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OECD Economic Surveys: Belgium 2024

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Foreword

This Economic Survey was prepared by Caroline Klein, Jonathan Smith, Simone Romano, Priscilla Fialho, and Timo Leidecker under the supervision of Philip Hemmings. Research assistance was provided by Klaus Pedersen and editorial support by Michelle Ortiz.

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Information about this and previous Surveys and more information about how Surveys are prepared is available at <https://www.oecd.org/en/topics/economic-surveys.html>.



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BASIC STATISTICS OF BELGIUM, 2023

(Numbers in parentheses refer to the OECD average)¹

LAND, PEOPLE AND ELECTORAL CYCLE				
Population (million)	11.8		Population density per km ²	390.4 (39.2)
Under 15 (%)	16.3	(17.0)	Life expectancy at birth (years, 2022)	81.7 (79.6)
Over 65 (%)	20.1	(18.3)	Men (2022)	79.6 (77.0)
International migrant stock (% of population, 2019)	17.2	(13.2)	Women (2022)	83.9 (82.4)
Latest 5-year average growth (%)	0.7	(0.4)	Latest general election	June-2024
ECONOMY				
Gross domestic product (GDP)			Value added shares (%)	
In current prices (billion USD)	632.2		Agriculture, forestry and fishing	0.9 (2.8)
In current prices (billion EUR)	584.7		Industry including construction	20.5 (27.2)
Latest 5-year average real growth (%)	1.6	(1.6)	Services	78.6 (70.0)
Per capita (thousand USD PPP) ²	70.5	(59.0)		
GENERAL GOVERNMENT				
Per cent of GDP				
Expenditure (OECD: 2022)	54.6	(42.8)	Gross financial debt (OECD: 2022)	108.8 (113.1)
Revenue (OECD: 2022)	50.1	(39.5)	Net financial debt (OECD: 2022)	77.8 (67.3)
EXTERNAL ACCOUNTS				
Exchange rate (EUR per USD)	0.92		Main exports (% of total merchandise exports)	
PPP exchange rate (USA = 1)	0.70		Chemicals	25.2
In per cent of GDP			Fuels	13.2
Exports of goods and services	86.7	(31.3)	Transportation	11.8
Imports of goods and services	87.6	(31.5)	Main imports (% of total merchandise imports)	
Current account balance	-1.0	(-0.3)	Chemicals	23.6
Net international investment position	66.6		Fuels	17.1
			Machinery and electronics	13.8
LABOUR MARKET, SKILLS AND INNOVATION				
Employment rate (aged 15 and over, %)	52.0	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	5.5 (4.8)
Men	55.9	(65.5)	Youth (aged 15-24, %)	16.0 (10.6)
Women	48.2	(50.8)	Long-term unemployed (1 year and over, %, 2022)	2.3 (1.2)
Participation rate (aged 15 and over, %)	55.0	(60.9)	Tertiary educational attainment (aged 25-64, %, 2022)	45.8 (40.7)
Average hours worked per year (2022, OECD: 2023)	1 535	(1 742)	Gross domestic expenditure on R&D (% of GDP, 2021)	3.4 (2.9)
ENVIRONMENT				
Total primary energy supply per capita (toe, 2022)	4.3	(3.8)	CO ₂ emissions from fuel combustion per capita (tonnes, 2022)	6.8 (7.8)
Renewables (% , 2022)	9.7	(12.0)	Water abstractions per capita (1 000 m ³ , 2021)	0.4
Exposure to air pollution (more than 10 g/m ³ of PM 2.5, % of population, 2020)	87.3	(56.5)	Municipal waste per capita (tonnes, 2022)	0.7 (0.5)
SOCIETY				
Income inequality (Gini coefficient, 2021, OECD: latest available)	0.256	(0.315)	Education outcomes (PISA 2022 score)	
Relative poverty rate (% , 2021, OECD: 2020)	7.8	(11.7)	Reading	479 (476)
Median disposable household income (thousand USD PPP, 2021, OECD: 2020)	37.1	(27.5)	Mathematics	489 (472)
Public and private spending (% of GDP)			Science	491 (485)
Health care (2022)	10.8	(9.2)	Share of women in parliament (%)	42.7 (32.8)
Pensions (2019)	11.8	(9.5)	Net official development assistance (% of GNI)	0.4 (0.4)
Education (total spending, 2020)	6.0	(5.1)		

¹ 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.

² OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.



Executive summary

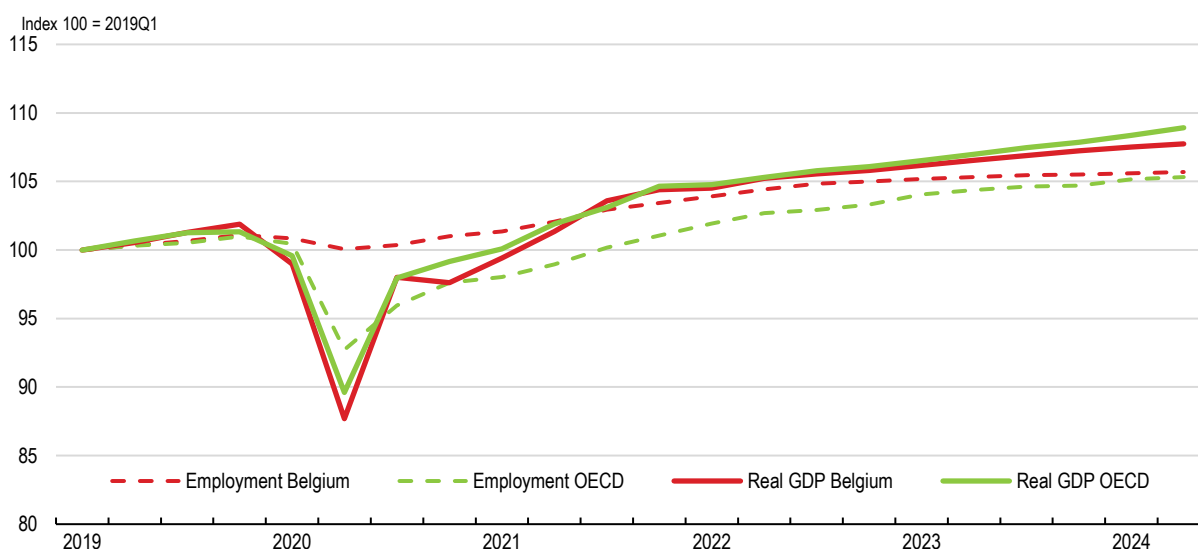
Economic growth has been solid

The Belgian economy has been relatively resilient to recent shocks, with GDP growth converging to its potential (Figure 1). Activity is projected to remain solid, but prospects are uncertain.

Export-oriented industrial sectors have contracted, but domestic demand has underpinned activity. Private consumption was sustained by the automatic indexation of wages to inflation that prevented the erosion of households' purchasing power. Employment has continued to grow, and the unemployment rate has stabilised at around 5.5%, below its pre-pandemic average level.

Inflation declined rapidly in 2023 amid drops in energy prices, but inflationary pressures remain. By prompting cost and price responses by businesses, wage indexation became an important driver of core inflation and has temporarily weighed on price competitiveness.

Figure 1. The economy has been resilient



Source: OECD Economic Outlook database.

StatLink  <https://stat.link/4lae95>

Rapid tightening of financing conditions has helped turn the credit and real estate cycles.

Higher interest rates have weighed on housing transactions and prices, bringing the latter more in line with fundamentals. The financial sector has remained resilient, with capital and liquidity ratios significantly above regulatory requirements. However, non-performing loans have increased, though moderately from a record low level, among commercial banks and relatively low credit risk provisions pose risks.

Real GDP is projected to grow at 1.2% in 2024 and 1.4% in 2025 (Table 1). While financial conditions are easing, slowing employment and wage growth are dampening domestic demand. In

2025, global trade recovery and further monetary policy easing will sustain activity. Inflation will decline in 2025 to reach 2% as second round effects from wage growth diminish, and slowing domestic demand reduces underlying pressures.

Belgium's economic outlook relies significantly on its trade prospects. A weakening, instead of a strengthening, of foreign demand would put a drag on exports, which are around 80% of GDP, one of the highest levels in the OECD. Another risk is that a larger-than-expected deceleration in employment emerges, ramping up unemployment and dampening domestic demand. Conversely, the resolution of geopolitical tensions would improve confidence and expand export opportunities.

Table 1. GDP growth will remain resilient

Annual growth rates, %, unless specified	2023	2024	2025
Gross domestic product (GDP)	1.4	1.2	1.4
Unemployment rate (%)	5.5	5.8	5.7
Consumer price index	2.3	4.3	2.0
Current account balance (% of GDP)	-1.0	-0.1	-0.7
Government gross debt (% of GDP, Maastricht definition)	105.2	107.4	110.0

Source: OECD Economic Outlook database

Putting public finances on a sustainable path

The pandemic and energy crises have accentuated Belgium's fiscal challenges. Additional consolidation measures are needed to build buffers for future fiscal shocks, accommodate the fiscal impact of population ageing and create room for public investment in the digital and the green transitions. Raising public spending efficiency and expanding the tax base, including by fostering labour market participation, should be the cornerstones of the consolidation strategy.

The public debt burden is among the highest in the EU and is set to increase steeply in the absence of reform. According to projections, putting the ratio of public debt to GDP on a declining path will require a prolonged period of consolidation to counter rising spending on pension, health and long-term care. In the near term, the resilience of the economy along with monetary policy easing paves the way for frontloading this necessary consolidation.

Belgium's tax burden is among the highest in the OECD, thus consolidation should primarily come from spending cuts. Spending reviews should be more widely used and better integrated into the budget process. Identifying and achieving efficiency gains in the health and the long-term care sectors is a priority. Further pension reform should also be agreed as public spending in these areas is relatively high and will increase as the population ages. The relatively low effective retirement age weighs on the sustainability of the pension system, calling for strengthening policies to promote longer working lives.

Comprehensive tax reform should resume. A reform including simplification of taxation, base broadening and shifting taxation from labour to less distortive taxes has been suspended. Reform must resume and focus on supporting labour market activation, strengthening capital income taxation, removing inefficient tax expenditures, notably fossil fuel subsidies, and reinforcing the pricing of environmentally harmful activities.

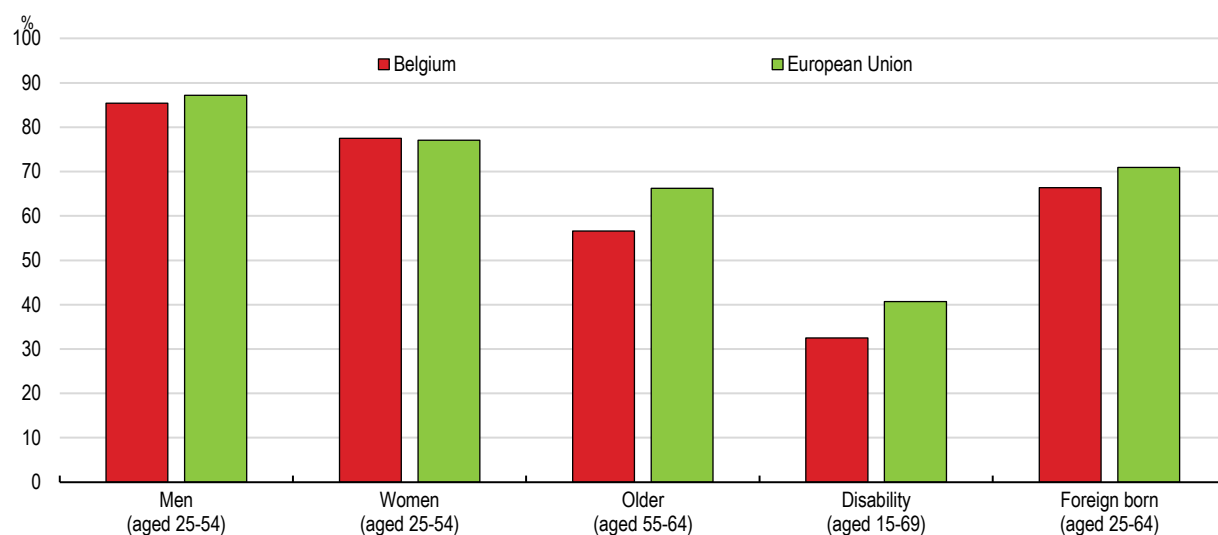
Improving the budgetary framework would facilitate fiscal consolidation efforts. Regions and communities account for an increasing share of public debt, but cooperative agreements across governments on annual budget targets have never been reached. Introducing binding expenditure rules with multi-year annual caps for federal and regional governments and implementing a revised cooperation agreement would help raise transparency and accountability.

Fostering employment of all

Preserving high living standards as the population ages and reducing socio-economic inequalities requires improving labour outcomes for all. Regional disparities and employment gaps for women, older people, foreign-born, and people with disabilities are particularly large (Figure 2).

Figure 2. Employment gaps are large

Employment rates, 2023



Note: Data on people with disability refer to 2020 or latest year available.

Source: Eurostat.

StatLink  <https://stat.link/j7ec0g>

Financial disincentives to work are substantial for low-income workers. Despite recent measures, high labour income taxation combined with a comprehensive social protection system creates inactivity and low-wage traps. Strengthening in-work benefits for low-paid workers and withdrawing them more gradually as income rises, could encourage labour market participation.

Women, especially mothers with low income and a foreign background, are less likely to be employed than men and work fewer hours. Together with the limited, yet growing availability of childcare services, the personal income tax system discourages participation of low-income second earners and contributes to gender inequality, calling for abolishing the partial tax splitting for

couples and the tax break for paid maintenance allowances for ex-spouses and children.

The number of sickness and disability benefit recipients has increased dramatically over the past decade. Recent measures rightly aim to encourage the retention of people with reduced work capacity in employment and to strengthen rehabilitation. The prevention of health risks and return to employment have remained low. Disability assessments rely mostly on medical criteria, without considering the individual's remaining functional capacity. Return-to-work programmes have improved but should start earlier in the process and incentives to participate need strengthening.

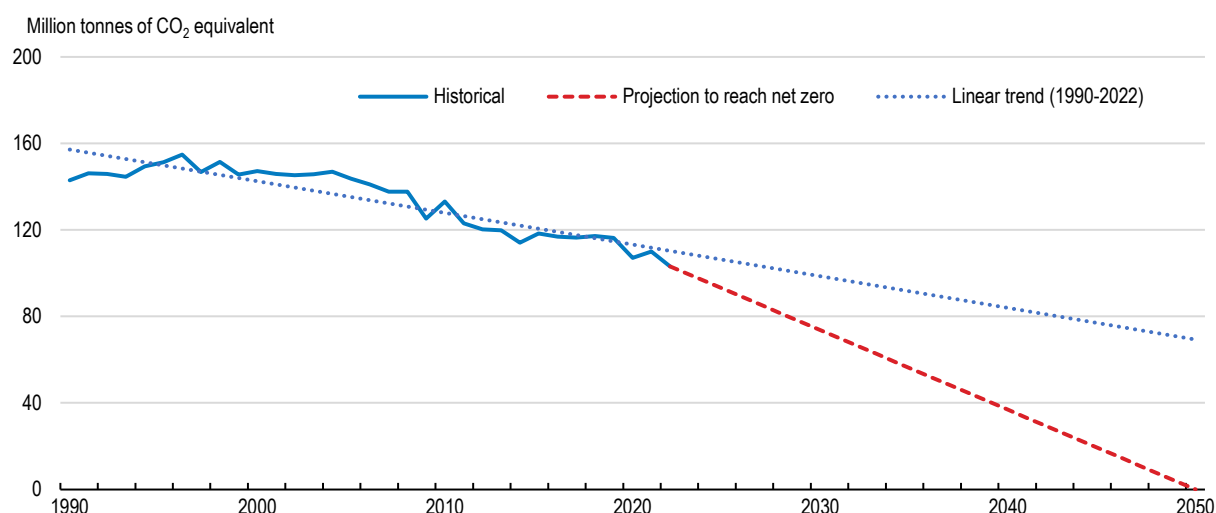
Boosting energy efficiency and electrification

Emission reductions have to accelerate significantly for Belgium to meet EU targets. Strengthening decarbonisation incentives and coordination across federal and regional governments for climate policies are key to a cost-efficient transition.

Emissions have been on a declining trend, but current climate plans fall short of EU targets for 2030 and 2050 (Figure 3). Climate policy is highly decentralised, with energy, building, and transport

largely the responsibility of regions. Binding targets and more clarity on how these will be met are required to spur the changes required for the energy and climate transition.

Figure 3. Emission reductions need to accelerate



Source: OECD (2023), Environment: Air and Climate (database).

StatLink  <https://stat.link/6oa8ts>

Belgium needs to further reduce greenhouse gas emissions in the energy sector by lowering fossil fuel reliance, while continuing to ensure energy security. Belgium is committed to emission reduction, but also to gradually phasing out its nuclear energy generation by 2035. Despite an acceleration in 2023, renewable energy generation lags behind the large increases required to achieve emission-reduction goals. Developing flexible support mechanisms and easing planning and approval processes would help renewable energy deployment. Moderate and patchy carbon taxation and large subsidies encourage fossil-fuel consumption, calling for increasing effective emission prices where they are low, including by implementing the European Emission Trading System 2.

Reaching the target of a zero-emission building stock requires accelerating the pace of renovations, making them more energy efficient, and decarbonising heating systems. The residential sector accounts for around a quarter of energy-related greenhouse gas emissions. The majority of building renovations fail to yield significant energy efficiency gains. Financial support should provide strong incentives for efficient renovations and be targeted at low-income households who face difficulties in financing and planning these investments.

Supporting SMEs for stronger productivity

Business dynamism has been resilient despite economic turmoil. However, comparatively few high growth businesses emerge from Belgium's SME sector. This tendency to remain small poses challenges for growth and productivity.

Administrative burdens impose large costs for SMEs. Setting up a business, complying with regulation, and paying taxes, represent a relatively large overhead for small firms. In addition to the sheer workload, small businesses often lack sufficient expertise to tackle all areas of administration. Reducing these burdens calls for a broad-based strategy to further cut administrative costs with tight coordination across public institutions and the involvement of small business representatives.

Belgium has a wide range of SME support programmes. However, their objectives can be unclear with little evidence of their positive effects. Streamlining SME support measures following comprehensive reviews of their costs and benefits would help achieve efficiency gains.

Women's entrepreneurial potential is underutilised. Gender gaps in entrepreneurship have decreased over the past two decades, but women still led less than a quarter of SMEs in 2022 and, as in many other economies, they are under-represented in growth-oriented businesses. Targeted training and mentoring programmes to develop entrepreneurial skills and networks among female entrepreneurs should be expanded.

Recruitment difficulties are among the main barriers to small firms' growth. Improving access to lifelong learning can help address skills shortages, but small firms lack resources to develop and implement training strategies. More tailored support is needed, including help for businesses to continue operations when staff are on training.

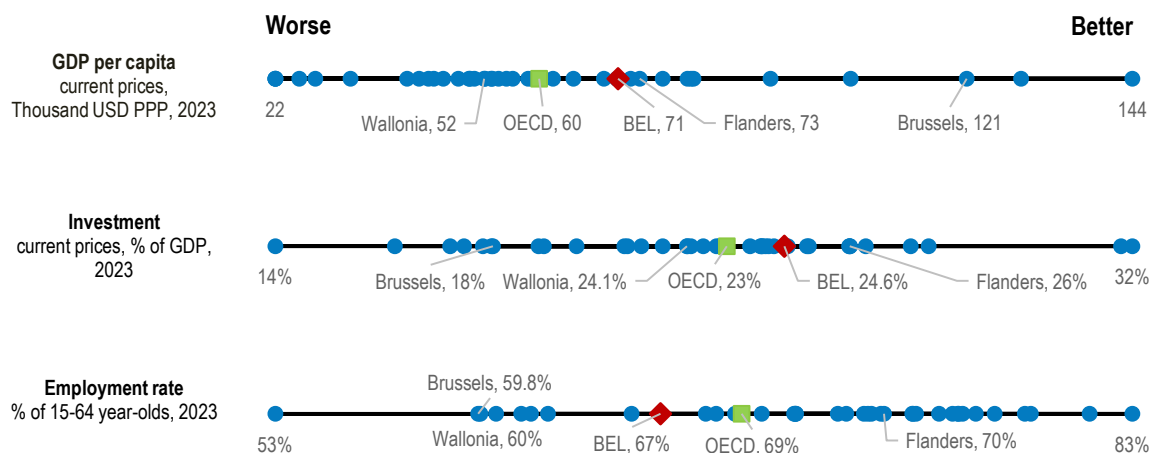
MAIN FINDINGS	KEY RECOMMENDATIONS
Preserving macroeconomic stability and restoring fiscal sustainability	
Economic growth is set to remain resilient, but the debt-to-GDP ratio is high and rising. Fiscal consolidation has started, but absent any further adjustment, the fiscal position will be unsustainable. Regions and communities account for an increasing share of public debt, with regional disparities as for fiscal sustainability.	Frontload the on-going fiscal consolidation by introducing a credible medium-term consolidation strategy with a multiannual budgetary framework and binding expenditure rules for the federal and regional governments.
A Cooperation Agreement ensuring budgetary coordination of federal and regional governments has never been implemented and is being amended.	Implement a revised Cooperation Agreement to strengthen budgetary coordination between federal and regional governments.
Public expenditure is among the highest in the OECD and will increase due to population ageing, including on health and long-term care.	Focus the consolidation plan on cutting ineffective spending.
The use of spending reviews has increased but remains limited. The reviews are not fully incorporated into the budgeting process and recommendations are typically qualitative.	Make spending reviews a key part of the budgeting process, include mandatory quantified objectives for efficiency gains, accompanied by a comply or explain approach and concrete follow-up actions.
The gap between the statutory and the effective retirement ages is comparatively large. Under certain conditions, early retirement is possible without a full actuarial reduction in the pension calculation.	Conduct spending reviews in the health and long-term care sectors.
Room for efficiency gains in taxation is large. Tax expenditures weigh on revenue, often with little or no evidence of concrete socio-economic benefits. The tax mix is unduly skewed toward labour income taxes.	Increase the penalties for retirement before the statutory retirement age. Consider additional measures to increase the effective age of retirement, including further raising the earliest age of retirement.
	Resume efforts for a comprehensive tax reform that broadens the tax base by eliminating ineffective tax expenditures, strengthening capital income taxation, and addressing work disincentives.
Fostering employment of all	
Financial disincentives to work are substantial, especially for low-income workers and second earners, who are more often women. For low-paid workers, accepting higher-paying jobs or working longer hours can result in little or no net financial gain due to the withdrawal of means-tested benefits and tax advantages as their wages increase.	Strengthen in-work benefits for low-paid workers.
The number of disability benefit recipients has surged. Disability assessment relies mostly on medical criteria that may not reflect capacity to work.	Abolish the partial tax splitting system for couples and the tax break for paid maintenance allowances for ex-spouses and children.
Very few disability benefit recipients return to work despite rehabilitation programmes in place.	Withdraw benefits targeted at low-income earners more gradually.
	Assess sickness and disability more frequently based on remaining functional capacity using interdisciplinary assessment teams.
	Make it mandatory to develop a Return-to-Work plan earlier in the sickness and disability benefits procedure, strengthen incentives to participate, while increasing resources for rehabilitation.
Boosting energy efficiency and electrification	
Current greenhouse gas emission reduction plans fall short of EU targets. There is no national target for 2050. Agreement on burden sharing across federal and regional governments is intended but progress has been limited.	Set out binding climate targets consistent with EU emission goals for 2030 and 2050 and clearer plans on how these targets will be met.
CO ₂ prices vary by emission sources and for different fuels. Fossil fuel subsidies reduce emission reduction incentives. The new EU Emission Trading System will expand the coverage of emission pricing.	Gradually increase effective emission prices where they are low, including by implementing the new EU Emission Trading System and phasing out fossil fuel subsidies.
Ensuring secure electricity supply and emission reduction alongside the current commitment for nuclear phase out requires a substantial increase in renewable generation capacity and flexibility.	Better tune the regulatory framework and financial support for expanding capacities from renewable sources, for example by offering contracts-for-difference to renewable generators.
EU plans foresee a zero-emission building stock by 2050. Reaching this target will require more and deeper building renovations and the decarbonisation of heating systems.	Focus support on deep renovation and the decarbonisation of heating, for example by making most public support conditional on committing to minimum energy efficiency gains, prioritising low-income households.
Supporting growth, productivity, and innovation in small- and medium-sized enterprises	
Regulatory burdens and administrative costs weigh disproportionately on small firms, hampering business creation and growth.	Adopt a whole-of-government strategy to reduce administrative costs for businesses.
	Continue to develop a single point of contact to guide small firms through administrative processes, making the most of digital innovations.
There is a wide range of support measures to SMEs. Beyond complexity, size-contingent measures pose risks to business growth and tax compliance.	Perform a sound assessment of SME support and phase out or adjust programmes that are redundant or ineffective.
Though declining, the gender gap in entrepreneurship remains significant. Women face multiple challenges to start a growth-oriented business, including unsupportive social norms, greater difficulty to access finance, lower levels of entrepreneurial skills and less effective entrepreneurial networks.	Address gender gaps in fields of study relevant for innovative entrepreneurship, including STEM.
	Continue to develop training and mentoring programmes targeted to female entrepreneurs.
Skills shortages hamper firms' growth. Developing a coherent upskilling strategy, accessing public support for training courses, and arranging cover when employees take time out for training are challenging for small firms.	Help SMEs develop a training strategy, assist the temporary replacement of employees in training, and ensure the best use of existing public programmes.

1 Ensuring sustainable and high living standards

After a strong recovery from the COVID-19 crisis, the Belgian economy, like many, faced supply bottlenecks, high inflation, and monetary policy tightening. However, it has been relatively resilient compared with other EU countries, thanks to robust domestic demand. Automatic wage indexation and energy-related support measures helped preserve household purchasing power. Despite rising production costs, firms coped relatively well. In 2023, business investment growth reached its highest rate since 2011 and employment has continued to grow. Indexation has, however, eroded price competitiveness for exporters and Belgium is highly exposed to the slowdown in global trade. Though higher borrowing costs and weak global trade are expected to continue slowing economic activity, a soft landing looks achievable, with moderate increases in business failures and unemployment. Nevertheless, uncertainty around economic prospects remains high including from heightened geopolitical tensions (Chapter 2).

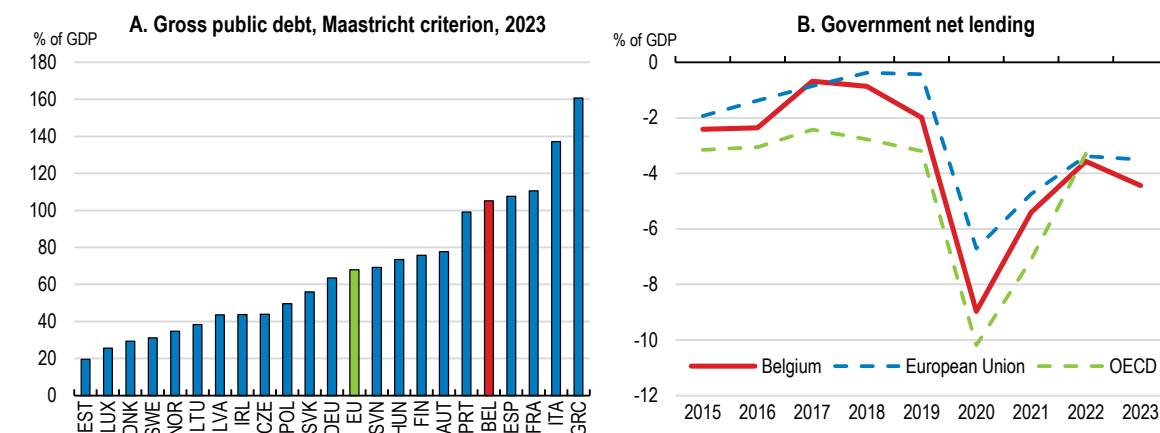
Belgium performs very well on many economic and wellbeing dimensions, but reforms are needed to sustain high living standards amid population ageing, ensure equal opportunities for all and achieve the digital and the green transitions. Considerable scope remains to raise employment rates despite large regional variations (Figure 1.1). Higher employment rates would contribute to improving wellbeing and social inclusion, while helping to address challenges posed by demographic changes, including fiscal sustainability. Fiscal imbalances and limited fiscal space add to Belgium's challenges. The public debt burden was already among the highest in the EU before the pandemic. In 2024, it is expected to be around 107% of GDP and is set to increase further as ageing costs and the climate transition strain future budgets (Figure 1.2).

Figure 1.1. Employment rates are relatively low



Source: OECD Economic Outlook database; OECD Labour Force Statistics database; and OECD calculations.

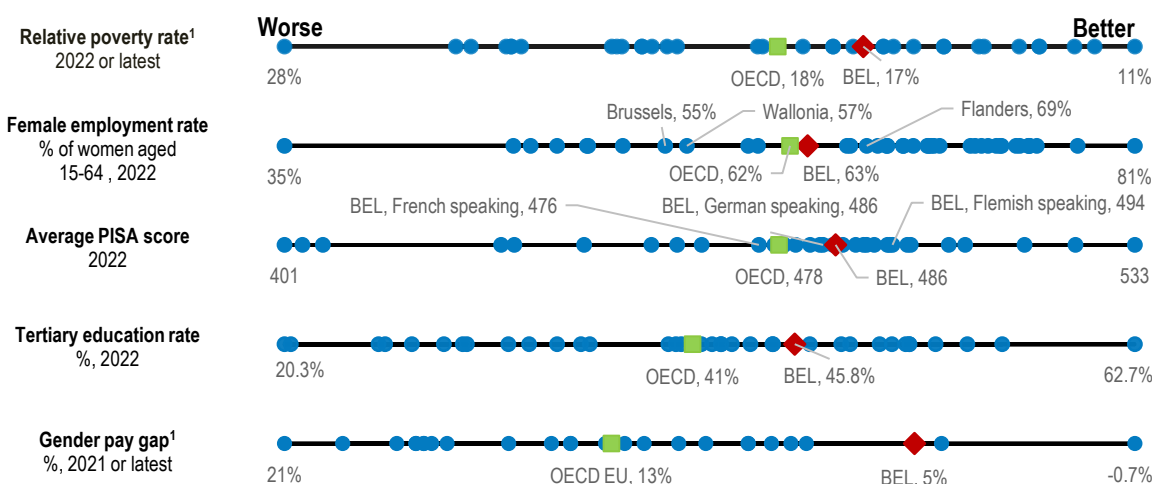
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Figure 1.2. Fiscal imbalances are large

Source: OECD Analytical database.

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Socio-economic inequality and poverty in Belgium rank favourably, close to the OECD average, thanks to the relatively strong redistributive impact of the tax and benefit system (Figure 1.3). Long-term unemployment has fallen, and some vulnerable groups are better integrated in the labour market, notably older people, partly due to the favourable economic outlook and past reforms. However, additional efforts are needed to close employment gaps, notably for people with disabilities and low skills as they did not experience such an improvement in labour market outcomes (Chapter 3). While the gender pay gap is estimated to be low by international comparison (Figure 1.3), there remains scope for increased participation of women in the labour force, particularly among those with childcare responsibilities, low education levels, and a foreign background. Regional socio-economic disparities remain high and have not declined in recent years. Regional polarisation, defined as the ratio of a country's top and bottom regions in terms of GDP per capita, has remained broadly stable at around 2 over the past two decades. Poverty risks and educational outcomes vary significantly between regions (Figure 1.3).

Figure 1.3. There is room to improve access to equal opportunities

1. Indicator reversed so that the right side of the scale corresponds to better outcomes.

Note: Relative poverty rate is determined after taxes and transfers based on a poverty line at 60% of median household income. Average PISA score is the average scores in mathematics, science and reading. Gender wage gaps are defined as the unadjusted difference between median wages of men and women relative to the median wages of men. Sectors with substantial pay gaps, such as agriculture, mining, real estate, and professional, technical, and scientific activities are not accounted for in the calculation of Belgium's gender pay gap.

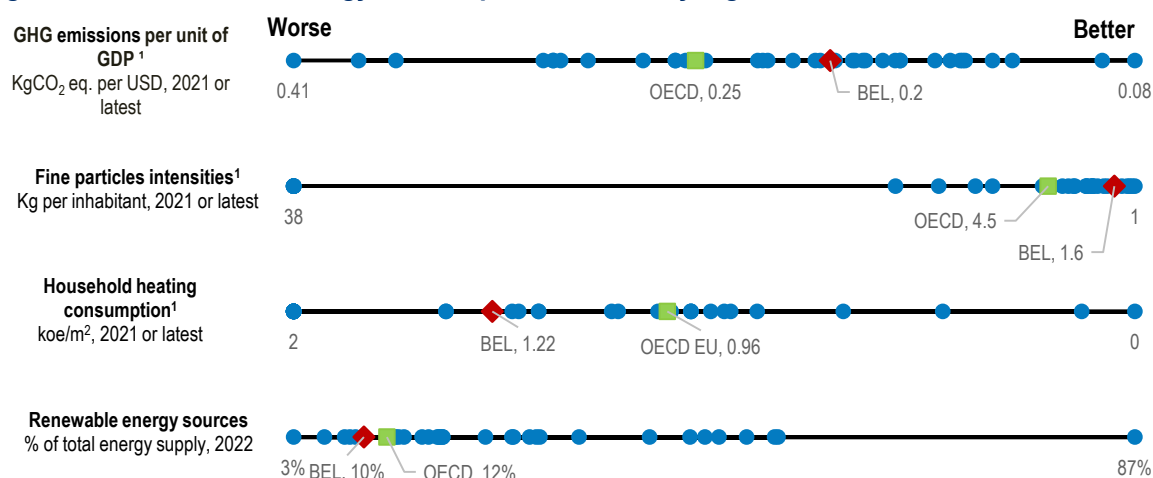
Source: OECD Income Distribution database; OECD Labour Force Statistics database; OECD PISA database; OECD Education at a Glance database; OECD Earnings and Wages database; and OECD calculations.

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Strong labour productivity growth is a critical growth driver in ageing economies. Belgium's productivity gains have been subdued over the past decade. Innovation outcomes have improved but remain concentrated in a low number of firms and sectors. Investment in research and innovation in environment-related areas lag behind. Skills shortages, reflecting mismatch issues on the labour market, likely hinder the diffusion of technologies and the digital and green transitions. Indicators suggest regulatory complexity and high administrative costs have declined but they continue to weigh on firms' profitability and competitiveness. Regulatory and administrative overheads are a particular concern for small- and medium-sized enterprises. These businesses face other challenges, notably in employee training (Chapter 5).

Belgium has a mixed performance on advancing towards its energy and climate targets (Figure 1.4). Greenhouse gas emissions have declined by around a quarter since 2000 and energy intensity has dropped by almost 40%. Cuts in greenhouse gas emissions have mostly been achieved in sectors covered by the EU ETS, while less progress has been made in agriculture, transport, and buildings. Renewables still account for only a small share of the energy mix, while reliance on imported fossil fuels remains high and the phase out of nuclear poses challenges to energy security and decarbonisation in the medium term. Under current policy settings, Belgium will not meet its 2030 emission reduction targets and a coherent national climate strategy at the 2050 horizon is still missing (Chapter 4).

Figure 1.4. Households' energy consumption is relatively high



1. Indicator reversed so that the right side of the scale corresponds to better outcomes.

Note: GDP per unit of GHG emissions is the production-based CO₂ productivity. Fine particles concentration is mean population exposure to PM_{2.5}. Household energy consumption per capita is energy consumption per m² of households for space heating scaled to EU average climate.

Source: OECD Green Growth Indicators database; Odyssee-Mure; and OECD calculations.

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Progress has been made in some policy areas since the previous Survey (Box 1.1). However, there have also been setbacks. A broad tax reform aiming at rebalancing the tax mix, reducing tax complexity and expanding the tax base has not progressed. There has been patchy progress in implementing the Recovery and Resilience Plan which, inter alia, aims to foster long-term growth drivers and growth sustainability. Resuming reform efforts can significantly boost economic potential (Box 1.2). Belgium's complex political and institutional structure adds to the challenge of economic policy reform. Greater coordination efforts are needed to ensure efficiency and consistency of policy making.

Against this background, the main messages of the Survey are:

- The new federal and regional governments must act to continue fiscal consolidation by improving public spending efficiency and expanding the tax base. Extensive use of spending reviews should guide spending cuts, while reform to the budgetary framework should increase accountability across government levels. A major tax reform is needed to reduce work disincentives, strengthen

capital income taxation, and remove ineffective tax expenditures, notably fossil fuel subsidies, while improving clarity, neutrality and fairness in the tax system.

- Encouraging participation in the labour market is critical to adapt to the demographic transition and address fiscal challenges. Reform of the tax and benefit system can increase work incentives for low-paid workers and reduce gender gaps. Policies should tackle the high and increasing take up of disability benefits and better support the integration of people with reduced work capacity in the labour market.
- Achieving climate targets requires a significant acceleration of emission reductions. Rapid expansion of renewable energy production to reduce dependency on fossil fuels alongside the current commitment to nuclear phase out is needed. In parallel, consumers must be incentivised to invest in efficient energy use and electrification, particularly in sectors such as transportation and buildings renovation, where challenges in financing and planning persist.
- Barriers to business dynamism and growth limit productivity gains. Reducing skills shortages and heavy administrative burdens can help small firms achieve their full potential. Removing barriers to women entrepreneurship can help tap into an underutilised pool of talent and creativity.

Box 1.1. Recent and planned structural reforms

Since 2022, Belgium has progressed in several reform areas that were previously discussed in OECD Economic Surveys.

Pensions

In 2020, the federal government initiated a reform to improve the adequacy of the public pension system, including increasing the minimum pension level and harmonising the pension calculation for the self-employed and employees. In 2023, the second phase of the reform included the introduction of a bonus for those working after the legal early retirement age, a supplementary career-length condition for access to the minimum pension, and a revision of the indexation of civil servants' pensions.

Labour market

Reforms increasing flexibility in the labour market include the extension of the flexi jobs system to 12 new sectors, and the provisions for a 4-day working week. Work incentives have been strengthened with the increase in the minimum wage, the introduction of a wage premium for low-paid workers in Flanders ("Jobbonus") and a premium for unemployed training in shortage occupations in Wallonia. A reform of hiring incentives is on-going in the Brussels Region. Recent measures aimed at improving access to training include the creation of individual learning accounts (at the federal level and in Flanders) and an individual right of five training days per year. Programmes for disability benefit recipients have been strengthened with the introduction of Return-to-work coordinators and more regular assessments of work capacity. Since 2022, employers with above average sickness and disability claims must pay higher social contributions.

Tax

A broad reform of the tax system did not progress, but measures have been implemented to reduce the tax wedge. Social security contributions were cut by EUR 300 million in 2022. The reduction of VAT on electricity and natural gas from 21% to 6% was made permanent and partly financed with excise duties. Three action plans have been implemented to combat tax and social fraud. A minimum top-up tax (QDMTT) for multinational companies and large domestic groups was introduced in December 2023 to implement the Global Minimum Tax (Pillar 2 of the Global Anti-Base Erosion Model Rules).

Climate

Belgium submitted a draft update of its National Energy and Climate Plan 2021-2030 in 2023. It includes plans to halve excise duties on electricity, compensated by higher excises on fossil fuels from 2028 to 2032. Measures to raise effective emission prices include for example a reform of the car registration tax in Wallonia, discontinuing grants for oil and gas boilers and caps on gas connection charges in Flanders. At the federal level measures include the limitation of the reimbursement of commercial diesel and the gradual reduction in tax deductibility for petrol and diesel company cars accompanying the greening of the corporate car fleet. Minimum energy performance requirements in the residential sector were introduced in all regions.

Box 1.2. Potential impact of recommended structural reforms on GDP

This box summarises the potential medium-term impacts on GDP of selected structural reforms included in this Survey (Table 1.1). The reforms comprise: i) reducing the tax wedge; ii) easing regulation and reducing the administrative burden on firms; iii) reducing employment gaps for older workers and women; iv) raising spending on training to improve employability of those detached from the labour market; and v) fostering business spending on research and development. Simulations based on the OECD Long-Term Model (Guillemette and Turner, 2018) suggest that the reform package could increase Belgium's GDP per capita by around 8% over a 10-year horizon.

The quantification impacts are illustrative. The estimated effects include only the direct impact and exclude potential behavioural responses that may occur due to policy changes. While all recommended reforms in this Survey have GDP implications, not all can be quantified due to model limitations.

Table 1.1. Illustrative impact of structural reforms on GDP per capita

Policy	Measure	10-year cumulative effect	25-year cumulative effect
Tax reform	Reducing the tax wedge by 5 percentage points over 10 years (revenue neutral measure).	1.6%	2.6%
Business environment reform	Reducing PMR by 0.25 to the OECD average over 10 years.	1.1%	3.5%
Reforms fostering employment of older workers	Reforms increasing the employment rate of 55-74-year-olds by around 10 percentage points to the OECD average by 2050, including a bonus malus system to encourage longer working lives, extended access to training and prevention of health risks at work.	2.5%	7.9%
R&D business support	Improving efficiency of public support, increasing business spending on R&D by 10% in real terms over 5 years.	0.0%	0.3%
Active labour market policies	Increasing spending on active labour market policies by around 15% in real terms over 5 years.	1.2%	1.6%
Reforms reducing gender employment gaps	Reforms halving gender employment gaps by 2050, including by reducing the marginal taxation of second earners and expanding access to childcare.	1.1%	2.3%
Total		7.6%	18.2%

Source: OECD Long-term model.

2 Ensuring resilient growth and fiscal sustainability

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Caroline KLEIN, OECD

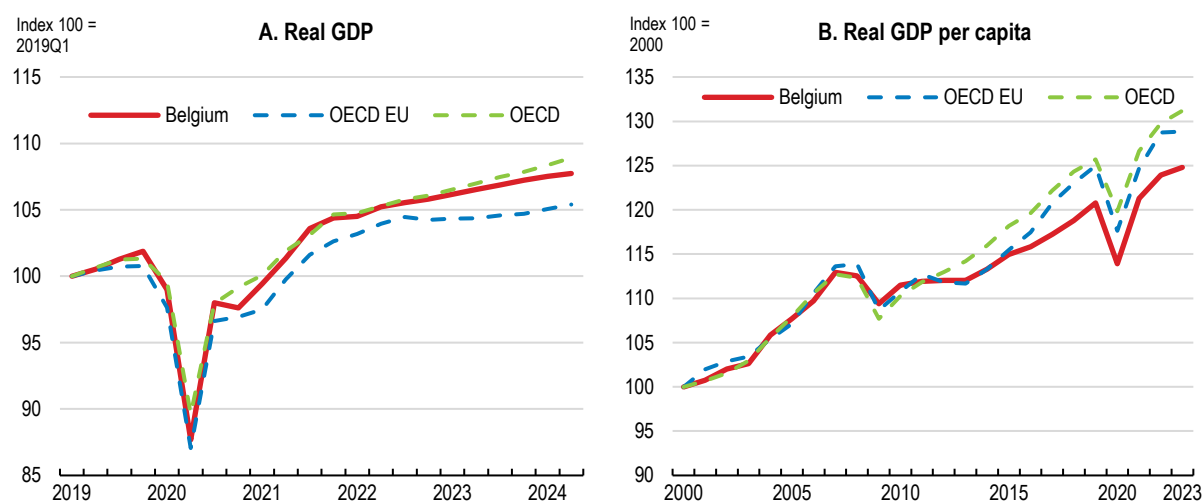
Economic growth in Belgium has remained resilient to recent shocks and is expected to remain robust, though risks are elevated. While headline inflation has fallen fast, underlying price pressures persist, with core inflation falling more slowly. The credit and real estate cycles have turned amid the rapid tightening of financing conditions, but the banking system remains strong with robust capital and liquidity ratios. Medium-term fiscal sustainability challenges have been accentuated by the COVID-19 pandemic and energy crises. Belgium's public debt burden is among the highest in the EU and is set to increase sharply in the absence of reform. Additional consolidation measures are needed, and a consolidation plan is required across federal and regional governments, with incentives to meet targets. The resilience of the economy, along with monetary policy easing, means fiscal consolidation can, and should, be accelerated. Raising public spending efficiency through spending reviews, and expanding the tax base, including by fostering labour market participation and increasing the effective retirement age, should be the cornerstones of this strategy. Efforts for a comprehensive tax reform should continue, eliminating ineffective tax expenditures and shifting taxation from labour towards less distortive taxes.

The Belgian economy has been resilient to economic shocks

Output growth has decelerated but remains robust

Belgium's economy proved resilient to disruptions following the energy crisis and Russia's war of aggression against Ukraine (Figure 2.1). Economic activity has remained strong, and by the end of 2023, real GDP was 5.3% above its pre-pandemic level in the fourth quarter of 2019, which compares favourably to 3% for the euro area. Belgium is one of only a few European countries that have not recorded a negative quarterly growth rate since the beginning of 2022.

Figure 2.1. Belgium's economy has proved relatively resilient

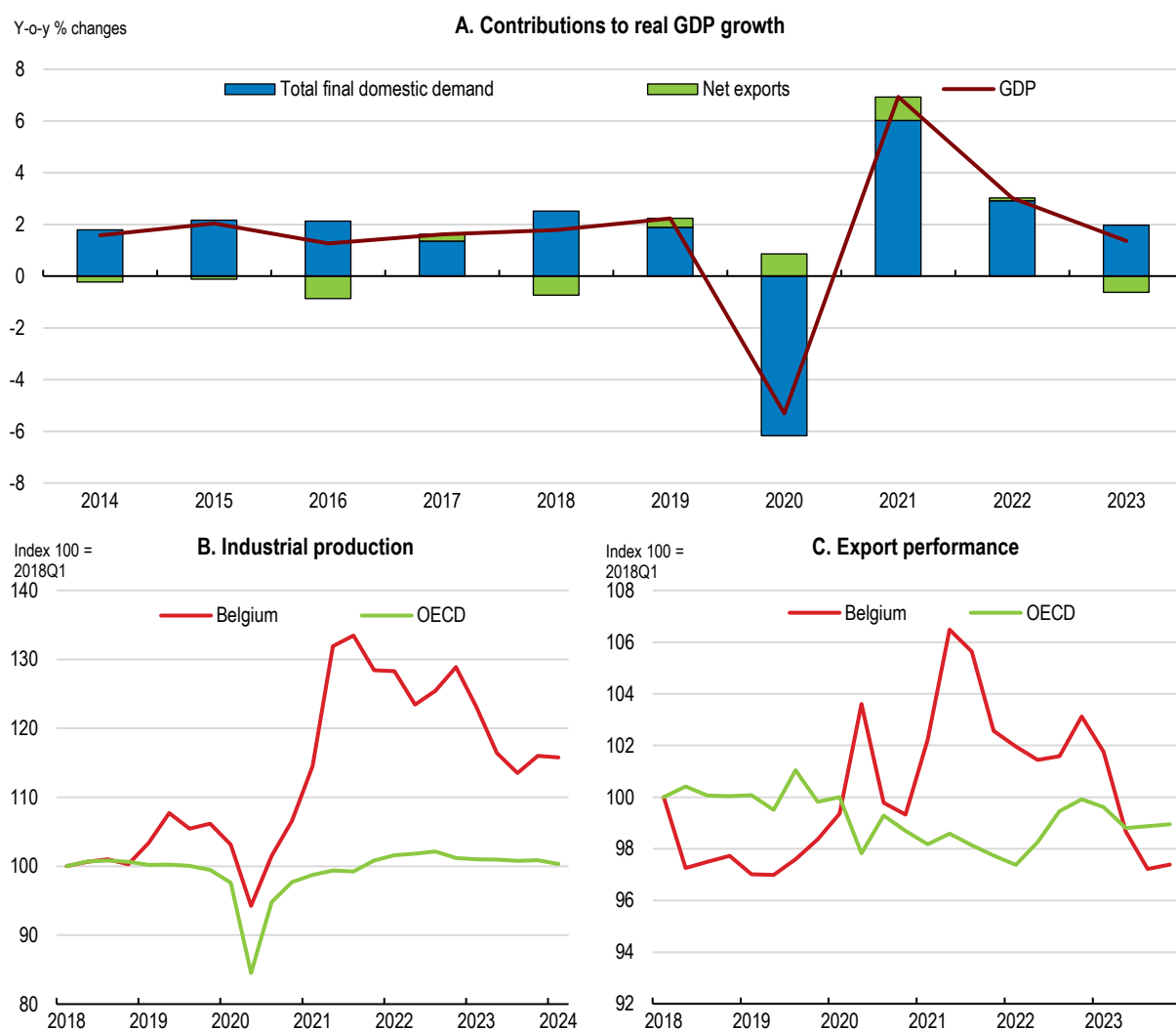


Source: OECD Economic Outlook database.

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Economic growth has remained robust (Figure 2.2), despite being weighed down by high economic uncertainty, a slowdown in Belgian's main trading partners, and inflation caused by spikes in energy and food prices. As a small open economy, Belgium is highly exposed to trade developments (Box 2.1). Exports have stalled lately, falling 3.3% in 2023, partly due to a loss of price competitiveness. Industrial production has been falling since December 2022, although rose in April and May (Figure 2.2, Panel B), and high borrowing costs and weak confidence have held back housing investment, falling 5.7% in 2023. The fiscal position has also deteriorated, with the debt-to-GDP ratio high (105%, Maastricht definition) and the fiscal deficit increasing in 2023. A contractionary fiscal stance is urgently needed in the near term to create fiscal space and put debt on a downward trajectory (see below). In contrast, household consumption is holding up relatively well (Figure 2.2, Panel A). This has mostly been due to the automatic indexation of wages and social benefits that has on average protected households' purchasing power. Business investment has also remained surprisingly resilient given tight financing conditions (Figure 2.2, Panel A). Corporate gross margins reached historic highs in 2022, and although they have declined in 2023, remain above historic levels, providing companies with ample self-financing possibilities (NBB, 2023a). Given the context of high and rising energy and labour costs, alongside labour shortages, companies have been investing in digitisation and automation. Businesses have also been investing in greening the production process to reduce exposure to energy price volatility and to comply with environmental regulations (NBB, 2023a).

Figure 2.2. Domestic demand has sustained GDP growth with help from extensive policy support



Note: Export performance includes goods and services and is calculated for each country by comparing the growth of its export volumes with that of its export market. This shows whether the country's exports grow faster or slower than its market, i.e. if over time it is experiencing market share gains or losses. Regional aggregate for the OECD is calculated inclusive of intra-regional trade.

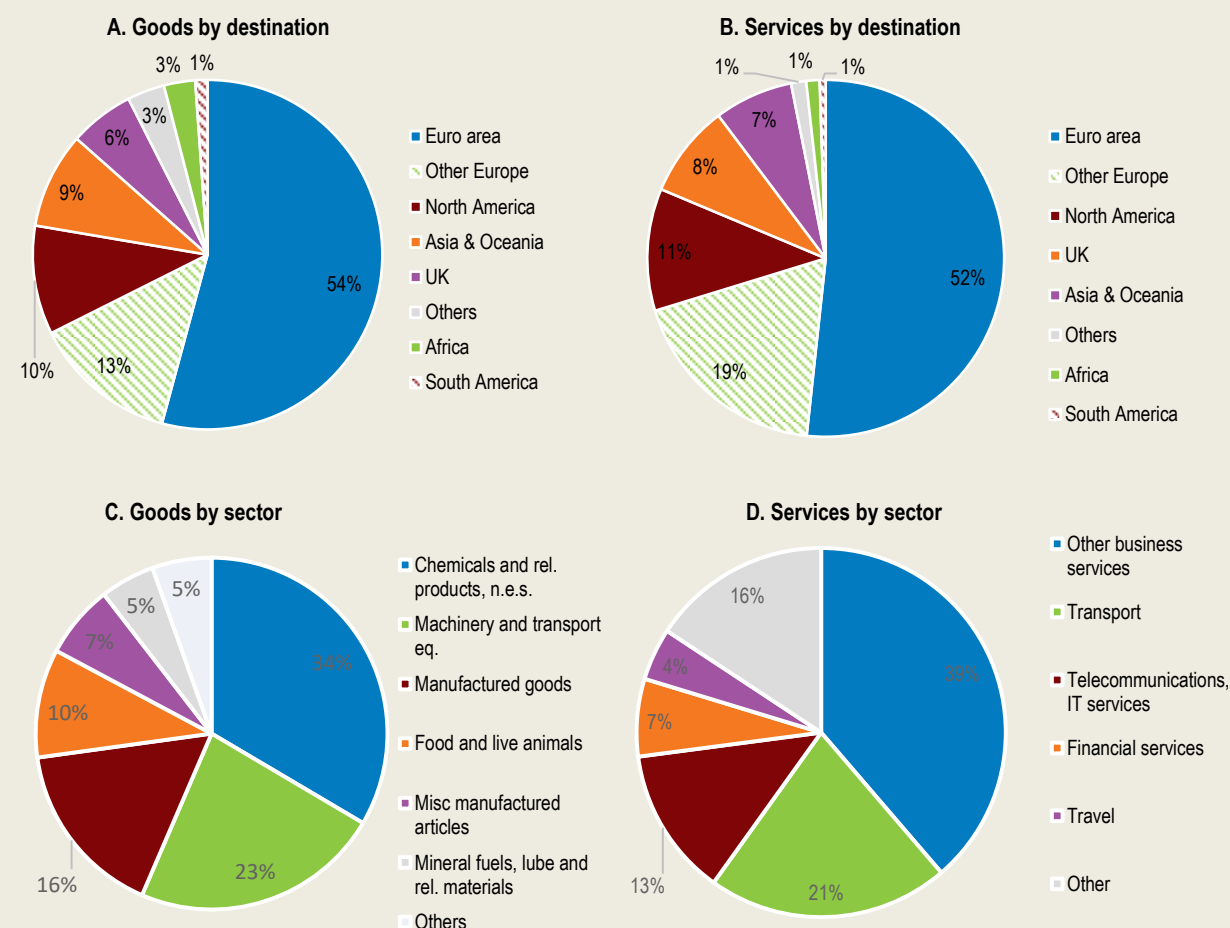
Source: OECD Economic Outlook database 115, OECD Key short-term economic indicators.

