio-economic groups and regions

There exist significant employment disparities, further underscoring the importance of tailored measures to improve outcomes. For instance, the employment gaps of disadvantaged groups (e.g. older workers, people with disabilities and migrants) with prime-age males are particularly large relative to the OECD average (Figure 1.5). Among the most disadvantaged are non-EU migrants, who are in a much more precarious position in the labour market than their EU peers. Furthermore, only a small part of the employment gap between natives and foreign born from outside the EU is due to their individual characteristics, such as age, gender, level of education or region of residence (HCE, 2018).

Labour market outcomes also differ by region, with varying reasons behind these differences (Table 1.2). For example, the relatively high employment rate in Flanders reflects lower unemployment and inactivity rates than the national average. Both in Wallonia and the Brussels-Capital Region, the relatively low employment rate reflects higher inactivity and higher unemployment, as compared to the national average, though in the Brussels-Capital Region, demographic changes have translated to a strong increase in the working age population. Limited regional mobility between Flanders and Wallonia, due to lengthy commuting times, inadequate public transport links in some cases, and language barriers, is one factor that can help explain regional labour market differences. However, different industrial structures, which contribute to regional productivity differences, as well as education and skill differences across the workforce, could also play a role.

Figure 1.5. Disadvantaged groups face large employment gaps

Employment gap[1], per cent, 2016



1. The employment gap is defined as the difference between the employment rate of prime-age men (aged 25-54 years) and that of the group, expressed as a percentage of the employment rate of prime-age men. Youth excluding those in full-time education or training. Mothers with young children refers to working-age mothers with at least one child aged 0-14 years. Non-natives refers to all foreign-born people with no regards to nationality.
Source: OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, Paris; Eurostat (2019), *Employment rates by sex, age and country of birth*, Eurostat database.

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Table 1.2. Regional disparities in labour markets are sizable

2018

	Belgium	Brussels-Capital	Flanders	Wallonia	EU28
Unemployment rate[1]	6.0	13.2	3.4	8.5	6.9
Long-term unemployment[2]	2.9	7.5	1.2	4.8	3.0
Youth unemployment[3]	15.8	30.6	10.9	22.5	15.2
Employment rate[4]	64.5	56.8	69.4	58.4	68.6
Inactivity[4]	31.4	34.5	28.2	36.2	26.3

1. Aged 15-74.
2. As a % of active population.
3. Aged 15-24.
4. Aged 15-64.
Source: Eurostat.

There is a disconnect between labour productivity and wages

As has been the case in many other OECD countries, Belgium has experienced a fall in its labour share of income over recent decades, but to a lesser extent than other EU countries, with wages growing somewhat less than productivity since 1995, though the reverse was true for the sub-period 2007-17 (Schwellnus, et al., 2018). In the last decade, the slow growth in both productivity and real wages have prevented a significant

deterioration in external competitiveness. Nevertheless, a combination of weak productivity growth and the current wage-setting system, which accounts for price and wage, but not productivity developments, neither internal nor in neighbouring countries, can create vulnerabilities.

According to the *OECD In-Depth Productivity Review of Belgium*, one factor contributing to subdued productivity growth could be a lack of responsiveness of wages to productivity differences at the firm level. Indeed, Belgium firms that are 10% more productive than other firms within the same sector pay on average 2.7% higher wages, lower than the 5.4% on average elsewhere in the OECD (OECD, 2019a). This weak association between productivity and wages at the firm level could lead to an inefficient allocation of employees across firms, with more productive firms finding it relatively difficult to attract skilled workers (OECD, 2018b).

Labour market transitions are relatively low

Low dynamism in people's careers can constrain productivity growth and lower the efficiency of labour allocation. For example, transitions from inactivity and unemployment to employment are low in Belgium (Box 1.3), as are job-to-job transitions (OECD, forthcoming). These observations can be linked to certain characteristics of the labour market such as the link between pay and seniority, the strict rules on collective dismissals, the design of social protection schemes and the efficiency of active labour market policies.

Box 1.3. Labour market transitions: empirical evidence based on EU-SILC

Following the methodology in Garda (2016), new research uses longitudinal data from the European Union's Statistics on Income and Living Conditions (EU-SILC) for the period 2005 to 2015 to analyse the patterns and drivers of various types of employment transitions.

Figure 1.6 displays the cross-country differences among the flows into and out of unemployment and inactivity. While the rates of transitions from employment to inactivity or unemployment are close in Belgium, the former is higher than the EU average, while the latter is below the EU average (Panels A and B). The probability of moving from joblessness (economic inactivity or unemployment) to employment, conditional on being jobless at the end of the previous year, is relatively low in Belgium (Panels C and D).

Figure 1.6. Labour market transitions

Per cent[1]

1. Probability of changing labour market status in year t, conditional on being in the previous status at the end of year t-1. Averages from weighted sample for the period 2005-2015. EU is the simple average across the 22 countries included in the sample (all EU countries that are also members of the OECD, with the exception of Germany for which data are not available). The calculations are based on self-assessed answers by the survey respondents.

Source: OECD calculations based on Eurostat's EU-SILC data.

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New challenges will emerge as the type and nature of work changes

The prevalence of non-standard work

Non-standard forms of work are all those that deviate from full-time permanent employment and can include platform and temporary work, part-time work and

self-employment. These work arrangements can provide greater flexibility for workers and firms, facilitate the emergence of new business models and could provide a stepping stone to standard employment for some, including for young and low-skilled workers. However, they can also raise concerns about job quality and potentially increase disparities, which might require a fundamental change in labour market, skills and social policies (OECD, 2019b). While it is essential to ensure compensation for the increased business risks that the non-standard workers face, the different tax and pension treatment of these workers (i.e. reduced taxation and lower mandatory pension contributions), as discussed below, can create new distortions. The prevalence of non-standard forms of work may also have important implications for productivity, with self-employed, in particular own-account workers, usually having much lower levels of labour productivity than employees, for example.

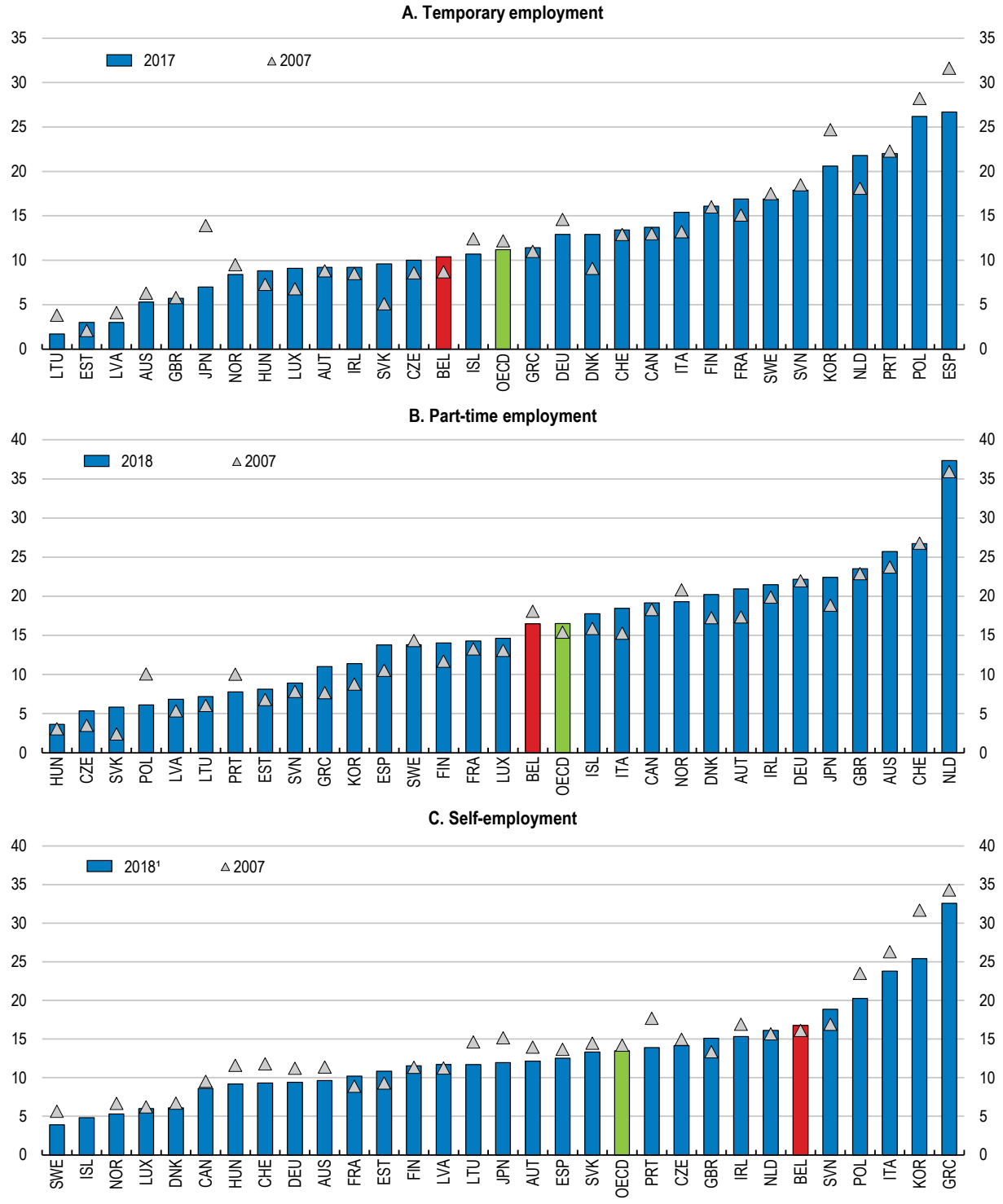
The share of temporary and part-time employment in Belgium is around the OECD average (Figure 1.7, Panels A and B). Self-employment makes up approximately 15% of total employment, which is higher than that of a number of peer countries, such as Denmark, France and Germany (Figure 1.7, Panel C). Own-account workers represent a significant proportion of these (9.4% of total employment in 2016), though this proportion has declined over the last two decades. On the other hand, the share of own-account workers who generally do not have more than one client, increased between 2010 and 2015. This could be indicative of an increase in false self-employment (OECD, 2018a), leading some individuals to not fully benefit from the rights and protections afforded to employees.

The use of non-standard types of work could increase in the future, as globalisation, and technological change persist, as well as a result of policy change. For example, recent policy reforms introduced the possibility for pensioners (either aged 65 or having had a 45 year career) to combine income from pensions with income from either independent or salaried activity. This could help enhance flexibility and increase the participation and employment of older workers, including self-employment. For those aged 50 and over, there has been a steady increase in self-employment for the high- and middle-skilled (Figure 1.8, Panel A). The prevalence of high- and middle-skilled in self-employment in Belgium is related to the high proportion of liberal professions in self-employment (Nautet and Piton, 2019).

The incidence of temporary employment and the probability that a person with a fixed-term contract will have an open-ended contract three years later in Belgium are around the OECD average (OECD, 2018a). Temporary contracts not only provide flexibility to firms, but potentially also to workers, especially at the start of a career, give opportunities for employment to those who might otherwise have been involuntarily unemployed and can provide an important gateway to permanent employment. Between 2016 and 2017, approximately 40% of individuals on temporary contracts moved to permanent ones in Belgium (Nautet and Piton, 2019).

Figure 1.7. The share of non-standard forms of work in total employment

As a percentage of total employment



1. Or latest year available.

Source: OECD (2019), *OECD Labour Force Statistics* and *OECD National Accounts Statistics* (databases).

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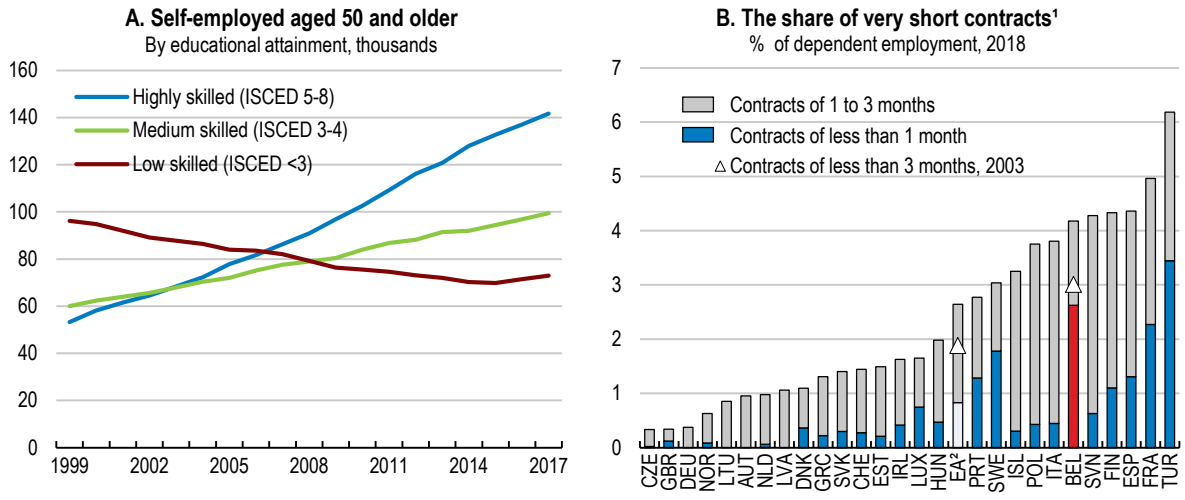
Nevertheless, seven out of twenty people on temporary contracts are involuntarily on temporary contracts, and the share of very short-term contracts (contracts of less than one month) is high (Figure 1.8, Panel B). Although short-term contracts may be repeatedly offered by the same employer, it can affect workers' access to training and well-being (OECD, 2018a), with a cost for public expenditures through unemployment benefits. In addition, certain groups are overrepresented in temporary employment, such as non-EU workers, who are around three times more likely to be hired on temporary contracts than Belgians.

Figure 1.8. Emerging trends in non-standard work



1. Rate of very short contracts among fixed-term contracts.
2. Euro area, 19 countries.
Source: Federal Bureau of Planning (2018), estimates based on EUKLEMS data; Eurostat (2019), *Detailed annual results of the Labour Force Survey*, Eurostat Database.

