OECD Economic Surveys
BELGIUM

JUNE 2022

OECD

OECD Economic Surveys: Belgium 2022

Please cite this publication as:
OECD (2022), *OECD Economic Surveys: Belgium 2022*, OECD Publishing, Paris, https://doi.org/10.1787/01c0a8f0-en.

ISBN 978-92-64-81983-2 (print)
ISBN 978-92-64-43892-7 (pdf)
ISBN 978-92-64-39854-2 (HTML)
ISBN 978-92-64-65580-5 (epub)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Belgium
ISSN 1995-3704 (print)
ISSN 1999-0766 (online)

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Corrigenda to publications may be found on line at: www.oecd.org/about/publishing/corrigenda.htm.

Foreword

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. The economic situation and policies of Belgium were reviewed by the Committee on 14 April 2022. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 11 May 2022.

The Secretariat's draft report was prepared for the Committee by Müge Adalet McGowan and Nicolas Gonne under the supervision of Aida Caldera Sánchez. Statistical research assistance was provided by Steven Cassimon, editorial assistance by Karimatou Diallo and communication assistance by Nathalie Bienvenu. The previous Survey of Belgium was issued in February 2020. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at https://www.oecd.org/eco/surveys/.

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Basic statistics of Belgium, 2021[1]

Numbers in parentheses refer to the OECD average[2]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2020)	11.5		Population density per km² (2020)	381.2	(38.7)
Under 15 (%, 2020)	17.0	(17.8)	Life expectancy at birth (years, 2020)	80.8	(79.7)
Over 65 (%, 2020)	19.3	(17.4)	Men (2020)	78.6	(77.0)
International migrant stock (% of population, 2019)	17.2	(13.2)	Women (2020)	83.1	(82.5)
Latest 5-year average growth (%)	0.5	(0.6)	Latest general election		May-2019
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2020)		
In current prices (billion USD)	598.9		Agriculture, forestry and fishing	0.7	(2.7)
In current prices (billion EUR)	506.2		Industry including construction	21.7	(26.2)
Latest 5-year average real growth (%)	1.2	(1.5)	Services	77.6	(71.1)
Per capita (thousand USD PPP, 2020)	53.1	(46.2)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure (OECD: 2020)	54.9	(48.5)	Gross financial debt (OECD: 2020)	128.6	(133.5)
Revenue (OECD: 2020)	49.4	(38.1)	Net financial debt (OECD: 2020)	88.6	(81.2)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.85		Main exports (% of total merchandise exports, 2020)		
PPP exchange rate (USA = 1)	0.73		Chemicals and related products, n.e.s.	34.0	
In per cent of GDP			Machinery and transport equipment	22.8	
Exports of goods and services	85.5	(54.6)	Manufactured goods	16.2	
Imports of goods and services	84.2	(51.1)	Main imports (% of total merchandise imports, 2020)		
Current account balance	-0.4	(0.1)	Machinery and transport equipment	27.9	
Net international investment position	54.7		Chemicals and related products, n.e.s.	27.4	
			Manufactured goods	13.0	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %, OECD: 2020)	51.1	(55.1)	Unemployment rate, Labour Force Survey (aged 15 and over, %, OECD: 2020)	6.3	(7.1)
Men (OECD: 2020)	55.2	(63.0)	Youth (aged 15-24, %)	18.2	(12.8)
Women (OECD: 2020)	47.1	(47.7)	Long-term unemployed (1 year and over, %, 2020)	2.3	(1.3)
Participation rate (aged 15 and over, %, 2020)	53.8	(59.5)	Tertiary educational attainment (aged 25-64, %, 2020)	42.4	(39.0)
Average hours worked per year (2020)	1,481	(1,687)	Gross domestic expenditure on R&D (% of GDP, 2018)	2.8	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2020)	4.4	(3.7)	CO2 emissions from fuel combustion per capita (tonnes, 2019)	7.9	(8.3)
Renewables (%, 2020)	9.4	(11.9)	Water abstractions per capita (1 000 m³, 2018)	0.4	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2019)	93.1	(61.7)	Municipal waste per capita (tonnes, 2020)	0.4	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2019, OECD: latest available)	0.262	(0.317)	Education outcomes (PISA score, 2018)		
Relative poverty rate (%, 2019, OECD: 2018)	8.1	(11.7)	Reading	493	(485)
Median disposable household income (thousand USD PPP, 2019, OECD: 2018)	33.6	(25.4)	Mathematics	508	(487)
Public and private spending (% of GDP)			Science	499	(487)
Health care (2019)	10.7	(8.8)	Share of women in parliament (%)	42.0	(32.4)
Pensions (2017)	11.5	(8.6)	Net official development assistance (% of GNI, 2017)	0.4	(0.4)
Education (% of GNI, 2020)	6.0	(4.6)			

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

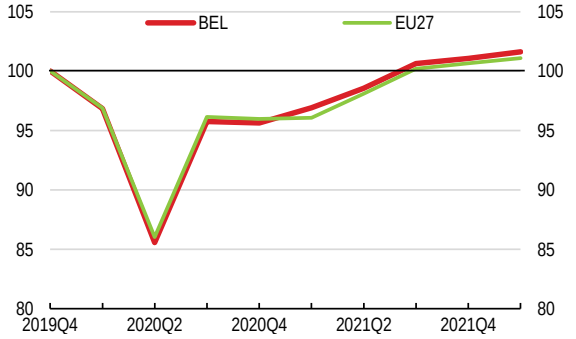
Executive summary

Policies have enabled a robust recovery from the pandemic, but risks have increased

Timely and extensive policy support and high vaccination rates enabled a swift recovery of GDP to pre-pandemic levels (Figure 1**). However, supply constraints, labour shortages and high inflation are weighing on the recovery.**

Figure 1. Activity has rebounded from the pandemic

Real GDP, 2019Q4 = 100



Source: OECD Economic outlook (database).

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The effects of the war in Ukraine and elevated uncertainty add to the existing challenges from rising inflationary and supply pressures and the imbalanced recovery from the pandemic. Despite a GDP growth of 6.2% in 2021 and overall resilience of labour markets to the pandemic, the recovery was uneven, with a disproportionate effect of the pandemic on low-skilled and young workers. Inflation increased to record highs and vacancy rates have risen significantly to 4.7%, reflecting skill mismatches and low activity rates.

The short-term outlook is subject to particularly high uncertainty. Growth is projected to slow down (Table 1), with lower external demand and the EU embargo on Russian oil adding to high inflation, despite high household savings, automatic wage indexation and energy support measures partially mitigating the adverse effects. In the near-term, fiscal policy can provide temporary, well-targeted and means-tested support to cushion the immediate effects of the commodity and food price shocks on vulnerable households and firms.

Reskilling and enhancing the employability of vulnerable groups can help address labour shortages. Active labour market policies should be targeted to groups with large employment gaps (long-term unemployed, low-skilled, mothers with young children, migrants and those with disabilities). The use of statistical tools should be expanded to allow interventions at an earlier stage, and services, especially training, should be tailored to individual needs of disadvantaged workers.

Reform of the wage setting mechanism at the firm level, while keeping high levels of wage coordination which contributes to low wage inequality, can help boost reallocation. Decentralised wage bargaining, within the framework of sector-level agreements, should be used more to better align wages with productivity at the individual firm level. This would help high-performing firms to attract skilled workers and grow, and lower-productivity firms to overcome a temporary drop in demand and reduce their risk of being turned into a "zombie firm", raising productivity growth.

Table 1. The growth outlook has deteriorated

	2021	2022	2023
Gross domestic product	6.2	2.4	1.0
Private consumption	6.4	3.6	0.9
Unemployment rate	6.3	6.0	6.4
Consumer price index	3.2	9.0	4.8
Fiscal balance (% of GDP)	-5.5	-5.6	-4.8
Public debt (% of GDP)	108.4	106.1	107.2

Source: OECD Economic outlook (database).

The recovery plans provide an opportunity to support the recovery and fasten the digital transformation and the green transition. Supply bottlenecks and rising cost of materials, highly regulated construction permits and environmental procedures can be a barrier to the implementation of major investments, most notably in 5G and building renovation. All regions have committed to streamline these procedures, but efforts should be frontloaded.

Medium-term fiscal challenges should be addressed

Public debt increased to 108.4% of GDP in 2021 and sizeable efforts will be needed to stabilise and lower the debt-to-GDP ratio.

A medium-term consolidation strategy, based on spending reviews, should be used to start to

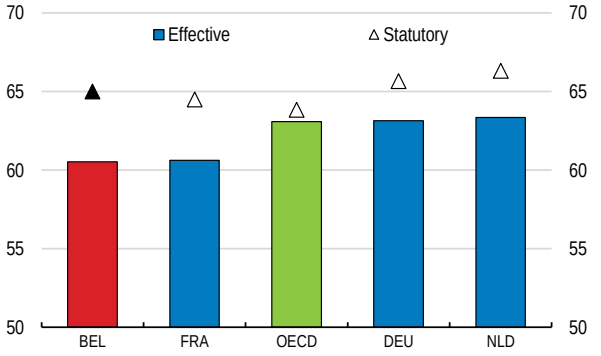
lower public spending and the debt-to-GDP ratio. Public spending, at around 55% of GDP in 2021, is high and there is room to improve spending efficiency in some areas (e.g. education). There are gaps in the fiscal framework, including the lack of multiannual budgeting and expenditure rules, which can decrease transparency, consistency and effectiveness of fiscal policy over time. Strengthening the mandate of the High Council of Finance to provide transparent, uniform and highly visible in-depth analysis and monitoring of public finances at different levels of government, even if it can't impose binding targets or recommendations, can also help.

A broad tax reform is planned following detailed impact assessments analysing the effects on different important socio-economic indicators. The tax wedge for low-wage workers remains above the OECD average, which lowers labour market participation and purchasing power of lower-income households. There is scope to broaden the base by reducing regressive tax expenditures. As part of the planned reform, introducing a progressive tax rate schedule for all types of capital should be considered.

Pension expenditures are projected to increase from 12.2% to 15.2% of GDP by 2070 and the effective retirement age remains low (Figure 2**).** A pension reform focusing on boosting the employment of older workers is foreseen in the recovery plan, which is welcome. A rise in the effective age of exit from the labour market could be encouraged by introducing penalties and bonuses for those retiring before and after the statutory retirement age. Upskilling is needed to maintain the employability of older workers, but their lifelong learning participation is low. Incomplete access to information and guidance regarding training and weak support from employers are barriers to participation among older workers.

Figure 2. The effective retirement rate is low

Average effective age of labour market exit and statutory pensionable age, 2020



Source: OECD (2021), Pensions at a Glance.

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Increasing equality of opportunity for disadvantaged groups is key

Income inequality is low, but reforms are needed to improve equal access to opportunities. Poverty risks are high for the unemployed, inactive and the low skilled. Large employment gaps among mothers with young children, migrants and those with disabilities reflect low skills, especially digital, and weak work incentives. Inequality in education is high (Figure 3): disadvantaged students accumulate learning losses of over 3 years by age 15. Moreover, 70% of low-income households are overburdened by housing costs.

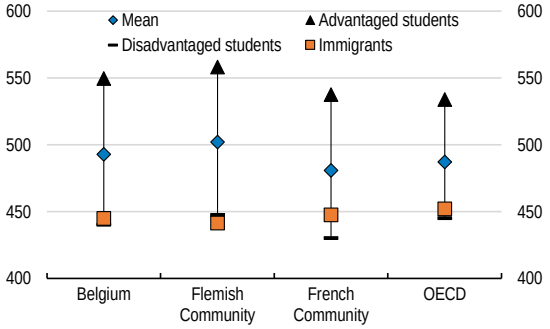
Reforms are needed at all levels of government given division of competencies. A number of measures in the recovery plans reflect different policy priorities and needs and can help ensure that the digital and green transitions do not exacerbate the social divide.

Strengthened work incentives for single parents and policies to facilitate the return to work of those on disability and sickness benefits are needed. Currently, the labour market participation of low-income single parents, especially women, is discouraged by higher taxes and lower benefits when taking up employment. In-work benefits would support employment and avoid long-term benefit dependency. Gaps in individual support for sickness and disability beneficiaries hamper their return to work.

Gaps in participation in lifelong learning by age and skills are large. Effective career guidance to reach those who need it the most and have difficulties understanding the high number and complexity of lifelong learning schemes offered by various different authorities is needed. As career guidance is increasingly delivered digitally, options for face-to-face delivery should remain for those with poor digital skills or access.

Figure 3. Inequity in education in high

PISA reading score, 2018



Note: Immigrants are students whose mother and father were born in a country other than where the PISA test was taken.
Source: OECD PISA 2018 database.

StatLink https://stat.link/aimetc

Disparities in education outcomes in compulsory education should be reduced. Schools are incentivised to diversify their student intake, but not to achieve good educational outcomes for weaker students. Reliable performance indicators and other data on successful study progression should be used to inform school funding based on educational improvements made with disadvantaged students. Low mobility between general and vocational tracks reduce the prospects of students from disadvantaged backgrounds.

Stronger incentives and training for new teachers can reduce attrition and attract teachers to schools with a high concentration of disadvantaged pupils. Induction programmes for new teachers should be strengthened to provide a smooth transition into the profession. Rewarding teaching in disadvantaged schools with financial incentives or improved and stable career prospects can also help.

Lack of affordable and quality housing can increase residential segregation and exacerbate barriers to opportunity. Social housing supply falls vastly below demand, especially in large cities, such as Brussels. More low-income households should be eligible to rental support in the near-term to complement plans to increase the stock of social housing.

Addressing the green transition requires bold reforms and investments

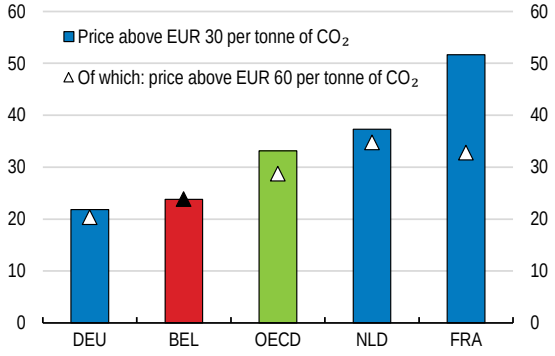
Increasing coordination and coherence across federal and regional governments and strengthening carbon prices to guide private investors is key.

Better coordination across governments is needed to meet climate and energy targets. The update of the national energy and climate plan should present a more coherent path to achieve national targets and an integrated national overview of the federal and regional plans. Reaching internal effort sharing of the 2020 climate objectives took seven years, and lessons from this process should be used to avoid delays for 2030 climate objectives and targets.

Emissions not subject to the EU Emissions Trading System, such as buildings and transport, do not have an explicit carbon price, with a low pricing of carbon emissions (Figure 4). Uniform carbon pricing in the medium-term, once the current energy shock subsides, would effectively mitigate emissions, but needs to be complemented by flanking measures to support vulnerable households, a clear and predictable regulatory environment and support to green innovation.

Figure 4. More effective pricing of carbon emissions is needed

Share of total CO_2 emissions from energy use, 2018



Note: Includes explicit carbon pricing from carbon taxes, ETS and fuel taxes, not other market and regulatory measures or public service obligations.
Source: OECD (2022), Effective Carbon Rates database.

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Main findings and recommendations

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring a strong recovery and addressing medium-term fiscal challenges	
The planned investments in the recovery plans could be delayed by lengthy regional permit procedures.	Frontload reform of construction and environment permits to ensure timely and effective implementation of the recovery plans.
The economic rebound from the pandemic has been rapid, but risks to the recovery have been elevated by the war in Ukraine.	When providing fiscal support to vulnerable households and firms affected by high energy prices, ensure that it is targeted and temporary.
Fiscal support during the pandemic was appropriate, but increased the public debt as a share of GDP by around 10% from 2019. Public spending is one of the highest in the OECD.	Start to lower public spending and the public debt to GDP ratio through a medium-term consolidation strategy, based on spending reviews.
Gaps in the fiscal framework can lower the effectiveness of implementing a medium-term fiscal strategy.	Strengthen the rules-based fiscal framework, for example through the introduction of multiannual budgeting, including an expenditure rule. 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 levels of government, based on a uniform methodology.
Taxation remains tilted towards labour, while there is scope to broaden the tax base eroded by a number of regressive tax expenditures. Differences in taxation of different types of financial income increase capital misallocation and there is no personal capital gains tax.	Reduce tax expenditures that do not benefit low-income households to finance lower labour taxation for low-wage earners. Consider introducing a progressive tax rate schedule for taxation of all types of capital, as part of the properly prepared broad tax reform.
The effective age of exit from the labour market is low. Pension reforms should be accompanied by higher employment of older workers, but their participation in lifelong learning is low.	Introduce penalties and bonuses for retirement before and after the statutory retirement age. Increase the participation of older workers in lifelong learning by providing guidance for training selection.
The way wages are set for individual workers and firms may be hindering job reallocation and lowering productivity growth.	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.
Addressing the green transition more effectively	
There is room to improve the coherence of regional and federal policies in the national energy and climate plan.	Ensure that revisions of the energy and climate plan present an integrated national overview of the federal and regional plans.
The agreement on effort sharing of the 2020 climate objectives took seven years to reach.	Swiftly define internal effort sharing of the 2030 climate objectives, for example by establishing an independent expert body to advise and monitor actions.
Belgium makes no use of explicit carbon taxation beyond EU Emissions Trading System (ETS).	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.
Increasing equality of opportunities	
Digital skills and participation in lifelong learning are low for the low educated, the low income and those with disabilities, leading to low employment rates and in labour market transitions.	Streamline lifelong learning programmes and actors involved, and prioritise vulnerable groups for face-to-face career guidance.
The long-term unemployment rate is high and the employment of mothers with young children, migrants and those with disabilities is low.	Expand the use of statistical tools to target vulnerable groups for tailored active labour market programmes.
Gaps in individual support for sickness and disability beneficiaries hamper their return to work.	Further scale up individual placement and support programmes for sickness and disability beneficiaries, conditional on their evaluation.
High participation tax rates for low-income single parents and second earners with children weaken work incentives, especially for women.	Introduce in-work benefits for low-wage workers with children.
Schools are incentivised to diversify their student intake, but not to achieve good educational outcomes under challenging conditions.	Use reliable performance indicators and other data on successful study progression to inform school funding based on educational improvements made with disadvantaged students.
Low mobility between general and vocational tracks contributes to social inequality in education outcomes.	Further encourage schools to organise programmes across tracks and enable transfers between them.
New teacher attrition is high, especially in disadvantaged schools, and early career working conditions are precarious.	Reward teaching in disadvantaged schools with higher pay or faster conversion to fixed appointments. Enable and expand professional insertion before graduation from initial teacher education and strengthen induction of new teachers.
Social housing supply is too low and price differentials with the private market hinder relocation, thereby distorting work incentives.	Expand rent allowances to cover low-income private market tenants while proceeding to increase the social housing stock.

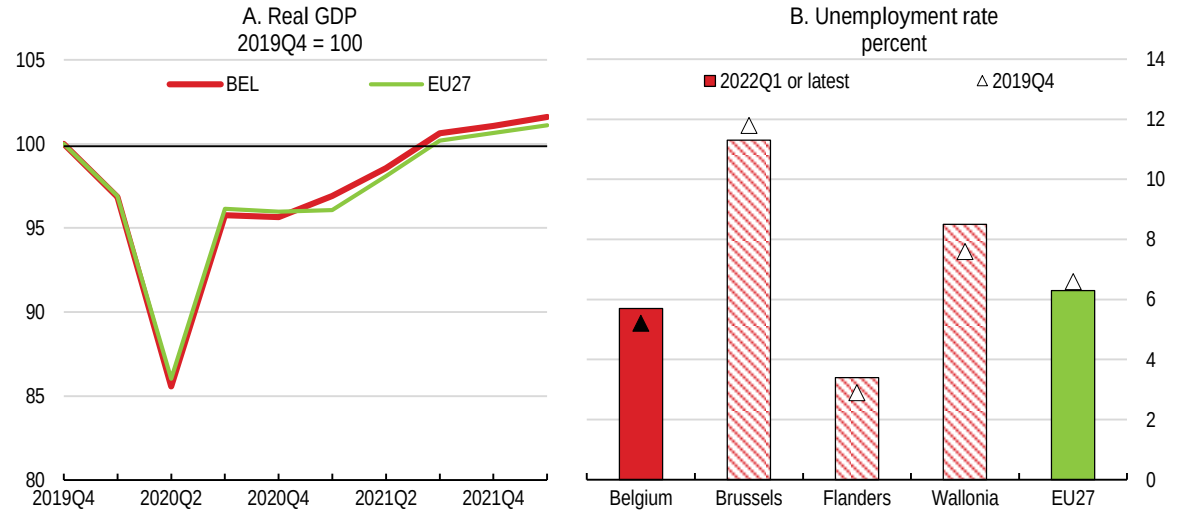
1 Key Policy Insights

The recovery from the COVID-19 pandemic has been robust thanks to extensive policy support. However, the new shock from the war in Ukraine is exacerbating inflation, and supply and labour market shortages, highlighting the importance of boosting the resilience of the Belgian economy. Medium-term fiscal sustainability challenges should be addressed by limiting early exit possibilities from the labour market, improving the efficiency of public spending, in particular through spending reviews, and boosting the coordination of fiscal policies by all levels of government to create room for public investment. Enhanced links between wages and productivity at the firm and worker level, higher competition in services and well-targeted investments in green and digital infrastructure, by addressing bottlenecks and providing the right price signals, are needed to raise productivity growth and contribute to more sustainable growth.

Until the onset of the COVID-19 pandemic, Belgium was experiencing a robust job-rich growth, with historically low rates of unemployment. However, it had long-standing fiscal and structural challenges, such as low labour market activity rates and weak productivity growth and business dynamism. Improving medium-term fiscal sustainability is needed to improve the resilience of the Belgian economy and enable productivity-enhancing investment. Boosting productivity growth will require product and labour market reforms that facilitate reallocation. Raising skills and work opportunities for disadvantaged groups to promote social mobility and enhance economic opportunities is also key.

Belgium was hit hard by the pandemic, but swift and extensive income and liquidity support measures mitigated the overall economic and social impact (Marchal et al., 2021[1]; Almeida et al., 2020[2]). Thanks to high rates of vaccination, measures that protected households and firms and good performance of the pharmaceutical sector, the rebound was relatively swift, with GDP reaching pre-pandemic levels in the third quarter of 2021 (Figure 1.1, Panel A). Labour markets proved to be resilient, with a limited effect on unemployment rates and labour shortages have reached record levels. However, the heterogeneous impact of the pandemic across sectors affected some groups disproportionally, including low-skilled, young workers and those with a migrant background, contributing to an uneven recovery. The war in Ukraine has heightened uncertainty and risks surrounding the recovery.

Figure 1.1. A robust recovery followed the sharp contraction



Source: OECD Economic outlook: Statistics and Projections database; National Bank of Belgium; and Statistics Belgium.

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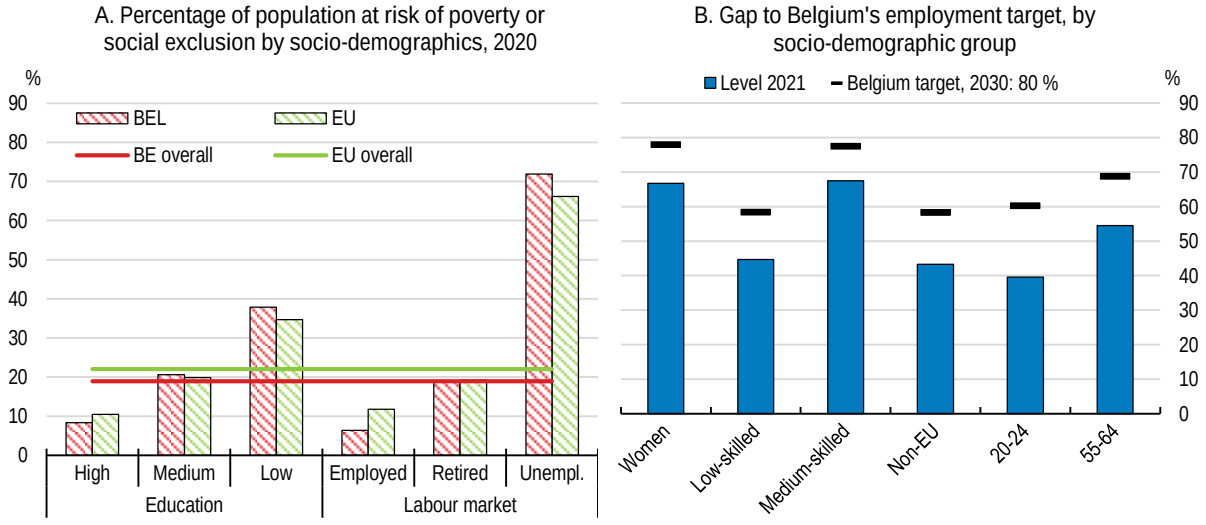
Belgium's long-standing challenges have become more pressing with the pandemic and adapting the Belgian economy to the changes triggered by the pandemic, the digital transformation and green transition requires an ambitious structural reform agenda. The priority in Belgium has been to manage the pandemic, support the recovery and coordinate the vaccination programme. Belgium should now focus on ensuring a resilient recovery and addressing longer-term structural challenges.

While income inequality is low in Belgium, with a Gini coefficient of 0.26 after taxes and transfers, poverty risks display regional disparities, ranging from 12% to 38%, and are high for the unemployed (who tend to be single parent households, those with disabilities and migrant background) and the low educated (Figure 1.2, Panel A). Such differences can reflect inequality of opportunities (Chapter 2) and have long-lasting effects as parental background is strongly correlated with risks of poverty in Belgium. Belgium has an ambitious objective of raising the employment rate (those aged 20-64) from 70% to 80% by 2030. The

current employment rate displays regional disparities ranging from 75.3% in Flanders to 62.2% in the Brussels-Capital Region. Furthermore, the employment rates of vulnerable groups are relatively low (Figure 1.2, Panel B). Reforms to address high long-term unemployment and inactivity rates despite high vacancies, and low transitions from unemployment and inactivity to employment are needed (OECD, 2020[3]).

Figure 1.2. Socio-economic background is highly correlated with economic outcomes



Note: Panel B: The black bar shows a scenario calculated by the High Council of Employment for employment levels in each group to reach the Belgian target for 2030 on aggregate.
Source: Eurostat; Statistics Belgium; and High Council of Employment.