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Box 2.1. International trade is a key element of Belgium's economy

Belgium's economy is exposed to trade risks. Goods and services exports account for around 80% of Belgian GDP, among the highest in the OECD, with the euro area as its main trading partner (Figure 2.3, Panels A and B). Belgium is deeply integrated into global value chains and therefore affected by growing restrictive trade policies in non-EU trading partners. Measured as the combination of backward and forward integration of its exports, its integration is among the highest in the OECD at 57%. The main export industries include chemical products (including pharmaceuticals), machinery and transport, and manufactured goods (Figure 2.3, Panels C and D).

Figure 2.3. EU countries are Belgium's main trading partners



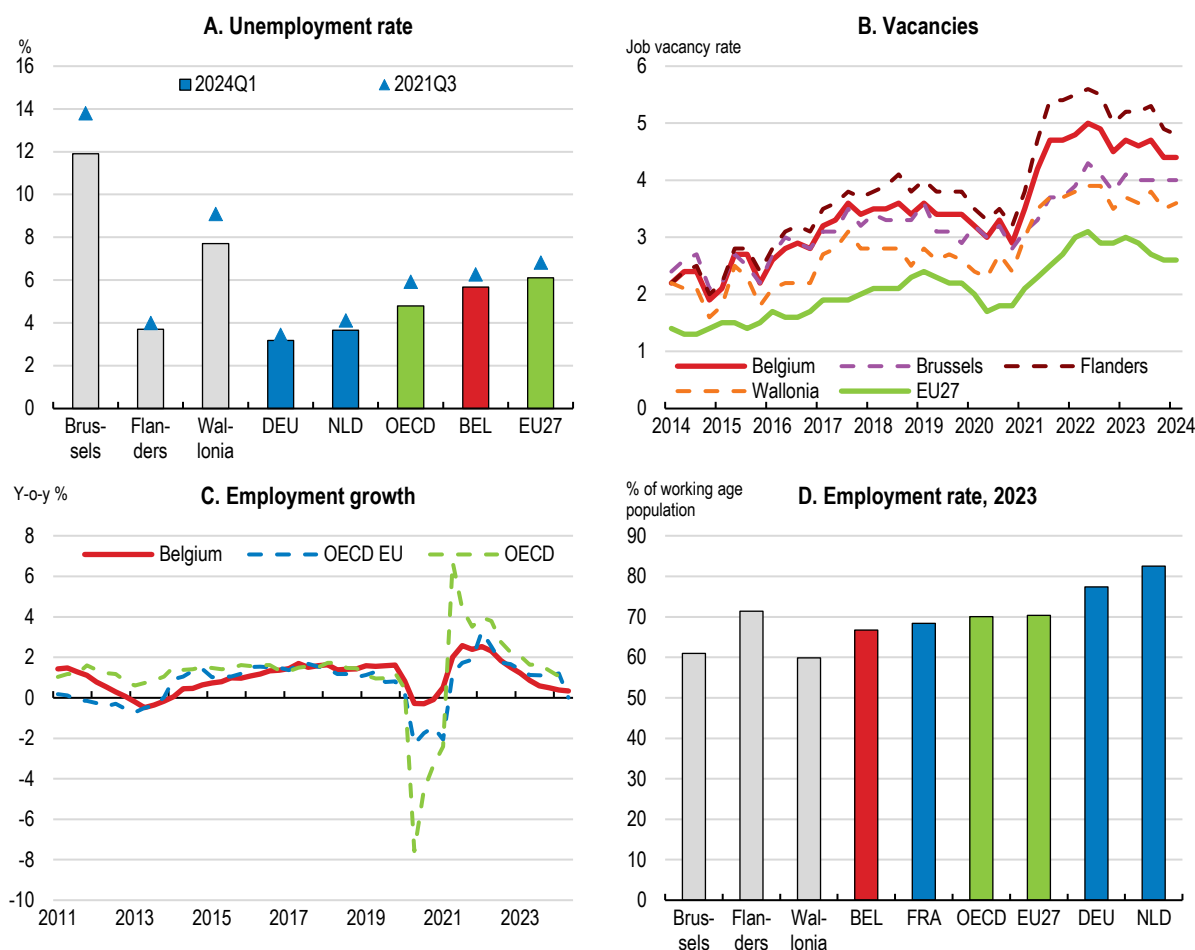
Source: OECD International Trade Statistics database, International Trade in Services database.

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The labour market has been very tight but is starting to ease (Figure 2.4). Employment growth has been fast (Figure 2.4, Panel C), with employment rates surpassing pre-pandemic levels in the second quarter of 2021. Labour shortages are widespread, and the job vacancy rate is high (Figure 2.4, Panel B). Skill shortages and labour hoarding are particularly evident in certain types of employment, such as specialised technical profiles in manufacturing (NBB, 2023a) and sectors with a high share of temporary contracts (NBB, 2024a). Employment growth is however now decelerating (Figure 2.4, Panel C). The unemployment

rate is near historic lows (RVA/ONEM, 2024), but masks significant regional disparities (Figure 2.4, Panel A). The governments in Belgium have the ambition to reach an employment rate of 80%. Raising activity in certain segments of the population, and related low transitions from inactivity or unemployment to employment, would help to ease labour market tightness and address gender inequality (see Chapter 3). Belgium has room to further increase employment rates by international comparison, although there is large variation across its regions (Figure 2.4, Panel D).

Figure 2.4. The labour market remains tight but is moderating



Source: Belstat, Belgian National Bank, Eurostat, OECD Economic Outlook 115 database.

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Output is expected to grow at 1.2% in 2024, before reaching 1.4% in 2025 (Table 2.1). Continued weak global demand and tight financing conditions are weighing on growth in 2024. Economic activity should begin to pick up in 2025 though, as inflation and labour cost growth continue to moderate, and easing financing conditions and external demand support recovery. Consumption growth will slow as the effect of automatic wage indexation starts to fade and job growth decelerates. Lower energy prices should sustain demand from Belgium's main trading partners, and faster wage growth in neighbouring countries will allow Belgium to improve price competitiveness. Construction activity has decelerated on the back of weakening housing markets and high building material costs, but lower borrowing costs and more relaxed lending

standards in 2025 should bring some recovery. Employment growth is expected to continue its moderation in 2024, with a consequent increase in the unemployment rate, before picking up in 2025.

Table 2.1. Macroeconomic indicators and projections

	2020					
	Current prices (EUR billion)	2021	2022	2023	2024	2025
Gross domestic product (GDP)	460.5	6.9	3.0	1.4	1.2	1.4
Private consumption	227.5	6.3	3.2	1.4	1.3	1.3
Government consumption	112.7	5.2	4.5	1.6	1.9	0.8
Gross fixed capital formation	111.1	4.9	-0.2	3.6	1.2	2.0
Housing	23.6	6.0	-3.2	-5.7	-4.6	0.6
Business	74.8	4.7	1.1	6.0	1.9	2.9
Government	12.8	4.1	-2.3	6.3	6.9	1.6
Final domestic demand	451.3	5.7	2.7	2.0	1.4	1.4
Stockbuilding ¹	0.1	0.5	0.3	0.0	-0.2	0.1
Total domestic demand	451.3	6.0	3.0	2.0	1.2	1.5
Exports of goods and services	362.3	13.9	4.9	-3.3	-3.0	1.0
Imports of goods and services	353.1	13.0	4.9	-2.6	-2.9	1.1
Net exports ¹	9.2	0.9	0.1	-0.6	-0.1	-0.1
Other indicators (growth rates, unless specified)						
Potential GDP	..	1.7	1.7	1.8	1.5	1.4
Output gap ²	..	-2.0	-0.8	-1.1	-1.4	-1.4
Employment	..	1.9	2.0	0.8	0.4	0.9
Unemployment rate	..	6.3	5.6	5.5	5.8	5.7
GDP deflator	..	3.2	5.9	4.1	2.2	1.1
Consumer price index (harmonised)	..	3.2	10.3	2.3	4.3	2.0
Core consumer prices (harmonised)	..	1.3	4.0	6.0	3.1	1.8
Household saving ratio, net ³	..	10.3	5.7	7.1	7.0	7.0
Current account balance ⁴	..	1.3	-1.0	-1.0	-0.1	-0.7
General government fiscal balance ⁴	..	-5.4	-3.6	-4.4	-4.9	-4.5
Underlying general government fiscal balance ²	..	-4.1	-3.0	-3.6	-4.1	-3.8
Underlying government primary fiscal balance ²	..	-2.7	-1.8	-2.1	-2.4	-1.9
General government gross debt (Maastricht) ⁴	..	107.9	104.3	105.2	107.4	110.0
General government net debt ⁴	..	90.9	72.7	77.9	80.2	82.7
Three-month money market rate, average	..	-0.5	0.3	3.4	3.6	2.7
Ten-year government bond yield, average	..	0.0	1.7	3.1	2.9	2.8

1. Contribution to changes in real GDP.

2. As a percentage of potential GDP.

3. As a percentage of household disposable income.

4. As a percentage of GDP.

Source: update of OECD Economic Outlook 115

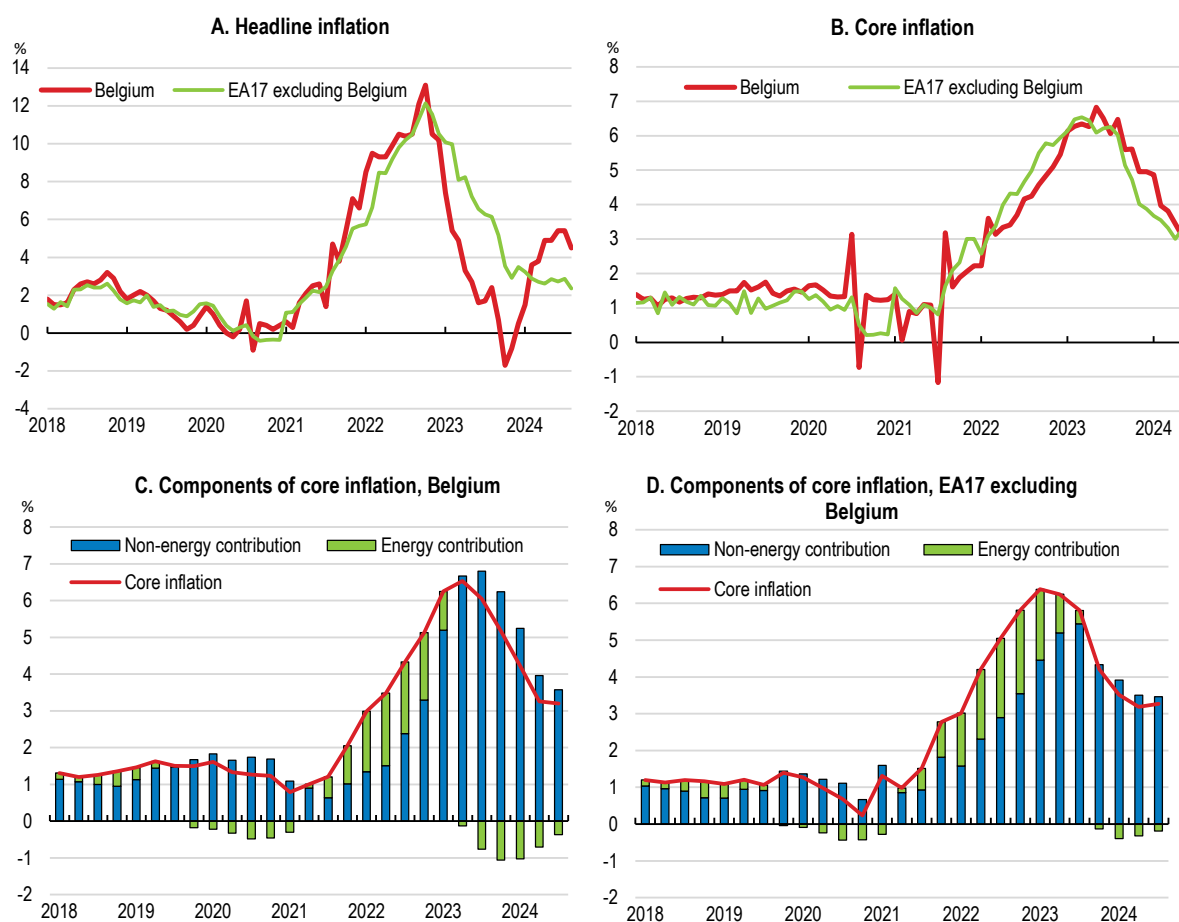
Headline inflation fell but core inflation remains persistent

Headline inflation increased significantly in the post-pandemic recovery but has since fallen fast (Figure 2.5, Panel A). Supply bottlenecks and soaring energy prices triggered by the war in Ukraine have

eased, reducing inflationary pressures. Headline inflation (HICP) peaked at 13.1% in October 2022, the highest inflation seen since 1975, but it declined in 2023 following energy prices, and faster than in neighbouring countries and the euro area as a whole (Figure 2.5, Panel A). Headline inflation in Belgium is relatively more affected by energy price fluctuations. A large share of households have variable-price electricity and gas contracts, that have been indexed monthly since the energy crisis, meaning a more rapid pass-through from wholesale to retail markets. In 2024, inflation began to increase again as the contribution from energy turned positive amid rising energy prices (Figure 2.5, Panel A).

The federal and regional governments enacted numerous support measures to cushion the effect of high energy prices, and while this limited the impact, retail prices still rose significantly. While some support measures were targeted (e.g., measures to protect vulnerable citizens with low incomes in Flanders and Brussels, and the extension of the social energy tariff by the federal government), untargeted support measures weakened price incentives for energy savings (e.g., the reduction in VAT on electricity and gas). Untargeted measures accounted for around 80% of the total energy relief measures budgeted by the federal government (OECD, 2023h). In the event of a similar energy price shock in the future, broad-based untargeted support should be avoided. Instead, policy should focus on interventions that maintain incentives for energy reduction.

Figure 2.5. Headline inflation fell, but internal drivers led to high core inflation



Note: The estimates account for higher direct energy costs (electricity, gas and fuels) and higher indirect energy costs embodied in energy intensive intermediate inputs. The estimates assume energy inputs are non-substitutable in the short term and that higher energy costs are fully passed on to consumer prices over a period of 6 months. Alternative assumptions on the duration of pass-through do not fundamentally change the results. The figure refers to quarterly averages.

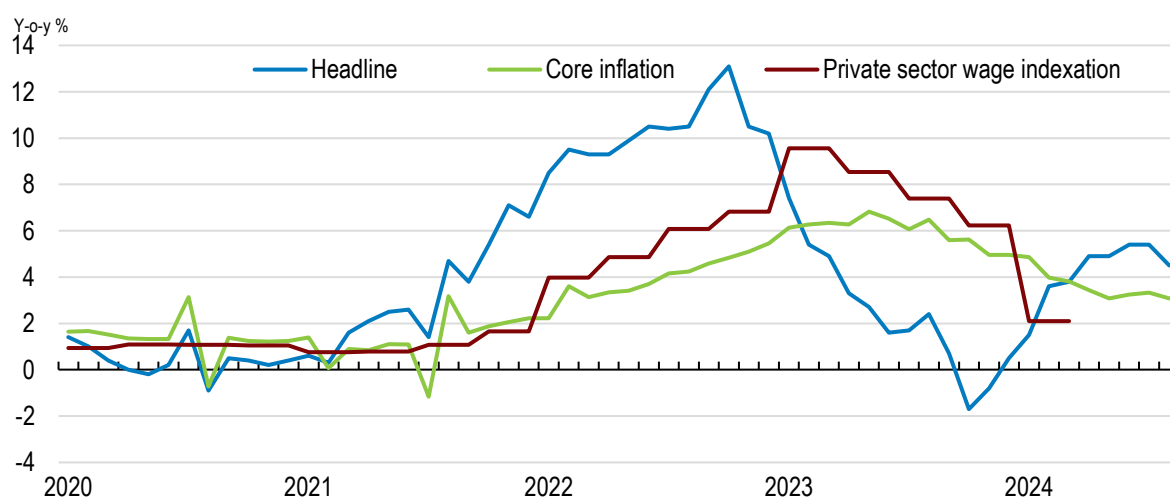
Source: OECD calculations based on Eurostat.

Core inflation has fallen more slowly than headline inflation (Figure 2.5, Panel B). Belgium's sticky core inflation partly reflects widespread indexation of wages and some regulated prices in services, such as rents, telecom, and insurance (Jonckheere & Zimmer, 2024). This has made internal drivers of inflation more prominent than in neighbouring countries (Figure 2.5, Panels C and D). To limit housing price growth, rents were frozen at the end of 2022 for properties with low energy performance (EPC) scores. Landlords have been allowed to index rents once again: since October 2023 in Flanders and Brussels, and since November 2023 in Wallonia.

Headline inflation is expected to rise to 4.3% in 2024, before falling to 2% in 2025 (Table 2.1). The ending of government energy support measures has contributed to rising energy inflation in 2024, and continued energy inflation (albeit expected to be temporary), alongside persistent core inflation, will continue to push up headline inflation through 2024. As slowing domestic demand continues to reduce inflationary pressures however, and second round effects dissipate, headline and core inflation should slow through 2025.

The wage-setting framework in Belgium has been an important non-energy driver of core inflation (Jonckheere & Zimmer, 2024; Figure 2.6). Most workers in Belgium are covered by collective agreements that provide for automatic adjustments of their base wages to an index of consumer prices, called the health index (see Box 2.2). This put significant pressure on firms generating second round effects on prices. Most employees saw wages increase by 11% in January 2023. Nevertheless, this did not lead to excessively strong wage-price dynamics in Belgium. Companies had built up sufficiently large profit margins in previous periods (De Keyser et al., 2023) and absorbed part of the wage increases (Bijmens et al., 2023).

Figure 2.6. High wage growth put pressure on core inflation



Note: Private sector wage indexation refers to the impact the indexation of wages has on the year-on-year growth rate of private sector wages. This is calculated as the weighted average evolution of the different wage indexation mechanisms of different sectors in the private sector.
Source: Eurostat and National Bank of Belgium.

Box 2.2. The wage setting process in Belgium

The wage formation process in Belgium aims to avoid real wage decreases via automatic wage indexation to inflation, but also to avoid stronger nominal wage increases than in neighbouring

countries. Indexation is set according to the smoothed “health index”, which is a national index of consumer prices excluding alcohol, tobacco, and motor fuels.

Wage indexation in the private sector is not a legal obligation, but consists mainly of sectoral schemes, introduced through autonomous (legally extended) collective agreements concluded between the social partners. Most workers in Belgium are covered by these collective agreements established by joint committees. Automatic indexation is done through sector-specific formulas and timing. These automatic indexation collective agreements can cover various wage components depending on the applicable joint committee, but they are usually limited to indexation of basic pay.

Different indexation mechanisms apply in the public and private sector. Public sector wages and social benefits are indexed when the health index exceeds a trigger index, which in the public sector is always 2% higher than the previous one. In practice, this means that indexation occurs when prices rise by 2% in comparison to the last trigger index. Social benefits are then increased by 2% one month later and wages by 2% two months later.

In contrast, there is no uniform indexation mechanism for the private sector. The social partners freely determine on a sector-by-sector basis, and not all employees are entitled to automatic wage indexation, although only 2% of employees do not have automatic indexation on a sector level. Around half of private sector employees also see their wages adjusted when a given trigger index is crossed like in the public sector, although not necessary by 2%. Almost all others benefit at specific points in time (e.g., annually or quarterly), with around 40% seeing an adjustment once per year. The framework for the wage formation process was created by the “Law on the Promotion of Employment and Maintaining Competitiveness”. By 2010 a 4% gap had emerged between salary developments in Belgium and the comparator countries of Germany, France, and the Netherlands (Belgium’s key export markets). This led the federal government to try to close the wage gap via a legal prerogative that allowed it to set a relatively low benchmark for wage rises for 2011-12 and 2013-14, and then a suspension of the index in 2015-16 (the so called “index-jump”). This led to a closing of the labour cost gap and greater cost competitiveness (IMF, 2019).

To prevent wage gaps from re-emerging a reform in 2017 adapted the upper limit on real wage increases that social partners can negotiate based on the projected wage growth in Belgium and its neighbouring countries over the next two years. This limit is a binding factor in salary negotiations. The reform also introduced a correction term for past overshoots of wages in Belgium versus neighbouring countries, a safety margin to account for forecasting errors, and a wage cost reduction that is partially taken into account when calculating the wage cost handicap. The wage norm for the bi-annual wage bargaining round of 2023-2024 was set at ‘0%’.

Source: OECD (2022a); NBB (2022c)

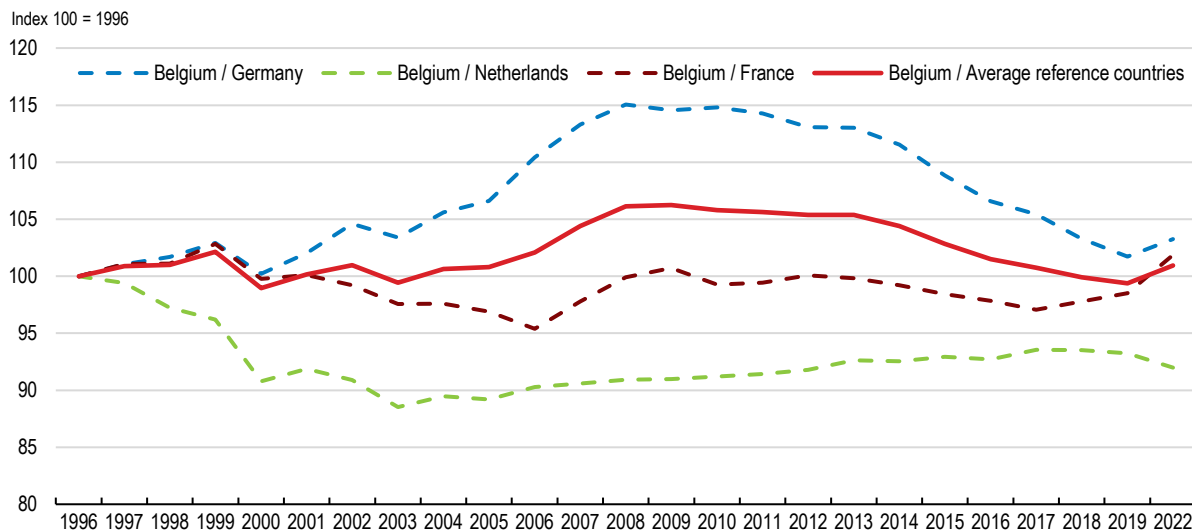
This significant wage growth was well in advance of increases among trading partners, and since it was not accompanied by an increase in labour productivity, put additional pressures on firms (NBB, 2023a), and put Belgium at a temporary competitive disadvantage with respect to wage levels (Figure 2.7). The Conseil Central de l’Economie has estimated that the wage gap between Belgium and its reference neighbouring countries (the Netherlands, France and Germany) will be around 1.8% by the end of 2024. This is based on a starting point of 0.9 % in 2022. Since the wage formation process includes a ceiling based on the wage growth of neighbouring countries, this reduces competitiveness losses over time, but the recent period of high inflation has tested the limits of the approach. As mentioned in the 2020 and 2022 *Economic Survey*, a review of the system could be considered, particularly the global effectiveness of the 2017 reform in safeguarding competitiveness and its effects on internal demand, economic growth, employment and inflation (OECD, 2022a).

The review of the system could amongst others look into the index used in wage indexation (‘the smoothed health index’). This index is not well insulated from fluctuations in the most volatile components of HICP,

such as energy or food prices, which can lead to overestimates relative to real household expenditure becoming engrained in real wage increases (NBB, 2022b). It is welcome therefore that the Index Commission is currently assessing the components of the consumer price index. Excluding items with high volatility could lead to more predictable salary developments and distribute losses more evenly across households and other sectors of the economy, but whereby removing components must take into account the representativeness of the index.

The wage ceiling could be revised to enable wages to evolve more in line with economic fundamentals, such as productivity growth (Table 2.3). Productivity deviations across Belgium and its key trading partners must be considered to maintain external competitiveness, although it should be noted that labour costs and prices in general are not the only determinant of competitiveness and export performance. The wage ceiling adds to labour market rigidities as it reduces opportunities for social partners to negotiate and for employers to offer real salary increases differentiated across sectors and firms. Since deviations in productivity growth at the firm or sectoral level are not adjusted for, this worsens already relatively low job-to-job transition rates in Belgium and increases the need for non-transparent in-kind benefits by employers to achieve a differentiated compensation structure (Geis, 2023). Loosening rigidities would allow for a more optimal allocation of economic resources as it would increase the bargaining space for labour unions and the ability for employers to adjust real base pay for existing employees with productivity developments at the firm or sectoral level.

Figure 2.7. Labour cost growth impacted price competitiveness



Note: Each series shows the ratio of unit labour costs in Belgium relative to the country stated. All series are indexed to 1996. The years 2019, 2020 and 2021 are considered as one as temporary unemployment during the COVID crisis has skewed the statistics. This bias has subsequently been compensated.

Source: Conseil central de l'économie.

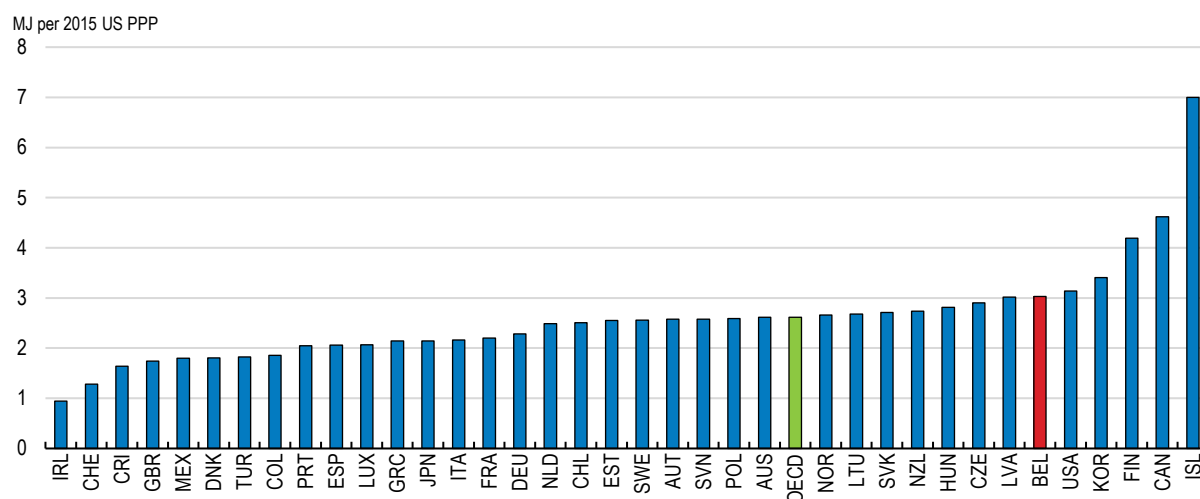
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Uncertainty around the economic outlook remains high

Uncertainty around the outlook remains high, with key risks related to trade prospects and future price developments. Belgium is vulnerable to external demand shocks and rising energy prices and energy supply disruptions, as it relies on imported energy from a limited number of suppliers for over 70% of its needs. This makes Belgium's economy particularly sensitive to global energy price developments (European Commission, 2023a). Reliance on energy imports may accentuate further as Belgium plans to gradually phase out nuclear power and the deployment of renewable energy sources has been comparatively slow so far (see Chapter 4). Energy intensity is relatively high (Figure 2.8), mainly due to

major industrial consumption, although electricity consumption has been declining recently. Belgium must transform its energy system to reduce vulnerability to future energy crises while accelerating the green transition (see Chapter 4). There is also uncertainty around the persistence of inflation, the impact of tight global monetary policy on global growth and the global risk to debt markets. Additional monetary tightening worldwide could further dampen external demand and amplify risks surrounding high indebtedness and repricing of real estate, with repercussions on the financial sector. Conversely, a faster than expected decline in price pressures, and a quicker global rebound would result in higher trade, renewed confidence, and more growth. Several tail risks, including climate-related events such as flooding, or excessive government support in other countries (as part of industrial policy) impacting Belgian competitiveness, could additionally dent growth prospects (see Table 2.2).

Figure 2.8. Energy intensity is high



Source: International Energy Agency: World Energy Indicators database.

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Table 2.2. Events that could lead to major changes in the outlook

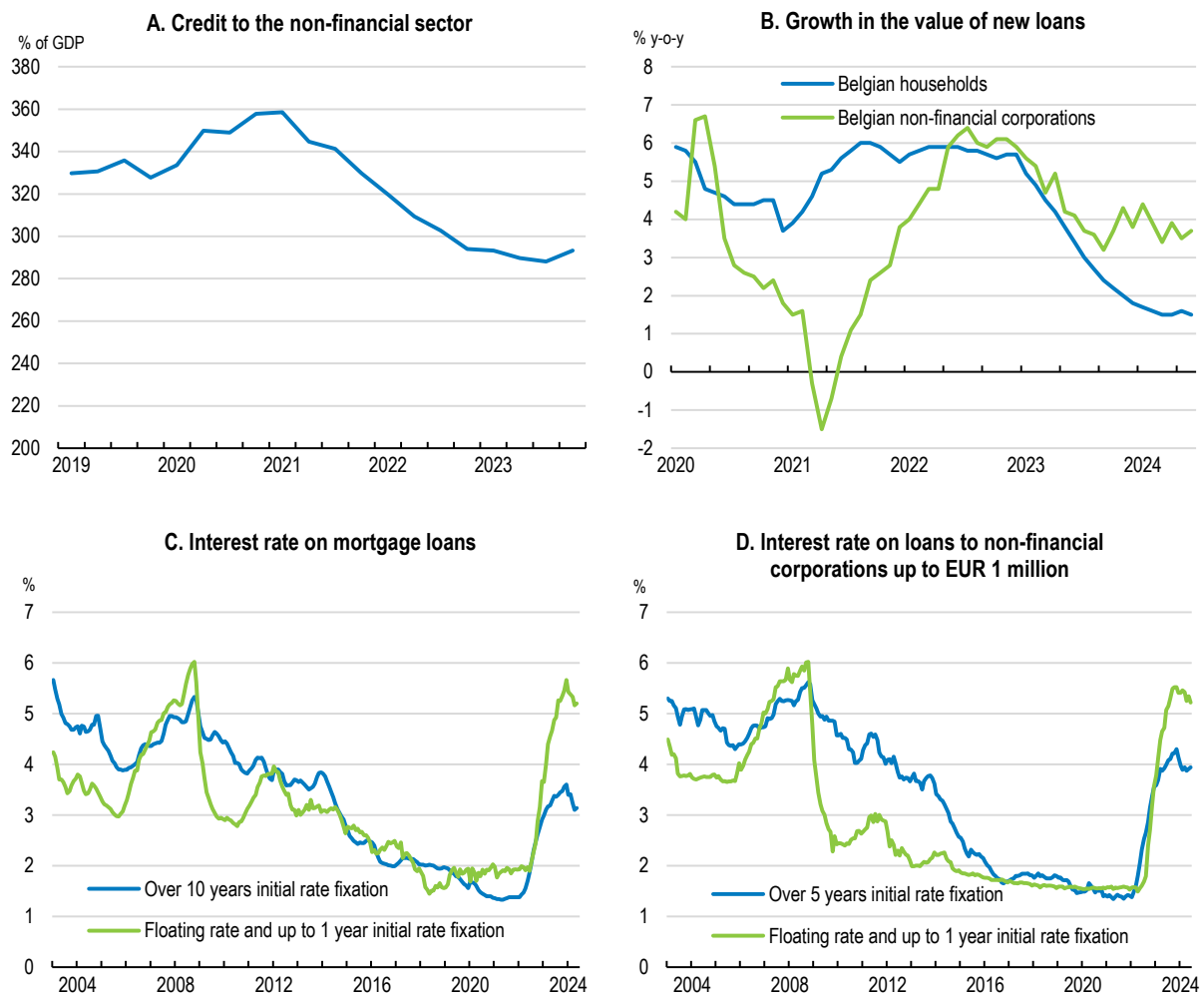
Vulnerability	Possible Impact
Intensification of global trade tensions and increased protectionism at the global level.	Increases in trade barriers and restrictions that distort trade would reduce external demand and risk triggering supply bottlenecks. This would drag severely on output growth and undermine activity in industries highly integrated in international supply chains.
Energy supply disruptions.	Gas rationing in Europe would increase energy prices in Belgium, including electricity prices. This would feed quickly through into rising household bills leading to a sudden drop in household purchasing power and a consequent impact on household consumption. This would also weigh on business profitability, particularly in sectors that are energy intensive.
Steep tightening of financing conditions.	Steep increases in the interest rate could lead to major asset price corrections, such as stock and housing markets, and pose a global risk to debt markets.
Climate-related risks. Highly disruptive extreme weather events, such as severe flooding.	More frequent adverse climate-related events, such as floods, would threaten the provision of basic goods and services, undermining economic activity in the region. Major asset revaluations based on the frequency of climate-related events could spark losses in the financial sector and economy more broadly.

Higher interest rates are shifting risks in the financial sector

Tighter financing conditions have helped turn the credit and real estate cycles

Rapid tightening of monetary policy since mid-2022 has turned the credit and real estate cycles after years of dynamic growth. The ECB raised policy rates fast, and the average interest rate on new mortgage and corporate loans has increased significantly, contributing to a fall in the credit-to-GDP ratio, and a deceleration of credit growth (Figure 2.9, Panels A and B). Long-term rates also increased significantly, but less sharply than short-term rates (Figure 2.9, Panels C and D).

Figure 2.9. Credit growth decelerated amid sharply higher loan rates



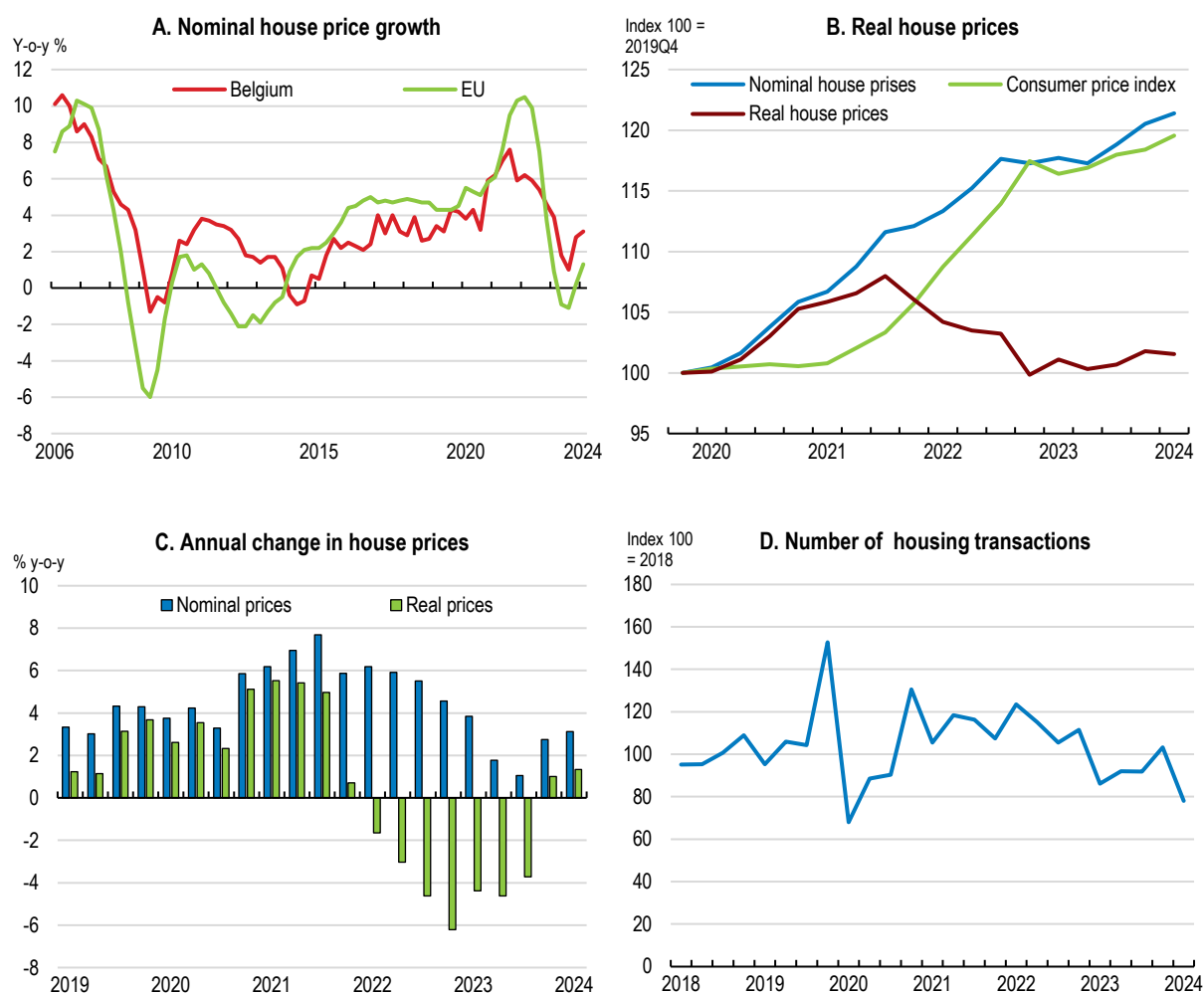
Note: Credit in panel A includes credit at market value from all sectors to the non-financial sector.

Source: Bank for International Settlements; National Bank of Belgium.

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The cooling in the Belgian real estate market has been significant. Prices surged 16% between the end of 2019 and 2021, partly due to a persistent supply-demand gap in the housing stock particularly in major cities, such as Brussels. Since then, house price growth and housing transactions have declined, although the fall in house price growth has been milder than the EU as a whole (Figure 2.10). Higher mortgage rates have especially dampened demand for buy-to-let transactions, which had been boosted by the search for yield in preceding years (NBB, 2023b). The commercial real estate market is also showing significant signs of re-pricing, with activity dropping significantly in 2023 after record investment volumes in 2022. Belgian banks are among the most exposed in Europe to commercial real estate collateralised corporate lending, totalling around 15% of GDP (NBB, 2023b). A Sectoral Systemic Risk Buffer (SSyRB) was introduced in May 2022 in Belgium to cover risks related to residential mortgage loans, but no such buffer exists for commercial real estate. Belgium could consider introducing such a buffer for commercial real estate to further augment its macroprudential policy arsenal.

Figure 2.10. House prices and housing transactions have fallen in real terms



Source: Eurostat; OECD Analytical house prices indicators; OECD National and Regional House Price Indices.

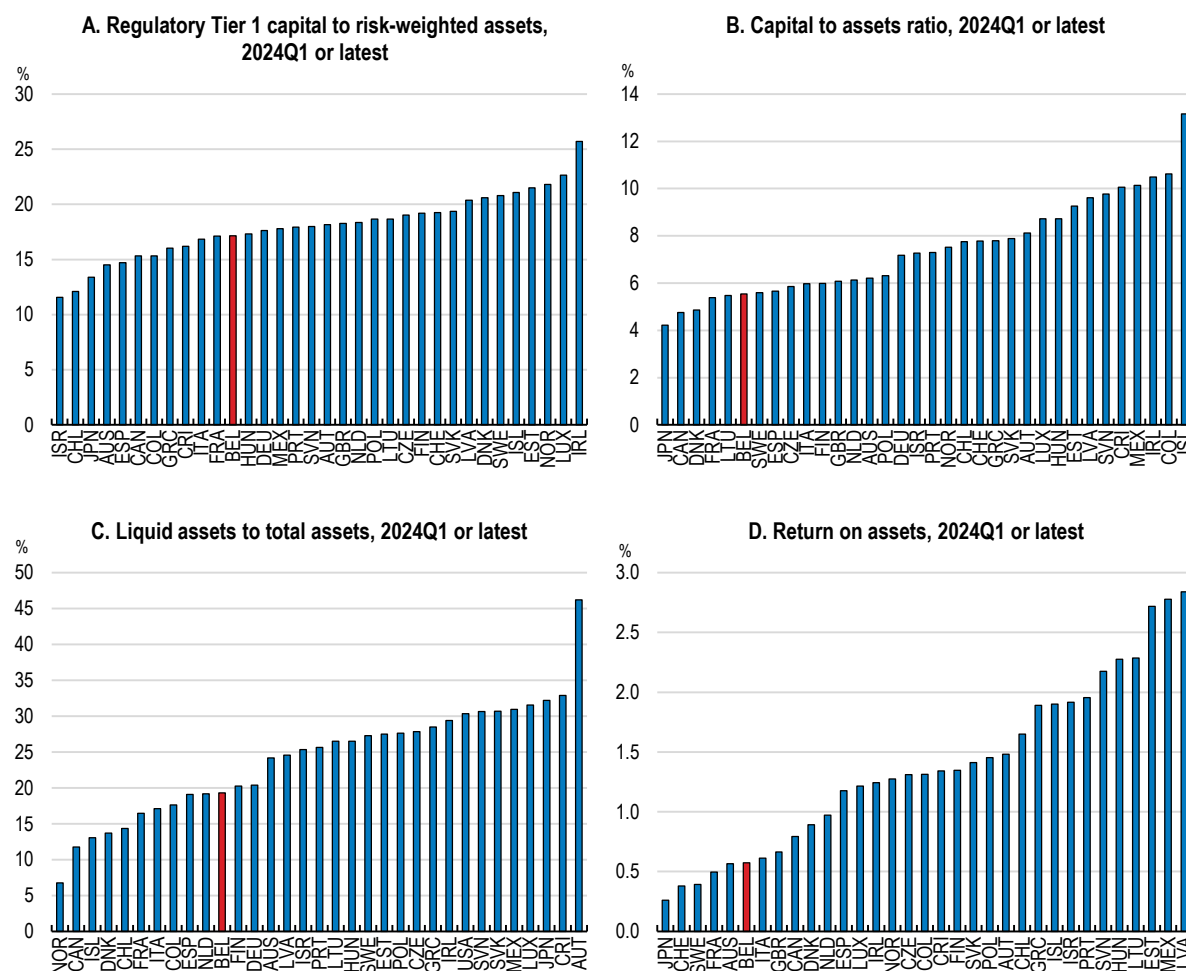
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The fall in real house prices should help mitigate housing affordability issues and reduce risks of an overheating housing market. There has been an upward trend in the price-to-income ratio since 1996. Housing affordability has deteriorated significantly since 2019 as income growth failed to keep pace with the rapid surge in prices. Around a third of Belgians rely on the rental market, more than on average in the OECD (24%) and rental prices have also surged, hitting all-time highs in 2023. The Brussels-Capital Region faces a severe housing crisis, with apartment prices nearly tripling between 1996 and 2020 and significantly increasing demand for social housing (OECD, 2024a). One household in two qualifies for social housing and demand for social housing increased by 27% between 2019 and 2024. Higher interest rates generally reduce the borrowing capacity of households, potentially constraining access to home ownership, but this has been counterbalanced by banks offering an increase in the maturity of new mortgage loans, which is welcome (NBB, 2023b). The Belgian central bank estimates that the gap between actual property prices and fair value has declined by around 10% since 2021, representing a return to prices closer in line with fundamentals (NBB, 2023b).

A more challenging economic environment calls for enhanced financial supervision

Belgian's financial sector has remained resilient against the backdrop of higher interest rates and slower growth. Banks are in a good position, with capital and liquidity significantly above regulatory requirements, although banking sector leverage and liquid asset holdings are towards the higher and the lower ends of OECD countries respectively (Figure 2.11). Belgian banks proved very resilient to the events in the US and Swiss banking sectors in early 2023, exposures to these institutions were low, and liquidity was sufficient to meet increasing demands. Recent EU-wide stress tests have showed that Belgian banks performed above the European average, with good resilience to current inflationary pressures and macroeconomic and political uncertainties (EBA, 2023). The countercyclical capital buffer was also reactivated on 1 October 2023 to a rate of 1% by 1 October 2024, which will enhance banking sector resilience. This is important given banks are the main source of finance in Belgium. Lastly, the insurance sector is well capitalised with the solvency capital requirement coverage ratio standing twice the regulatory requirement (209% at the end of 2022).

Figure 2.11. The banking sector remains resilient, although relatively leveraged



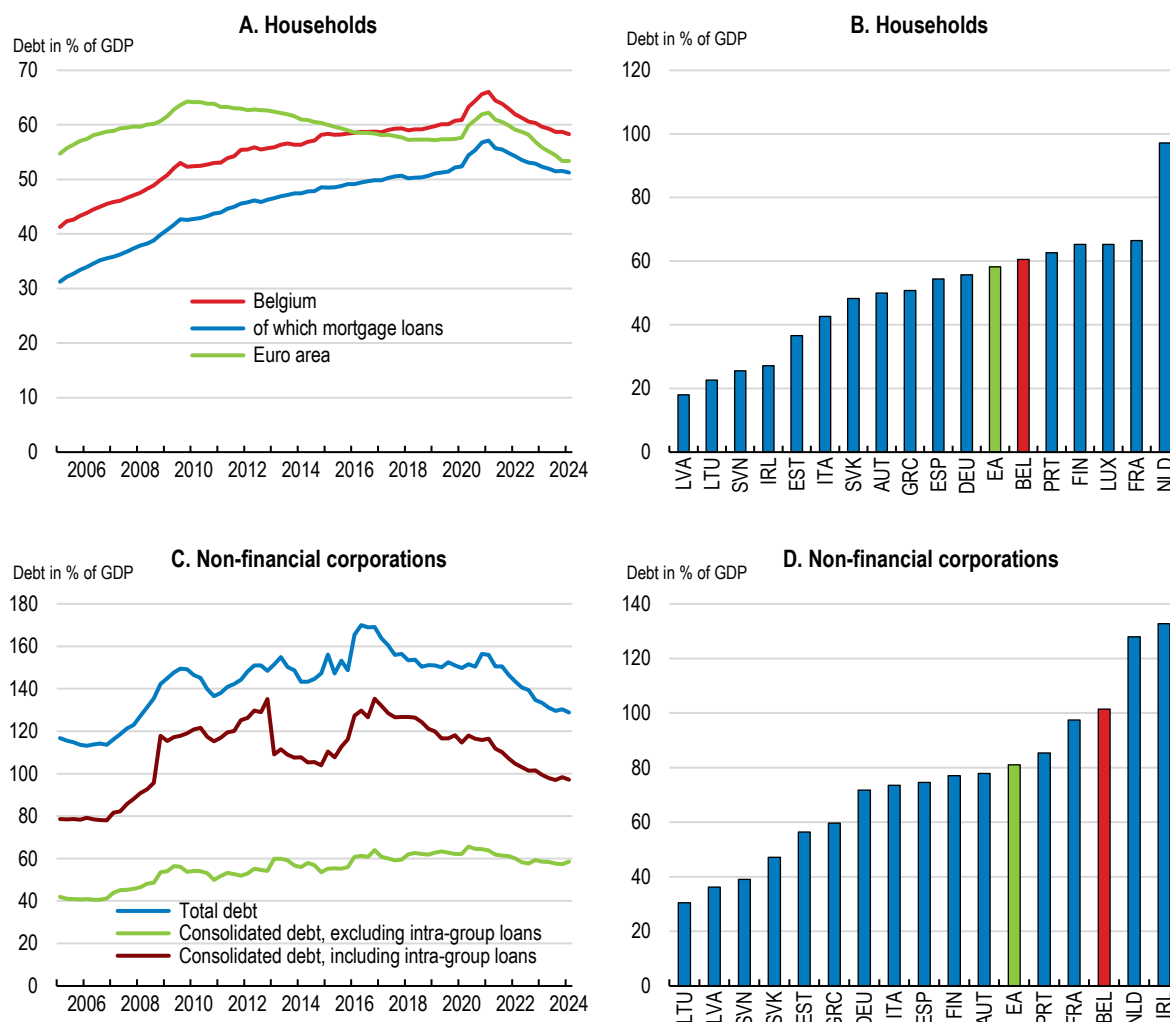
Source: Financial Soundness Indicators, IMF.

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Household debt however has increased significantly over the last decade primarily driven by mortgage lending in a buoyant housing market (Figure 2.12). Residential mortgages make up a fifth of total assets on banks' balance sheets (around 55% of GDP), and riskier mortgage loans could become vulnerable should the macro-financial environment deteriorate or if the cooling of the housing market turns into a sharper correction (Table 2.3). Banks' provisions for household debt are also at their lowest levels since at least 2018 and falling (Figure 2.13). Risks are reduced by the fact most mortgages in Belgium are fixed rate and fully amortising, which insulates many households from rising debt service costs (NBB, 2024a). Belgian households additionally have large amounts of financial assets, with household debt primarily held by those in third and fourth quintiles of the income distribution (34% and 48% of mortgage debt respectively). However, of those households with a mortgage in the first- and second-income quintiles, 50% and 25% respectively spend more than 30% of their pre-tax income on mortgage payments (NBB, 2023), and these households generally hold little buffer to cope with temporary income shocks. The central bank introduced so called "prudential expectations" in 2020, which have significantly improved the credit quality of mortgage loans since and led to a major decrease in the risk observed in the stock of loans. These expectations set tolerance levels (with some margins) for banks on the issuance of mortgage loans with high loan-to-value and/or high debt-service-to-income ratios, and there has been good compliance from the financial sector. A SSyRB was also introduced on 1 May 2022 for Belgian credit institutions that

apply the internal ratings-based approach to their residential real estate exposures. Although this was lowered from 9% to 6% in April 2024, this is still the highest in the EU, and taking into account the combined adjustment of the CCyB and the SSyRB implies an increase in macroprudential buffers from EUR 2.6 billion as of 1 April 2024 to EUR 3.8 billion as of 1 October 2024 (NBB, 2024b). The central bank's baseline scenario is of a soft landing, but Belgium should remain vigilant and consider additional macroprudential measures if and when necessary, including adjusting tolerance levels.

Figure 2.12. Debt of Belgian households and non-financial corporations is elevated



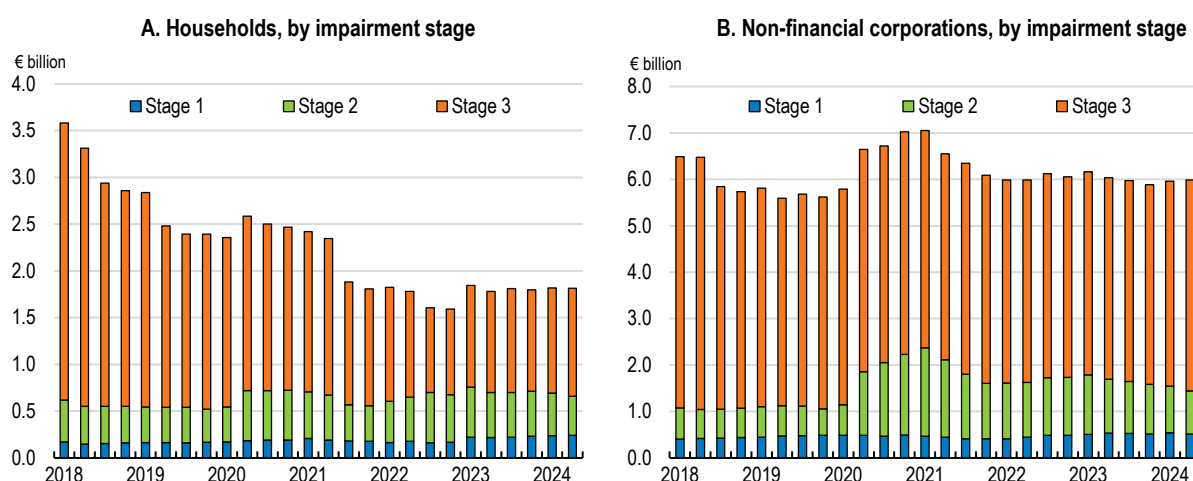
Source: National Bank of Belgium.

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Belgian non-financial corporates (NFC) also have a relatively high debt ratio, although it has declined recently (Figure 2.12). A high share of this debt pertains to intra-group lending, typically held by large enterprises. Belgian corporates have generally had sufficient buffers to absorb recent shocks, however cost pressures are weighing on businesses and tighter financing conditions are raising credit risk concerns, particularly for corporates with weaker profitability. The median interest-coverage ratio has been declining over the past 20 years (NBB, 2023b), but weakening economic activity and tight financing conditions could weigh on the debt servicing capacity of some firms and increase the risk of corporate failures for the most

leveraged. The credit quality of loans to NFCs is generally worse than the aggregate loan portfolio (IMF, 2023b), and while support measures (including loan deferrals, moratoria, furlough arrangements, and various tax exemptions) successfully prevented a wave of insolvencies during the pandemic and energy crisis, these measures may have increased the risks of debt overhang (OECD, 2021a). Although this so far seems to have been contained – support measures helped improve NFCs' solvency and liquidity positions – Belgium must take measures to reduce vulnerabilities as they emerge in this context. This includes continuing to assess non-performing loans which increased through 2023 (albeit from an all-time low in 2022), especially in sectors disproportionately affected by the energy crisis, and ensuring credit risk provisions remain adequate. Credit risk provisions for NFCs have not been increasing and are back to levels seen before the pandemic (Figure 2.13, Panel B). It is therefore welcome that the central bank reactivated the countercyclical capital buffer in October 2023.

Figure 2.13. Credit risk provisions for loans are not rising despite the more challenging environment



Note: Stage 1 of impairment is the expected credit loss of a financial asset, recognised on day one of purchase or origination. Stage 2 is triggered if credit risk is deemed to have increased significantly. Stage 3 occurs where a financial asset becomes credit impaired.

Source: National Bank of Belgium.