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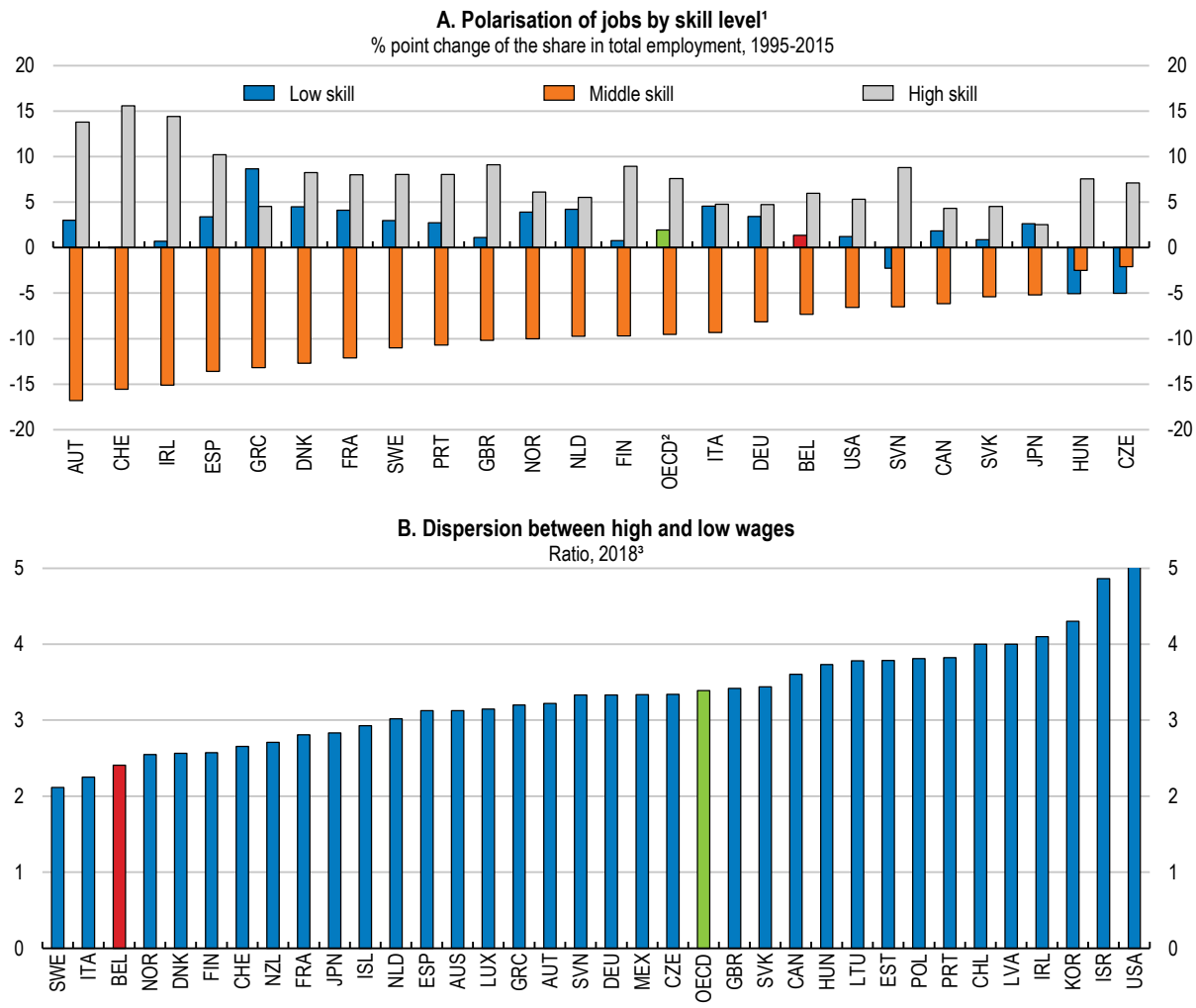
Digitalisation and automation

Structural changes, including digitalisation, are also likely to have important consequences for how the nature of work is evolving. As in other countries, the labour market in Belgium has become increasingly polarised over the last few decades (Autor, Katz and Kearney, 2006; Goos and Manning, 2007; Goos, Manning and Salomons, 2009; OECD, 2017a). That is, while the share of highly-skilled and to a lesser extent low-skilled jobs in total employment has increased, the share of middle skilled jobs has declined (Figure 1.9, Panel A; de Sloover and Saks, 2018). Despite these labour market changes, wage dispersion has remained low and stable in Belgium (Figure 1.9, Panel B).

Figure 1.9. The labour market is polarising, but wage dispersion remains low



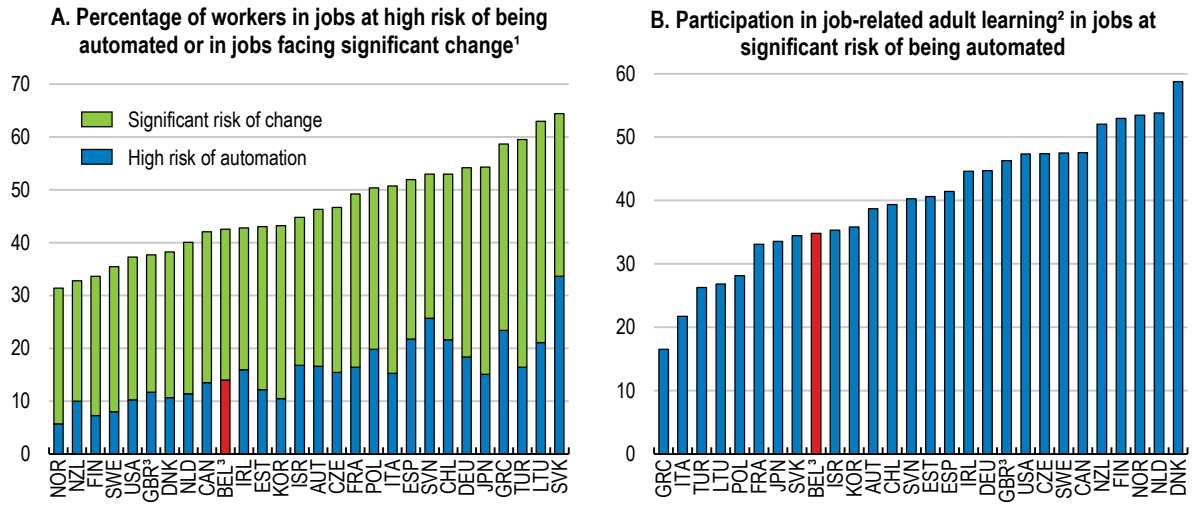
1. Highly skilled professions are defined as jobs that are classified in the broad groups 1, 2 and 3 of ISCO-88. Medium-skilled professions are defined as jobs that are classified in the broad groups 4, 7 and 8. Low-skilled professions refer to jobs that are classified in the broad group 5. See OECD (2017a) for further details.
2. Simple average of the 23 countries for which data are available.
3. Ratio between the ninth and first wage deciles, gross-earnings of full-time employees; 2018 or latest year available.
Source: OECD (2017), *OECD Employment Outlook 2017*, OECD Publishing, Paris; OECD (2019), *OECD Earnings Statistics* (database).

StatLink https://doi.org/10.1787/888934049306

Digitalisation may have profound implications for the labour market, as it creates possibilities for the substitution of workers for machines for a range of tasks. On the other hand, it can help people perform their tasks, improving working conditions and boosting productivity and efficiency. The High Council of Employment has estimated that 39% of jobs in Belgium could be fully digitalised (HCE, 2016). In addition, OECD estimates find that 42% of jobs in Belgium are at significant risk of change or high risk of automation (Figure 1.10, Panel A). While this challenge is less acute than in other OECD countries, the significant share of workers, who are likely to be displaced, and the significant changes in the skill contents of jobs that survive will require better lifelong learning policies.

However, participation in lifelong learning at 34.8% is low among workers facing a significant risk of automation in Belgium (Figure 1.10, Panel B).

Figure 1.10. Re-skilling will be required to address the risk that jobs will significantly change due to automation



1. Significant risk of change and high risk of automation refer to probabilities of automation ranging between 50 and 70% and higher than 70%, respectively.
2. Percentage of workers participating in adult learning in the 12 months preceding the survey.
3. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.
Source: Nedelkoska, L. and G. Quintini (2018), "Automation, Skills Use and Training", *OECD Social, Employment and Migration Working Papers*, No. 202, OECD Publishing, Paris.

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Enhancing skills for evolving labour market needs and digitalisation

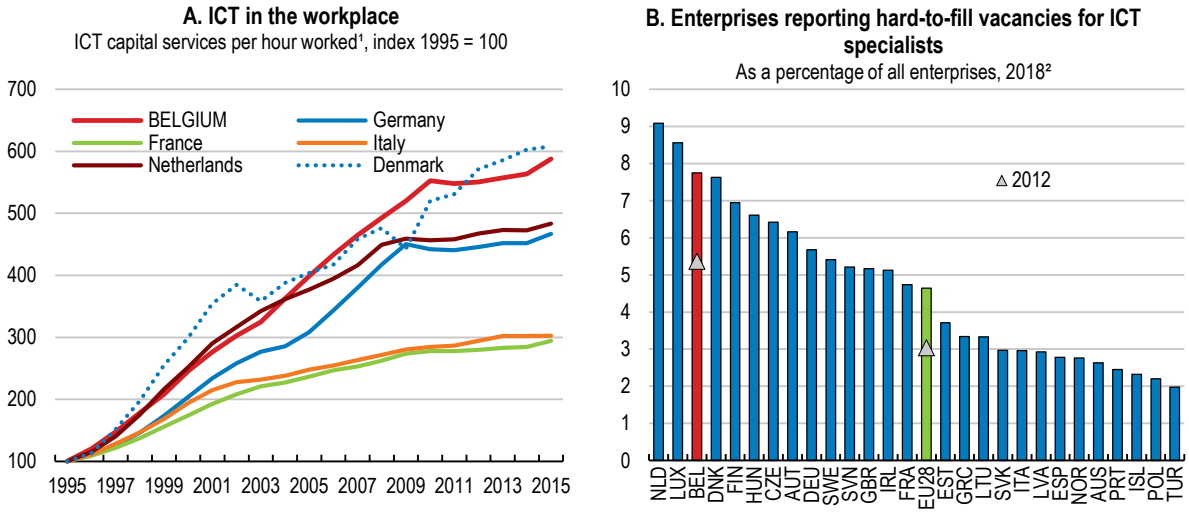
Boosting digital skills

Digital technologies offer significant potential to enhance productivity, with a vast literature documenting the existence of positive links between the adoption of digital technologies and firm level productivity (Draca et al., 2009; Syverson, 2011). For example, OECD estimates suggest that across EU countries, an increase in the use of high-speed broadband internet (cloud computing) at the industry level is associated with increased multi-factor productivity for the average firm in that industry. However, productivity gains are weaker in the presence of skills shortages (Gal et al., 2019), which may relate to the complementarities between digital technologies and other forms of capital (e.g. skills, organisation, or intangibles) (OECD, 2019c). Indeed, high-skilled workers are generally better placed to exploit these complementarities, benefiting through both increased labour market participation and higher wages (OECD, 2015a).

The spread of information and communication technology (ICT) in the workplace has been relatively rapid in Belgium, outpacing neighbouring countries. From 1995 to 2014, the level of ICT capital services per hour worked increased by over 450%, likely contributing to significant ICT skills shortages (Figure 1.11). According to Eurostat's Digital Skills Survey, 57% of working age Belgians had "basic or below-basic" digital skills in 2017. This share is also high for young people aged 16 to 24 relative to other

European countries (Figure 1.12). Digital skills are weaker for those with lower education and income. Therefore, for both firms and workers to reap the full benefits of digitalisation, both the distribution and overall level of digital skills should be improved.

Figure 1.11. The rapid spread of ICT has contributed to ICT skills shortages



1. Information and communication technologies capital intensity per hour worked refer to the CAPIT_QPH variable in the EU KLEMS database. Data series were extended using growth of the numerator and denominator of the ICT intensity ratio using the various releases of the EU KLEMS database (2009, 2013, and 2017). Values for Denmark have been adjusted to account for abnormally large increases in ICT intensity within the mining industry.
2. Data refer to the 2015/16 fiscal year for Australia and 2017 for Iceland.
Source: OECD (2019), *OECD Employment Outlook 2019*, OECD Publishing, Paris; calculations based on data from EU KLEMS' growth and productivity accounts; OECD (2019), *Measuring the Digital Transformation*, OECD Publishing, Paris.

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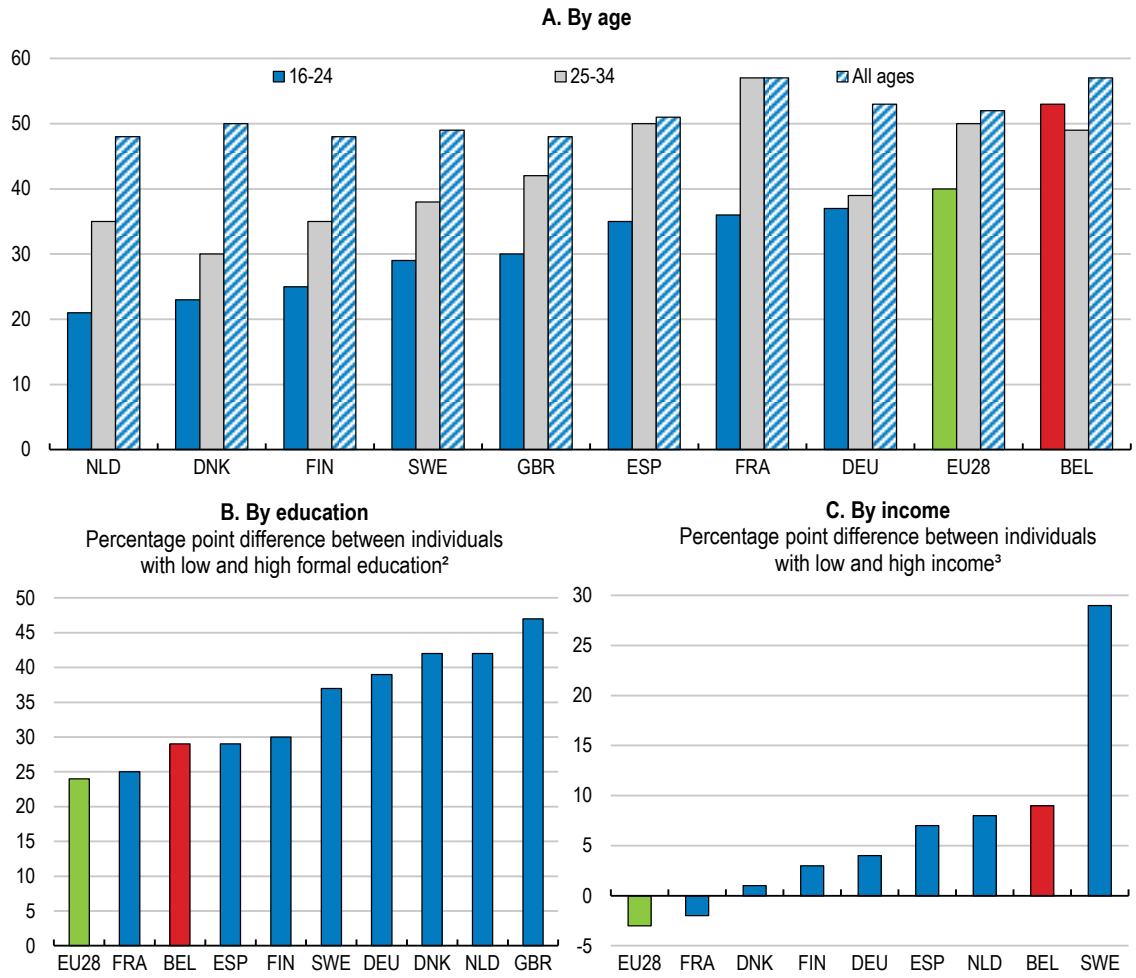
A number of individual initiatives already exist to raise the level of digital skills in Belgium, such as subsidies for various digital projects, the organisation of digital skills fairs, the establishment of a digital hub and digital training for teachers (Box 1.4), which should be evaluated and may benefit from a degree of streamlining. Greater targeting of training in digital skills to low-income and low-qualified individuals would help address the digital skills gap described above and boost the overall level of digital skills. For example, the Public Digital Space for Training in the Brussels-Capital Region organises digital training targeted to low-qualified prisoners. Increasing graduates in STEM fields could also help (see below), while intermediate ICT skills could be further enhanced by generalising access to ICT minors for all tertiary education students, as recommended in the *2017 Economic Survey of Belgium*.