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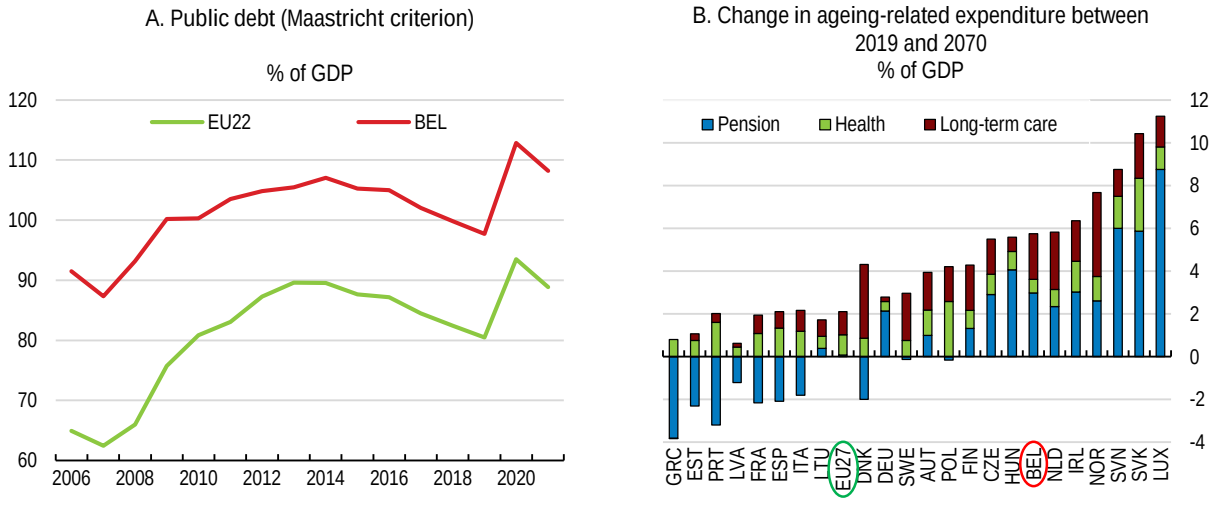
Belgium also faces long-term fiscal sustainability challenges, and investment and regulatory barriers to ensure the low-carbon transition. The public debt to GDP ratio (Maastricht definition) is high at 108.4% in 2021. Fiscal challenges will be exacerbated by population ageing, with total ageing costs rising by 5.7% to 25.8% of GDP by 2070, in the absence of policy reform (Figure 1.3). Ambitious reforms and investments are needed to lower emissions in housing, energy, industry and transport sectors to contribute to the EU target of climate neutrality by 2050. Overcoming these challenges will require effective coordination between different levels of government, given the decentralised nature of competences (Figure 1.4), and transparency regarding burden sharing and deviations from agreed fiscal and green targets and objectives.

Weak productivity growth, with a low contribution of total factor productivity growth, and low public investment also need to be tackled (Figure 1.5). Lack of sufficient skilled workers, regulatory restrictions, weak technological diffusion and labour market rigidities lower investment and business dynamism (OECD, 2019[4]; NPB, 2021[5]). Planned investments in recovery plans and the Budget 2022 (EUR 300 million in 2022 to reach EUR 1 billion by 2024) will help address investment needs in education, sustainable transport, energy and digital infrastructure, but more will be needed to reach the government's 4% public investment target by 2030.

Figure 1.3. Population ageing will add to fiscal challenges, which have been exacerbated by the pandemic



Source: OECD Economic Outlook: Statistics and Projections (database) and European Commission (2021), The 2021 Ageing Report.

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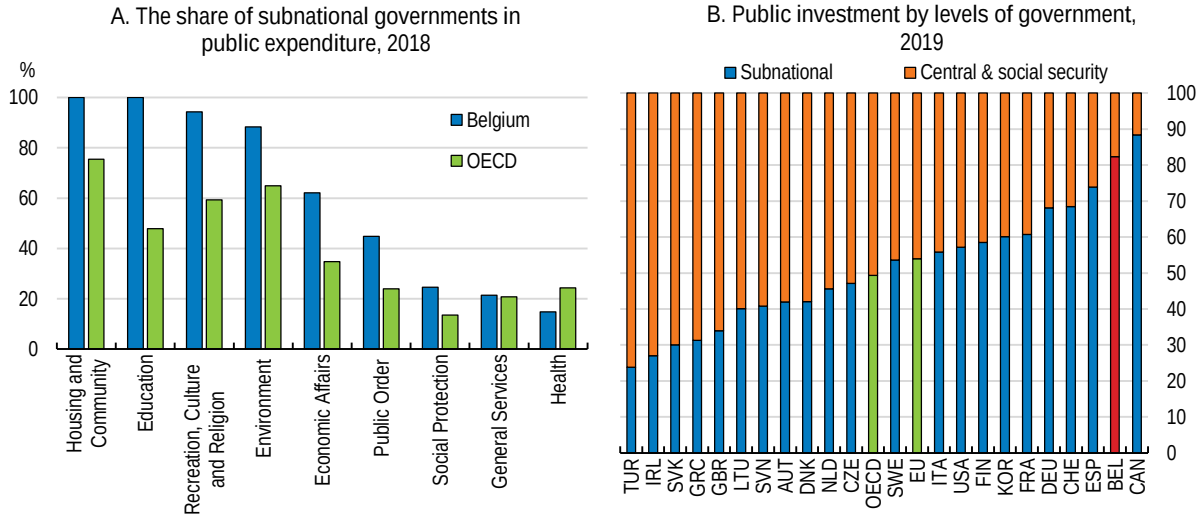
Figure 1.4. Decentralised competencies make coordination key



Source: Subnational governments in OECD countries: Key data 2021 edition.

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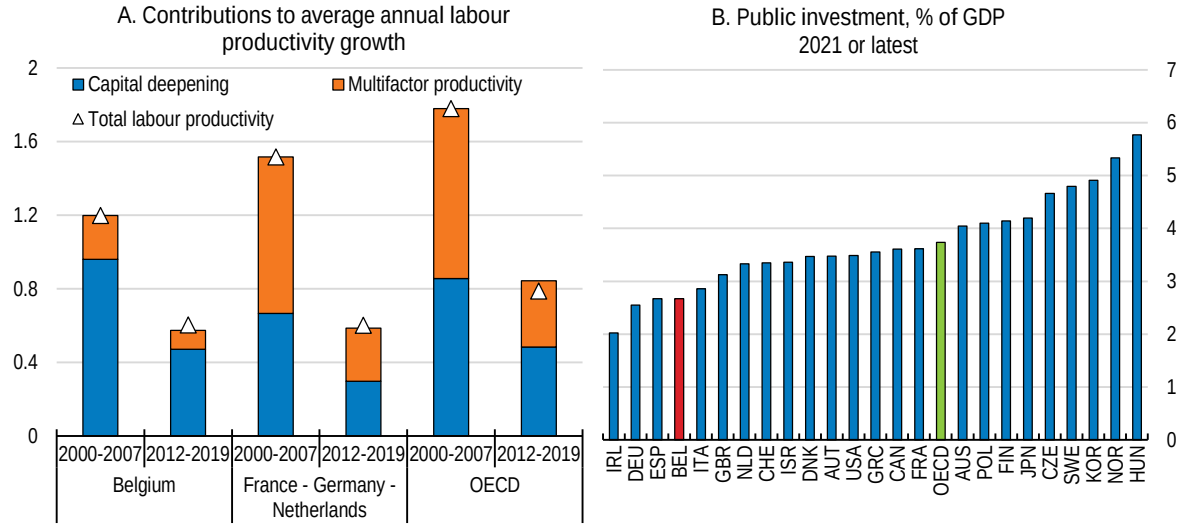
Against this background, the main messages of the Survey are:

- There is a need to restore fiscal sustainability to prepare for future shocks, especially in the context of an ageing population. Strengthening the fiscal framework and implementing a medium-term fiscal consolidation plan by increasing public spending efficiency, accompanied by a revenue-neutral tax reform to improve work incentives and broaden tax bases would help achieve this objective.

- Increasing equality of opportunities for disadvantaged groups in terms of education, labour and housing markets, boosting reallocation through more flexible product markets, and raising skills will raise growth.
- While the recovery plans provide a good starting point, further reforms are needed to boost productivity growth and adapt to the digital transformation and green transition.

Figure 1.5. Productivity growth and public investment are relatively low



Note: Panel A: Labour productivity is measured as GDP per hour worked in constant prices, USD 2010 purchasing power parities. The France-Germany-Netherlands number is the unweighted average.
Source: OECD (2021), OECD Productivity Database; and OECD Economic Outlook: Statistics and Projections (database).

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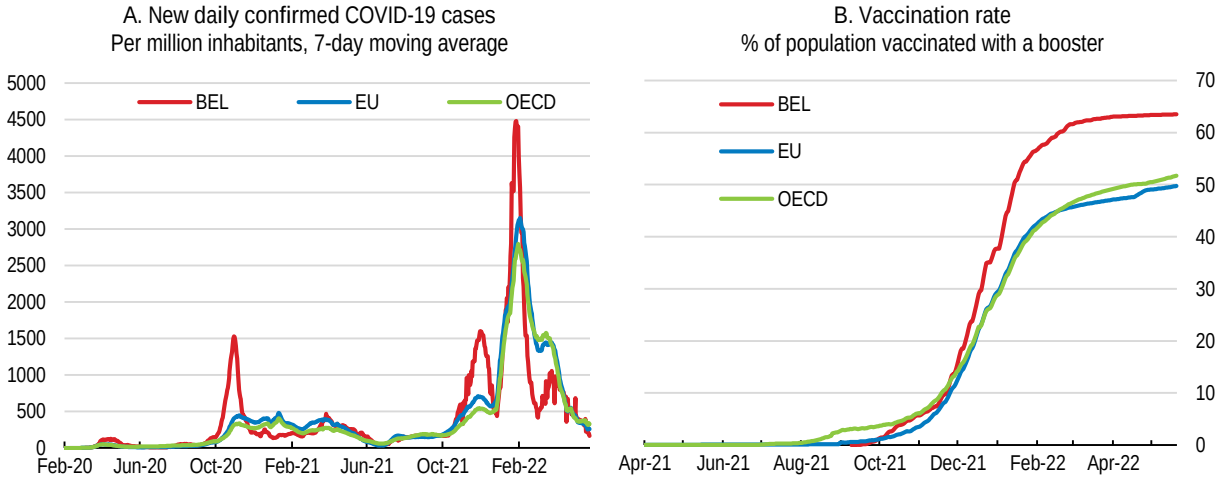
Policies have enabled a robust recovery from the pandemic, but risks have intensified

Belgium was hit hard by the pandemic, experiencing several waves, tackled with strict containment policies, several lockdowns and closing of non-essential businesses and curfews, leading to a sharp GDP contraction of 5.7% in 2020. Most of the restrictions, including mandatory teleworking and the use of the health pass, were relaxed in late March, followed by the removal of remaining restrictions at the end of May. 63.5% of the total population received a booster dose by May 2022, higher than the OECD average (Figure 1.6). Belgium should continue to keep its success of high vaccination rates in line with international guidelines.

The authorities introduced timely and extensive direct policy support and liquidity measures to address the impact of the pandemic that contributed to a speedy economic rebound, protected jobs and prevented a rise in insolvencies (Table 1.1; Table 1.2; Figure 1.7, Panels A-C). The main policies to support workers and the self-employed against the pandemic ended on 31 March 2022. The recovery and risks remain uneven across workers (Figure 1.7, Panel D), and firms, with a disproportionate impact on SMEs (Dhyne and Duprez, 2021[6]). Scarring so far seems modest, although the extent of scarring will only become clearer when support measures are fully phased out.

Figure 1.6. The vaccination campaign has been effective



Note: EU and OECD aggregates are calculated as unweighted averages in both panels using those countries for which data was available.
Source: Calculations based on Our World in Data. (30 May update).

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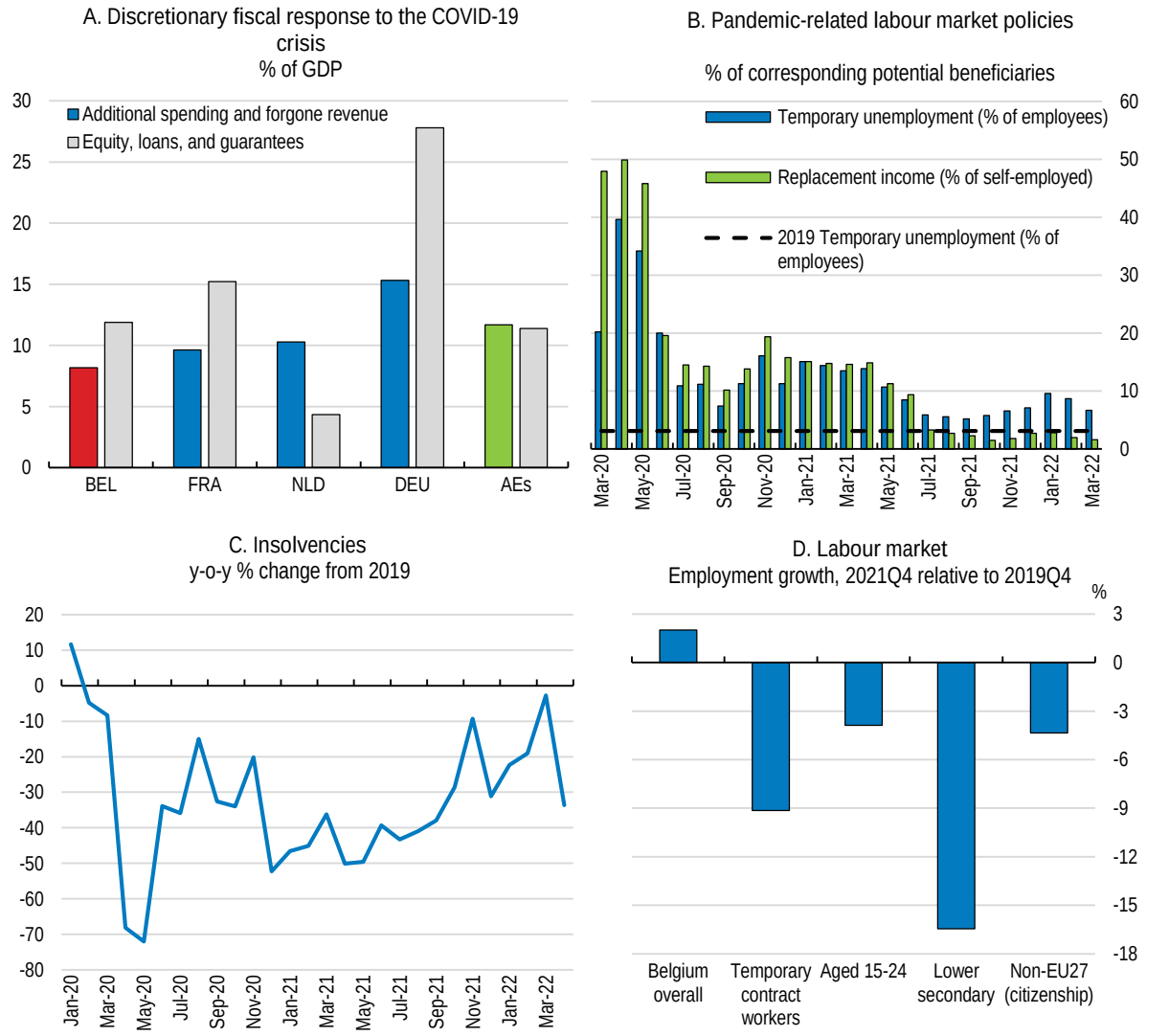
Table 1.1. Main pandemic support measures

Main areas	Main specific measures
Health	-Funds to purchase equipment, trace and track, vaccinate and support hospitals and nursing homes. -Structural increase in health care spending (increase in hospital staff and pay for health care professionals, additional funds for mental health).
Job retention scheme (temporary unemployment)	Expansion of the existing scheme by easier access (qualifying the pandemic as "force majeure") and higher replacement rates (increase from 65% to 70%); supplemental lump-sum benefit.
Replacement income to the self-employed (bridging right)	Introduction of a temporary right, with more flexible conditions and an extension of the self-employed persons who can benefit from it (who had to interrupt their activity due to the pandemic and who suffered a significant decrease in turnover) and the temporary possibility to cumulate another replacement income. Expansion of the existing scheme by easier access (forced closure of 7 days/month) and higher coverage to partial self-employed.
Other support to households	- Temporary freeze of the gradual decrease of unemployment benefits with time according to the duration of unemployment and the career of the wage earner (degressivity). - Supplements to social assistance benefits and minimum income recipients, and regional aid for assistance with energy and water bills and rent payments by vulnerable households. - Supplemental allowance for work incapacity; end-year bonus to long-term unemployed and workers in the hospitality sector; specific parental leave and childcare for essential workers. - Payment of a monthly bonus of EUR 25 for beneficiaries of the integration income.
Support to firms and the self-employed (business grants, tax relief, etc.)	- One-off compensation to firms forced to close or with reduced turnover. - Postponement of social security and tax payments, flexibility in payment of tax arrears for businesses in distress. - Increased investment allowance for SMEs and CIT allowance for restaurants. - Loss carry-backward: deduction of expected 2020 losses from 2019 tax liabilities. - Sectoral support (VAT reduction, SSC exemptions): hospitality, railways, air control, culture, sports, etc.
Solvency support	- Direct capital injections and loans to Brussels Airlines and Aviapartner. - New funds to provide subordinated loans and capital injections: Federal Transformation Fund (EUR 750 million in 2021-22), Welfare Fund in Flanders (EUR 240 million public; target: EUR 500 million), Solvency and Recovery. Fund in Wallonia (EUR 400 million), Brussels (finance&invest.brussels): funds for capital injection (EUR 106 million; target: EUR 160 million) and for subordinated loans (EUR 40 million).
Public guarantees	- Loans with a maximum term of 12 months; EUR 50 billion (March-December 2020); EUR 3.3. billion used. - Loans with a term of 12-36 months, then extended to 60 months (July 2020-June 2021); EUR 338 million used. - Regional guarantees of bridge loans: EUR 2 billion (EUR 379 million used).
Financial and macroprudential	- Reduction of the countercyclical bank capital buffer to 0%, at least until 2022Q1. - Moratoria of business and mortgage loans until June 2021.
Insolvency	- Moratorium on insolvency proceedings until January 2021; amendments to insolvency laws.

Source: Several reports of the Monitoring Committee; FPS Strategy and Support website and national sources.

Figure 1.7. Policy support protected households and firms



Note: Panel A: AEs refer to advanced economies. The data reflect government discretionary measures that supplement existing automatic stabilisers and covers the period between January 2020 and September 2021.
Source: IMF; Eurostat; Statistics Belgium; and National Bank of Belgium.

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Table 1.2. Fiscal cost of support measures during the pandemic

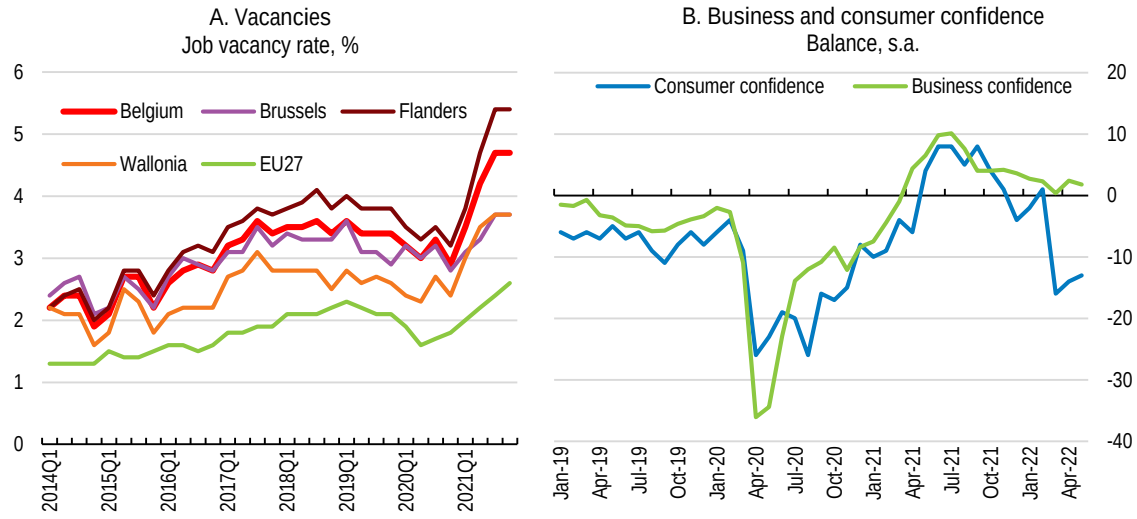
	2020		2021		2022		2023	
	Total (EUR billion)	% of GDP	Total (EUR billion)	% of GDP	Total (EUR billion)	% of GDP	Total (EUR billion)	% of GDP
Health related expenditures	5.0	1.1	4.5	0.9	1.6	0.3	1.0	0.2
Income support for households	8.4	1.9	4.8	1.0	0.2	0.0	0.0	0.0
Temporary unemployment scheme	3.9	0.9	1.6	0.3	0.0	0.0	0.0	0.0
Replacement income to the self-employed	3.3	0.7	2.0	0.4	0.0	0.0	0.0	0.0
Other social benefits and premiums	1.1	0.3	1.2	0.2	0.2	0.0	0.0	0.0
Support to companies and self-employed	6.8	1.5	4.7	0.9	1.0	0.2	0.6	0.1
Premium for forced closures and large revenue falls	3.4	0.7	2.2	0.4	0.3	0.0	0.0	0.0
Solvency-boosting tax measures	0.7	0.2	0.4	0.1	0.5	0.1	0.6	0.1
Support to specific sectors	2.8	0.6	2.1	0.4	0.2	0.0	0.0	0.0
Investment			0.9	0.2	1.3	0.2	1.3	0.2
Total	20.6	4.6	14.9	2.9	4.1	0.8	2.8	0.5
Capital injections/subordinated loans	1.0	0.2	1.3	0.3	0.3	0.1	0.0	0.0
Guarantees envelope	52.0	11.4	11.6	2.3	11.6	2.2	11.6	2.2

Source: National authorities.

Growth was robust in 2021, driven by resilient business investment and a surge in private consumption enabled by effective vaccine rollout, bringing GDP back to pre-pandemic levels in the third quarter of 2021. Labour markets proved to be resilient and vacancy rates increased significantly to 4.7% at the end of 2021, much higher than the EU average (Figure 1.8, Panel A). From the end of 2021, restrictions on activity from the latest wave of the pandemic, high inflation and supply side constraints started to weigh on the recovery. The war in Ukraine leading to further spikes in energy prices, commodity prices and heightened uncertainty is counterbalancing the positive impact from the improvement in the health situation and relaxed restrictions, Consumer confidence collapsed in March and had only partially recovered by May (Figure 1.8, Panel B). GDP growth was 0.5% in the first quarter of 2022. Easier access to the temporary unemployment scheme was extended to June 2022 due to the impact of the Ukrainian war on the Belgian economy.

The indirect effects via financial markets, uncertainty or disruptions in manufacturing supply chains and spillovers from neighbouring countries could be larger than direct effects for Belgium. Russia accounts for 0.9% of Belgian exports and 1.8% of imports. Only 1.5% of Belgian FDI is in Russia, while the direct exposure of the Belgian financial sector is limited. The share of direct imports of total value added from Russia at 60% was lower than the OECD average of 90% in 2018 (Figure 1.9, Panel A), with the share rising to 65% (OECD: 97%) for energy imports. Oil and gas imports from Russia were 26% and 3%, respectively (Figure 1.9, Panel B). According to the backward global value chain participation index, Russia's value added as a share of gross exports of Belgium is 1.2% (0.9% in the OECD).

Figure 1.8. Risks to the recovery are rising



Note: Panel A: Job vacancy rate is the number of job vacancies divided by the total number of occupied posts and number of job vacancies.
Source: National Bank of Belgium; and Eurostat.

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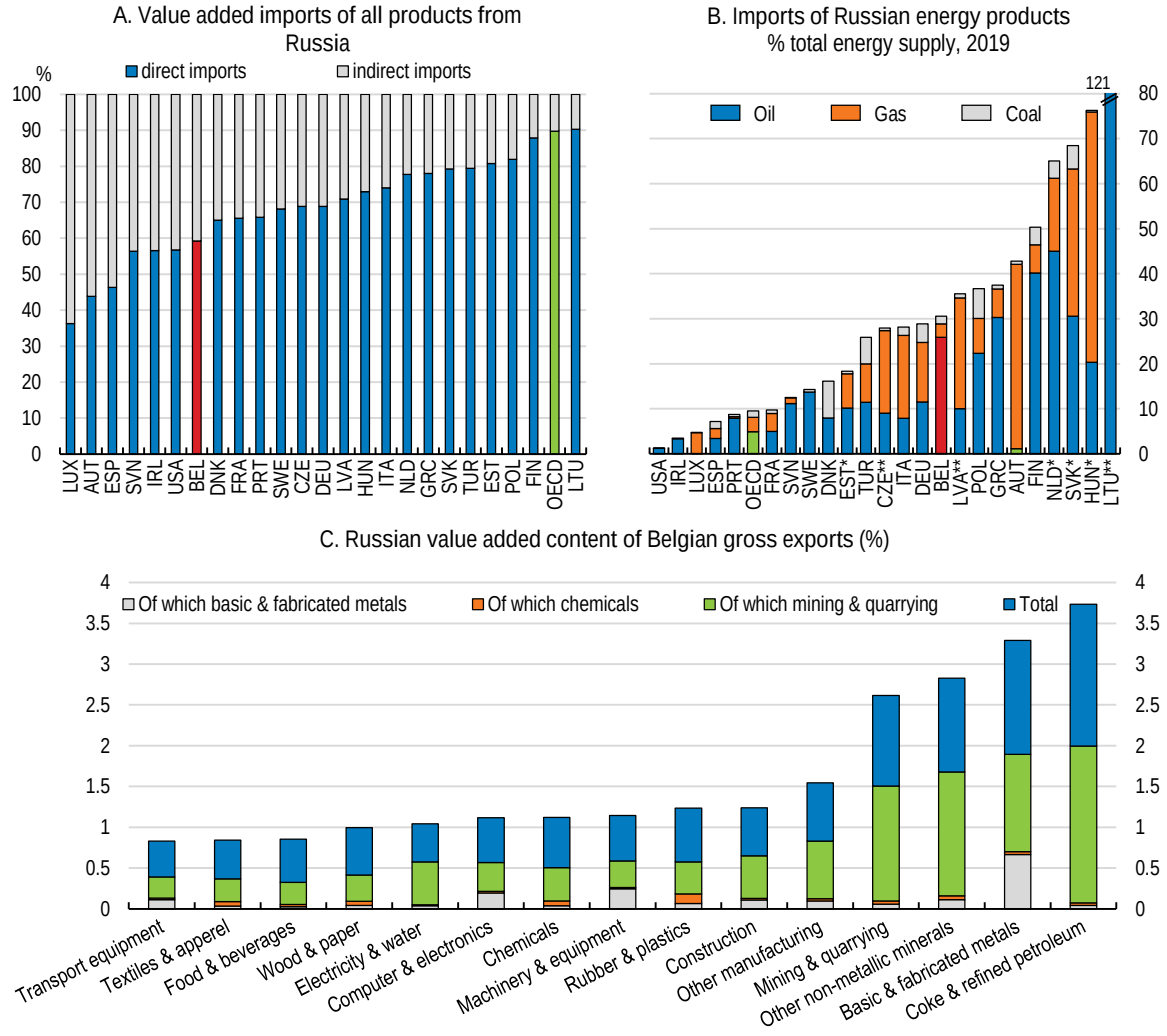
The energy crisis and the war could have a disproportionate impact across sectors. The share of imported energy products is around 60% in the refined petroleum products sector and 10-20% in the electricity and gas supply, air and water transport, mining support activities and the chemical and basic metal industries. Furthermore, the share of Russian valued added in gross exports in Belgium is the highest in coke and refined petroleum products (3.7%) and basic metals and fabricated metal products (3.3%) (Figure 1.9, Panel C). Looking at a more disaggregated level, the share of the Russian mining and quarrying of energy producing products (including natural gas) in Belgian gross exports is the highest in the coke and refined petroleum sector (1.8%). In general, mining and quarrying of energy producing products (such as natural gas) is a source of Russian value added in gross exports in Belgium for many sectors.