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The institutional framework used to set macroprudential policy should be reviewed. Belgium's central bank is the designated macroprudential authority with a mandate for financial stability, but it does not have full power to set policy. Macroprudential instruments are subject to approval by the Minister of Finance or the Council of Ministers before coming into force via a Royal Decree. The Belgian federal government relies on the central bank for expertise, but it can refuse to enact the recommendation. There have been two instances of measures recommended by the central bank not being enacted by the federal government. Refusals to enact a recommendation are therefore not systematic. Nevertheless, robust institutional arrangements are key to effective macroprudential policy, and disagreements can delay or prevent the adoption of appropriate policies, potentially due to political considerations (Ingves, 2022; Valencia & Ueda, 2012). In an assessment of 14 jurisdictions, the Committee on the Global Financial System (CGFS) – a central bank forum for assessing risks to financial stability at the Bank for International Settlements (BIS) – suggested that macroprudential policies were better targeted when the macroprudential authority had a clear mandate, operational independence and the legal basis to direct policy across the full range of macroprudential tools (BIS, 2023). While some countries, such as France and Denmark, allow their Ministry of Finance to preside over the macroprudential authority, many countries (e.g. Ireland, Czech

Republic and the United Kingdom) have given their central bank independence in setting macroprudential policy. This does not necessarily imply policy divergence. For example, the United Kingdom allows the Ministry of Finance to play a passive role via its presence as a non-voting member on the Financial Policy Committee (FPC) that sets macroprudential policy and via the exchange of remit-and-response letters to provide transparency and high-level coordination between policy objectives. Belgium should consider whether the central bank can be given full power to set macroprudential policy without the need for government approval, as also recommended by the European Systemic Risk Board (ESRB, 2011).

Financial sector resilience to climate-related risks requires closer attention. The energy and climate transition poses a challenge to Belgian financial stability, particularly due to the transition risk associated with energy inefficient buildings. The Belgian banking sector has a large share of energy inefficient buildings in its portfolio via mortgage exposures and the value of these could be severely affected by future green policies (NBB, 2023b). More than 40% of new mortgages in 2022 were for energy-inefficient homes with an EPC-rating of D, E or F. Given the considerable size of real estate exposures in the Belgian banking sector, banks must integrate climate-related risks into their management practices. Lack of regulatory standards often hinders the ability to integrate climate risks into the supervisory framework, and thus it is welcome that the Belgian central bank has recently asked financial institutions to collect data concerning the energy efficiency of collateral on new mortgage loans. In line with European legislation in terms of ESG reporting and risk management (Corporate Sustainability Reporting Directive, Sustainable Finance Disclosure Regulation, and Revised Banking Package), as well as the initiatives of neighbouring countries (such as Germany, the Netherlands and Luxembourg) which have also developed national sustainable finance strategies, Belgium should go further and build on the conclusions of the study on policy options for a Belgian sustainable finance strategy project funded through the EU Technical Support Instrument (TSI). This strategy could, amongst others, improve the quantity and quality, as well as the monitoring of climate-related reporting. Standardised regulatory guidance can lead to a significant increase in the disclosure of climate-related risks (Acosta-Smith et al., 2023).

Table 2.3. Past recommendations on improving economic and financial resilience

Recommendations in past Surveys	Actions taken since 2022
When providing fiscal support to vulnerable households and firms affected by high energy prices, ensure that it is targeted and temporary.	Several support measures were enacted in response to the energy crisis. These were temporary and largely ended by the first quarter of 2023. While some measures were targeted, such as the extension of the social energy tariff, the majority were untargeted.
Make more use of the possibility of decentralised wage bargaining, within the framework of sector-level agreements, to better align wages with productivity at the individual firm level.	No action taken
Strengthen the disclosure of climate-related risks by financial intermediaries, as granular data become available.	No action taken beyond developments at the European level to which Belgium contributed.
Continue close monitoring of the macrofinancial risks related to the residential and commercial real estate sector and strengthen macroprudential measures if needed.	On 1 May 2022, the central bank introduced a macroprudential measure for Belgian credit institutions that apply the internal ratings-based approach to their residential real estate exposures. This “sectoral systemic risk buffer” replaced an earlier measure introduced in 2018 that expired on 30 April 2022. The measure was recalibrated downwards from 1 April 2024 from 9% to 6%, effective from 1 April 2024. The central bank also reactivated the countercyclical capital buffer on 1 October 2023 to a rate of 1% by 1 October 2024.

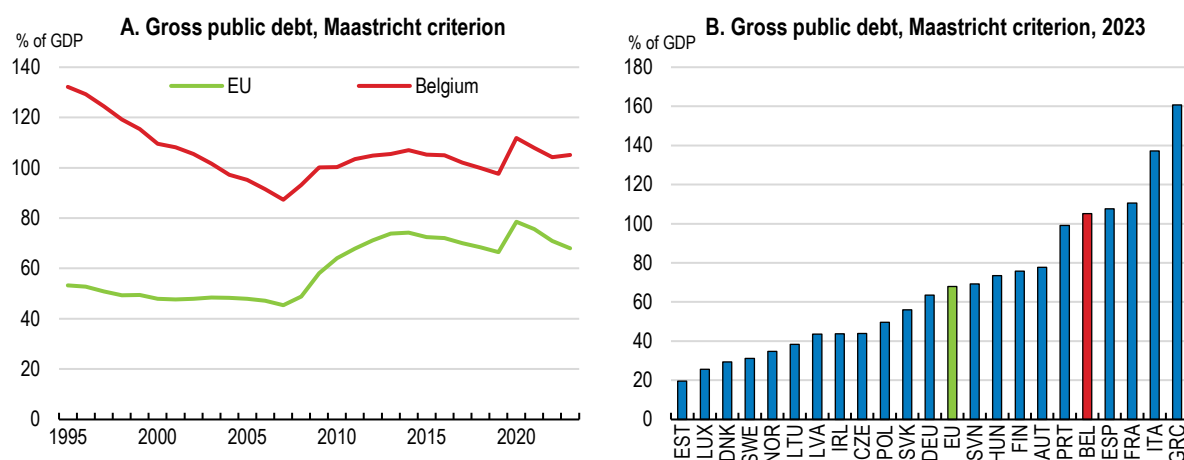
Medium-term fiscal sustainability remains a big challenge

The pandemic and the energy crisis accentuated the fiscal sustainability challenge

The pandemic and the energy crisis have left Belgium with higher structural deficits and a further increase in an already high debt-to-GDP ratio. The debt-to-GDP ratio reached 105% in 2023 (Maastricht definition), among the highest in the EU (Figure 2.14). Moreover, since 2022, the rise in government bond yields and the accompanying decompression of risk premia are putting additional pressure on public finances.

In the near term, urgent consolidation measures are needed. Federal and regional governments have continued to run deficits well above 2019 levels despite the diminishing need for fiscal support amid recovering growth. The level of debt poses macro-financial risks and is limiting the scope for public investment, including necessary investments in the digital and green transitions. New fiscal measures are needed to stabilise public finances and investor confidence, accommodate the fiscal impact of population ageing, and build buffers for future fiscal shocks.

Figure 2.14. The public debt-to-GDP ratio is high



Source: OECD Analytical database.

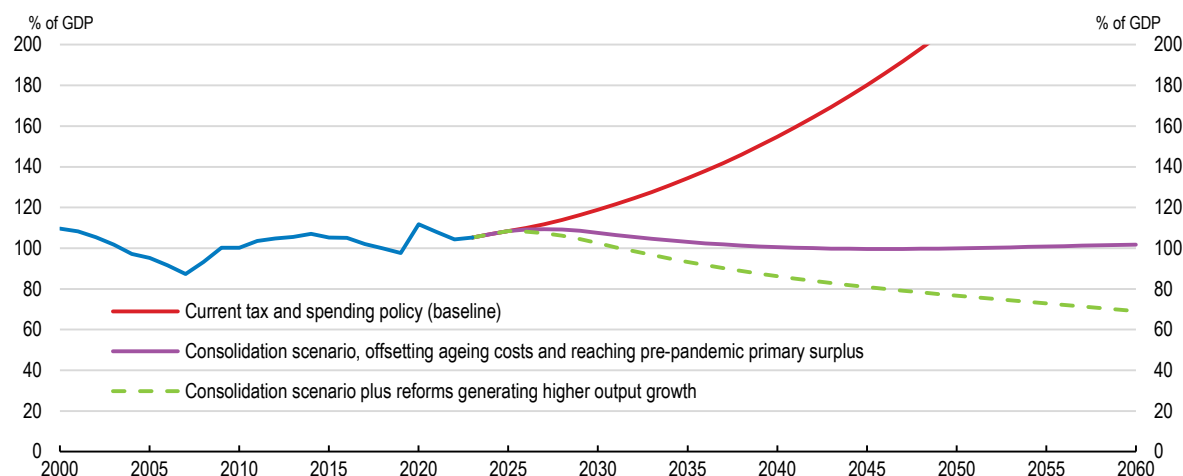
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Risks to long-run fiscal sustainability are sizeable

Long-run fiscal projections point to significant risks of an unsustainable increase in public debt. In absence of reform towards consolidation, the primary balance is projected to deteriorate from its estimated level for 2025 (-2.5% of GDP) as ageing costs increase. Estimates suggest this would bring public debt above 200% of GDP by 2049 (“No reform scenario” in Figure 2.15). Gradually improving the primary balance to +0.6% of GDP – its pre-pandemic average level – by 2030 would stabilise the debt-to-GDP ratio at around 100% (“Consolidation scenario” in Figure 2.15). This implies a consolidation effort of 3.7 percentage points of GDP between 2025 and 2030 (0.7 percentage point of GDP per year). Offsetting the rising public spending on pensions, health, and long-term care accounts for 0.6 percentage points of the total. Structural reforms included in this Survey and an ambitious package of saving measures amounting to 3% of GDP could achieve this target (Box 2.4). After 2030, maintaining the primary surplus will be complicated by further rises in ageing costs. The share of the population over 80 years old is projected to double by 2070 and ageing costs are estimated to add an average of 3% of GDP to government spending between 2030 and 2060. Maintaining primary surplus at 0.6% after 2030 would require an average annual consolidation effort of around 0.1% of GDP.

Figure 2.15. Bringing public debt on a sustainable path requires substantial fiscal efforts

Gross government debt as a share of GDP



Note: The "Current tax and spending policy" scenario is based on the OECD Economic Outlook 115 projections until 2025, the OECD long-term model thereafter. The scenario assumes a continuation of the policy stance with the primary fiscal balance remaining constant at its 2025 level (-2.5%) before accounting for net ageing-related costs. Net ageing costs are defined as changes in expenditure on old-age pensions, health, and long-term care minus changes in expenditure on education, which will add on average an additional 3.7 percentage points of GDP to annual government spending from 2025 to 2060 assuming no-policy change. The "Consolidation" scenario assumes that the primary budget surplus reaches 0.6% of GDP by 2030 and is maintained until 2060, which requires tax and spending measures after 2025, including to offset rising net ageing costs. The "Consolidation scenario plus reforms generating higher output growth" scenario additionally assumes higher GDP growth from the implementation of the ambitious package of structural reforms reported in Box 2.4.

Source: Adapted from OECD (2024), OECD Economic Outlook: Statistics and Projections (database), May; Guillemette, Y. and D. Turner (2018), "The Long View: Scenarios for the World Economy to 2060", OECD Economic Policy Paper No. 22., OECD Publishing, Paris; and European Commission (2024), "The 2024 Ageing Report - Economic and budgetary projections for the EU Member States (2022-2070)" Directorate-General for Economic and Financial Affairs.

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Furthermore, fiscal consolidation will have to go beyond achieving pre-pandemic levels to put deficits and the public debt burden on the downward path envisaged in the new EU fiscal rules (see Box 2.3). This should be expenditure led, with a focus on cutting ineffective spending, given Belgium's already high tax burden (see below). Belgium's deficit and debt levels are well above the thresholds for a reference trajectory, 3% and 60% of GDP respectively. Nevertheless, this substantial fiscal challenge can be overcome and indeed consolidation has already started. Estimates from the federal Ministry of Finance suggest that Belgium has been undertaking an EUR 11 billion effort (1.8% of GDP) since 2021. The majority of this (0.8% of GDP, around 5 billion EUR) is planned for 2024, the first non-crisis year since 2021. Furthermore, Belgium undertook substantial fiscal adjustments in the past, with the primary balance surplus reaching 6% of GDP in the early 2000s. Belgium is among the few countries that maintained large primary surpluses for sustained periods (Eichengreen and Panizza, 2016). In addition, undertaking structural reforms that boost growth could help improve debt dynamics. The package of reforms recommended in this Survey would reduce the debt-to-GDP ratio by around 25 percentage points by 2050 or would allow for lower primary budget surpluses ("Consolidation scenario plus reforms generating higher output growth" in Figure 2.15 and Box 1.2).

Box 2.3. Implementation of the new EU Economic Governance Review

The new economic governance framework was adopted by the European Council on 29 April 2024 with the aim to reduce debt ratios and public deficits in a gradual, realistic, sustainable, and growth-friendly way. All EU countries are obliged to submit national medium-term structural budgetary plans for a 4- or 5-year period (depending on the length of the national legislature), committing to a multi-year public net expenditure path, as well as explaining how investments and reforms will be undertaken. The first national plans are to be prepared by 20 September 2024, unless an extension is granted.

The rules protect structural reforms and public investment in strategic areas by allowing for the budgetary adjustment period to be extended to a maximum of seven years if certain reforms and investments, such as for the digital and green transition, are carried out. Participation in the Recovery and Resilience Facility is considered a sufficient condition for an extension.

For Member States, like Belgium, whose public debt exceeds 60% of GDP or whose public deficit exceeds 3% of GDP, the European Commission will present a reference path for annual growth in net primary expenditure that ensures (by the end of the fiscal adjustment period) the public debt ratio follows a plausible downward path and the deficit is reduced and kept below 3% of GDP over the medium term. Member states can engage in technical dialogue with the Commission (up to one month) before this path is transmitted to discuss the relevant economic and budgetary outlook, and any relevant recent statistical data available.

In particular, the technical trajectory ensures that:

1. the expected public debt ratio decreases each year by an average of at least 1 percentage point of GDP if the public debt ratio exceeds 90%, or 0.5 percentage points of GDP if the public debt ranges from 60% to 90%;
2. the budgetary adjustment continues until the deficit level reaches 1.5% of GDP in structural terms. The annual improvement in the structural primary balance to reach the required level is 0.4% of GDP, reduced to 0.25% of GDP if the adjustment period is extended.

On the basis of the reference path, Belgium will need to integrate the fiscal adjustment path into its national medium-term structural budgetary plans, including information on planned reforms (replacing the current stability and reform programmes). In addition, the agreement provides for a control account to record any deviations from the net expenditure trajectories at the time of implementation. If differences in the control account exceed 0.3 percentage points of GDP per year (or 0.6 percentage points of GDP cumulatively), a report will be drawn up by the Commission. In the case of no or insufficient action on the part of the Member state, a system of fines will be adopted, capped at 0.05% of the previous year's GDP. These fines must be paid every six months until the Council finds compliance with the letters of formal notice in accordance with Article 126(9) Treaty of the Functioning of the European Union.

Adding to the fiscal challenges are wide uncertainties on the impact of the climate transition on public finances. Transforming the economy to reduce emissions requires considerable public spending and could bring additional tax revenues. For example, investment costs to achieve the energy transition in the energy industry and public transport in Belgium have been estimated at about 1.9% of GDP per year until 2030, parts of which will be borne directly by the public sector (OECD, 2021). Also, government subsidies are needed to encourage green mobility and converting the building stock to low emissions (see Chapter 4). Additional public investments will be necessary in training as the green transition transforms skills demands (FPS Environment, 2023) and for climate change adaptation. Combining several policy instruments to achieve net zero, as discussed in Chapter 4, can reduce these costs (D'Arcangelo et al., 2022). The green transition can generate tax revenues – for example from fuel excise and carbon taxes. These revenues

will however shrink in the longer term as the transition progresses. Identifying fiscal risks, such as the need for more public investment to reach emissions targets than planned, as done in the United Kingdom and Germany would help strengthen debt sustainability analysis (OECD, 2020).

Box 2.4. Illustrative impact of selected reforms recommended in the Economic Survey on the government balance

This box summarises potential medium-term impacts of selected structural reforms included in this Survey on the government balance (Table 2.4). The estimated fiscal effects include only the direct impact and exclude potential behavioural responses that could occur due to a policy change. While recommended reforms in this Survey have budget and GDP implications, not all can be quantified due to model limitations.

Table 2.4. Illustrative impact of structural reforms on the government balance

Policy	Measure	% of GDP
Tax measures		+0.4
Tax reform	Reducing labour income taxation of low wages and second earners financed by cuts in tax expenditures and broader capital income taxation	No impact (revenue neutral)
Revenue-neutral GHG pricing	Introducing a carbon price in non-ETS sectors and redistributing revenues to support those more affected in the transition and foster green investment	No impact (revenue neutral)
	• Additional green investment in the energy sector	-0.2
	• Revenues from pricing instruments	+1.0
	• Redistribution to affected firms and households	-0.8
VAT gap	Reducing the VAT compliance gap to the EU median	+0.4
R&D business support	Improving efficiency of public support to business R&D.	No impact (revenue neutral)
Spending measures		+3.3
Early childhood education and care (gender employment gaps)	Increasing spending on early childhood and education by 0.4 percentage point of GDP to increase coverage among low-income households	-0.4
Active labour market policies	Increasing spending on active labour market measures by 15%	-0.3
Reforms fostering older workers employment	Savings related to 10 percentage points higher employment rate of older workers	+1
Efficiency gains in healthcare	Reducing public spending on healthcare to the EU average (from 8.6% to 8.1% of GDP)	+0.5
Efficiency gains related to spending reviews	Targeted gains in the efficiency of public spending. An ambitious program could induce savings of about 6% of public expenditures (excluding healthcare).	+2.5
Business environment	Reducing PMR by 0.25 to the OECD average over 10 years.	No impact (revenue neutral)
Net impact		+3.7

Source: OECD calculations, estimates of green investment and revenues from pricing instruments come from Guillemette, Y. and J. Château (2023), "Long-term scenarios: incorporating the energy transition", OECD Economic Policy Papers, No. 33, OECD Publishing, Paris, <https://doi.org/10.1787/153ab87c-en>; estimates of savings from higher senior employment come from European Commission (2024) 2024 Ageing Report

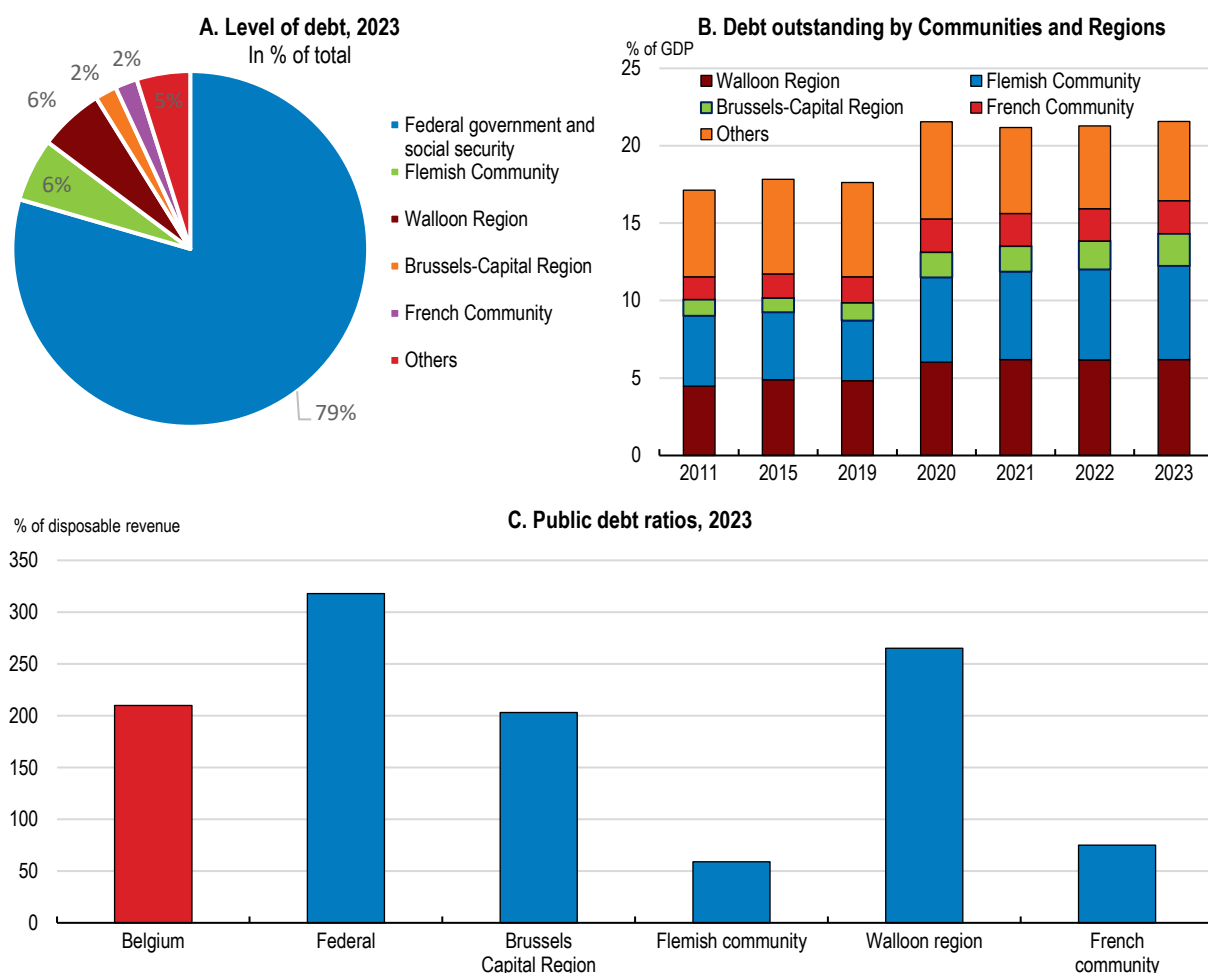
Belgium will need to commit to a multi-year downward trajectory for its public debt and deficit starting from 2025. Belgium remains the only Euro Area country without fully developed national multiannual fiscal planning. While the Stability Programme contains budget targets beyond the one-year horizon, the level of detail is limited compared with fully developed multiannual fiscal planning. There is no obligation to justify publicly any discrepancies from the budget trajectory and experience has shown that the targets stated in the stability programmes are often not met (NBB, 2021). A credible transparent medium-term fiscal framework supported by sound institutions is an important criterion for a successful consolidation (Balasundharam, et. al, 2023). The High Council of Finance (HCF), an advisory fiscal council set up to promote the coordination and implementation of fiscal policy in the Belgian federal state structure, is mandated to ensure a sustainable public finance trajectory. However, lack of political agreement on targets prevents the HCF from carrying out this mandate (see below). A carefully designed and committed multi-year plan would provide a clear, transparent, and accountable roadmap, which increases the chance of buy-in both from the population and the markets (IMF, 2023c). Multi-annual planning is carried out by the Flemish government, which produces multi-annual budget estimates based on different policy options, but this should be introduced at all governments.

Belgium's federal structure calls for coordinated consolidation efforts

An increasing contribution of Belgium's gross debt is from the regions and communities, although the debt and deficit remain concentrated with the federal government, and there is significant regional disparity (Figure 2.16). The shocks from the pandemic and the energy crisis have widened deficits in the regions and communities. Although recent efforts to extend the maturity of public debt at both the federal and regional levels are welcome, particularly as most was achieved before interest rates rose (NBB, 2022a). In Wallonia, floods in 2021 and subsequent reconstruction needs presented further challenges. From an average of around 12% of Belgian GDP from 2010-2015, public debt of the communities and regions rose to around 17% of GDP in 2022, or 16.6% of total public debt. There is however sizeable regional variance, with some entities having relatively high levels of debt compared to their disposable revenue (Figure 2.16, Panel C). All entities currently have a good quality sovereign rating (at least an A rating from all rating agencies).

Belgium's federal structure and fiscal decentralisation increases the importance of coordination across all governments. Devolution of powers and competences has progressed in Belgium over recent decades with six state reforms leading to a complex set of arrangements. Multiple decision makers shape the state of public finances, and there is no hierarchy of members in Belgium's institutional setting. Governments of the federal, regional and community are equal from a legal perspective, hence there is no subordination to the federal government in matters of budgetary policy.

Figure 2.16. Public debt is concentrated with the federal government, but an increasing contribution is from the regions and communities



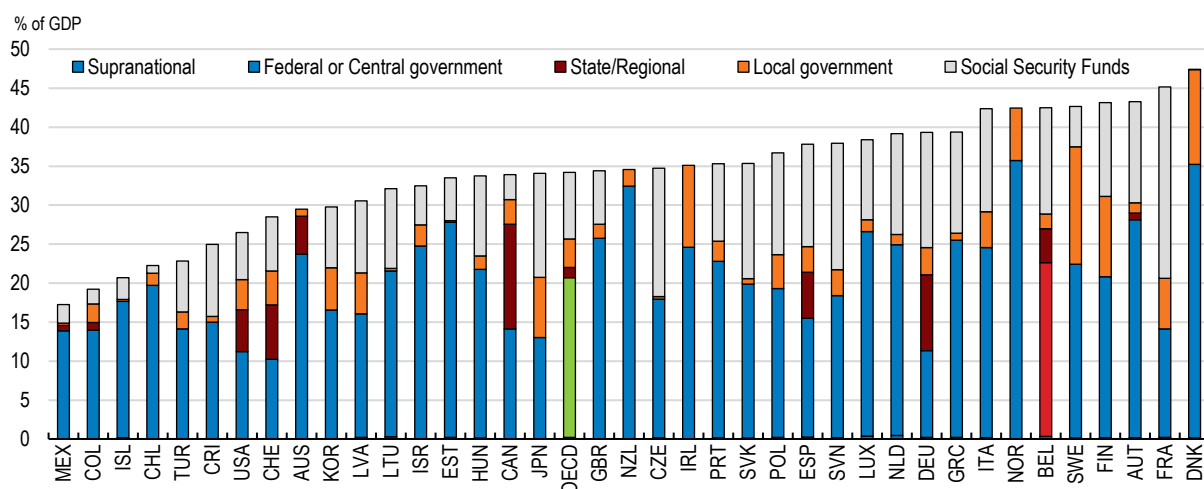
Note: "Others" include the German community, Common Commissions, Interregional units and local governments. Disposable revenues represent the financial resources available to the various entities for policy implementation. However, the revenues of the Community commissions (COCOM, COCOF & VGC) in Brussels are not taken into account.

Source: National Bank of Belgium.

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In Belgium, subnational governments are largely funded by transfers, implying a substantial vertical fiscal imbalance (Figure 2.17). To enhance fiscal management, revenue must follow devolved mandates (OECD, 2022b), and the latest State Reform (the Sixth, finalised in 2012) paved the way for more revenue autonomy, such as introducing regional personal income tax. However, it also devolved more powers and competencies to the regional and community governments, such that broadly, expenditure decentralisation outpaced revenue decentralisation. As a result, vertical fiscal imbalance, as measured by the share of own spending not financed through own revenues, is estimated to be larger than in other fiscally decentralised countries, such as Canada or Switzerland (OECD, 2022b).

Figure 2.17. The primary source of funding for regions and communities is grant-based transfers



Source: OECD Global Revenue Statistics database.

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A system of Cooperative Agreements across governments is supposed to ensure fiscal sustainability but is not working as intended. An Agreement was last finalised in 2013 but has never been implemented. Following the Sixth State reform in 2012, there was an agreed principle that each entity should move towards budget balance in the medium term. This was to be operationalised in Cooperation agreements for budget coordination, with recommendations of the HCF forming the basis of the agreements. The Agreement in 2013 provides the formal framework for budgetary coordination in Belgium. The allocation of annual budget targets must be approved by the Consultative Committee, which comprises the prime minister and the minister presidents of the Communities and Regions. This Committee, however, has never agreed on the allocation of the budget target and given its approval. This lack of agreement on targets prevents the HCF, which is also chronically understaffed, from effectively monitoring compliance with these targets. This undermines the credibility of the overall fiscal consolidation trajectory.

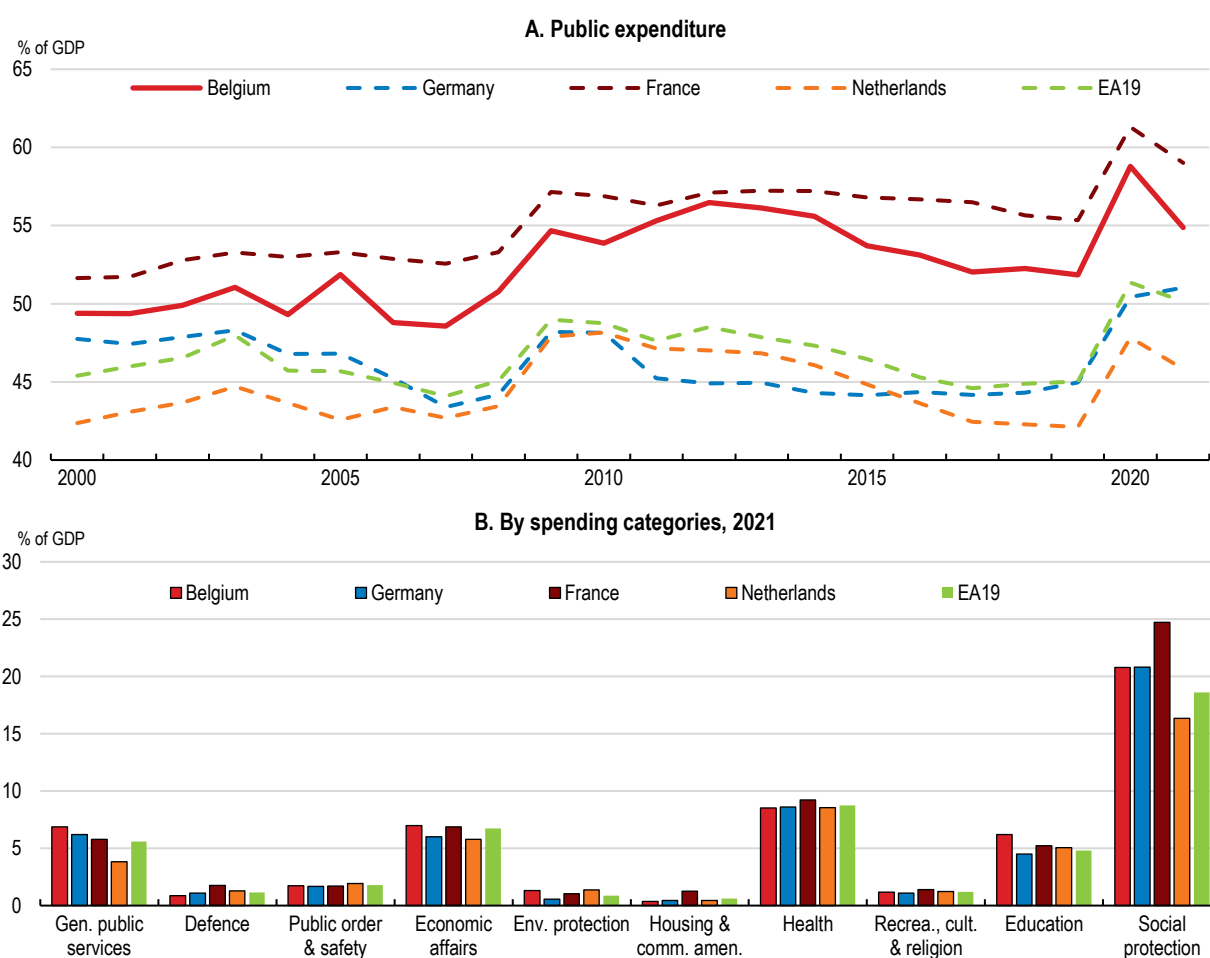
Belgium's inability to reach agreement in past years illustrates the limitations and risks to a non-structured approach. The 2024 combined budget of the regions and communities will deviate from the Stability Programme with a planned deficit 0.4 percentage points of GDP larger than the target of -1.1% of GDP. A way ahead needs to be found. One route is to resolve the impasses in the 2013 Coordination Agreement to ensure accountability and that binding targets are met. Another is to seek an alternative to the Agreement system. Belgium is currently revising the Cooperation agreement as the implementation of the new EU economic governance framework will entail a need to adapt the Cooperation Agreement. It would be welcome if this revision could reinforce the role of the HCF. The necessary provisions should be brought into force by 31 December 2025.

Once political agreement is reached, artificial intelligence can help operationalise collaboration across all governments. In France, an early warning system intended to identify local authorities potentially facing financial difficulties is being enhanced using AI tools. Indonesia is also using machine learning techniques to standardise municipal budgetary and financial data reporting to the national government in real-time (AI as a Financial Advisor (AIFA) system). This offers an easy-to-use interface to monitor and compare subnational government performance (OECD, 2023d). While AI could be used to assess risks and inform policy making, its use should be conditioned to ensure privacy, security, data reliability, fairness, and accountability.

Increasing public spending efficiency

Public expenditure is among the highest in the OECD and has increased sharply since 2019 mostly due to pandemic-related spending and the energy crisis (Figure 2.18). Addressing this high level of spending should form the basis of Belgium's fiscal consolidation strategy. Belgium spends more than the euro area average across multiple spending categories, and particularly on general public services, and economic affairs (Figure 2.18). Social benefits have risen over the last 20 years by 1.5 percentage points of GDP more than the average in neighbouring countries (Godefroid, Stinglhamber and Van Parys, 2021). This strong increase in social benefits has been a key factor explaining primary expenditure growth. In addition to deficit reduction, the 2020 and 2022 *Economic Surveys* underscore the importance of improving the composition and efficiency of public spending to also create space for public investment needs, especially given age-related pressures and the climate transition.

Figure 2.18. Public expenditures are high



Source: OECD National Accounts database.

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Introducing strict expenditure rules for all governments could improve transparency and support spending-based consolidation, as recommended in the 2022 *Economic Survey*. Expenditure rules have proved successful elsewhere, such as Switzerland, in contributing to a decrease in debt ratios. Yet, echoing the paucity of coordinated and medium-term budgeting, Belgium has limited expenditure rules (a notable exception is a rule around the real growth of healthcare spending). Belgium is beginning to explore the use of more expenditure rules, which is welcome. Flanders for the first time incorporated an illustrative non-binding spending norm in its 2022-2027 multi-annual budget and will apply an expenditure rule in its annual budget from 2025 onwards. A project to design an expenditure rule was also recently initiated at the HCF, in cooperation with the European Commission and the OECD. Belgium could also take inspiration from the Netherlands and Denmark, who take medium-term projections to define expenditure rules, based on the room for fiscal manoeuvre and defined quantitative budgetary objectives.

There is scope to make greater use of spending reviews. Spending reviews have started to be used (both at the federal and regional levels), which is welcome, but are limited in scope and conducted inconsistently across governments. The federal government piloted three spending reviews in 2021 (on telework, the exemption of withholding tax, and the effectiveness of care), and will begin to consider different topics each year. Regions are also initiating more spending reviews. Flanders conducted a broad reassessment of all expenditures in 2021 and is in the process of conducting nine specific spending reviews. Wallonia introduced zero-based budgeting in 2020 (a budgeting technique in which expenses must be justified for a new budget starting from zero, versus adjustment from the previous budget), and has started spending reviews. The Brussels-Capital Region has also completed several spending reviews and will integrate this into the budgetary cycle.

Belgium should build on these experiences of pilot spending reviews and move to comprehensive reviews that cover a larger share of government spending, thus with greater budgetary implications. The Federal Public Service Strategy and Support (BOSA), the central actor for public finance within the federal administration, should facilitate technical, methodological coordination and coherence, significantly involving the federal and regional line ministries. Many OECD countries have used comprehensive review procedures as a basis to manage severe budgetary problems (OECD, 2023b). In the United Kingdom, a comprehensive spending review is used in the preparation for a new medium-term expenditure framework, while in the Netherlands, comprehensive spending reviews mostly take place in the years preceding parliamentary elections. Given the current budget situation, reviews should be designed to meet dual objectives, including fiscal consolidation – identifying savings measures that reduce the rate of growth or the level of public expenditure – and increasing the efficiency and effectiveness of policies.

Spending reviews should be integrated systematically into budgetary planning cycles at all government levels, as currently envisaged in the Recovery and Resilience Plan. Integration into the budgetary preparation process increases impact, ensuring that certain policy options are at least considered. Belgium could take inspiration from the Netherlands for which spending reviews have become an integral part of the regular budgetary framework (the Interdepartementale Beleidsonderzoeken). The reviews are used in budgetary preparation and are linked to the multiannual budget, providing multiple policy options. The Netherlands also mandates providing quantitative options with at least one policy option that saves up to 20% of the expenditure base in the following four years. In Belgium, spending review conclusions are mostly qualitative, although both Flanders and Brussels have begun to incorporate quantitative savings scenarios into their spending reviews, which is welcome. Through the revision of its Public Finance Code, Flanders and Brussels has also legally embedded spending reviews into their budgetary process.

Tackling rising ageing costs

Pension spending makes up a large share of ageing costs

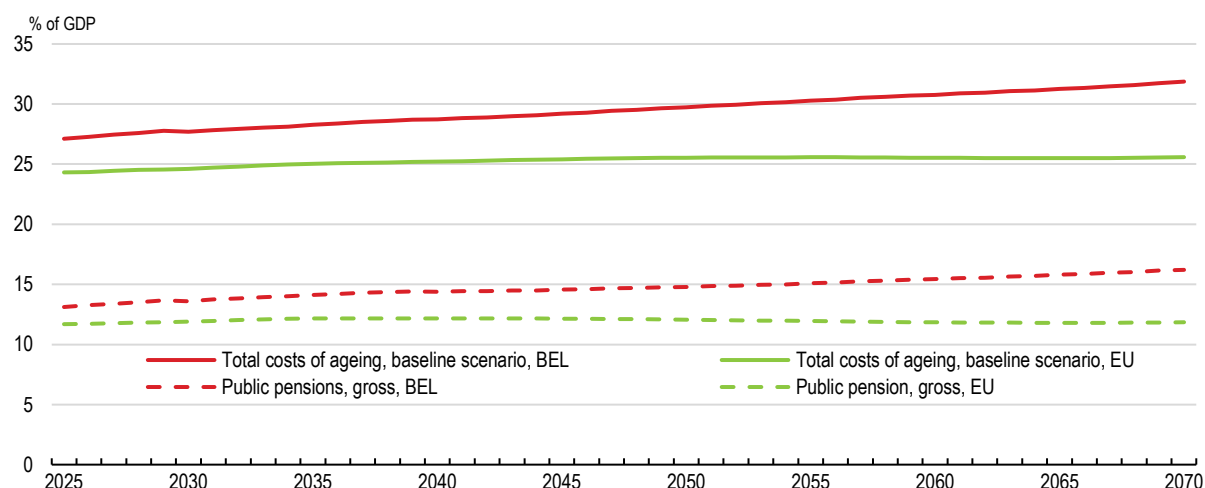
Pension expenditure makes up a large share of Belgium's ageing costs and is expected to increase significantly faster than some other high-debt reference countries (Figure 2.19; European Commission, 2024). Serious reforms are needed to enhance financial sustainability. By 2045, Belgium is projected to have the tenth highest public pension expenditure in the European Union (European Commission, 2024). A pension reform was agreed in July 2023, following previous reforms enacted in December 2020 (Box 2.5). The main focus of reforms has been to improve adequacy and equity of the pension system (e.g. increasing the minimum pension and focusing on career length rather than age), while increasing incentives to delay retirement decisions (e.g. introducing a pension bonus for later retirement). The isolated impact of these pension reforms is estimated to increase costs by +0.14 percentage points, although incorporating the projected upward adjustment in the long-term employment rate (since 2020) would imply pension expenditures of 0.2 percentage points of GDP lower in 2070 (Belgian Study Committee on Ageing, 2023).

Further focus on incentivising and enabling older workers to stay in the workforce is needed. The gap between the statutory retirement age and average labour market exit age remains among the highest in the OECD, and the average labour market exit age is among the lowest in the OECD as well (OECD, 2023). Current incentives to retire at the statutory age are low by international standards. Early retirement is possible with no actuarial reduction in the pension calculation (from age 60 with 44 career years, at 61 with 43 career years, or at 63 with 42 career years), although the pension will be incomplete for those with less than 45 career years (OECD, 2023g). The introduction of a pension bonus to encourage longer working lives is welcome, but as is common in most other OECD countries, a combination of bonuses and penalties based on the statutory retirement age, should be considered. In Finland for example, amongst other conditions, a 0.4% reduction (addition) is applied to each month of the pension taken out before (after) the lowest pensionable age. Complementary reforms are also needed to extend working lives. Upskilling is essential to maintain the employability of older workers, but their participation in lifelong learning is low (see Chapter 3). Accommodating older workers' needs for flexibility and improved working conditions have also been shown to delay retirement decisions, such as supporting needs around flexible working hours and teleworking (Hudomiet et al., 2019). Belgium could take inspiration from Denmark and Finland who have automatically linked the retirement age to life expectancy to lower pension spending, but as a result, placed greater emphasis on the promotion of healthier jobs and workplaces, such as early-intervention models for those with reduced work ability, and tackling age discrimination to facilitate longer working lives (OECD, 2024d). Belgium should also consider further increasing the earliest age of retirement to directly increase the effective age of retirement.

Complementary reforms outside of pension policies are additionally required to extend working lives. Strong spending increases are being driven, among others, by rising numbers of people receiving disability benefits. Belgian disability beneficiaries increased by around 5 percentage points over the last decade, versus 1 percentage point for the EU. This was partly due to the tightening of early retirement schemes that led an increase in labour market exit via disability (OECD, 2022a). As the statutory retirement age increases to 67 by 2030, reforms to minimise pathways for labour market exit, particularly to avoid larger inflows to disability schemes, will be crucial (see Chapter 3). Lastly, increasing female labour market participation, for which measures are so far absent, could help lessen sustainability concerns and reduce the gender pension gap, which is just above the OECD average (OECD, 2024b; see Chapter 3).

Figure 2.19. Ageing costs pose a risk to fiscal sustainability

Age-related expenses, including healthcare and pensions, as a percentage of GDP



Note: The AWG scenario is taken from the European Commission (DG ECFIN) and the Economic Policy Committee (Ageing Working Group) baseline scenario for calculating the overall budgetary impact of ageing. EU averages are weighted according to GDP.

Source: European Commission Ageing Report 2024.

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Box 2.5. Pension reforms in Belgium

Two sets of reforms have been made since 2020 as part of a multi-pronged strategy to address the need for pension reform. The main emphasis was to increase pension adequacy without increasing long-term ageing costs. The preference for enhancing financial sustainability is through achieving an 80% employment target, although serious reforms are required for this to become a reality (see Chapter 3).

The first set of reforms were agreed in December 2020:

1. The minimum pension granted to retirees with low pension rights was increased to reach 1 500 EUR net per month in 2024. The maximum pension ceiling was additionally raised.
2. The pension calculation for the self-employed and employees has been harmonised. The correction coefficient for pensioners on the self-employed scheme was abolished for occupational career years from 2021. The correction coefficient reflected the ratio of contributions to pension under the self-employed scheme versus that of employees. For income years from 2019, the coefficient was 69%, and earnings were multiplied by this coefficient to calculate the pension of the self-employed. The contribution rate for the self-employed was not increased.

Given high inflation and automatic indexation, the minimum pension for a single person reached 1 637 EUR gross per month in January 2023, which is more than what planned in the 2020 reform (EUR 1 500). Consequently, the fourth and final increase in January 2024 was revised. As of May 2024, the gross minimum pension was EUR 1 773.

The second set of reforms were politically agreed in July 2023 (passed in Parliament in April 2024), which included:

1. The introduction of a pension bonus to encourage longer working lives. For each year worked after the earliest possible retirement date, a bonus is awarded to the pension. This can be accrued over a period of a maximum of 3 years. The bonus is progressive: EUR 3 775 for the first year; EUR 7 550 for the second; and EUR 11 325 for the third year. It can be taken as a one-time payment or as a supplement to the monthly pension.
2. Limiting adjustment to civil servants' pensions (the perequation system) to a maximum annual increase of 0.3% more than the inflation rate. Previously, the perequation system implied that retired civil servants would benefit from an increase in the salary scales of current civil servants.
3. Introduction of a supplementary career-length condition (20 years worked or credited for illness or care periods) to have access to the minimum pension in addition to the current requirement of 30 years worked or credited.

The measures announced in December 2020 are estimated to increase the cost of pensions (over the period 2019-2070, as a percentage of GDP) by 0.57 percentage points, while the July 2023 measures are expected to lead to a reduction of 0.43 percentage points. This implies an overall increase in pension expenditures of 0.14 percentage points. Taking into account the improved employment outlook however, following the previous government's reforms, long-term pension expenditures are expected to decrease by 0.2 percentage points of GDP compared to projections in 2020.

Source: Belgian Study Committee on Ageing (2023)

Healthcare and long-term care expenditure are high and will rise significantly due to ageing

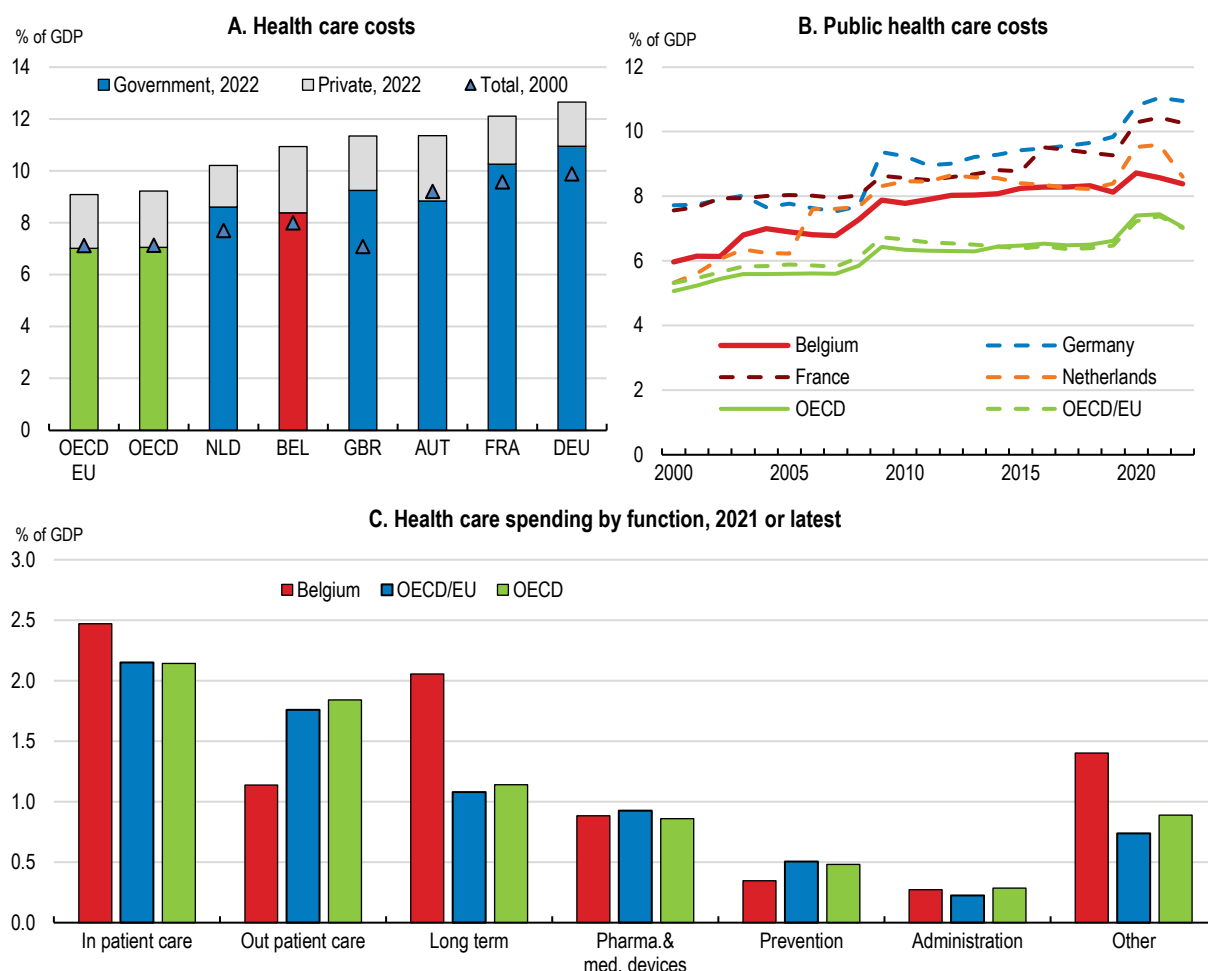
The healthcare and long-term care systems need to evolve to overcome the challenges of ageing. Health spending (as a % of GDP) is above the EU average, although below that of neighbouring countries France and Germany (Figure 2.20). Ageing could increase public spending on healthcare and long-term care by around 0.6 and 1.7 percentage points of GDP respectively by 2070 (European Commission, 2024). The concentration of multiple long-term conditions (multimorbidity) among the older population partly accounts for this high spending. Those with multimorbidity currently account for 65% of total healthcare expenses (Van der Heyden et al., 2023).

While there is a need for resilient health systems, scope for efficiency gains have been identified in various aspects of healthcare. The use of low-cost teleconsultations is comparatively small in Belgium compared to the rest of Europe (OECD, 2023c). The number of hospital beds is high, with a longstanding over-capacity in most types of beds, but an under-capacity in geriatrics (IMF, 2023d). Converting some of the excess hospital beds into geriatric beds could reduce the fiscal cost of increasing capacity of geriatric care. The rate of avoidable hospital admissions is also high for some conditions, suggesting that efficiency gains are possible by reinforcing primary healthcare (OECD, 2023c). Various studies indicate other inefficiencies, such as an insufficiently widespread use of breast cancer screening (Devos et al., 2019), or a comparatively high use of expensive medical imagery (INAMI-RIZIV, 2022). A widespread review on the use of health resources could identify cost reductions.

Belgium has scope to strengthen prevention to avoid costly hospitalisation, avoidable mortality, and chronic diseases. Spending on prevention is comparatively low (Figure 2.20, Panel C; OECD, 2023). Increasing it would help postpone the occurrence of diseases, reduce hospitalisation rates, and healthcare treatment costs. This would make the working-age population healthier and more productive and enable older people

to maintain healthier lives for longer. The share of the older population in Belgium that are limited in their ability to perform at least one activity of daily living or instrumental activity of daily living is among the highest in Europe (OECD, 2023c). Older patients are also associated with a higher risk of admission through the emergency department and longer hospital stays (De Foor et al., 2020).

Figure 2.20. Health expenditure is concentrated on inpatient care and prevention spending comparatively low



Source: OECD Health expenditure and financing database; OECD System of Health Accounts.

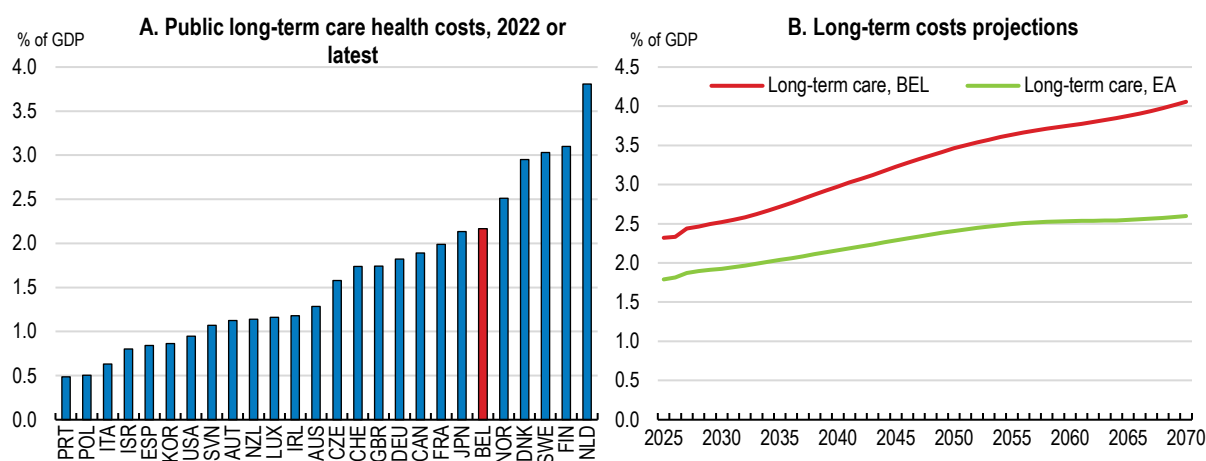
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Public spending on long-term care is also among the highest in Europe, but lower than the Netherlands and the Nordic countries (Figure 2.21). This is projected to increase significantly by around 1.7 percentage points of GDP by 2070 (European Commission, 2024). Belgium's high cost comes despite a high prevalence of informal long-term care, and a long-standing policy to develop at-home care services (HealthyBelgium, 2022). Belgium should undertake a review to identify cost reductions, including whether support is targeted to those in need. Belgium could additionally take inspiration from countries that have attempted to strengthen preventative health policies to reduce long-term care needs, such as Norway and Japan. Developments in new technology could also provide labour-saving technology to reduce costs and improve productivity. Denmark has prepared a 10-year plan to achieve an additional 10 000 equivalent

full-time employees in the public sector (including long-term care) via automation and digitalisation (OECD, 2024d).

The complex distribution of tasks and responsibilities across different governments increases healthcare inefficiencies. Responsibilities are often complexly intertwined. This complexity generates overlaps and increases administrative and coordination costs. In addition, the incentives of different governments are often not aligned because community and regional decisions affect federal costs. For instance, communities may lack incentives to invest in preventative care, because they do not benefit from lower acute care costs which are borne by the federal government. Better aligning the incentives of different governments, such as communities sharing federal care costs, or consolidating responsibilities to a single government level, could reduce incentives to cost shift and improve overall efficiency.

Figure 2.21. Total long-term care spending as a share of GDP is high



Source: OECD Health Statistics, European Commission Ageing Report.