In addition, various reforms have either been undertaken or are ongoing in relation to compulsory education, which should enhance the digital skills of students. The French-speaking Community adopted a Strategy for Digital Education in 2018 and a decree in relation to the initial training of teachers, which introduces new content in ICT, the possibility of training teachers in the implementation of teaching devices integrating digital tools, and a master's degree specialising in techno-pedagogy in February 2019. Similarly, in Flanders, a curriculum reform was adopted in 2018, to be phased in from

September 2019, which sets new learning outcomes and attainment targets related to ICT in the first stage of secondary education.

Figure 1.12. Digital skills are low, especially for some groups

Percentage of respondents claiming to have basic and lower-than-basic digital skills[1], 2017



1. Excluding individuals that reported not to have used the internet in the 3 months preceding the survey and were not interviewed about their digital skills.
2. Individuals aged between 25 and 54 years.
3. High income refers to individuals living in a household with income in the fourth quartile and low income refers to individuals living in a household with income in the first quartile.
Source: Eurostat (2019), *Self Reported Skills Statistics*, Eurostat Database.

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Facilitating greater participation in adult education and training, which is low in Belgium (see below), would also help to increase the level of digital skills. There may be scope to improve the efficiency with which such training is provided to employees and increase the transferability of the skills acquired across firms and sectors. In particular, much of the training of employees is organised at the sectoral level in Belgium, with 51% of employees being part of a sector that has taken concrete measures in order to foster training at the sectoral level. Of these, 58% benefitted from two days of training on

average per year, with a further 14% benefitting from five days on average (SPF Emploi, Travail et Concertation Sociale, 2017). Greater cooperation and coordination in digital skills training by social partners, for example through the establishment of a centralised training fund, could be of benefit.

Box 1.4. Selected initiatives to boost digital skills development

Digital Belgium Skills Fund: Launched in April 2017, this fund finances projects that enhance the digital skills of socially vulnerable children and young adults. Subsidies of between EUR 50 000 and EUR 500 000 are available for selected projects, with 37 receiving financial support in 2018.

DigitalChampions.be: The Belgium National Coalition for Digital Skills and Jobs brings together stakeholders from government, education and the private sector. It undertakes initiatives such as training, workshops and certifications to enable citizens of all ages and backgrounds to strengthen their digital skills. In addition, *DigitalChampions* organised its first Digital Skills Fair in May 2017, with another taking place in 2018.

BeCentral: A digital hub in Brussels was established in 2017 by the partners of the National Coalition and more than 40 entrepreneurs. Its objective is to provide at least 10 000 people with digital skills, with over 30 digital initiatives, including coding schools and cybersecurity programs.

WallCode.be: Digital Wallonia aims to increase digital skills of young people with *#WallCode* by introducing them to coding, algorithmic logic and programming languages. Actions include coding animations for students, digital training for teachers and the organisation of coding weeks.

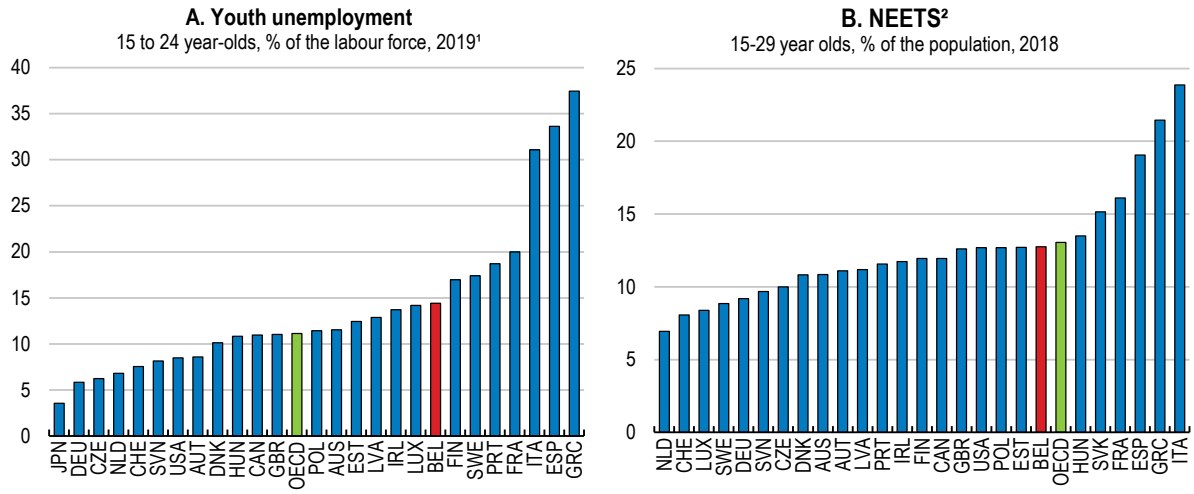
Coderdojo: *CoderDojo* organises free coding workshops for those aged 7 to 18 years. It is supported by the Flemish government together with other initiatives such as *CodeFever* (more formal training programme) and *CodeSchools* (within school environment).

FabLab Mobile: *FabLab Mobile*, funded by the Brussels Institute for Innovation (Innoviris), is a TechTruck where young people (aged 10 to 18) are involved in projects related to digital technologies and coding.

Improving vocational education and training

Youth unemployment and the share of youth that is neither employed nor in education and training (NEET) are relatively high in Belgium (Figure 1.13). Vocational education and training (VET) can play an important role in preparing young people for work, developing skills and responding to labour market needs. Programmes including work-based learning in particular have been widely recognised as an effective means of equipping people with both generic and job relevant skills, by combining learning and work (OECD, 2010). Soft skills, whose importance is growing (Deming and Kahn, 2018), tend to be more easily acquired in workplaces than in classrooms (OECD, 2010). Furthermore, evidence suggests that work-based learning, such as through apprenticeships, can have a positive effect on labour market outcomes in terms of both duration of job search and job tenure for the young in relation to their first job (Bratberg and Nilsen, 1998). From the employers' perspective, work-based learning provides benefits in terms of useful work matching their needs and as a means of recruitment (Mühlemann, 2017; Kuczera, 2017).

Figure 1.13. The labour market outcomes of the youth are relatively weak



1. Average of the last four quarters.
2. Youths neither in employment nor education or training.
Source: OECD (2019), *OECD Labour Force* and *OECD Education Statistics* (databases).

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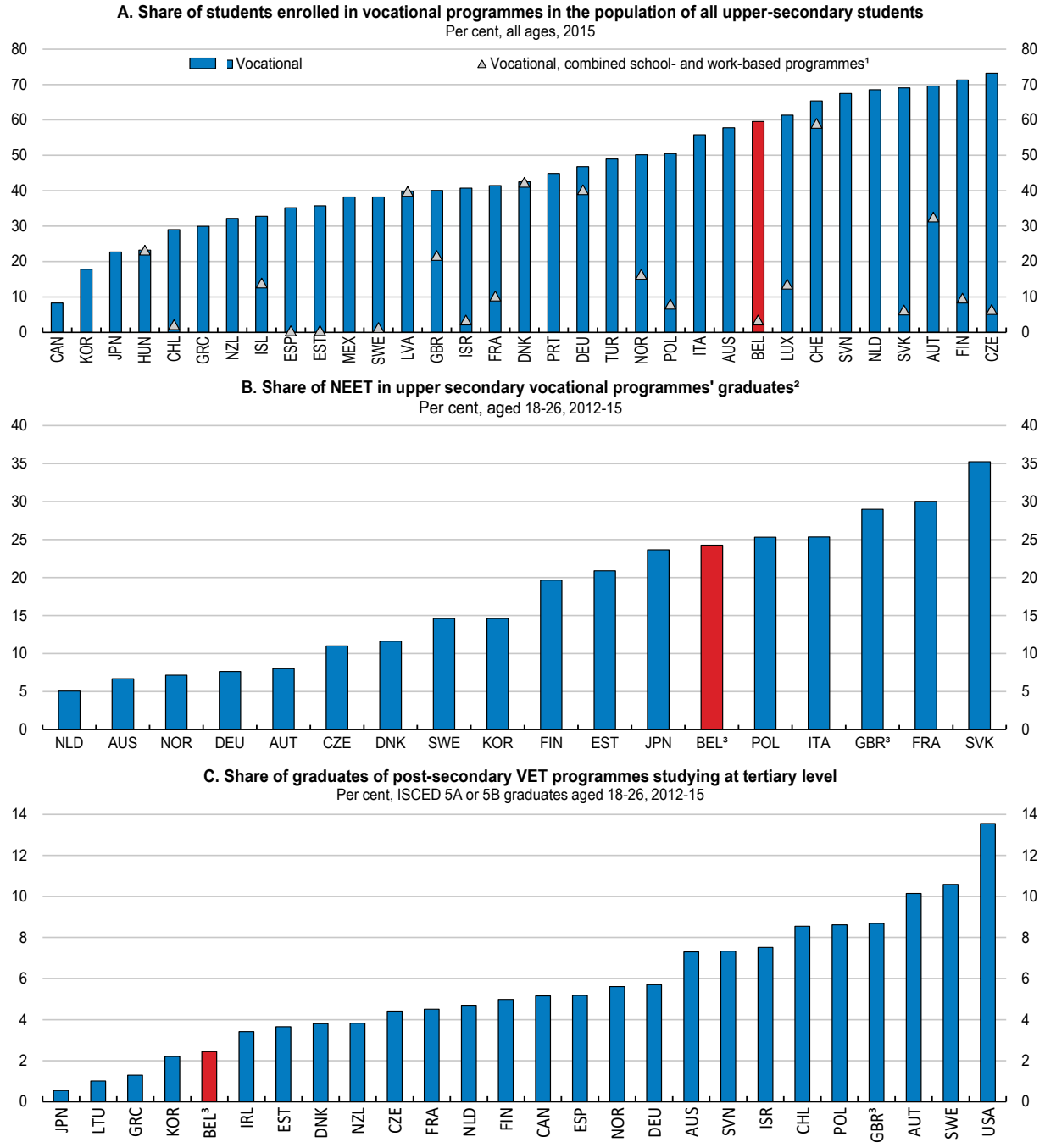
The share of all upper-secondary students enrolled in vocational programmes is high in Belgium at 59%, compared to the OECD average of 44%. However, the proportion of students in vocational programmes, which combine school and work-based learning, is only 3%, which is significantly below the OECD average of 11% (Figure 1.14, Panel A). The low share of students in combined VET programmes goes together with a relatively high proportion of VET graduates neither in education and training nor employment (NEET), at approximately 24% (Figure 1.14, Panel B).

A number of recent initiatives aim to improve the work-based learning component in VET. The Flemish Community approved a new decree on dual learning, starting from September 2019 with 87 study programmes. One important component of the new model is an online tool (*werkplek duaal*), where firms can apply for accreditation of their apprenticeship place (Syntra Vlaanderen, 2017). In the French Community, a pilot project to organise immersions in business was developed in sectors/subjects with labour shortages. The *2020 Training Plan* of the Brussels-Capital Region, adopted in December 2016, includes a number of measures such as the creation of the "training company" label to signal quality offers of training.

Across the OECD, the risk of being NEET is typically higher for VET graduates compared to graduates of general programmes, in part reflecting differences in the likelihood of continuing to higher education. The proportion of graduates of post-secondary VET programmes studying at tertiary level at 2.4% is low in international comparison (Figure 1.14, Panel C). Some recent measures can strengthen the link between VET and higher education. From September 2019, the provision of post-secondary VET will be transferred from adult education centres to higher education institutions in the Flemish Community (OECD, 2018c). Similarly, in 2016, the French Community approved a decree that makes it possible to acquire some higher education degrees dually in an institution-based setting and workplace (OECD, 2018c).

Figure 1.14. There is room to improve vocational education



1. Vocational programmes combining school and work-based learning are defined as those in which 25%-90% of the curriculum is delivered in the work environment. Information on combined programmes is missing or the category does not apply for Australia, Canada, Greece, Italy, Japan, Korea, Mexico, the Netherlands, New Zealand, Portugal, Slovenia and Turkey.
2. Neither in employment, education or training. Upper secondary VET includes programmes classified as ISCED 3C long, ISCED 3B and ISCED 3A identified by countries as vocationally oriented.
3. Data for Belgium and the United Kingdom refer solely to, respectively, the Flanders region and England.
Source: OECD (2017), *OECD Education at a Glance 2017*, OECD Publishing, Paris; OECD calculations based on OECD (2015), OECD Survey of Adult Skills, PIAAC (databases 2012-2015).

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As Belgium has a relatively high share of small firms, the fixed costs of providing work-based learning and apprenticeships, related to administration, supervision and training for supervisors, can be prohibitive for many firms. Greater use of online training for workplace trainers could help, as would further efforts to promote training alliances to support companies that cannot provide a full range of skills to apprentices required for the specific occupation. For instance, some provinces in Austria support training alliances by providing information and support to companies about possible partner enterprises and educational institutions, and co-ordinating different training activities (Austrian Federal Ministry of Science, Research and Economy, 2014).

In addition, the new model of dual vocational learning and the various pilot projects should be evaluated from the perspective of both students and companies. For example, a variety of direct subsidies are utilised in different regions in Belgium. Evidence from Switzerland suggests that direct subsidies are more effective for firms not yet involved in workplace training than those firms that already provide training (OECD, 2015b). In some other OECD countries, apprentices are paid a stipend to make apprenticeships an attractive option to both students and employers. In Australia and Norway, there are special bodies that aim to facilitate apprenticeships by matching employers with students looking for workplace training and also facilitate cooperation amongst SMEs in dealing with administrative duties involved in apprenticeship training. Existing financial incentives around dual learning, such as direct subsidies, for both companies and students should be assessed, extended and enhanced, where appropriate. These could be accompanied by compulsory accreditation for companies and renewal of that accreditation, in order to ensure quality is maintained.

Increasing the attractiveness of STEM studies

Only 18.2% of tertiary students in Belgium graduated from science, technology, engineering and mathematics (STEM) fields in 2017, down from 22.4% in 2005, and well-below the OECD average of 27% (Figure 1.15). Similarly, among upper secondary graduates from vocational programmes, only 25% graduated with a degree in engineering, manufacturing and construction in 2015, compared with 34% across the OECD. According to the *OECD Jobs for Skills Database*, professional, scientific and technical activities, and information and communication are amongst sectors facing occupational shortages in Belgium (OECD, 2018d).