Belgium received 45 000 Ukrainian refugees as of late May, compared to annual 25 000 in normal times. According to a statement by the Secretary of State for Asylum and Migration to the media, based on an estimated projection of a total of 4-7 million refugees and their potential distribution across the EU, Belgium could expect up to 200 000 refugees.

Figure 1.9. Exposure to Russia is relatively low, but heterogeneous across sectors



Note: Panel B: *Country imports include transit trade figures ** Figures include amounts that went to stocks. Total energy supply (TES) includes energy in total final consumption, transformation processes, distribution losses and energy own-use. In the specific case of Oil, crude oil and oil products are computed together. Some countries import crude oil, refine it, and export oil products, which can lead to figures of imports higher than TES, as a significant part is exported, or especially large reliance figures (e.g. Finland uses Russian crude oil imports to feed refineries for export purposes). Panel C: Total backward participation index of relevant Belgian sectors, with specific contribution of selected Russian sectors. Industries based on ISIC Rev.4 classification (Mining and quarrying: Divisions 5-9; Basic and fabricated metals: Divisions 24-25; Chemicals: Divisions 20-21).
Source: IEA World Energy Balances database and OECD calculations; and OECD (2021), Trade in Value Added (TiVA).

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Headline inflation remains high at 9.9% in May, driven mainly by high energy prices, higher than the EU average (Figure 1.10, Panels A-B). Natural gas and electricity prices are the main drivers, but oil prices are also fuelling inflation. Core inflation has also picked up, especially due to services inflation. Inflation in Belgium tends to be affected relatively more by higher energy prices than that in the euro area, given the high share of variable contracts for electricity and gas. Moreover, the very low excise duties on heating oil lead to a more substantial pass-through of crude oil prices to consumer prices. To mitigate the impact of the increase in energy prices on vulnerable households, a number of measures have been taken (described below). The automatic indexation mechanism is expected to increase public and private wages and social benefits by around 6% in 2022 (FPB, 2022[7]), and will also support purchasing power. However, this could weigh on competitiveness in the near term, given Belgium's high share of exports, and increase fiscal costs.

The effect of the inflation-wage increases on international competitiveness should be monitored closely (Figure 1.10, Panels C-D). This could call for a reassessment of the wage formation mechanism, which has two main elements: wage indexation and a ceiling based on wage growth in the neighbouring countries (Box 1.1). Applying correctly and strictly the wage ceiling mechanism should lower the risk of wage-price spirals, by correcting for the more rapid pass-through of high inflation to wages in Belgium than in neighbouring countries in 2022. Wage growth in the neighbouring countries should be higher in 2023-24 as wages are negotiated, while real wage increases in Belgium should be limited by the wage ceiling.

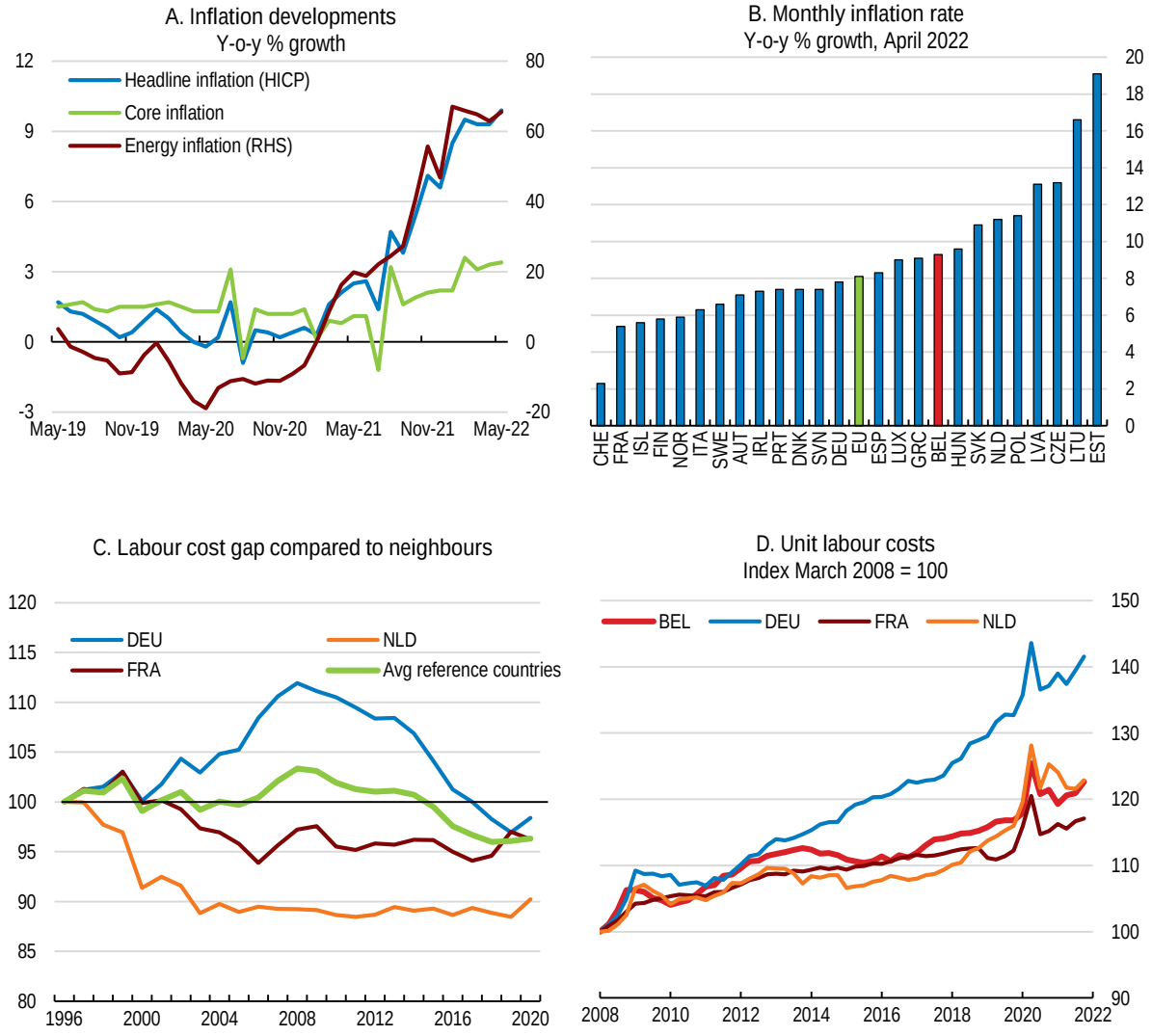
Box 1.1. Wage setting mechanism in Belgium

The wage formation process is defined by the Competitiveness Law of 1996, which prescribes a ceiling for wage growth ("the maximal available margin/wage norm") and wage indexation based on the "health index" (the national index of consumer prices excluding alcoholic beverages, tobacco, and motor fuels). The wage indexation mechanism was suspended from April 2015 to April 2016 ("index jump") to close the wage gap accumulated with neighbouring countries since 1996. It helped enhance cost competitiveness and contributed to employment growth (Bijnens, Karimov and Konings, 2019[8]; IMF, 2019[9]). To prevent wage gaps from re-emerging, the framework for determining the maximum real wage increase was amended in 2017. The main elements of the system are: *i)* projected wage growth in Belgium's main trading partners (France, Germany and the Netherlands) for the next two years; *ii)* projected inflation in Belgium as the basis of the expected wage indexation; *iii)* an ex-post correction term to correct for divergence in wage evolution with trading partners; and *iv)* a safety margin to account for forecasting errors.

The effectiveness of the 2017 reform of the wage setting mechanism in safeguarding competitiveness, and its effects on employment and inflation, should be evaluated, as recommended in the *2017 Economic Survey*, and reformed, in cooperation with social partners, if the indexation rule is shown to fail to take into account the business cycle. This reform should be considered in the medium-term, once the spike in energy prices subsides. It would also be an opportunity to address difficulties related to the current set-up, including the calculation of the margin and accounting changes in neighbouring countries that make it difficult to interpret developments (Bogaert and Kegels, 2019[10]). Another weakness is that deviations in labour productivity growth between Belgium and its key trading partners are not taken into account. In the medium-term, once the spike in energy prices subsides, the "health index" could be redefined to exclude all energy components, as increases in energy prices lead to inflation inequality that could be better addressed through measures targeted to vulnerable households (Germain and Hindricks, 2022[11]).

Reforms should consider whether the most efficient way to compensate for inflation is *via* the automatic indexation mechanism or other mechanisms offering more flexibility and boosting the adjustment potential of the economy. On one hand, the indexation mechanism allows for a quick adjustment to inflation to preserve purchasing power. On the other hand, experience in neighbouring countries shows that purchasing power is not necessarily eroded in the long term if there is no formal indexation, since inflation is taken into account in wage negotiations, but the absence of indexation makes it easier to cope with some of the shocks (NBB, 2012[12]). Hence, the two counterbalancing aspects of the wage formation mechanism (indexation and wage ceiling) could be reconsidered to allow wages to evolve in line with economic fundamentals. Linking wage developments to productivity at the firm-level and promoting greater competition in the services sector, as discussed below, would also help.

Figure 1.10. High inflation could lower cost competitiveness in the near term



Note: Panel C: Labour cost gap based on compensation of employees and wage subsidies that firms receive. A ratio of more than 100 implies a competitiveness gain for the relevant country compared with Belgium. 2020 may be biased due to the impact of temporary unemployment and may not correctly reflect Belgium's position compared to the reference countries.
Source: National Bank of Belgium; Eurostat; Conseil central de l'économie and OECD (2022), Main Economic Indicators database.

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Growth is slowing due to the war in Ukraine, with GDP growth projected to remain robust at 2.4% in 2022, before falling to 1% in 2023, as the consequences of the EU embargo on Russian oil materialise (Table 1.3). High energy and commodity prices, disruptions in supply chains and heightened uncertainty are lowering confidence and will drag on private consumption, investment and exports. Nevertheless, growth is projected to be driven by domestic demand, as high household savings and pent-up demand from the pandemic, automatic wage indexation and energy support measures partially mitigate the adverse effects. Potential output has only been slightly affected by the pandemic thanks to measures protecting the productive potential of the economy and accelerated digitalisation of firms during the pandemic. However, supply chain disruptions and uncertainty, including regarding energy supply, could impede the implementation of the recovery plans.

Goods and services exports account for 80% of Belgian GDP, with the EU as the main trading partner (Figure 1.11). While export and imports recovered their pre-pandemic levels in mid-2021, export expectations declined since February, and could further be affected due to the war in Ukraine and the effects of sanctions on trade flows and supply chains. Belgium's participation in global value chains, measured as the combination of backward and forward integration of its exports, at 57%, is among the highest in the OECD. The United Kingdom remains Belgium's fourth largest trading partner accounting for 6% and 9% of Belgium's exports of goods and services, respectively. Earlier studies had included a median economic loss of 0.9 percentage point of GDP from Brexit from a no deal scenario (Bisciari, 2019[13]; Schmitz, 2019[14]). While it is too early to assess the impact of Brexit, calculations by the central bank suggest a 0.4 percentage point increase in the level of economic activity by the year 2025 from the current agreement, compared to a no deal scenario (NBB, 2021[15]).

Table 1.3. Macroeconomic indicators and projections

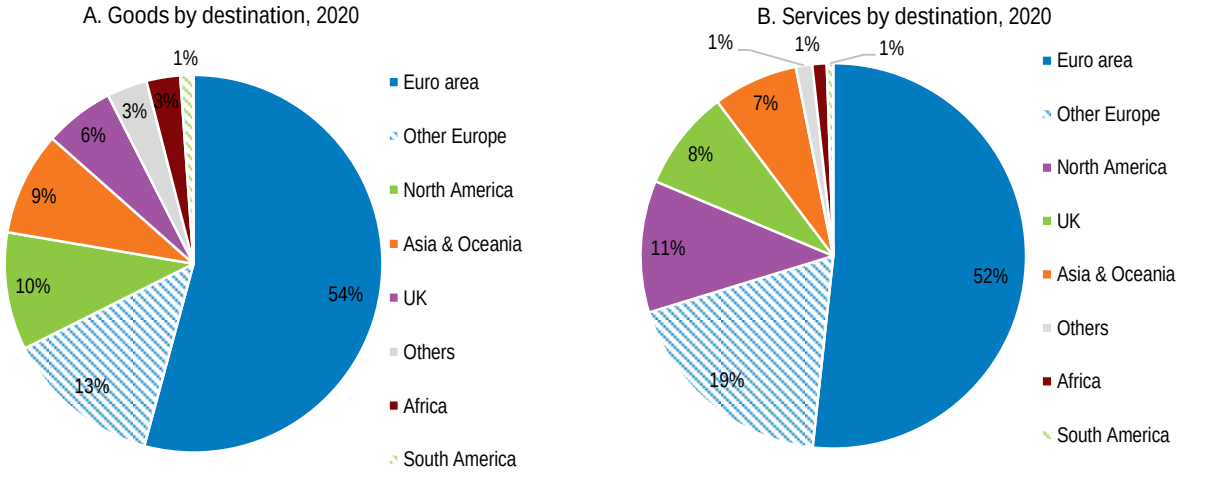
Annual percentage change, volume (2015 prices)

	2018	2019	2020	2021	2022	2023
	Current prices (EUR billion)					
Gross domestic product (GDP)	460.1	2.1	-5.7	6.2	2.4	1.0
Private consumption	238.2	1.8	-8.2	6.4	3.6	0.9
Government consumption	106.5	2.0	-0.4	4.4	1.3	0.9
Gross fixed capital formation	108.5	4.4	-6.1	7.8	-0.4	2.6
Housing	22.7	5.1	-6.8	10.1	3.6	1.1
Business	73.8	4.8	-7.0	8.0	0.2	2.3
Government	12.1	0.7	1.5	2.6	-11.6	8.1
Final domestic demand	453.2	2.5	-5.9	6.2	2.1	1.3
Stockbuilding[1]	8.0	-0.6	-0.3	-0.5	0.8	0.0
Total domestic demand	461.2	1.8	-6.1	5.6	2.9	1.3
Exports of goods and services	382.0	2.0	-5.5	9.6	0.8	0.5
Imports of goods and services	383.1	1.6	-5.9	9.1	1.3	0.8
Net exports[1]	-1.1	0.3	0.4	0.6	-0.4	-0.2
Other indicators (growth rates, unless specified)						
Potential GDP	. .	1.6	1.4	1.4	1.2	1.1
Output gap[2]	. .	0.2	-6.8	-2.4	-1.2	-1.3
Employment	. .	1.6	0.0	1.7	1.7	0.5
Unemployment rate	. .	5.4	5.8	6.3	6.0	6.4
GDP deflator	. .	1.8	1.3	4.3	7.2	3.4
Consumer price index (harmonised)	. .	1.2	0.4	3.2	9.0	4.8
Core consumer prices (harmonised)	. .	1.5	1.4	1.3	3.9	4.9
Household saving ratio, net[3]	. .	5.5	13.7	9.9	10.0	10.6
Current account balance[4]	. .	0.2	0.8	-0.4	-1.4	-0.3
General government fiscal balance[4]	. .	-2.0	-9.0	-5.5	-5.6	-4.8
Underlying general government fiscal balance[2]	. .	-2.1	-3.7	-4.0	-5.0	-4.1
Underlying government primary fiscal balance[2]	. .	-0.4	-2.1	-2.6	-3.7	-2.8
General government gross debt[4]		120.4	120.4	128.6	126.3	127.5
General government gross debt (Maastricht)[4]	. .	97.7	112.8	108.4	106.1	107.2
General government net debt[4]	. .	84.1	100.8	88.6	86.3	87.4
Three-month money market rate, average	. .	-0.4	-0.4	-0.5	-0.2	0.9

Note: 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: OECD Economic Outlook: Statistics and Projections (database).

The short-term outlook is subject to particularly high uncertainty, given the war in Ukraine and the on-going pandemic. The main downside risks are geopolitical and continued energy price pressures that could create the risk of persistently high inflation and a wage-price spiral. Additional risks are related to supply bottlenecks and labour shortages, which could disrupt production and exports. The emergence of a new coronavirus variant more resistant to the current vaccines that brings back stricter restrictions in Belgium and its main trading partners also remains a downside risk. In addition, a number of other shocks could dent growth prospects (Table 1.4). For example, floods in July 2021 caused significant damage, particularly in Wallonia, and further climate-related risks are expected to materialise, creating social and economic costs.

Figure 1.11. EU countries remain Belgium's main trading partner



Source: OECD (2022), OECD International Trade Statistics database.

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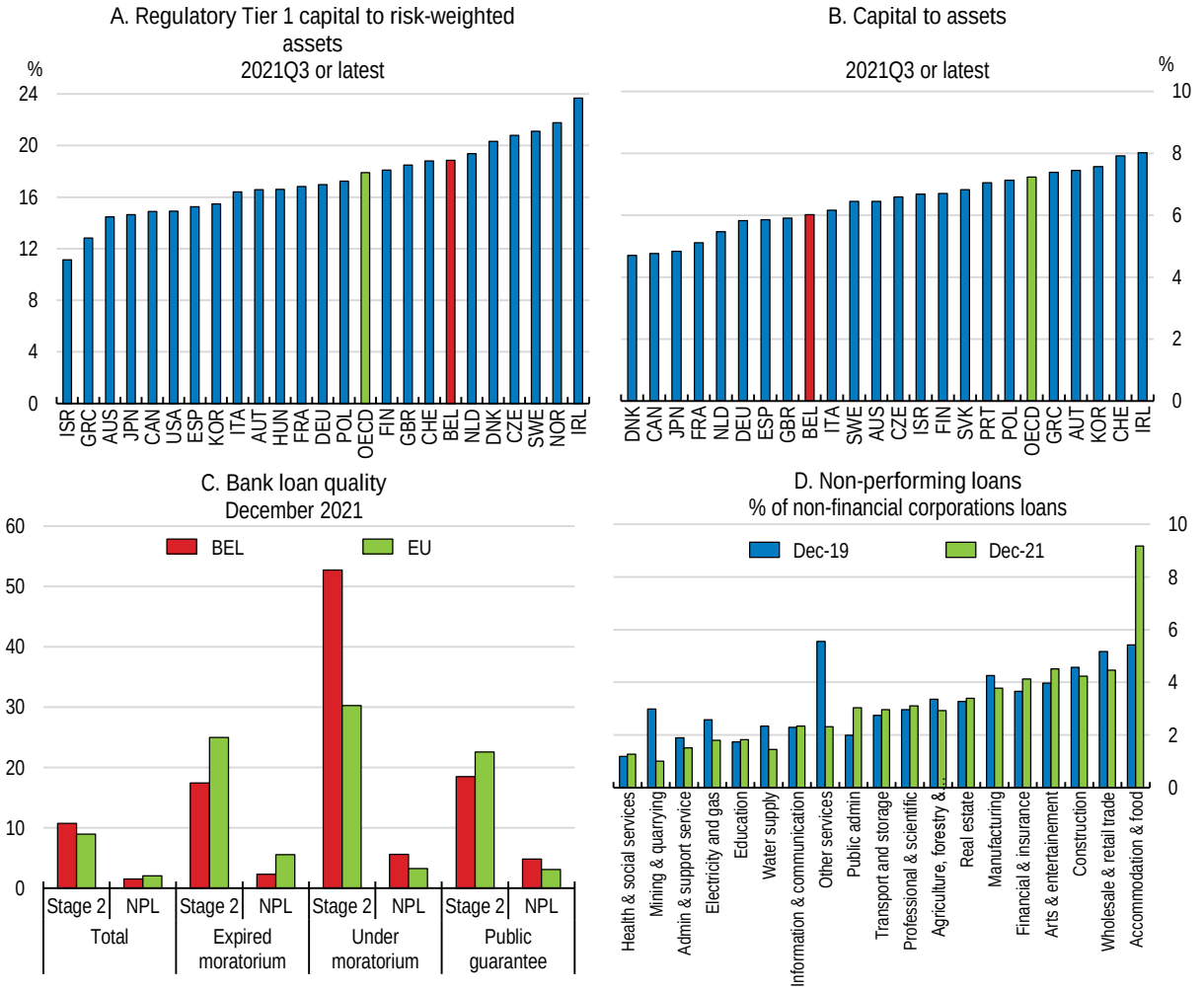
Table 1.4. Events that could lead to major changes in the outlook

Vulnerability	Possible impact
Increasing geopolitical tensions	High energy and commodity prices, disruptions in supply chains and heightened uncertainty lowering confidence can decrease private consumption and investment and exports, as well as the implementation of the planned investments in the recovery plans. Increased influx of refugees can increase fiscal costs in the near-term, while the potential successful integration of both low- and high-skilled migrants can help reduce labour shortages and mismatches, and boost entrepreneurship.
Spiralling wage and price inflation	Macroeconomic instability, relative price distortions leading to misallocated resources, loss of purchasing power for vulnerable households whose incomes do not keep pace with inflation or alternatively automatic wage indexation leading to a loss of competitiveness in the near term.
Emergence of new COVID-19 virus variants and a potentially limited efficacy of vaccines	Re-imposition of stricter confinement measures and heightened uncertainty, with major negative impacts on private consumption and investment.
Major asset price correction	A large correction in housing prices or a large increase in interest rates could trigger a fall in consumption, which could in turn adversely affect economic growth.
Financial strains and debt overhang in firms and households as a result of the pandemic	Insolvencies and non-performing loans may increase more than expected, harming business confidence and causing financial strain and credit rationing in the banking sector.
Political uncertainty and gaps in coordination across different levels of government	Prolonged inaction can slow the recovery from the pandemic, undermine efforts at fiscal consolidation and delay reforms necessary to increase potential growth and to meet challenges arising from climate change and digital transformation.
Climate-related risks	More frequent adverse climate events, such as the floods in Wallonia in 2021, could reduce economic activity in some sectors and areas, while requiring stronger fiscal efforts for disaster relief.

The financial sector should be monitored closely

The Belgian banking sector appears resilient and banks seem to have adequate buffers, including under stress (EBA, 2021[16]). The Tier1 capital ratio at 18.8% is above the OECD average, while the leverage ratio at 6%, is below the OECD average, in the second quarter of 2021 (Figure 1.12, Panels A-B). It will also be important to ensure that there are adequate buffers at subsidiaries of foreign banks, given their high presence in Belgium. As banks remain the main source of finance, they should play a key role by using their buffers to absorb losses and grant forbearance to viable borrowers in temporary distress and ensure credit provision for the recovery.

Figure 1.12. Banks remain resilient



Note: Panel C: Stage 2 means that a loan's credit risk has increased significantly since initial recognition and NPL refers to non-performing loans.

Source: IMF (2022), IMF Financial Soundness Indicators Database and EBA, Risk Dashboard.

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Support measures (loan deferrals, moratoria and guarantees) mitigated the impact of the pandemic on households and firms, but some pockets of vulnerabilities have emerged. Non-performing loans (NPLs) remained low at 1.5% in the last quarter of 2021, but credit quality of some of the loans under guarantee or moratorium declined, and NPLs are higher in sectors disproportionately affected by the pandemic (Figure 1.12, Panels C-D). The share of firms expecting to go bankrupt declined to 1.6% in October 2021

from 3.2% in June, but solvency gaps remain, especially in SMEs in hardest hit sectors (IMF, 2021[17]; Tielens, Piette and De Jonghe, 2021[18]) (Figure 1.13, Panel A). While policies, including insolvency moratoria and voluntary stays on government claims, have so far prevented a wave of insolvencies, the remaining needs could increase the risks of debt overhang. Hence, continuing to assess NPLs and making adequate provisions remains important.

Belgium made progress in improving its insolvency framework, which should be further strengthened to foster reallocation and mitigate scarring. In March 2021, insolvency laws were amended to introduce pre-pack procedures and easier access to judicial reorganisation proceedings, especially for SMEs, as recommended in the *2020 Economic Survey*. Their effectiveness in preventing court congestion will depend on the expertise of judicial administrators, the complexity of cases and the capacity of courts to meet shortened timelines. The amendments will be valid until July 2022, when the transposition of the EU Restructuring and Insolvency Directive will allow further improvements. For example, allowing creditors to initiate restructuring proceedings, introducing special out-of-court procedures for SMEs, and lowering the number of steps courts are involved in during insolvency should be introduced as soon as feasible (OECD, 2020[3]).

Early intervention to identify and aid viable businesses facing temporary solvency problems can speed up the recovery and prevent the subsequent accumulation of NPLs. Solvency support measures, including subordinated loans and capital injections, are in place (Table 1.1, above). The early recapitalisation programmes focused on SMEs through subordinated loans, but the latter ones are designed for all firms to use quasi-equity instruments. The existing programmes amount to 0.3% of GDP, which is in the middle of the range of similar programmes in peer countries, and cover around 16% of the estimated equity needed to restore pre-pandemic solvent firms (IMF, 2021[17]).

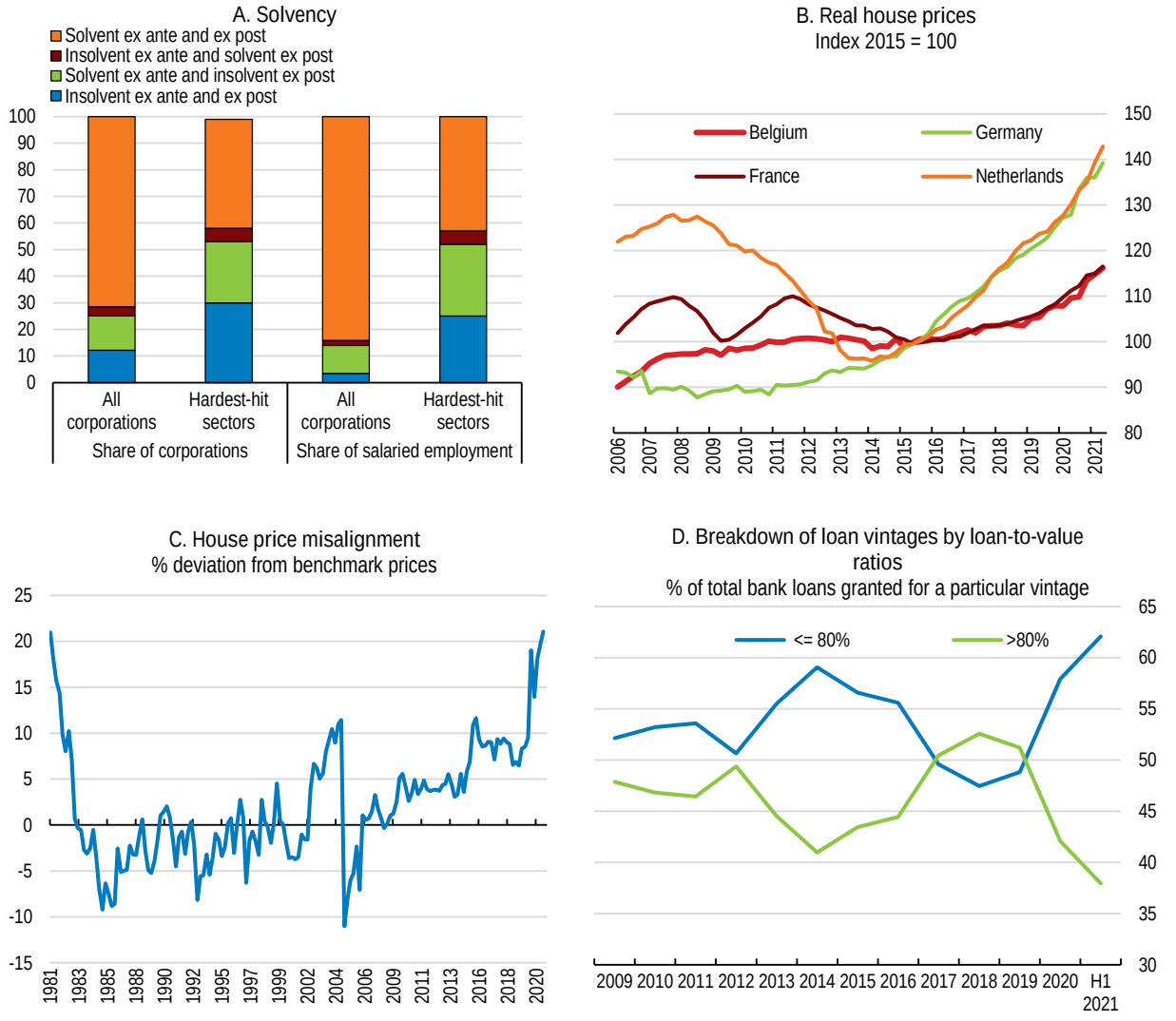
Solvency support should be closely monitored for cost effectiveness and include credible exit strategies. Belgian firm-level analysis suggests that banks' expertise and screening abilities can help identify viable firms (De Jonghe, Mulier and Samarin, 2021[19]). Hence, bank expertise should be utilised to help facilitate targeting, selection and monitoring of public funds. Furthermore, private sector resources can be leveraged to complement public funds. There are some fiscal incentives for private investors to provide subordinated loans, such as tax reductions and investment allowances, but could be extended further. For example, France introduced a program that provides banks and private investors guarantees for subordinated loans.