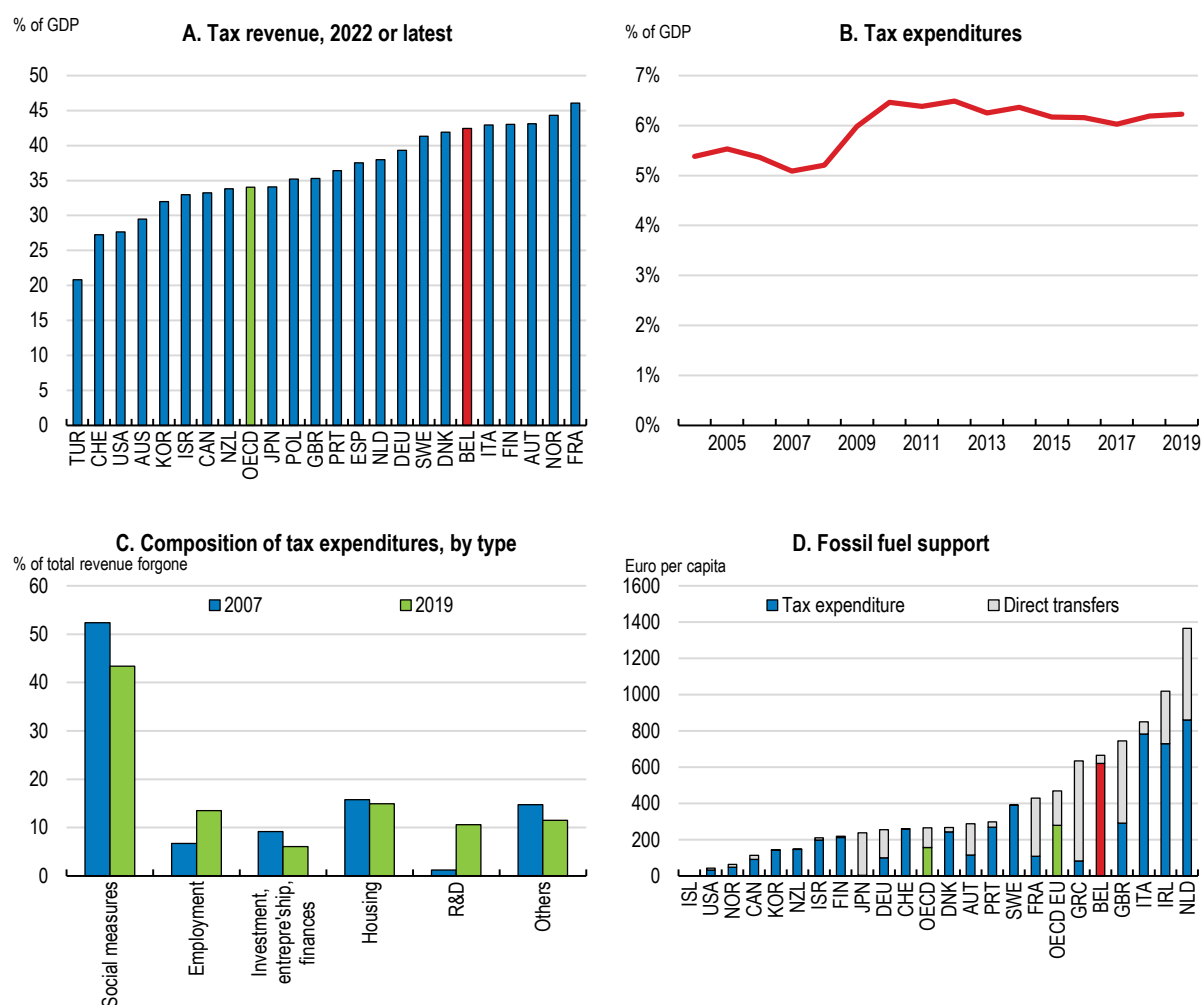
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Improving efficiency and fairness of the tax system

The tax burden is high, but the tax base is narrow

Belgium's substantial public spending is echoed in taxation. Government revenues as a share of GDP were 42% of GDP in 2022, the sixth highest in the OECD (Figure 2.22, Panel A). There is extensive use of special tax provisions and there are compliance issues. Tax expenditures were estimated at around 6% of GDP in 2019 and have increased since the early 2000s (Figure 2.22, Panel B). An increasing proportion of them are directed to employment and research and development measures (Figure 2.22, Panel C). The extensive use of reduced rates and tax base narrowing measures implies standard tax rates are higher than otherwise would be the case. These tax concessions also diminish the efficiency of the tax system, increase complexity and reduce transparency. Moreover, tax expenditures can be regressive and undermine environmental policy objectives.

Figure 2.22. The tax burden is high, with substantial tax expenditures



Note: The OECD Inventory of Support Measures for Fossil Fuels is based on a bottom-up approach that collects detailed information from official government sources on individual support measures for fossil fuels. It covers direct budgetary transfers and tax expenditures arising from tax provisions that provide a benefit or preference for fossil-fuel production or consumption relative to alternatives. The Inventory aims for comprehensiveness, but it is not exhaustive. The Inventory contains more information for countries that have demonstrated greater transparency in their budget documentation, and therefore higher levels of support can also reflect greater transparency.

Source: OECD (2022), OECD Global revenue Statistics, Ministry of Finance data, OECD Fossil Fuel Support - Detailed Indicators data.

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As recommended in past *Economic Surveys of Belgium* (OECD, 2020; OECD, 2022a), tax expenditures should be streamlined. The expenditures should be assessed at all governments and those that do not meet their original objective, or undermine the effectiveness of other policies, should be reformed (Table 2.5). Eliminating ineffective tax expenditures would also help reduce the administration burden on small firms and improve tax compliance (see Chapter 5). Cost-benefit analysis of tax measures would be facilitated by more clearly defined policy objectives, better data, and more analytical resources (Janssens and Luyten, 2021). Among the more glaring candidates for reform are: multiple reduced VAT rates, personal income tax deductions disproportionately benefiting higher income households, the R&D tax credit, tax exemptions for second and third pillar pensions, and the favourable treatment of company cars (see Chapters 4 and 5). As discussed in Chapter 4, eliminating fossil fuel support should be a priority. These (usually implicit) subsidies reduce the efficiency of climate change mitigation policies by weakening the

carbon-price signal and are large in Belgium, estimated at around 3.1% of GDP in 2021 (FPS Finances, 2024; OECD, 2023e; Figure 2.22, Panel D).

Table 2.5. Past recommendations on public finances

Recommendations in past Surveys	Actions taken since 2022
Frontload reform of construction and environment permits to ensure timely and effective implementation of the recovery plans.	By end-2023, 29% of the value of payments had been requested, corresponding to 9% of the milestones/targets in the national recovery and resilience plan.
Start to lower public spending and the public debt to GDP ratio through a medium-term consolidation strategy, based on spending reviews.	No action taken.
Strengthen the rules-based fiscal framework, for example through the introduction of multiannual budgeting, including an expenditure rule.	Flanders has a multi-annual budgetary framework including a non-binding spending norm. It will apply a binding expenditure rule from the 2025 annual budget onwards.
Increase the visibility of the non-binding budget recommendations of the High Council of Finance by increasing the transparency of their assessment of debt sustainability at all governments, based on a uniform methodology.	No action taken.
Use cost-benefit analysis and spending reviews with common methodologies across policy areas and different governments and link them to medium-term expenditure frameworks and the annual budget process to gradually lower public spending.	The federal and regional government have all individually conducted isolated pilot spending reviews and are continuing to identify certain areas for future spending reviews. Flanders and Brussels have legally anchored spending reviews into its Public Finance Codes. Flanders and Brussels are implementing the formal embedding of spending reviews into their budget process.
Consider implementing a performance budgeting framework with indicators and in-year monitoring arrangements.	Brussels and Flanders have made significant efforts to implement performance-informed budgeting.
Reduce tax expenditures that do not benefit low-income households to finance lower labour taxation for low-wage earners.	No action taken.
Consider introducing a progressive tax rate schedule for taxation of all types of capital, as part of the properly prepared broad tax reform.	No action taken.
Introduce penalties and bonuses for retirement before and after the statutory retirement age.	A pension bonus has been introduced for those who work beyond the age of early retirement eligibility.
Increase pension contribution rates of self-employed.	No action taken.
Continue to align the pension treatment of public and private sector workers.	The recent pension reforms of July 2023 limit the perequation system to reduce the generosity of civil servant pensions.
Increase the participation of older workers in lifelong learning by providing guidance for training selection.	The federal government introduced an individual training account to ensure all employees have access to lifelong training, including older workers. This was not accompanied by career guidance. The Flemish Region have also put in place the online 'competency check tool and individualised support for workers in disability.

Reducing labour income taxation and improving tax neutrality

A major tax reform has stalled. The reform aims to modernise and simplify the tax system, removing disincentives to work, and broaden the tax base. However, it has been put on hold due to disagreements in the federal government coalition. This is unfortunate as the tax system is heavily skewed toward the taxation of labour; penalising growth, employment, and fiscal sustainability (OECD, 2022a, Figure 2.23, Panel A). Belgium is among the OECD countries with the highest tax wedges (OECD, 2023f, Figure 2.23, Panel B) and targeted cuts in effective labour income taxation are needed to sustain labour market activation. Financial disincentives to work remain high for low-wage workers despite recent reforms, and for women (Chapter 3). Progressivity of personal income tax is high, but the top tax rate applies at a relatively low level of income. Widening the personal income tax brackets would reduce the marginal effective tax rate for individuals with medium incomes and could increase incentives to expand working hours. Hours worked stand well below the EU and the OECD averages, reflecting above average incidence of part-time employment. At the regional level, transaction taxes on immovable properties could be reduced as they are relatively large and likely impede mobility. In Flanders, the transaction tax on immovable

properties was reduced to 3% on 1 January 2022 (previously 6%) when buying a property that qualifies as the individual's sole owner-occupied property. The tax was also reduced in Brussels (on 1 April 2023) for the same category of owners, through the amount and ceiling of the tax allowance simultaneously being raised, accompanied by an additional allowance when the energy performance of the building is improved. Fiscal room to finance these measures could be created by phasing out ineffective tax expenditures and strengthening capital income taxation (Table 2.5).

Figure 2.23. Despite recent reforms, labour income taxation remains among the highest in the OECD



Source: OECD Global revenues Statistics and OECD Taxing Wages.

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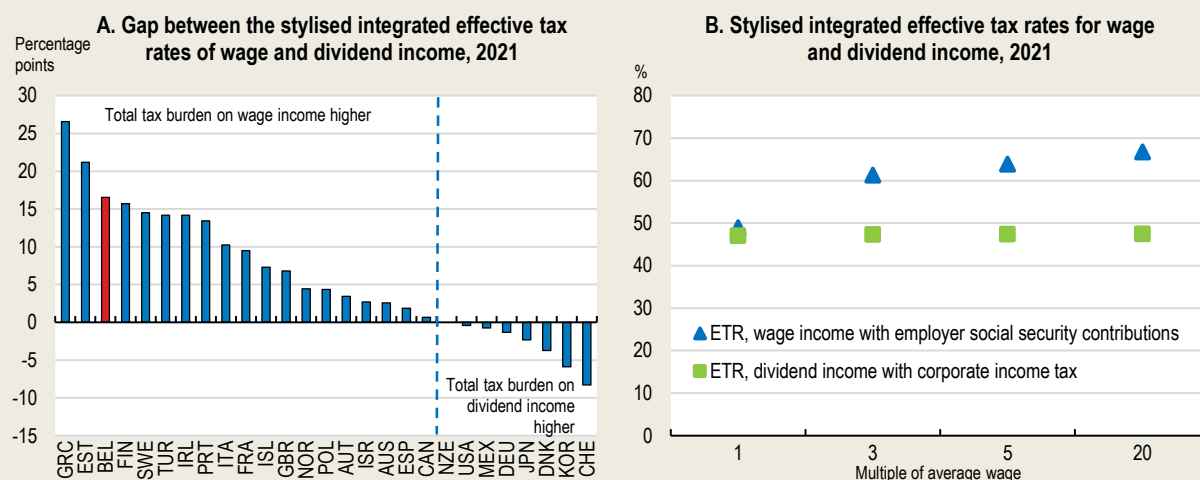
The taxation of capital income is relatively flat and low mainly because of the absence of a capital gains tax. The gap between labour and capital income taxation is large by OECD standards (see Box 2.6). It has gradually increased over time as a result of the drop in the statutory CIT rate, which has been offset, to some extent by rising taxes on dividends. Introducing a tax on realised capital gains, and broadening the capital income tax base would improve horizontal and vertical equity and would strengthen neutrality in the tax system (OECD, 2022a). A capital gains tax should only apply to realised capital gains that accrue after the introduction of the tax, in order to avoid unintended behavioural responses, negative investment impacts and a breach in the social contract. As in the majority of OECD countries, the sale of main residences could be exempted to avoid potential lock-in effects and unintended consequences with respect to residential and labour mobility (OECD, 2022e). A cap on this exemption could be considered to strengthen progressivity, but this may increase lock-in effects particularly for older generations. Taxing capital income at the individual level at mildly progressive tax rates within a dual progressive income tax (DPIT) like done in Denmark or Finland, could also be considered, provided it does not add tax system complexity and impose excessive implementation costs on the tax administration. As an alternative, introducing a tax on wealth could further increase progressivity in the tax system, and would also allow consideration for some taxation of unrealised capital gains to mitigate the incentive of capital holding (e.g., on financial assets whereby prices are readily available – ‘Mark-to-Market Capital Gains’). However, this could have a negative impact on overall investment, entrepreneurship and could induce higher-incomes and wealth owners to vote with their feet (Hansson, 2008; Akgun et al., 2017). Evidence on the macroeconomic impact of such a tax is thin, and critically depends on the design of the tax and available options for tax arbitrage (Bastin & Van Camp, 2024). If they are levied at mildly progressive tax rates, taxes on capital income would reach the same objectives than a net wealth tax without running the risk of creating tax-induced distortions and preventing the tax burden on capital income becoming excessively high (OECD, 2018).

Box 2.6. The gap between capital and labour income taxation

The gap between capital and labour income taxation is large in Belgium, especially for high income levels (Figure 2.24). This affects the efficiency of the tax system by creating tax arbitrage opportunities and encouraging incorporation with professional-services employees and the self-employed organising themselves as legal entities to be taxed at lower effective tax rates (Hourani and Perret, 2024). Shareholders working in their own companies also tend to retain corporate income within the firm rather than distribute dividends (see Smith, Pope and Miller (2019) on the UK). While it provides an additional buffer to businesses during crises, the retention of corporate incomes reduces tax revenue and risks locking in capital into existing firms without necessarily sustaining investment in business capital (Hourani and Perret, 2024). Additionally, the differential treatment of labour and capital income affects equity, as capital income is concentrated at the top of the distribution. High earners benefit disproportionately from preferential capital income tax treatment, reducing vertical equity (Hourani et al., 2023).

Capital income is less taxed than labour income because it is taxed at a flat rate that is lower than the income tax rates payable on wage income. Dividend income is also exempt from taxation up to a certain threshold and capital gains held by private individuals are not subject to taxation. Social security contributions and regional and municipal taxes are paid on wage income but not on dividend income or other types of capital income.

Figure 2.24. The gap between labour and capital income taxation is large, also for medium income levels



Note: Panel A: Gap between personal and corporate-level effective tax rates for wage and dividend income, total profits or labour cost equal to five times the average wage.

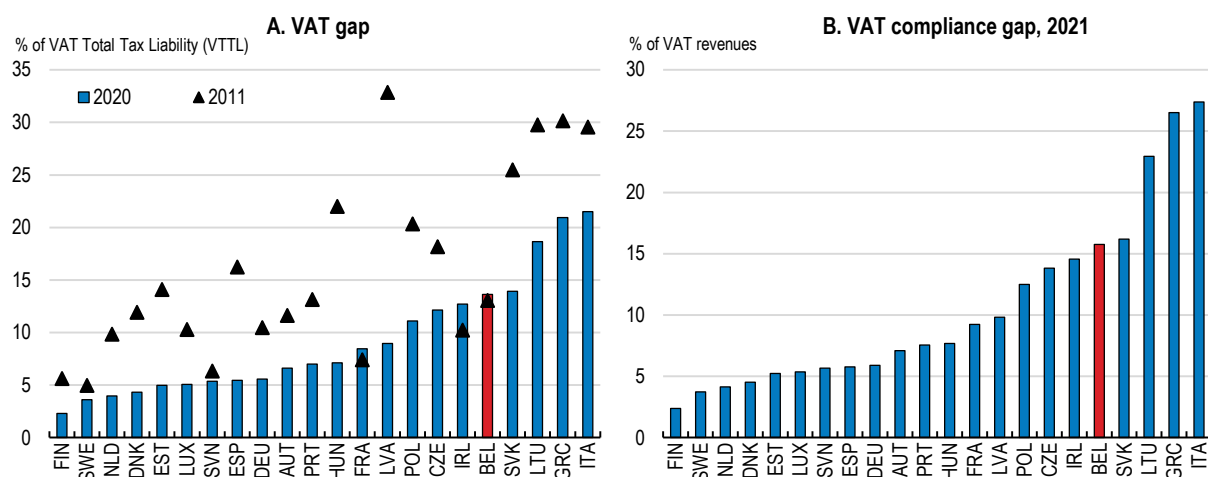
Source: Hourani et al.

StatLink  <https://stat.link/c7h45q>

Environmental taxes accounted for around 4% of total tax revenues in 2021, below the OECD average and lagging behind peers, such as the Netherlands (almost 8%). Taxes on pollution and resources (excluding fuel and transport) collected at the regional level have declined since the early 2000s' (SPFF, 2023). As discussed in Chapter 4 and recommended in past Surveys, carbon pricing needs to be reinforced as it is too low in some sectors to incentivise emissions cuts and green investment. Feebates – revenue neutral tax-subsidy schemes – could be considered to reinforce carbon pricing and incentives for shifting to cleaner processes and assets in a large range of sectors (Vernon, 2023). In the transport sector, expanding road pricing to light duty vehicles would also contribute to pricing congestion costs and air pollution generated by road transport and help compensate for revenue losses from fuel taxation as cars get greener (see Chapter 4).

Raising compliance for a stronger and fairer tax system

Scope to strengthen tax compliance and collection should be exploited. Improving tax compliance and collection could bring significant benefits including increased tax revenues, lower inequality, and a more level playing field between firms. Indicators of tax compliance point to a relatively high level of informality and large related tax revenue losses in Belgium vis-a-vis other EU countries (IMF, 2021). The VAT compliance gap that measures the difference between revenues collected and the tax liability is among the highest in the EU (Figure 2.25). Estimates of the European Commission and the IMF suggest Belgium loses from 16% to 20% of potential VAT revenue, around 1% to 2% of GDP, due to compliance issues (IMF, 2023a; European Commission, 2023b).

Figure 2.25. Improving tax compliance could raise significant tax revenues

Note: The VAT gap refers to the difference between expected VAT revenue and the actual amount collected. The VAT compliance gap measures the difference between revenues collected and the tax liability.

Source: European Commission, 2023.

StatLink  <https://stat.link/rx9weg>

Combating tax fraud has been a key focus for the federal government as demonstrated in the programme of the Belgium Presidency of the Council of Europe in the first half of 2024. Priority has been given to measures aiming to curb tax evasion, aggressive tax planning and harmful tax competition (Belgian Government, 2024). At the national level, since 2021, the government has initiated three consecutive action plans coordinated by the Ministerial Committee for the fight against tax and social fraud and a program to reduce the VAT gap to the level of neighbouring countries. Initiatives have been taken to strengthen tax enforcement, including prolonging the investigation and assessment periods for tax fraud to give tax authorities more time to gather information and participate in international joint tax audits. Multidisciplinary investigation teams have been established and cooperation with the federal police have been strengthened. Measures to address skills shortages and improve knowledge sharing in the tax administration are being elaborated.

Enhancing the tax administration's access to data should be considered. Increasing the tax administration's access to data, including through more use of data from third parties, such as financial institutions, insurance companies, public agencies is key to enhance risk detection and facilitate investigations (OECD, 2024c). Despite recent initiatives, relatively limited access to bank data compromises efforts to combat tax fraud. Since 2022, bank information of taxpayers that is shared with other jurisdictions as part of the automatic exchange of financial account information can be used by the tax administration. Nevertheless, access to bank information remains constrained as regulation requires an initial request to the taxpayer before procedures to obtain information from financial institutions can start. Unlike in some other OECD countries, such as France with FICOBA (Fichier des comptes bancaires), there is no systematic periodic data provision of bank information to tax authorities (IMF, 2021). Allowing access to the central register of bank accounts, asset portfolios, and financial contracts and the possibility to immediately query financial institutions in the event of suspicion of fraud would significantly facilitate risk assessment, controls, and investigations. One step further would be to extend the Automatic Exchange of Information to the domestic tax administration. This would allow the tax administration to prefill the tax return with income from capital and facilitate the implementation of a comprehensive capital income tax reform as discussed above. These measures should be accompanied by robust privacy safeguards.

Better collaboration across institutions could also help to increase efficiency of risk detection and controls. For instance, better collaboration between the tax administration and inspectorate from the social security system would facilitate controls of withholding tax system (Belgian Court of auditors, 2023). One step further would be to integrate the collection of personal income tax and social security contribution like done for instance in Sweden and Australia. This would allow to achieve efficiency gains and free-up resources in the tax administrations as processes involved are very similar (IMF, 2021). This can also decrease compliance costs for taxpayers by providing a single point of contact for labour taxes.

There is room to improve VAT collection and enforcement, including by using available digital technologies. For instance, e-invoicing has been adopted by many OECD countries providing a more transparent and traceable system for transactions helping to reduce fraudulent activities, such as fake invoices and underreporting of income, and facilitates audits (OECD, 2022a). Real-time monitoring of invoices and receipts – “transaction-based reporting” – is being progressively introduced in Belgium. A 2023 tax modernisation law includes measures to improve the processing of periodic VAT returns and payments by introducing digital systems and automation (PwC, 2023). Electronic invoicing will be mandatory for business-to-business transactions by January 2026. Reporting requirements could be strengthened with the introduction of mandatory electronic invoicing for all transactions.

Artificial intelligence should be exploited to help detect fraud. Some countries, including Denmark, Sweden, Australia, and Canada are rapidly expanding the use of artificial intelligence (AI) for risk assessment. Their experience can serve as inputs into risk-based auditing models applied by the tax administration. This approach, for instance helps uncover unusual patterns of business sales data. In Belgium, all data mining processing operations must be fully foreseeable. Achieving complete foreseeability of every processing operation can be challenging due to the complexity of AI algorithms and may hinder the scope for using AI. The 2022 national convergence plan for the development of AI envisages the adoption of a governance framework for the use of AI in federal public services, including the establishment of an advisory committee on the ethical use of AI in the operation of public services (BOSA, 2022). The project “Maitrise development de l’IA” has been set up to define the role and the principles of the use of AI in the Belgian federal tax administration (FPS Finances, 2024). Following OECD AI Principles, a robust data governance model should be established to ensure a trustworthy and coherent use of AI in the public sector without imposing overly restrictive requirements. Strengthening coordination and cooperation between the federal and regional governments in this policy area would help to achieve large efficiency gains.

Strengthening the assessment of tax gaps and noncompliance would help tax enforcement. To-date analysis has generally been ad hoc, for instance the on-going project on VAT gaps conducted by the IMF (IMF, 2023a). One step further would be to collect and regularly publish information on tax gaps, based in a well-established methodology, as done for instance by the U.S. Internal Revenue Service. Establishing a tax research network involving the tax administration, as is planned in Germany or an independent fiscal institute should be considered to collect information on tax compliance and analyse the impact of reforms. The VAT compliance gap appears largely concentrated in some sectors in Belgium (the professional and managerial services sector, IMF, 2023a). Federal Public Service Finance plans to refine existing analytical tools to monitor the VAT gap at the sectoral level, which is welcome.

Simplifying the tax system would reduce compliance costs for taxpayers and enforcement costs for the tax administration. It would enhance transparency and trust in the system, and limit opportunities for tax evasion and fraud. Tax procedures are complex and differ significantly across taxes. Enforced collection rules that pertain to the mechanisms and regulations employed by tax authorities to collect taxes that are overdue or have not been voluntarily paid by taxpayers have been harmonised and collected in a single code. Investigation and assessment periods of income and VAT taxes have been aligned. Further consolidating administrative provisions for the different tax laws would enhance the consistency of tax enforcement (IMF, 2021). Effort in that direction should continue by considering room for simplification and harmonisation as part of a broad tax reform.

Table 2.6. Policy recommendations to ensure resilient growth and fiscal sustainability

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Reducing risk to inflation and financial stability	
Belgium's wage setting system brings timely wage increases for workers but affects international competitiveness. The Wage Norm law that sets a cap on real wage growth when wages in Belgium deviate from wages in neighbouring countries, lacks flexibility with respect to productivity differences and can hinder market clearance.	Consider reviewing the price index used for wage indexation (the "health index"), including potentially removing volatile items. Evaluate whether a more flexible mechanism that allows differences in productivity to enter the wage growth calculation could be achieved to allow for increased bargaining space for labour unions, and to prevent deviations in competitiveness vis-à-vis external trading partners.
Household debt is high, driven by large mortgage lending in a rapidly rising housing market. The market is now cooling, with house prices and transactions haven fallen in real terms.	Monitor vulnerabilities and consider strengthening macroprudential policies as needed in the medium term, including by tightening lending guidelines to financial institutions (so called prudential expectations).
Greater understanding of climate-related risks in the financial sector is needed.	Continue to develop policies to improve the quantity and quality, as well as the monitoring of climate-related reporting for financial institutions, based on the conclusions of the EU funded study on policy options for a Belgian sustainable finance strategy.
The central bank needs stronger independence in macroprudential policy.	Give the central bank, as the authority with the mandate, full power to set macroprudential policy without the need for government approval.
Preserving macroeconomic stability and restoring fiscal sustainability	
Economic growth is set to remain resilient, but the debt-to-GDP ratio is high and rising. Fiscal consolidation has started, but absent any further adjustment, the fiscal position will be unsustainable. Regions and communities account for an increasing share of public debt, with regional disparities as for fiscal sustainability.	Frontload the on-going fiscal consolidation by introducing a credible medium-term consolidation strategy with a multiannual budgetary framework and binding expenditure rules for the federal and regional governments.
A Cooperation Agreement ensuring budgetary coordination of federal and regional governments has never been implemented and is being amended.	Implement a revised Cooperation Agreement to strengthen budgetary coordination between federal and regional governments.
Public expenditure is among the highest in the OECD and will increase due to population ageing, including on health and long-term care. The use of spending reviews has increased but remains limited. The reviews are not fully incorporated into the budgeting process and recommendations are typically qualitative.	Focus the consolidation plan on cutting ineffective spending. Make spending reviews a key part of the budgeting process, include mandatory quantified objectives for efficiency gains, accompanied by a comply or explain approach and concrete follow-up actions. Conduct spending reviews in the health and long-term care sectors
The gap between the statutory and the effective retirement ages is comparatively large. Under certain conditions, early retirement is possible without a full actuarial reduction in the pension calculation.	Increase penalties for retirement before the statutory retirement age. Consider additional measures to increase the effective age of retirement, including further raising the earliest age of retirement.
The future pensions of the self-employed have been increased (via the abolition of the correction coefficient), but their contribution rates have not been increased.	Increase pension contribution rates for the self-employed.
Room for efficiency gains in taxation is large. Tax expenditures weigh on revenue, often with little or no evidence of concrete socio-economic benefits. The tax mix is unduly skewed toward labour income taxes.	Resume efforts for a comprehensive tax reform that broadens the tax base by eliminating ineffective tax expenditures, strengthening capital income taxation, and addressing work disincentives.
The gap between labour and capital income taxation is large, with taxation tilted towards labour. There is no personal capital gains tax.	Consider introducing a tax on capital gains and broaden the taxation of capital income.
Indicators of tax compliance suggest a relatively high level of informality and large related tax revenue losses in Belgium.	Consider systematic periodic data provision of bank information to tax authorities via access to the central register of bank accounts and financial contracts, including the possibility to immediately query financial institutions in the event of suspicion of fraud.

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3 Improving labour market outcomes for all

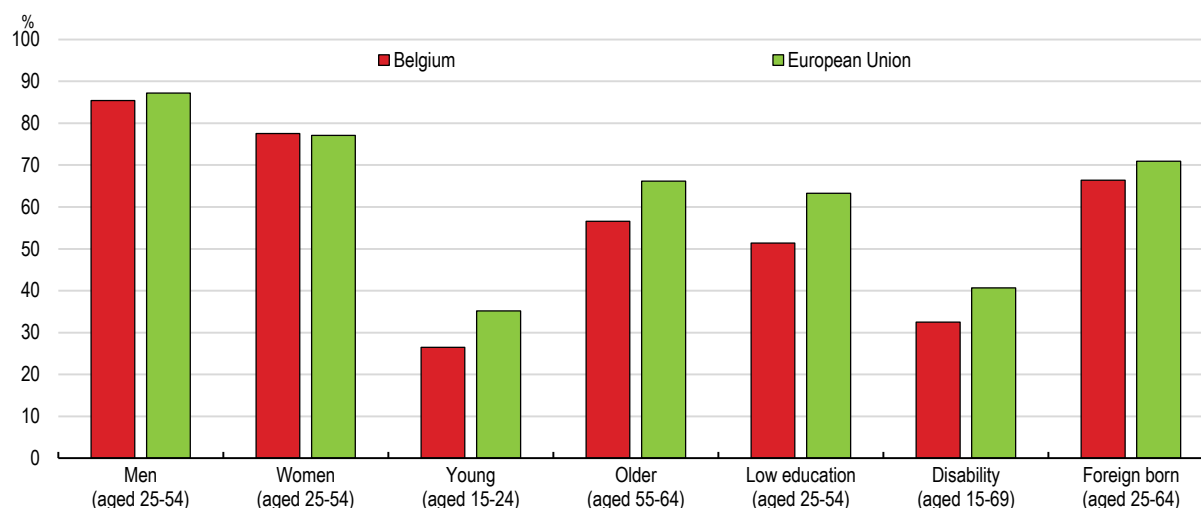
Priscilla FIALHO, OECD

Employment gaps for women, older people, foreign-born, and people with disabilities remain large in Belgium. Improving the integration of these groups in the labour market would reduce socio-economic inequalities, boost economic potential, and improve public finances. Belgium's system of individual learning accounts for training rightly aims to improve workers' employability and career prospects but should better target underrepresented groups. Barriers to labour market participation, notably for women, call for increasing access to childcare and addressing financial disincentives to work in the tax-benefit system. Prevention, retention, and rehabilitation policies for those with disabilities need strengthening to better support employment. Measures should include focusing disability assessments on remaining work capacity, earlier implementation of return-to-work programmes, and stronger incentives to participate and implement reintegration measures.

The Belgian labour market has been very tight with widespread labour shortages (Chapter 2). It remains characterised by relatively low participation and employment rates by international comparison with large and persistent regional disparities. Employment gaps for low-skilled workers, women, foreign-born, youth, older workers, and people with disabilities are large (Figure 3.1; OECD, 2022a). Greater integration of these groups into the labour market would reduce socio-economic inequalities, benefiting society more widely. Moreover, enhancing their employability could offset population ageing, help improve the sustainability of public finances and sustain higher levels of growth in the long-term (Chapter 2). This chapter starts by taking stock of progress and providing recommendations to expand employment opportunities for groups underrepresented in the labour market. It then looks in more detail at policies to improve the employability of persons with disabilities, a group that has grown rapidly in Belgium in recent years and where the rate of employment is low in international comparison.

Figure 3.1. Employment gaps for some groups remain sizable

Employment rates, 2023



Note: “Low education” is below upper secondary education and “Disability” indicates individuals with some or severe limitation of activity. Data on people with disability refer to 2020 or latest year available.

Source: Eurostat.

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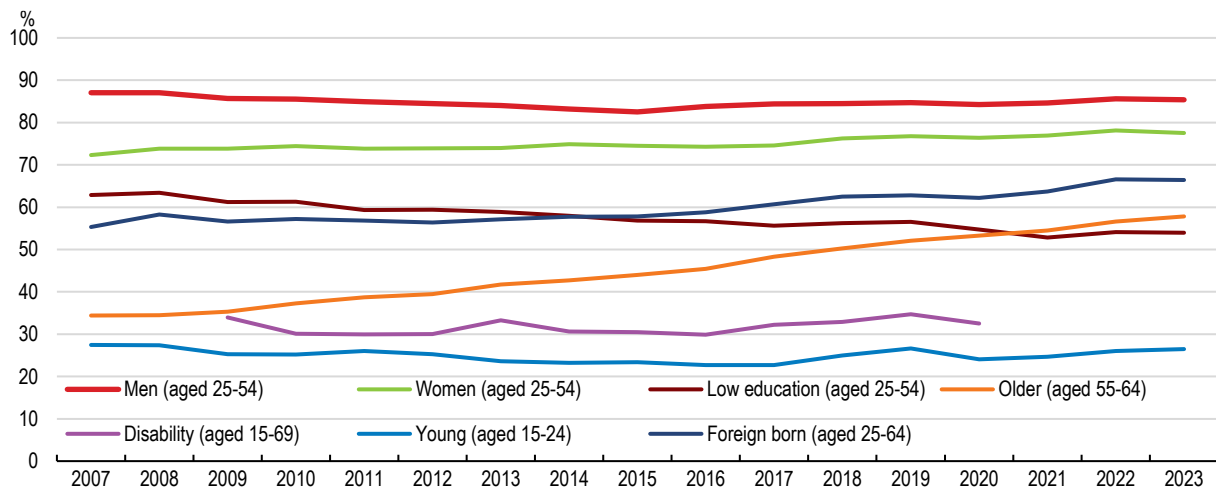
Progress in improving labour market outcomes

Labour market outcomes have improved over time for all groups but persons with disabilities and low-skilled workers. In the last decade, the participation and the employment rates have increased for women, for older workers, and for foreign-born. Improvements were particularly significant for older workers. For young workers, the employment and the participation rates have not increased significantly, but this is mostly explained by improvements in educational attainment and the extended duration of tertiary education (CSE, 2023). Persons with disabilities, however, did not experience any meaningful improvement in labour market outcomes. Low-skilled workers perform even worse than ten years ago (CSE, 2023; Figure 3.2). Additional efforts are needed to improve the employability of groups underrepresented in the labour market and close the remaining employment gaps.

Policy makers should pay particular attention to individuals with disabilities. Belgium is the European country with the highest share of persons that are inactive due to prolonged sickness or disability. Approximately three out of ten inactive persons between 20 and 64 years old are not participating in the labour market due to prolonged sickness or disability (CSE, 2024). While the participation rate for workers without disabilities in 2022 was 75%, this percentage fell to 58% for individuals with a moderate disability, and to 24% for individuals with a severe disability (CSE, 2024).

Figure 3.2. Labour market outcomes have not improved significantly for some groups

Employment rates



Source: Eurostat.

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Promoting lifelong learning

Low-educated and older workers are less likely to enrol in lifelong learning. The previous *Economic Survey of Belgium* shows that there is a 45-percentage point gap in lifelong learning participation rates between low-educated and highly educated workers (OECD, 2022a). Similarly, the *Survey* highlights that the lifelong learning participation gap between young and older workers is among the highest in Europe. Lifelong learning can go a long way to break the cycle of disadvantage that grips low-educated workers. Facilitating participation in adult education and training can also help extending working lives by ensuring that older workers continue having the right skills to stay in employment. However, identifying and communicating skill needs to employers can be challenging, especially for those who lack basic skills. Employers may also find it relatively more costly to train low-skilled workers and prioritise those who are already highly educated. For older workers, proximity to retirement may discourage and limit access to training.

As recommended in previous *Economic Surveys of Belgium*, the federal government is setting up an individual learning account. To ensure that all employees have access to lifelong training, including the low-skilled and workers close to retirement, since 1 January 2024, every full-time employee in a company with at least 20 workers is granted an individual right to five training days per year and pro rata entitlement is applied for part-time workers. Before the reform, training obligations for employers were not defined at the individual level. Training days are financed by the employer and can be cumulated for up to five years. Training should take place during working hours and employees receive their full wage during that time.

While the introduction of an individual training right is welcome, there is scope to assess the programme effectiveness in the coming years and to potentially improve the programme's design. Independent workers, individuals on non-regular contracts, and those employed in small firms are excluded from the

system (Chapter 5). These groups are already at a disadvantage in the labour market and under-represented in training and are precisely those that would need support. The individual learning account and the training rights should cover all segments of the working population. The individual learning schemes in Switzerland (Geneva Canton) or in Singapore, for example, are almost universal as they cover all individuals above a certain age threshold (OECD, 2019). Funding could come from public sources for those employed in smaller firms who do not necessarily have the means to pay for training, for workers in non-standard forms of work and for the unemployed. The French system is funded out of a dedicated social contribution on medium-size and large firms so that employers are only indirectly involved, and the collected funds can benefit all workers, including small firms' employees (Chapter 5). This option would reduce the cost of the measure for public finances.

Specifically targeting disadvantaged groups within the existing system should be considered. High and low-skilled workers, or yet workers with and without disabilities, are entitled to the same training days although the cost of training these groups differs markedly. In France, for example, individual allowances are defined in monetary terms instead of days. As the cost of training is generally lower for low-skilled workers, monetary entitlements would get them more training (OECD, 2020). Otherwise, modulating the amount of support according to some criteria might be possible. In France, individuals who have no upper secondary qualification accrue EUR 800 per year, against EUR 500 for more highly skilled individuals. In Austria, women returning from child-related leave, low-income employees above 50 years old, low-educated individuals, and immigrants benefit from higher support (OECD, 2019).

Plans to develop a web platform to inform about the individual training account scheme needs to be pursued. Administrative barriers are likely to affect disadvantaged groups disproportionately, since they tend to be less able to navigate complex systems. The planned web platform needs to centralise information about the federal programme and existing regional programmes. Flanders introduced an individual learning account in 2023 ('Opleidingstegoed') which provides an overview of regional training rights and incentives. It is important to ensure the complementarity of the federal and regional schemes as they are being developed. The unified platform could serve as a single point of entry, informing individuals about eligibility to different programmes and potentially allowing for the accumulation of different sources of funding or support. These steps would help improving coordination across the federal and the regional governments as recommended in the previous *Survey* (OECD, 2022a).

The development of the federal individual training account needs to be accompanied by guidance on the choice of training programme and opportunities for the recognition of skills. Career guidance would help to ensure that workers use their training credit to acquire relevant skills, for which there is labour market demand. Career guidance could even become an allowable expenditure under the available funds. In France, the individual learning account can be used for skill assessments and career guidance services (OECD, 2021a). The unified web platform, discussed above, could provide information on career guidance programmes, such as the recently expanded *Coup de boost* project, offering professional guidance and advice to young unemployed workers in the Walloon region. In Flanders, an online tool '*Competentiecheck*' can be used to assess users' skills, suggest suitable jobs and provide with training suggestions. Developing recognition of prior learning would be particularly helpful for the integration of skilled migrants, namely Ukrainian refugees, who are often highly qualified but struggle to have their qualifications recognised (Table 3.1; OECD, 2022a). Active outreach measures can help to increase the take-up of in-person information and guidance services.

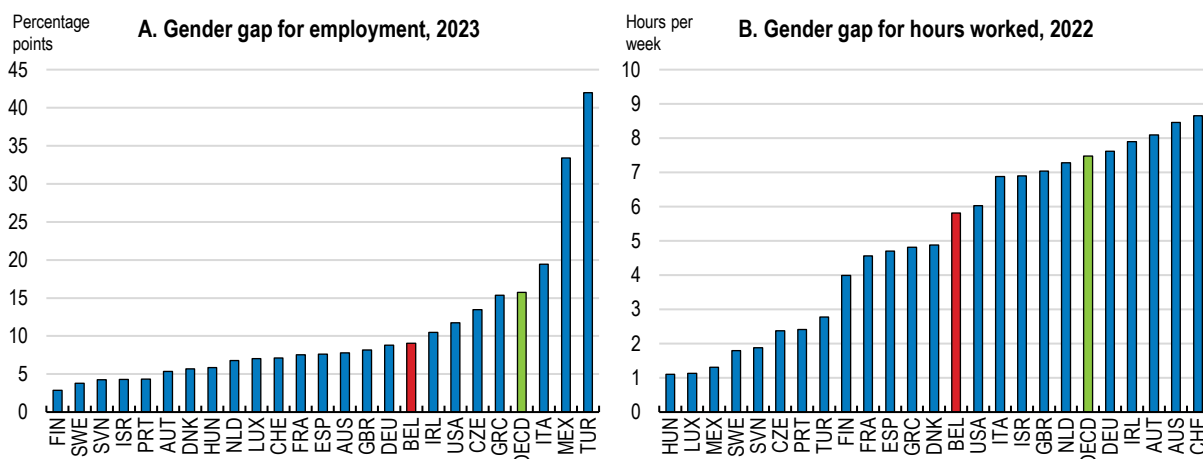
Enhancing women's opportunities in the labour market

Women in Belgium are less likely to participate in the labour market and be in employment than men (Figure 3.3) and earn less on average. In 2021, the employment gender gap was, on average, eight percentage points, but the gap is larger for low-educated workers, at 19 percentage points, and migrants, at 21 percentage points. In terms of labour force participation, a third of women of working age are inactive,

compared to 25% for men. Among inactive women, 25% of them are highly qualified, compared to 20% for men (CSE, 2023). The participation and employment gaps increase, and the wage gap develops, after the birth of a child and women do not catch-up afterwards (CSE, 2023). Closing the gender employment gap by 2060 could potentially increase Belgium's GDP growth per capita by up to 0.2 percentage points on average over the period 2023-2060, boosting the size of the workforce and contributing to a better allocation of labour (Fluchtmann et al., 2024).

As in many countries, women assume a larger share of unpaid work than men. They are more likely to adjust their professional lives to accommodate parenting responsibilities through reduced hours, part-time work, parental and caregiver leave, or even career interruptions (André et al., 2023; CSE, 2023; Figure 3.3). Four out of five part-time workers in Belgium are women. Among women working part-time, 20% declares that they would like to work more hours. When part-time work is deemed voluntary for women, it is often justified to take care of children or dependent adults. Even when working full-time, women work, on average, less hours than men. On average, in 2021, men working full-time worked 39 hours and 12 minutes per week. Women, on the other hand, worked 36 hours and 48 minutes (CSE, 2023). Evidence suggests that fathers tend to be more involved in unpaid work when they are taking parental leave (Tamm, 2019; Knoester et al., 2019). In Belgium, parental leave remains unevenly split between mothers and fathers (CSE, 2023). Mothers and fathers are entitled to four non-transferable months of leave in line with EU regulation, but low replacement rates provide low incentives for fathers to stay home.

Figure 3.3. The gender gap in hours worked is high



Note: Both full-time and part-time workers were taken into account for the gap in hours worked.

Source: OECD Employment and Labour Market Statistics database.

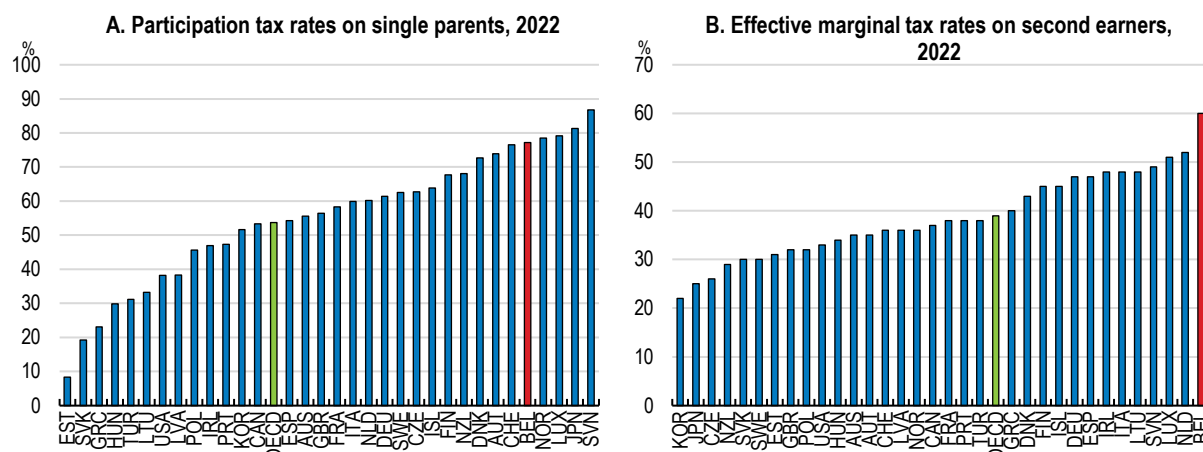
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Increasing the availability of childcare can significantly attenuate gender gaps. It can reduce the opportunity cost of paid employment, boost participation in lifelong learning, and increase enrolment in activation programmes. In Belgium, only 33% of 0–2-year-old from low-income households participate in childcare, compared to more than 70% from high-income households. Uptake of childcare services among migrants is particularly low (OECD, 2023). The provision of early childcare - for children under 2 ½ years - at an affordable price should be expanded. Most childcare facilities charge means-tested fees and childcare costs can be deducted from income taxes, but availability remains an issue with large shortages and long waiting lists. Efforts by the regional governments to create additional childcare places and the reform of the priority rule for the allocation of childcare places are going in the right direction (Table 3.1). In Flanders,

childcare costs are reimbursed for jobseekers participating in training. Actiris, the public employment agency of the Brussels region, also provides language training for migrant mothers that could help address issues related to cultural norms and gives recently employed people and jobseekers participating in job interviews and training access to childcare services. These promising initiatives could be extended to other regions.

Addressing gender biases in the tax and benefit system would also contribute to lower gender gaps in employment and income. Effective tax rates for second earners with children and for low-income single parents claiming the Guaranteed Minimum Income, who are more often women, are among the highest in the OECD (Figure 3.4). The partial splitting system for couples, which allows for an amount of income to be transferred between spouses if one earns 30% or less of the total family income, to decrease the overall labour income tax paid under progressive rates, should be abolished, as recommended in the previous *Survey* (OECD, 2022a). In the same vein, the tax break for paid maintenance allowances to ex-spouses and children should be removed. It provides tax advantages to higher-income taxpayers and contributes to the gender income gap, by allowing the payer of maintenance allowances - mostly fathers - to deduct 80% of the paid amount, while beneficiaries - mostly mothers - are taxed on 80% of the received allowance. Strengthening in-work benefits could support return-to-work and reduce benefit dependency for single parents, as discussed below.

Figure 3.4. Gender biases in the tax and benefit system need to be addressed



Note: In Panel A, the participation tax rate measures the implied tax on earnings when moving into employment for a single person with two children earning 67% of average wage, claiming guaranteed minimum income. In Panel B, the effective marginal tax rate measures the proportion of an earnings increase resulting from raising working hours from 50% to 100% that is lost due to higher taxes, employee social security contributions and the withdrawal of means-tested benefits for second earners with two children earning the average wage, with a partner working full-time in average wage job.

Source: OECD Taxes, Wages and Benefits database, 2022.

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Strengthening work incentives for low-income and unemployed workers

Generous income support for the unemployed weakens work incentives, increasing the risk of long-term unemployment, skill deterioration, and permanent labour market exclusion. Unemployment benefits in Belgium are time unlimited, and although the benefit decreases with duration, it does so more slowly than in other OECD countries, in small steps, and with relatively lenient job search requirements. Moreover, and while a range of factors, such as the family situation is considered in the calculation of the benefit, the absence of means-testing for the long-term unemployed implies that long-term unemployed persons in households with potentially very different financial needs receive the same level of income support (Hijzen and Salvatori, 2020). Means-testing benefits for the long-term unemployed would improve adequacy and

equity in the unemployment benefit system. Combined with stricter job-search requirements and greater activation support, means-testing could also increase work incentives for people benefitting from relatively high replacement rates. Associated savings could be used to step-up activation measures targeted at long-term unemployed with low employability and who face multiple barriers to employment. Reducing benefits over the unemployment spell in fewer and larger steps without increasing the steepness of the benefit phase out could be considered as evidence suggests it might increase job-search intensity and reduce unemployment (Salvatori, 2022).

High effective labour income taxation can reduce incentives to work for the unemployed and low earners. In 2022, Belgium had the highest labour tax wedge among 38 OECD member countries. The take-home pay of an average single worker, after taxes and benefits, was 60% of the gross wage, compared with the OECD average of 75% (OECD, 2023). The federal “work bonus” programme, which reduce the amount of social contributions paid by low-wage workers, was scaled up to lower the participation tax rate. This programme has proved quite effective in making work pay (Dagsvik et al., 2011) but may create disincentives to increase wages (low-wage traps). Its effects on work incentives are being evaluated. Similarly, the introduction of the Flemish “Jobbonus” in 2022, an annual wage premium for low-wage workers, aims to reduce financial disincentives to work. As part of a revenue-neutral broad tax reform, in-work benefits could also be expanded by extending to low-wage workers the possibility to cumulate unemployment benefits and income from work, building on existing schemes for part-time workers and as recommended in previous *Economic Surveys of Belgium* (OECD, 2022a; 2020). Withdrawing benefits targeted at low-income earners more gradually would help to address low-wage traps.

Table 3.1. Past OECD recommendations on improving social and labour market outcomes

Recommendations in the previous Survey	Actions taken since previous Survey (Jun 2022)
Streamline lifelong learning programmes and actors involved.	The federal individual training account has been introduced. A web platform is currently under development to centralise information on the new programme. Flanders introduced an Individual Learning Account in 2023. Brussels region reformed the paid educational leave.
Refer immigrants systematically to services of skill validation.	The Wallonia government approved a draft decree aiming at streamlining administrative procedures to formally recognize foreign qualifications. In Brussels region, public employment services are required to conduct skills assessments and develop individual action plans, including for migrants.
Introduce in-work benefits for low-wage workers with children.	The Flemish government introduced an annual “job bonus” for low-wage workers. The federal government reformed the “working bonus” for low wage workers.
Promote early childhood education and care for low-income households, especially migrants.	Wallonia plans to create an additional 3500 childcare places by 2026, as part of the <i>Plan Équilibre</i> . Flanders plans to lower the ratio of children per child-minder, create subsidized places and increase subsidies in childcare. The Brussels Capital Region increased the childcare coverage ratio from 41% in 2019 to 46.7% in 2022 and plans further investments in the sector as part of the <i>Plan Cigogne</i> . As from April 2024, childcare facilities can deviate from the priority rule that gives absolute priority for parents who work at least 80% or are following a vocational education, for a maximum of 10% of the children cared for.

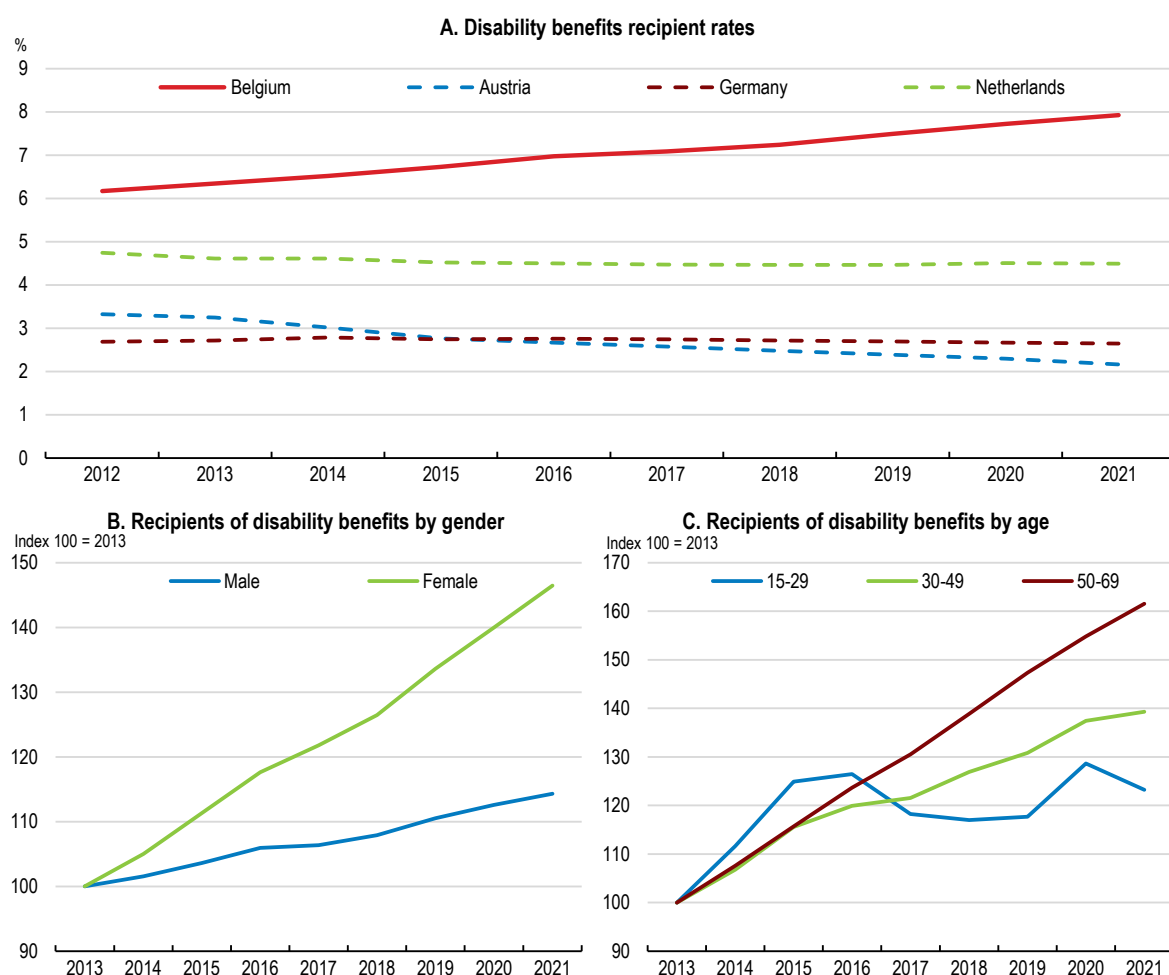
Policies to support the employment of persons with disabilities

The share of individuals who receive disability benefits has been rising fast by international comparison (Figure 3.5). Health conditions and access to medicine have improved and are at odds with such expansion in disability benefits (OECD, 2023; CSE, 2024). This increase is caused, in part, by the improved labour force participation of women and 50–64-year-olds, raising the number of insured individuals. However, changes in workforce age structure and composition cannot fully account for the increase in disability benefits (De Brouwer and Tojerow, 2023). The remaining part could be explained by changes in job characteristics, disability insurance eligibility, assessment, and attractiveness relative to other social protection programmes, or yet, differences in perception, stigma, attitudes, and awareness.