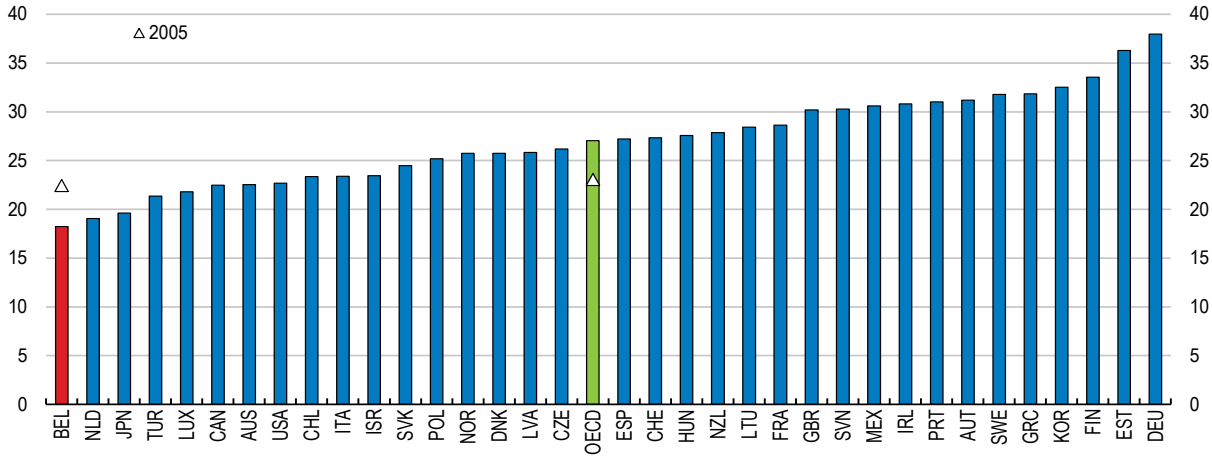
A large number of initiatives have been taken to increase the number of graduates in STEM fields. Two of the five key targets of the Flemish *2012-2020 STEM Action Plan* to raise the supply of graduates with a STEM education have already been met (e.g. between 2010 and 2017, the percentages of new entrants choosing STEM in professional bachelor programmes increased from 23.8% to 26.6%). The plan included improving the marketing and communication of STEM education, strengthening the training of teachers in STEM fields, improving the process by which career and study choices are made, and attracting more girls to STEM courses and occupations. The French Community has no specific STEM action plan, but introduced various initiatives to promote participation in STEM. Further dissemination of data on wage premia by field of study, instead of just level of study, could also entice more prospective students to choose these fields (OECD, 2017a).

Another factor affecting the number of STEM graduates could be the relative wages of STEM and non-STEM graduates. While graduates of STEM fields in Belgium earn higher wages on average relative to non-STEM graduates, evidence suggests this wage premium is low relative to other countries in the EU (Goos et al., 2013), although this will depend

on the level of the STEM qualification (secondary, bachelor or masters). Hence, employers may need to improve the compensation package offered to STEM professionals to attract more students to these fields.

Figure 1.15. The share of STEM graduates in tertiary education is low

Tertiary graduates in natural sciences, engineering and ICT, % of all tertiary graduates[1], 2017



1. Tertiary graduates refer to tertiary education attainments from level 5 to level 8 of the ISCED classification. Graduates in the ICT field are included in other fields for Japan, while data for the Netherlands exclude doctoral graduates.
Source: OECD (2019), *OECD Education Statistics* - Graduates by field (database).

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Creating a new culture of lifelong learning

Lifelong learning can help to prevent skills from depreciating or becoming obsolete and facilitate transitions from declining jobs and sectors to new emerging occupations in a context of rapid technological change. The importance of lifelong learning is further reinforced by population ageing, which increases the need for individuals to maintain and update their skills over longer working lives (OECD, 2019b). This will be especially important in Belgium, where the success of recent pension reforms, such as the tightening of early retirement conditions and the increase in the statutory retirement age, will depend on keeping older workers attached to the labour market.

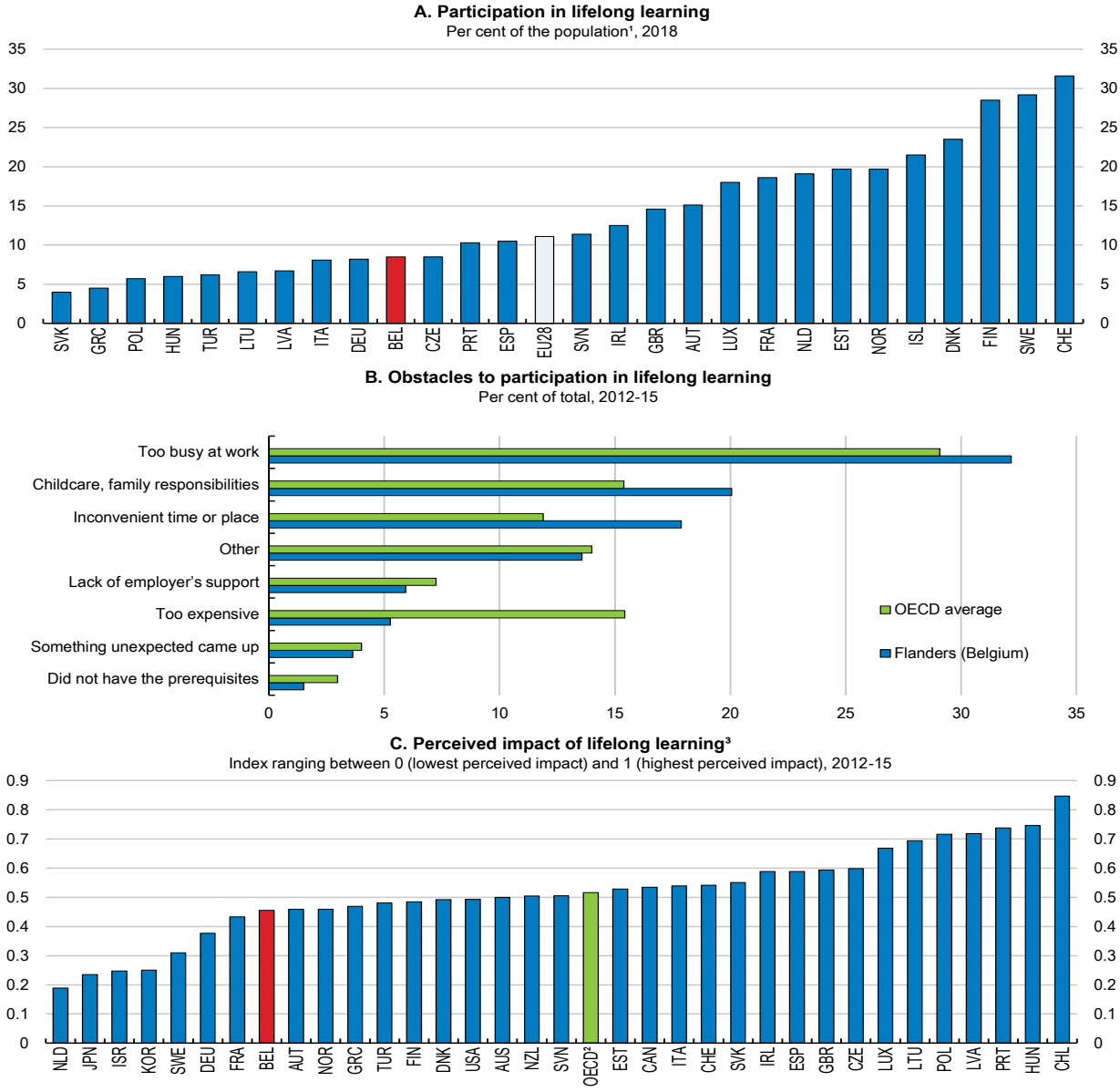
Participation in lifelong learning in Belgium, at 8.5% in 2018, is below the EU average of 11.1% and the EU average target of 15% set by the *Education and Training 2020* framework (Figure 1.16, Panel A). In addition, there are strong regional differences, with Brussels' participation rate of 12.6% nearly twice that of Wallonia at 6.7%. Time constraints due to work, competing family responsibilities and inconvenient time or place of adult education offers are cited as the most important factors limiting the participation of adults in Flanders, which are more widespread than in the OECD on average. While cost is also mentioned as an important barrier by some, in contrast to other OECD countries, this appears to be less of an issue in Flanders (Figure 1.16, Panel B).

Participation in adult learning can have an impact on many different outcomes, which are not always easy to measure. A new OECD indicator on the impact of adult learning focuses on four key outcomes, including self-reported satisfaction, skill use, labour market outcomes, and the wage returns of training participation. The indicator suggests

that the perceived impact of adult learning is relatively low in Belgium (Figure 1.16, Panel C; OECD, 2019d).

Figure 1.16. There is room to improve lifelong learning policies

25-64 year-olds



1. Adults participating in education and training in the 4 weeks preceding the survey.
2. Unweighted average of 34 countries.
3. The indicator measures the perceived impact of participation in adult learning by focusing on 4 self-reported dimensions: usefulness of training, use of acquired skills, labour market outcomes and the wage returns of training participation.

Source: Eurostat (2019), *Adult learning statistics*, Eurostat Database; OECD (2019), *OECD Skills Strategy Flanders*, OECD Publishing, Paris; OECD (2019), *Getting Skills Right: Future-Ready Adult Learning Systems*, Getting Skills Right, OECD Publishing, Paris.

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There are also significant disparities in participation in lifelong learning by individual characteristics. The participation rate of low skilled adults is around 38 percentage points lower than that of the high-skilled (Figure 1.17, Panel A). They also face different barriers, with the low-skilled citing a lack of time due to child care or family responsibility and the high-skilled being too busy with work. This suggests that policy interventions may have to focus on different obstacles for different groups (OECD, 2019e). Seniors' participation in training is 30 percentage points below that of their younger counterparts (Figure 1.17, Panel B). Finally, despite being more willing to attend training, the participation of temporary workers is over 15 percentage points less than that of full-time permanent workers, which is one of the highest relative differences in the OECD (Figure 1.17, Panel C).

A number of measures have been taken recently to increase participation in lifelong learning. For example, in 2018, reforms of paid educational leave, which requires that every employee in the private sector will have 125 hours annual paid leave for education, were introduced in Flanders, as well as a new decree to boost recognition of prior learning (OECD, 2019e). The French speaking community passed a decree in 2017 to harmonise valuation practices within educational institutions and to promote the recognition of prior learning, with an aim to increase the participation rate of adults in lifelong learning. In the Brussels-Capital Region, reforms have improved the validation of skills acquired outside conventional training pathways.

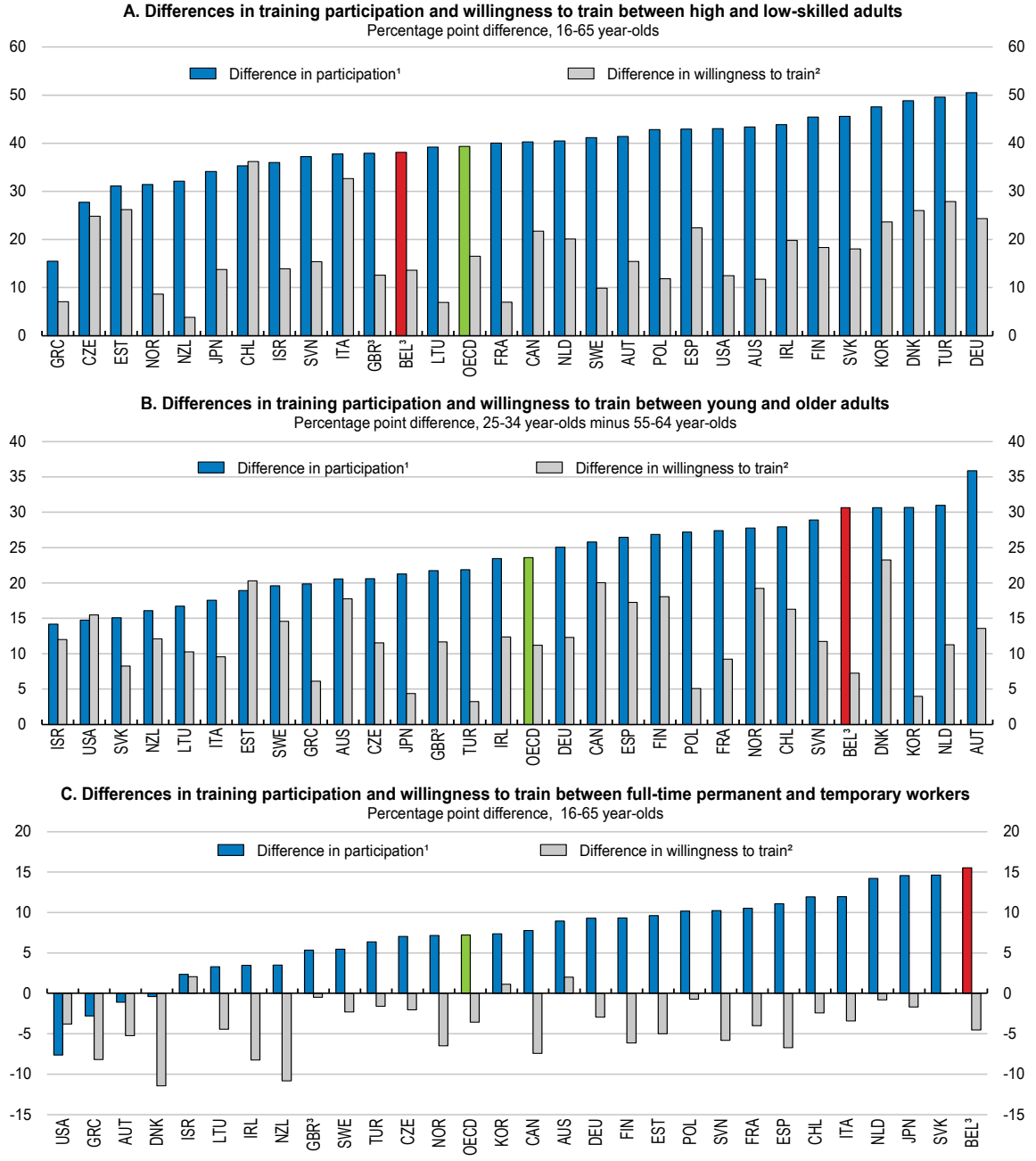
Nevertheless, there remains considerable scope to increase participation in lifelong learning. At the federal level, the training system was changed in 2017 from requiring that firms devote 1.9% of their payroll to lifelong learning programmes to instead providing at least five days of training on average per year. In the short term, the priority should be to ensure that the law is effectively implemented and enforced, as recommended in the *2017 Economic Survey of Belgium*. However, this set-up does not guarantee that the workers who need it the most will get training, since the requirement is at the firm rather than individual level. Hence, a good first step would be to ensure that the entitlement applies to each individual worker, rather than all employees on average.

In the long term, a number of changes to the system can ensure that workers get training in the right areas to boost their skills relevant to the labour market. First, collection of high quality skills assessment and anticipation information to identify current and future skill needs is key. Second, this information can be used to provide guidance to workers and employers, set targeted incentives for them, and offer training options that are in line with skill needs (OECD, 2019d). Finally, in order to ensure access to the relevant training for all workers and keep track of all the training and qualifications of the worker, which could be useful as they change jobs, individualised training allowances could be introduced.

The introduction of individualised training allowances should be accompanied by high quality training provision in areas of skill needs and most importantly individual guidance on the choice of training programmes. To ensure that these training allowances are genuinely used for training that will increase the skills of the worker, the individual allowances could be established in monetary terms instead of hours, as was done in France in 2018. As the cost of training is lower for low-skilled workers, monetary entitlements can enable them to get more training (OECD, 2019f). In addition, targeted support, such as higher training time and/or funding requirements, could be introduced for disadvantaged workers, as is already the case for some training measures in Flanders.