Increased vulnerabilities in the real state sector call for close monitoring and continued use of macroprudential policies to mitigate risks. House prices have increased significantly and prices are estimated to have been overvalued by 20% in mid-2021 (Figure 1.13). The real estate sector (residential and commercial) accounts for 31% of bank portfolios. A macroprudential capital buffer for real estate risks was introduced in 2013. New limits have been set in January 2020 on riskier mortgage lending. The prudential expectations regarding new mortgage loans lowered the ratio of loans with high loan-to-value ratios (LTVs) for first-time buyers and owner-occupied loans (NBB, 2021[20]). However, additional measures might be needed for loans for buy-to-let properties, whose LTVs remain above the tolerance margins set by the NBB. Vigilant monitoring of housing price misalignments should be continued and further macroprudential measures should be taken, if needed. Special attention should be paid to the commercial real estate market as survey evidence suggests large expectations of reductions in office space per employee in the next five years (9% in Belgium and 22% in Brussels) (Coppens et al., 2021[21]).

Beyond addressing near-term risks, there is a need to increase the resilience of the financial sector to other challenges, as in other OECD countries. These include low bank profitability in a prolonged low interest environment, competition, digitisation (including management of IT and cyber risks) and cost-efficiency, which are more pronounced for medium- and small-sized banks with a retail-oriented business model (NBB, 2021[20]). Banks need to integrate climate-related (physical and/or transition) risks and opportunities into their management practices. In December 2020, the NBB published its expectations and data-collection requirements regarding the energy efficiency of real estate exposures in banks' risk

management (NBB, 2020[22]), as recommended in the *2020 Economic Survey.* A recent analysis of the impact of Fintech and digitisation on the Belgian banking sector highlighted that the adoption and the periodic update of a digital strategy and business model should continue to be a key priority for banks (NBB, 2021[23]). These are welcome measures to address long-term challenges and should be incorporated into systematic assessments of all types of financial institutions.

Figure 1.13. Key risks arise from firm insolvency and housing markets



Note: Panel C: Residuals of an econometric regression of real house prices on real disposable income per household, real mortgage interest rates, the number of households and dummies to capture structural changes over time. See Warisse, C. (2017), "Analysis of the developments in residential property prices: Is the Belgian market overvalued ?", *NBB Economic Review,* for details.
Source: OECD (2021), OECD Analytical House Prices Indicators (database) and National Bank of Belgium.

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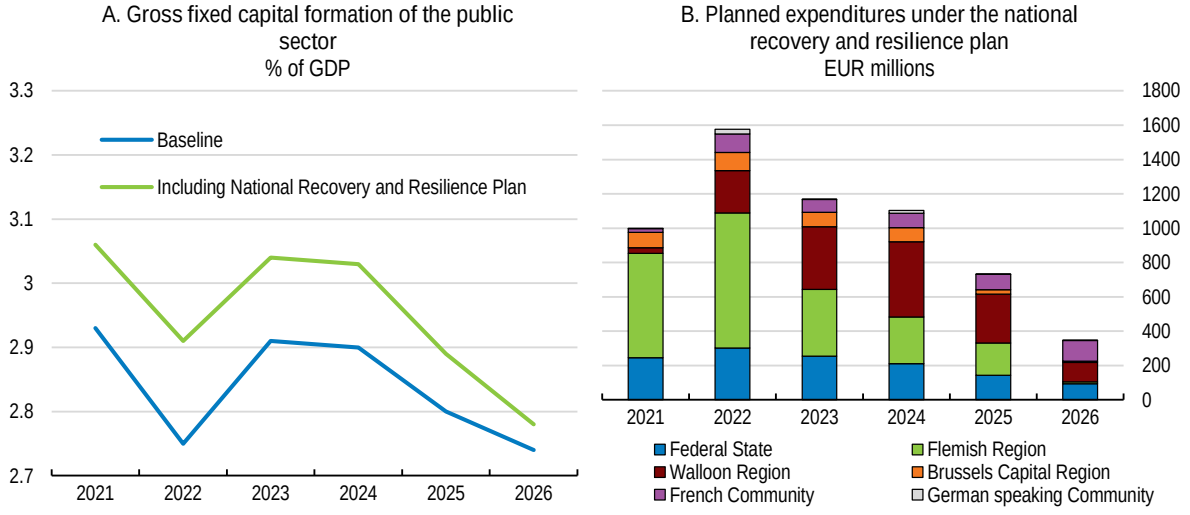
The recovery plans are an opportunity to promote investment and reforms

Belgium's recovery plan and the additional expenditures in the federal and regional recovery plans financed outside the EU funds provide an opportunity to boost investment, productivity and growth. The national recovery plan will increase public investment (Figure 1.14), with 88% of the funds allocated to gross fixed capital formation (FPB, 2021[24]). The largest components are energy efficient renovation of buildings and infrastructure to facilitate a modal shift in transport and mobility (Box 1.2). The national recovery plan has six strategic axes, with green and digital accounting for the majority of the total planned expenditures, in line with Recovery and Resilience Facility guidelines. Social and living together axis aims at increasing equality of opportunities through addressing gaps in digital skills, low employment rates of vulnerable groups and housing affordability challenges (Chapter 2). It will be important to ensure that unequal digitalisation and green measures that do not reach the most vulnerable do not exacerbate the social and digital divide (FPB, 2021[25]).

The plan will lift real GDP by 0.14% per year on average over the period 2021-26 according to national estimates, which do not account for spillover effects from other European countries' plans, structural reforms, the additional investments in the regional recovery plans, and complementary private investment (FPB, 2021[24]). Although not directly comparable, the assessment of the plan by the European Commission takes in to account spillovers from other European countries' plans (around 0.5% on average) and funds beyond the resilience funds (e.g. REACT-EU), for a total effect of 0.5%-0.9% per year between 2021 and 2026, and 16 000 additional jobs (EC, 2021[26]). A cross-country comparison finds that employment gains per billion of funds are lower at 1 800 in Belgium than 4 300 in Germany (Bisciari, Gelade and Melyn, 2021[27]).

Implementation challenges include recent rises in commodity prices, administrative hurdles, supply constraints and competencies divided among the federal and regional governments. The federal government will only receive 12% of the recovery funds (Figure 1.14), therefore effective implementation will depend on cooperation and coordination across different levels of government. The inter-federal monitoring committee foreseen in the plan should aim to ensure swift implementation and exploitation of synergies across reforms of federated entities. If reforms and investments are not uniformly implemented across regions, this can exacerbate already significant regional differences. The Recovery and Resilience Facility website with tenders of all countries' recovery plans at the EU level will help ensure transparency.

Figure 1.14. The recovery plan's investments are uneven across levels of government



Source: FPB (2021), *Macroeconomic and fiscal effects of the draft National Recovery and Resilience Plan - Report to the Secretary of State for Recovery and Strategic Investments*; and National Bank of Belgium.

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Highly regulated construction permits and environmental procedures can be a barrier to the implementation of major digital and green investments in the national recovery plan (5G, housing renovation). The timely delivery of municipal permits for the deployment of mobile sites governed by the regions and high taxation of antennae by municipalities have been factors delaying broadband network and 5G deployment. In recent years, the reform of the Territorial Planning Code, the gradual digitalisation of building permits and simplified demands for telecommunication antennas in the Brussels-Capital Region, the digitalisation of building permits in Flanders and the reform of the land use code in Wallonia aimed at reducing the delays in obtaining building permits. Within the context of the national recovery plan, all regions have committed to streamline these procedures further, which is welcome, but implementation horizons are long (full completion in mid-2026 in Wallonia). This part of the reform agenda should be frontloaded to ensure the successful implementation of the planned investments.

Box 1.2. Ongoing and planned reforms and investments

This box only outlines the main themes in terms of reforms and investments, while the details are discussed throughout the survey in the relevant parts.

The national recovery and resilience plan:

Climate, sustainability and innovation: The measures include improving the energy efficiency of existing buildings, promoting technologies to support the energy transition (promotion of hydrogen technologies, construction of an offshore energy hub) and conserving and restoring biodiversity.

Digital transformation: There are plans to increase resilience to cyber-attacks, promote the use of digital technologies in the public sector (digital platform for interaction of citizens and social security, digitalisation of the justice system) and improving digital connectivity (further deployment of fibre, development of 5G corridors for universal and affordable connectivity).

Mobility: The aim is to improve mobility, better connect regions and ensure a modal shift in transport to more environment- and climate-friendly modes through the development of cycling and walking infrastructures, improvement of public transport services (rail, tram, metro), development of waterborne transport infrastructure, and increasing electric buses and charging infrastructure.

Social and living together: Digital skills will be developed to make education systems more inclusive and in line with labour market needs. The labour market participation of vulnerable groups (low-skilled, people with an immigrant background, people with disabilities, women, young) will be boosted through stronger activation policies and extended training systems. Social cohesion will be supported by new social housing and childcare capacity.

Economy of the future and productivity: Digital education will be boosted to align skills with labour market needs. R&D will be increased with a focus on digitalisation, sustainability and health. Circular economy will be promoted by new recycling infrastructure and innovation partnerships. Permit and appeal processes will be sped up.

Public finances: Spending reviews will be integrated into the budget process at all levels of government.

Regional recovery plans:

The Brussels-Capital Region's **Recovery and Redeployment Plan** aims to address the COVID-19 pandemic, and enable a gradual and sustainable recovery in the short, medium and long term. With a budget of almost EUR 500 million, it is based on three pillars: socio-economic transition and employment, welfare and health policy, and territorial development and the environment. This plan is complemented by regional investment and reforms included in the national recovery plan. The relevant

projects were integrated in the overarching GO4Brussels Strategy, which includes formal procedures for consultation of social partners. There are also additional investments in four priority areas: mobility (Multiannual Investment Plan for Public Transport (around EUR 5 billion), social housing, employment policy and implementation of the climate plan.

With an amount of EUR 4.3 billion, **The Flemish Recovery plan: Flemish Resilience** rests on seven pillars: making the economy and society more sustainable, investing in infrastructure, digitally transforming Flanders, investing in people and talents, strengthening the Flemish care and welfare system, managing the COVID-19 crisis and Brexit, and making the government more efficient. A number of projects from the Flemish Resilience plan will be financed with funds from the Recovery and Resilience Facility.

With a budget of EUR 7.644 billion, **the Wallonia Recovery Plan** provides a set of investment and reform measures aimed at meeting the challenges of recovery and reconstruction in Wallonia, by addressing the needs related to the triple economic, social and environmental transition. The Recovery Plan for Wallonia is structured around 5 axes: building on Wallonia's youth and talent, ensuring environmental sustainability, amplifying economic development, supporting well-being, solidarity and social inclusion, ensuring innovative and participatory governance, and supporting the reconstruction and resilience of affected areas by flooding.

Broader federal reform agenda, including policies in Budget 2022:

Tax reforms aimed at removing disincentives to work, broaden the tax base, shift towards consumption, production and environment taxes and simplify the complex tax system are planned. As a first step, a tax on securities accounts has been introduced, and an annual plan to combat tax and social fraud has been announced. A EUR 300 million tax shift away from social security contributions and partly funded through consumption and environmental taxes was agreed upon in February 2022.

A **pension reform**, which aims to improve adequacy, social acceptability and financial sustainability, is under discussion. It will incentivise older workers to stay in the labour market, and improve the gender balance and the second pillar of pensions.

Labour market reforms in Budget 2022 aim at increasing labour market participation through measures to: *i)* lower discrimination, *ii)* facilitate a return to work for workers on disability benefits (e.g. incentives to combine partial work and benefits, tighten sanctions for employers and employees, simplify and speed up the process of integration), and *iii)* increase labour mobility (using one third of the employer social security contribution paid in case of layoff for training the dismissed employee, using part of the severance pay to subsidise the wage at a new employer, letting the long-term unemployed who accept a job across the linguistic border keep parts of their employment benefit for three months). A new agreement was reached in February 2022 to allow more flexibility on working hours (possibility of a 4 day week), increase protection of platform workers, ease conditions for night work for e-commerce operators and introduce individual training allowances.

To facilitate **productivity growth and digitalisation**, the insolvency framework has been eased during the pandemic. The Budget 2022 relaxes rules governing e-commerce and extends a number of policies to boost investment in start-ups.

To mitigate the impact of the **increase in energy prices,** the extension of the social energy tariff until September, targeted lump-sum payments to vulnerable households, one-off rebate on electricity and heating oil bills to all households, a reduction of excise duties on gasoline, and a temporary reduction of VAT on electricity and natural gas from 21% to 6% until September, were introduced. A reform of the federal taxes on energy consumption, which would replace VAT with excise duties, making adjustments following price variations easier while shifting the burden on households that consume more, is planned.

Source: (Governments of Belgium, 2021[28]); (Governments of Belgium, 2021[29]).

Skill shortages in key sectors, such as construction and ICT, could make it difficult to execute the investments in the recovery plans (building renovation, digitalisation), and reconstruction of flood-affected areas. 87% of firms cite the availability of skilled staff as the main barrier to investment in 2021, compared to 79% in the EU (EIB, 2021[30]). Reskilling will not only be an important tool to address these shortages, and to enhance the employability of displaced workers, but also to reach the government's employment targets. Hence, the federal and regional policies in the recovery plans and Budget 2022 to improve the efficiency of active labour market policies and lifelong learning are welcome (Chapter 2).

The reforms outlined in the plan could be more ambitious and need to be further elaborated in some areas. While some reforms, such as the simplification of administrative procedures, the introduction of an individual learning account and increased support for job seekers, as recommended in past surveys, are more concrete, details on the design and implementation of some reforms (taxes and pensions) are lacking and will be crucial. The tax reform was not included in the national recovery plan due to a lack of clear timeline and commitment for adoption. A reinforced coherence of the plan between investments and reforms (e.g. tax measures to lower work disincentives) could lead to a greater impact. Aiming at political and social consensus on reforms can help ensure that they are long-lasting, but it should not unduly delay necessary reforms.

The crisis accentuated medium-term fiscal sustainability challenges

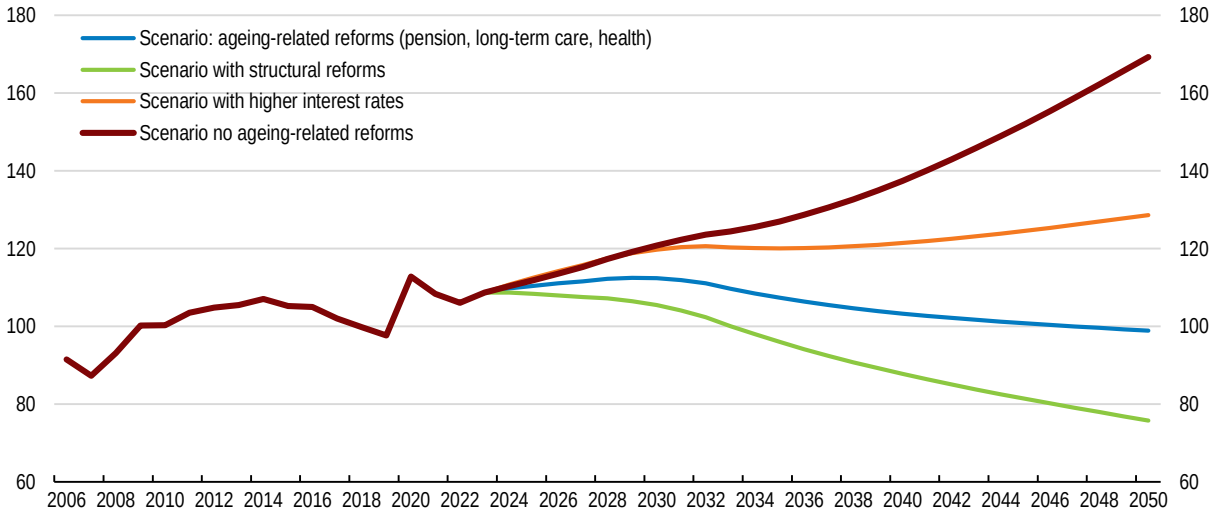
The war in Ukraine has changed near-term fiscal prospects and needs in OECD countries and Belgium. The Budget 2022, which did not take into account the latest pandemic wave, energy inflation-related support measures or the war in Ukraine, had planned a fiscal consolidation of 0.4% of GDP. In the current context of a supply shock, the effective automatic stabilisers in Belgium can help ease households' financial stress. Furthermore, there is some room to provide temporary, well-targeted and means-tested support to cushion the immediate effects of the commodity and food price shocks on vulnerable households and companies, and assist refugees in the near term (OECD, 2022[31]).

Recent events have also highlighted the importance of having fiscal space to address future shocks. Large pandemic-related spending increased the Maastricht public debt to 108.4% of GDP in 2021. According to OECD projections, significant efforts will be required to stabilise public debt at close to 99% of GDP in 2060 (Figure 1.15). OECD projections assume that in order to stabilise debt by 2060 additional government measures will need to be taken to enable a gradual improvement in the primary deficit reaching balance by 2031. In addition, pension, health care and long-term care reforms are assumed to address the net total ageing costs (Figure 1.15, blue line). A more pessimistic scenario of higher interest rates would push the debt to GDP ratio up to 129% (Figure 1.15, orange line). A more optimistic scenario, which assumes the implementation of some growth-enhancing structural reforms outlined in Box 1.3 would imply a debt-to-GDP ratio of 78% (Figure 1.15, green line). Finally, the debt to GDP ratio would increase to 169% in a scenario of no reforms to address ageing costs (Figure 1.15, red line).

Despite the need for significant efforts to stabilise debt, government projections assume that the primary balance will decline from -4.4% of GDP in 2022 only to -2.5% by 2027 (FPB, 2022[32]), and no improvement plans are outlined thereafter. This would imply that debt would not be stabilised and rise to 150% by 2050, even if pension reforms are taken to address ageing costs. Hence, a credible and transparent fiscal consolidation strategy to lower the budget deficit and to ensure a steady reduction of the debt-to-GDP ratio, including every level of government, is needed. The strategy can include, besides a path for agreed objectives, clear rules for windfall gains. The fiscal adjustment plan needs to be expenditure-led, given the already high tax burden, and address population ageing. This section discusses the main reforms needed to improve medium-term fiscal sustainability: increasing public spending efficiency through spending reviews, improving the fiscal framework and rules, and implementing major tax and pension reforms. The fiscal framework reforms will have to be considered in the context of the general forthcoming revisions of European fiscal rules.

Figure 1.15. The impact of the crisis on fiscal sustainability is projected to be large

Public debt, % of GDP



Note: The scenario including ageing-related reforms consists of the Economic Outlook No. 111 projections up to 2023, and the long-term projections of the Economic Outlook No. 111 database afterwards, except for the primary balance, which is projected to improve gradually until 2030 and kept constant after. Structural reforms scenario assumes higher real GDP growth by 1 percentage point each year compared to the baseline due to additional structural reforms. The "higher interest rate" scenario assumes higher interest rate by 1 percentage point from 2022. The scenario without ageing-related reforms includes European Commission projections for net total aging costs (net public pensions, long-term care and health costs, adding 3.8 percentage points of GDP to annual government spending in 2050).
Source: Adapted from OECD (2022) Economic Outlook: Statistics and Projections (database); and Long-term baseline projections; European Commission (2021), *The 2021 Ageing Report*.

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Box 1.3. Potential impact of reforms on growth and the fiscal balance

Table 1.5 presents the growth impact of some key structural reforms proposed in this Survey. The fiscal impacts presented in Table 1.6 do not take into account indirect effects, such as those induced by the positive impact of the reforms on growth and public revenue, and some recommendations (e.g. efficiency gains in public spending) are not quantifiable.

Table 1.5. Potential impact of selected proposed reforms on GDP per capita

Policy		10 year effect
Improve the business environment (higher competition in services, less complex licenses and permits)	Improve the OECD PMR indicator by 0.25% to the OECD average over a 10 year horizon	1.1
Raising the education attainment level of disadvantaged students	Increase average years of schooling by 9 months over 15 years	1.2
Improving the efficiency of the judicial system	Improve the institutional framework conditions (rule of law) by 0.2% over 10 years	0.8
Reduction of the tax wedge for singles and couples (revenue neutral reform)	Lower tax wedges by 5 pp for over 10 years	1.2
Higher employment of older workers (close the gap between effective and normal retirement age, lifelong learning)	Increase the employment rate of 55-74 year olds from 32% to 40% by 2040	2.1
Total		5.4

Note: These estimates are illustrative. The impact on GDP per capita is estimated using historical relationships between reforms and growth in OECD countries. The model does not capture policy-induced changes in deep-rooted preferences like risk aversion and their subsequent effects on economic variables.
Source: OECD calculations based on (Guillemette and Turner, 2021[33]).

Table 1.6. Illustrative direct fiscal impact of selected recommended reforms

Reform	Medium-term fiscal impact (savings (+)/ costs (-)) (% of GDP)
Reforms to increase the employment of older workers	1.1% by 2040
Raising the education attainment level of disadvantaged students	-0.5%
Increased targeting of ALMPs to vulnerable groups and shift of ALMP spending to training	-0.3%
Policies to support housing for vulnerable households	-0.25%
Tax reform reducing labour taxation on low-wages financed by broadening of the tax base, changing capital taxation, and increasing environmental taxation with flanking measures to support vulnerable households	No effect (revenue neutral)

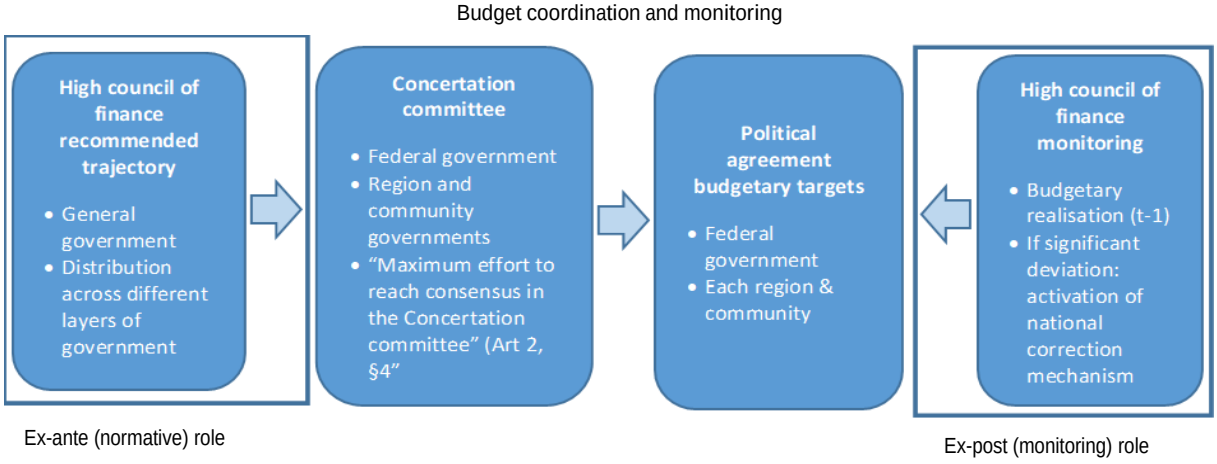
Note: Belgium's spending on primary and secondary education at 4.1% is higher than the OECD average of 3.4%, while ALMP spending per unemployed as a % of GDP per capita at 38% is higher than the OECD average of 26.2% (the share of ALMP allocated to training at 18% is lower than the OECD average of 23%). Hence, while this table provides illustrative increases in fiscal spending in these areas, the policy recommendations implicitly assume using existing expenditures more efficiently (i.e. fiscally neutral). Belgium's social protection expenditure on housing at 1% is lower than the EU average of 1.8%, so expanding housing support for low-income households refers to closing one third of the gap. The tax reform includes an increase in VAT as a share of GDP to the close half the gap to the average of the top half of OECD countries (from 6.8% to 7.4% of GDP); and an increase in environmental taxation as a share of GDP to close half the gap to the average of the top third of OECD countries (from 2% to 2.3% of GDP), with flanking measures to support poor households most affected costing about one quarter of the increase in revenues.
Source: OECD calculations and European Commission (2021), *The 2021 Ageing Report*.

Improving the fiscal framework and public spending efficiency

Reconsidering the budget coordination framework across levels of government to provide binding targets for all government levels will be important to ensure fiscal sustainability. The 2013 cooperation agreement between the federal government and the federated entities to improve budgetary coordination mandated the High Council of Finance (HCF) to provide: *i)* ex-ante recommendations for the budget targets of the general government and its distribution across different levels of government; and *ii)* assuming that targets are agreed upon, *ex-post* monitoring of compliance of targets and activation of correction mechanisms in case of significant deviation (Figure 1.16). However, since 2013, except for an approval of the overall general government target in 2018, the Concertation Committee (members from different levels of government) only takes note of the overall target recommended by the HCF and there is no agreement on individual targets. This can undermine the viability of the fiscal trajectory towards the medium-term objective, and prevents the HCF from carrying out its monitoring mandate. The 2013 cooperation agreement should be fully implemented as a first best solution, but other options might be explored given Belgium's institutional framework, where the federal state, the regions and the communities are on an equal footing, so that no authority has precedence over another.

One way to strengthen the influence of HCF is to strengthen its mandate to provide in-depth analysis and monitoring of public finances at different levels of government, even if it can't impose binding targets or recommendations. Publishing scenarios of debt sustainability in the case of no policy action for all levels of government, based on a uniform methodology, would increase transparency. Obliging the government to justify deviations between the budget path and the recommendations to the parliament via a "comply or explain" mechanism or improving communication of the HCF with the media can also increase transparency and visibility of its recommendations. For example, the Spanish Fiscal Council regularly publishes and presents in different forums such regional analysis. Furthermore, the calendar of publication of the HCF's recommended trajectory could be adjusted to allow more room for discussions at the Concertation Committee. Alternatively, regional independent fiscal councils, with common minimum conditions and requirements, could be formed to strengthen the fiscal framework, while respecting Belgium's institutional framework. This is the case for Victoria in Australia and Scotland and Northern Ireland in the United Kingdom. Regional councils could also contribute to capacity building to conduct spending reviews (see below).

Figure 1.16. The budgetary coordination mechanism should be improved



Note: The responsibility refers to the Public Sector Requirement Section of the High Council of Finance.
Source: National authorities.