Most disabilities are acquired later in life, as people age, causing functional limitations. Low back, neck, and mental health disorders have become the leading causes explaining the increase in disability benefits (OECD, 2021b; 2022). Women and older workers are more likely to report low back and neck pain than men and younger workers (Gorasso et al., 2022). Women are also overrepresented amongst those with mental health conditions (OECD, 2021c). This trend has been accelerated by the COVID-19 pandemic, as mental health worsened considerably during lockdowns, particularly affecting women and young people (Claes et al., 2023; Bruggeman et al., 2022).

Design features of social protection programmes could have generated spill-over effects on the inflow to disability benefits. Important unemployment insurance reforms in 2012 and 2015 tightened the generosity of the unemployment insurance system. As a result, even though the number of jobseekers remained stable over that period, the number of unemployment beneficiaries declined (Figure 3.6, Panel A; OECD, 2022c). Similarly, tightening access to different pathways into early retirement, namely old-age unemployment programmes and old-age pension schemes, may have led to the progressive substitution of pension, early retirement, and unemployment with disability benefits (Figure 3.6, Panel B and C). Plans to continue increasing the legal pension age are likely to exacerbate that trend.

Figure 3.5. Disability benefit recipients are growing across all segments of the working-age population

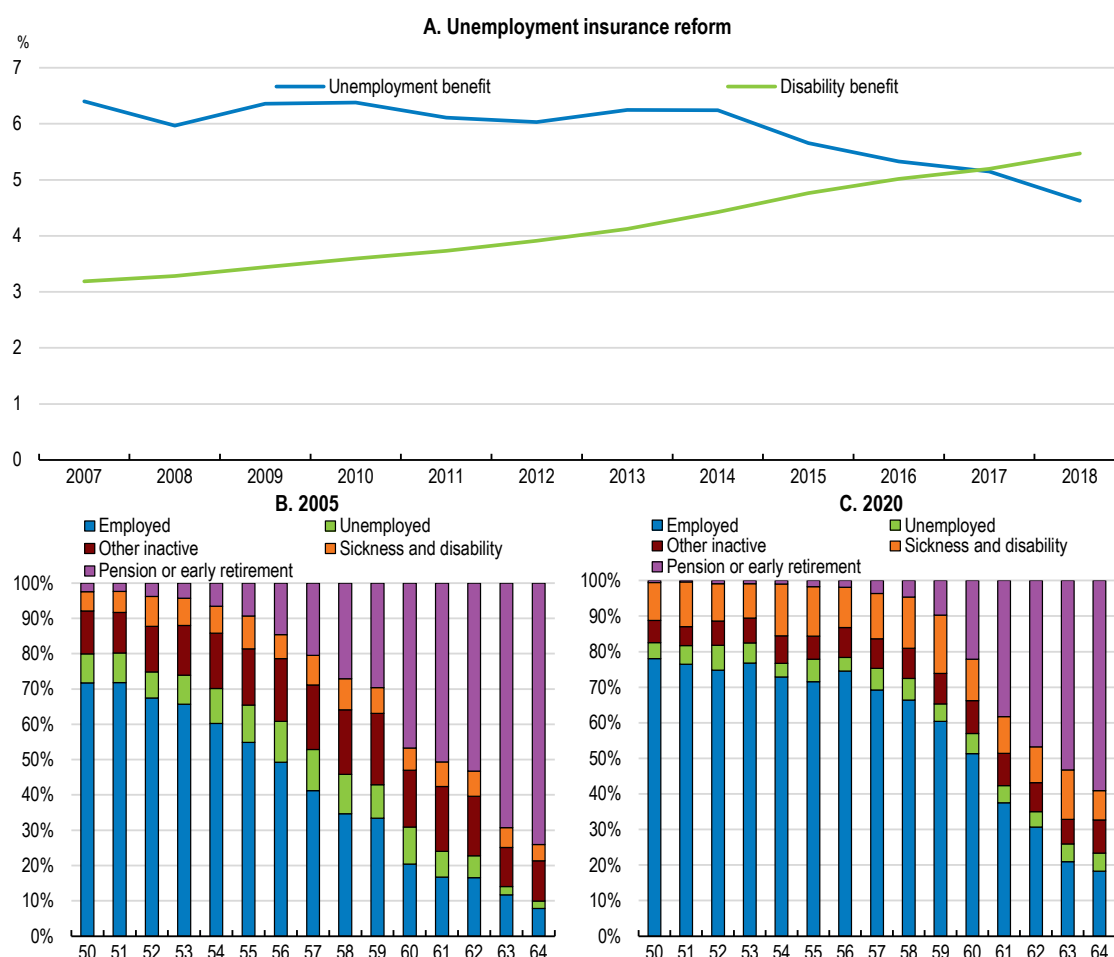


Note : Panel A shows the share of unemployment and disability beneficiaries over total population. Disability benefits includes income replacement benefits (integration benefit), invalidity benefits to salaried and self-employed and permanent incapacity benefit due to work accidents.

Source : Eurostat SILC, INAMI - Service des indemnités - Direction finances et statistiques.

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Figure 3.6. Recent social protection reforms could have generated spillovers on disability benefits



Note: Panel A shows the share of unemployment and disability beneficiaries over working age population. Panel B and C show the labour market status of each age from 50-64 years old in 2005 (panel B) and 2020 (panel C).

Source: Labour Force Survey and OECD SOCR database; OECD (2022); Minne and Saks (2023).

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There are considerable opportunities for public policy to address rising disability benefit claims, promote the reintegration of disability insurance beneficiaries, and improve the employment rate of workers with disabilities.). First, preventive measures at work can help workers with health problems to retain employment and avoid transfers onto sickness and disability benefits. This is particularly important as moving people off prolonged sickness and disability insurance is very difficult. Second, providing good incentives and employment support would keep workers on prolonged sickness away from entering disability benefit, and reduce the likelihood that disability insurance beneficiaries remain inactive for too long and lose contact with the labour market. This is a critical point as work search requirements and employment support in the disability insurance system were relatively weak up until recently. Finally, the design of the disability benefits system could be revised to further reduce substitution effects between unemployment protection, early retirement schemes and disability insurance, although changes to the disability system eligibility and generosity would need to be wary of the increasing disability poverty gap in Belgium (OECD, 2022).

Strengthening prevention and retention at the workplace

Employers' attitudes and perceptions are critical for ensuring the successful integration of people with disabilities in the labour market. Employers can influence the trajectory of workers by offering safe and healthy workplaces, preventing health deterioration, sickness, and work incapacity. Employers can also accommodate the workplace so that employees with severe health conditions remain at work.

Putting more emphasis on prevention to keep workers healthy

Several policy levers can help supporting employers in promoting health and well-being at work. Workplace regulations setting minimum health and safety standards, for example, should be adapted to new working practices, such as teleworking. In Belgium, teleworkers report working almost two hours per week more than their colleagues in the office (Walrave, 2010). Moreover, only about 30% of firms include the workplace at home in their risk assessments (EU-OSHA, 2021). Excessively long working hours in unsuitable remote work environments raise health risks, such as musculoskeletal strain (OECD, 2022d).

The “right to disconnect” regulation introduced in April 2023 as part of the Labour Deal is welcome. However, it does not apply to firms with less than 20 employees and there are no sanctions for employers failing to comply. The law should clarify what employees can do if an employer does not respect the right to disconnect. In France, where a similar law was introduced in 2017, several companies have already been fined for not respecting the right to disconnect. Information and guidance should also be provided on the implementation of workplace occupational health and safety at home.

Financial incentives can encourage employers to go beyond minimum standards and actively promote well-being at the workplace. Some countries, such as the United States or Australia, have tax credits and subsidies in place to incentivise employers to invest in workplace wellness programmes, with an emphasis on the prevention of mental health and musculoskeletal disorders (OECD, 2022d). Certification and award schemes can help to create reputational incentives for employers. Companies promoting wellbeing at work would attract investment from institutional investors and private funds looking for sustainable and socially responsible investments. Information and guidelines supporting the implementation of good practices by employers could also be considered. Trade unions and business associations could help developing and disseminating such guidelines. The federal *datamining* project that collects information on working conditions and professional risks could help to identify workers whose health is deteriorating before it is too late.

Tackling the issue of deteriorating health for workers in physically intensive jobs, hazardous or arduous work may require specific measures. Some countries introduced special retirement schemes allowing for early retirement without benefit reduction. Belgium considered an option that would introduce a wage-loss compensation allowance for those seeking reduced working time due to medical reasons. However, these schemes need to be narrowly defined to avoid misuse. Defining the criteria can be controversial and reaching an agreement with social partners difficult, as Belgium has experienced. Moreover, job tasks are constantly evolving, making it hard to design generic rules that will adequately target special regimes.

Alternatively, other countries are questioning the need for pension reforms to deal with hazardous or arduous jobs, and the permanent withdrawal from the labour market sometimes at very early ages. Establishing a professional training framework providing reskilling and upskilling to allow workers in hazardous or arduous jobs to move to another position or a different job could be a more efficient approach (OECD, 2023). The federal individual training account could be adapted for that purpose. If health risks materialise, the disability insurance system, with strong return-to-work policies, would be better suited to address the issue than old-age pension policies.

Promoting the retention of workers with recurrent or prolonged health issues

Many employers perceive the costs of new recruitment and training to be lower than the costs of retention, adjustment and accommodation with existing workers suffering from health problems (OECD, 2010). The challenge for policy makers is to promote job retention, without discouraging the hiring of new workers with chronic health problems or a disability. Legislated employer obligations can help but are difficult to enforce in practice. Mandatory employment quotas of persons with disabilities in the public sector, for example, are not always respected and should be strictly enforced (European Commission, 2022). In fact, the public sector should lead by example. Additional measures to fight discrimination should be considered, such as information disclosure requirements regarding staff diversity, which would facilitate the identification of discrimination patterns. In this vein, social partners (*Commissions paritaires*) will have to complete sector-specific employment reports on diversity every two years. The obligation to provide reasonable accommodation at the workplace for persons with a disability is also difficult to enforce. Successful enforcement often requires the timely involvement of workers' representatives and trade unions (OECD, 2010).

Some countries have gone a step further and transferred financial liabilities for sickness and disability to employers, strengthening incentives for employee retention. In the Netherlands, employers pay the costs of sickness benefits for as long as two years during which workers usually cannot be dismissed. The measure was effective in lowering long-term absences (OECD, 2008). In addition, employers with above average sickness and disability claims must pay higher social contributions. Belgium has recently introduced a similar experience-rating system. Since 2022, employers' social contributions increase by 0.625 percentage points for firms employing more than 50 workers whose average inflow rate into disability benefits over the last year is twice the sector average and three times higher than the private sector average. The return of these additional contributions goes to sectoral funds to finance actions for prevention or re-integration. Belgium could also consider increasing the employer-paid sickness period currently set at one month for private sector white collar employees and less for blue collar employees (Box 3.1). The employer-paid sickness period could increase on a case-by-case basis until all workplace adaptations and accommodations have been exhausted. To mitigate the risk that employers actively seek to avoid hiring persons perceived as being at higher risk of sickness or disability, employers hiring workers with disabilities could be partly or fully exempted from this obligation, along the lines of the Dutch "no-risk policy and premium discount" (OECD, 2010).

Accommodating the workplace for persons with health problems or with a disability can bring additional costs to employers. Therefore, support measures to help firms fulfil their obligations are welcome. Belgium has several programmes scattered across different governments and agencies. Employers can receive a return-to-work premium (EUR 1 725) when hiring or reintegrating people that have been receiving disability benefits for more than a year. The Flemish government has put in place an individualized support, including a wage subsidy and guidance ('Individueel Maatwerk'), which can be awarded for a period of two to five years, renewable, and also applies to self-employed workers and workers affected by psychosocial problems. In Wallonia, AVIQ, an agency dedicated to the elderly and persons with a disability, introduced two wage subsidies, one intended at stimulating new job hires and the other to promote job retention. The first, known as *prime à l'intégration*, can be awarded for one year for employers hiring a person with a disability previously unemployed or inactive. The second, known as *prime de compensation*, can be awarded for a period of five years to cover up to 45% of the wage costs associated with an employee with a disability. AVIQ has yet another subsidy available for a maximum period of six months, the *prime de tutorat*, if another person has been employed to accompany, train, and advise the workers with a disability. In the Brussels region, *Actiris* provides a range of support measures, including insertion allowances and support for workplace environment adaptation.

Financial compensation for workplace adjustment and adaptation can also be quite effective. One advantage of these schemes, compared to wage subsidies, is that they do not generate deadweight,

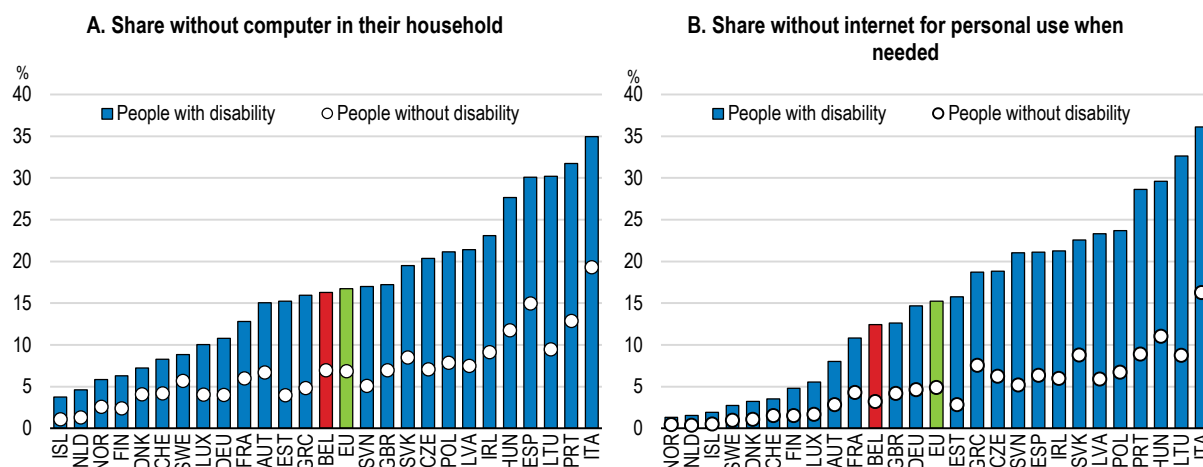
substitution, or displacement effects. Funds are effectively used to benefit the employee with a disability, helping to reduce work barriers, making them more productive, and increasing the likelihood of long-term employment (OECD, 2021c). The Flemish employment services agency, VDAB, grants an allowance for the costs of adapting the job post because of the disability. AVIQ, in Wallonia, and Actiris in Brussels, have similar schemes in place. However, take-up for this financial compensation schemes is low (European Commission, 2023). Additional efforts to raise awareness of the public support available to employers are needed. Centralising and streamlining information about different existing programmes in one place would help.

Sometimes, workplace adjustment and adaptation might even be costless, but lack of knowledge about possible solutions hinders their implementation. Developing guidelines and training programmes for managers and co-workers, in close consultation with associations representing people with disabilities, to inform and raise awareness about technical solutions, practical ideas, and tools to adjust and adapt could make a significant difference. In the Brussels region and for the French speaking community, PHARE awards employers a one-off bonus of maximum EUR 1 000 to conduct awareness-raising and training campaigns on accommodating disabilities at the workplace for all employees. Similar initiatives could be implemented in other regions.

Working time and workplace flexibility can help providing reasonable work accommodation for persons with a disability at almost no cost. Teleworking, for example, if well-regulated as discussed before, and at an intermediate level of intensity to balance the benefits and costs from a well-being and productivity perspective, can provide an accessible workspace and break down some of the employment barriers (Criscuolo et al., 2023). Working from their own home means that persons with a disability have more control over their environment, can easily access medical or special equipment if needed, and do not need to commute to work. Flexibility to organise the workday or week makes it easier for persons with a disability to organise medical or rehabilitation appointments, or to plan breaks according to their individual needs (OECD, 2022d). Mainstreaming flexibility at the workplace would prevent the need to disclose disability, which could be particularly important for persons with unobservable disabilities, such as mental health disorders. The introduction of the four-day work week in 2022 may also help, although take-up has been low so far.

New technologies also have the potential to create a more accommodating environment and help removing some of the barriers faced by people with disability. Assistive technology enabled by Artificial Intelligence, for example, renders impairment or functional limitation less disabling (OECD, 2023). Vision-to-language tools can describe text and objects aloud for people with vision problems. Speech recognition algorithms can translate speech to text and enable the control of intelligent devices through voice activation. Text simplification tools can help people with cognitive disability to understand content. Chatbots provide an accessible interface for users to access information easily through queries and answers. Technology can also make training more accessible for persons with disability. Virtual reality technology, for instance, can be used to provide customised training, offering realistic scenarios for simulation.

To fully grasp the benefits of new technologies, public reimbursement mechanisms should be introduced, subsidising access to specific digital and assistive technology for low-income individuals with a disability. Often, people with disabilities do not have access to basic digital technology, such as a computer or the internet (Figure 3.7). Such reimbursement mechanisms, or cost-of-disability payments, do not create any disincentive to work and are much more likely to help people out of poverty with a limited net cost. The list of reimbursed solutions would need to be updated regularly to keep-up with the latest technological developments (OECD, 2023). The federal *Allocation d'Intégration* could be the starting point for such a reimbursement programme (Box 3.1). It could be adapted and expanded to reimburse the costs associated with digital and assistive technology when those can make a meaningful difference.

Figure 3.7. Some obstacles to the use of teleworking and new technologies need to be overcome

Note: Data refer to 2019, except for Iceland, Ireland, Italy (2018) and United Kingdom (2016).

Source: EU-SILC.

StatLink  <https://stat.link/gxkf6y>

Rethinking the disability insurance system to encourage returning to work

Greater efforts are needed to transform the disability insurance system into an employment-support instrument alongside its function of providing income support. In fact, many people with a reduced capacity to work can and want to work, but their choice will be influenced by the income provided by disability benefits (MacDonald et al., 2020). Recent reforms to the disability insurance system also need to be enforced, assessed, and continued to limit the inappropriate use of the scheme, such as being an informal pathway to early retirement or an alternative to unemployment (Box 3.1). Disability benefits can be more generous than unemployment protection in some cases, for example, and used to come without any activation requirements (De Brouwer and Tojerow, 2023; Browne, Neumann and Pacifico, 2018).

Strengthening the effectiveness of the Return-to-Work policy

Recent reforms to the sickness and disability benefits system in the private sector are going in the right direction (Box 3.1). The introduction of a formal return-to-work plan and return-to-work coordinators will help identifying individuals who can benefit from accommodations at the workplace, rehabilitation or activation programmes. For a successful reform implementation, the federal government needs to make sure that health insurance funds have appropriate resources to hire enough coordinators. Involving the employer in the reintegration strategy is also a welcome measure as it has proved quite effective in other countries (OECD, 2022c). Yet, there remains ample scope for further reforms to strengthen the return-to-work policy.

Box 3.1. Most changes to Belgium's sickness and disability benefits concerned return-to-work

Contributory sickness and disability benefits

Health care insurance is mandatory, and individuals are free to choose between one of the five non-governmental and non-profit health insurance funds, who play the role of intermediaries between INAMI, the national institute managing sickness and disability benefits, and the population. INAMI sets the terms for disability assessment and benefits and allocates financial resources across the six health insurance funds (including a public fund) according to precise rules. The health insurance funds execute INAMI's policy and distribute the sickness and disability allocations.

In the first 30 days (15 days) of sickness, private sector white collar (blue collar) employees receive between 100% of their salary **paid by the employer**. Certification by a general practitioner is enough. **After 30 days, the burden is transferred to the public system**. The health insurance fund needs to request "primary" disability benefits to INAMI on behalf of the individual. To be eligible, the individual must have worked at least 180 days full-time, or 800 hours part-time, over the last 12 months and paid social contributions. All professional activities must have ceased at the time of application and medical incapacity be at least 66%. If approved, the individual receives 60% of the last salary or a minimum allowance.

Past those first 30 days, and since October 2022, **the employer must inform the occupational doctor about the employee's absence**. All employers are obliged by law to have an occupational medicine service, which most companies outsource externally. The occupational doctor will then establish a first contact with the worker to discuss possible options to eventually return to work. The worker has no obligation to react and there are no requirements following-up that initial contact.

The occupational doctor cannot initiate a formal reintegration procedure. Such procedure can only come at the worker's initiative or upon request from the employer. To make such formal request, in most cases, the employer needs to wait at least three months. Within 50 days of that request, the occupational doctor will invite the worker to a reintegration assessment. If the worker refuses to attend three times, the reintegration procedure is closed. The occupational doctor will then inform the health insurance fund, but there are no systematic sanctions. After the reintegration assessment, the employer has between two and six months to propose a reintegration plan, based on the occupational doctor's recommendations, proposing a new occupation within the firm, adaptations to the workplace, or a reduction in hours worked. The worker has then two weeks to accept or refuse that proposal. If the worker refuses, the occupation doctor informs the health insurance fund, but again, there are no systematic sanctions. The worker can request additional appointments with the occupational doctor and the support of labour unions throughout that process at any time.

Before 2022, the employment contract could be systematically terminated due to medical force majeure without any severance payment, although the individual would still preserve disability benefits. This was changed in 2022 as more than half of reintegration plans resulted in dismissals. The dismissal procedure by medical force majeure is now a separate and independent administrative procedure, requiring additional justification from the employer.

Procedures are similar for unemployed and self-employed. Unemployed are insured from the 1st day of medically certified incapacity if they have worked or been actively searching for a job at least 180 days over the last 12 months. The individual receives the lowest value between the unemployment benefit or 60% of the last salary. Self-employed are insured only after 8 days of incapacity if the last social contribution dates no longer than 30 days ago. Self-employed receive a lump-sum disability payment. A formal return-to-work procedure can also be initiated for non-employed individuals, at their own initiative or initiated by the health insurance fund's advisory doctor after a medical assessment. In

this case, the health insurance doctor proposes a rehabilitation plan, including contacts with employment services and participation in vocational training programmes, which remain voluntary.

Since 2016, **after four months of “primary” incapacity**, if no reintegration or return-to-work procedure has been voluntarily initiated already, **it became mandatory to develop a formal Return-to-Work plan**. The health insurance fund’s advisory doctor must assess the individual’s remaining work capacity. If deemed apt to return to the previous job, the employer must draw a reintegration plan. If deemed apt to return to the labour market, and if not employed, the doctor proposes a rehabilitation plan.

Additional resources have been allocated to health insurance funds in 2022 to create a new role and hire “Return-to-Work coordinators”, responsible for establishing face-to-face contact with disability benefit recipients, liaising with the advisory doctor, the occupational doctor, and employment services. Meetings with the coordinators are mandatory. Benefits can be cut by 2.5% if individuals fail to attend those meetings. Yet, the Return-to-Work coordinators cannot oblige individuals to execute the plan. In addition, since October 2023, **mandatory visits to the health insurance funds’ doctors or members of the multidisciplinary team were introduced after four, seven and eleven months of “primary” disability**.

After one year of “primary” disability, the health insurance fund must submit a new application to INAMI to prolong disability benefits, potentially after another medical examination. If approved, the individual receives between 40% and 65% of observed earnings in the last year, depending on the household composition or a minimum allowance. Disability benefits then only cease if the individual is no longer considered disabled by the health insurance fund’s doctor or the medical council of INAMI. Medical re-assessments by the health insurance fund’s doctor or members of the multidisciplinary team are mandatory, and their frequency depends on the capacity to return to work.

Non-contributory benefits at the federal level

Allocation de remplacement de revenu (ARR): Means-tested monthly cash allocation for individuals whose disability reduces their earning capacity by at least two-thirds.

Allocation d’intégration (AI): Means-tested monthly cash payments to compensate for additional costs associated with the disability. These costs include fees for requiring personal assistance, special mobility devices, special household equipment, care, and household maintenance services.

First, early intervention is critical to prevent workers on sickness and disability benefits getting detached from the labour market. Waiting for four months after the start of disability benefits to assess the individual’s work capacity and define a Return-to-Work plan could be too late as this means the worker would have been out of work for five consecutive months already, and the probability to leave the sickness and disability benefits system after six months is low (CSE, 2024). Disability benefit recipients should fill a questionnaire on their work capacity after ten weeks. Nevertheless, the assessment of work capacity and the development of a Return-to-Work plan should come earlier. In Norway the employer is required to follow-up with the employee during the first four weeks of sickness and discuss if an improvement of the working environment could remedy the situation. In the Netherlands, the employer must draw a formal return-to-work plan in the first eight weeks. If employers’ efforts to reintegrate the worker are considered insufficient, they can even be mandated to pay for an additional year of sickness leave (OECD, 2022b).

Reintegration procedures can be strengthened. The employer-paid sickness period could be extended beyond 30 days, on a case-by-case basis, until all the possible adaptations and job modifications have been exhausted by the employer, before applying for “primary” disability benefits, similarly to what is done in Denmark (OECD, 2022b). If the individual is already receiving “primary” disability benefits and is considered apt to return to the previous workplace with some adaptations after a reassessment, employers who do not put in sufficient efforts to reintegrate the worker could be required to contribute to the disability benefit payment.

Efforts from individuals with remaining work capacity to implement their personalised Return-to-Work plan should also be monitored closely. At present, there are no sanctions if an individual receiving disability benefits refuses the employer's reintegration plan or to participate in a rehabilitation or activation programme proposed in the Return-to-Work plan. In Norway and the Netherlands, sickness and disability benefits can be suspended, reduced, or cut if the employee does not put in effort to actively contribute to the development of a Return-to-Work strategy. In Luxembourg, people with partial work capacity that are not employed are obliged to register with employment services and enrol in training and reintegration measures (OECD, 2022b). The Return-to-Work coordinators should be able to impose sanctions on individuals who, despite showing up to the meetings, do not register with regional employment services and refuse to participate in rehabilitation and activation programmes. The rule stating that participants in activation or rehabilitation programmes can lose their entitlement to disability benefits within six months of programme completion should then be removed, as recommended in the previous *Economic Survey of Belgium* (OECD, 2022a).

Partial disability benefits are another way of encouraging people with a disability to remain in work or to return to employment. This involves working part-time and receiving a partial sickness or disability benefit on top of a partial salary. Belgium has a partial disability benefits system in place, whose take up has increased over the past five years. Nevertheless, workers need to have stopped all professional activities to apply for "primary" disability benefits and to prolong disability benefits after a year. Workers can then request an authorisation to work part-time from the first day that they receive disability benefits, and they are even allowed to start part-time employment while waiting for such authorisation, but this still means that they are out of work during the application period and until the benefits are granted. Alternatively, Belgium could consider letting people apply for partial disability benefits directly. The partial benefit, though, would have to be significantly reduced to prevent full-time workers that would otherwise continue working from moving into subsidised part-time work. The introduction of a wage premium for workers reducing working hours and at risk of getting detached from the labour market for medical reasons (ArbeidsParticipatieToeslag) has been envisaged.

Moving away from a purely medical assessment

For the above reforms to work, sickness and disability assessments need to move away from a purely medical perspective. Entitlement to prolonged sickness and disability benefits should be determined according to a reliable assessment of a person's remaining functioning capacity and labour market competitiveness, taking new working practices and new technologies to accommodate the working environment into account. Currently, there is too much focus on a medical diagnosis of loss of physical or mental functioning, as assessed by a medical practitioner with limited expertise in labour market developments and rehabilitation programmes. The recent reform that expands the role of multidisciplinary teams in the evaluation of work incapacity goes in the right direction.

One way forward would be to modify the content of the sickness certificate to include information on the degree of work capacity and the type of tasks a person can do, and to provide training to general practitioners on work and workplace matters. Sickness certificates should then be renewed regularly, and an extended certificate could be required after a prolonged period of sickness, encompassing a deeper assessment of the individual's functional capacity. In Ireland, sickness certificates are renewed every week, and in Norway and Luxembourg, extended medical certificates are required after six weeks of absence (OECD, 2010).

Disability assessments should be conducted by an independent and interdisciplinary team, which could include the health insurance fund advisory doctor, an occupational doctor, a Return-to-Work coordinator, and public employment services staff, assessing people's functional capacity (OECD, 2022b). Advisory doctors in health insurance funds should receive training on work and workplace matters. Occupational doctors should ideally be systematically involved in disability assessments, even for individuals who are not employed. For that purpose, the number of occupational doctors, currently in shortage (Cour des Comptes, 2021), needs to increase and they need to become work and workplace specialists. Finally, once admitted on "primary" disability benefits, the frequency of reassessments needs to increase. This is particularly important given the rise in mental health conditions, which can be more volatile and evolve frequently. The introduction of mandatory visits to the health insurance funds' doctors after four, seven and eleven months of "primary" disability at the end of 2023 is a step in the right direction (see Box 3.1). Reassessments should also be more systematic once admitted on long-term disability after one year.

Better integrating services across agencies

Smooth coordination and active cooperation between relevant agencies are particularly important to avoid workers with health and disability problems moving from the caseload of one institution to the other, without any visible improvement on their well-being and re-employment perspectives (Box 3.2). Better integrating services provided by relevant agencies or having them share front offices, namely employment services, agencies supporting employers to accommodate the workplace and individuals with disabilities purchasing special equipment, Return-to-Work coordinators, and benefits administration, could be a way forward. Sharing front offices would improve disability mainstreaming, i.e., avoiding the use of special systems or services for people with disability, and instead, developing systems and services that are disability inclusive (OECD, 2022b).

Regional employment services are in a good position to identify and support those jobseekers with health barriers to employment, who may end up directly entering disability insurance from unemployment insurance. While targeted measures are in place in all regions, employment services can better support workers with remaining work capacity in their job-search efforts. Spending on active labour market policies targeted at workers with disabilities, one of the hardest-to-place group of workers, and on rehabilitation programmes is low in international comparison (Figure 3.8). Face-to-face counselling should be available for job applicants with health barriers to employment or with a disability. Regional employment services' resources should be better targeted at people with a disability or at-risk of entering disability benefits. This will be particularly important as employers become increasingly involved in return-to-work plans, to prevent inflows into disability benefits from unemployment insurance to increase in response.

Box 3.2. Disability policy is fragmented across different agencies and governments

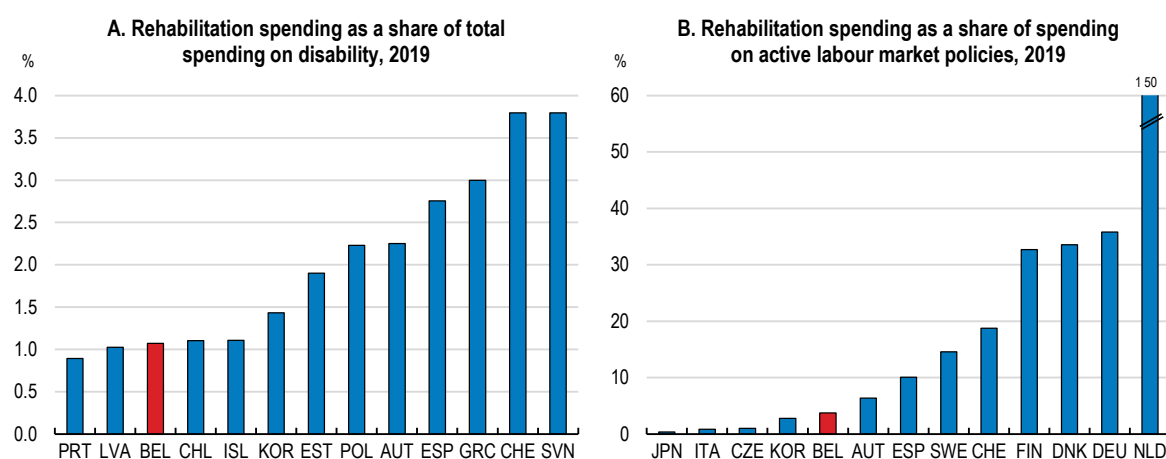
Disability policy is interdisciplinary, involving different institutions. The health system, the social protection system, the employment services, and the education and training systems all play a key role. In Belgium, the institutional fragmentation is complicated by the division of competences across different governments, as follows:

- **Federal government:** Sickness and disability benefits system. Anti-discrimination law.
- **Regional governments:** Accessibility in urban development and mobility. Employer support to accommodate the workplace. Employment services and vocational training.
- **Communities' governments:** Special and integrated education and training. Support for special needs and special care at home.

Financing arrangements can also influence incentives in dealing with workers with health conditions in an efficient way. Since 2018, health insurance funds receive financial incentives to promote the work reintegration of members on sickness and disability benefits. Before, sickness and disability insurance beneficiaries would count as one-and-a-half in the financing formula to compensate health insurance funds for their costs. As a result, health insurance fund's doctors had little incentive to initiate return-to-work procedures or to reassess individuals on disability benefits. Now, individuals on disability benefits count as one in the financing formula. Moreover, insurance funds receive financial rewards based on the number of reintegration procedures launched, the number of medical assessments performed, and the number of part-time work authorisations granted. Financial incentives could be strengthened and complemented with data accumulation, sharing and dissemination requirements, to facilitate programme evaluation and generate a healthy competition for performance among insurance funds.

Overall, Belgium's disability protection system is fragmented between public and private sectors, various governments, different agencies, and administrative procedures, or yet, different types of payment, including contribution-based and means-tested payments. Simplifying the disability protection system and potentially integrating different social insurance programmes could contribute to better income security, while improving system efficiency. Some OECD work has advocated for the introduction of a single working-age benefit for all individuals out of employment, with top-up payments to cover additional costs, such as costs-of-disability, which would be independent on employment status (OECD, 2022c).

Figure 3.8. Spending on rehabilitation and activation for workers with disabilities is low



Source: OECD Social Expenditure Database.

StatLink  <https://stat.link/t0jw9r>

Adjusting the eligibility, the benefit calculation, and harmonising rules

To limit the inappropriate use of the disability insurance scheme, other changes to the system could be considered. For example, the minimum contributory period could increase with age, as done in Austria (OECD, 2022c). The basis for calculating the disability benefit could also be reconsidered. Currently, the calculation formula uses the last income earned (with ceilings), which favours older claimants as income generally increases with age. Adding to the issue, payments for unemployment benefits become independent of previous earnings after a while, making disability benefits particularly attractive for high wage-earners. Finally, to prevent younger workers from using the disability insurance system as an alternative to unemployment insurance, Belgium could reconsider the minimum age at which disability payments can be claimed. Non-contributory and means-tested programmes, such as the federal *Allocation d'Intégration* or the *Allocation remplacement de revenu*, are a more effective tool to keep young workers

with limiting conditions out of poverty and in employment (see Box 3.1). In Belgium, individuals are eligible at the age of 16, while in peer countries, such as Austria, the Netherlands, Norway, or Switzerland, eligibility starts at the age of 18 (OECD, 2022c).

However, if such changes to the disability insurance system are considered, Belgium needs to be wary of the increasing disability poverty gap. The share of individuals with a disability living in poverty increased from 14% in 2005 to 26% in 2019, with significant differences across regions (OECD, 2022c). Stricter contribution requirements for eligibility may leave groups with limited work histories, where women are overly represented, out of the main disability programme. Similarly, cutting benefit generosity could exacerbate the disability poverty gap. There are few examples of OECD countries that have reduced the generosity of disability benefits, possibly due to the political difficulty of such reforms. Such reforms can be successful in reducing inflows into disability benefits, but without efforts to equipping persons with disabilities for the labour market, through more effective return-to-work policies, for example, can create spillovers to other social protection programmes (OECD, 2022c).

Belgium's disability insurance system for public sector employees is characterised by complexity, both in institutions and applicable rules. Depending on the relevant public authority, eligibility, assessment, benefits, and procedures can differ significantly from the “headline” system for private sector employees, making it difficult to track rules applicable to specific workers, creating barriers to job mobility, and contributing to the inequity of the disability insurance system. Harmonising rules for the public sector and progressively aligning the treatment of workers with disabilities in the public and private sectors should be considered. In particular, it is important that recent changes in the return-to-work policy for the private sector also apply to the public sector to preserve system equity and expand the impact of these reforms.

Table 3.2. Policy recommendations to improve labour market outcomes for all

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Improving labour market outcomes for all	
Groups of workers, notably low-educated and older workers, are less likely to enrol in lifelong learning.	Strengthen the inclusion of disadvantaged workers in the federal individual training account scheme and in federal and regional individual learning accounts. Allocate a higher training credit to disadvantaged groups.
Women, especially mothers, are less likely to be employed than men and earn less on average.	Further expand the provision of childcare services and promote their use with outreach measures targeting migrants.
Financial disincentives to work are substantial, especially for low-income workers and second earners, who are more often women. For low-paid workers, accepting higher-paying jobs or working longer hours can result in little or no net financial gain due to the withdrawal of means-tested benefits and tax advantages as their wages increase.	Strengthen in-work benefits for low-paid workers. Abolish the partial tax splitting system for couples and the tax break for paid maintenance allowances for ex-spouses and children. Withdraw benefits targeted at low-income earners more gradually.
Increasing workplace well-being, accessibility, and flexibility	
Teleworkers report working almost two hours per week more than colleagues in the office, increasing health risks.	Adapt workplace regulations to new working practices, such as teleworking. Develop guidelines for employers, supporting the implementation of good practices to promote well-being at work.
Employers perceive the costs of new recruitment to be lower than the costs of adjustment and accommodation of workers with health problems.	Assess the effectiveness of the experience-rating system introduced in 2022 and allow employers hiring workers with disabilities to be exempted. Centralise and streamline information on financial compensation for employers accommodating the workplace for workers with disabilities. Develop training programmes to raise awareness about solutions and tools to accommodate the workplace for workers with disabilities.
New technologies can help remove barriers for disabled workers, but wide access to basic digital tools is lacking.	Subsidise specialised digital equipment and software for people with disabilities.
Rethinking the disability insurance system to encourage an early return to work	
The number of disability benefit recipients has surged. Disability assessment relies mostly on medical criteria that may not reflect capacity to work.	Provide training to general practitioners on work and workplace matters. Assess sickness and disability more frequently based on remaining functional capacity using interdisciplinary assessment teams.
Very few disability benefit recipients return to work despite rehabilitation programmes in place.	Make it mandatory to develop a Return-to-Work plan earlier in the sickness and disability benefits procedure, strengthen incentives to participate, while increasing resources for rehabilitation. Extend the employer-paid sickness leave period on a case-by-case basis until all feasible workplace accommodations have been explored. Remove the rule stating that participants in activation or rehabilitation programmes can lose their entitlement to disability benefits after six months of programme completion.
Disability policy is fragmented across different agencies and governments.	Better integrate services provided by relevant agencies or have them share front offices. Reallocate spending on active labour market policies to better support workers with disabilities. Introduce data collection and dissemination requirements for health insurance funds.

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4

Boosting emission reductions from electricity production, buildings and cars

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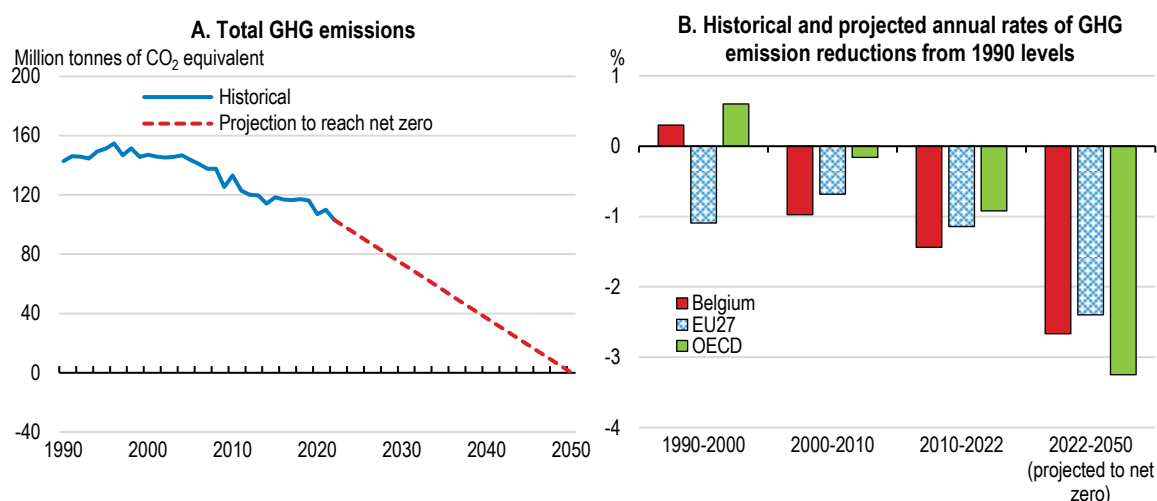
Belgium needs to accelerate greenhouse gas emission reductions to meet EU targets. Replacing fossil-fuels in electricity production, buildings and transport by zero-emission energy sources would cut nearly two thirds of greenhouse gas emissions but requires rapidly scaling up renewable energy production. Nuclear phase out adds to Belgium's emission-reduction challenge for energy in the medium term. In addition, energy consumers need to invest in adapting – often electrifying – energy use and using energy more efficiently. Belgium's car fleet is renewing quickly but predominantly with new fossil-fueled cars. Most buildings need deep renovation and low carbon heating systems if emissions relating to heating are to be substantially reduced. Policies combining long-term regulatory certainty with effective financial support and strong price signals can ensure these investments are made, including by low-income households.

A faster energy transition is needed to reach emission reduction targets

Climate change is increasingly apparent in Belgium. Average temperatures are about 2°C warmer than in pre-industrial times, winters milder, summers hotter, and droughts and heat waves more frequent (IEA, 2023a). By 2100, depending on future global greenhouse gas (GHG) emissions, temperatures in Belgium may increase by up to 4.4°C in winter and 7.2°C in summer. Sea levels could rise by up to 2 meters in the worst case scenario (Groupe de travail fédéral Adaptation, 2023). Belgium can contribute to limiting climate change in line with the Paris Agreement by transitioning to a net zero economy. While entailing costs, especially in the short-term, the transition can bring direct benefits for Belgium, ranging from energy savings, better public transport and cleaner air to productivity gains and more jobs (FPS Environment, 2023). Adapting to a hotter climate will be important to complement these efforts. The *2021 OECD Environmental Performance Review* (OECD, 2021) and the *2022 IEA Energy Policy Review* (IEA, 2022a) include analyses and policy recommendations to improve climate change adaptation for Belgium.

Belgium needs to speed up emission cuts to decarbonise its economy. Greenhouse gas (GHG) emission reductions started to pick up in the early 2000s (Figure 4.1, Panel A), and since then Belgium has achieved larger percentage reductions than EU and OECD countries on average (Figure 4.1, Panel B). Nevertheless, in 2021 its economy remained more emission intensive than the EU average. This means larger efforts to decouple its economy from GHG emissions will be needed than in most EU countries. Average annual emission reductions must increase from 1.4% between 2010 to 2021 to 2.7% from 2021 onwards to reach net zero in 2050 (Figure 4.1, Panel B).

Figure 4.1. Emission reduction needs to accelerate



Note: GHG emissions includes emissions from LULUCF (Land Use, Land Use Change and Forestry) unless it was indicated.

Source: OECD (2024), Environment: Air and Climate (database).

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Setting and achieving national climate policy goals is complicated by Belgium's highly decentralised climate change policy. Most policies for cutting emissions – for example for building renovations, transport, or renewable energies on land – are developed and implemented by regional governments. At the federal level, climate-related policy areas include offshore wind, energy taxation and infrastructure, such as high-voltage electricity networks. Overall emissions and emission intensities differ considerably across regions, and burden sharing agreements coordinating mitigation efforts have been slow to finalise (Table 4.1). For example, a full burden sharing agreement for emission cuts for 2013-2020 was only adopted in 2018.

Table 4.1. Contributions to previous emission cuts have differed across regions

Greenhouse gas emissions across regions under Belgium's burden-sharing agreement 2013-2020

	Emission reductions 2013-2020	Share of total emission in 2020	Emission in tons of CO ₂ equivalent per capita in 2020	Emission in tons of CO ₂ equivalent per thousand Euros GDP in 2020
Wallonia	-10%	34%	6.01	0.23
Flanders	-14%	61%	6.00	0.04
Brussels	-18%	5%	2.69	0.16

Source: OECD calculations based on Commission Nationale Climat (2023)

Belgium has not yet adopted a binding target to achieve net zero emissions by 2050 at the national level. While discussion on a burden sharing agreement for emission targets in 2030 remains ongoing, regions already adopted varying emission targets for 2030 and 2050 (Table 4.2). However, current regional targets fall short of both EU emission goals for 2030, to cut emissions by -47% compared to 2005, or reaching net zero in 2050 for the whole country. In November 2023, the Brussels Court of Appeal ruled current targets of Belgian governments, except Wallonia, to be insufficient and ordered reductions corresponding to -55% from 1990 emissions by 2030. The Flemish government appealed against the ruling. Swiftly adopting a burden-sharing agreement for 2030 and setting targets for 2050 at the national level, in line with EU-level emission goals, would provide greater certainty to investors and consumers. The *2022 OECD Economic Survey for Belgium* discusses how establishing an independent expert advisory and monitoring body could address policy fragmentation to help commit to more stringent goals (see Table 4.3, OECD, 2022).

Table 4.2. Belgium's regions have adopted various climate targets

Selected climate-related targets and objectives for 2030 and 2050 by Belgian governments

	2030 target	2050 target
Federal	Contribution to GHG emission reductions by 47% compared to 2005 levels	Aim to reach carbon neutrality (2020 federal coalition agreement)
Wallonia	GHG emission reductions by 47% compared to 2005 levels	Reducing GHG emissions by 2050 by 95% compared to 2005 levels
Flanders	GHG emission reductions by 40% compared to 2005 levels	Reduce GHG emissions not covered by EU ETS by 85% compared to 2005 levels, and ambition to move towards full climate neutrality
Brussels	GHG emission reductions by 47% compared to 2005 levels	Aim to move closer to the EU target of carbon neutrality

Note: The targets are for greenhouse gas emissions not covered by the EU- Emissions Trading System. Non-exhaustive list of climate objectives by regional governments and the federal government in Belgium.

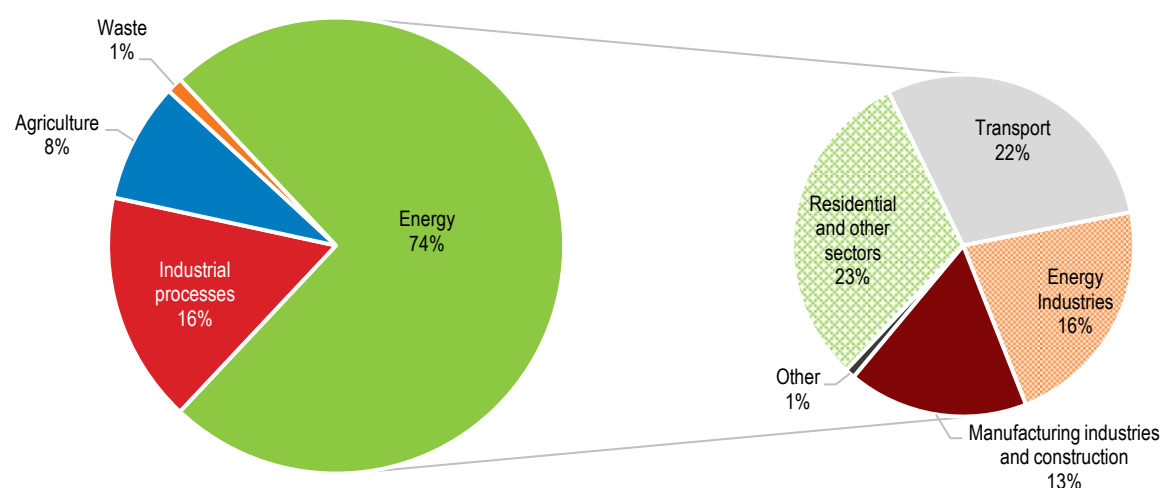
Source: UNFCCC, 2020; Governments of Belgium, 2023a

Transforming the energy system will be most important for accelerating emission cuts. About 60% of total GHG emissions are directly emitted in buildings, transport, or for electricity generation (Figure 4.2, Panels A and B). Reflecting Belgium's strong industrial base, emissions from industrial production contribute about 30% of total GHG emissions – emitted from burning fuels for production or side products from chemical processes – but are mostly covered by the EU-ETS (UNFCCC, 2020; IEA, 2022a).

Effective emission prices outside the EU-ETS vary across uses and are often too low (OECD, 2022). Raising and harmonising them would promote more cost-effective emission cuts. This needs to entail an unwinding of (often implicit) subsidies for fossil fuels. The federal government conducted an inventory of federal fossil fuel subsidies, estimated at around 3% of GDP, and is committed to phase them out (FPS Finance, 2024; Chapter 2). The federal and the regional governments have implemented measures going in that direction (Table 4.3). EU plans to introduce a new emission trading system will extend emission pricing to buildings and transport from 2027 onwards. As discussed in the 2022 *OECD Economic Survey*, Belgium should gradually increase effective emission prices where they are low, including by implementing EU-ETS II and eliminating fossil fuel subsidies (see Table 4.3). Stronger price signals would also complement R&D support measures in Belgium's Recovery and Resilience Fund (the measures are worth around 0.1% of GDP) for developing green technologies (European Commission, 2021a; Governments of Belgium, 2023b).

Figure 4.2. The energy transition will be key to reaching net zero emissions

Sectoral shares of total GHG emissions in 2021



Source: OECD (2023), Environment: Air and Climate (database).

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Additional policy support – besides pricing emissions and supporting the development of green technologies – will be needed. First, energy production from renewable sources needs to expand rapidly. (Chapter 2). Second, to use more renewable energy and to use it more efficiently, households and businesses need to make large investments notably in buildings and cars, which can be challenging to achieve (Chapter 2).

Table 4.3. Past recommendations and actions taken

Recommendations in past Surveys	Actions taken since 2022
Introduce in the medium-term a carbon tax for sectors not subject to the EU ETS by implementing a minimum price that reflects the evolution of prices in the EU ETS accompanied by compensatory measures for vulnerable households. Implement the commitment by the federal government to gradually phase out fossil fuels.	No carbon tax has been introduced. From 2027, EU plans introduce emission pricing for buildings and transport. Belgium took measures to raise effective emission prices and phase out fossil fuel subsidies including for example a reform of the car registration tax in Wallonia, discontinuing grants for oil and gas boilers in Flanders among others, and the limitation at the federal level of the reimbursement of commercial diesel and the gradual reduction in tax deductibility for petrol and diesel company cars accompanying the greening of the corporate car fleet. The federal inventory of fossil fuel energy subsidies has been updated in May 2024.
Ensure that revisions of the energy and climate plan present an integrated national overview of the federal and regional plans. Swiftly define internal effort sharing of the 2030 climate objectives, for example by establishing an independent expert body to advise and monitor actions.	Process to agree on effort sharing for 2030 climate objectives is ongoing. A partial agreement was reached in 2022, which included a distribution key for ETS revenues for 2021-2022, setting a minimum target for renewable energy as well as commitments for international climate finance.
Use cost-benefit analysis more extensively in public infrastructure investment. Increase the coherence of sustainable mobility plans across regions. Introduce road congestion charges, for example around Brussels and Antwerp, with sufficient time differentiation within the peak period.	In Flanders, zero-emission trucks are exempted from paying the kilometre charge (the measures will be gradually phased out from 2026 to 2029) and CO ₂ emission intensity is an award criterion in some procurement procedures for public infrastructure.
Introduce clarity on the policy stance on nuclear energy to facilitate investment in renewables. Prepare scenarios to maintain generation adequacy after a nuclear phase-out in case the planned alternatives (CRM) insufficiently trigger investments.	The legal and contractual bases for the extension of Doel 4 and Tihange 3 nuclear power plants have been put in place.

Producing more electricity from renewable sources and further ensuring energy security

Nuclear phase-out and increasing demand amplify the need for renewables

Producing more renewable energy is key to cutting emissions while phasing out nuclear energy and accommodating future increases in electricity demand. Belgium's highly interconnected electricity network with neighbouring economies supports energy security and brings flexibility in supply options (IEA, 2022a). Domestic electricity generation however needs to start playing a greater role. Electricity demand is projected to increase by between 40% and 60% from 2022 until 2035 as households switch to electric cars and replace oil with heat pumps (Elia, 2023a; Federal Planning Bureau, 2024), while Belgium's nuclear phase out means that sizeable existing carbon-free electricity production capacity needs to be replaced (Box 4.1).

Box 4.1. Phasing out nuclear energy in Belgium

Nuclear energy accounts for a substantial share of electricity production in Belgium; for instance about half electricity generation was nuclear in 2021 (Figure 4.3, Panel A). This helps contain the greenhouse gas (GHG) emissions of the electricity sector (Figure 4.3, Panel B).

In 2003 Belgium decided to gradually phase-out nuclear energy by 2025. In March 2022, following Russia's war of aggression against Ukraine and to reduce dependency on fossil fuels, the federal government decided to take the necessary steps to extend by ten years the lifespan of the two most recent nuclear plants (totalling 2 gigawatts (GW) capacity). The complete phase out was postponed to 2035, though most plants – about two thirds of the nuclear electricity generation – will close by 2025.