Figure 1.17. Despite their willingness, training opportunities are limited for some disadvantaged groups

2012-2015



1. The difference in participation is the percentage point difference in the share of adults who participated in training over the previous 12 months. Positive values indicate that high-skilled adults participated in training more than low-skilled adults (Panel A), that younger adults participated in training more than older adults (Panel B) and full-time permanent employees participated in training more than temporary ones (Panel C).
2. The difference in willingness to train is the percentage point difference in the share of adults who did not participate in training but would have liked to, according to answers to the PIAAC questionnaire.
3. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.

Source: OECD (2019), *OECD Employment Outlook 2019: The Future of Work*, OECD Publishing, Paris.

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To complement the greater access to training, which individualised options above would bring, and to help foster more of a learning culture amongst adults in Belgium, greater emphasis could be placed on public awareness campaigns. However, when such programs have been implemented in many OECD countries, they have often proved ineffective in reaching out to the low-skilled (European Commission/EACEA/Eurydice, 2015; OECD, 2019g). To address this challenge, several countries have started to put in place more proactive initiatives to reach the low-skilled in the particular workplaces, kindergartens, schools, public spaces and other places they are more likely to frequent regularly (OECD, 2019g). For example, in 2017, the city of Brussels launched a mobile information centre (*Formtruck)* to engage low-qualified and young job-seekers in adult learning (OECD, 2018a).

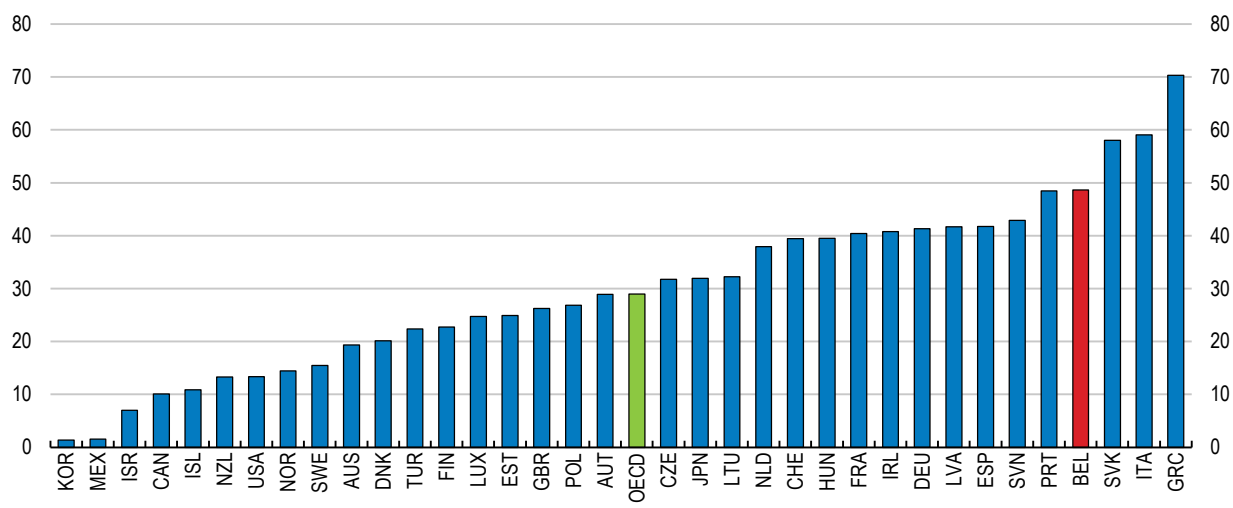
Labour market reform to boost employment and productivity

Better targeted activation policies to combat job displacement

The share of long-term unemployed in total unemployment is high, at around 50% (Figure 1.18). This highlights the potential for active labour market policies (ALMPs), which provide counselling, training support and other re-employment assistance, to help displaced workers match to jobs. International evidence demonstrates that well-designed and targeted activation measures can increase the employability of job-seekers in a cost-effective manner (OECD, 2015c). Such policies will become increasingly important with the changing nature of work and the continuing digitalisation of the economy. In addition, reforms to enhance labour market flexibility and create more opportunity for transitions from unemployment or inactivity to work (see below) would increase the need for effective ALMPs.

Figure 1.18. The incidence of long-term unemployment is high

Unemployed by more than 1 year as a percentage of total unemployment, 2018



Source: OECD (2019), *OECD Labour Force Statistics* (database).

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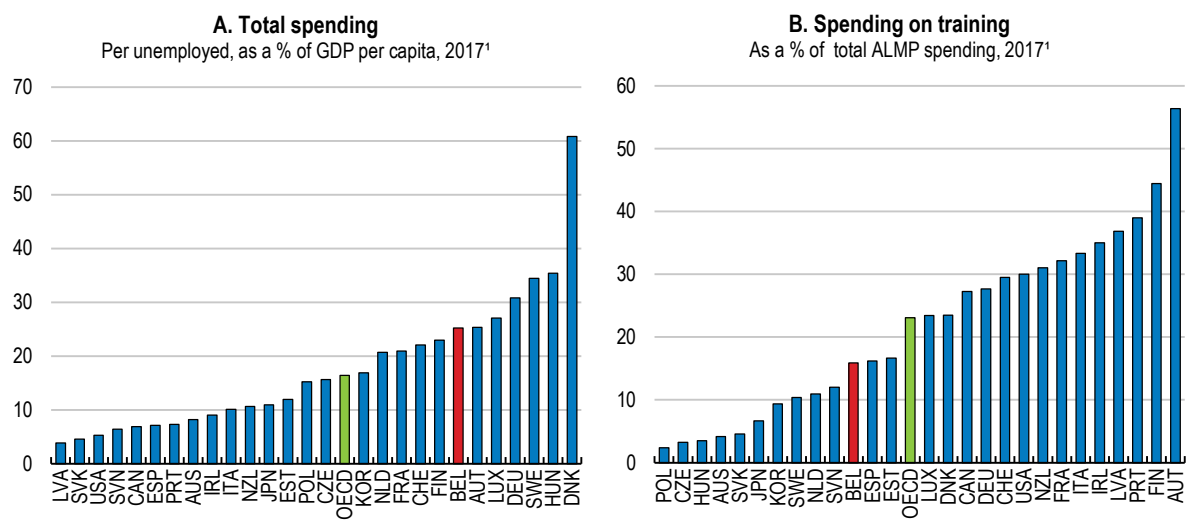
ALMP spending per unemployed, as a percentage of GDP per capita, is 25% in Belgium, above the OECD average of around 16% (Figure 1.19, Panel A). Following the sixth state reform in 2011, ALMPs are largely the responsibility of regions. Aside from the federal employer social security contribution reductions for low-wage employment, support exists in each region for certain groups of jobseekers, in the form of reductions in employer social security contributions and work allowances. In addition, individualised guidance or coaching is available to jobseekers. Nonetheless, spending on activation policies remains below that of Denmark and Germany.

There is scope to increase public expenditure on training, which at 0.15% of GDP in 2016, is around the OECD average, but well below that in neighbouring countries. Furthermore, as a share of total ALMP spending, spending on training is relatively low in Belgium, at approximately 15% compared to the OECD average of 23% (Figure 1.19, Panel B). There is significant international evidence that resources devoted to training have raised both the employability of individuals and the quality of their jobs in the medium and long-term (Card et al., 2018; Wulfgramm and Fervers, 2013). Benefits are likely to be large in Belgium, where low skills are a large barrier to employment (Hijzen et al., 2020). Any increase in public expenditures on training should, however, initially aim to improve the skills of those with lower educational attainment and go hand in hand with efforts to foster an improved culture of lifelong learning, as discussed above.

Figure 1.19. The share of ALMP spending on training is relatively low



1. 2015 for Italy and 2016 for New Zealand.
Source: OECD (2019), *Statistics on Labour Market Programmes* (database).

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Given the significant disparities in labour market outcomes in Belgium, the benefits of public employment services (PES) making greater use of statistical profiling tools, are likely to be significant. This is because more costly and intensive services can be better targeted at jobseekers who are more at risk of becoming long-term unemployed, interventions can be made at an earlier stage, and services can be tailored more closely to the individual needs of jobseekers. Statistical profiling tools rely on a statistical model to predict labour market disadvantage as opposed to rule-based profiling, which uses eligibility criteria, or caseworker-based profiling, which relies more on judgement, to

classify jobseekers into client groups. As the availability of real-time data has increased, together with the necessary computing power, the use of statistical profiling tools has become more widespread across the OECD (Desiere, Langenbucher and Struyven, 2019; Box 1.5).

Box 1.5. Statistical profiling in Austria

The statistical profiling tool of the Austrian public employment services (AMAS) consists of two functions and predicts the likelihood of re-employment among unemployed jobseekers in the short and long-term with a very high level of accuracy. The short-term function assesses the probability of moving into unsubsidised employment for a duration of at least three months within the first seven months after the start of unemployment.

The long-term function estimates the probability of moving into unsubsidised employment for at least six months over 24 months. Clients are then assigned to three different client groups: high, medium and low chance of labour market reintegration. The model relies on administrative data sources only. It makes use of socio-economic variables (gender, age, nationality), information on job readiness (education, health limitations, care responsibilities), and opportunities (regional labour market situation). An important feature is the use of detailed labour market histories for each jobseeker, including on prior work experience (type and intensity), frequency and duration of unemployment, and past participation in active labour market programmes.

Source: Desiere, S., K. Langenbucher and L. Struyven (2019), "Statistical profiling in public employment services: An international comparison", *OECD Social, Employment and Migration Working Papers*, No. 224, OECD Publishing, Paris.

Statistical profiling tools are not widely used in Belgium. However, as part of a new contact strategy that has been rolled out in October 2018, the Flemish Public Employment Service has developed a statistical profiling model, called "Next Steps", which estimates the probability of being unemployed for a period of greater than 6 months. The model uses a modern machine-learning algorithm and exploits multiple sources of information such as jobseekers' socio-economic characteristics, labour market history and "click data", which monitors jobseekers' activity on the PES website in order to account for job search behaviour and motivation. The contact strategy aims to reach and screen all new jobseekers within six weeks after registration at the PES. Counsellors develop tailor made activation programmes to those identified as high-risk jobseekers by the profiling model (Desiere, Langenbucher and Struyven, 2019).

Greater use of statistical profiling tools to identify those at the risk of becoming long-term unemployed, such as the "Next Steps" model, should be made in all regions in Belgium. Synerjob, a joint organisation of the regional public employment services, would provide an excellent avenue through which the outcomes of implementing "Next Steps" in Flanders could be shared. This innovative profiling tool could also be further enhanced, for example, by adding more behavioural information to the model using a short online questionnaire to capture jobseekers' motivation and self-reliance.

Promoting labour market flexibility through sound regulation

The Belgian labour market shows signs of rigidities with few workers moving between firms and long job tenure rates. On one hand, employment protection legislation provides a degree of worker security encouraging employees to invest in firm-specific expertise and employers to invest in their staff, which can boost innovation (Belloc, 2019; Kleinknecht et al., 2014). On the other hand, a more efficient allocation of labour can enhance productivity growth and improve innovation by increasing the willingness of firms to take more risks (Bartelsman, Gautier and De Wind, 2016) and facilitating the diffusion of new technologies and ideas to firms by new workers. Furthermore, with higher labour market mobility, flows into and out of unemployment are typically higher, while the average unemployment duration is lower (Cournede, Denk and Garda, 2016).

The stringency of protection for regular contracts against individual dismissals in Belgium is around the OECD average (Figure 1.20, Panel A). The reason that the OECD indicator is not lower for Belgium is, primarily, for two reasons. First, the employer can choose either a notice period or severance pay, which makes job protection lighter for regular contract workers against individual dismissals. However, both notice periods and severance pay are relatively high, at 3.5 months and 3.5 times the monthly wage, with 4 years of job tenure, respectively. This compares to France, for example, where, for the same job tenure, the notice period is higher than the severance pay requirement, at 2 months and 1 monthly wage, respectively. The second reason is the lack of probationary periods for workers on regular contracts (OECD, 2019a), although this is to some degree compensated for by reduced notice periods for very short job tenures (1 week for job tenure of 3 months or less).

With respect to employment protection for regular contracts against collective dismissals, Belgium has the second most stringent legislation in the OECD (Figure 1.20, Panel B). In Belgium, these regulations apply to firms with more than 20 workers that dismiss between 10 and 30 workers within a period of two months depending on firm size, and the difference in stringency between individual and collective dismissals is particularly high.

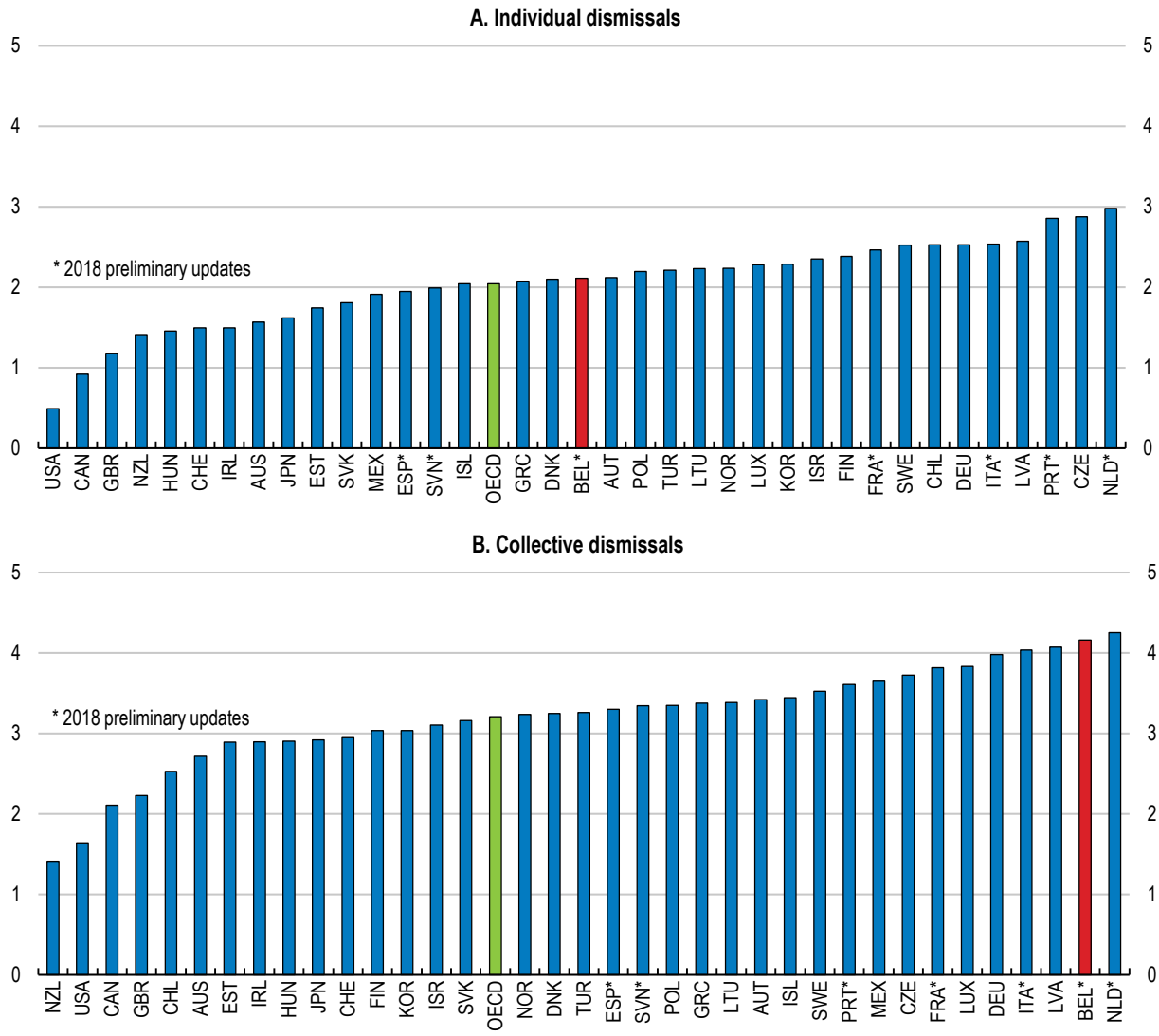
The stringency of collective dismissals is due to several features. First, in the event of a collective dismissal, two notifications are required. The first notification goes to staff representatives and the public authorities, and must be followed by a consultation procedure. This procedure is lengthy and involves significant legal uncertainty as the law is not clear when the consultation is closed, meaning employees can easily challenge the notification procedure. The firm may send the second notification to the public authorities with details on the planned redundancies only when the consultation is closed and no dismissals can occur in the 30 to 60 days after the second notification is issued. Second, alternatives to a dismissal need to be considered before a collective dismissal to show that the dismissal cannot be avoided. Finally, as opposed to individual dismissals, where the employer can choose between a notice period and severance pay, dismissed workers are eligible to both a notice period and compensation in the case of collective dismissals.