Multiannual budgetary planning, for all levels of government, can improve the transparency and achievement of medium-term fiscal objectives. Belgium's medium-term fiscal framework is rather inefficient. Belgium is the only euro area country without a fully-developed multiannual fiscal planning at the national level apart from the stability programme (Bisciari et al., 2020[34]). While the stability programme contains multiyear budget targets, they lack detail, are not stable and often not met. More recently, multiannual planning is gradually being introduced in regions. The introduction of a medium-term budgetary planning for all federated entities and at the national level can increase transparency and consistency of fiscal policy. In the Netherlands, multiannual budgetary planning is accompanied by expenditure rules, which should also be considered in Belgium.

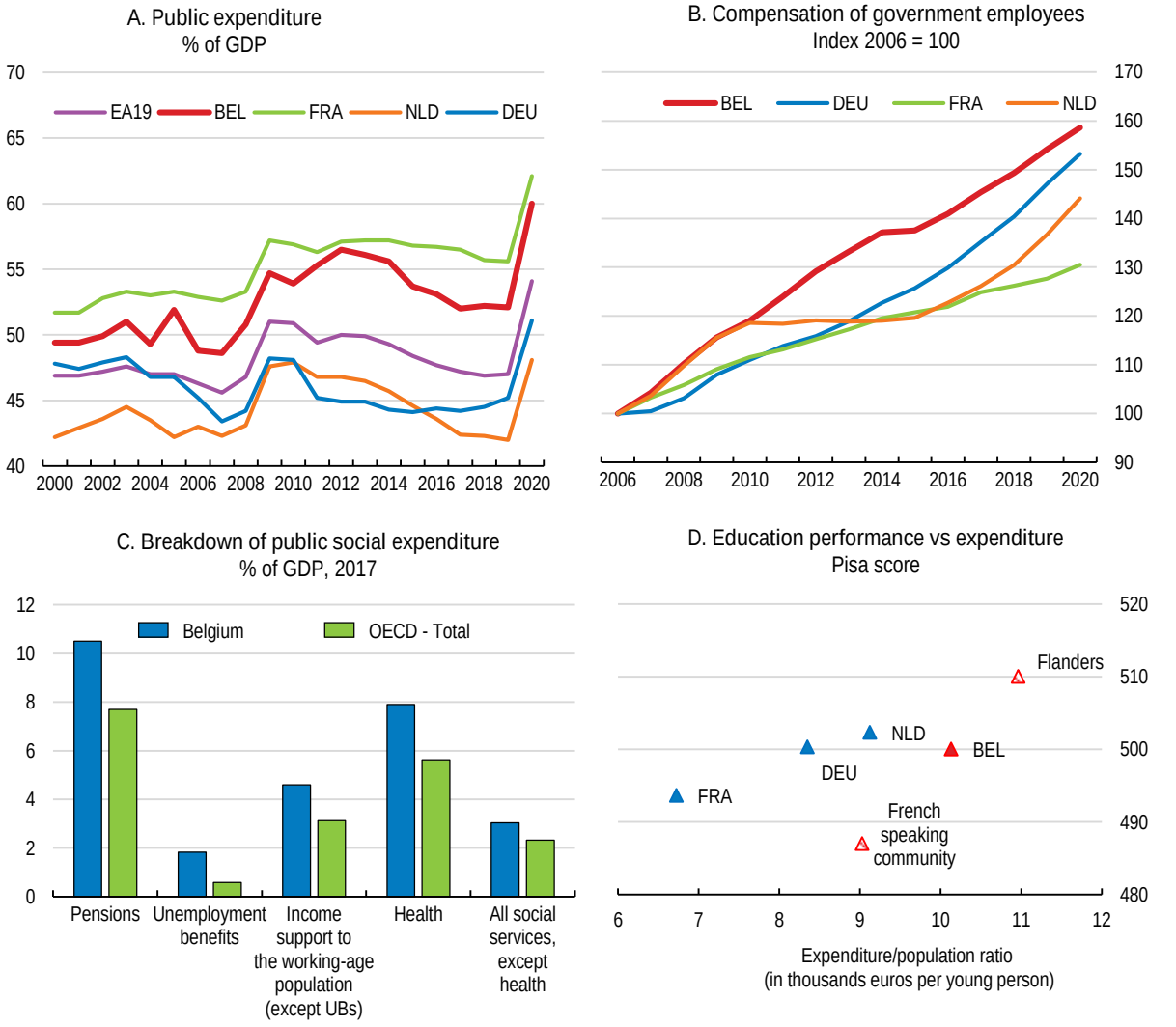
Expenditure rules setting multi-year ceilings on broad spending aggregates at each level of government would support spending-based consolidation and medium-term expenditure reforms. There are no expenditure rules in the Belgian budgetary framework, except for health care spending. Flanders is currently working on the introduction of an expenditure target. This contrasts with the growing adoption of such rules in Europe. The uncertainty created by the forthcoming revision of EU fiscal rules and the technical difficulties of translating national expenditure rules to subnational government levels, which the OECD is in the process of supporting Belgium with, create challenges. Nevertheless, expenditure rules should be introduced, as soon as feasible. While each level of government can have substantial autonomy in setting its spending ceilings, the HCF can be mandated to monitor the spending ceilings.

There is a need to increase spending efficiency and improve targeting of benefits to create room for productivity-enhancing public investment, as highlighted in the *2020 Economic Survey*. Public expenditure in Belgium is among the highest in the EU (Figure 1.17, Panel A), and some structural increases in non-pandemic expenditures (health, minimum pensions) are planned. Wage subsidies, which are often used to offset high labour costs and the heavy tax burden on labour, and compensation of public employees (Figure 1.17, Panel B) account for the bulk of the spending gap between Belgium and EU peers (Godefroid, Stinglhamber and Van Parys, 2021[35]). Social public expenditures have also increased over time and are higher than the OECD average (Figure 1.17, Panel C).

There is room to improve the efficiency of spending on education to make fiscal space for some policy recommendations made in this survey to lower disparities in education (Chapter 2). Public spending on primary to post-secondary non-tertiary education as a share of GDP at 4.1% is higher than the OECD average of 3.1%. A comparison of PISA scores and the expenditure ratio per pupil with neighbouring countries shows that education outcomes in Belgium are not higher than in the Netherlands and Germany,

despite higher spending (Figure 1.17, Panel D). PISA scores are higher in the Netherlands than the French community, despite similar resources. The Flemish community spends more than neighbouring countries (France, Germany and the Netherlands) on education, but also achieves higher scores.

Figure 1.17. Public expenditures are high



Note: Panel D: Average scores in reading, mathematics and sciences in 2018. The OECD average for these three dimensions was 488 in 2018. 2019 expenditure ratio in pre-primary, primary and secondary education to the number of children aged between 3 and 18.
Source: OECD (2021), National Accounts database; OECD (2021), Social Protection and Well-being database, Bisciari et al. (2020).

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Federal and regional spending reviews are starting to be used (Table 1.8), but should be better integrated into the annual budget process, as is planned in the national recovery plan, and be more coherent across government levels. Some of the pilots (service vouchers in Flanders and telework and wage subsidies at the federal level) have resulted in policy change in 2021-22, which is welcome. Given the institutional set-up, it is normal to have spending reviews conducted at different levels of government. However, better coherence and consistency in methodology and objectives should be ensured to link spending reviews and cost-benefit analyses to medium-term expenditure frameworks and the annual budget process to gradually bring down public expenditures. This would also prevent reforms in one area (early retirement or unemployment benefits) from triggering increases in others (disability). These spending reviews should be incorporated into the medium-term fiscal consolidation strategy to stabilise and gradually lower the debt-to-GDP ratio.

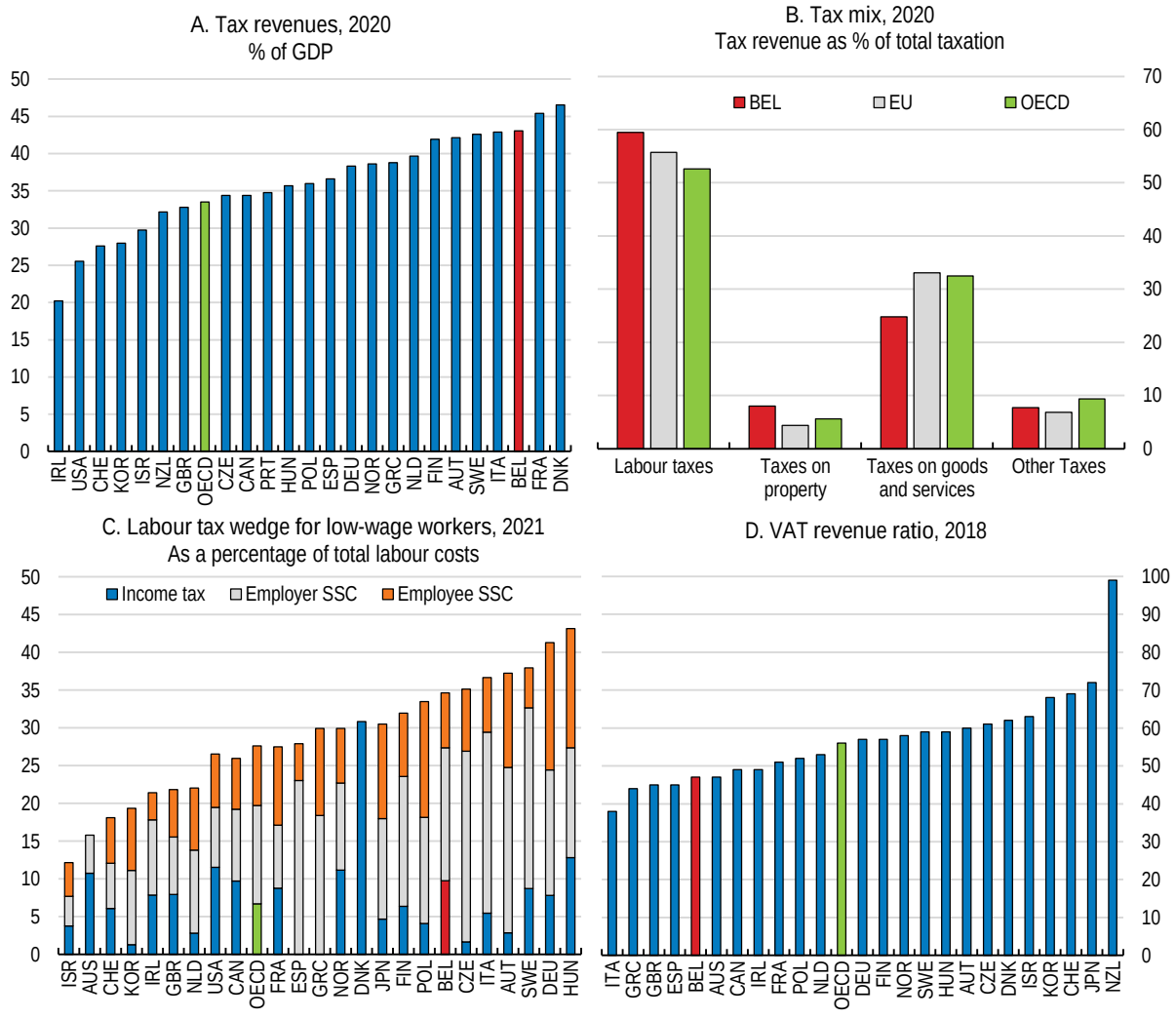
Better performance data and in-year monitoring arrangements could also contribute to higher fiscal sustainability. Across the OECD, the main challenges in implementing spending reviews are the absence of performance data and its poor quality, including access to micro data for a more accurate assessment (OECD, 2019[36]). This can also be a barrier to adopting performance budgeting, which is the use of performance information to guide budget decisions (OECD, 2019[37]). A performance budgeting framework, which have been used effectively elsewhere (e.g., Australia), could be considered.

Implementing a comprehensive and revenue-neutral tax reform

Belgian tax revenues at 43% of GDP are higher than the OECD average of 33.5% (Figure 1.18, Panel A). Taxation remains tilted to labour which penalises growth and employment, with a relatively high tax wedge for low-wage workers, despite recent reforms (Figure 1.18, Panels B-C). Given fiscal sustainability challenges, less distortionary taxes should be increased to finance lower labour taxation for low-wage workers for a revenue-neutral reform. The Budget 2022 takes a first step by a small budget-neutral reduction in special social security contributions (0.05% of GDP). An anti-fraud plan, including plans to reduce the VAT compliance gap, adopted in June is welcome.

A tax reform with the aim of shifting the burden from labour to consumption, property and environmentally harmful activities, as is planned by the government, has the potential to reduce distortions to economic growth (Akgun, Cournède and Fournier, 2017[38]). The reform should reduce disincentives for labour market participation, especially for low/middle income workers and second earners, and reform housing and environment taxation, in line with recommendations made in previous surveys and identified by the Fiscal Council (HCF, 2020[39]; HCF, 2021[40]). Proper and detailed impact assessments analysing the effect of possible changes in taxation on different important socio-economic indicators is important to have a long-lasting and efficient tax reform. Currently, a number of background papers on different aspects of taxation are in preparation to establish the guidelines and direction of the reform. At the same time, having a clear timeline and commitment for adoption will be key, as there is not a concrete plan yet.

Figure 1.18. A revenue-neutral tax reform should shift taxes away from labour



Note: Panel C: The height of the bar corresponds to the countries' tax wedge for a single worker without children, at 50% of the average wage and excluding cash benefits. Panel D: The VRR is an indicator of the loss of VAT revenue as a consequence of exemptions and reduced rates, fraud, evasion and tax planning. It measures the difference between the VAT revenue actually collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a "pure" VAT regime and all revenue was collected.
Source: OECD (2022), OECD Global revenue Statistics; OECD, *Consumption Tax Trends 2020*; OECD, *Taxing Wages 2021*.

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A number of tax exemptions reduce the efficiency of the tax system (Table 1.7). Some of these create distortions, tend to benefit higher-income households, can lead to bad environmental outcomes and lower productivity growth (see below). An inventory of the foregone revenues from federal tax expenditures is published annually. However, while there exist some ad-hoc ex-post evaluations, tax expenditures are not subject to systematic impact assessment (EC, 2020[41]). The newly introduced spending reviews could include an assessment of tax expenditures at different levels of government.

Table 1.7. Main tax expenditures

Tax expenditures, 2019

% of GDP	Social measures	Employment	Housing	Saving and credit	R&D	Sector specific provisions	Other	Total	% of total
VAT	1.4	0.0	0.4	0.0	0.0	0.3	0.0	2.2	36%
Personal income tax	0.9	0.4	0.5	0.2	0.0	0.0	0.1	2.1	34%
Other	0.4	0.4	0.0	0.0	0.7	0.2	0.1	1.9	31%
Total	2.7	0.8	0.9	0.3	0.7	0.5	0.2	6.1	

Source: Ministry of Finance.

Tax expenditures that tend to disproportionately benefit higher-income households can be gradually streamlined to improve the effectiveness of the tax system and its redistributive effects. VAT bases are eroded by various exemptions and reduced rates, leading to substantial VAT revenue shortfalls (Figure 1.18, Panel D). The forthcoming tax reform should broaden the VAT base, thereby enhancing the overall coherence of the VAT and reducing its complexity. This should be combined with targeted measures to protect lower income households against any adverse effects of VAT base broadening measures through direct transfers. The favourable tax treatment of company cars, which has a high budgetary cost and is very regressive, remains high, despite a recent reform to make it environmentally-friendly (restriction to zero emission vehicles bought or leased as of 2026) (Traversa and Valenduc, 2020[42]). Tax exemptions for second and third pillar pensions have high budgetary costs and are skewed heavily towards higher income households (Janssens and Valenduc, 2020[43]; Court of Auditors, 2020[44]; Peeters and Schols, 2021[45]).

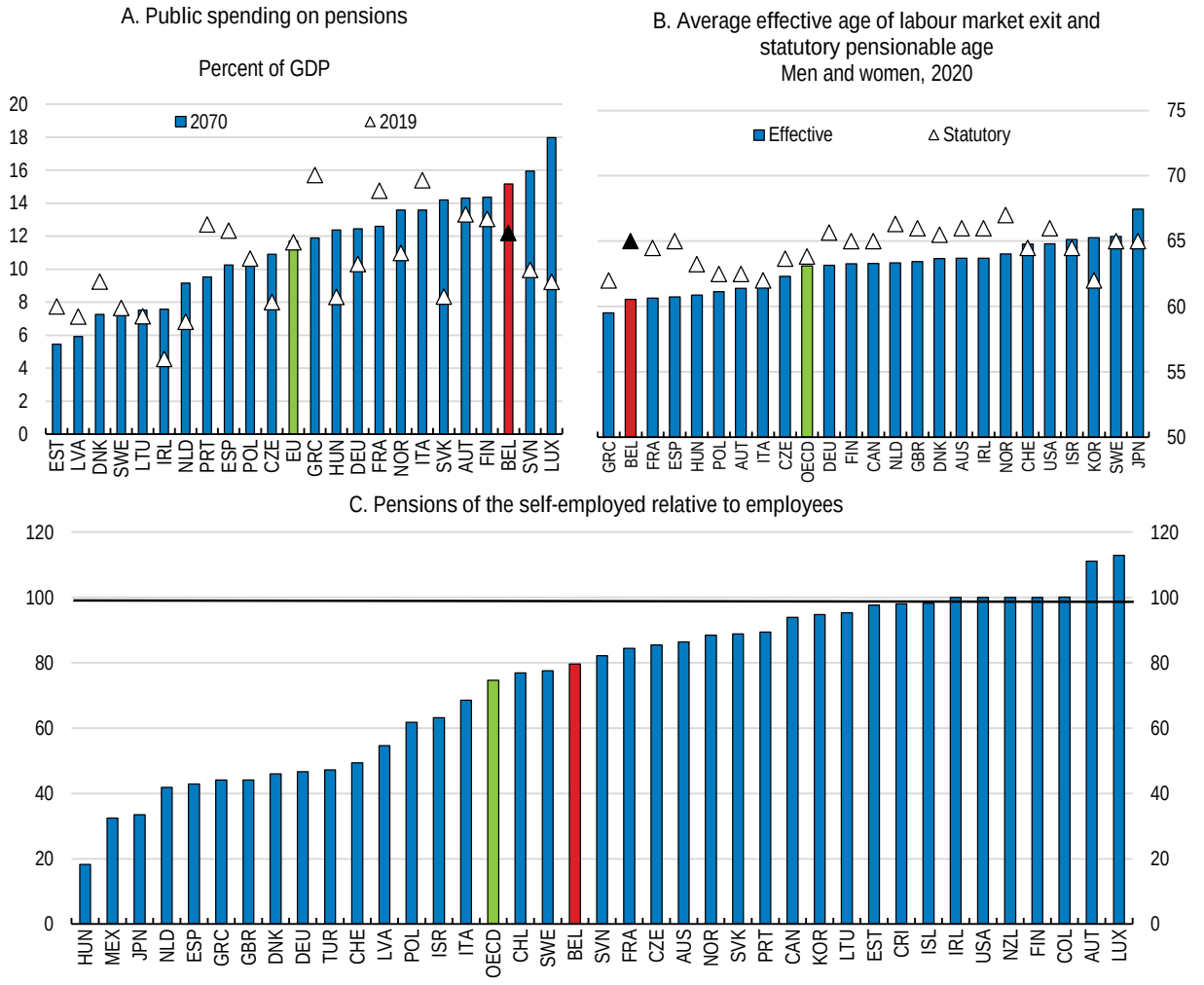
There is scope to strengthen the taxation of personal capital income by introducing a progressive tax rate schedule and a capital gains tax. Non-neutrality of taxation with respect to different forms of investment, income, or savings, and the lack of a tax on capital gains, create tax arbitrage opportunities, which can increase capital misallocation by locking in capital into existing firms (OECD, 2018[46]). The current set-up creates incentives for professional-services employees and the self-employed to organise themselves as legal entities to be taxed at lower effective tax rates, and shareholders working in their own companies to retain corporate income within the firm rather than distribute dividends. For example, applying similar schedules for taxable business income and salary income would eliminate differences in average tax burdens between entrepreneurship and salaried employment, and tax planning opportunities. Progressive taxation of labour income already exists in Belgium. A dual progressive taxation system, which adds a slightly progressive taxation applied to all forms of capital income (different tax rate schedule than that the existing one applied to the labour income) and a capital gains tax should be considered, as part of the broad tax reform. To avoid distortions and unintended consequences, such a tax should be forward-looking to tax future gains and not have a lag between announcement and implementation.

Containing aging costs

Pension expenditures are projected to increase by 3 percentage points to 15.2% of GDP by 2070 (Figure 1.19). In December 2020, an agreement was reached to increase minimum pensions for a single person to EUR 1500 net for a full career between 2021 and 2024, which will improve equity. A pension reform is part of the federal government agreement and the national recovery plan with a commitment for adoption in parliament by June 2024, but the details are still being discussed (Governments of Belgium, 2021[28]). The main focus of the coalition agreement is to improve equity of the pension system (e.g. focus on career length rather than age), while relying on a mix of pension and labour market policies to delay retirement decisions (e.g. pension bonus) and improve working conditions for and employability of older workers through policies aimed at employers and employees.

A number of measures were taken in 2015 to increase the average age of retirement. These include gradually increasing the legal retirement age to 67 by 2030, making the terms of pre-pension benefits (unemployment benefits with employer top-up payments) more stringent and removing limits on combining pension benefits with earnings for those aged 65 or with a 45-year career. Furthermore, access to early retirement was made more difficult and only possible at the age of 60 after 44 career years, 61 after 43 careers years and 63 after 42 career years. One of the new reform proposals is to change the early retirement age to 60 after 42 years with an aim to improve equity for workers in "arduous" jobs and those who start working at an early age by focusing on career length. The previous pension reform had failed to reach an agreement on the definition of arduous jobs. Nevertheless, such a move would bring Belgium away from international standards. If implemented, it should be considered as part of a package of reforms to compensate the higher costs.

Figure 1.19. Pension reform is needed



Note: Panel B: The average effective age of retirement is defined as the average age of exit from the labour force during a 5-year period, while the statutory age is defined as the age of eligibility of all schemes combined, based on a full career after labour market entry at age 22. Panel C: Theoretical pensions of a self-employed worker relative to an employee having both a taxable income (net income or net wage before taxes) equal to the average net wage before taxes, for individuals with a full career from age 22 in 2018 and contributing only the amount that is (quasi) mandatory to pensions.

Source: European Commission (2021), *Ageing Report;* and OECD (2021), *Pensions at a Glance.*

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Despite recent reforms and the increase in the average labour market exit age from 59 in 2015 to 60.5 in 2020, the gap between the statutory retirement age and average labour market exit age remains among the highest in the OECD (Figure 1.19), and the potential gains to pension sustainability from higher employment rates of senior workers (0.9 percentage points of GDP by 2070 according to (EC, 2021[47])) are high. According to the OECD long-term model, gradually closing the gap between effective and statutory retirement ages and keeping average effective retirement ages rising in the future at a rate equal to two thirds of projected gains in life expectancy could increase GDP per capita by 6% in 2060 (OECD average: 3%) (Guillemette and Turner, 2021[33]). Hence, the focus of reforms to incentivise older workers to stay in the labour market is welcome.

The links between working careers and pensions in the early retirement system can be strengthened. Pension systems generally provide flexibility on when to claim benefits. To avoid that claiming benefits early (late) results in receiving more (less) in pension benefits over life, an "actuarial adjustment" that modifies benefits depending on the age at which they are claimed (that is, lowering benefits when claimed earlier to account for the additional number of years over which they would be received or conversely providing bonuses when delaying claiming) can be applied. Evidence indicates that individuals claim benefits early in absence of such adjustments (Martinez and Soto, 2021[48]). Introducing such an actuarial adjustment mechanism, which currently does not exist in Belgium, should be considered.

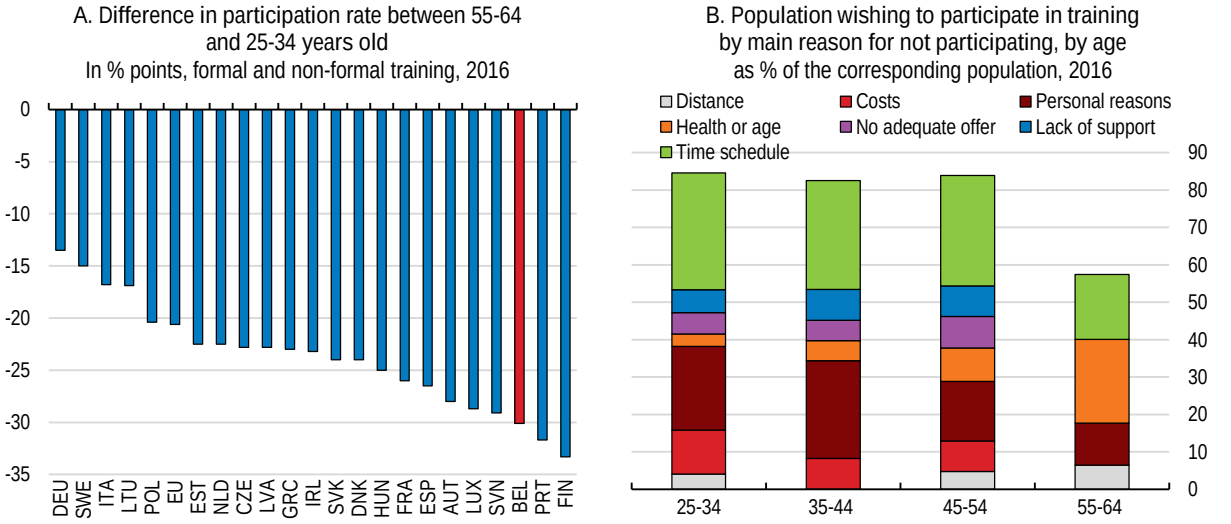
The introduction of part-time pensions and a pension bonus (working longer will accrue more pension rights after 42 career years: a bonus per year for each day worked in addition) is currently under discussion. Such measures to extend working lives are welcome and should be implemented. Other OECD countries use a combination of bonuses and penalties based on the statutory retirement age, rather than the early retirement age, which could be considered as an alternative. For example, in Finland, for the part of the old-age pension taken early, a 0.4% reduction is applied for each month that the part of the pension is taken out before the lowest pensionable age of each cohort and in the case of deferral of claiming the pension beyond that age, the pension is increased by 0.4% for each month by which retirement is postponed (OECD, 2021[49]).

A more ambitious reform is needed to make reforms long-lasting, without a need for constant political negotiations for short-term solutions. Adopting an automatic adjustment mechanism, as most EU countries have, would help lower uncertainties affecting financial sustainability. Tightening of early retirement conditions and the increase in the statutory retirement age to 67 by 2030 are projected to increase the effective age of labour market exit, but life expectancy is projected to increase faster. The introduction of an automatic link between the retirement age and life expectancy would lower pension spending by 1.3 percentage points of GDP in 2070 (EC, 2021[47]). The statutory retirement age should eventually be linked to changes in remaining life expectancy (phasing in after 2030), which is the case in Denmark, Finland and the Netherlands, accompanied by lifelong learning opportunities.