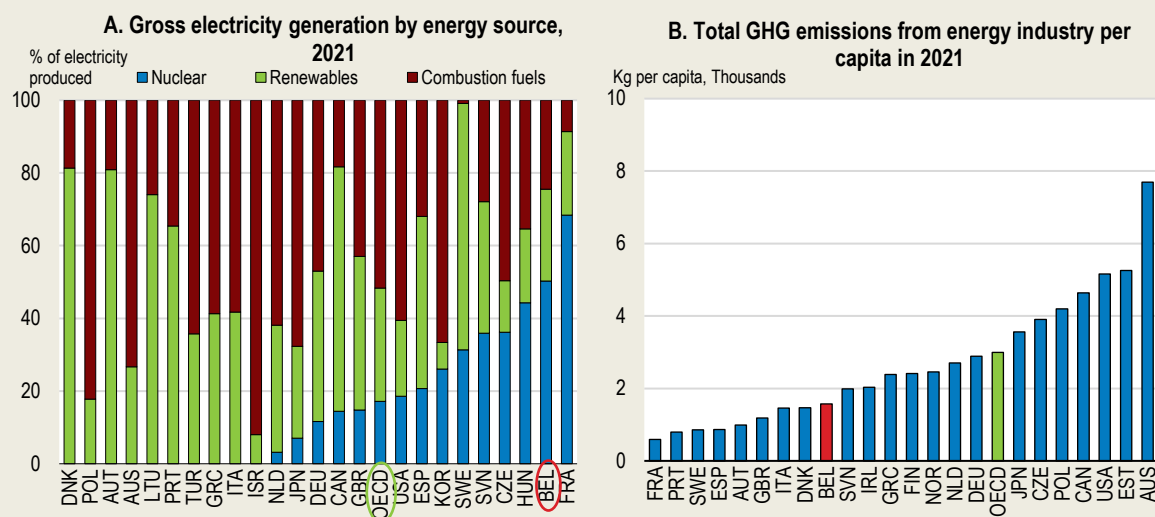
Belgium has established a capacity remuneration mechanism (CRM) to enhance capacity for the period 2025 to 2035 (IEA, 2022a). In the mechanism, providers bid to guarantee future capacity. In its latest auctions, held in 2023 for delivery in 2027-2028, 64% of capacity provision was awarded to natural gas plants. Electricity storage facilities were awarded 21% of the capacity and combined heat and power plants 8%. The auctions added about 0.6 GW of new capacity, with most bids (62%) being won by existing capacities (Elia, 2023a).

Capacities secured with the CRM since 2021 together with the prolongation of two nuclear reactors are estimated at around 4 GW, significantly reducing the gap between future energy supply and demand. Additional CRM auctions with a revised legislative framework to ensure more technological neutrality are planned to expand generation capacity and flexibility further after 2028.

Projections from the Belgian Electricity System Operator Elia suggest the nuclear phase-out will significantly increase CO₂ intensity of electricity generation and consumption until 2030 (Elia, 2023b). Other projections estimate that electricity production from gas-fired power plants will increase by more than 50% between 2020 and 2025. From 2030, wind and solar power deployment is projected to compensate for the loss in nuclear generation capacities. By 2050, gas power plants are projected to contribute a broadly similar share of Belgium's electricity production mix as in 2020 (Federal Planning Bureau, 2024).

Phasing out nuclear adds to the challenge of reducing emissions over the medium term, by depriving the energy mix from carbon-free electricity production capacity. But the long-run economics of phase out are complicated. Evaluating the impact of phase out would require a transparent and exhaustive assessment of the benefits and costs, notably abatement costs and potential system and investment costs of alternative energy sources over their life cycle. Assessment should take into account alternative scenarios of retaining nuclear capacity for the long term, including issues in waste management, potential costs in decommissioning and needs to build replacement capacity (including construction subsidies), and costs of insurance and investments in safety.

Figure 4.3. Belgium's reliance on nuclear contains emissions from electricity generation



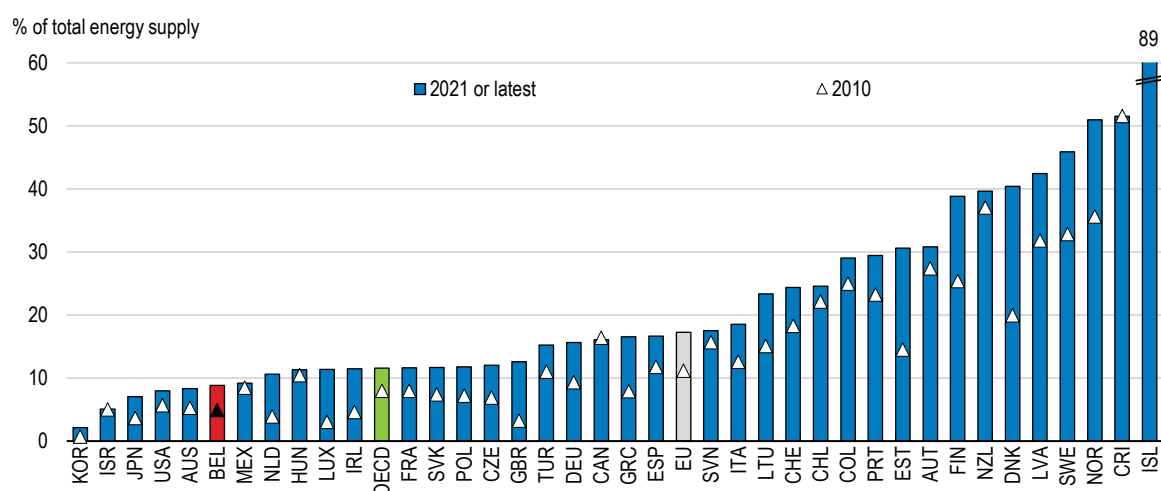
Note: In Panel A, renewables include solar, wind, hydro and biofuels and waste. In Panel B, GHG emissions excludes emissions from LULUCF (Land Use, Land Use Change and Forestry).

Source: OECD (2023), Energy statistics (database); and OECD (2023), Environment statistics: Air and climate (database).

Capacities from renewable sources need to be scaled up faster to meet increasing demand while limiting dependency on fossil fuels and emissions in the energy sector. Despite increases in recent years, the share of total energy supply from renewable sources was lower than the OECD average in 2021 (Figure 4.4). Furthermore, the European Commission has judged Belgium's 2030 target for renewable energies as too low in relation to EU-wide targets (European Commission, 2024). Belgium's Recovery and Resilience Fund adds EUR 100 million (0.02% of GDP in 2022) to a EUR 450 million investment plan to build offshore wind capacities. Government plans include expanding capacities in the *Princess Elisabeth* zone by up to 3.5 GW by 2030, with tender procedures for the first lot starting at the end of 2024 and building an energy island to host transmission infrastructure. Still, the European Commission highlighted the need for more investments in renewable energy (European Commission, 2021a). Belgium's dense population and geography pose challenges for expanding renewable capacities on land, but, while it varies across regions, potential remains for a range of technologies, including solar PV installations, wind and biomass (OECD, 2021; European Commission, 2023a; Governments of Belgium, 2023b).

Figure 4.4. There is a lot of room to expand energy production from renewable sources

Share of renewable energy, 2021 or latest



Source: OECD (2023), Green Growth Indicators (database).

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Boosting investment in renewable energy sources

Ensuring that electricity pricing mechanisms supports investments in renewables is key for expanding capacities. While the decline in production costs of solar and wind power has enhanced the cost competitiveness of renewables, fluctuations in electricity prices still deter investors by creating uncertainty on the profitability of renewable projects. A recent analysis by the European Commission expects that solar photovoltaic and onshore wind will become cost-competitive in Europe under a broad range of market conditions by 2030 only (Busch et al., 2023).

Belgium's financial support for renewable energy consists of green certificate schemes. Renewable energy producers can sell certificates to other producers who need to meet mandated minimum shares of renewable sources in their energy mix. Costs for certificates are paid by consumers through electricity bills. Belgium uses four different schemes (one for each region and one federal). Shifting support for renewable energy towards mechanisms supporting sufficient remuneration while avoiding overcompensation, for

example by offering contracts-for-difference as done for offshore wind, could better encourage investments and limit fiscal costs. These contracts encourage investments by offering a guaranteed electricity price to producers, while requiring investors to pay back extra profits resulting from fluctuations in excess of that price (Busch et al., 2023).

Belgium is providing extra support for energy producers – including for fossil-fuelled technologies – to ensure energy security during the scheduled phase out of nuclear energy. A capacity remuneration scheme (CRM) runs until 2035, which pays for producers to guarantee capacity (see Box 4.1 for details). Still, there are concerns for capacity gaps, especially given the possibility of faster-than-expected electrification. In addition, to date auctions under the CRM bids have been won mainly by natural-gas producers for existing capacities (IEAa, 2022; Elia, 2023b). Auction rules should be further revised to allow a more diverse range of technologies to succeed. For example, bids from demand-side-management – i.e. providing financial incentives to consumers to reduce non-essential demand when electricity is scarce – could be exempted from payback obligations of windfall profits which currently stifle their participation. This is because – contrary to technologies generating electricity – it does not produce electricity and so does not generate windfall profits when prices are very high, but under the current scheme would be obligated to repay imputed profits. This would complement Belgium's roll-out of smart meters (European Commission, 2020b).

Reducing planning and regulatory obstacles to installing renewable energy facilities and developing the grid infrastructure, taking account of Belgium's high population density, is also key to increasing capacity and flexibility. In Belgium, as in many countries, spatial planning for infrastructure can be slow and complex, including for renewable energy projects (European Commission, 2023a). Belgium could consider fast-tracking investments by granting them status of overriding public interest, as done in Germany and in Flanders for wind turbines (OECD, 2023b). Also, planning rules could be reviewed, e.g. to reduce minimum distance rules of wind turbines. A PV-obligation for buildings with a significant electricity consumption was introduced in Flanders. Implementing more renewable energy projects may also require addressing low public acceptance at the local level, e.g. through better involving municipalities and citizens in planning (European Commission, 2023a).

Supporting household investments in renovations and zero emission cars

Achieving the energy transition requires households to invest in buildings renovations and zero emission cars. Costs, even when spread over the period until 2050, are sizeable. For example, estimated investment costs for renovations until 2050 correspond to around EUR 350 billion in Belgium or EUR 65 000 per home (National Bank of Belgium, 2024). This outlay will only be partially offset by energy-bill reductions (BPIE, 2021). For transport, while the ownership cost of zero-emission cars can be similar to conventional cars for some users (Franckx, 2023), replacing all non-electric cars by 2050 would nevertheless entail significant costs. Assuming the average prices of zero-emission cars and combustion engine cars will converge, the cost is estimated at around EUR 1 200 per household and per year. Many households may lack funds or liquidity to bear those costs or may hesitate to invest because they do not see the return. As detailed below, policies help overcome some of these issues by strengthening price signals, so people have better financial incentives to electrify and save energy; improving policy certainty for households and suppliers; and providing well-targeted financial support.

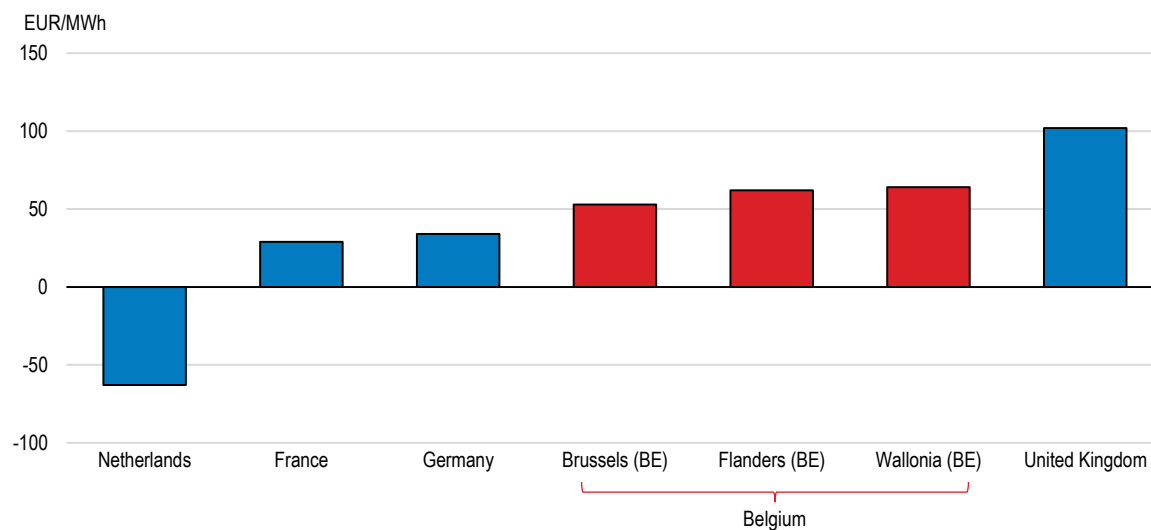
Strengthening price signals to support electrification and energy savings

High electricity prices relative to other energy sources, notably natural gas, heating oil and gasoline, can act as a deterrent to electrifying energy use in buildings and transport. Since before the energy crisis, using electricity as an energy source has been more expensive for consumers compared to generating energy from directly burning fossil-fuels; for example, in 2019 heating homes with electricity was 50% more expensive compared to gas or oil (IEA, 2022a). Electricity bills in Belgium include comparatively high-cost components that are not related to production costs – such as levies for buying green certificates and

excise duties to support offshore wind development (Figure 4.5). Reviewing electricity bill items – for example shifting to tax-financed subsidies for renewable energy as done in Germany (Box 4.1) – would make it more attractive to electrify energy use (IEA, 2022a). At the federal level, the partial shift of the excise duty on electricity to natural gas in buildings is a first step in the right direction. It could be extended and applied to heating oil. Levy components have also been reduced in electricity bills in Flanders to promote electrification.

Figure 4.5. Costs unrelated to energy production drive up prices for electricity relative to gas

Levy component of price gap between electricity and natural gas for households, in EUR/MWh, February 2023



Note: Electricity prices for Germany for Amprion.
Source: OECD calculations based on CREG (2023).

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Social tariffs (concessionary energy prices for low-income groups) could be reviewed to both better protect households and reward energy savings. About one in ten electricity or gas consumers in Belgium received social tariffs in 2020 (IEA, 2022a), but some vulnerable households may not have received any (Brugel, 2020; Van Lancker, 2020). A reform was envisaged in 2023 but put on hold. To improve targeting, finely grained vulnerability categories could be introduced, as done for example in France, Italy or Moldova (Castle et al., 2023). Moreover, social tariffs act on prices and thus reduce energy bills as well as incentives to save energy. To preserve incentives, social tariffs could be replaced with equivalent income transfers, or be limited up to a threshold. For example, during the recent crisis the Netherlands used information on past energy use to define seasonal consumption limits for which households received support (Castle et al., 2023).

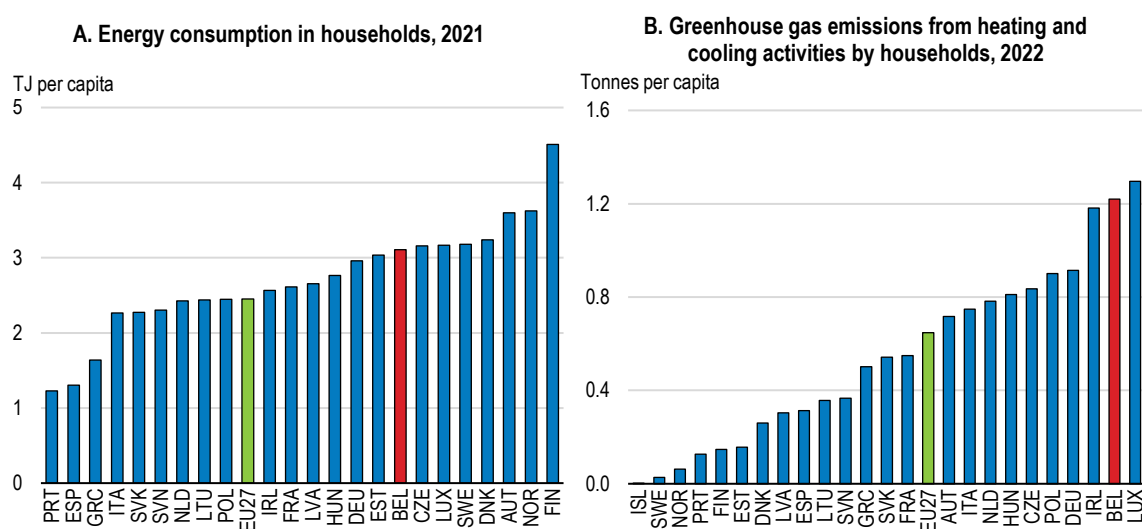
Boosting deep energy-efficient renovations in buildings

Belgium has considerable potential to reduce emissions and save energy by renovating buildings. About 80% of houses were built more than 30 years ago, before energy norms were introduced (European Commission, 2021a). Buildings in Belgium use more energy and produce more greenhouse gas emissions compared to many other OECD countries (Figure 4.6, Panels A and B). With residential buildings accounting for about 85% of total floor area in Belgium – single family houses alone account for about 70% – households are crucial to implement these renovations (European Commission, 2019).

The pace of renovations needs to pick up to reach a net zero building stock by 2050. In 2022, only 7% of Belgium's building stock met Belgium's current targets on energy-consumption for 2050. Even fewer buildings will meet the stricter targets that are implied by new EU legislation: while current targets aim to reduce energy consumption to 100KWh/m² and do not explicitly proscribe the use of fossil fuels for heating or cooling, the EU aims for a zero-emission building stock, with very low energy demand, zero on-site carbon emissions from fossil fuels and zero or a very low amount of operational greenhouse gas emissions. All new buildings should be zero-emission buildings by 2030, and existing buildings should be transformed into zero-emission buildings by 2050 (European Commission, 2024). About 160 000 dwellings would need to be comprehensively renovated per year from now on until 2050 to transform all buildings built before 2011. The current pace of renovations would need to increase substantially: about 30 000 comprehensive renovations – i.e. those needing a building permit, including energy-related and non-energy related renovations – were carried out annually in recent years (STATBEL, 2023).

Besides renovating more homes, more renovations need to be deep to reach climate goals. Renovation for a net zero emission building stock will require comprehensive works – such as covering walls, roofs, floors, windows and heating systems – for most buildings (BPIE, 2021). Putting more emphasis on the decarbonisation of heating systems would increase the cost-effectiveness and speed of the climate transition, notably by reducing capacity pressures in the construction sector (National Bank of Belgium, 2024). Increasing the use of renewable energy for heating and cooling as part of deep renovations also entails producing more energy at home, e.g. with solar heat (IEA, 2022a). A series of disconnected renovations and installations of renewable capacity is overall more difficult to plan and makes lock-ins more likely than with deep renovations - i.e. renovations achieving the highest efficiency standard at once or, if that is not feasible, through a renovation roadmap. Information on past renovations in Belgium suggests that – in the absence of support promoting deep renovations – people mostly opt for relatively shallow renovations: about 90% of energy renovations between 2012 and 2016 reduced primary energy consumption by less than a third, with half of those renovations yielding energy savings by even less than 3% (European Commission, 2019). This means that even more than 160 000 renovations per year would likely be needed to reach targets at previous renovation depths.

Figure 4.6. Buildings' energy consumption and GHG emissions remain high



Source: Eurostat (2023), Energy Statistics: Disaggregated final energy consumption in households; Emissions of greenhouse gases and air pollutants: Air emissions accounts by NACE Rev. 2 activity (database) and Population: national level (database).

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Financial support should be targeted on deep renovations, including installations of renewable energy systems. Deep renovations are expensive: estimates for Flanders suggest average costs range from EUR 30 000 to EUR 75 000 for most buildings, exceeding financial capacities of every other household (Albrecht and Hamels, 2021). Increases in building costs since 2021 have likely raised total renovation costs significantly (NBB, 2023). Regional programmes, including the “Renolution” programme in the Brussels Capital Region, the Long-term Strategy for Building Energy Renovation in Wallonia, and the Long-Term Strategy For The Renovation Of Flemish Buildings, support a range of renovations but may leave most households to still opt for shallower renovations. In Flanders, for example, grants of up to 25 000 EUR and subsidised loans of up to 60 000 at currently 2.25% interest imply households still face substantial costs when choosing deep renovation even with support. Vulnerable households may struggle to repay subsidised loans over conventional periods. Deeper renovations could be promoted by making support conditional on committing to a renovation roadmap, and assuring grants are sufficient for vulnerable households. Coordination with other existing policy measures, investment and direct income support provided to vulnerable households through the Social Climate Fund at the federal and regional levels will also be key to ensure cost efficiency.

Commercial lending can play a role to boost energy-efficiency improving renovations. The use of commercial finance for renovations is currently hampered across OECD countries by the lack of common methods, standards, as well as data on buildings’ energy performance to accurately price in the benefits of high energy efficiency for real estate (de Mello, 2023; Hoeller et al., 2023). Higher energy efficiency reduces the risk for default by increasing households’ disposable income through lower energy bills and increases the value of collateral. High energy efficiency also lowers risks from policy changes later requiring expensive retrofits. Belgium is among the countries developing green housing finance to reap those benefits to offer more affordable loans to households. For example, Home Invest Belgium issued its first green real estate bond in 2022 and developed a Green Finance Framework (Home Invest Belgium, 2023). The framework seeks to provide clear and transparent criteria for green investments to overcome the fragmentation of methods and standards.

The EU Directive on energy performance of buildings is set to strengthen requirements for energy performance certificates (EPCs) and minimum energy efficiency requirements for buildings. Plans for gradually tightening renovation obligations are in place in all regions but need to be amended to align with the EU targets for 2050. Aligning regulations with renovation needs to reach targets, including on the phase-out of fossil fuels and requirements for on-site renewable energy production for heating and cooling, would give households certainty and time to anticipate investment requirements. Already at current targets almost all households will need to renovate eventually, including those living in homes that will not be rented, sold, or gifted. Setting out regulations in line with the revised EU directive and to eventually require all buildings to have an EPC with a renovation roadmap would inform households about which renovations and investment are needed; setting out a timeline of tightening energy-efficiency and emission standards for all buildings would clarify by when those building works need to be implemented.

Regional plans to complement tightening building regulations with policies providing easy access to information are welcome. These include promoting building passports, as in Flanders and planned in Wallonia and Brussels or expanding one-stop-shops called Energy Houses in Flanders. Similarly, plans for targeted support to multi-owners, as done for example in Brussels where multi-owner buildings account for 55% of all dwellings, can help to remove renovation obstacles. Given that most of Belgium’s about 5 million households may need to renovate, ensuring that contact points have enough trained staff will be crucial to inform and help households plan required investments (IBF International Consulting Consortium, 2023).

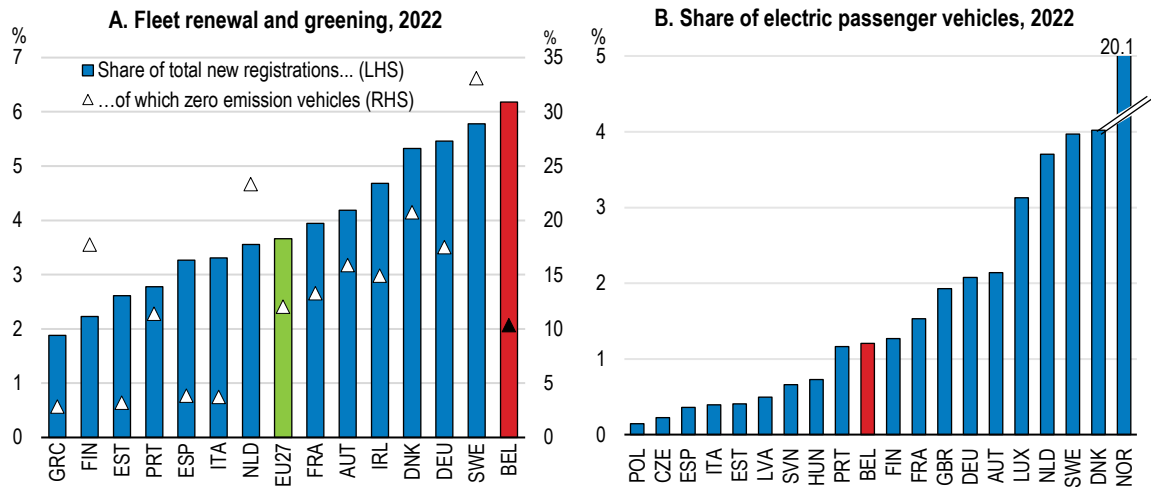
Better supporting greening of the car fleet

Replacing fossil-fuelled cars will be key to cutting transport emissions. Road transport accounts for about 97% of Belgium's emissions from domestic transport. Most passenger transport is by private cars: more than four-fifths of passenger-kilometres travelled in 2019. In Belgium, cars are expected to remain the dominant transport mode for decades (Daubresse, 2022).

Reducing road transport is one route to reducing congestion and achieve a net zero emission transport system. Belgium plans several investments in the coming years – worth at least 3% of 2022 GDP – to make public transport, cycling and walking more attractive, which is welcome (Governments of Belgium, 2023b; European Commission, 2021a). Broadening road pricing– to reflect the true costs of high volumes of traffic – would additionally encourage the shift away from cars per se and reduce congestion (ODYSEE-MURE, 2020). It could also help sustain fiscal revenues, not least given the decline in tax revenues arising from the shift to zero emission cars (ITF, 2019).

Belgium's households spend relatively large amounts on new cars, but still the greening of the fleet has been slow. New car registrations in 2022 corresponded to about 6% of Belgium's passenger car fleet, among the fastest fleet renewals in the EU (Figure 4.7, Panel A). However, while the charging infrastructure is becoming denser and despite recent improvements, Belgium's share of electric cars in 2022 was low compared to many other OECD countries (Figure 4.7, Panel B), and in 2022 Belgium added proportionally fewer new zero emission cars to its fleet compared to OECD countries with similarly fast fleet renewals (Figure 4.7, Panel A).

Figure 4.7. The shift to zero emission vehicles could be faster



Note: Panel A shows the share of total new registrations computed as number of total new registrations in 2022 over stock of registered vehicles in 2021. Panel B shows the share of electric vehicles over the stock of registered vehicles in 2022.

Source: OECD calculations based on European Commission(2023b); and Eurostat (2023).

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Financial incentives for the take-up of zero emission cars should be revised. Belgium's generous tax treatment for company cars acts as a subsidy for purchasing new cars (OECD, 2021). Such tax benefits are common across OECD countries but are larger in Belgium than elsewhere: for example, tax savings for a medium-sized fossil-fuelled company car are estimated to be about EUR 6 500 in Belgium versus EUR 1.500 in France and EUR 850 in Germany (Transport & Environment, 2020). While from 2026 only zero emission cars will get tax these deductions, tax benefits are regressive, supporting households who are more likely to opt for zero emission cars without support, and effectively subsidise congestion (May, Ermans and Hooftman, 2023). In addition, the favourable treatment of the benefit in kind in personal income taxation and social security contributions will remain unchanged and unduly support car use. Meanwhile, Belgium phased out purchase subsidies for zero emission cars, though still offers exemptions or reductions for ownership or acquisition taxes (ACEA, 2023). This means low-income households receive limited support to buy zero emission cars and have fewer mobility options, especially in areas where polluting cars are or will be banned or where public transport is less developed. Evidence from the US shows that targeting subsidies to lower income groups can double their impact on accelerating fleet greening (Sheldon, 2022). Flanders has temporarily reintroduced limited subsidies to purchase new and second hand zero-emission cars that cost less than EUR 40 000. Phasing out Belgium's generous tax treatment and replacing it with financial support capped or targeted directly at low and medium income households – who are more likely to change their purchase decision as result of the support – would support fleet greening more effectively while limiting fiscal costs.

Restrictions on using fossil-fuelled cars could be expanded. Low emission zones exist for Brussels, Antwerp and Ghent, and Brussels committed to becoming a zero-emission zone in 2035. Tightening existing or encouraging new zones could encourage more households to shift to zero emission cars. As many fossil-fuelled cars may remain available and cheaper to use (IEA, 2023b), further restrictions may be needed to phase-out fossil-fuelled cars in line with emission targets (ITF, 2021). The earlier future restrictions can be announced, the more time households have to adapt and avoid investing in cars whose use may soon be restricted.

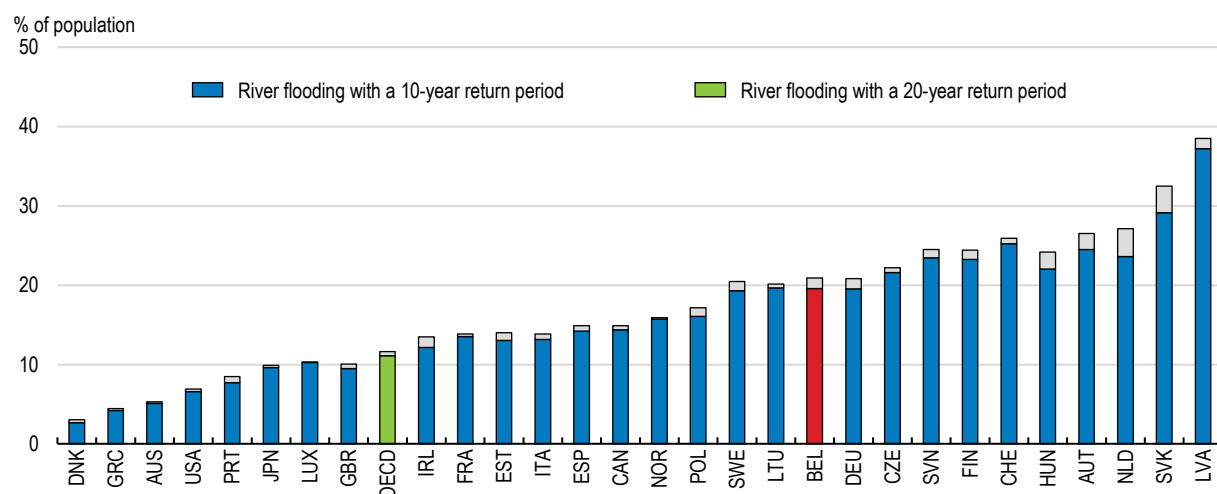
Coping with climate change risks

Climate change has macroeconomic, fiscal, and financial effects. As discussed in the introduction to this Chapter, in Belgium, climate change is materialising through increases in temperatures, precipitation and frequency of extreme weather events. Economic losses caused by weather - and climate - related extreme events between 1980 and 2022 are estimated at more than EUR 16 billion in Belgium (EEA, 2023a). A succession of hot summers, culminating in unprecedented temperature extremes and recurring droughts have already affected mortality and productivity, among others (NCC, 2020). In 2021, heavy precipitations in Wallonia lead to flooding causing large losses, with an estimated cost of repairs of about EUR 5.2 billion (EEA, 2023b).

The effects of climate change in Belgium are expected to accentuate over the coming decades. Extreme precipitation events are projected to become more frequent (OECD, 2021). In absence of adaption policies, this will increase the risk of flooding which will likely be one of the biggest challenges for climate change adaptation in Belgium. The Belgian population exposed to river flooding is higher than in most OECD countries (Figure 4.8). The Flemish region is, after the Netherlands, the most exposed region to coastal flooding in Europe. Furthermore, even now 46% of built-up areas are exposed to violent windstorms, one of the highest shares in the OECD (OECD, 2023a).

Figure 4.8. Belgium is vulnerable to river flooding

Share of the population exposed to river flooding, 2020



Note: A return period is the average or estimated time that a flood event is likely to recur.

Source: OECD International Programme for Action on Climate (IPAC) Dashboard (<https://www.oecd.org/climate-action/ipac/>); and Maes, M. J. A., et al. (2022), "Monitoring exposure to climate-related hazards: Indicator methodology and key results".

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Another important risk is prolonged droughts. These could have negative economic repercussions, affecting agriculture, firms involved in the agri-food chain, inland navigation, and other industries that rely on consistent water supply. In a high emission scenario, temperatures in Belgium could increase by up to 7 degrees in the summer (IEA, 2023a). Heatwave frequency, intensity and length will continue to rise especially in urban areas where 87% of the population is concentrated. Local land-use regulation would help to lower the urban heat island effect mitigating heat waves and urban floods such as making green roofs mandatory in local land-use plans as is the case in Germany (OECD, 2023c).

Climate adaptation is mostly a competence of the regional governments. Regional and federal adaptation plans are in place. However, institutional co-operation on climate adaptation between regions and the federal state needs strengthening and the implementation of adaptation measures should accelerate. Updates of the 2010 National Adaptation Strategy and the National Adaptation Plan (NCC, 2017), which should strengthen coherence between federal and regional adaptation plans, have been delayed. Furthermore, evaluations of the 2017 Adaptation Plan point to inadequate implementation and scope for a more comprehensive assessment of risks. The federal government adaptation measures adopted in 2023 include initiatives aimed at improving knowledge on the probability and size of climate change impacts. One initiative is to establish a coordinating body (the "Belgian Climate Centre") in charge, inter alia, of better transfer of knowledge from researchers to users by facilitating access to data, information and expertise. In addition, the creation of the Climate and Environment Risk Assessment Centre (CERAC) in April 2024 is intended to address the need for a more comprehensive assessment of risks. In Flanders, as part of the Flemish Climate Adaptation Plan, an online "climate portal" provides information on the current

and projected impacts of climate change, such as droughts, floods and sea level rise, at the municipal level, and tailored adaptation solutions. Replicating such tools in all regions would further raise awareness of climate-related risks. Consideration should also be given to introducing a system that monitors efficacy of adaptation measures. Developing information and monitoring tools at the national rather than regional level would offer greater efficiency.

Expanding insurance protection against extreme weather events climate can help manage the economic cost of climate change. A well-designed insurance system should encourage stakeholders to adopt risk mitigating measures and reduce the burden on public budget, while keeping insurance protection affordable and preserving competition in the insurance market. Between 1980 and 2022, around 40% of climate related disaster losses were insured in Belgium, higher than in many OECD countries (EEA, 2023a). However, inadequacies in the coverage of climate-related risks and risk-sharing mechanisms between the public and private sectors have been identified (FPS Environment, 2023).

Insurance coverage is high, estimated at around 85% to 95%, but is insufficient in high-risk areas. Introducing mandatory and more comprehensive private insurance for natural disasters should be envisaged. Switzerland, for example, mandates building insurance against natural catastrophes in 22 out of 26 of its cantons, which either private or public insurers provide (OECD, 2017; OECD, 2016). In France, the CATNAT insurance scheme mandates a premium at a flat rate for all property and motor vehicle insurance policies to insure against natural disasters (OECD/The World Bank, 2019). Subsidising insurance for vulnerable households could address potential concerns about housing affordability (OECD, 2021).

A clear framework should be developed to reduce uncertainty on the extent to which extreme-weather risks are covered by the public sector. Regional legislation for the establishment and the functioning of natural disaster funds (a regional responsibility since 2014) is missing in Wallonia and Brussels. Providing a public backstop for losses borne by insurance providers can limit uncertainty, and thus costs, for private insurances (OECD, 2021). The intervention limit for insurers appeared too low during the 2021 floodings and is being revised. The framework should also set out where local and central governments are responsible for the cost of adaptation and establishing mechanisms to support local governments for which adaptation costs would be higher.

Private investment in adaptation measures, such as flood protection, could reduce costs but faces the same impediments as above-mentioned investments in building renovation, including a lack of information and high upfront costs. Climate-related risks could be added to national mandatory certification of buildings, as in Germany for instance with flood passports or in Flanders. Specific support measures could be envisaged. In France the *fonds de prévention des risques naturels majeurs* finance adaptation measures and is funded by a mandatory contribution from property insurance policies. Insurance programs could be conditioned to the implementation of risk management practices and meeting some standards to incentivise the implementation of adaptation measures.

Table 4.4. Policy recommendations to cut emissions from electricity, buildings and cars

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Providing policy certainty on the emission reduction path and the adaptation strategy	
CO ₂ prices vary by emission sources and for different fuels. Fossil fuel subsidies reduce emission reduction incentives. The new EU Emission Trading System will expand the coverage of emission pricing.	Gradually increase effective emission prices where they are low, including by implementing the new EU Emission Trading System and phasing out fossil fuel subsidies.
Current greenhouse gas emission reduction plans fall short of EU targets. There is no national target for 2050. Agreement on burden sharing across federal and regional governments is intended but progress has been limited.	Set out binding climate targets consistent with EU emission goals for 2030 and 2050 and clearer plans on how these targets will be met.
Belgium is highly exposed to climate-related risks, notably flooding. An update of the National Adaptation Plan is pending. Risk sharing between the public and private sectors remains ad-hoc.	Adopt a National Adaptation Plan to ensure coordination across federal and regional initiatives, including measures raising awareness of climate related risks. Clarify how adaptation costs will be shared, ensuring the protection of the most exposed and vulnerable groups.
Producing more energy from renewable sources and continuing to ensure energy security	
Ensuring secure electricity supply and emission reduction alongside the current commitment for nuclear phase out requires a substantial increase in renewable generation capacity and flexibility.	Better tune the regulatory framework and financial support for expanding capacities from renewable sources, for example by offering contracts-for-difference to renewable generators.
The capacity remuneration mechanism, initially established in the context of the nuclear phase out, might not bring enough capacities to secure energy supply. So far the mechanism has selected mostly existing capacities relying on fossil fuels, alongside storage capacity and demand side management.	Further revise the framework of the capacity remuneration mechanism so it assures sufficient capacity and allows more diverse technologies to succeed in bidding for capacity.
Low public acceptance and delays in spatial planning are slowing down investments in renewable energy projects and the grid infrastructure.	Make planning rules and processes more favourable for renewable energy projects and investments in the grid infrastructure, for example, by making more use of provisions for overriding public interest in project approval, reducing minimum distance rules in wind generation, and increasing the involvement of municipalities and citizens during planning.
Strengthening price signals	
Price components unrelated to production costs contribute to making electricity more expensive than gas or oil as energy source, for example for heating. This weakens financial incentives to electrify energy use.	Revise energy billing to better reflect production costs, for example by reducing levies and excise duties on electricity and finance subsidies for renewable energy via taxation instead of through billing.
Social tariffs for gas and electricity are not protecting all vulnerable households from energy poverty. For recipients, they weaken incentives to save energy.	Revise social tariffs to improve targeting and strengthen incentives to save energy, for example by replacing them with equivalent income transfers or limiting social tariffs to cover only basic consumption.
Boosting household investments in renovations and zero emission cars	
EU plans foresee a zero-emission building stock by 2050. Reaching this target will require more and deeper building renovations and the decarbonisation of heating systems.	Focus support on deep renovation and the decarbonisation of heating, for example by making most public support conditional on committing to minimum energy efficiency gains, prioritising low-income households. Assure that all buildings requiring renovation under strengthened targets have an energy performance certificate with a renovation roadmap to inform households about long-term renovation needs.
Private cars will remain the dominant passenger transport mode over the next decades, making the shift to zero emission cars crucial to reduce transport emissions. The car fleet renews rapidly but relatively few new vehicles are zero emission cars. Belgium mostly phased out purchase subsidies for zero emission cars.	Reduce the generous tax treatment of company cars and shift financial support for zero emission vehicles towards support targeted at lower income groups, for instance by providing subsidized loans or capped purchase subsidies. Broaden road pricing, for instance by introducing road congestion charges.
Low emission zones already apply in Brussels, Antwerp, and Ghent, while Brussels will become a zero-emission zone in 2035.	Consider expanding existing or introducing new low or zero emission zones to more areas with well-developed public transport. Communicate tightening restrictions well ahead to avoid households' investments in fossil-fuel cars that they will no longer be able to use.

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5 Supporting growth, productivity, and innovation in small- and medium-sized enterprises

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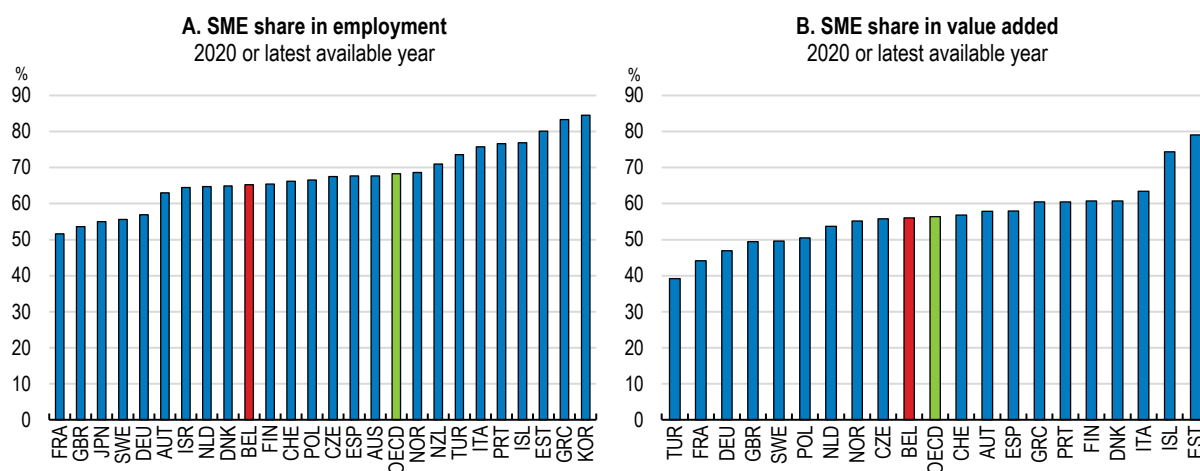
SMEs account for substantial shares of Belgium's employment and output. Fostering innovative capacity and productivity growth in this sector is therefore critical for sustaining high living standards and for thriving in the digital and green transitions. Evidence points to scope for a stronger inflow of new firms into Belgium's SME sector and for a greater share of high-growth firms. Adopting a whole-of-government approach to reduce the high administrative and regulatory burden on small firms can help to support start-ups and firms' growth. The SME sector can also be helped by boosting the potential for more female entrepreneurship, including through tackling gender bias in educational choices and developing mentoring programmes. Improving access to training, through consultancy services and flexible training modules, can help address skills shortages that hamper firms' capacity to scale up. Finally, SME policy would benefit from less numerous and fragmented support programmes and better targeted R&D tax incentives.

Boosting the resilience of the Belgian economy, and its capacity for innovation and productivity increase, is key to facing short and long-term challenges, including population ageing, and the green and digital transitions. Productivity growth has slowed significantly since the 1990's, more than in other advanced economies, though it does remain high in level terms. Weak business dynamism, reflected in comparatively few firms' entry and exit and low growth among entrants, has been identified as among the factors underlying the productivity growth slowdown (OECD, 2019). Also, the relatively high level of spending on research and development, and the fast adoption of digital technologies in the business sector have not translated into higher productivity gains in the economy. This suggests that slow technological diffusion has contributed to deepening the productivity gap between technological-frontier and laggard firms identified in past OECD analyses.

Small and medium-sized enterprises (SME) have an important role to play not least as the sector accounts for around 99% of businesses, 65% of total employment and 56% of the total value added (Figure 5.1). The SME sector is heterogeneous (Box 5.1), as is its contribution to productivity and technological developments. A subset of young firms, most of them small in size, have been important for productivity growth and for introducing disruptive innovations (Dumont, 2021; Haltiwanger et al. 2016; Dumont and Kegels, 2016). At the same time, many small firms tend to lag behind in the adoption of technologies and face structural barriers to expand and innovate (OECD, 2023d). OECD analysis of productivity patterns at the firm level finds that young, small, and dynamic firms are yet to achieve their full potential in Belgium (OECD, 2019).

This chapter first looks at key features of Belgium's SME sector, including its dynamics over time and productivity. The chapter then examines four central policy areas for SMEs' performance and resilience: *i*) policies to improve the business environment for SMEs, including to reduce administrative and compliance costs; *ii*) gender gaps in entrepreneurship; *iii*) the financing of young innovative firms; and *iv*) challenges in attracting and retaining talent, and in providing training and skills development.

Figure 5.1. As elsewhere, SMEs account for a sizeable share of employment and output



Note: Share of firms employing up to 249 employees (see Box 5.1 for more details). All sectors of the business economy are included, except financial services and insurance activities.

Source: OECD Structural Business Statistics

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Box 5.1. Defining the small- and medium-sized enterprise sector

The SME sector, writ large, is typically defined by the number of employees. A common definition of small and medium-sized enterprises is businesses with between 10 and 250 employees, with small enterprises counting between 10 and 49 employees and medium-sized enterprises between 50 and 249 employees. It can also include enterprises, which employ fewer than 10 employees (microenterprises). The analysis of this chapter is mainly aimed at SMEs including microenterprises.

SMEs have diverse structures, operations, and challenges. Micro firms are particularly distinct. These sub-sectors are dominated by traditional trades, such as those in the construction sector, the retail sector and in some professional services. Entrepreneurs often aim to earn sufficient income to support themselves and their family or to improve their financial situation (necessity or opportunity-driven entrepreneurship). By contrast, “start-ups” are commonly defined as young firms (less than five years), aimed at creating and expanding an innovative product with high and rapid growth (growth-driven entrepreneurship).

Strengths and weaknesses in SME growth and productivity

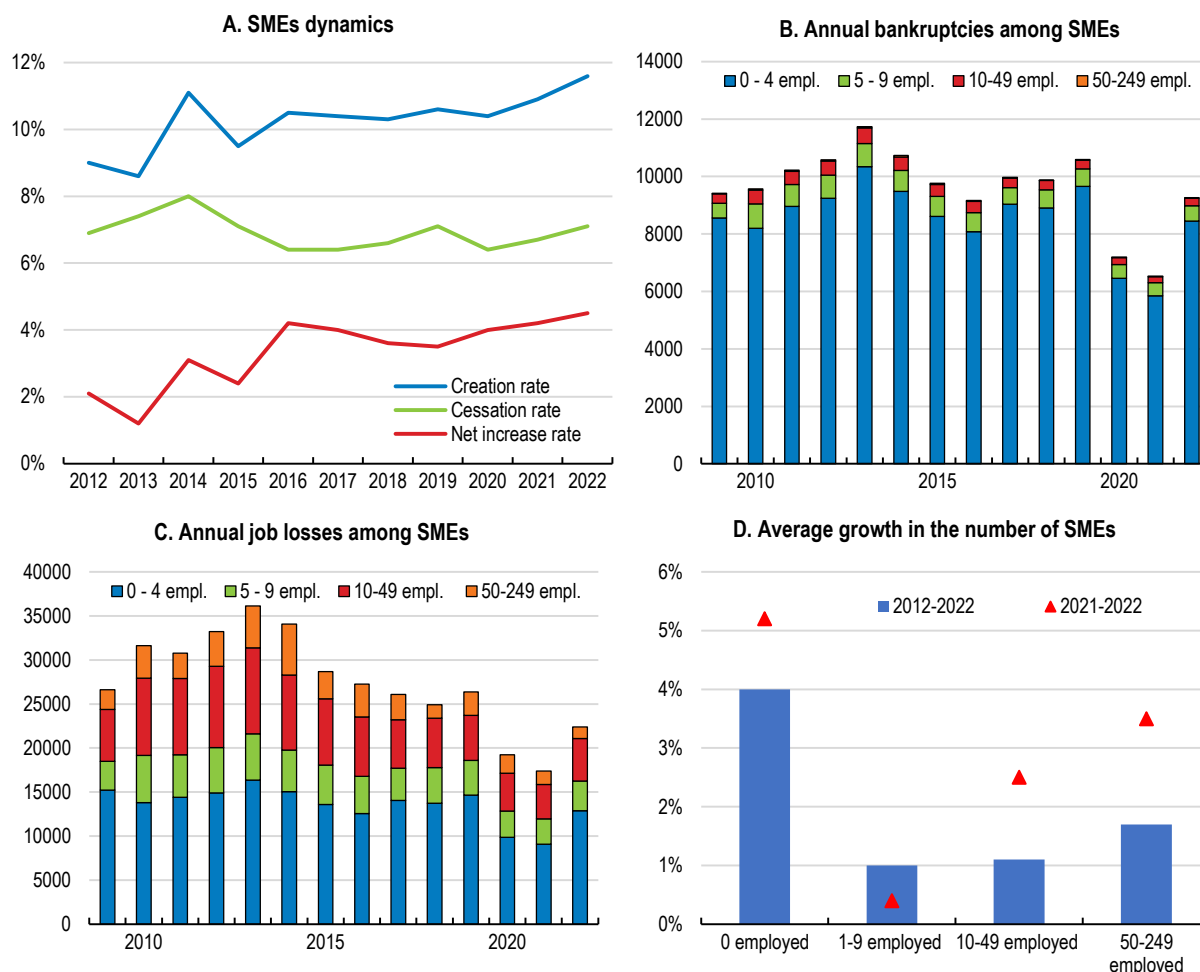
The number of Belgian SMEs has increased rapidly over recent years

Since 2016, the number of SMEs has increased by around 4% on average (Figure 5.2, Panel A). Interestingly, the number of firms has grown strongly since the COVID-19 pandemic. Between 2020 and 2022, the average number of firms entering the market each year has been around 115 000, compared with an annual average of 85 000 per year between 2012 and 2019 (Figure 5.2, Panel A). Bankruptcies and job losses were well below the average level of the 10 years prior to the pandemic and have remained contained in the aftermath of the crisis (Figure 5.2, Panel B and C). It seems likely that Belgium’s substantial public support for businesses during the COVID-19 pandemic, including a moratorium on bankruptcies, and during the energy crisis has played a role in this.

The number of self-employed has grown rapidly in recent years. While all size-classes of SMEs have grown in number in the last decade, the average annual growth in the total number of firms without employees has been much more pronounced. The growth rate was particularly high in 2021-22, at 5.2% (Figure 5.2, Panel D). This may partially reflect changes in mentality and behaviour towards work that the COVID-19 pandemic brought about, with people more inclined to switch to more flexible forms of employment and become independent (Baker et al., 2023). Policy has also been playing a role in the strong growth of self-employment. There have been several reforms intended to make self-employment more attractive in recent years, with the aim of unleashing untapped entrepreneurial potential and offering alternative solutions to increase employment. These reforms include as regards pension rights, family and health insurance, and social protection. For instance, new schemes aiming to encourage self-employment were introduced, including *Primostarter* (reduced social-security contributions), *Active after pension* (support for retirees) and *Student-entrepreneur status* (for young entrepreneurs). Furthermore, the difference between income tax and corporate tax for small entrepreneurs has likely contributed to relatively strong growth in microenterprises, the difference between capital and labour taxation has provided financial incentives for entrepreneurs to incorporate (see Chapter 2). At high levels of income, the difference between the wage and the corporate income effective tax rates is estimated at around 17 percentage points, one of the highest in the OECD (see Box 2.6). Empirical evidence also suggests that the sizeable tax wedge plays a role in the large share of self-employed (Baker et al., 2018).

Meanwhile, growth in the number of SMEs with employees has been comparatively weak, particularly in the smallest size groups. Between 2012 and 2022, the number of firms with 1 to 9 employees grew by only around 1% annually (Figure 5.2, Panel D). Furthermore, business dynamism – measured as the combination of the birth and the death rates of enterprises – has been lower than in most EU countries for small and larger firms over the past few years, which has been identified as a key factor behind the productivity slowdown (OECD, 2019).

Figure 5.2. Belgium's SMEs have been growing in number



Note: In Panel A, the creation rate is the number of new firms per year as a percentage of the total stock of firms, while the cessation rate is the number of firms exiting the market as a percentage of the total stock of firms. The net increase rate is the difference between the two.

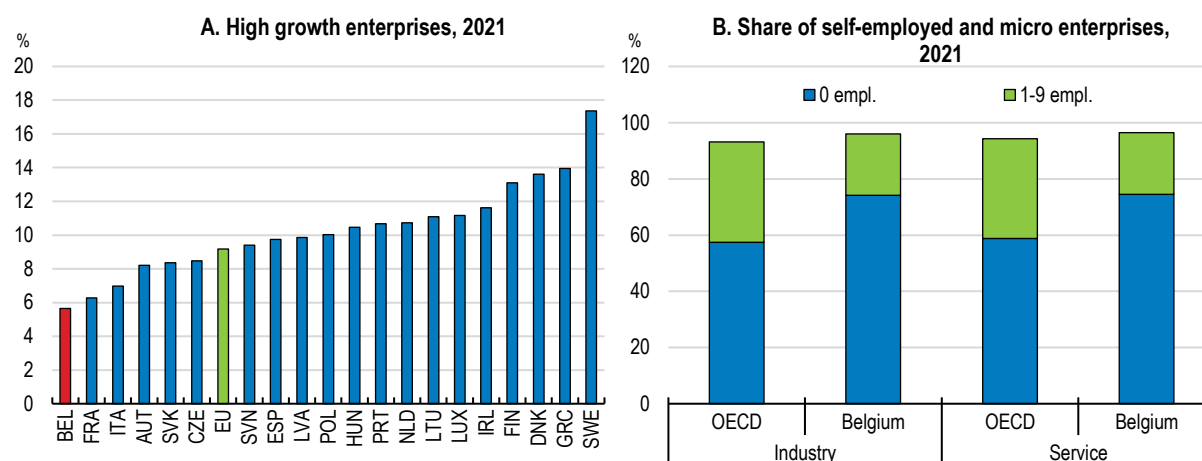
Source: SPF Economie and STATBEL.

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High-growth SMEs are particularly rare in Belgium

Belgian SMEs appear to face difficulties growing in size. Belgium faces a lower-than-average share of high growth enterprises (Figure 5.3, Panel A). The average size of SMEs has dropped. One contributory factor may be the high and growing share of enterprises with no employee in the sector. They represent more than 74% of all the active enterprises in Belgium, a higher share than the OECD average (Figure 5.3, Panel B). More than 96% of firms in Belgium employ less than 10 employees, but they account for only 36% of total employment (STATBEL, 2022).

Figure 5.3. Relatively few Belgian SMEs are high-growth, many have no employees



Note: Panel A shows the share of high growth enterprises, which are enterprises with an average annualised growth in number of employees greater than 10% per year over a three-year period and having at least 10 employees in the beginning of the growth. This share is measured as the number of high growth enterprises divided by the number of all active enterprises with at least 10 employees. Panel B shows the share of self-employed and micro enterprises over the total number of all active enterprises. The OECD average refers to 26 member countries.