To facilitate greater labour market flexibility employment protection against collective dismissals could be reduced in a variety of ways, as recommended in the *2019 OECD In-Depth Productivity Review of Belgium*. Setting explicit criteria in the law or involving a third party, such as a social mediator, could help to clarify the end of the consultation procedure. Another option would be to simplify the two-step notification procedure so that it becomes more similar to the procedures in Germany and the Netherlands, where only one notification is required. New forms of collective contract termination, mutually

agreed by the firm and workers, such as the one adopted in France in 2017 ("*rupture conventionnelle collective*"), could also be used (OECD, 2019a).

Figure 1.20. Employment protection against collective dismissals is relatively strong

Employment protection legislation indicators for workers in regular employment[1]



1. The data for most countries refer to 2013, the latest year in the database. The data for the United Kingdom refer to 2014 and for Lithuania to 2015. The data for Belgium, France, Italy, the Netherlands, Portugal, Slovenia and Spain are preliminary updates for 2018. The indicator for collective dismissals assumes that the range of the indicator for specific requirements for collective dismissals is 40% of that of the indicator for individual dismissals, to match the current joint indicator for individual and collective dismissals. The range for individual dismissals is 0-6 and for collective dismissals 0-8.4. The OECD number is the unweighted average of all 36 OECD countries. See OECD (2019a), *In-Depth Productivity Review of Belgium* for more details.

Source: OECD estimates based on the OECD Employment Protection Legislation Database.

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Enhancing links between wages and productivity at the firm and worker level

A number of institutional design features can affect incentives of workers and firms with implications for reallocation and productivity. Among these, the collective bargaining system and seniority-based pay have been highlighted as two potential reform areas in the *2017 Economic Survey of Belgium* and the *2019 In-Depth Productivity Review of Belgium*.

The wages of older white-collar workers are relatively high compared to those of the young in Belgium, which can reduce the employability and job mobility of older workers. It will be important to ensure that senior workers can maintain their attachment to the labour market for success of pension reforms. While other factors such as lifelong learning will also play a role, reducing the steepness of seniority-based wage profiles through the tri-partite wage bargaining process can also help. In this regard, the forthcoming report by the Central Economic Council on this issue is welcome.

Belgium has a high degree of both wage centralisation across firms and wage coordination across sectors. Such wage bargaining systems have been linked to higher employment, and lower wage inequality on one hand and lower productivity growth on the other (OECD, 2018b). In principle, wage coordination should allow for a better alignment of wages and macroeconomic conditions, contributing to resilience and adaptability. It will be important to assess to what extent the reform of the wage setting system in 2017 contributed to international competitiveness, as recommended in the *2017 Economic Survey of Belgium*.

There could be a need for introducing more flexibility into the wage setting mechanism at the micro-level, while preserving the integrity of sector-level bargaining. This can be achieved by allowing the sectoral framework agreement to leave space for some adaptation at the firm level, as is the case in Austria, Denmark, Germany, the Netherlands, Norway and Sweden, which are classified as organised decentralised and coordinated systems (OECD, 2018a; 2019a). For example, the possibility of opt-outs are utilised in Austria and Germany, but rarely in Belgium. Given the relatively high levels of trade union membership and the strong role for social partners in the wage setting process in Belgium, the approach could be similar to that taken in the Nordic countries. In Denmark and Sweden, leaving the application of the favourability principle, which allows for departing from regulations in the employee's favour under the terms of the contract of employment, to social partners is used to increase the flexibility of the system and allow for a stronger link between wages and firm performance.

For a tax and benefits system that is fair and incentivises work

Inclusive social protection that encourages work

Unemployment benefits

The optimal design of unemployment benefits over the unemployment spell has been the subject of intense debate in Belgium, resulting in an important reform in 2012 that extended the number of workers facing declining unemployment benefit (UB) schedules and made the decline steeper (Box 1.6). A well-designed UB system needs to strike the right balance between providing effective protection against income losses and maintaining incentives to work throughout the unemployment spell. This will depend on its coverage, the level and financing of benefits over the unemployment spell and the interaction of the system with other tax and benefit policies.

Box 1.6. The schedule of unemployment benefits in Belgium

A reform implemented in 2012, with the aim of increasing the incentives to work for the long-term unemployed, extended the number of workers facing declining UB schedules and made the decline steeper. For many workers, this was achieved by increasing the replacement rate for the first few months (from 60% to 65% of recent earnings), while decreasing the effective replacement rates later in the spell. The reform made the long-term level of the UB independent of previous earnings for all unemployed (before the reform, this was already the case for long term cohabitants), therefore moving towards a system aiming to provide a minimum level of income over the long-term, rather than smoothing income variations per se.

Figure 1.21 illustrates the main implications of the reform using a specific example (a single earner couple with two children) for workers with different contributions (6 and 21 years). Before the reform, the UB settled at its long-term level at 12 months for both workers. After the reform, they both receive higher UB in the short term, but they also face more frequent changes (at 3, 6 and 12 months). Eventually, for both work histories, the UB converges to the same replacement rate, but the speed of this convergence is faster for the worker with the shorter work history.

Figure 1.21. Unemployment benefit schedule over the unemployment spell

% of the previous wage for a worker on low-pay in a single-earner couple with two children[1]

1. The figure shows the evolution of net UB levels over 60 months (before and after the reform) for a worker on low pay (67% of the year-specific average wage) who is the sole earner of a couple with two children. Two work history profiles are considered, one for a worker with 21 years of contributions and one with 6 years. For comparability across time, the UB levels are presented as a fraction of the previous wage.
Source: Hijzen and Salvatori (2020), OECD calculations based on the OECD's TaxBEN model.

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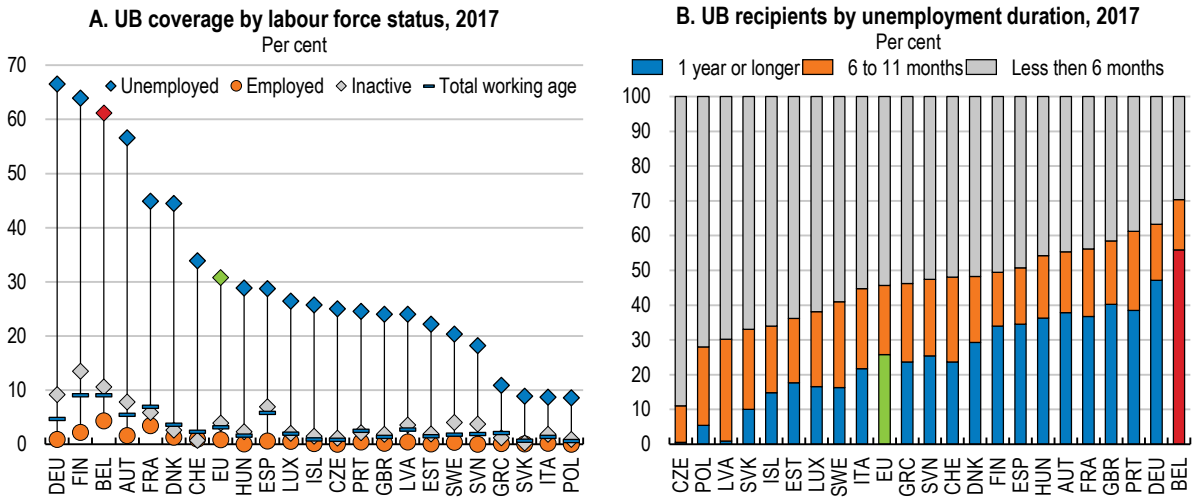
The *OECD Jobs Strategy* recommends that reaching a high coverage of unemployment and other out-of-work benefits, provided mutual obligations are enforced, plays a pivotal role in the success of activation strategies (OECD, 2018a). Unemployment benefit coverage in Belgium is high, with coverage among the unemployed in 2017 at over 60%, more than double the EU average (Figure 1.22, Panel A). In addition, coverage is high for

all durations of unemployment, particularly for the long-term unemployed, who account for about 55% of total UB recipients. Such a share is close to that in Germany (47%), and well above the EU average of 26% (Figure 1.22, Panel B). To some extent, this reflects the fact that Belgium offers time-unlimited access to unemployment benefits (linked with active job search), while in many other countries, there is a switch to means-tested social-assistance when UB entitlements are exhausted.

Figure.1.22. Unemployment benefit coverage is high



Source: Hijzen and Salvatori (2020), OECD calculations based on EU-LFS data.

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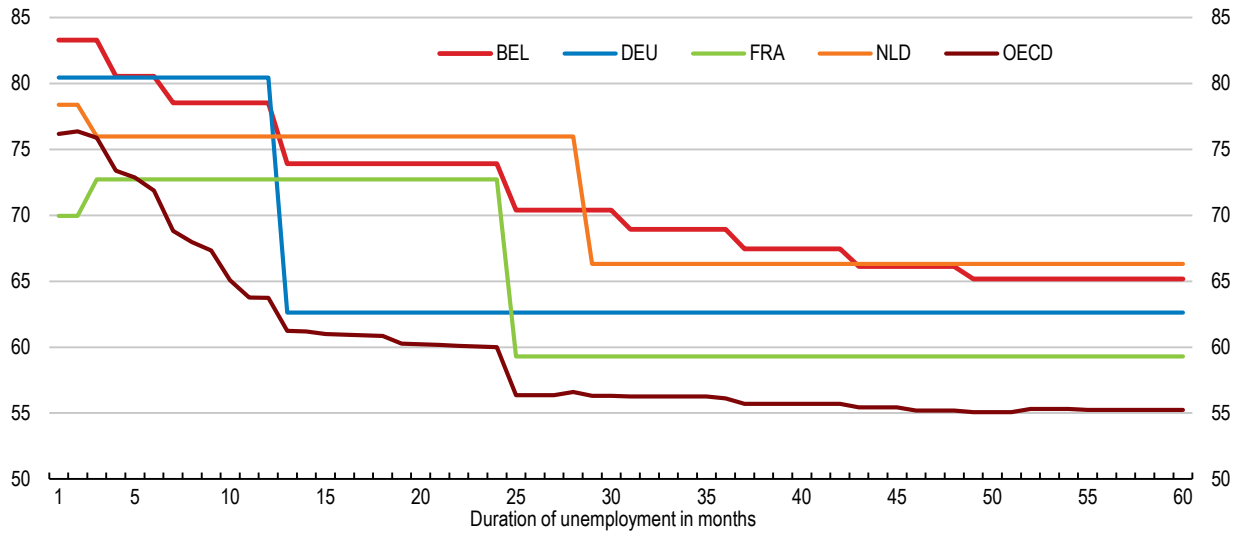
Belgium also has a high UB coverage among employed and inactive workers. Among the employed, this largely reflects part-time workers who can in some cases combine partial unemployment benefits (*Allocation de Garantie de Revenus, AGR,* or *Inkomensgarantieuitkering, IGU*) and work. These benefits ensure that working part-time yields a net income that is equal or higher than full unemployment benefits. Among inactive UB recipients, over 70% are not readily available for work, while the other 30% are "discouraged" workers who are available to work but are not actively searching (Hijzen and Salvatori, 2020). Both groups of inactive benefit recipients are likely to require tailored support to overcome barriers to employment to increase their work availability (e.g. child-care services), work readiness (e.g. training) and the effectiveness of their job search (e.g. job-search assistance) (Hijzen et al., 2020), which are discussed elsewhere in the survey.

Net replacement rates for low-paid workers are higher in Belgium than on average in the OECD, with the difference growing over the first year of unemployment (Figure 1.23), partly reflecting the time-unlimited access to unemployment benefits. Compared with neighbouring countries with long-lasting unemployment benefits, however, the Belgian system does not stand out as particularly generous, although this depends upon family type.

Figure 1.23. Net replacement rates are relatively high, particularly for the long-term unemployed

Proportion of previous in-work household income maintained after a certain period of unemployment[1], 2018



1. Net replacement rates refer to the net household income during unemployment as a fraction of total net household income before unemployment. Household income during unemployment includes unemployment insurance, unemployment assistance, family benefits, social assistance and housing benefits. The net replacement rates are computed for households where one adult aged 41 and with full working history becomes unemployed and their previous earnings equal 67% of the average wage. They are an average across six family types: single, single earner couple and dual earner couple (all with and without children).
Source: Hijzen and Salvatori (2020), OECD calculations based on the OECD's TaxBEN model.