Other complementary reforms, beyond pension policies, are also needed to extend working lives. The tightening of early retirement schemes partially contributed to the increase in real spending on sickness and disability, which makes it crucial to improve the effectiveness of assessment and re-integration of people on these schemes (Chapter 2). The unemployment insurance scheme is another pathway for labour market exit. Unemployment benefit replacement rates are high compared to peers, with unlimited duration and low phase-out (decrease of unemployment benefits with time according to the duration of unemployment and the career of the wage earner), and should be reformed, as recommended in the *2020 Economic Survey*. According to the OECD Council Recommendation on Ageing and Employment, encouraging hiring and retention by employers, for example through tackling age discrimination, will also be key to delaying labour market exit. This could be achieved through obliging firms to have diversity plans and provide an answer for each applicant, including a motivation for rejection.

The employment rate of senior workers (aged 55 to 64) at 54.4% is lower than the OECD average of 61.1%. Upskilling is needed to maintain the employability of older workers, but their lifelong learning participation is low (Figure 1.20; (Delhez et al., 2022[50])). As part of the February *Jobdeal* package, older workers can convert one third of their notice period into outplacement or training, which is welcome. Main barriers to participation in training among older workers include health or age, but they also cite distance or training schedules as barriers (HCE, 2021[51]), which can be remedied by further use of online training and training in modules. An analysis of lifelong training in Flanders suggests that incomplete access to information and guidance regarding training and weak support from employers are barriers to participation among older workers (WSE, 2020[52]). To facilitate an effective use of the new individual training allowances introduced in 2022 for older workers, a single site that collects information on the available training options and provides guidance for training selection, as in Flanders (Flemish Training Database), could be expanded in Belgium.

Figure 1.20. Lifelong learning by older workers remains low



Note: Panel B: The following data was missing: distance for 35-44 year olds, costs, no adequate offer and lack of support for 55-64 year olds.
Source: High Council of Employment (2021), *La formation continue des salariés*; Eurostat (AES).

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Some potential structural changes due to COVID-19 could also help delay retirement decisions. The pandemic accelerated the use of teleworking in Belgium, which was already high at 25% in 2019. Belgium is currently redesigning its teleworking law, following some temporary amendments during the pandemic. Special attention could be paid to accommodating older workers' needs for flexibility. Evidence based on US data suggests that older workers with access to flexible working hours and telecommuting tend to delay retirement (Hudomiet et al., 2019[53]).

The complex structure of the pension system and different schemes for different types of workers create barriers to job mobility and contribute to the inequity of the pension system. The pension contribution rates for the self-employed are low, compared to standard employees, which reduces their entitlement to adequate benefits (Figure 1.19, Panel C). The *2020 Economic Survey* had recommended harmonising contribution rates and pension calculations between the self-employed and employees. Recently, the correction coefficient for the calculation of the pension entitlements of self-employed (set at 69% of dependent employees) was abolished, but there has been no adjustment to contributions, which will increase financing pressures and might unduly discourage dependent employment (OECD, 2021[54]). Hence, contribution rates should be adjusted to ensure the recent reform does not increase sustainability challenges.

There is also room to consolidate and increase mobility between private and public sector pension schemes and improve links between pension contributions and benefits. Belgium has completely separate schemes for public and private sector workers and displays a large replacement rate difference of about 30 percentage points (Boulhol, 2019[55]). The gap is due to different reference periods for calculations of pensions (last 10 years for public employees) and the preferential public sector system of bonuses, despite some minor reforms in recent years. The gradual alignment of the pension treatment of private and public sector workers should be continued, as recommended in the *2020 Economic Survey.* Reconsidering the mechanism governing real increases in pensions through a price uprating of past wages to compute pension entitlements dependent on real wage growth, while pension revenues contributions evolve roughly in line with wages, can strengthen links between contributions and benefits (OECD, 2019[56]).

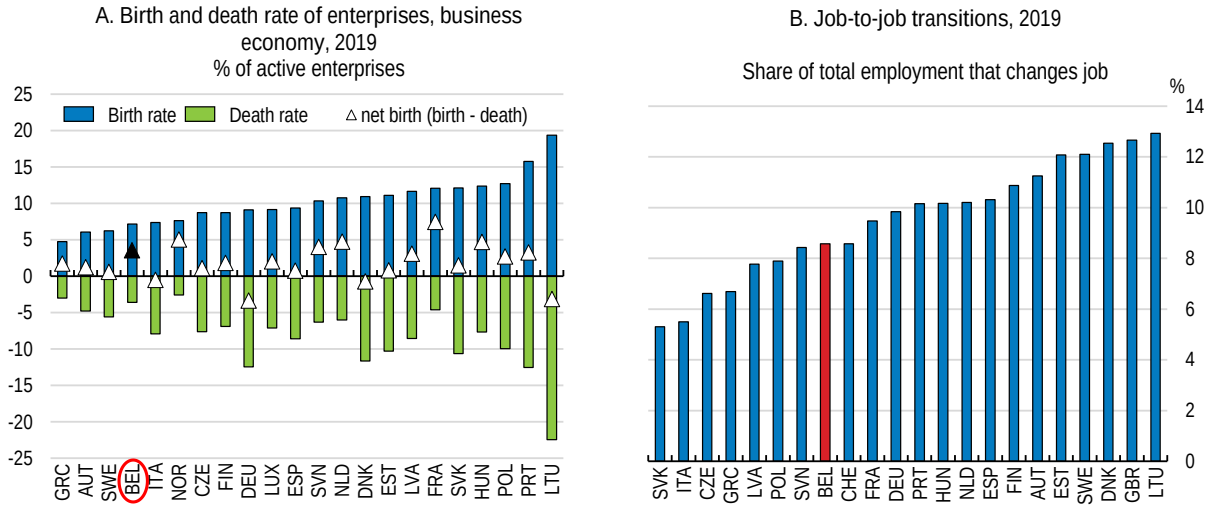
Table 1.8. Past OECD recommendations on fiscal and pension policies

Recommendations in past surveys	Actions taken since 2020
Make regular spending reviews at each level of government an integral part of the fiscal framework.	The federal government conducted 3 pilot reviews in 2021 and is integrating spending reviews in the budget process on a structural basis. The Brussels-Capital Region conducted 2 pilot reviews in 2021 and an assessment of the public financial management system, and requested EU technical assistance to introduce spending reviews into budgeting. Wallonia is conducting a zero-based budget exercise that will be finalised by mid-2022. The French community requested technical support of OECD to identify pilot projects. Following the pilot project on service vouchers in 2019, Flanders conducted in 2021 a broad reassessment of all expenditures and identified further areas for reviews. Flanders is also assessing social expenditures, and allocated funding for a review of administrative burdens.
Align reduced value-added tax rates that are regressive with the standard rates.	No action taken.
Further lower social security contributions for low wages, financed by increases in less distortive taxes.	A budgetary neutral 'tax shift' (0.05% of GDP) includes a reduction in special social security contributions funded by higher excise duties on tobacco, a new tax on flight tickets, and a reform of the exoneration scheme for withholding taxes. The upper limit of gross wages eligible for the application of the "workbonus" will be raised in 2022.
Introduce immediate refundability of R&D tax credits.	No action taken.
Develop policies to reskill older workers to facilitate their employment and link the statutory retirement age to life expectancy at retirement.	As part of the February *Jobdeal* package, older workers can convert one third of their notice period into outplacement or training.
Continue to align the pension treatment of public and private sector workers, for example by introducing a points based system.	No action taken.
Harmonise contribution rates and pension calculations between the self-employed and employees.	Future pension entitlements of the self-employed have increased, without an adjustment to contribution rates.

Boosting reallocation and productivity growth

More dynamic labour and flexible product markets are needed to sustain the recovery, facilitate capital and labour reallocation and the digital transformation. Business entry and exit rates are low (Figure 1.21), especially in services. The share of high growth firms (firms with at least 10 employees that experience annual employment growth of more than 10% over three years), at 7.4%, was lower than the EU average of 11.9% in 2018 (Dillen, Crijns and Standaert, 2020[57]). Belgium also exhibits weak dynamism in people's careers, with low transitions from inactivity and unemployment to employment and job-to-job transitions (Causa, Luu and Abendschein, 2021[58]).

Figure 1.21. There is a need to boost reallocation of resources



Source: Eurostat; and OECD (2021), Causa, O., N. Luu and M. Abendschein (2021), "Labour market transitions across OECD countries: Stylised facts", *OECD Economics Department Working Papers*, No. 1692.

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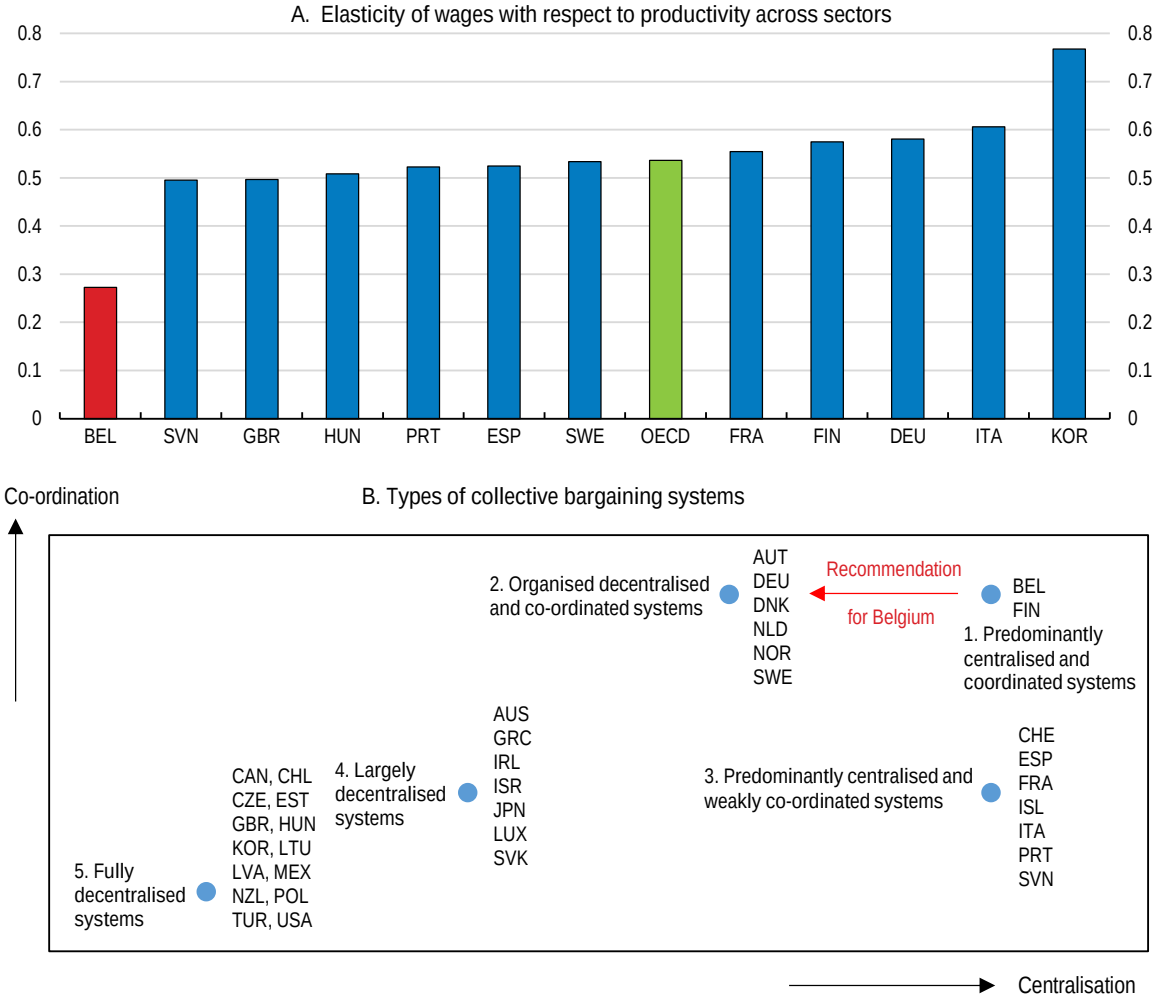
Enhancing links between wages and productivity at the firm and worker level

The responsiveness of wages to firm productivity differences within the same sector is low, with Belgian firms that are 10% more productive than other firms in the sector only paying on average 2.7% higher wages, lower than the OECD average (Figure 1.22, Panel A). Hourly productivity is higher in Belgian firms that have a firm-level agreement which complements the sector-level agreement (Garnero, Rycx and Terraz, 2020[59]). OECD empirical analysis suggests that the upside of low wage dispersion in Belgium comes at a cost of higher productivity dispersion and less productivity-enhancing labour reallocation (OECD, 2019[4]). Put differently, high-productivity firms pay lower wages than what their high level of productivity would justify and low-productivity firms pay higher wages than what they can normally afford.

Belgium's high degree of sector-level centralisation in wage bargaining is likely to be a contributing factor. Sector-level centralisation constrains the scope for firms to set wages and is therefore plausibly linked with a stronger misalignment of wages and productivity across firms. Higher wages would be one way for higher-productivity firms to attract workers, increase their market share and grow. At the other end, lower wages would make it easier for lower productivity firms to overcome a temporary blip in demand and reduce their risk of being turned into a "zombie firm". Furthermore, it pushes productive firms to look for ways around the system by rewarding workers with free company cars and other fringe benefits that are not specified in collective bargaining agreements.

Greater flexibility could be achieved by moving to a so-called "organised decentralised" system, based on sectoral framework agreements that explicitly leave space for further adaptation at the firm level or allow for opt-outs under certain conditions, while keeping high levels of wage coordination (Figure 1.22, Panel B; (OECD, 2018[60])). One option would be wider corridor agreements at the sector level that allow for more room to set wages at the firm level. Another option would be to allow for more frequent exceptions to the favourability principle *via* opt-out clauses, as in Austria and Germany (OECD, 2019[4]). This principle says that a firm-level agreement can only improve the terms for workers set in the sector-level agreement. In organised decentralised systems, the social partners decide when it does not apply. The social partners have this possibility also in Belgium, but they very rarely make use of it. Making more use of firm opt-outs from collective agreements could be considered, in discussion with social partners.

Figure 1.22. Wage setting flexibility should be increased



Note: Panel A: Results are based on OLS regressions of the log hourly wage on log hourly labour productivity across sectors, which include country-year dummies. See OECD (2019), *In-depth Productivity Review* for details. Panel B: the figure depicts five categories of collective bargaining systems based on OECD (2018), *OECD Employment Outlook.*
Source: OECD (2019), *In-depth Productivity Review.*

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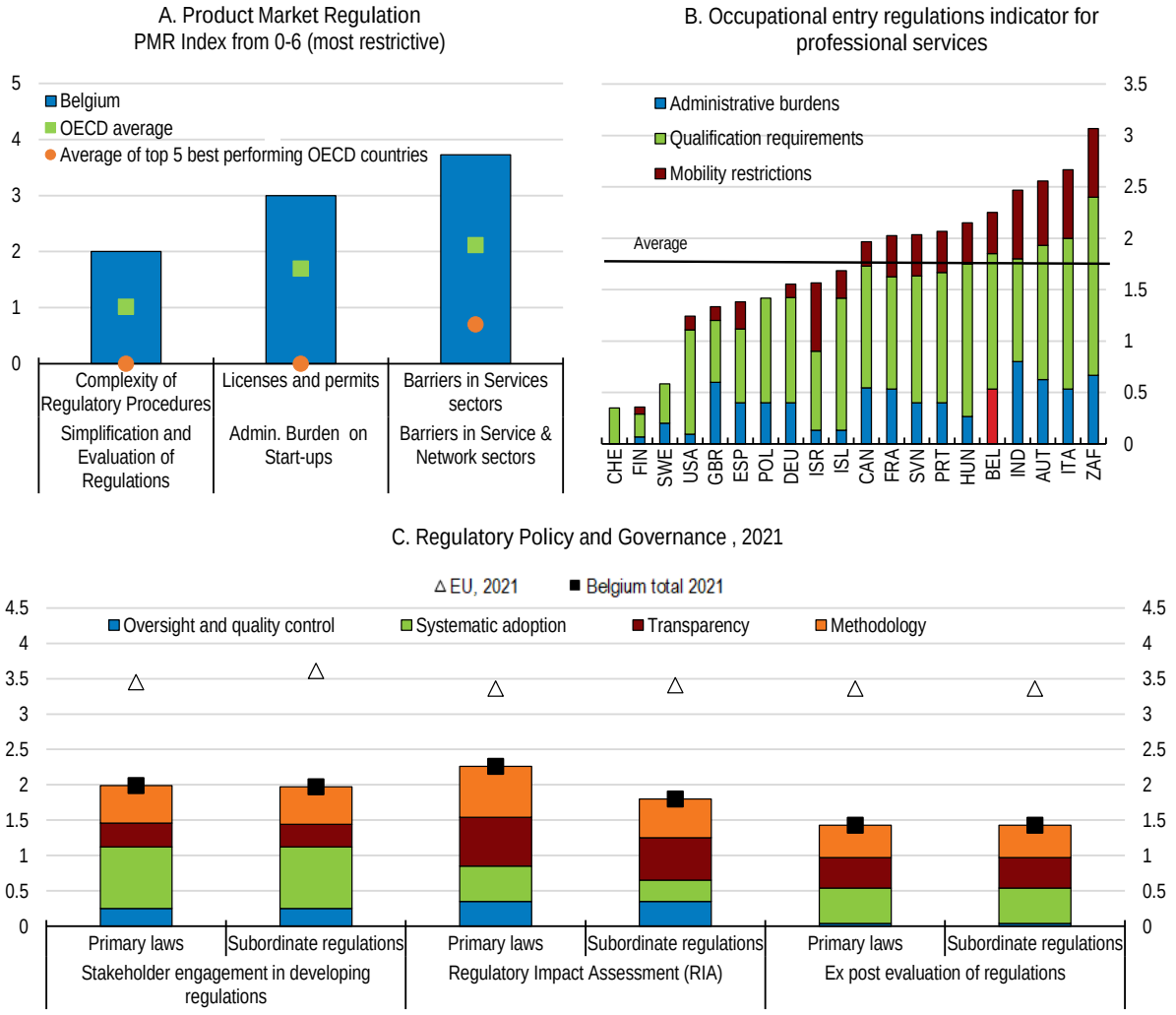
Improving the business environment

Competition could be enhanced by reforming complex regulatory, license and permit procedures, and the extensive regulations in professional services (Figure 1.23, Panels A-B). Past measures, including the 2019 company law and regional initiatives to ease the acquisition of permits, have lowered administrative burdens. Improved e-government practices in the recovery plans should also help. Nevertheless, recommendations from the *2020 Economic Survey,* such as the use of a "silent is consent" rule for issuing permits and licenses, and further relaxing restrictions in the retail sector, which is characterised by a restrictive regulatory set-up with rigid rules on opening hours and seasonal sales, remain relevant.

Professional and craft services remain highly regulated, with real estate agents and architects among the most regulated in the OECD according to the OECD PMR indicators. The regulation of accountants and bookkeepers has been relaxed since 2020. Restrictions in inter-professional cooperation, marketing of services and ownership and holding of voting rights for firms lower competition in other professional services. The Budget 2022 proposes to lower notary fees for real estate transactions, which are among the highest in the EU (EC, 2020[41]; Price Observatory, 2021[61]). A more general liberalisation of

professional services is in the federal coalition agreement and should be followed up. Mandatory training chamber membership and insurance requirements for professional services should be further liberalised. Despite labour shortages, most notably in the construction sector which are expected to rise, entry requirements for craft and construction services remain rigid in some regions. The professional qualification requirements for regulated craft professions were eliminated in Flanders in 2018, for five professions in Wallonia and are being evaluated for 26 professions in the Brussels-Capital Region. Reforms to ease access restrictions for craft and construction services should be continued.

Figure 1.23. Regulatory barriers constrain competition.



Note: Panel B: An indicator value of 0 indicates the absence of regulations, 6 reflects a fully regulated market. Panel C: The more regulatory practices as advocated in the OECD Recommendation on Regulatory Policy and Governance a country has implemented, the higher its iREG score. The indicators on stakeholder engagement and RIA for primary laws only cover those initiated by the executive (61% of all primary laws in Belgium).

Source: OECD 2018, PMR (database); Von Rueden, C. and I. Bambalaite (2020), "Measuring occupational entry regulations: A new OECD approach", *OECD Economics Department Working Papers*, No. 1606; and OECD (2021), Government at a Glance (database).

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There is room to integrate impact assessments and ex-post evaluation in the policy-making process and improve their transparency, where Belgium lags the EU average (Figure 1.23, Panel C). Systemising the use of consultation for both primary and subordinate regulations across all ministries and developing a central platform on which all consultations are published would enhance the transparency of the regulatory

system. In addition, the regulatory impact assessments do not systematically require an identification and assessment of alternatives to the preferred policy option, which can lower their effectiveness (OECD, 2021[62]). Recent measures increased the resources of the Competition Authority, which could be involved in impact assessment and evaluation of new laws and regulations.

Getting the most out of digitalisation reforms

Reaping the productivity benefits of digital adoption requires good digital skills (Gal et al., 2019[63]). Belgium is a leader in firms' adoption of digital technologies, with the share of firms using cloud computing and big data at 43% and 23%, higher than the EU averages of 26% and 14%, respectively. Policies to boost digital skills (59% of firms report hard to fill vacancies for ICT specialists) and the share of university graduates in STEM courses (15% compared to the OECD average of 23%) can significantly improve the productivity benefits of digitalisation (Chapter 2). A 10 percentage point increase in the share of STEM workers is linked with a 2.5-4% increase in the firm's productivity in Belgium (Bijnens and Dhyne, 2021[64]).

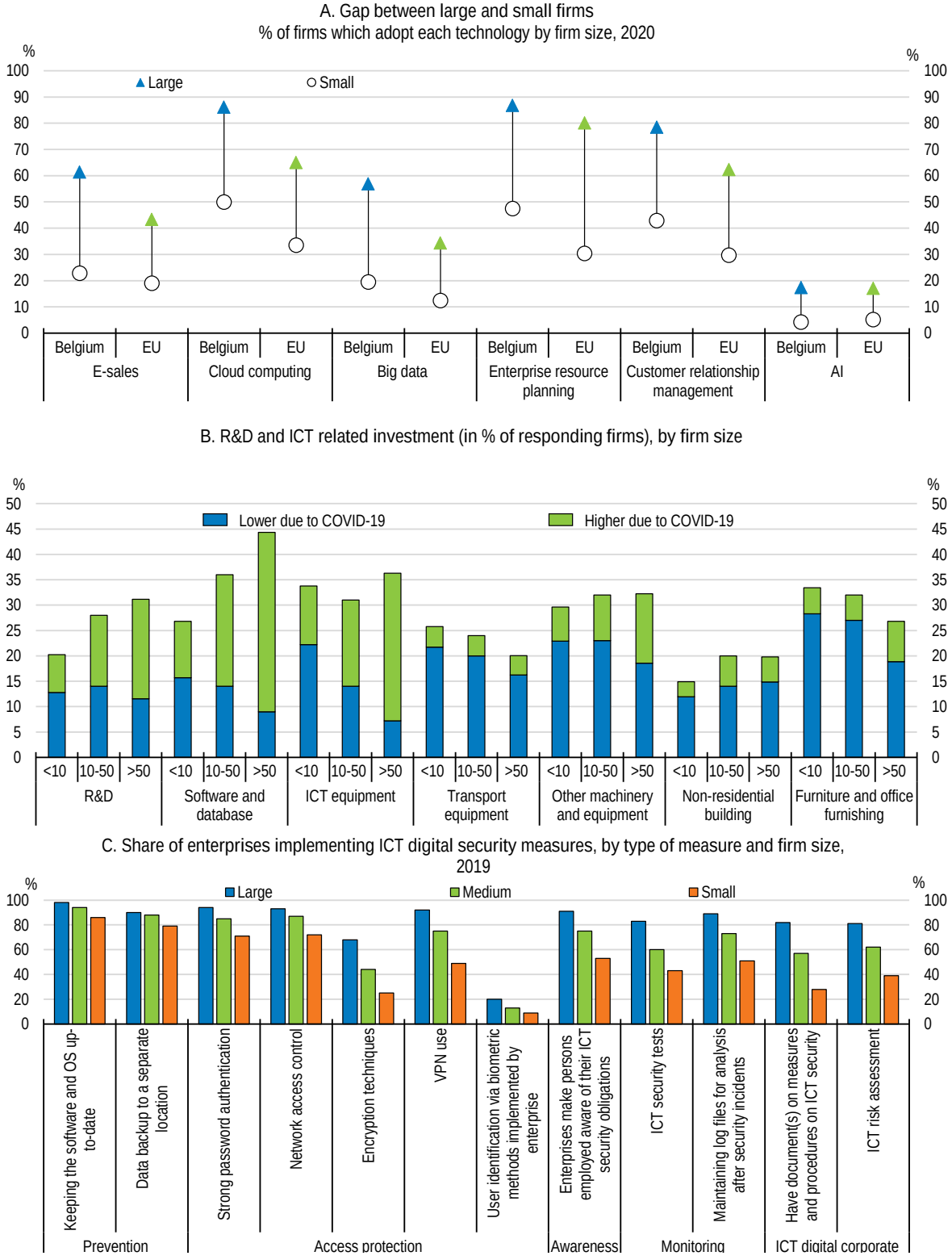
Policies to boost digitalisation should have a specific focus on SMEs, which make up 69% of employment and 63% of value added. While small firms' adoption of digital technologies tends to be higher in Belgium than in the EU, the gap between small and large firms in Belgium is larger (Figure 1.24, Panel A). Overall, COVID-19 had a positive impact on ICT investment in Belgium, but with differences across firm size, which might exacerbate existing gaps (Figure 1.24, Panel B). The existing tax deduction for growing firms will only apply to digital or green investment from 2023, which can help innovative SMEs.

Digital security is one area where SMEs lack resources and expertise. In 2019, 20% of Belgian firms experienced digital security incidents, higher than the OECD average of 14.8% (OECD, 2021[65]). Belgian digital security risk management practices are above the OECD average, but as in other OECD countries, there is a gap between small and large firms for more sophisticated tools (Figure 1.24, Panel C). Federal and regional governments have cybersecurity plans in place, and the national recovery plan allocates EUR 79 million to develop protection tools and a cybersecurity competence hub. It will help finance a global cybersecurity governance framework, which is welcome, since the Global Cybersecurity Index, where overall Belgium ranks relatively well (19th out of 175 in 2020), identifies gaps in organisational measures. Special focus should be on increasing the capabilities of SMEs. The plan also aims to increase capabilities of Ministry of Defence, the administration's hub of cybersecurity specialists. A more general training agenda, for example through the VET track, could be considered to increase the pool of digital security talent available to firms, as is planned in Spain.

Access to fixed and mobile high quality broadband at competitive prices is key for the digital transformation. Teleworking increased from 25% in 2019 to 33% in 2020 (EU average: 18.6%), and is expected to increase further (Acerta, 2020[66]). The development of digital technologies will also increase data traffic, which will require policies and regulatory measures to promote investment and reduce obstacles to infrastructure deployment.

While fixed broadband subscriptions per 100 inhabitants, including in the higher speed tier of more than 100 Mps, is high, the share of fibre on overall fixed broadband subscriptions is relatively low and the uptake of mobile broadband is lower than the OECD average. While the low share of fibre is driven partly by the use of high-performing cable networks, future technology needs (upload speeds) make a switch to fibre more urgent (OECD, 2021[67]). The rollout of 5G has been delayed in most OECD countries due to the pandemic, but is particularly lagging in Belgium (Figure 1.25). The *National Plan for Fixed and Mobile Broadband* aims for high-quality broadband connectivity with a contract speed of 100 Mbps by 2025 and 1 Gbps by 2030 for all households, by mapping remaining zones (2% of the territory) to facilitate deployment of high speed services and stimulate investment. The planned investments into optic fibre and 5G (EUR 100 million in the national recovery plan and EUR 66 million from federal funds over 2022-24) are welcome, but further public funding will be needed to achieve the broadband plan's objectives.