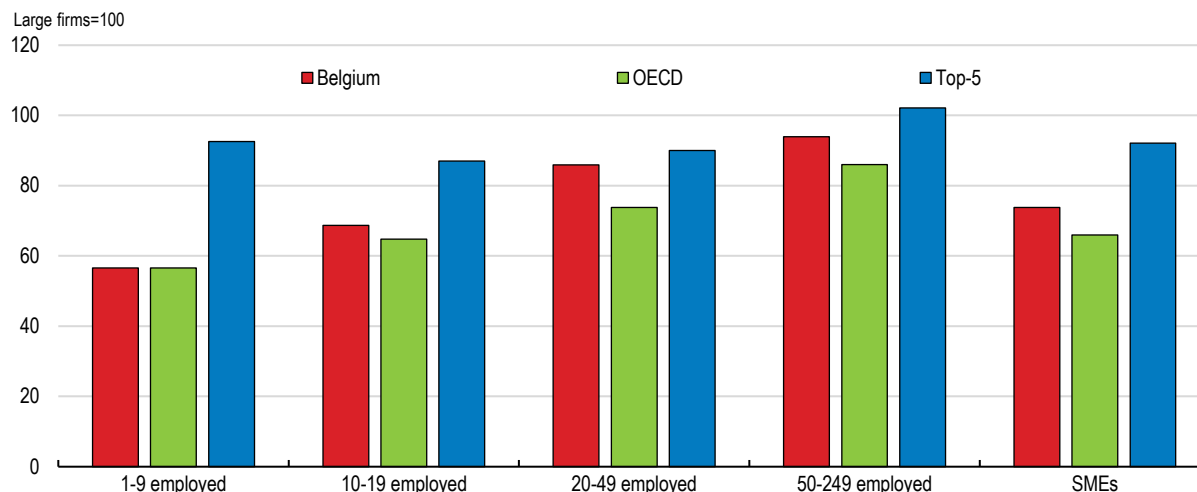
Source: Eurostat and OECD.

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Belgian SME productivity gaps with large enterprises are narrower than the OECD average, but wider than top performers in this dimension. As in many countries, the level of productivity tends to be greater in larger firms. In Belgium, among firms with 1-9 employees, productivity is less than 60% of that of large firms, while the share is over 90% for businesses with 50-249 employees (Figure 5.4). These productivity gaps reflect a multitude of factors, including economies of scale, sectoral distribution and positive feedback between firm-level growth and productivity. For instance, recent OECD analysis finds that firms that undergo a period of high employment or turnover growth tend to be more productive before scaling up and have a higher productivity growth up to two years after their high growth phase (OECD, 2021d).

Figure 5.4. The gap in productivity between small and large firms in Belgium is relatively large

Productivity gap by size class 2020 or latest year available



Note: Top 5 countries group comprises the five countries with the lowest productivity gap in the SMEs sector as a whole, which are Estonia, United Kingdom, Iceland, Luxembourg, and the Netherlands.

Source: OECD.

StatLink  <https://stat.link/50gxdr>

Digital technologies such as artificial intelligence (AI) have the potential to raise productivity growth by automating tasks, freeing up resources, and developing data-driven decisions. The adoption of digital technologies is relatively well advanced in the private sector in Belgium, but small firms are lagging behind larger ones, similar to other OECD European countries (OECD, 2022b). Only around 12.5% of SMEs use AI technology compared to around 48% of large firms in 2023 (Eurostat, 2024). Integrating digital and AI technologies in work processes requires expertise and resources, making their adoption challenging for small firms.

Support for SMEs in Belgium could be streamlined

Similar to many other advanced economies, Belgium's governments provide a wide range of support and concessions to SMEs. Economic justification for such support is often, at least implicitly, based on the idea that potential innovative capacities of the SME sector should be nurtured. Given this, many measures aim to support SMEs perceived as having strong growth potential, particularly through technology and research. SME support can also reflect other issues, for instance recognition that regulatory burden can unduly weigh on smaller firms (Box 5.2).

A flavour of the range of support is provided in Table 5.1. Tax and social security concessions for Belgium's SMEs include a reduced rate of corporate taxation and schemes providing concessions on social security for selected groups (these are discussed in detail in section 5.4). Support for financing includes schemes run by regional-government investment companies, recently supported by the European Investment Fund (EIF) and the InvestEU programme. Other support includes regional programmes to finance the formation and upskilling of SME employees and encouraging female entrepreneurship.

As elsewhere, the entire package of SME support is difficult to fully identify, and the impact and efficiency of many measures is largely unknown. Alongside multiple programmes explicitly targeting SMEs, advantages and concessions for the sector are often built into other areas of policy, such as policies encouraging research and development. With a view to increasing the effectiveness and efficiency of policy

and given the challenges of targeting policy on the appropriate segments of the SME sector as well as putting public finances on a sustainable path (Box 5.2, Chapter 2), sound assessment of policy effectiveness is needed.

Box 5.2. Rationale for governments supporting SMEs

Public support for SMEs is prevalent across OECD countries. A common argument for this support is that the sector makes a distinct contribution to the economy, particularly in terms of job creation and innovation, alongside associated positive externalities. However, there is little empirical evidence of substantial externalities for the SME sector as whole (Bergner et al., 2017). This likely reflects the heterogeneity of SMEs. Another argument is that the sector suffers disproportionately from market failures, including issues such as information asymmetry, entry barriers, and challenges in accessing finance. These market failures tend to affect business dynamism and lead to sub-optimal investment levels. Nevertheless, the applicability of this argument is debatable, as it may not uniformly pertain to all SMEs. Once again, the heterogeneity of the SME sector is underscored.

Much of SME policy recognises the heterogeneity of the SME sector, and, consequently, that some business warrant support more than others. In particular, a case can be made to focus on innovative, young, small firms that have potential to grow and challenge large, established business. Such firms often face financial constraints, market entry barriers, and high compliance costs compared to their established counterparts. For example, young innovative firms may confront substantial obstacles in securing financing due to uncertainty surrounding their business models.

There is justification for some forms of general support for the SMEs sector. This typically relates to disadvantages arising from small-scale operations. In particular, SMEs incur elevated fixed costs associated with tax obligations and regulatory compliance. Moreover, SMEs experience a competitive disadvantage compared to large multinational corporations that engage in specialised tax optimisation services and this may prompt them to make greater use of tax avoidance schemes (Sarin and Summers, 2019).

Source: OECD (2015) ; Bergner et al. (2017).

A set of general principles to ex-ante evaluations, that are indeed often – albeit not systemically – carried out in Belgium, should be applied to ensure cost-effectiveness of SME policies. Positive externalities and market failures that each support measure targeted at SMEs are supposed to promote or address should be identified and compared with alternative solutions. The measures should be considered against the revenue and the efficiency losses they generate. Potential for unintended downsides should also be assessed. Size-contingent policies can create distortions and barriers to growth. They can add unnecessary complexity, inducing high compliance and monitoring costs, for instance by requiring additional record-keeping, monitoring, or application procedures. Preferential tax incentives for instance can lead to tax arbitrage, with taxpayers changing expenditure or business structure to benefit from the provision. Careful targeting of SME policies can reduce their cost and potential distortions while ensuring that the intended goals are met. However, as illustrated during the COVID-19 crisis and pointed out in the OECD evaluation of Belgium's policy responses, targeting measures can prove challenging as regional governments do not have access to a wealth of data collected by the federal government (OECD, 2023e).

The Belgian Court of Auditors (Cour des Comptes, 2018) has pointed out shortfalls in the federal government's public policy assessment; by implication this includes federal SME support measures. The different *Services public fédéraux* (SPFs), which oversee the evaluation process, tend not to collaborate sufficiently with each other, and do not keep a complete inventory of past and planned evaluations. Evaluations are most often carried out ex-ante, before a new policy is introduced, but ex-post evaluations that aim at measuring the impact of existing policies over time are less common at the federal level. Moreover, often the *Services public fédéraux* do not have enough means to carry out evaluation properly,

and the complex Belgian institutional system makes it more difficult to gather and standardise data, which are crucial for policy assessment (Cour des Comptes, 2018). As underlined in the OECD evaluation of Belgium's COVID-19 Responses (OECD, 2023e), strengthening co-operation among different governments and increasing the use of data and evidence for decision making would help increase effectiveness of policy support. A key priority should be to further develop data collection and sharing to better design, target and evaluate economic measures.

Table 5.1. Selected examples of support for SMEs in Belgium

	Detail
Tax and social security	
Concessionary tax rates	A reduced rate of 20% (instead of 25%) on the first EUR 100 000 of profit (under certain conditions).
"Primostarter" scheme	Reduced social-security contributions for the self-employed during the first four quarters of activity.
"Student-entrepreneur status"	Various benefits, including tax and social security concessions for young entrepreneurs.
"Innovative personnel"	A partial exemption of withholding tax at 80% for employing scientific researchers, engineers, or other innovative personnel, with specific conditions for Young innovative companies.
"Bridging rights"	Provide up to 12 months rights to health care, indemnity insurance and replacement income to self-employed in the event of economic difficulties.
Financing support	
Regional investment companies	Belgium's three regional investment companies provide a range of financial support including seed financing, start-ups and lending for innovation and sustainability initiatives, supported by EU funds.
Tax Shelter for Start-ups and Scale-ups	Individuals investing in start-ups or scale-ups benefit from a tax reduction ranging from 25% to 45% of the amount invested.
FINMIX (Flanders)	A panel of funding experts assess the business and financial plan of SMEs and advise them on the most appropriate funding mix.
"Hub Brussels" (Brussels)	Tailor-made financial advice to SMEs.
Other support	
"Active after pension"	Encourages self-employment among pensioners, including through lower social security payment.
"SME e-wallet" (Flanders)	Financial support to SMEs when purchasing training and advice services provided by registered service providers.
"Prime Formation" (Brussels)	Financial aid reimbursing between 40% and 70% of the costs incurred to upskill SME's personnel.
"Cheques-formation" (Wallonia)	Cheques that cover the 50% of one hour of training for SMEs employees.
IRA-SMA (Wallonia)	Supports international collaborative research by SMEs, with possible supported from (approved) research centres in Wallonia and/or abroad.
Female Entrepreneurship Plan	A 25-measure plan supporting female entrepreneurship through better data collection, mobilisation of private actors and better access to finance.
"Women in Business" (Brussels)	A hub supporting and encouraging women entrepreneurs through the provision of business support services, training, networking and financial aid.
"Fempreneurs" (Flanders)	Launched in 2022, this project aims at empowering six hundred female entrepreneurs over two years, through mentoring, bootcamps and digital workshops.
"Prime Femmes entrepreneurs" (Wallonia)	Provision of funding covering 75% of the gross salary of a manager to support or replace a female head of company during pregnancy and maternity.

There are some examples of good practices on public policy assessment in regional government that can be scaled up. In 2007, Flanders introduced the *Vlaamse evaluatie platform*, which enables the exchange of good practice on policy assessment between different institutions. Flanders also runs an evaluation unit within its Economy, Science and Innovation Department, which aims to initiate, supervise and monitor public policy evaluations through a transparent evaluation framework. In Wallonia, the *Institut wallon de l'évaluation, de la prospective et de la statistique* (IWEPS) leads its policy evaluations through a well-established process. Each evaluation is described in detail and is published on the IWEPS website (Centre Jean Gol, 2021).

Policymakers need to ensure support measures for SMEs are accessible and easy to use. Firms need to be aware of what support is available, and not dissuaded by the complexity of individual schemes or confused by the multiplicity of schemes. As in many areas of support policy, alongside adding new measures, attention to weeding out or adjusting programmes that are redundant or ineffective is important. Streamlining support measures could enhance clarity and effectiveness, while freeing up resources to finance effective programmes and new policy initiatives as detailed below. The institutional structure of Belgium, with shared competencies between the federal and the regional governments adds complexity to such efforts.

Improving the business environment for SMEs

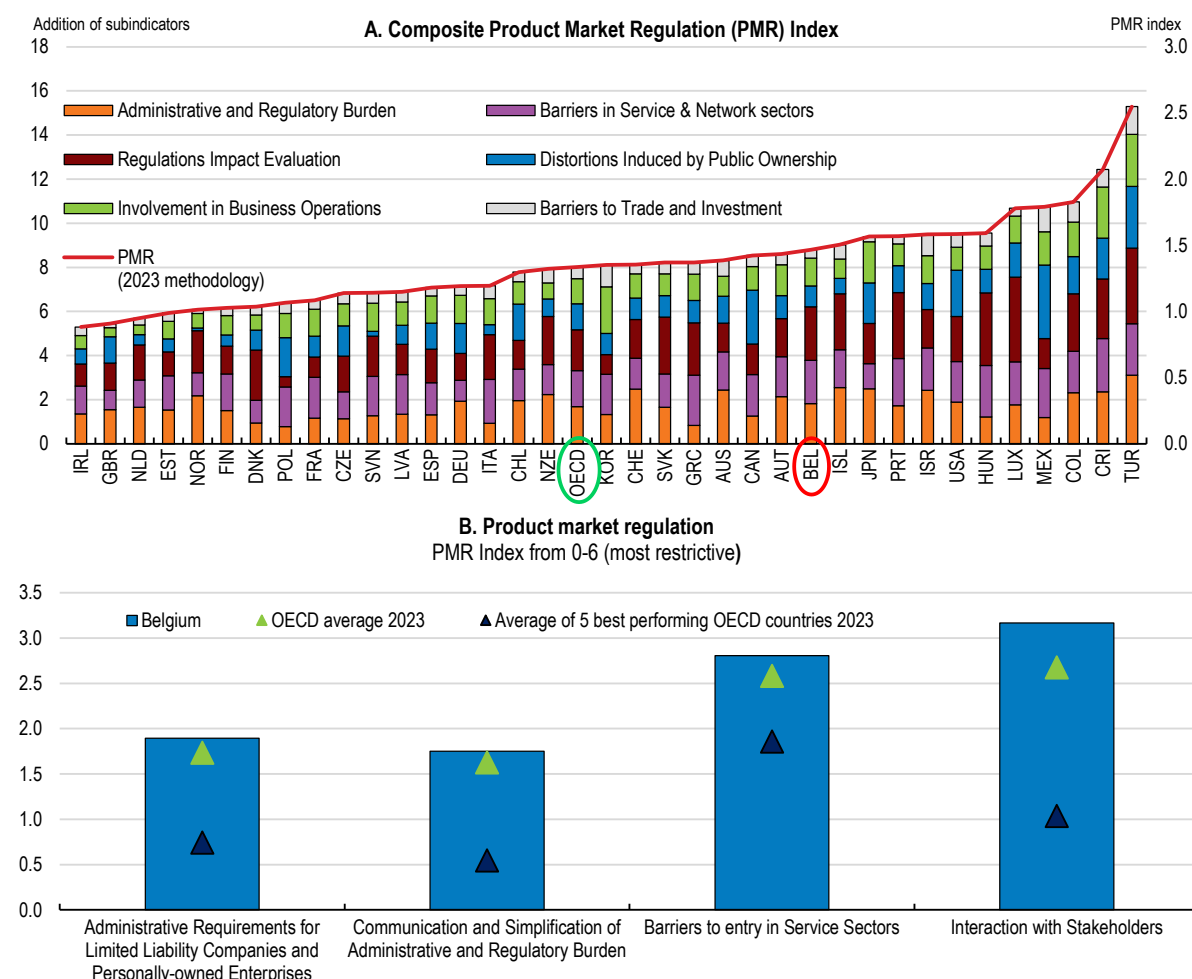
Complex regulation and cumbersome bureaucratic red tape impose significant costs on all businesses, but small firms bear a disproportionate burden, have comparatively less influence in the decision-making process, and this contributes to exacerbate imbalances with larger competitors. Complicated and costly insolvency procedures impede small firms' restructuring and an effective reallocation of resources in the economy. Improving the business environment through streamlined administrative processes, simplified insolvency procedures and further anti-corruption and transparency initiatives can foster a level playing field, reducing barriers to entry, and spurring growth in the SMEs sector.

Simplifying administrative requirements

Regulatory complexity across different layers of government, lack of coordination among institutions and policies, red tape, inefficient and multiple procedures to comply with administrative requirements result in a heavy regulatory burden and high compliance costs for businesses. These affect disproportionality smaller firms, as they are typically less well equipped than large companies to understand the regulatory environment and comply with its norms (OECD, 2023d).

Despite substantial progress over the last 20 years, Belgium still has ample scope to make the regulatory environment more conducive to entrepreneurship and competition (Figure 5.5, Panel A). According to OECD Product Market Regulation indicators, Belgium performs worse than the OECD average or best performing countries in four key areas for SMEs: simplification of the administrative and regulatory burden, the administrative requirements for new firms, barriers to entry in service sectors and lobbying regulation (discussed in more detail below) (Figure 5.5, Panel B). While digital one-stop shops exist at the federal and regional levels, entrepreneurs still need to contact up to four different administrative bodies directly to start a business. As regards the simplification of procedures, there is no requirement to use 'plain language' in the drafting of new primary laws and subordinate regulations. While there are inventories of licenses and permits, there is no requirement to regularly review them and assess whether they are still required. Finally, overly restrictive entry requirements in professional services, such as lawyers, accountants, architects and real estate agents, impedes competition and the entry of new firms. Restrictive entry may also induce higher costs and limit access to quality services, including for SME's operating in other sectors. It is thus welcome that in late 2023 to early 2024 regulation for real estate agents and architects was eased on the required percentage of professionals in governing bodies, their shareholding and voting rights, as well as rules on company goals and multidisciplinary activities.

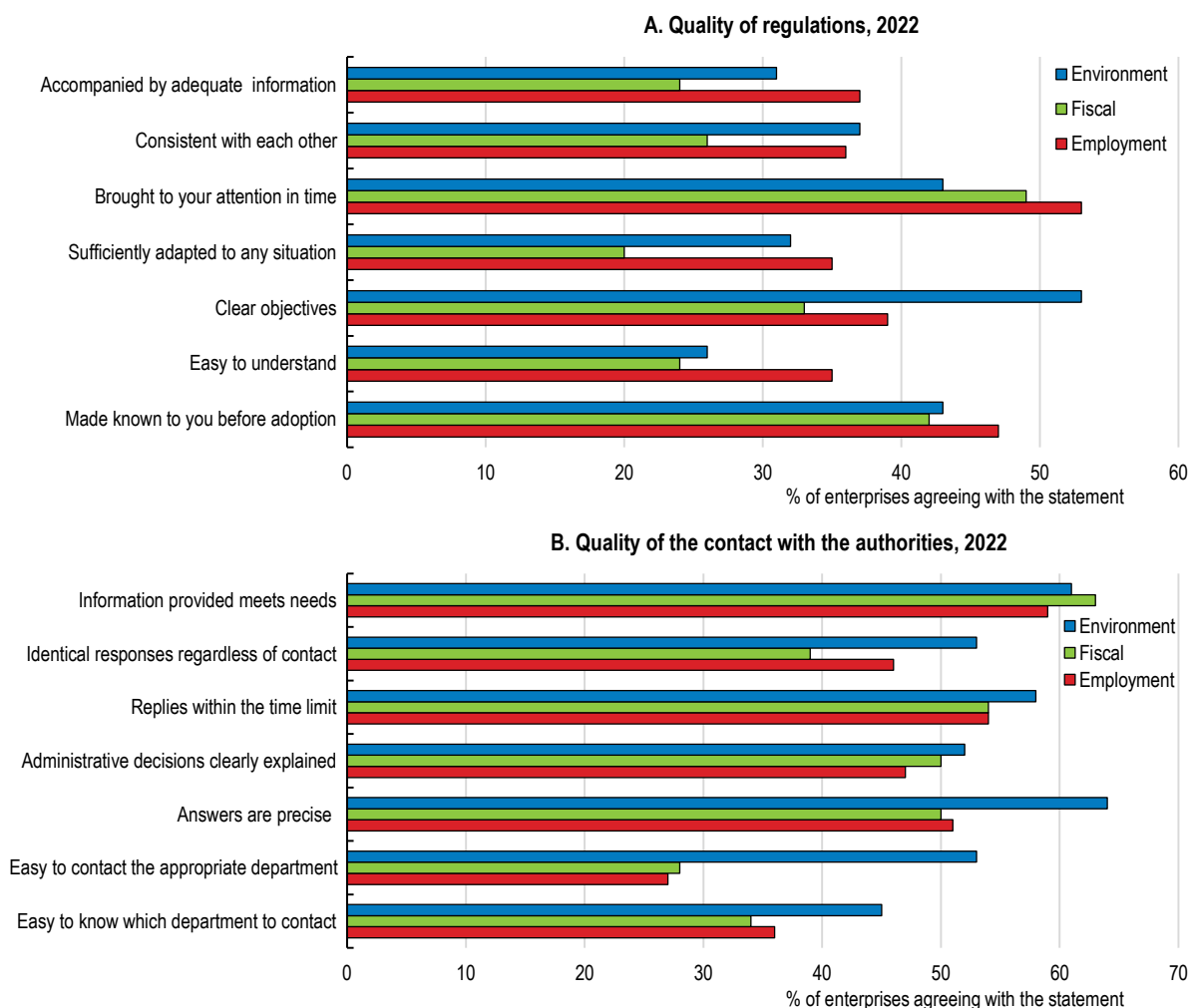
Figure 5.5. There is room to improve the regulatory environment of Belgium's businesses



Source: OECD 2023/2024 PMR database.

StatLink <https://stat.link/1dfro8>

Belgium's SMEs perceive regulation as difficult to comply with. According to a survey carried out by the Federal Planning Bureau, the majority of enterprises were not satisfied with the system of regulation (Federal Planning Bureau, 2024). Surveyed firms point to issues with the consistency, clarity, and adaptability of regulation (Figure 5.6, Panel A). While firms in general appear slightly more satisfied regarding interactions with the administration, they report difficulties in identifying the appropriate interlocutors (Figure 5.6, Panel B). Business representatives also report that frequent regulatory changes increase firms' compliance costs (UCM, 2023).

Figure 5.6. Belgium's businesses perceive regulation as cumbersome

Note: Panel A and B show the percentage of companies that fully agree with the statement.

Source: Belgian Federal Planning Bureau.

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Past policy efforts to reduce red tape, simplify the regulatory framework and digitalise public services have been substantial (Box 5.3) and have contributed to reducing administrative costs. Over the period 2000-2022, administrative costs are estimated to have declined by around EUR 3 billion, from around 3.5% of GDP in 2000 to 1.1% of GDP in 2022 (Figure 5.7, Panel A, BOSA, 2020). However, further efforts would be welcome, and could be targeted at SMEs. As of 2022, the share of total administrative costs incurred by small enterprises far exceeded their weight in the economy (Figure 5.7, Panel B and D). The burden per employee in small firms is 8 times higher than for large firms (Figure 5.7, Panel C). Furthermore, administrative costs have decreased less for small than for large firms (BOSA, 2020).

Box 5.3. Belgium's initiatives to reduce businesses' regulatory and administrative burdens

In 2004, the federal government introduced the Kafka Test to assess the impact of new draft regulations on administrative burdens. In 2013, the test was replaced by the Regulatory Impact Analysis (RIA), a self-assessment tool designed to raise awareness among the authors of regulations. It is used to prepare, consult, and assess the impacts of proposed regulations. The RIA is mandatory for all primary legislation and Royal decrees discussed in the federal Council of Ministers. The RIAs are published alongside parliamentary documents and are freely accessible.

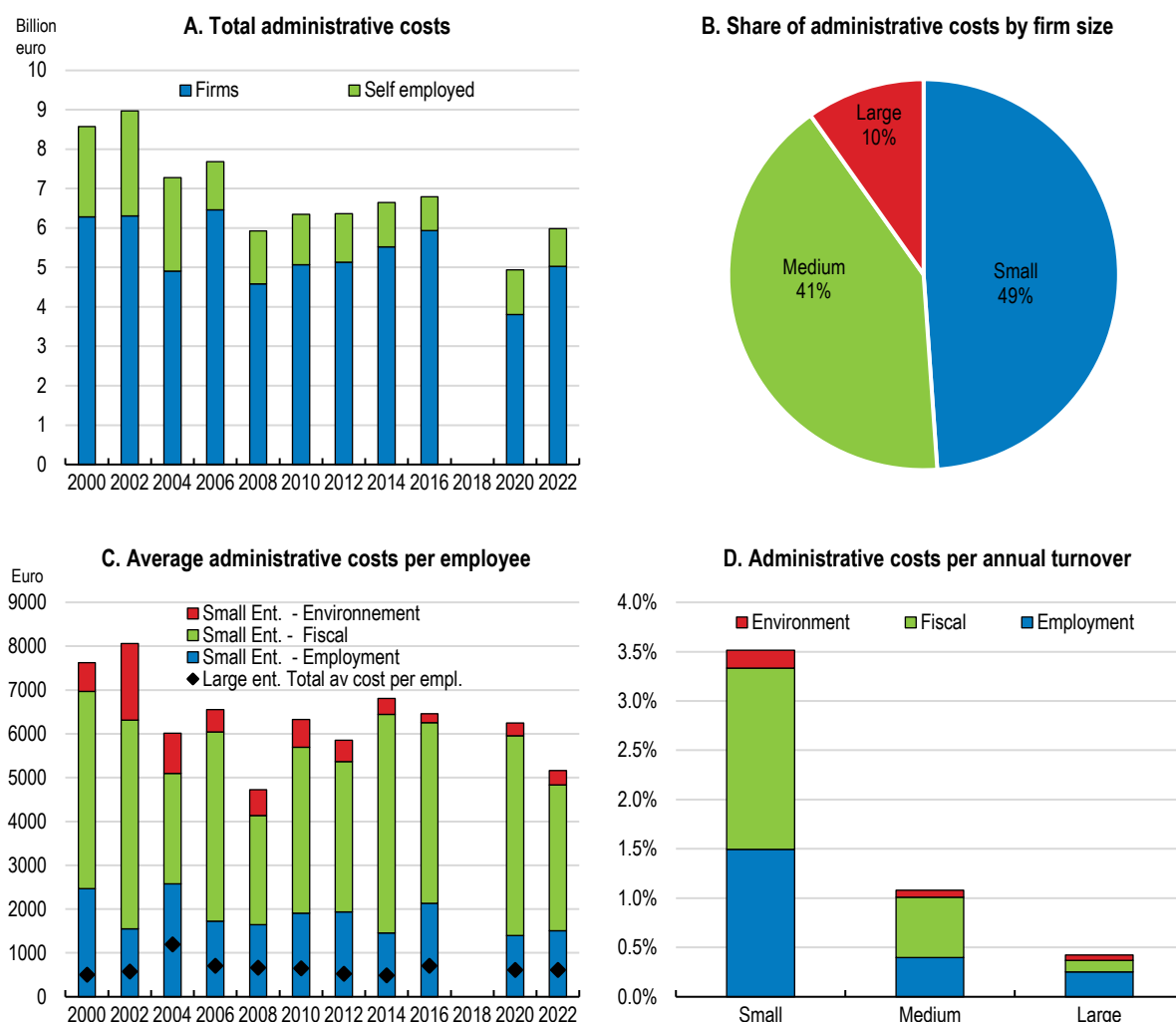
The federal and regional governments have invested in reducing red tape and developing digital public services. Since 2014, the "Only-Once" Principle guarantees the principle of a single collection of data affecting various administrative procedures. In 2019, the new Belgian Code on Companies and Associations aimed at modernising and simplifying company law and facilitating online certification. A federal action plan for administrative simplification was adopted in 2022. The Digital Economy and Society Index suggests Belgium performs above the EU average as for digital public services, including those directed to businesses (European Commission, 2023e). E-government has accelerated since the COVID-19 pandemic. *eBox Entreprise*, a messaging and information system centralizes communication with the administration. The platform *e-Procurement* has been renewed and modernised. Electronic invoicing has been mandatory for transactions with the government since March 2024 and will become mandatory for business-to-business transactions from 2026. *Biztax* allows to file tax declarations online, *JustAct* and *eDepot* allow to create companies electronically. Simplification of electronic signing rules is envisaged.

One-stop shops for entrepreneurs, providing information on procedures and regional support are in place or are being developed in regions. Indicators suggest Flanders is well advanced in the digitalisation of public services (van der Linden, 2023). The "*Flanders Innovation and Entrepreneurship – VLAIO*" coordinates a digital one-stop shop for Flemish entrepreneurs. The Government of Flanders adopted an action plan 'Reduction of Regulatory Burdens' with approximately 250 projects of regulatory and administrative simplification, based on proposals from within the administration and stakeholders. The 2020-2025 plan for administrative simplification and the *Easybrussels* agency aim to reduce administrative burdens and advance digitalisation of public services in the Brussels region. The *Digital Wallonia* strategy includes programmes to further digitise services, develop the use of data and digital services for internal processes. *Wallonie Entreprendre* provides entrepreneurs with information on the *1890* online platform. The national Recovery and Resilience Plan includes a range of measures for the digitalisation of the administration at the federal and the regional level.

Some OECD countries managed to reduce administrative costs through a whole-of-government approach in consultation with the private sector (Box 5.4). The Simplex program in Portugal focuses on enhancing public service efficiency based on input from businesses and households. The programme has resulted in over 1 000 simplification initiatives, leading to significant time and cost savings for businesses and citizens. British Columbia's Red Tape Reduction Task Force made over 600 recommendations, leading to a 15% reduction in regulatory requirements. Similarly, the UK's Red Tape Challenge website facilitated open discussions with businesses, leading to 3 000 reforms aimed at cutting red tape. Establishing comprehensive digital one-stop shops, as done in Flanders and providing dedicated personal points of contact can also help smaller enterprise to comply with administrative requirements. Dedicated personal contact can help guide enterprises through the administrative requirements and procedures. At the same time, digital innovations, including artificial intelligence (AI), could be used to raise effectiveness and targeting of guidance services. For instance, AI has the potential to help governments move towards public services able to anticipate and handle user needs before action is required (e.g. completing a form; Scholta et al., 2019). When developing the use of AI in the public sector, governments need to ensure that it is

transparently communicated to citizens and remains in line with OECD AI Principles regarding privacy, security, data reliability, fairness, and accountability (OECD, 2024b).

Figure 5.7. Administrative costs are relatively high, especially for small firms



Note: Panel A shows the total amount of administrative costs for firms and self-employed. Panel B shows the share of total administrative costs per each firms' size category. Panel C shows the average administrative costs incurred per each employee, breaking it down in the three costs categories. Panel D shows the costs in relation with annual turnover of each size category. Data in Panel B and D refer to 2022.

Source: Belgian Federal Planning Bureau.

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Data suggest administrative costs relating to fiscal issues (such as tax compliance) are dominant for small enterprises (Figure 5.7, Panel C and D, Federal Planning Bureau, 2024). Effective and easy-to-use taxpayer communication and service channels can reduce these costs and help strengthen tax compliance. The app “MyMinFin”, launched by SPF Finance, simplifies procedures to deal with tax returns. Nevertheless, programmes to assist business owners with meeting their tax obligations are on a one-to-many basis in Belgium, such as the provision of guidance or reminders as well as calculation and reporting tools. Advances in technology, including artificial intelligence, mean communications between tax authorities and businesses can become more tailored, helping businesses address taxation cost-effectively and without recourse to in-person government services or private-sector services (“self-service” tax

administration). New technologies can also improve tax-form pre-filling. Belgium could take inspiration to further improve its services from the many initiatives in other OECD countries. For instance, in Portugal, application programming interfaces allow to connect the corporate and the tax administration systems (OECD, 2024a).

Box 5.4. Administrative simplification programmes

Launched in 2006 in Portugal, the **Simplex** programme aimed to achieve progress across government in a range of objectives: improving regulation, reducing the administrative burden, enhancing interoperability, easing access to public services and promoting e-Government. Stakeholders were heavily involved in defining the simplification initiatives. In 2018, an evaluation of 40 SIMPLEX+ measures estimated a saving of EUR 174 million for businesses and a reduction in compliance time of 17.9 million hours. The “automatic tax declaration” and “logistics helpdesk” initiatives were particularly successful (European Commission, 2020). Other successful initiatives include “On the Spot Firm” in which a company can be registered in less than one hour and a transfer of a firms’ property in one day (OECD - OPSI, 2019).

In British Columbia, the “**Red Tape Reduction Task Force**”, comprising representatives from the private sector and industry made over 600 recommendations for reducing red tape, which were assessed by the government and implemented. This was followed with provisions for citizens and businesses to submit suggestions and comments on regulatory improvements. It is estimated these policies have cut the number of regulatory requirements in British Colombia by 15% (OECD, 2021c).

Denmark’s “**Business Forum for Simpler Rules**”, launched in 2012, was based on a comply-or-explain principle, to identify business regulations that firms perceived as the most burdensome and propose simplification. The “Burden Hunt Programme” enhanced businesses’ participation, allowing them to set the agenda and be directly heard.

In the UK, over 2011-13, the “**Red Tape Challenge**” website promoted open discussion with businesses and entrepreneurs on regulating in the least burdensome way. Comments were used by the British government to design a package of 3 000 reforms to cut red tape (OECD, 2019).

Improving tax advantages for small businesses

Belgium provides SMEs with a number of tax advantages (Box 5.5). The preferential tax treatment can be justified by the proportionately high administrative costs SMEs bear, including as regards paying taxes (see Figure 5.7). However, size-contingent tax incentives potentially give businesses an incentive to remain small, add complexity to the tax system and generate administrative burdens for taxpayers and tax authorities (OECD, 2015b). These issues could be exacerbated when there are additional concessions for small firms, such as exemptions to employment protection legislation. Thorough analyses of the cost and benefits of preferential taxation can potentially help calibrate policy. However, the policy objectives of these measures are often not well defined, which complicates such an evaluation (Belgian Court of Auditors, 2021a).

Belgium’s corporate income taxation system includes specific features for SMEs, including a reduced corporate income tax rate, an accelerated depreciation rate, and investment tax allowances (Box 5.5). Lowering corporate income taxation can foster investment and increase tax compliance, but its positive impact varies significantly across firms’ type and depends on the policy tools used (Hanappi, 2023). Experience of other OECD countries suggests that reduced CIT rates may have unintended negative effects on business dynamism and tax compliance. It can lead to misreporting of taxable income or size (Bergner et al., 2017) and reduces incentives for firms to scale up (Garicano et al., 2016; Tsuruta, 2020; Hosono et al., 2023; Almunia and Lopez-Rodriguez, 2013). The literature suggests that other factors than size, such as age, market position, or financial constraints are found to play a more significant role in

determining investment (Zwick and Mahon, 2017; Egger et al., 2018; Hanappi et al.; 2023). The cost of the reduced tax rate and investment deductions has more than doubled in four years, from around EUR 367 million in 2017 to EUR 797 million in 2021, partly reflecting the rapid rise in the number of firms covered by the schemes (SPF Finance, 2024). As recommended in a previous *Economic Survey of Belgium* (OECD, 2020a), the costs and benefits of the preferential treatment of SMEs in the CIT system should be reviewed and, if needed, transitional measures should be introduced to smooth out cliff-edge effects when businesses transition from the preferential status.

Box 5.5. Overview of tax advantages targeting SMEs in Belgium

Belgium's preferential tax treatment for SMEs applies to companies with 50 or fewer full-time employees, and a turnover and a balance sheet of maximum EUR 9 million and EUR 4.5 million, respectively. Non-income criteria relating to business activities, shareholdings, capital yield and directors' remuneration also apply to avoid abuses.

SMEs fulfilling the above criteria pay a **reduced corporate income tax rate** of 20% on the first bracket of EUR 100,000 profit (instead of 25%). In addition, firms may qualify for a tax credit when investing equity in the business and are exempted from penalty rates of taxation when insufficient advance tax payments have been made.

Tax incentives to foster SMEs investment in tangible and intangible assets mostly consist in accelerated depreciation allowances and investment deductions.

- SMEs fulfilling the above criteria may be eligible for accelerated depreciation methods, allowing them to write off the cost of assets more quickly than the standard depreciation rates.
- An **investment deduction** of 8% adds to the normal tax depreciation and can be carried over to the following year. A 20.5% and a 13.5% deduction rate applied for investment in security and ICT respectively in 2023. Like other companies in Belgium, SMEs benefit from a 13.5% deduction on investments made in green research and development as well as environmentally friendly investments. The 20.5% and 13.5% deductions can be carried forward indefinitely but are subject to an annual ceiling. In 2023, the government proposed reforms that included an increase in the standard investment deduction rate from 8% to 10%. Deductions of 40% for SME green investments were also proposed (30% for large firms).

Social security contributions are reduced for initial hirings ("*réductions groupe cible pour premiers engagements*"). The generosity of the measure was diminished in 2022, with the introduction of a ceiling for the deduction applied to the first employee (permanent deduction of maximum EUR 3 100 quarterly in 2024) and a reduction in the maximum number of eligible employees from six to three. Microenterprises are exempted from the 1.6% social security contributions for unemployment. Reduced social security contributions (lump sums) are also offered to small firms in the HORECA sectors up to 5 employees.

Belgium offers **tax incentives and exemptions targeted at startups and scale ups**, including the "tax shelter" schemes for investors, exemptions for capital gains taxation realised from the sale of qualifying startup shares and from the withholding tax. Start-ups (defined as firms created less than 48 months ago) are partially **exempted from the withholding tax** – an advance on professional income tax firms should collect and return to the state (10% for small firms and 20% for microenterprises). The **tax shelter** scheme provides taxpayers a tax reduction of 30% of the amount invested in startups (defined as companies with less than 50 employees and 4 years old), 45% for investments in micro-enterprises (less than 10 employees and 4 years old) and 25% for scale ups (less than 10 employees, 5 to 10 years old and more than 10% annual growth). The amount invested that qualifies for the reduction is limited to EUR 100 000 per taxpayer per year. A company can benefit from such investments up to EUR 500 000 (1 million for scale ups).

In Belgium, differences between capital and labour income taxation are large, which encourages **incorporation** for self-employed and services employees. The dividend income is subject to a flat tax that is lower than the income tax rates. In addition, social security contributions and sub-central taxes are not payable on dividend income and capital gains on shares are not taxed.

Source: SPF Emploi, travail et concertation sociale, Sécurité Sociale, SPF Finance

Frequent small changes to corporate income taxation, including investment deduction rates, over the past years and the postponement of the tax reform in 2023 (Chapter 2) have increased uncertainty and compliance costs. Increasing the predictability of the corporate income tax system would reduce costs for firms, which could be especially beneficial for SMEs in helping them with investment planning. Some features of the Belgian tax system could also discourage entrepreneurship among wage earners. Entrepreneurs who combine their work with a regular employee contract face a relatively large tax burden: their business earnings are combined with their wage income and taxed under the personal income tax, which is characterised by high progressivity with the top tax rate applied to a relatively low income level (see Chapter 2). The large gap between capital and labour income taxation needs to be revised as it affects the efficiency of the tax system by creating tax arbitrage opportunities and encourages incorporation (Box 2.6).

Belgium's reduced employer social security contributions on hiring the first several employees has been reformed (Box 5.5) but could benefit from further adjustment. The scheme was extended in 2016 by not restricting the amount or duration of exemptions. Evidence suggests it had little positive impact on employment and experienced a cost overrun, especially as the number of high-wage workers being in the scheme increased (Belgian Court of Auditors, 2021b). Against this backdrop, exemptions have been restricted in 2022 (Box 5.5). This should increase the cost efficiency of the measure as evidence points to social security contributions having a stronger impact on employment at the lower end of the wage distribution. Changing the subsidy into a lump sum and moving to a time-limited deduction for the first employee would improve the targeting further as regards encouraging young firms to take on low-wage employees. This would also limit wasting resources on prolonged support for unprofitable firms and windfall gains for incumbents.

Tailoring insolvency procedures to SMEs

Efficient insolvency regimes can contribute to maintaining a healthy business dynamism and ensuring an effective allocation of resources. Systems that are designed to facilitate corporate restructuring of viable firms encountering temporary financial distress, without excessively penalising business failures, can facilitate resource reallocation towards more productive uses and encourage entrepreneurial risk taking. Insolvency regimes should have provisions that cater for SME's. For example, business and personal finances tend to be interlinked in small firms calling for a strong coordination between corporate and personal insolvency regimes. The complexity and the high cost of long procedures are major obstacles for smaller firms restructuring, as they tend to have limited financial resources (André & Demmou, 2022). Improving insolvency procedures for SMEs can bring large economic benefits, as the proportion of assets and capital sunk in zombie firms is usually much higher in SMEs than in large companies in advanced economies (Banerjee & Hofmann, 2020)

Belgium's insolvency regime has been reformed over the past decade. The OECD insolvency indicator suggests that Belgium's regime was less favourable than those of many other OECD countries in 2022. The transposition of the EU Restructuring Directive (2019/1023) and a new insolvency law in force since September 2023 should bring further improvements. The new legal framework simplifies amicable agreements and out of court settlements as well as enhances early warning systems. A distinction between SMEs and large enterprises is made in the context of collective agreements with creditors on the proposed restructuring plan. SMEs have the possibility to opt for a simpler regime, where voting on the restructuring plan is not carried out according to the classes of creditors.

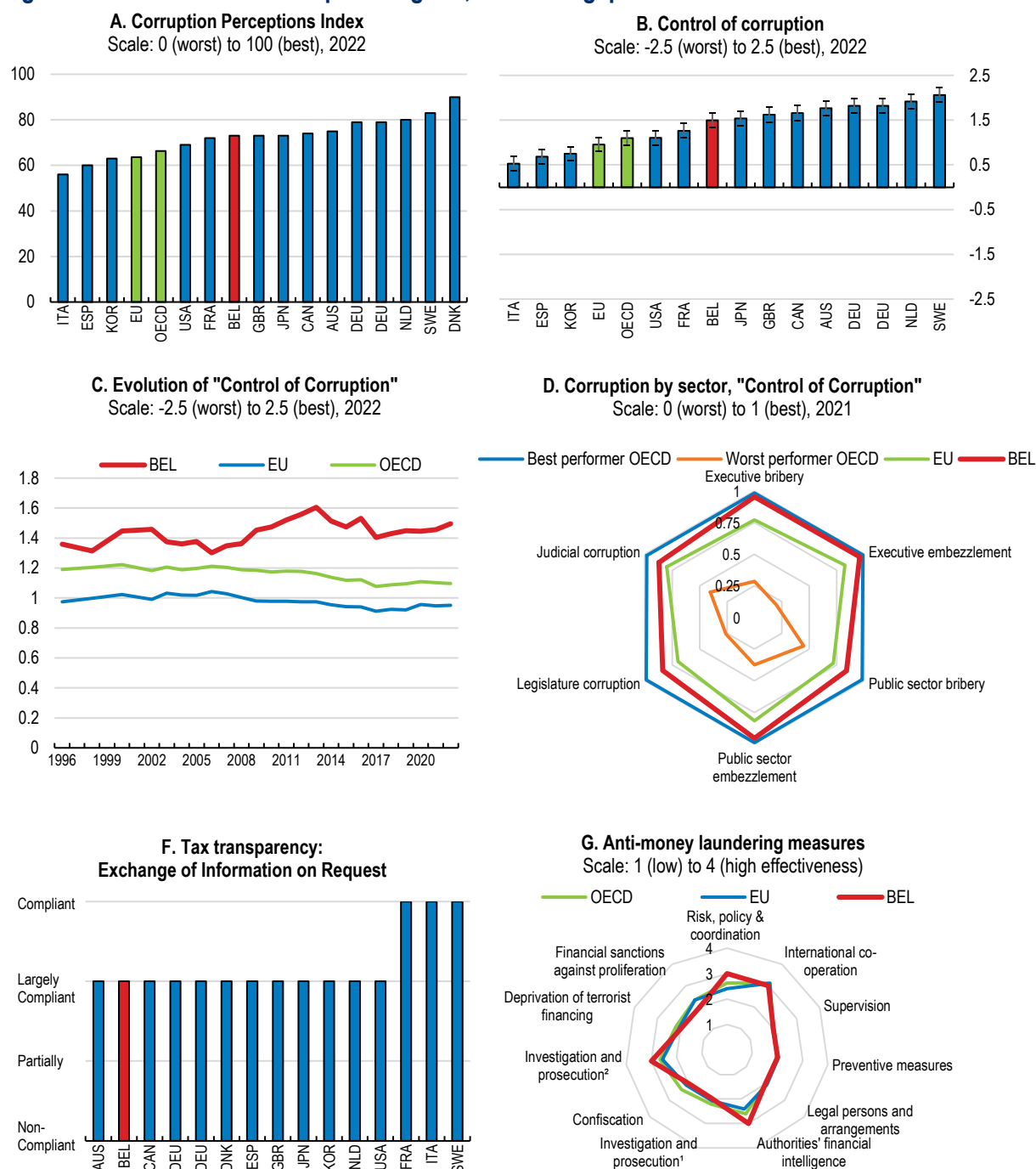
Nonetheless, some aspects of insolvency reform still need to be refined. The SME regime closely resembles the reorganisation procedure by collective agreement with creditors that was already in place before the new norm, and as such remains quite complicated. Emphasis should be placed on streamlining procedures further during the implementation of the new insolvency law. Effectiveness of the reform will depend on the willingness of SME owner-managers to use the new procedures, such as early warning tools (McCarthy, 2020). Helping SMEs to familiarize with the new norms and to fully understand the options and possibilities will be important.

Strengthening efforts to tackle corruption

Corruption raises the cost of doing business, undermines public trust and hampers growth. Small businesses may bear a larger cost as corruption can distort competition by favouring larger firms with greater resources and connections. Indicators suggest control of corruption in Belgium is in line with the OECD average (Figure 5.8). Preventive measures against corruption are in place and progress has been made in recent years to fill some gaps. More adequate human and financial resources for the justice system have been provided and the public integrity framework for elected and appointed officials has been strengthened through the extension of the existing Code of Conduct to cover all members of ministerial private offices. The rules on gifts and benefits for members of Parliament and Government and the rules on revolving doors for Government and their private offices were also reinforced (European Commission, 2023b). The Royal Decree on integrity policy and management in the federal public sector adopted in 2023 foresees the creation of a more autonomous and central Integrity Bureau and formalises the role of “Integrity Coordinators”. The latter will help federal public organisations to adopt a strategic approach to public integrity and report annually on implementation progress. The EU directive on whistleblower protection was transposed in 2023 reinforcing the reporting channels and protection of persons reporting integrity violations in federal public authorities. It requires establishing channels and procedures for internal reporting, covers facilitators and third parties and allows anonymous reporting (Belgian Federal Government, 2022).

However, transparency and integrity measures related to lobbying and influence activities still have gaps in Belgium. Transparency requirements apply to members of parliament but exclude ministers, their cabinets and public officials. A lobby register is publicly accessible and lists all groups and individuals communicating with members of parliament to influence the legislative process, but the absence of legal requirements to register and of sanctions for non-compliance undermines its efficacy. The Higher Council of Independents and SMEs supports and represents SME interests, for instance by advising on regulation that impacts the sector and providing guidance to their members. Nevertheless, lack of transparency in lobbying and influence activities still poses particular problems for SMEs, as they often have limited capacity to cope with an opaque public sector and lobby for their needs (European Committee of the Regions, 2019; OECD, 2013). A legislative reform on lobbying is under discussion, with a view to expand the scope of the existing transparency register to members of Government, but the timeline for adoption remains unclear. Other transparency measures, such as a legislative footprint, covering both members of parliament and government must be adopted. Also, more precise rules and guidelines are needed on how public officials should manage contacts with lobbyists. The purpose of contacts should be made more transparent by identifying the persons with whom or on behalf of whom the contact has taken place, the specific subject matter of the discussions, and the purpose of the engagement.

Figure 5.8. Prevention of corruption is good, but some gaps remain



Note: Panel B 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 standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel B 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. "Investigation and prosecution" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.

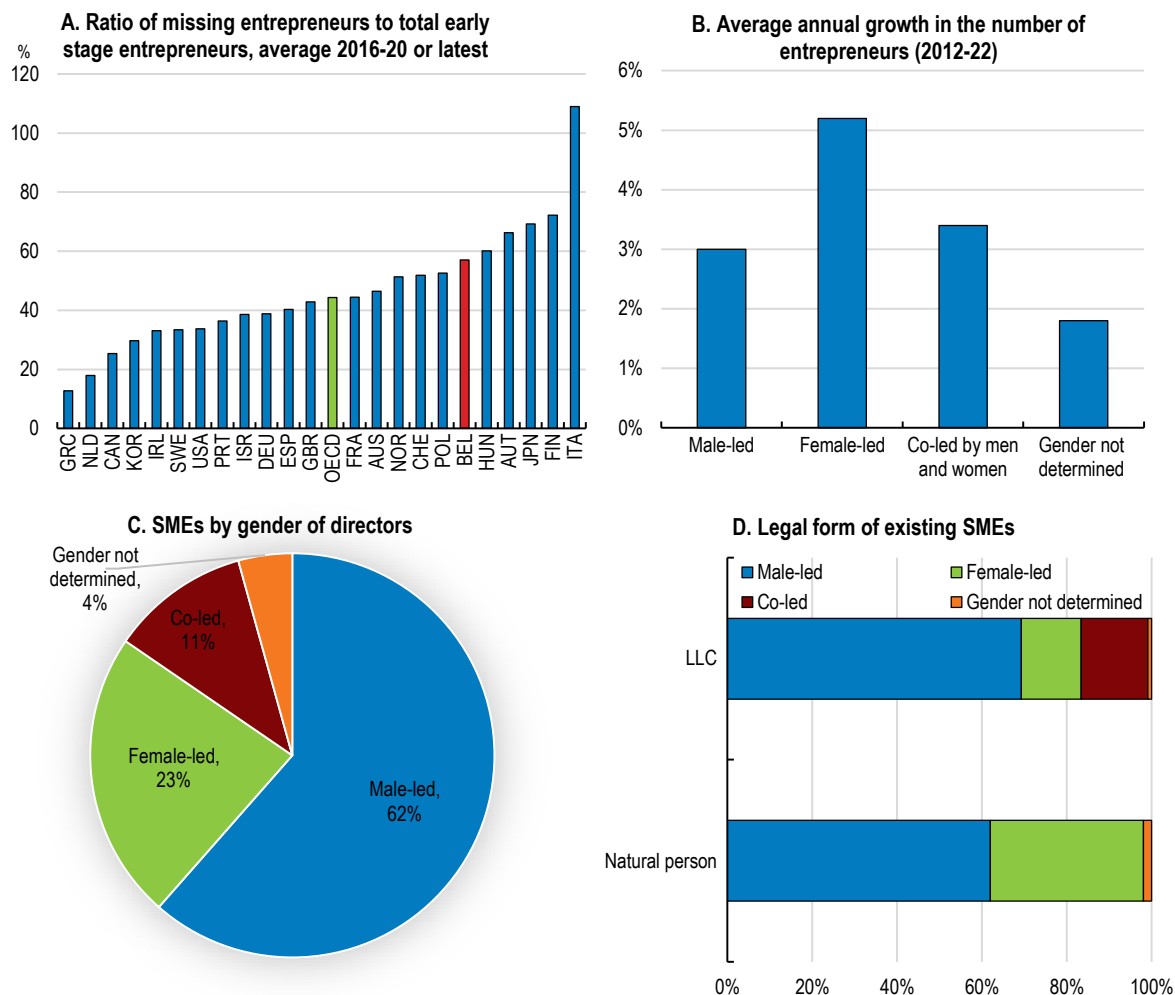
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12. Panel E and F: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink  <https://stat.link/wagef4>

Encouraging women's entrepreneurship

Belgium has a relatively high share of “missing entrepreneurs”. The number of entrepreneurs would be almost 60% higher if the whole working age population was as active in business creation as 30-49 year old men, all else equal. (Figure 5.9, panel A). Women account for the vast majority of them (OECD, 2022). Following a European trend, gender gaps in entrepreneurship have declined in Belgium over the last two decades. The number of female-led SMEs grew almost two times faster than male-led SMEs from 2012 to 2022 (Figure 5.9, Panel B). Nevertheless, only 23% of SMEs were led by women in 2022 (Figure 5.9, Panel C).

Figure 5.9. Women's entrepreneurship is growing, but gaps in representation remain



Note: In Panel A, the number of “missing entrepreneurs” is estimated by subtracting the number of actual entrepreneurs from the number “potential” entrepreneurs, that there would be if everyone was as active as 30–49-year-old men in starting and managing new businesses, i.e. setting the activity rate of the whole population to the activity rate of 30-49 year old men. Data for Panel C and D refers to 2022.

Source: OECD (2020), Inclusive entrepreneurship policies country assessment notes: Belgium 2020 and SPF Economie.

Note: In Panel A, the number of “missing entrepreneurs” is estimated by subtracting the number of actual entrepreneurs from the number “potential” entrepreneurs, that there would be if everyone was as active as 30–49-year-old men in starting and managing new businesses, i.e. setting the activity rate of the whole population to the activity rate of 30-49 year old men. Data for Panel C and D refers to 2022.

Source: OECD (2020), Inclusive entrepreneurship policies country assessment notes: Belgium 2020 and SPF Economie.

Data show that women entrepreneurs in Belgium are less likely to be operating growth-oriented businesses and to have employees (OECD/European Commission, 2023). Women are underrepresented in limited liability companies, and relatively more are operating as sole proprietors or natural persons (Figure 5.9, Panel D). This is unfortunate as separating personal and business status tends to ease access to finance, investment and recruitments, and reduces risks (Yoon-Suk Baik et al, 2013). These dynamics might be partially due to sectoral differences, with female-led SMEs operating more in sectors where limited liability companies are less common, such as health and social care.

Women face specific barriers to entrepreneurship, including more difficult access to finance, limited exposure to entrepreneurial skills and entrepreneurial networks, and deeply rooted social norms and stereotypes. Tackling these barriers would contribute to equality of opportunities and promoting economic independence for women. It would also help to untap unused entrepreneurial potential, promoting economic and social stability and fostering growth and innovation (OECD/European Commission, 2023). Recent empirical estimates from several OECD countries confirm that closing the gender gap in entrepreneurship would have a sizeable positive impact on the economic activity in the medium and long run (ISED, 2022; Rose Allison, 2019).