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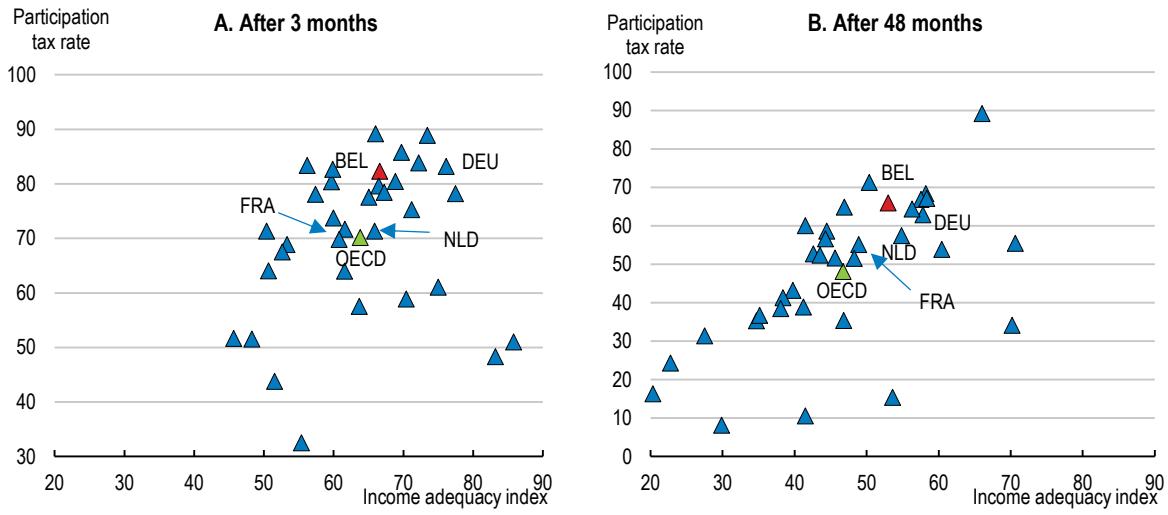
Relatively high replacement rates for the unemployed (and formerly low paid workers) translate into relatively high levels of income adequacy, which refers to the household income during unemployment as a percentage of the median disposable income (Figure 1.24). This is the case for all unemployment durations and for most household types, with some notable exceptions. For instance, the net household income of a low-paid person with a dependent partner who has been unemployed for a very long time is well below the poverty line (50% of median income). Large differences in the net income position of the long-term unemployed across household types, after taking into account differences in household composition, are difficult to justify and should be avoided. This largely results from the fact that the long-term level of the unemployment benefit is flat and only varies across three broadly defined household types.

To ensure that the long-term level of support for the unemployed reflects household needs more closely, most OECD countries limit the duration of unemployment insurance benefits, while allowing the unemployed to move to either means-tested unemployment-assistance or social-assistance programmes after their expiration. Similarly, Belgium should switch from flat benefits to means-tested benefits for the long-term unemployed, which could be implemented in either way. The main advantage of introducing means-testing within the current UB system would be that they can continue to benefit from the activation system that comes with UB. Alternatively, social-assistance systems could be extended, by treating all persons living in poor households – whether long-term unemployed or inactive – in the same way. This would imply treating income support for

the long-term unemployed in poor households as a social policy issue that is financed through general taxation rather than social security contributions.

Figure 1.24. High income support for low-wage workers tends to be associated with high participation tax rates

Average across six family types[1], 2018



1. Income adequacy refers to the household income during unemployment as a percentage of the median disposable income. Participation tax rates refer to the fraction of additional gross earnings lost to either higher taxes or lower benefits when a jobless person takes up employment. The indices are computed for households where one adult aged 41 and with full working history becomes unemployed and their previous earnings equal 67% of the average wage. The indices are an average across six family types: single, single-earner couple and dual-earner couple (all with and without children).
Source: Hijzen and Salvatori (2020), OECD calculations based on the OECD's TaxBEN model.

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Irrespective of the way means-testing is introduced, it is important to note that this would inevitably cause some UB recipients to lose income support. This is likely to be the case for the unemployed who are in households with other sources of income, such as those with a working partner, or those who have assets or savings, such as some older workers with long work histories. In addition, public employment agencies should continue their relationship with those in need of activation. The associated cost savings could be used to strengthen work incentives by lowering social security contributions for unemployment insurance or to further invest in activation support.

The relatively generous income support for the jobless (for most household types) tends to lower work incentives. As of January 2018, the participation tax rate, the share of additional earnings from work that is lost due to reduced benefits and increased taxes for workers with low wage (in previous and new job), was 82% after 3 months and 66% after 4 years of unemployment, higher than the OECD averages of 70% and 48%, respectively. The recent tax shift will have further reduced the participation tax rate for low-wage workers. Computations from the Belgian government, based on different assumptions on family types and unemployment benefits, suggests that accounting for all the effects of the tax shift, for a long-term unemployed who finds low-paid employment, the participation tax rate has been reduced by over 10%. These effects will be higher for workers whose re-employment wages might be lower than their previous one, which is

often the case for reasons such as skill depreciation due to long spells of unemployment, employer discrimination against the long-term unemployed or a deterioration of the business cycle (Jacobson et al., 1993; OECD, 2013a).

There is scope for Belgium to reduce work disincentives, in particular for the long-term unemployed, while maintaining or even increasing the current level of income support. For example, 48 months into the unemployment spell, the Netherlands offers approximately the same level of income support as Belgium, but with lower participation tax rates. Germany has broadly similar participation tax rates, but a higher level of income support.

Belgium has already taken steps to increase work incentives for low-earners through the "tax shift" since 2016 that fully came into effect in 2019. Further improvements in work incentives could be pursued through additional measures to make work pay, in line with the shift in emphasis towards supporting those in work that has taken place in many OECD countries in recent years (Causa and Hermansen, 2017). One option is to extend to full-time workers with low earnings the possibility to cumulate unemployment benefits and income from work, building on the existing scheme for part-time workers (*Allocation de Garantie de Revenus*, AGR, or *Inkomensgrantieuitkering*, IGU). Alternatively, Belgium could consider the introduction of in-work benefits, like the long-standing *Earned Income Tax Credit* in the US or the *Prime d'activité* in France (Carcillo et al., 2019).

In the adoption of these reforms to make work pay, it is important to make sure that the measures are sufficiently well targeted at low-wage workers, both to limit their fiscal costs and to reduce the risk that employers capture some of these benefits. To the extent that wage floors – whether in the form of the statutory minimum wage or collectively agreed sectoral wage floors – are binding for low-wage workers, the risk that firms capture the benefits of well-targeted make-work-pay measures through bargaining is limited in Belgium.

One aspect of the 2018 "*Jobs Deal*" reform package, which comprises 28 measures to improve the functioning of the labour market and increase employment, proposed further reform of the UB system, but was not implemented. The proposal included further frontloading UB by raising its level in the first 6 months of unemployment and adapting the timing of stepwise declines or their corresponding levels of UB. However, the final level of the UB, occurring at the latest 48 months into the unemployment spell, would not be changed.

Evidence from Hungary suggests that reforms that frontload unemployment benefits can reduce unemployment and be revenue neutral, despite the increase in the level of unemployment benefits in the short term (Lindner et al., 2016; DellaVigna et al., 2017; Box 1.7). However, this does not necessarily imply that making UB steeper is socially desirable since the increase in the outflow rate from unemployment may in part reflect greater financial distress among the unemployed.

The social desirability of declining unemployment benefits over the spell depends on whether the cost in terms of lost income (and consumption) by the long term unemployed is offset by an increase in the entry rate into employment as a result of stronger work incentives. Whether this happens or not depends crucially on how the unemployed at different points of the unemployment spell respond to changes in income and financial incentives. Recent evidence from Sweden and Spain suggests that the long-term unemployed are less responsive to financial incentives than the short-term unemployed, weakening the case for declining benefit schedules (Campos, García-Pérez and Reggio,

2017; Kolsrud et al., 2018). Hence, to gain insights on how the unemployed respond to changes in the UB schedule in Belgium and help shape the national debate on this issue, an in-depth evaluation of the 2012 reform that increased the degressivity of UBs over time is needed.

Box 1.7. Frontloading unemployment benefits: Evidence from Hungary

In 2005, Hungary implemented a reform that frontloaded unemployment benefits. The amount paid over the first 90 days was increased, while that in the subsequent 180 days was reduced and the lower level beyond 270 days was left unchanged. The reform therefore resulted in a new step decline at 90 days and a reduced step decline at 270 days.

Evaluations of the reform suggest that the steeper decline in the time profile of unemployment benefits reduced unemployment (Della Vigna et al., 2017) and was revenue neutral despite the initial increase in benefits (Lindner et al., 2016). More specifically, Della Vigna et al. (2017) find that, following the reform, flows out of unemployment spiked around the 90-day threshold and then converged to their pre-reform levels later in the spell. These findings could be explained by workers' "reference-dependent" preferences that adjust over time. Workers who become unemployed initially search intensively in an effort to restore income and consumption to the level when working. However, as they get used to the lower level of income and consumption when unemployed, they gradually lower their job-search intensity.

Pensions

Alleviating risks of old-age poverty can be particularly challenging for workers engaged in non-standard forms of work or the self-employed. For example, these workers may make low levels of pension contributions over time or have prolonged periods where they make no contributions at all (OECD, 2019b).

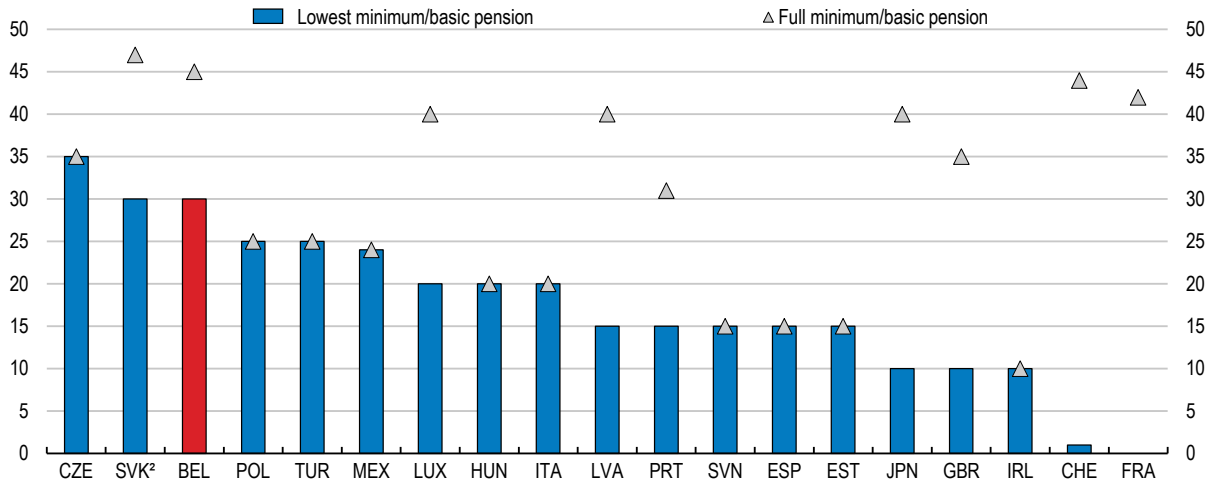
Several different minimum pensions exist in Belgium, including pensions for salaried and self-employed workers and the minimum right per career year for salaried workers only. Those who benefit from these receive pension benefits that exceed regular earnings-related pension benefits. For the minimum right per career year, the minimum contribution period that is required is 15 years of at least one third of a fulltime equivalent year. The minimum pension of the public sector requires 20 years of service. In the case of minimum pensions, the minimum contribution period that is required is relatively high (Figure 1.25) and may be challenging to meet for some, particularly those with unstable careers. Belgium has relatively good levels of non-contributory pensions, which are pensions not linked to contributions one makes over their working lives (OECD, 2019b). However, a reduction in the number of career years required to gain a minimum pension could further minimise the chance of poverty in old-age for non-standard workers.

Despite recent reforms of social protection of the self-employed, there remain some important differences in terms of access to pensions between employees and the self-employed. While obligatory, contribution rates for the self-employed are lower, and the maximum pension available to them after a full career is considerably less than that of an employee (approximately EUR 1 650 versus EUR 2 500 per month in 2018). This maximum pension for the self-employed is also only slightly higher than the corresponding minimum pension (approximately EUR 1 250 per month in 2018). With first pillar pensions for the self-employed largely unrelated to previous professional

income due to relatively low maximum pensions, there is little incentive to declare high levels of income. Instead, private saving for retirement, for example, through tax advantaged private pension products, may be more attractive. Compared to other OECD countries with voluntary pension systems, however, the amount of assets held in voluntary pension funds as a share of GDP is relatively low (Figure 1.26; OECD, 2018e).

Figure 1.25. Required contributions for minimum pensions may be hard to meet for workers with unstable careers

Required contributions in years[1]



1. Data refer to minimum pension schemes, with the exception of Estonia, Japan, Ireland and the United Kingdom, where first-tier pension systems rely on basic pension schemes. Both minimum and basic pensions are paid in the Czech Republic and Luxembourg, where the corresponding contribution period for the basic pension is 35 years and 10 years, respectively. See OECD (2015) for details on the inclusion of credits in pension systems for unemployment and childcare across countries.
2. In the Slovak Republic, there is no upper limit for the minimum pensions as it increases with each additional contribution year.
Source: OECD (2019), *OECD Employment Outlook 2019: The Future of Work*, OECD Publishing, Paris.

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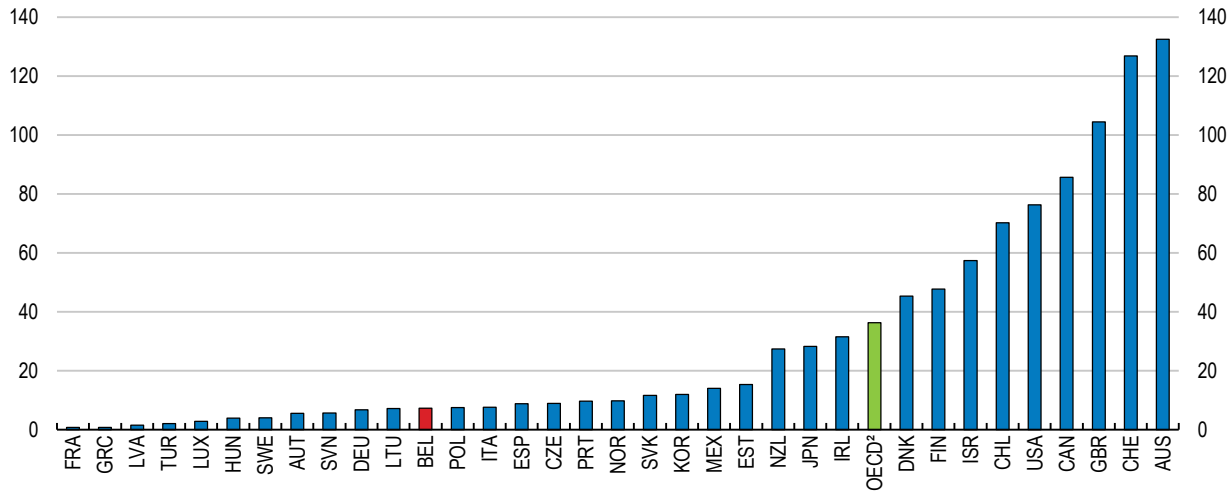
The pensions system of the self-employed should be further aligned with that of dependent employees, for example through the harmonisation of contribution rates and pension calculations. Currently, a coefficient of harmonisation lowers the income of the self-employed before the pension calculation formula is applied. Further alignment of different schemes would help enhance social protection and reduce the risks of poverty in old age amongst this group. To assist with financing, clients of the self-employed could potentially be required to pay part of the pension contributions that are due for some categories of self-employed workers, as is the case in Austria, Germany, Italy and Portugal (OECD, 2019b). Changes to the second pillar of pensions for the self-employed could also help, to the extent that the objectives of this pillar are similar to those of the first pillar. For instance, most pension withdrawals are in the form of lump sums, however, a degree of annuitisation could provide benefits from a social protection standpoint. In addition, with around 50% of self-employed workers contributing to second pillar pension schemes, automatic enrolment with the ability to opt out, as is the case in New Zealand, could further increase participation.