Figure 1.24. Adoption of digital technologies and security management tools are lower for SMEs



Note: Panel C: VPN is Virtual Private Network that extends a private network across a public network to enable secure exchange of data over public network. Small firms include firms with [10-49]; medium-sized firms [50-249] and large firms [250 and more] employees without financial sector.

Source: OECD (2021), ICT Access and Usage by Businesses; Round 20 of ERMG survey; and Eurostat (2021), ICT Usage by Businesses data.

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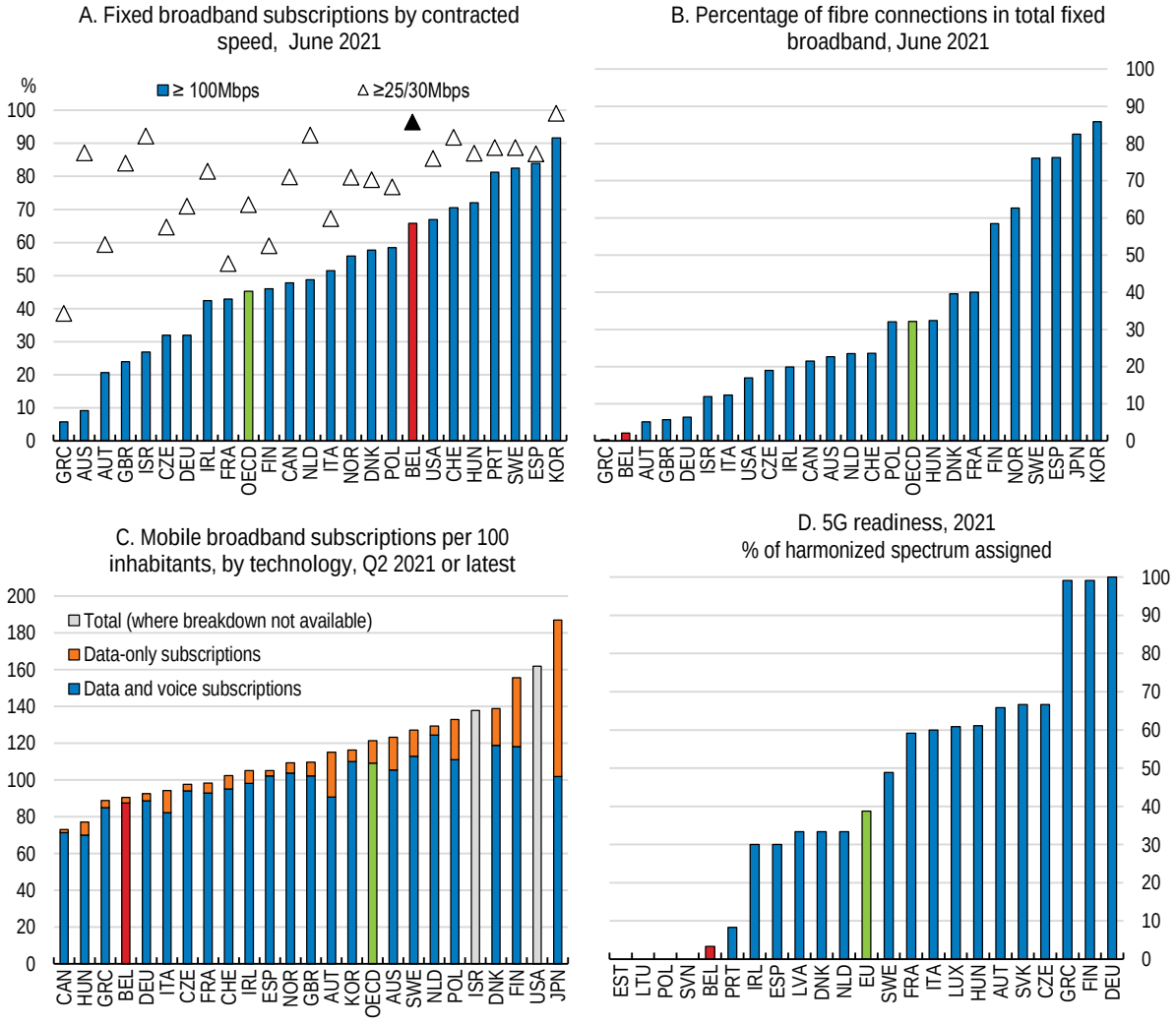
Figure 1.25. Belgium lags behind in the share of fibre and 5G readiness



Source: OECD Broadband Portal; and European Commission, Digital Scoreboard.

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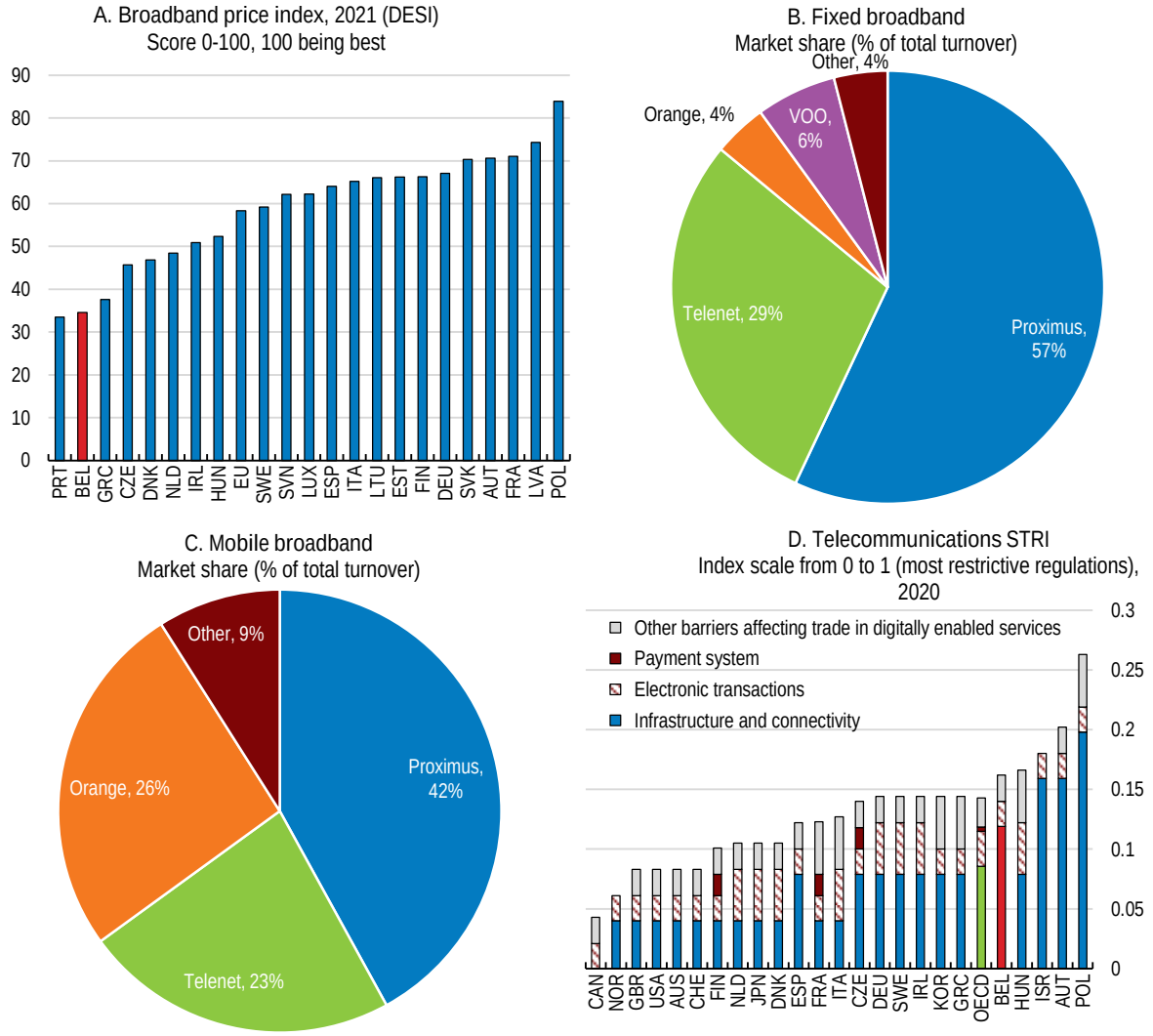
The barriers to effective 5G deployment should be removed. Spectrum licensing (in the European Union, spectrum bands coined as "5G pioneer bands") had been delayed due to lack of consensus over auction design. In October 2021, the government approved a royal decree for 5G auctions, with an aim to have first auctions in the second quarter of 2022 and expanded the 5G information campaign to inform citizens' understanding of the process and effects. The effective deployment will depend on the removal of regulatory barriers, including the stringent regional or municipal limits to electromagnetic fields (EMF). Some limits in Belgium, such as those in Brussels, are stricter than EU guidelines and are among the lowest in Europe (OECD, 2021[68]). The recovery plan includes reforms to revise EMF limits, if recommended by the relevant regional committees looking at the issue. In October 2021, a draft law to lower EMF limits was brought into public consultation in Brussels, which is welcome. The revision of these limits should be made as soon as feasible to enable effective deployment, once the auction is successful.

The existing measures to reduce high-speed network deployment costs should be further extended. Belgium has a central electronic counter to promote access to existing infrastructure and also seeks to optimise the co-ordination of roadworks and the distribution of costs among network operators (telecommunication companies, cable companies, power grid operators, water companies, transport, etc.)

participating in the joint roadwork (OECD, 2021[69]). Fibre deployment is being fostered by co-investment agreements, but the difficult coordination of digging and trenching works and inefficient dispute resolution processes create challenges (EC, 2020[70]). Flanders plans to facilitate infrastructure sharing by creating a tower company to lower costs and accelerate the rollout of high-speed networks, including in rural areas. Such initiatives to decrease barriers to deployment should be extended (OECD, 2020[71]).

High broadband prices and the high level of market concentration in both fixed and mobile broadband market shares (Figure 1.26) could reflect weak competition in the communication sector (EC, 2020[72]). According to the OECD Telecommunications Services Trade Restrictiveness Index (STRI), while around the OECD average, the restrictions are well above neighbouring countries. Lowering entry barriers should be accompanied by measures that ease consumer mobility across communication providers. The use of "*Easy Switch*", which strengthens incentives to switch suppliers since 2017 by allowing the new operator to terminate the services of the customer with the old provider, has increased from 19.7% to 23.4% in 2020, but more could be done to promote and ease its use (BIPT, 2021[73]).

Figure 1.26. Barriers to competition in the communication sector can be eased



Note: Panel B: Fixed broadband includes equipment. Panel D: STRI refers to Services Trade Restrictiveness index.
Source: European Commission, Digital Scoreboard; Belgian Institute for Postal Services and Telecommunications; OECD (2020), Digital STRI database.

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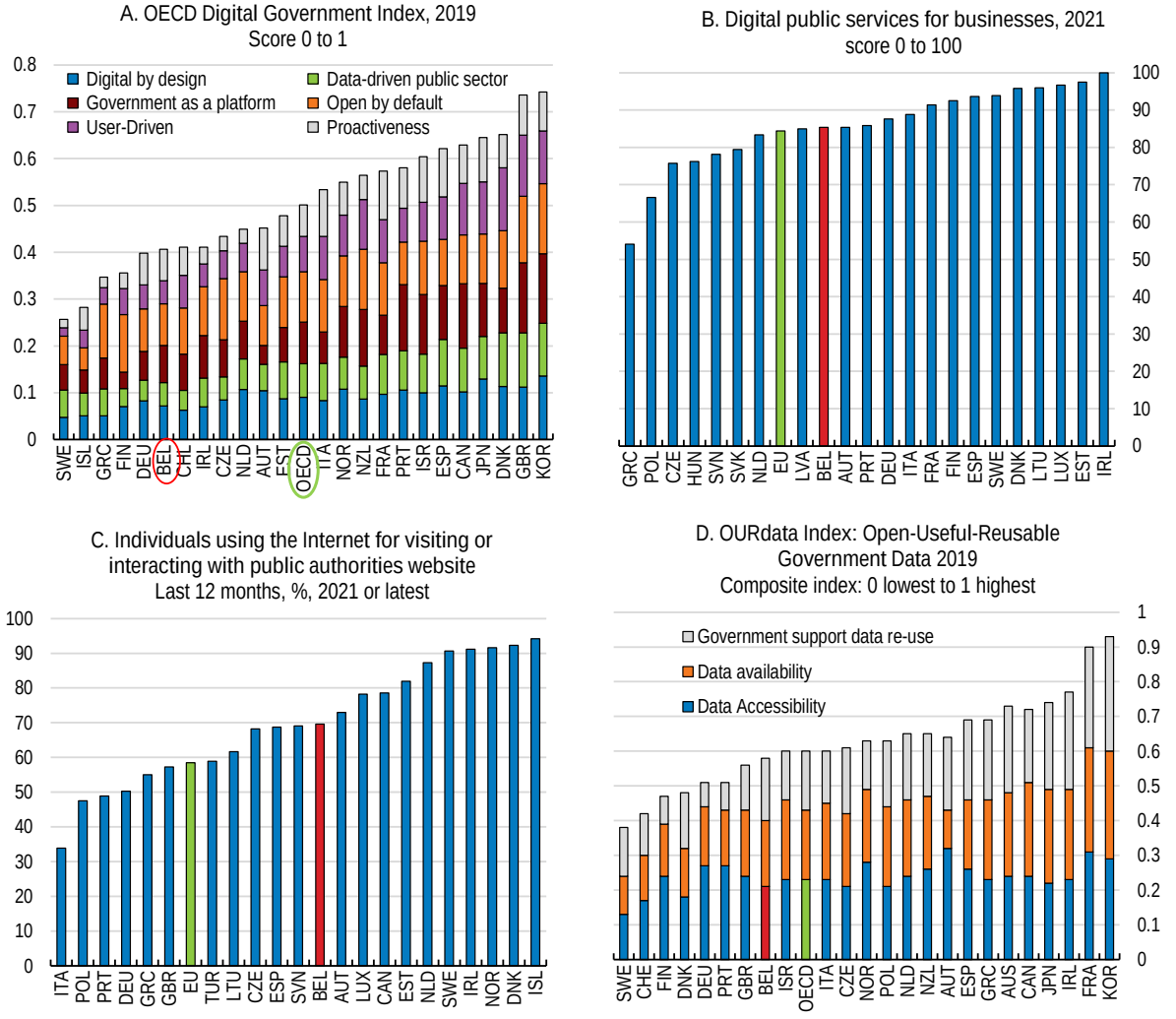
Digital technologies and data can be pivotal in rethinking how the public sector operates, improving public services' quality and cost effectiveness, widening access and improving trust in public institutions (OECD, 2020[74]). Digital government is not well-developed in some respects in Belgium, such as the strategic use of digital technologies and data, the availability of basic online services for businesses and citizens' use of digital government services (Figure 1.27). OECD research suggests that closing one half of the gap to best practice in digital government use can increase firm productivity through digital adoption by 1.2% after three years (Sorbe et al., 2019[75]).

Figure 1.27. Digital government is not well-developed in some respects



Source: Digital Government Index; European Commission, Digital Scoreboard; OECD, Going digital toolkit; OECD, Open, Useful and Re-usable Data Index, 2019.

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The recovery plans rightly focus on the digitalisation of the public sector, with projects at each level of government. The main reforms are to digitalise social security and justice systems, implement the Single Digital Gateway to facilitate governance, sharing and reuse of data through the "only once" principle, redesign administrative processes and digital public services and improve e-procurement. Belgium has established an adequate governance for digital government through the Directorate-General Digital Transformation at the Federal Public Policy Service and Support. Flanders has adopted a data strategy and Wallonia has created a digital public service. Nevertheless, a coherent strategy and digital architecture

covering different levels of government remains lacking. The development of silo-based digital initiatives throughout the government can make it difficult to reap the full benefits of the planned reforms. Enhancing digital skills of users (Chapter 2) will be key, as low-educated citizens tend to use digital government services less often (OECD, 2020[71]). It is also important to support demand for digitalised public services, for example by assuring users that their personal data are protected while being strategically used to improve services (OECD, 2019[76]).

Attracting digital talent and developing up-to-date skills across the public administration is essential to accelerate its use of digital technologies. Given Belgium's skill shortages, the public sector needs more agile recruitment and career management to attract skilled workers. The government plans to assess the digital competencies of public servants and the digital skillset needed to identify the needs for training. This assessment should be done quickly and used as a basis to create specific programmes to increase the digital skills of public workers. Going beyond basic digital skills to develop public servants' skills in other areas (e.g. digital leadership, project management, data analysis) would contribute to a digital culture that can support a deeper digital transformation of the public sector. For example, Canada Digital Academy was created to offer both general and more specialised learning opportunities, in the classroom and online, for public servants at all levels (OECD, 2021[77]).

Another key component of digital government is access to open government data, which can foster social participation, business opportunities and innovation, where Belgium performs below the OECD average (Figure 1.27, Panel D). Regional open data portals exist, but there is a need to improve their coherence. Specifically fostering public value creation through data reuse within and outside the public sector is lagging behind (e.g. through forums for discussions, the possibility for users to add their own data and visualisations). Increasing the still moderate levels of engagement with external stakeholders and public officials to promote their re-use of open data, *via* additional strategic partnerships, training programs and events, should be part of the new digitalisation agenda (OECD, 2020[78]). The development of a legal framework for data protection and security in Estonia contributed to increasing the share of individuals using internet to interact with public authorities from 50% in 2009 to 80% in 2019 (OECD, 2020[79]). An effective data governance framework in the public sector should be prioritised through the promotion of a data-driven government approach (Box 1.4).

Box 1.4. Data governance frameworks in the public sector: New Zealand and Norway

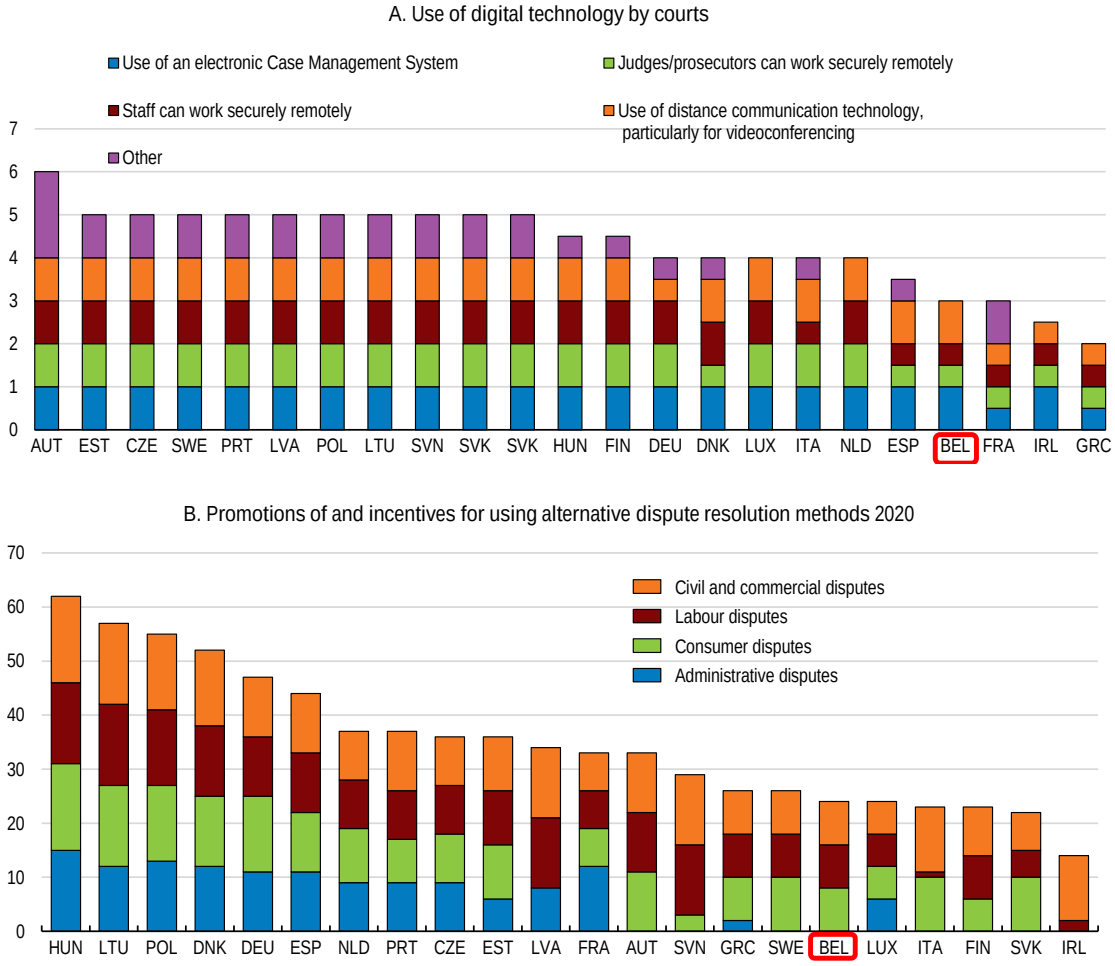
Statistics New Zealand has developed a data governance framework to promote better data management practices across the public sector. One of the central pillars is the "whole-of-data life cycle approach", meaning public bodies and employees are encouraged to think more strategically about the governance, management, quality and accountability of their data, over the whole data life cycle. The Agency for Public Management and eGovernment in Norway created an information governance model that positioned the management of public sector data at the centre of the digital transformation of the public sector, providing Norwegian public bodies a rich set of tools to help leverage data as a strategic asset for decision making and reuse.

Source: (OECD, 2019[76]).

Improving the digitalisation of the justice system, as recommended in the *2020 Economic Survey,* will also be key (OECD, 2019[80]). Lack of consistent, reliable and uniform court data makes it difficult to assess the efficiency of the justice system (EC, 2021[81]). A digital case management system was introduced in 2019, but the use of digital tools and technologies in courts remains low (Figure 1.28; (EC, 2021[82])). The recovery plan aims to improve case management and introduce data collection automation to reduce the time needed to process cases, and increase the rate of online publication of judgments to foster legal certainty. These plans are welcome and should be accompanied by further extension of ICT training for judges to enable their effective use.

The digitalisation of the justice system can also enable improvements in evaluation and the facilitation of alternative dispute mechanisms, which are not widely utilised (Figure 1.28). While individual courts in Belgium are required to prepare an annual activity report, there is no system for regular evaluation (in terms of performance and output), performance and quality indicators are not defined at the court level, and evaluation is not linked to allocation of resources to individual courts (CEPEJ, 2021[83]). Digital tools can also enable Belgium to create one-stop shops for dispute resolution, which would allow the users to solve their disputes in one place, including gathering information, submitting applications and documents as well as enforcing outcomes received, as is the case in half of the OECD countries (OECD, forthcoming).

Figure 1.28. Digitalisation of the justice system remains low



Note: Panel A: Maximum possible: 7 points. Panel B: Maximum possible: 68 points. Aggregated indicators based on 17 indicators.
Source: European Commission, *Justice Scoreboard 2021*.

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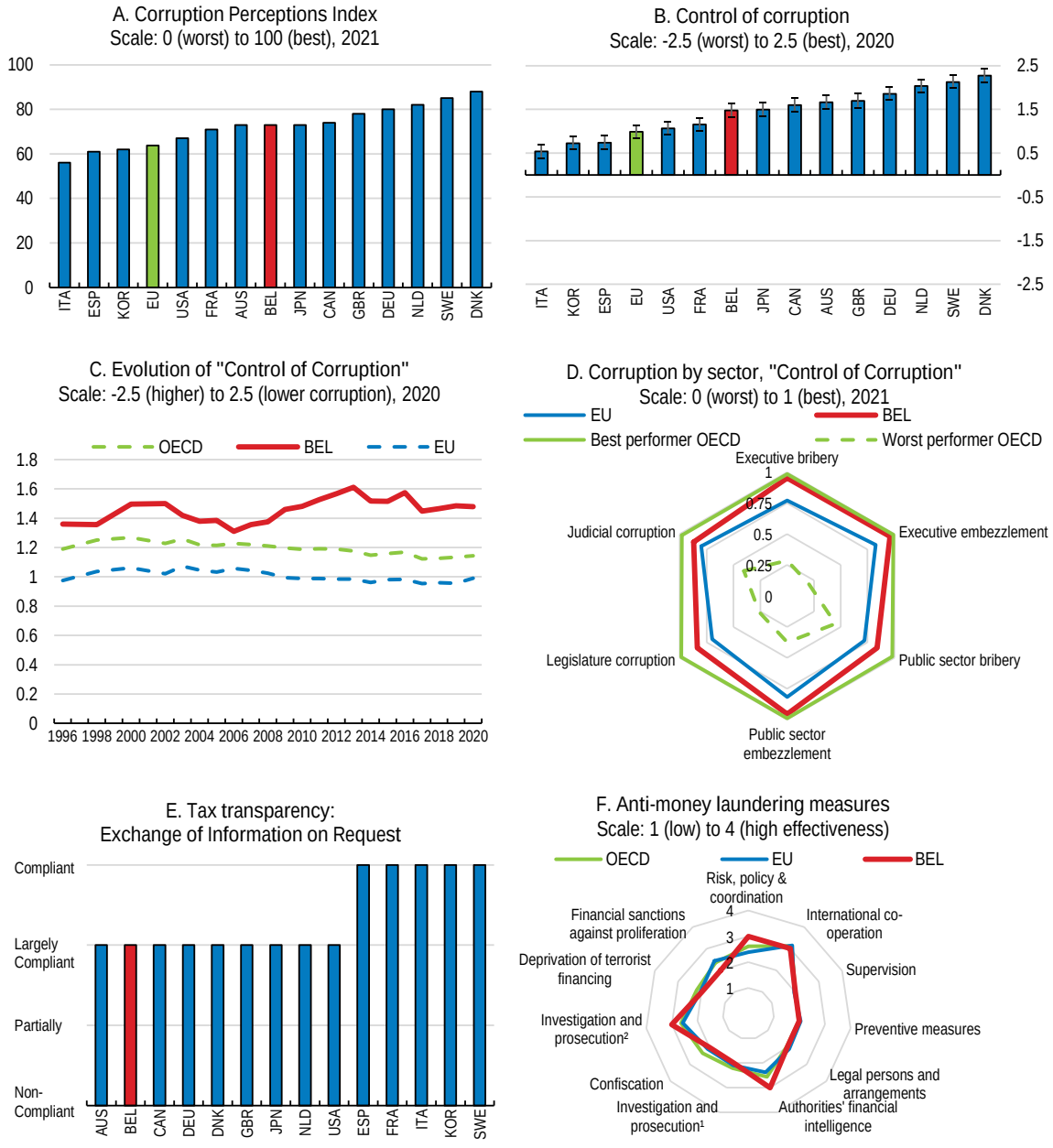
Further strengthening the fight against corruption

The control of corruption is around the OECD average, but below some peers in some dimensions (Figure 1.29). While measures to prevent corruption are generally in place, some gaps remain in terms of the prevention of conflict of interest for ministers and their advisors, the transparency of asset disclosure and lobbying activities (EC, 2021[81]). According to the OECD PMR indicators, there is no mandatory requirement for interest groups to register in a public registry. Some progress in the prevention of conflicts of interests have been made by the 2018 code of conduct for federal public servants, but this should be extended to all senior posts (GRECO, 2020[84]), and include rules in the interaction with third parties, especially lobbyists.