Reducing gender bias in access to finance

Access to finance can be a key obstacle for women entrepreneurs. Evidence based on OECD countries suggests women tend to start their business with significantly lower levels of financial capital than men and raise significantly lower amounts of incremental debt and equity in the first years of business operation (Lassébie, 2019). Also, female-led businesses are less likely to raise venture capital than their male-led counterparts, and, when they do, they raise lower amounts, despite yielding on average higher returns (Aernoudt and San José, 2020). Both supply and demand side factors are at play. Gender biases in lending practices have been identified and can be partly explained by women's underrepresentation among lenders in the venture capital industry and in sectors in which venture capital is more developed (Lassébie, 2019; Pavlova and Gvetadze, 2023). Furthermore, OECD analysis suggests that women have less financial expertise than men even when various socio-economic factors are considered (OECD, 2020b). This may limit the range of financing opportunities they consider, and can negatively impact how women pitch their businesses to lenders and investors (OECD, 2023c).

In 2023 the federal government launched a “Female Entrepreneurship” plan, encompassing numerous measures to enhance the access to finance for female entrepreneurs (Office of the Deputy Prime Minister and Minister for the Middle Classes, Self-Employed, SMEs and Agriculture, 2023). The measures feature the development of better indicators and data on female entrepreneurship, including access to finance, an effort in line with the G20/OECD High-Level Principles on SME Financing (OECD, 2022a). The plan also aims to mobilise banks and private investors. Events with key players in entrepreneurial finance have been organised to raise awareness of gender biases. Also women entrepreneurs will be surveyed to analyse the gender dimension in access to finance. Support is provided to networks of female investors and entrepreneurs emphasising training opportunities and access to venture capital, for instance, the Women Business Angels for Europe's Entrepreneurs or the “Hors Norme” network in the Brussels region.

More could be done to develop financial support tailored for female entrepreneurs as part of Belgium's policy on female entrepreneurship. Traditional policy responses include loan guarantees and grants to help overcome gender biases in lending practices and investor preferences. For instance, Australia's “Boosting Female Founders Initiative” encourages private sector investments in female-led start-ups through matched funding grants (Government of Australia, 2022). The grants are matched, providing a maximum of half of the financing needs. Matched funding grants can enhance the probability of success of the funded projects and the expected returns on investment by providing access to additional financial resources and reducing risks. Providing financial management training should also be considered. Training has increasingly focused on helping women tap into financing via fintech and crowdfunding (Horvat, 2018;

Halabiski, 2017). Policy supporting microfinance can also facilitate financing for women entrepreneurs; they represent the majority of microfinance borrowers in the EU. Policy options include the provision of loan guarantees as in, for instance, Italy and of technical support to strengthen non-financial services, such as training and coaching (OECD/European Union, 2021). An assessment of adequacy and efficiency of support provided to microfinance by regional public agencies in Flanders and Brussels and through the Social Fund at the federal level should be conducted to identify potential gaps, loopholes, and potential efficiency gains.

Combating gender stereotypes

Social norms and models are also a barrier to female entrepreneurship. These are usually deeply rooted in the culture and influence the division of roles within a family, with women usually assuming the heavier burden of caring for children and household tasks. This, in turn, affects the time and energy available to female entrepreneurs, and their ambitions. Moreover, social attitudes and cultural views still tend to exert a negative influence on women's desire to start a business, as well as on women's self-confidence and relatively higher fear of failure (Halabisky, 2017).

Policy measures should aim to change these social norms and stereotypes, including via the education system and through role models. Policy can also facilitate women's participation in entrepreneurship by increasing the availability and affordability of childcare services (Chapter 3; OECD, 2021a). One pillar of Wallonia's plan to support female entrepreneurship is dedicated to reducing cultural-led obstacles and encompasses sensibilisation campaigns promoting female success stories. In the same vein, Booming Belgium, a platform dedicated to successful entrepreneurs, was developed at the federal level and offers more visibility to women entrepreneurs. Another pillar of Wallonia's plan – the “*Prime Femmes entrepreneurs*” – supports women entrepreneurs during pregnancy and maternity leave by providing a replacement and funding that covers 75% of their gross salary. Uptake, however, has been rather limited so far.

Facilitating women's access to entrepreneurial skills and networks

Women tend to be less exposed than men to entrepreneurial skills when growing up and have less access to entrepreneurial networks (OECD, 2023c). Scaling up and enhancing the reach of effective regional programmes can contribute to reducing these gaps. Wallonia provides training courses to women who want to set up and develop their own business, filling the gaps that might exist in entrepreneurial skills. “Women in Business”, the Brussels region's hub dedicated to support female entrepreneurship, provides different business support services, among them, training and networking. According to the 2023 barometer of female entrepreneurship (Hub Brussels, 2023), 80% of the women entrepreneurs interviewed find these policy actions useful, especially those related to fostering networking. “*Flanders Innovation and Entrepreneurship – VLAIO*” programme includes a network of women entrepreneurs (*Markant vzw*) and an award celebrating female entrepreneurial talent. Since 2022, the “*Fempreneurs* project” has aimed to support six hundred female entrepreneurs in Flanders over two years, through mentoring, bootcamps and digital workshops. The mentoring initiatives, which pairs recent female entrepreneurs with more experienced ones, might be particularly effective in accelerating knowledge and confidence.

Enhancing innovative SMEs' access to finance and public support

Small innovative firms play a central role in business dynamism and growth potential. They tend to grow more and faster than other firms, challenge incumbent firms (Dejardin, 2011), and can be a key source of sustainable value creation (Colombelli et al., 2016). Indicators suggest that despite relatively good performance compared with other European countries, Belgium's SME sector could be more strongly engaged in innovation. The country's economy-wide innovative performance has improved substantially over the past decade with spending on research and development (R&D) reaching 3.4% of GDP in 2021

from only 2.2% ten years ago. Indeed, Belgium has the highest business R&D intensity in the EU. As elsewhere, R&D spending is concentrated in large incumbent firms and in certain sectors, such as pharmaceuticals. Similarly, patents are concentrated in a few entities and a few sectors (Schoonackers, 2020).

SME's share of business research and development in Belgium is relatively low (Figure 5.10) suggesting a relatively large gap in engagement in research compared with big firms. Furthermore, analysis by the European Commission suggests business dynamism in the innovation ecosystem lags behind other EU countries, with a very low number of high growth firms in the most innovative sectors, including digital (European Commission, 2023a). In 2020, only 11% of Belgian businesses in information industries were start-up firms, compared to 25% across the OECD. Increasing the role of start-ups in the research and development landscape could potentially improve innovation outcomes in these sectors.

Ensuring appropriate innovation support to SMEs

Belgium's public support to business R&D spending is generous in international comparison and is centred on expenditure-based tax incentives (Box 5.6). In 2020, public support to business R&D spending was estimated at around 0.3% of GDP, comprising more than 70% tax incentives (from less than 30% in 2007) (OECD, 2023h). Large firms tend to be the main recipients of public support and disproportionately benefit from the R&D tax expenditures (Dumont, 2022). This concentration of public support in large firms is relatively pronounced in Belgium by international comparison (Figure 5.10). While international comparability is constrained by data limitations, indicators suggest that the share of R&D tax support accounted for by small firms was low by OECD standards and well below their contribution to business R&D spending at around 20% of the total.

Some recent research suggests that tax credits may not significantly increase R&D investment in Belgium (Dumont, 2019; Dumont, 2022). One reason is that some of the tax credit goes to R&D that would have taken place without it (deadweight loss). The same research finds that direct support – mostly subsidies provided by regions – and the partial exemption from payment of the withholding tax on the wages of R&D personnel, encouraged investment in R&D. To better support SMEs and improve the efficiency of public innovation support, a reform of R&D support should be considered, as recommended in past *Economic Surveys of Belgium* (OECD, 2020a; OECD, 2022b).

Box 5.6. Federal tax incentives for R&D in Belgium

Corporate Income Tax expenditure for R&D

The cost of R&D support in the CIT system amounted to EUR 1.3 billion in 2021, which is around 0.1% of GDP. This includes deductions for patent income (EUR 0.78 billion), tax credits (EUR 0.27 billion), and tax deduction (EUR 0.17). The support comprises the following (there are no specific provisions for SMEs):

- **R&D tax credit provides** 3.4% of tax credit for R&D spending in 2024. The tax credit is refundable if it has not been deducted for four subsequent tax years (since 2024, 5 years before). Where the credit carryover equals or exceeds EUR 703 190, the maximum credit claimed in any year is 25% of the carry-over amount.
- **R&D tax allowance (investment deduction)** provides a 20.5% tax allowance on R&D expenditure in 2024. The allowance cannot be refunded but can be carried over indefinitely. Where the allowance carryover equals or exceeds EUR 4 136 390, the maximum allowance claimed in any year is 25% of the carry-over amount.
- **Innovation Income Deduction**, a tax incentive available to all Belgian companies, including SMEs, based on income derived from intellectual property rights. Under the Deduction, a portion

of the income generated from intellectual property rights, such as patents, copyrighted software, and certain other intangible assets, may be tax-exempt or subject to reduced taxation.

Payroll Withholding Tax Credit

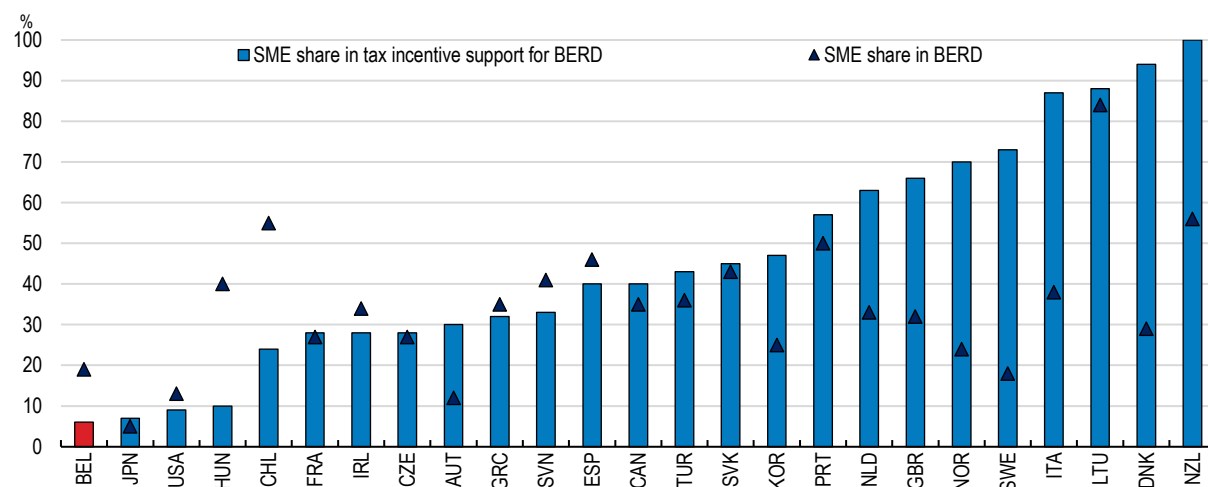
A refundable R&D payroll tax credit applies to research employees with specific diploma requirements (80% of the payroll tax for master's level and above and 40% for bachelors). The tax deduction is limited to the tax liability and is included in corporate-income taxation. "Young Innovative Companies" benefit from the payroll exemption without their R&D staff having to meet the qualification requirements. The cost of the measure is estimated at EUR 1.3 billion in 2021 (Belgian Court of Auditors, 2023).

Source: [OECD | INNOTAX Porta I474703-rd-tax-stats-belgium.pdf](https://www.oecd.org/tax/innotax/Porta%20I474703-rd-tax-stats-belgium.pdf) ([oecd.org](https://www.oecd.org/tax/innotax/Porta%20I474703-rd-tax-stats-belgium.pdf))

The efficiency of tax incentives for R&D activities could be increased by targeting small firms that are financially constrained. Evidence points to a stronger effect of the R&D tax credits and/or subsidies for these firms (Appelt et al., 2020; Dechezleprêtre et al., 2023) and, more generally, finds the impact of tax incentives to decline with firm size in Belgium (Dumont, 2019). Refunding the R&D tax credit every year instead of every four years could improve its effectiveness. Indeed, evidence suggests immediate refundability increases the share of SMEs receiving public R&D tax support (OECD, 2020a). Consideration should also be given to making tax incentives redeemable against payroll taxes like done in the Netherlands and thus disconnected from the profit position of firms. Research has found that this can triple firms' responsiveness to tax support (OECD, 2023a). Another option is to offer refundable R&D tax incentives (i.e. businesses receive payment from the tax authority if the value of the incentive exceeds the income tax otherwise owed). France, Canada, and Australia have such arrangements, for instance. Capping the total amount of public support that companies can receive or basing support on the increase in R&D spending rather than its level would also improve targeting and limit the fiscal cost of the measure.

Figure 5.10. Public support to business R&D mostly benefits large firms

Share of SMEs in business expenditure on R&D and tax incentive support, %



Note: Figures for Austria, Belgium, Estonia, Finland, Germany, Hungary, Italy, Lithuania, the Netherlands, New Zealand, Norway, Slovenia, and Switzerland, refer to 2019 instead of 2020. For Chile, figures refer to 2018, for Denmark and France, they refer to 2017 and for Spain to 2014. Figures for Canada and the United States (corporate claimants only) refer to 2013. In the case of Sweden, estimates of government tax relief refer to 2020 while direct funding figures refer to 2013. Some countries offer multiple R&D tax incentive schemes but are only able to report information for selected instruments. In the case of Belgium, figures refer to the payroll withholding tax exemption and the R&D tax credit.

Source: OECD R&D Tax Incentives Database, <http://oe.cd/rdtax>.

Ensuring good coordination between federal and regional government on SME tax support (which is entirely federal) and subsidies (which are largely regional) is important. Regional-level subsidies account for around 80% of direct public support to business R&D (grants and subsidies). This underscores the importance of coordinated support across federal and regional governments. Poor co-ordination can mean gaps in support in some dimensions and excessive support in others. Synchronised action across regions can boost outcomes by leveraging market size effects and technology spillovers across regions. Research found that measures are less efficient when the same company combines tax support measures and subsidies (Dumont 2019).

There is scope to improve the detection of abuse in the R&D tax support schemes (Schoonackers, 2020). In 2019, the Belgian Court of Auditors identified loopholes in the monitoring of exemptions of payroll withholding tax (Belgian Court of Auditors, 2019). Four years later, a follow-up audit found improvements in the monitoring of exemptions from withholding-tax payment regarding professional income, but no improvement as regards R&D. This partly reflects poor clarity in the legislation on the sharing of responsibilities on the exemption between the Federal Public Service Finance and Belspo – the federal public planning department in charge of science policy. This has led to legal disputes and undermined legal certainty (Belgian Court of Auditors, 2023). As recommended by the Court of Auditors, the eligibility criteria and the administrations' respective competences for monitoring should be clarified.

Developing non-bank sources of finance

Small innovative firms, especially at early stage of development, frequently face challenges in accessing financing due to their limited collateral and track record. Around one fifth of Belgian SMEs report that the lack of financial resources hinders their innovation potential (SPF Economie, 2023b). Since 2022, increases in interest rates have damped investment; the average cost of credit increased from 2.3% to 4.5% between mid-2022 and 2023 (UCM, 2023, SPF Economie, 2023a). A range of EU-funded programmes have been implemented to support investment in small firms. For instance, in 2023 and under the Invest-EU programme, the European Investment Fund signed agreements with major banks and regional public agencies to allocate up to around EUR 800 million to Belgian SMEs (European Commission, 2023d; EIF, 2023).

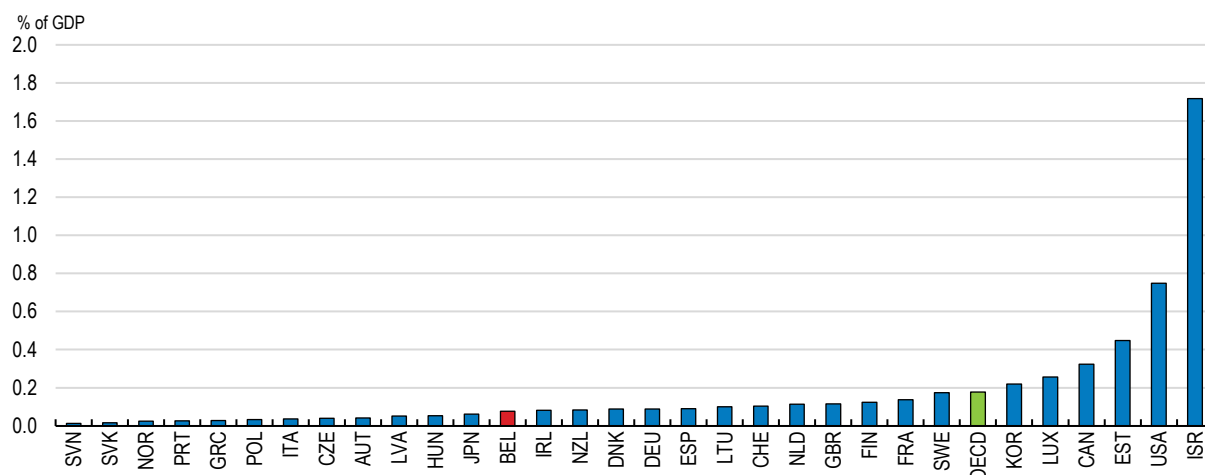
Belgian SMEs rely almost exclusively on bank loans to finance investment. Almost 83% report that equity financing and other forms of financing through capital injections as irrelevant to their business (SPF Economie, 2023e). Nevertheless, small innovative firms may have specific financial needs associated with their business models, necessitating alternative forms of financing, such as private equity investment and venture capital. Empirical evidence shows that companies financed by private venture capital investors have a greater increase in innovation output (Bertoni, 2012; Amess et al, 2016), and that venture capital has a positive causal impact on firms' growth (Peneder, 2009; Paglia and Harjoto, 2014) and encourages the creation of spin-off firms (Sampsá Samila, 2011). The share of venture capital investment has increased in the last 5 years in Belgium but remains relatively low compared to other OECD countries (Figure 5.11).

Equity markets can serve as viable alternative for firms financing, often complementing rather than replacing bank financing. Equity owners' willingness to take risk and tendency to evaluate firms according to their growth opportunities rather than the availability of collateral makes them the best suited investors for innovative firms (Demmou and Franco, 2021). However, small innovative firms face important barriers to access equity finance in OECD countries, including large information asymmetries, scarcity of transparent credit data, and regulatory obstacles (OECD, 2017). Reducing costs and simplifying listing requirements can facilitate smaller firms' access to equity markets. The issuance of preferred shares, which enables securing additional financing without relinquishing control of the company, can stimulate the adoption of such instruments (Boschmans, 2017). The corporate bond market could also be developed by

establishing a dedicated credit rating mechanism and a specialised framework for private bond placements by small companies, drawing from European examples such as Italy's mini-bond market.

Figure 5.11. Venture capital investment is less developed than in some OECD countries

Total venture capital investment, 2022



Source: OECD Entrepreneur Financing database.

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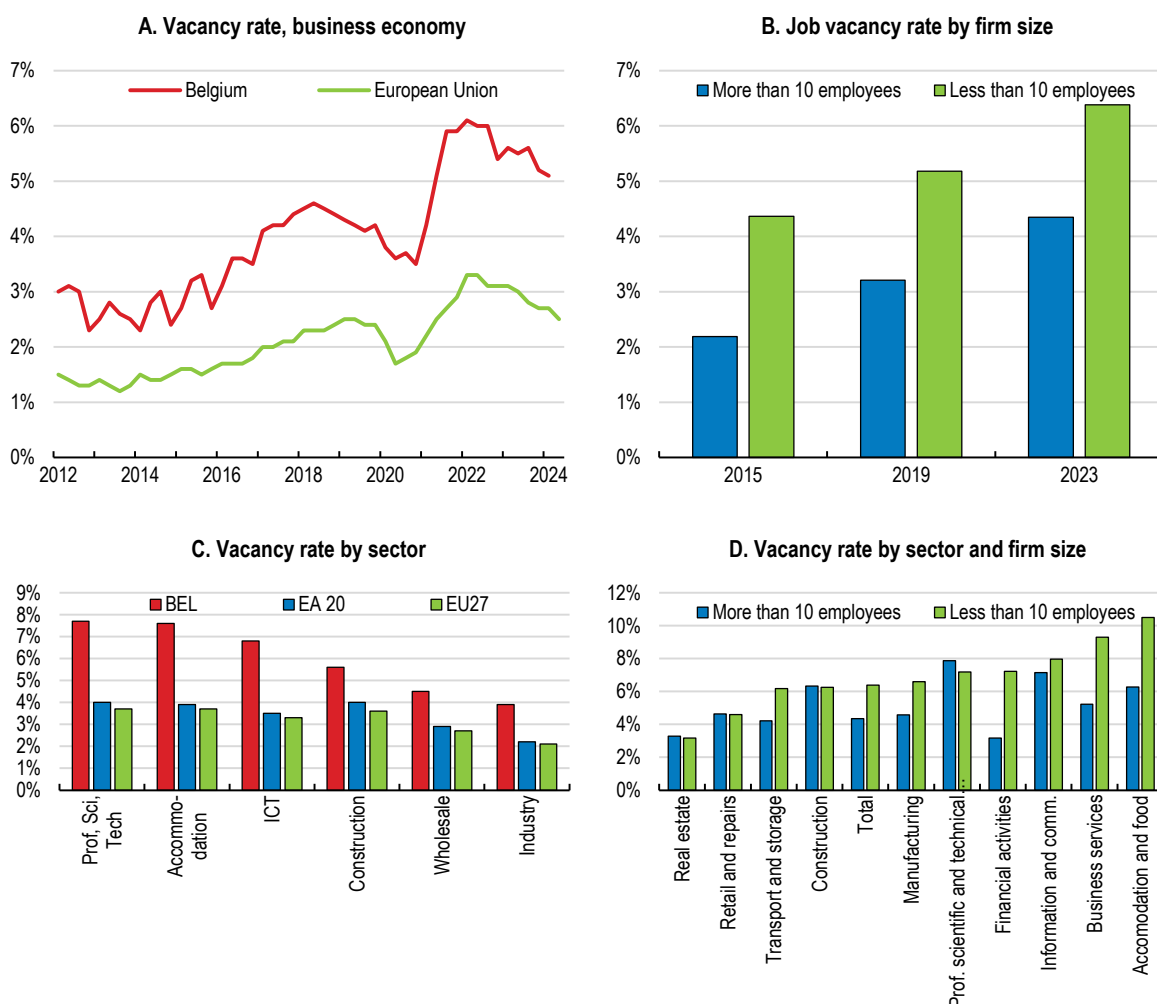
Belgium has taken initiatives to foster the provision of non-bank financing to SMEs. In 2015, the “Tax Shelter for start-ups and scale-ups” was introduced to encourage private taxpayers to invest in young SMEs (see Box 5.5). Estimates suggest this measure has mobilized around EUR 210 million of additional investment for 2 500 firms (around 0.2% of the total SMEs population) (SPF Economie, 2023d). The initial objective of the measure was to sustain innovative and rapidly growing firms. SMEs operating in the information and communication (ICT) sector were prominent among the beneficiaries. Meanwhile, only a small proportion of the beneficiaries were start-ups and around 70% of supporting firms had no employees. Female entrepreneurs were also underrepresented among beneficiaries. Analyses indicate that while ceilings on investment amounts and firm size have not been binding, relaxing conditions on the age of the firm and allowing deductions by the owner of the firm could increase take up (SPF Economie, 2023d).

The slow development of non-banking finance partly reflects a seemingly low level of trust in it. While over 70% of surveyed Belgian SMEs report feeling confident in talking with banks about financing, less than a third are comfortable with equity investors and venture capital enterprises (European Commission, 2021). Mistrust and low financial literacy likely play a role. Research emphasises that enhancing financial literacy among managers improves firms’ capital structure, with positive impact on SME growth (Hussain et al, 2018). It also underscores that trust is positively correlated with SME attitude towards equity financing (Dowling et al, 2019). Initiatives in Flanders (FINMIX) and the Brussels region (Hub Brussels) aim to promote non-banking finance among SMEs. Under these programmes, a panel of funding experts – typically representatives from banks, government, and private venture capitalists – provide SMEs with advice on financing. One goal of these “investment readiness” programmes is to address SME concerns about surrendering ownership and control from equity-type financing (OECD, 2015a). SMEs also get support for funding through Euroquity, a digital platform bringing together an international community of start-ups, investors and advisors. Similar programmes have been implemented in many OECD countries, such as the UK Investment Readiness Programme, or the Prep4Seed Investor Readiness Programme” by Enterprise Ireland. The extension of these programmes should be considered if cost-benefit evaluations are positive.

Supporting SMEs in finding and developing talent

Skill and labour shortages pose concrete challenges to SMEs. In 2023, 75% of Belgian SMEs declared that skill shortages negatively affect their general business activities, above the EU average of 63% (European Commission, 2023c). The issue has grown over the years and has become particularly acute post-COVID, due to a relatively tight labour market (see Chapter 2). Nevertheless, the vacancy rate has been higher than the EU average for at least 10 years, pointing to structural issues (Figure 5.12, Panel A). This problem, while having repercussions more broadly on the whole economy, affects directly and foremost SMEs, as the vacancy rate is higher in small enterprises than in large and medium-sized ones (Figure 5.12, Panel B; STATBEL, 2023). Vacancies are widespread among different sectors and levels of skills but are particularly pronounced in accommodation and food services; construction; information and communications technologies (ICT); and professional, scientific and technical services (Figure 5.12, Panel C and D).

Figure 5.12. Job vacancies have been high and widespread



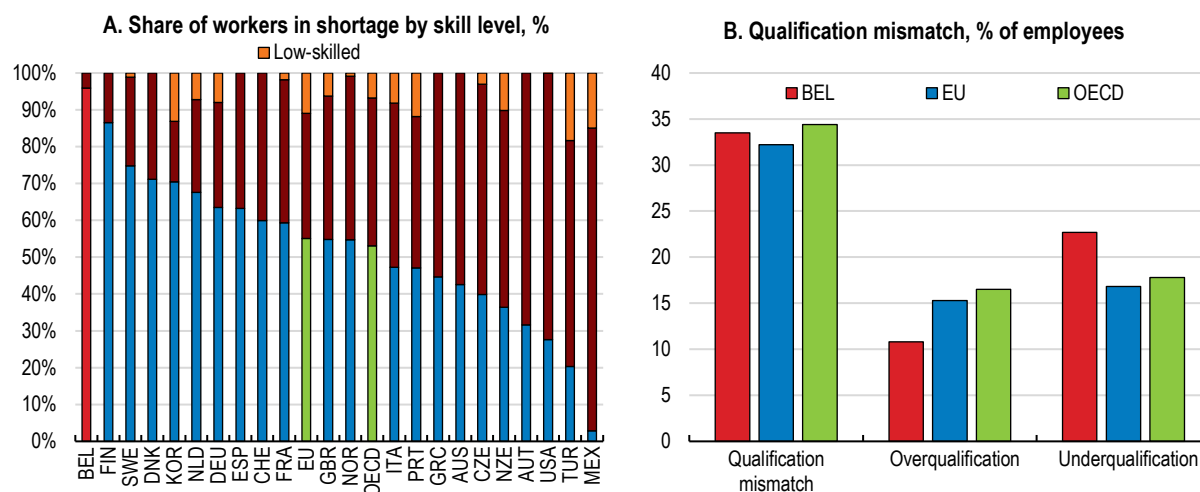
Note: Panel A shows the job vacancy rate in Belgium and EU27 business economies (NACE B-N). Panel C shows vacancy rates in i) Professional, scientific and technical activities; ii) Accommodation and food; iii) Information and Communication Technologies (ICT); iv) Construction; v) Wholesale and retail; vi) Industry. Data refer to 2023Q4.

Source : Eurostat – Statbel Enquête trimestrielle sur les postes vacants (offres d'emploi).

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Skill mismatch plays a major role in firms' recruitment difficulties. High skilled occupations account for a relatively high share of job vacancies in Belgium (Figure 5.13, Panel A, OECD, 2023f) and people with less than secondary education are overrepresented among jobseekers. Low levels of education and low work-related skills are listed as the two main barriers among people experiencing employment difficulties (Fernandez et al., 2020). While OECD indicators point to an average level of qualification mismatch in Belgium, they suggest underqualification of workers is pronounced by international comparison (Figure 5.13, Panel B). Skills shortages create competition between firms to attract talent and reinforces incentives to upskill their pool of employees. However, smaller firms are often penalised in this race because of challenges in competing on salary and benefits. Small firms also face more difficulties than larger firms in investing into training (OECD, 2023g; Williamson, 2002).

Figure 5.13. Indicators suggest skills mismatch relates to underqualification



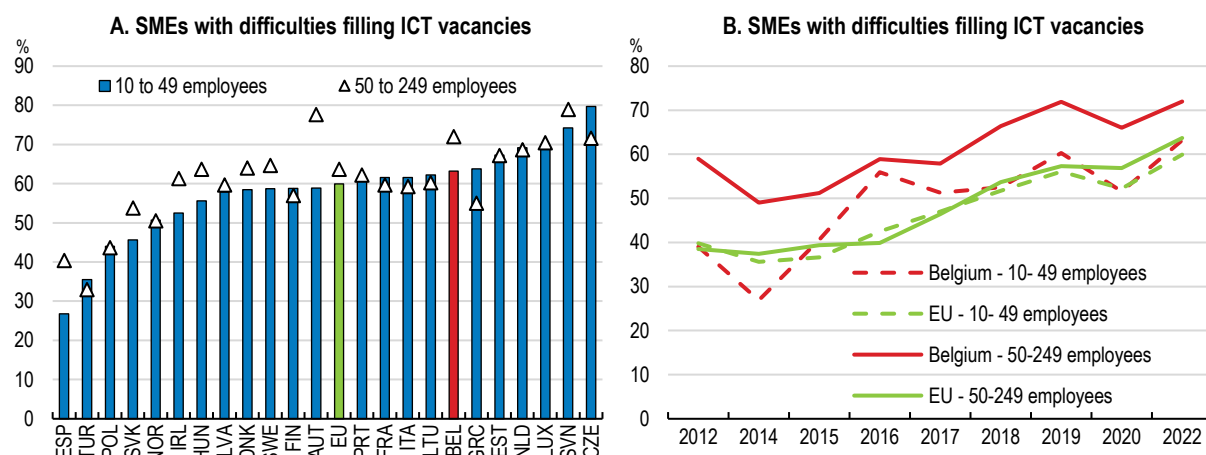
Note: In Panel A, high skilled occupations are ISCO occupational groups 1 to 3 (Managers, Professionals, Technicians and associate professions); medium skilled occupation correspond to ISCO occupational groups 4 to 8 (Clerical support workers, Service and sales workers, Skilled agricultural, fishery and forestry workers, Craft related trades workers and Plant and machine operators), and low skilled occupation correspond to group 9 (Elementary occupations). Shares of employment in each skill tier are computed as the corresponding employment in each group over the total number of workers in shortage in each country. Panel B measures the average percentage of workers that have a qualification that does not match their job's requirements. Data refer to 2019 in both graphs.

Source: OECD Skills for Jobs and World Indicators of Skills for Employment (oecd.org)

StatLink  <https://stat.link/h7v8pj>

Addressing shortages in STEM skills

The specialised, scientific, and technical activities sector represents a large segment of Belgian SMEs numerically, accounting for approximately 20% of the total active Belgian SMEs in 2022. Together with information and communication (around 5% of total active SMEs), this sector had the highest growth over the past decade, averaging 5.2% between 2012 and 2022. Recent OECD estimates show that this sector is where the needs for digital and technology, and scientific knowledge are greatest (OECD, 2022c). Digitalisation is increasing demand for STEM skills. More than 60% of SMEs reported hard-to-fill vacancies for jobs requiring ICT specialised skills. This share has increased significantly over the past decade (Figure 5.14).

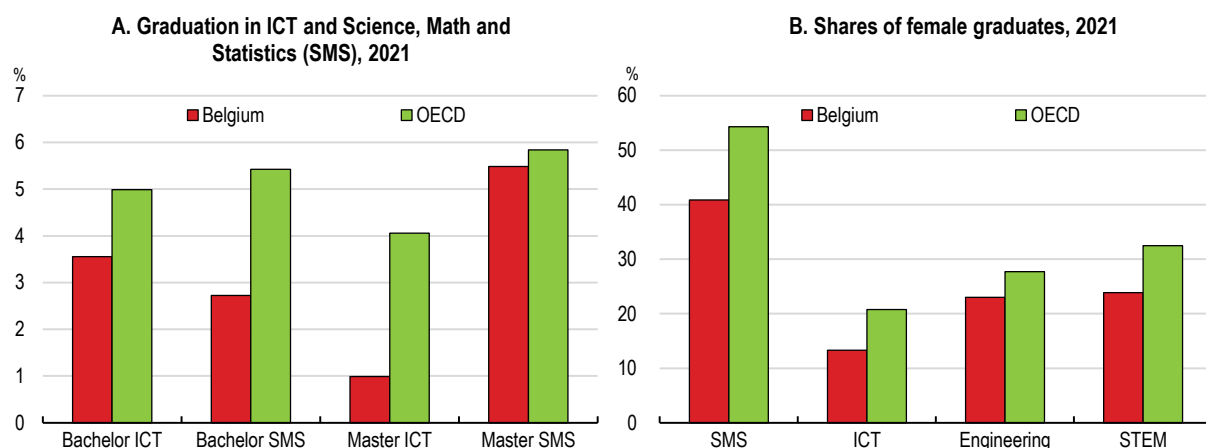
Figure 5.14. SMEs increasingly report difficulties in recruiting ICT experts


Note: Share of enterprises that had had hard-to-fill vacancies for jobs requiring ICT specialist skills among enterprises that recruited or tried to recruit ICT specialists by size class of enterprise.

Source: Eurostat.

StatLink <https://stat.link/lpbscv>

At the same time, Belgium has a relatively small share of graduates in skills critical for science and technology-based companies (SPF Economie, 2023c). Belgium has a higher-than-average share of the population who attained a tertiary education degree (45.8% against an OECD average of 40.4% as of 2022), but the share of tertiary graduates in the fields of natural sciences, mathematics and statistics, and ICT is one of the lowest in the OECD (Figure 5.15, Panel A). Moreover, Belgium performs poorly in terms of the share of female graduates in these disciplines (Figure 5.15 Panel B; OECD, 2023c). Contributory factors to low participation in STEM subjects, ranges from low levels of numerical skills, lack of qualified teachers and relative low wage premia in STEM-related careers in comparison with other EU countries (OECD, 2022c). Job vacancies are high in these fields and demand will likely increase with the digital transition. Encouraging a bigger uptake in these fields of study, in general and among female students, will help technology-based SMEs.

Figure 5.15. Belgium has enrolment and graduation shortfalls in key sectors for innovation


Note: Panel A shows graduates in each educational field as a percentage of the sum of graduates in all education fields. Panel B shows the share of female graduates. ICT refer to Information and Communication Technologies, SMS refer to Science, Math and Statistics and STEM refer to Science, Technology, Engineering and Mathematics.

Source: OECD Education at a Glance database.

StatLink <https://stat.link/xg2lyd>

There are numerous policy initiatives aimed at increasing the uptake of STEM disciplines, however coordination could be stronger. On a federal level, “*Woman in digital*”, inter alia, promotes a gender-neutral image of the digital sector and highlights its career advantages. Flanders’ “*STEM Agenda 2030*” promotes STEM careers and tracks progress through monitoring educational indicators. “*Wallonie Relance*” features several initiatives to raise awareness of STEM, including establishing a dedicated centre and efforts to boost collaboration between the public employment service and vocational training. Events organised by the Brussels region support and promote women’s entrepreneurship in technological fields (the Woman Ambassador for Technology and Sciences award and the Woman Digital Festival). While these examples, and other existing policy efforts, are welcome, coherence and coordination is also important, as highlighted by the previous Survey (OECD, 2022b). Germany, also a federal state, has been relatively successful in increasing the uptake of STEM disciplines. Notably, its policy includes the National STEM Forum, which helps ensure initiatives are tailored to their context but also coherent on a national level (Centre Jean Gol, 2020).

Reducing gender imbalances in STEM fields requires attention to educational choices. Promoting traditionally male-dominated fields to girls, combating gender biases among teachers regarding the perceived strengths of boys and girls in specific domains, can reshape preferences in educational decision-making (Brussino et Mc Brien, 2022). In the French Community of Belgium, the “Girls day, Boys day” project aims to introduce primary and secondary school students to educational and professional pathways that do not comply with traditional gender stereotypes. Early exposure to science, technology, and engineering for all children has been shown to reduce gender disparities in interest in technology (Master et al., 2017). In Italy, the implementation of a coding course specifically designed for female middle-school students led to a 10% rise in participants’ aspirations to become computer programmers (Carlana and Fort, 2020). Exposing young girls to mentoring from female STEM role models also has a significant positive impact on their attitudes towards technology (Guenaga et al., 2022). Other successful initiatives include one-to-one mentoring and hands-on training in technology.

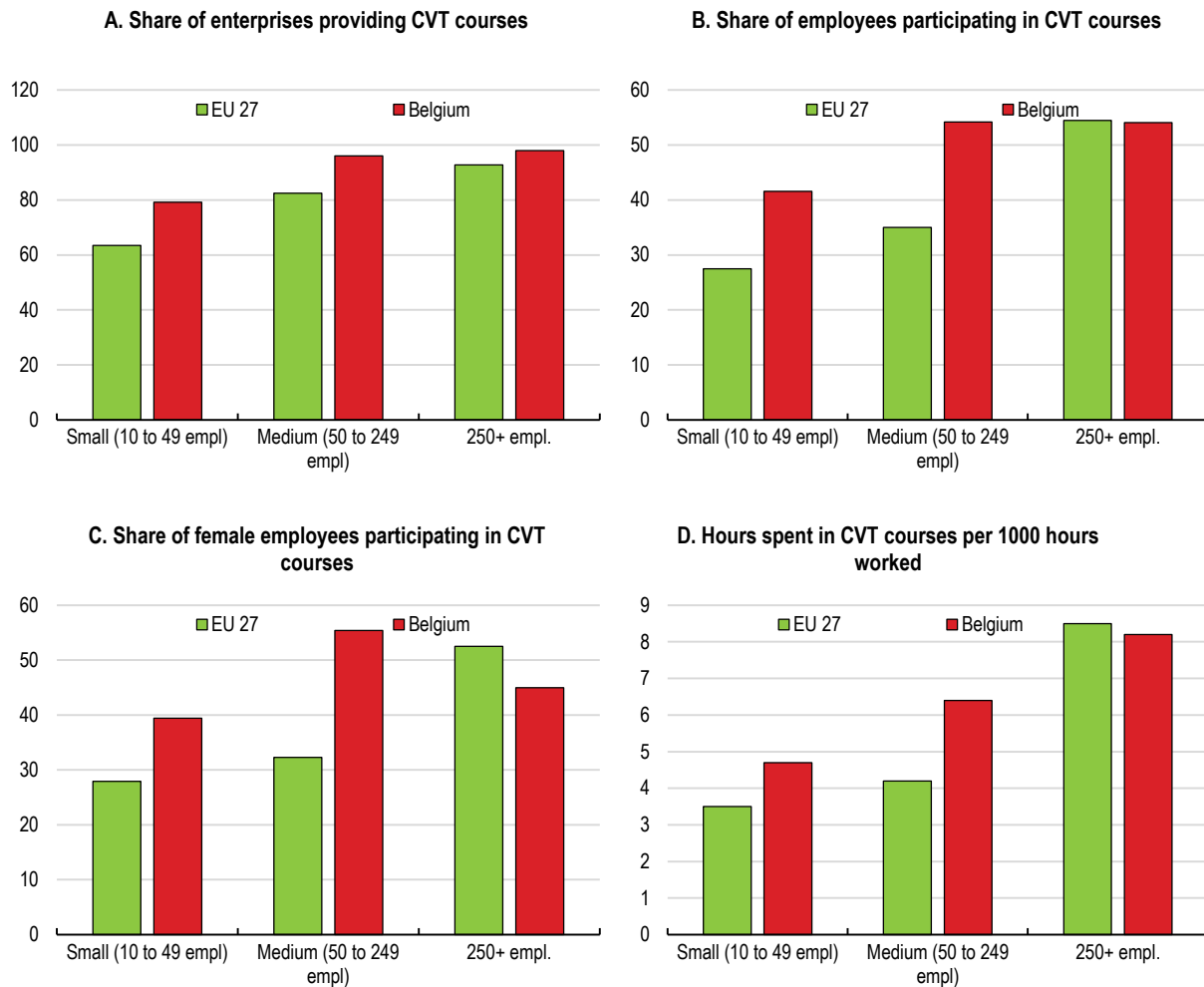
Supporting within-firm training

Skill shortages can also be eased by within-firm training. Upskilling and reskilling can be powerful tools for SMEs to confront skills shortages (OECD, 2023g). Belgian enterprises with more than 10 employees are above EU average, and among top performers in the EU, when it comes to providing vocational training (CVT). Furthermore, attendance in courses is relatively high compared with EU peers. This also applies to female participation and the good performance extends to the relative number of hours spent in CVT courses (Figure 5.16). However, a large majority of Belgian SMEs have less than 10 employees. Micro enterprises tend to face substantial challenges in enhancing employee skills and tend to make much less use of training support initiatives than larger companies (ILO, 2017).

Smaller firms face particular barriers regarding investment in training and skills development. Such firms do not usually have specialised human resources departments. This implies greater difficulties in knowing about public support available for training courses, and the administration required to access it. Moreover, small firms can find it difficult to create time for employees to attend training because employee absence makes it difficult to conduct everyday business. The resourcing challenges of training for small business is reflected in Belgium’s Labour Deal. The law, enacted in October 2023, entitles employees to 5 days of training per year, except for companies with fewer than 10 employees. While this provision might relieve smaller firms from training obligations that are hard to plan for, it could also act as a deterrent for firms from expanding over the threshold of 9 employees and make micro firms less attractive to employees. An alternative policy would be to introduce training entitlements for micro firms but accompany this with support that helps overcome the practical challenges.

Belgium's regional governments are responsible for much of policy in encouraging employee training in SMEs. A range of tools are used. For example, the “*Flanders Innovation and Entrepreneurship – VLAIO*”, measures include the SME e-wallet, that provides financial aid to entrepreneurs for investing in workforce skills development. Similarly, the “*Walloon Office for professional training and employment – Forem*”, provides training cheques that subsidise half of course costs in approved training centres. In the Brussels region, training allowances cover up to 60% of training costs for small enterprises, and up to 70% for micro enterprises.

Figure 5.16. Belgian SMEs perform relatively well in providing continuing vocational training (CVT)



Note: Panel A, B and C show the percentage relative to the overall firms' population, while panel D show the hours per 1000 hours worked. Data refer to 2020. Continuing vocational training refers to training after initial education or after entry into working life.

Source: Eurostat.

StatLink  <https://stat.link/nrwfp7>

Additional measures should be considered. Belgian sectoral training funds, which play an important role in in-firm upskilling, have developed initiatives that might be worth scaling up (Box 5.7), notably initiatives aimed at making it easier and more advantageous for micro firms to engage in upskilling activities. Providing consultancy to micro firms to develop tailor-made training solutions could also be considered as in Flanders for instance. The '*Competency Checks for Enterprises*' is an EU-funded programme for SMEs in Flanders in which training experts work with both employees and employers to identify training needs and develop a customised action plan. This initiative could be made permanent if it proves successful with a limited impact on public finances.

Box 5.7. The role of sectoral training funds in Belgium

In Belgium, the sectoral training funds are jointly managed by employers and employee organisations and are not directly linked to national or regional governments. The funds provide an interface between business needs and external training programs, identify training needs and support in-company training (Cedefop, 2008). Most training funds were created in the early 1990s, following an intersectoral agreement between employers and employees to spend 0.18% of the gross wage bill on training and employment support initiatives. The funds have developed specific measures to address training for micro firms, these include:

- a) Consultancy visits by training experts to SMEs. These visits help identify training needs to develop tailor-made training solutions. Sectoral funds liaise with training partners on behalf of the company and directly pass on information on training opportunities.
- b) Short courses and modular training programmes that take place at the end of the working day or during lunch breaks. Some funds also endeavour to make access to training more convenient, through for instance workshop-buses.
- c) Mentoring systems for "on-the-job" training that support experienced workers to become coaches of new recruits.

In-work training policies, particularly as regards SMEs in other OECD countries, also provides potential inspiration for new measures in Belgium (Box 5.8). Perhaps of particular interest are "external human resource department"-like services to micro firms, which provide logistic and financial aid to replace employees engaged in training activities and to help firms take advantage of the different – and often numerous – support programmes.

Enhancing the engagement of SMEs in vocational and educational training (VET) based on dual learning (i.e., where students complement their school-based theoretical learning with practical training that takes place in a company) can also help firms ease skills shortages. Participating in dual learning programmes potentially helps establish a training culture inside the enterprise, which can benefit experienced workers as well as trainees. A deeper engagement of SMEs in dual learning training, especially if firms are involved in designing the training programmes, might help develop a pool of potential new employees with skills particularly useful for SMEs (Kuczera, 2017).

Box 5.8. Supporting small firms in workforce upskilling

In Denmark, the *Arbejdsmarkedssuddannelser (AMU)* system provides external human resource department services to micro firms, including the evaluation of training needs and the identification of courses and the provision of certifications. The adult education system also helps firms find replacement workers and provides wage subsidies to employers for hiring long-term unemployed workers as replacements.

In France, the *AFEST – Action de formation en situation de travail* – aims to formalise and structure on-the-job informal training in SMEs. The programme allows firms and workers to access financial incentives that are normally reserved for organised forms of training. The benefits of the programme are greater for micro- and small-sized firms to help overcome the particular challenges of organising training in small enterprises (OECD, 2021b). However, early evidence suggests the programme may have difficulties, as some companies have been found to use AFEST funds to finance business activities or teach overly focused skills (Duclos, 2021).

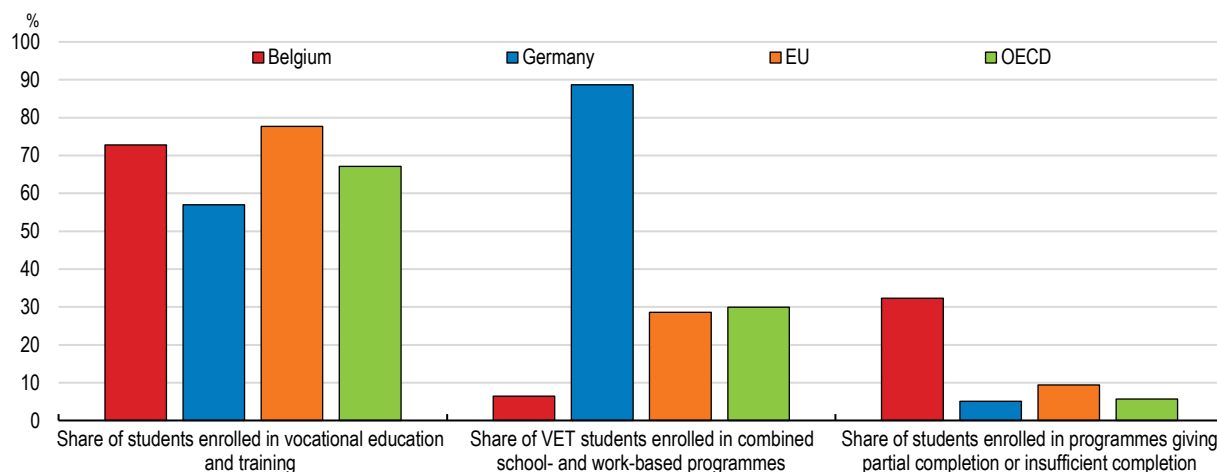
In Netherlands, the *MKB! Dee* is a subsidy scheme that aims to stimulate SME investment in training and skills development. SMEs are asked to propose solutions for the barriers encountered in training and helps them carry them out. The scheme is reserved to the firms which have the capacity to elaborate a coherent upskilling strategy. *MKB! Dee* allows proposals by partnerships of small businesses, which helps access. Details of the projects that received funding are published, helping provide templates for other businesses to follow (OECD, 2021b).

In Germany, under the 2019 Qualification Opportunities Law, in-firm training subsidies vary inversely with firm size. Companies with more than 250 workers can receive subsidies up to 20% of the training cost, while the training cost is fully covered for micro enterprises. In addition to direct training costs, micro enterprises can also receive a subsidy that covers up to 100% of the wage bill of the employee involved in the training.

Many SMEs however are reluctant to participate in dual learning programmes, as they consider regulation and bureaucracy as overly burdensome. In addition, surveys of firms suggest there is a general problem of weak interest in such courses by students, that often leads to poor quality candidates in these courses. In Belgium there is a common perception among students and parents that dual-learning-based VET is sub-optimal, compared to the mainstream school-based vocational education, which also provides opportunities for internships in the school curriculum, causing more talented students avoiding this educational path (Fédération Wallonie-Bruxelles et al., 2022). As of 2021, the share of all upper-secondary students enrolled in vocational programmes is relatively high in Belgium, reaching 73%. Yet, the proportion of students in dual education (i.e., vocational programmes that combine traditional classroom-based learning and on-the-job training) is only 6%, far below the OECD average of 30%. In addition, the share of students enrolled in programmes that lead to partial of upper secondary education or are insufficient for level completion is 5 times higher than the OECD average (Figure 5.17).

Figure 5.17. Few students participate in vocational dual learning

2021, percentage



Source: OECD Education at a Glance database.

StatLink  <https://stat.link/z4pgu9>

More policy effort is needed to make dual learning a useful resource for SMEs. First, as the success story of Germany's VET based on dual learning shows, enhancing the attractiveness of programmes to students is important. This partly requires that courses have adequate enrolment numbers and a sufficient range of offerings, so that the qualification holds significant value in the job market. This in turn requires widespread participation by firms (including SMEs). To this end, Belgian regions have deployed many initiatives, mainly involving financial incentives and awareness-raising programmes. For instance, each region provides bonus grants to firms taking on apprentices. Additionally, in Flanders a premium is available for students engaged in dual training at the secondary level. However, other issues remain, including the administrative burden that SMEs face or anticipate. Reinforcing special bodies that match employers with students looking for workplace training and facilitate cooperation amongst different SMEs in dealing with administrative duties involved in apprenticeship training as is done in Australia and Norway can help (Adalet McGowan et al, 2020). Encouraging SMEs to offer training jointly as in Switzerland, Austria, or Norway, could also facilitate their participation in work-based learning (Kuczera and Shinyoung, 2019).

Table 5.2. Policy Recommendations to improve growth, productivity and innovation in SMEs

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Improving the business environment for SMEs	
Regulatory burdens and administrative costs weigh disproportionately on small firms, hampering business creation and growth.	Adopt a whole-of-government strategy to reduce administrative costs for businesses. Continue to develop a single point of contact to guide small firms through administrative processes, making the most of digital innovations. Regularly review licences and permits and assess their utility.
There is a wide range of support measures to SMEs. Beyond complexity, size-contingent measures pose risks to business growth and tax compliance.	Perform a sound assessment of SME support and phase out or adjust programmes that are redundant or ineffective.
Reduced social security contributions for initially hiring employees are increasingly used on high wages and established firms.	Limit the duration of the reduction in social security contributions for first hirings and transform the reduction into a lump sum payment to increase use by young small firms and raise its cost-effectiveness.
Transparency in lobbying activities is inadequate. Small firms are typically disadvantaged in lobbying compared with large businesses.	Reform legislation on lobbying, including by introducing a transparency register and legislative footprint that covers members of parliament and government in their dealings with lobbyists and third parties.
Encouraging women's entrepreneurship	
Though declining, the gender gap in entrepreneurship remains significant. Women face multiple challenges to start a growth-oriented business, including unsupportive social norms, greater difficulty to access finance, lower levels of entrepreneurial skills and less effective entrepreneurial networks.	Promote successful female entrepreneurs as role models. Address gender gaps in fields of study relevant for innovative entrepreneurship, including STEM. Continue to develop training and mentoring programmes targeted to female entrepreneurs.
Combining entrepreneurship and family life is challenging.	Support female entrepreneurs during pregnancy and maternity by helping them find and finance replacement managers.
Enhancing innovative SMEs' access to finance and public support	
Belgium's small firms typically rely only on bank financing. The low use of other financing options potentially constrains growth and investment opportunities.	Develop investment readiness programmes to foster SMEs' demand for non-banking finance, including venture capital and other forms of alternative finance.
Most tax-based R&D support goes to large firms and is skewed towards tax incentives for which evidence points to limited effectiveness.	Better tune tax incentives for R&D spending by applying them to increases in R&D spending (rather than to its level) and by capping tax support. Consider restricting the refundable tax credit to small young firms. Make refunds every year instead of after four years.
Supporting SMEs in finding and developing talent	
Skills shortages hamper firms' growth. Developing a coherent upskilling strategy, accessing public support for training courses and arranging cover when employees take time out for training are challenging for small firms.	Help SMEs develop a training strategy, assist the temporary replacement of employees in training, and ensure the best use of existing public programmes. Develop short modular training programmes and facilitate access, for instance via mobile training units.
Vocational and educational training based on dual learning is underdeveloped in Belgium, especially in small firms.	Ease the legislative and administrative burdens for SMEs to participate in dual learning, such as accreditation procedures. Reinforce bodies in charge of connecting vocational schools and firms. Encourage SMEs to develop joint training.

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Belgium's economy has been relatively resilient to recent shocks and is expected to continue to grow steadily. Public finances have deteriorated though. In absence of fiscal consolidation, the debt-to-GDP ratio is projected to rise fast. Cutting ineffective public spending and reforming the budgetary framework to increase accountability across governments would help ensure public finances are on a sustainable path. Reforms to taxes and benefits could foster labour market activation and expand the tax base. Strengthening prevention and return-to-work programmes could contribute to tackling the high and increasing take up of disability benefits and better support employment of people with reduced work capacity. A coordinated strategy to reduce administrative costs and facilitate small firms' access to training could increase business dynamism and productivity. Targeted support for female entrepreneurs could also unlock additional potential of the SME sector. Achieving the green transition requires setting up binding targets and improving coordination of climate policy across federal and regional governments. Easing procedures and improved financing schemes would help deploy renewable energy production. Transparency in future environmental standards with adequate and well-targeted financial incentives would sustain household investment in energy efficiency and electrification, particularly in the transportation and building renovation sectors.

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