Figure 1.26. Total assets in private pension funds

As a percentage of GDP, 2018[1]



1. Data cover all funded plans (mandatory or voluntary, occupational or personal, for public or private-sector workers) that may be financed through pension funds, but exclude pension insurance contracts, employers' book reserves or other retirement vehicles. Preliminary data for 2018.
2. Unweighted average.
Source: OECD (2019), *Pension Market in Focus*, based on data collected from national pension authorities within the framework of the OECD Global Pension Statistics (GPS) project.

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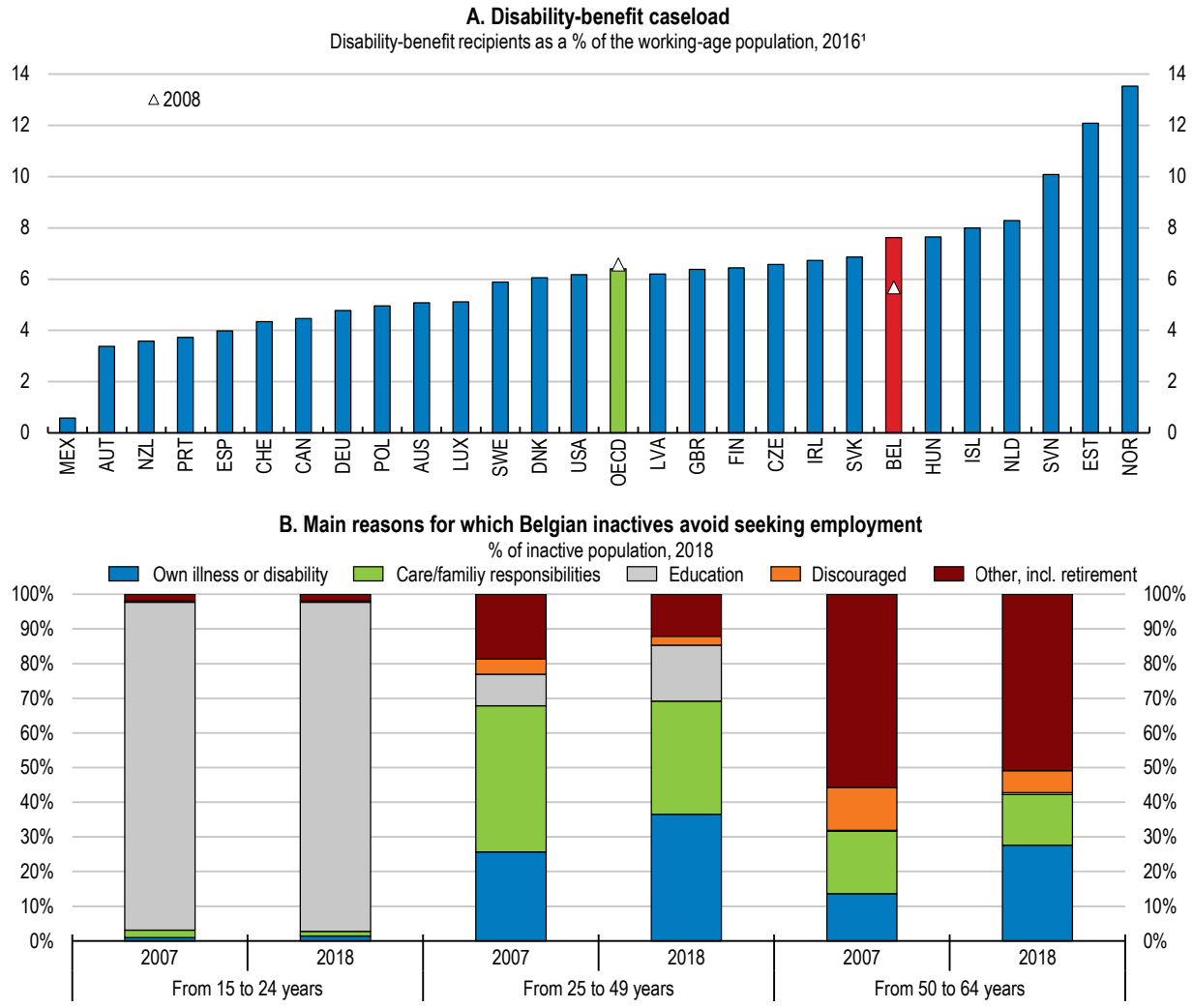
Sickness and disability benefits

Sickness and disability benefit systems should balance protection with work incentives to ensure the reintegration of sick workers, while restricting unwarranted inflows into these schemes. An effective system is essential as recent OECD analysis identifies health limitations as one of the major employment barriers in Belgium (Hijzen et al., 2020). Indeed, the share of disability benefit recipients is relatively high and has risen strongly in recent years (Figure 1.27, Panel A). Furthermore, an increasing share of the inactive population cites sickness and disabilities for the reason for inactivity (Figure 1.27, Panel B). In other countries, changes in other benefit schemes have resulted in the uptake of sickness and disability benefits because of the change in their relative attractiveness (Jousten et al., 2012). This could be part of the explanation for Belgium, where a number of reforms, including the gradual phase-out of early retirement schemes and the status of "older unemployed people" exempt from seeking work, have tightened conditions for other schemes.

Employers can play an important role in preventing long-term sickness absence and helping sick workers back into a job in the firm through a clear rehabilitation and return-to-work process (OECD, 2018a). Until recently, employers in Belgium were not obliged to ensure the reintegration of employees on long-term sickness leave. However, two royal decrees in 2016 introduced a compulsory reintegration procedure by employers for employees on long-term disability leave. This is welcome as a focus on capacity to work is a key part of successful reform of these schemes. There are also some pilot projects to activate workers on sickness and disability benefits through the public employment services, which should be extended.

Figure 1.27. Inflows into disability and sickness benefit schemes should be monitored



1. Or latest year available.
Source: OECD (2018), *Good Jobs for all in a Changing World of Work*, OECD Publishing, Paris; Eurostat (2019), *Inactive population not seeking employment by sex, age and main reason*, Eurostat Database.

StatLink https://doi.org/10.1787/888934049648

While it is hard to fully assess the impact of these reforms yet, it will be important to monitor and evaluate the existing schemes regularly to ensure that the incentives for those with a partial ability to work are maintained. An initial assessment shows that 14% of those fulfilling their reintegration plan found another full-time job, but often the plans are abandoned, especially among older workers and those on invalidity benefits (Saks, 2017). Furthermore, the success of these reforms requires coordination between the employer, the employee and the consulting physician.

There are also some financial disincentives for single parents and to a lesser extent couples with children to start working after a period of long-term sickness and disability (Hufkens et al., 2017). In general, work incentives have been improved by a recent reform of sickness benefits. Hence, an evaluation of the existing schemes should pay particular attention to effects on different family types.

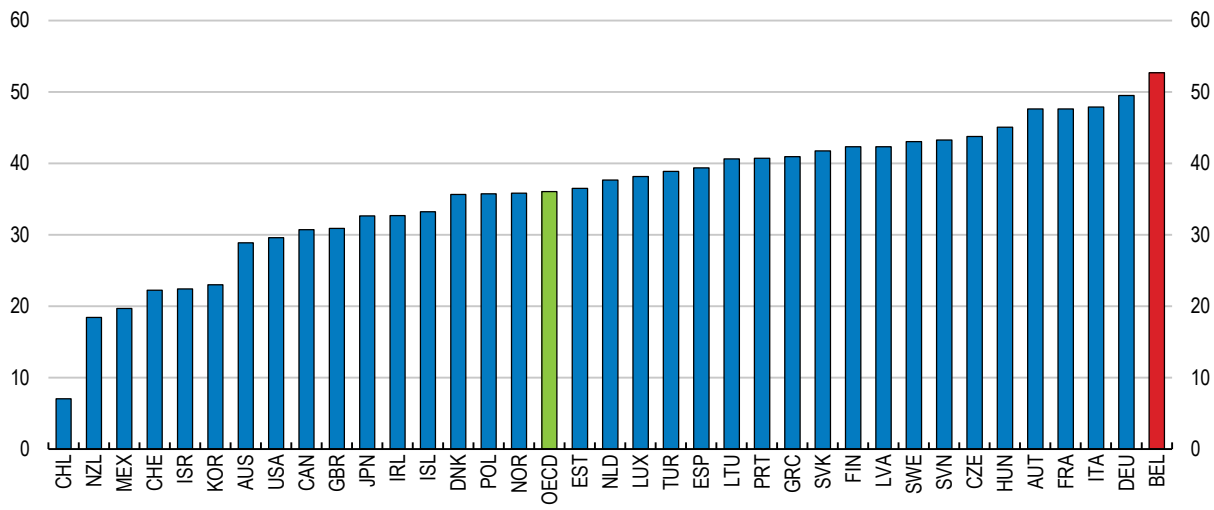
Legislative requirements in relation to the prevention of psycho-social risks are another important tool to protect workers from entering disability schemes (OECD, 2018a). In Belgium, the *Well-Being at Work Act* requires employers to draw up five-year prevention plans to address the problems identified by psycho-social risk assessments, establish annual action plans, and appoint a psycho-social prevention advisor to assist companies in implementing their risk prevention policy. However, evaluations suggest that the implementation of these obligations has so far been weak, reflecting a lack of awareness by employers and limited resources for prevention advisors (SPF Emploi, Travail et Concertation Sociale, 2011; OECD, 2013b).

Fair and efficient taxation

The taxation of labour and different tax treatment of standard and non-standard forms of work can have significant effects on both the level of employment and the allocation of work across different types of work as their relative prices are altered (OECD, 2019b). The tax burden on Belgian workers was the highest in the OECD in 2018 (Figure 1.28), and will remain high even after recent and ongoing reductions in labour taxation. This magnifies the potential for inefficient allocation of workers between differing forms of work due to differential tax treatment.

Figure 1.28. The tax burden on Belgian workers is high

Net average tax rate for a single worker at 100% of the average wage[1], as a % of the labour cost, 2018



1. Including employee and employer social security contributions less cash benefits.
Source: OECD (2019), *OECD Taxing Wages 2019*, OECD Publishing, Paris.

StatLink https://doi.org/10.1787/888934049667

As already discussed above, social security contributions are mandatory for the self-employed, but at somewhat reduced rates, and exemptions exist. Other possibilities exist for non-standard workers to benefit from reduced taxation and social security contributions in Belgium. One such avenue is through the *Flexijob* scheme. This scheme was introduced in 2015 in the hotel and catering sector, but has since been extended to additional sectors and pensioners, with a total of approximately 44 000 persons for which a *flexijob* spell has been registered during the first quarter of 2019.

The objective of the *Flexijob* system is to facilitate flexible labour during peaks of activity and reduce the wage cost of this flexible workforce. Flexijobs are only possible for workers already employed for at least 4/5 of a full-time job. It is not possible to perform a flexijob at an employer by whom the employee is already employed during that quarter for at least 4/5 of the time by another kind of employment contract. The flexijob salary of the employee is exempted from normal social security contributions and taxes, although the employer is required to pay a special contribution equal to 25% of the remuneration. Given the incidence of involuntary part-time employment is low in Belgium and those participating in flexijobs are already engaged in the labour market to a significant degree, the scheme may have little impact on activity or employment rates (EC, 2018).

Reduced taxation has also been introduced for workers who provide services up to a EUR 6 000 exemption threshold per year, including those through online (collaborative) platforms (i.e. transactions mediated by an app or a website that matches customers with service providers). The provision applies to platform workers, provided that the platform worker enrols on a platform and registers their activities. In order for the platform worker to benefit from the tax exemption, the platform needs to be formally recognised by the Belgian authorities, which comes with specific transparency requirements, but this is not compulsory (Basellier et al., 2018). The platform must share the income of the platform workers with the tax administration. Beyond EUR 6 000 per year, the platform worker must register as self-employed, which implies that he or she should also affiliate with the mandatory social security system for self-employed workers. The last restriction also applies for services provided informally without recourse to platforms.

In the case of both *Flexijobs* and the reforms relating to platform workers, an important benefit may be a reduction in informal work and an increase in the tax base. As the contribution of the sharing economy grows in Belgium, such benefits could be enhanced by making registration of platforms with the authorities compulsory. On the other hand, the *Flexijobs* scheme could be exploited by related companies seeking to minimise both employer and employee tax obligations. This could consequently erode the tax base, making monitoring of the scheme and appropriately penalising any such behaviour important. These workers could also not have access to collective bargaining and coverage of some labour law protections, which can adversely affect the dialogue between social partners. In order to limit distortions between different forms of labour, the tax treatment of different forms of work should be further aligned, by gradually phasing out tax deductions for non-standard workers.

Table 1.3. Recommendations on labour market challenges

FINDINGS (main in bold)	RECOMMENDATIONS (key in bold)
Enhancing skills for evolving labour market needs and digitalisation	
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.**
Digital skills are relatively weak for those with lower levels of education and income.	Target training and education in digital skills to less-educated and low-income individuals, whose jobs might be at higher risk of automation.
The proportion of students in vocational education and training programmes that combine school and work based learning is low.	Assess and extend, where appropriate, financial incentives for dual learning, such as direct subsidies, for both firms and students. Introduce compulsory accreditation for companies offering vocational training and renewal of that accreditation.
Labour market reform to boost employment and productivity	
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.** Improve the coordination between employment, health and education policies to help jobless individuals facing multiple barriers to employment.
Despite relatively high levels of spending on ALMPs per unemployed, there is room to improve the allocation of ALMP spending.	Increase spending on active labour market policies that is allocated to training.
The labour market shows signs of rigidities with few workers moving between firms and long job tenure rates.	Increase the flexibility of collective dismissals, for example by simplifying the two step notification procedure to one. Allow for more decentralisation of wage bargaining, within the framework of sector-level agreements, to better align wages with productivity at the level of the individual firm.
Reforming the tax and benefits systems	
The design of the unemployment benefit system provides good income support, but may discourage job search.	**Increase work incentives for low-wage workers by introducing in-work benefits.** Alternatively, extend the possibility to cumulate unemployment benefits and work income to full-time workers. Evaluate the 2012 unemployment benefit reform to assess how the benefit schedule over the unemployment spell can be improved.
The system provides flat benefits to the long-term unemployed with potentially different household needs.	**For the long-term unemployed, use means-tested benefits rather than flat benefits.**
There is room to improve the fairness of the unemployment benefit system across income levels.	Ensure that net replacement rate does not increase with the previous level of net income.
The high contribution periods for minimum pensions are hard to meet for self-employed workers and workers without a full career.	**Lower required number of career years for receiving minimum pensions.**
The pension system remains complicated, with varying schemes for different workers.	**Harmonise contribution rates and pension calculations between the self-employed and employees.** Consider partial annuitisation of second pillar pensions for the self-employed.
The share of disability and benefit recipients is relatively high and increasing.	Extend existing pilot projects to activate persons on disability and sickness benefits through the public employment services. Improve the effectiveness of policies assessing and preventing psycho-social risks.
While differing tax treatment of standard and non-standard workers may help boost employment and flexibility in the short term, it may distort the allocation of labour in the long-term.	Phase out gradually tax deductions that favour non-standard workers.

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