Figure 1.29. Some gaps remain in the prevention of corruption



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 first round results; a second round is ongoing. Panel F shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.

Source: Transparency International; World Bank, Worldwide Governance Indicators; Varieties of Democracy Project, V-Dem Dataset v11; 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).

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Transparency measures related to lobbying are applicable to ministers and their cabinets, but they do not apply to members of parliament or public officials, in contrast to a majority of OECD countries (OECD, 2021[85]). Hence, clear standards and rules should be introduced for public officials of both the executive and legislative on how to engage in relations with lobbyists and other third parties (GRECO, 2021[86]). Some countries (Canada and France) are using digital tools to enhance the quality of reporting and transparency in this area. Finally, Belgium does not have any sanctions, including disciplinary and administrative ones, for lobbyists and public officials who breach standards and disclosure requirements related to lobbying activities (OECD, 2021[85]). Even if the use of sanctions remains low in countries where they exist, they could play a deterrent role, and could be considered.

More priority should be given to enforcing bribery offences when committed by Belgian nationals and companies abroad. Legislative reforms, including on the statute of limitations for bribery offences and whistleblower protection, are still missing. There are two sectoral whistle-blower regimes for the private sector, regarding infringements of the financial legislation and money laundering. Formal whistleblowing procedures exist for staff members of the federal and Flemish public administrations to report suspected harm to integrity within the federal administration, but not to those reporting suspected acts of bribery of a foreign public official by a Belgian national or company (OECD, 2013[87]; OECD, 2018[88]). The transposition of the EU Whistle-blower Directive has been delayed to the second quarter of 2022, which should be completed as soon as feasible.

Table 1.9. Past OECD recommendations on labour markets and productivity

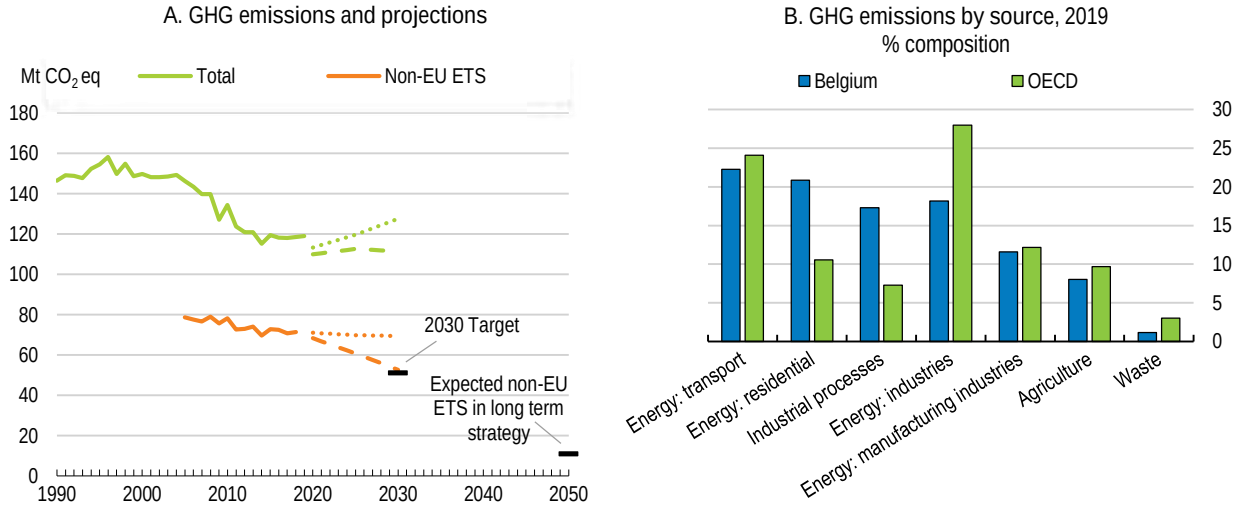
Recommendations in past surveys	Actions taken since 2020
Streamline the licence and permits system, and reduce the number of restrictions in some professional services.	A number of restrictions for certified accountants and fiscal advisors were reduced from September 2020 and the deontological code for bookkeepers regarding multidisciplinary activities was adapted in 2021. In 2021, the possibility to create firms digitally was introduced and a number of regional initiatives were established to ease the acquisition of permits, such as the *MyPermit* program in the Brussels-Capital Region and *e-desk* solutions for entrepreneurs in Flanders.
Complex and costly insolvency procedures can fail to adequately meet the needs of SMEs.	A pre-packaged insolvency procedure to make judicial restructuring more accessible, a lower threshold to start judicial reorganisation procedures and flexibility in the appointment of insolvency administrators was introduced in 2021.
Improve the efficiency of public support for business R&D by achieving an appropriate mix of direct and indirect measures.	In 2021, Flanders conduced a review of the effectiveness and additionality of its R&D subsidy scheme, Wallonia simplified and streamlined its R&D support measures and the Brussels-Capital region improved the mix of its R&D funding tools.
Extend the use of statistical tools to identify job-seekers at risk of becoming long-term unemployed to develop tailor-made active labour market programmes.	In Flanders, the NextBestSteps-programme has been extended and in Wallonia, a machine learning model to assess job seekers proximity to employment has been developed.
Introduce individual training allowances and for disadvantaged workers, provide targeted support, such as higher training time and/or funding requirements.	The February Jobdeal includes individual learning allowances starting from three days per year per worker in 2022, four days in 2023 and five days from 2024 onwards.
Increase work incentives for low-wage workers by introducing in-work benefits.	Fiscal deductability of child care costs has been raised from tax-year 2022. In 2021, Flanders decided to implement the 'jobbonus', a work incentive for the activation of low-wage workers (wages up to EUR 2 500 per month).
For the long-term unemployed, use means-tested benefits rather than flat benefits.	No action taken.

Bold efforts are needed to advance the green and energy transition

Belgium had a mixed performance on achieving its 2020 energy and climate targets. The target for non-ETS emissions reductions will be achieved under EU accounting rules that allow credits from years when emission were below annual targets to offset deficits for years when emissions exceeded annual targets. The energy efficiency targets were not achieved and achievement of the renewable energy target of 13% required purchasing statistical transfers from other EU member states.

Belgium's Long-term Strategy's aim is to meet the expectations of the Paris Agreement, but does not include a target for national climate neutrality by 2050. Additional measures (shown in the dashed lines) will be needed to reach the current 2030 targets of reducing emissions not covered by the EU Emissions Trading System as the 2019 National Energy and Climate Plan (NECP) projects a small decline over 2020–30 under existing measures (dotted lines) (Figure 1.30, Panel A; (OECD, 2021[89])). Partly reflecting the sectoral composition of the economy (large share of polluting industries) and dependence on fossil fuels, GHG emission intensity in Belgium is relatively high in transport, housing, and industry, pointing towards scope for reforms (Figure 1.30, Panel B). A number of initiatives, discussed below, have identified reform (e.g. carbon tax) and investment needs, but implementation has been lagging. The recent developments have highlighted the urgency of action in long-term planning and certainty for investment.

Figure 1.30. Additional measures are needed to reach 2030 targets



Note: Panel A: GHG emissions excluding land use, land-use change and forestry. Dotted lines refer to projections of the National Energy and Climate Plan (NECP), with existing measures. Dashed lines refer to projections of the NECP, with additional measures. Non-ETS targets: under the EU Effort Sharing legislation. These targets do not reflect the new targets proposed by the EU "Fit for 55" package.
Source: OECD (2021), *Environmental Performance Review: Belgium, 2021;* and OECD (2022), Environment database.

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The recovery plans' large focus on building renovation (Chapter 2) and mobility solutions is welcome as transport and buildings account for the bulk of non-ETS emissions. There is a need for additional investments and to improve coordination across levels of government and ensure effectiveness of public investment. For example, there have been various regional and federal initiatives to boost sustainable mobility (mobility budget, 1st federal action plan for the promotion of cycling, new investment in railway infrastructure and transport, Mobilidata programme). However, regions have different preferences for road pricing for cars (*2020 Economic Survey).* The Executive Committee of Mobility Ministers has not coordinated a consistent vision of sustainable mobility across the federated entities (OECD, 2021[89]), despite some initiatives to align policies in certain areas (2040 Rail Vision, MaaS Vision). There is a need

to strengthen the committee's role and evaluation capacity as cost-benefit analysis of infrastructure projects is ad hoc and public entities at different levels apply their own practices (Strategic Committee, 2018). Cost-benefit analysis of public investment projects in line with EU guidelines, which includes at least long-term CO_2 emission paths and emissions avoided, should be systematically conducted.

Politicised debates hamper or delay the agreement and implementation of a more coherent path to achieve national targets. Investment needs for energy (EUR 60 billion) and mobility (EUR 22-27 billion) are substantial over 2019-30 for Belgium, according to the 2018 Strategic Pact for Investment (Table 1.10). However, the coherence between these investment needs and measures in the National Energy and Climate Plan (NECP) is not clear (EC, 2020[90]; NCC, 2019[91]). Long-term infrastructure planning and public investment can not only crowd-in private capital and help the green transition, but can also have the double dividend of addressing productivity growth and resource allocation challenges discussed above. Climate action policies are expected to create about 60 000 additional jobs in Belgium (increase by up to 1% of total employment) (EC, 2020[41]). Hence, it is important to include future skill requirements and the policy implications of the green transition in Belgium's skills planning and anticipation activities, and ensure that active labour market policies include training for skills demanded in green jobs, as in Denmark (D'Arcangelo et al., 2022[92]). The ongoing study by the federal government on the challenges of decarbonisation for employment and training is welcome.

Table 1.10. Investments needed to achieve **Belgium's 2030 energy and climate targets**

Area	Recommendations	(EUR billion)	
		Public	Private
Building renovation	Invest heavily in renovation of public buildings to make them more energy efficient.	8.5	8.5
Electricity mix	Continue to guarantee security of supply at competitive prices, develop renewable energy, and further reduce the cost of renewable energy.	0	19
Strengthening of systems	Invest in transmission and distribution systems to ensure a fair and more flexible transition; support the development of smart grids.	0	17
Development of storage	Use the storage capacity of vehicles, housing and businesses, attract a battery producer to Belgium, develop pumped storage.	0	5
Roll-out of alternative fuels	Ensure that there are sufficient electric vehicle charging stations, support RD&D in hydrogen and green gas.	0	0.3
Nuclear decommissioning and waste management research	Support projects aimed at building the decommissioning knowledge of Belgian businesses via the Advanced Belgian Cluster on Decommissioning, research how to effectively treat nuclear waste.	0.7	1
Maintain and develop integrated transport networks and services	Service and maintain existing infrastructure, improve access to towns and cities, particularly through suburban rail systems, hubs and integrated cycle paths; improve rail access to ports and industrial parks and modernise shipping locks.	17.2-20.5	2.8-3.5
Facilitate intelligent mobility solutions	Facilitate door-to-door mobility, roll out intelligent transport systems to reduce congestion, increase road safety and reduce emissions.	1.5-2	0.1
Manage transport demand	Promote spatial planning and redevelopment of industrial sites, create satellite offices and co-working spaces, smart charging for mobility services.	0	2
Establish a support framework	Create a national mobility observatory, produce a multiannual multimodal investment agenda providing a clear vision of investments and specific governance structures at the appropriate level (metropolitan, regional or national).	0	< 0.1
Total		28-32	56-57
		84-88	

Note: This table provides estimations made by an expert group which submitted their report to federal and regional authorities in 2018. The Strategic Committee was formed as an initiative of the previous federal government to unite all stakeholders in strategic investments around a common vision and goals to be achieved by 2030.
Source: Strategic Committee (2018), Strategic Pact for Investment.

A common long-term vision on energy and climate objectives and policies between the federal and regional governments would provide long-term certainty to stakeholders for making the necessary investments for decarbonisation. The update of the NECP in 2023-24 should present a clear and more coherent path to achieve national targets and long-term goals. In some areas, it is unclear how the different regional efforts support achievement of national targets (EC, 2020[90]). Since 2002, the National Climate Commission (NCC), including through a joint steering group with the State and Regions Energy Policy Coordination Platform (CONCERE/ENOVER), coordinates the efforts of the regions and the federal government, which share competencies regarding implementation and monitoring of policies and measures (Table 1.11), but the NCC is not playing its role effectively (OECD, 2021[89]).

Effort sharing of 2030 national objectives should be swiftly established. It took seven years to reach an agreement on burden-sharing following adoption of the 2020 targets on emission reductions in sectors not covered by the EU-ETS (UNFCCC, 2019[93]). The new effort sharing agreement should use transparent mechanisms and methodologies, and be concluded in a timely manner to avoid renegotiations during the implementation period and to give clarity to all stakeholders involved in its implementation (IEA, forthcoming). y. In the United Kingdom, targets have to be established by the government on the basis of advice from an independent expert body, the Climate Change Committee (CCC), which also monitors compliance and reports on progress to meet the targets to the Parliament. The permanent and independent nature of the CCC has helped to ensure a focus on long-term targets, and has inspired institutional set-up in other OECD countries, and should be considered in Belgium, as recommended in the *2019 OECD Environmental Performance Review of Belgium*. In the medium-term, a national Climate Law to strengthen institutional co-operation on energy and climate policies, as recommended by experts (SPF, 2018[94]), could be explored, but is difficult as it likely requires constitutional change.

Table 1.11. The allocation of responsibilities across different levels of government

	Federal	Regions
Environment	Product standardisation, protection against radiation, transit of ware, marine protection, most taxes.	Land use planning, nature and environment protection of soil, water and air (waste management, etc.), environment subsidies and permits.
Energy	Electricity generation and transmission, transport of gas and oil, nuclear energy, security of energy supply (electricity, natural gas and oil), price policy and consumer protection, offshore energy generation and energy RD&D related to its competences.	Distribution of electricity and natural gas, regulation of gas and electricity retail markets, renewable energy (except offshore wind), energy efficiency and greenhouse gas emissions (except for federal buildings and fleets), rail transport, product policy and fiscal measures.
Transport	Car registration, implementation and control of regulations on transport by aviation and railways, taxation on fossil fuels, promotion of biofuels, company car taxation.	Transportation (except national rail, shipping, aviation and automotive), mobility plans to promote public transport, road safety and road management, waterway regulations and urban and rural planning.

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

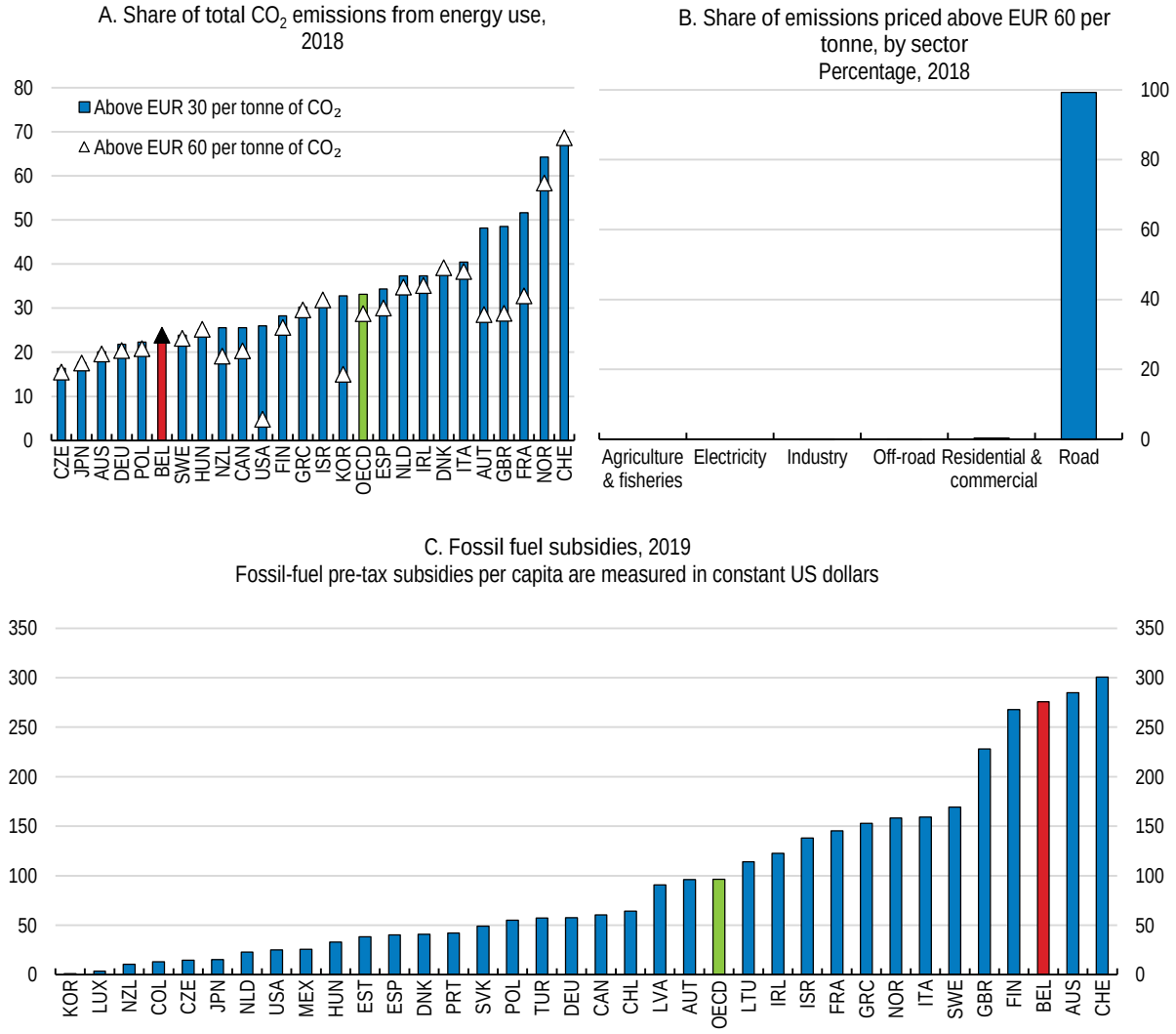
Designing and communicating a long-term trajectory for carbon taxation, as in some EU countries, would steer firms and households towards more climate-friendly fuel sources. Belgium should reform its carbon taxation in the medium term, once the current energy price increases subside. Furthermore, this reform has to be made in the context of EU-wide proposals and initiatives, including those to extend carbon pricing to road transport and buildings within the “Fit for 55” programme.

There is no explicit national carbon taxation scheme beyond the EU Emission Trading Scheme (ETS). In sectors other than non-professional transport, fossil fuel use is either untaxed or taxed at low rates, including when emissions are not priced by the ETS, as it is not required by EU legislation. As a result, most CO_2 emissions are priced at rates below EUR 60, the midpoint estimate of carbon costs in 2020 and the low-end estimate for 2030, and higher than current costs (Figure 1.31, Panels A-B). Hence, in the medium-term, the pricing of CO_2 emissions should be raised substantially, according to a predictable

timetable and ensuring equal pricing of the climate externality from CO_2 emissions so that emission reductions are cost-effective. Pricing all greenhouse gas emissions at a uniform minimum rate reflecting the evolution of prices in the EU ETS would contribute to cost-effective abatement.

As in other OECD countries, there is a need to mitigate the effect of such taxes on low-income households (Cornille et al., 2021[95]; Burggraeve, De Mulder and De Walque, 2020[96]). In Switzerland, for example, the carbon tax bill passed in 2018 included allocating about two-thirds of the tax revenue to redistribution to households and firms (D'Arcangelo et al., 2022[92]). The National Debate on Carbon Pricing identified options for carbon pricing, including targeted social transfers and public investment to support the transition to a low carbon economy, and should be followed up (Box 1.5).

Figure 1.31. More effective pricing of carbon emissions is needed



Note: Panels A and B: Data include explicit carbon pricing from carbon taxes, ETS and fuel taxes, not other market and regulatory measures or public service obligations. Panel C: Data include direct transfers, preferential loans, collateralised loans, capital injections, tax credits, tax reductions and other fiscal incentives involving a loss of revenue, public provision of services and public purchases of goods, public price and income support.

Source: OECD (2022), Effective Carbon Rates database; and Our World in Data.

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Fossil fuel subsidies are among the highest in the EU (Figure 1.31, Panel C), which undermine the carbon price signal, discourage the efficient use of energy resources and contribute to poor air quality. The recent inventory of the fossil-fuel subsidies by the federal government is welcome (FPS_Finance, 2021[97]), and the plans for their gradual phase-out in the 2019 national climate and energy plan should be implemented. There will be a need to adopt a sequential approach to minimise the political backlash and risk of backtracking that often accompanies such reforms (Elgouacem, 2020[98]). For example, establishing a multi-stakeholders' mechanism to monitor and support the reform of environmentally harmful subsidies, as in France, can help (OECD, 2021[89]).

Box 1.5. National Debate on Carbon Pricing

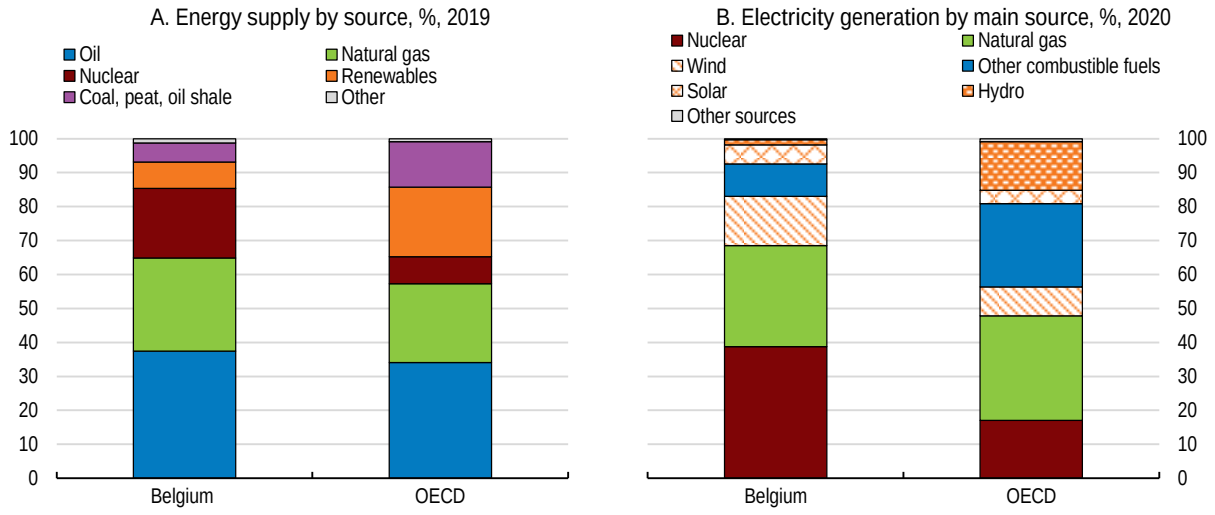
In 2017, the federal government launched a national debate on the potential modalities for implementing a carbon price in non-ETS sectors, based on an exchange among Belgian and foreign experts covering the public, private, academic and trade union sectors. Options considered to introduce an additional carbon component to excise duties with the possibility, in the transport sector, to shift to road pricing. Three price trajectories were assessed, starting from EUR 10/tCO_2 in 2020 to EUR 40, EUR 70 or EUR 100/tCO_2 in 2030. The analysis showed the impact of higher carbon pricing could be manageable, especially when additional fiscal revenue (up to EUR 2.6 billion annually by 2030 at EUR 70/tCO_2) is used to compensate for potential adverse impacts and finance complementary measures and provided a roadmap for reform. A public survey revealed potentially high support of the Belgian population for carbon pricing, provided compensatory measures are implemented.

Source: (NDCP, 2018[99]); (OECD, 2021[89]).

In the face of the war in Ukraine and rising energy prices, the commitment to phase out nuclear electricity generation by 2025 has been reconsidered. The federal government decided in March 2022 to take the necessary steps with a view to extend the lifetime of 2GW of nuclear capacity for a period of 10 years. Phasing out nuclear energy requires major investment in power generation, cross-border interconnections, smart grids, storage and demand response, given the high share of nuclear power in electricity generation in Belgium (Figure 1.32). To ensure electricity supply, Belgium developed a capacity remuneration mechanism (CRM) that will use auctions to support deployment of additional generation capacity and retention of existing capacity. This additional time should be used to ensure clarity on the policy stance on nuclear energy, increase certainty and promote private investment in alternatives. Hence, it is welcome that a package of measures, including fiscal incentives to boost electrification, speeding-up the delivery and extending the capacity of offshore wind developments, improving electricity interconnection, faster development of a hydrogen backbone and reducing administrative and technical barriers to the deployment of renewable energy (EUR 1.2 billion) was simultaneously announced.

To enable a smooth phase-out of nuclear energy as agreed by the federal government in March 2022, securing electricity supply and contingency planning will be important. Regional permits will be needed for the timely deployment of projects to prevent the CRM from missing its targets, which can cause delays. With the additional time to prepare, the authorities should identify and mitigate such risks and prepare clear scenarios for maintaining generation adequacy after the phase-out in case the CRM insufficiently triggers investments. The potential deployment of new gas-fired electricity generation resulting from the nuclear phase-out is expected to increase emissions. While a royal decree made it mandatory for new plants to commit to net-zero emissions by 2050, more detailed plans to reduce the climate impacts of any new gas-fired generation and provide guidance to investors could be useful (IEA, 2022[100]).

Figure 1.32. Nuclear is major source of the energy supply and electricity generation



Note: Panel B: Gross electricity production.
Source: IEA (2021), Electricity Information Statistics - OECD Electricity and Heat Generation (database), International Energy Agency, Paris.

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Table 1.12. Past OECD recommendations on environment and energy

Recommendations in past surveys	Actions taken since 2020
Introduce a carbon tax for sectors not subject to the EU Emission Trading Scheme, and develop flanking measures over the short term for the most affected poor households.	No action taken.
Consider abolishing the favourable tax treatment of company cars or alternatively extend other options, such as greener vehicles.	The favourable tax treatment of company cars will be restricted to zero emission vehicles bought or leased as of 2026. The 2021 mobility budget and the first federal action plan for the promotion of cycling aim to promote alternatives to the use of (company) private cars.
Introduce road congestion charges, for example around Brussels and Antwerp, with sufficient time differentiation within the peak period.	Regions made some further analysis of their preferred method of addressing congestion and traffic/vehicle taxation. Flanders examined (differentiated) road charges for light duty vehicles, and the Brussels Capital Region approved the SmartMove project (initiative to introduce road congestion charges in Brussels), but no interregional agreement has been reached.
Speed up the deployment of smart electricity meters to ease the development of demand-side management solutions.	Flanders has an objective to complete 80% deployment by 2024 and full deployment by 2029. Wallonia approved the terms for granting bonuses to residential customers covering the cost of installing a double flow meter in 2021. The Brussels-Capital region is currently revising its electricity and gas ordinances, including smart meters.

Table 1.13. Recommendations on macroeconomic and structural policies

MAIN FINDINGS	KEY RECOMMENDATIONS (key in bold)
Ensuring a strong, resilient and even recovery	
Vaccination rates are high, but further and stronger waves can create new challenges.	Maintain efforts to keep high vaccination rates based on international guidelines.
The economic rebound from the pandemic has been rapid, but risks to the recovery have been elevated by the war in Ukraine.	When providing fiscal support to vulnerable households and firms affected by high energy prices, ensure that it is targeted and temporary.
In the context of rising inflation, there is a risk that automatic wage indexation can lower competitiveness.	Ensure that correction mechanisms in the wage setting mechanism are applied strictly to prevent wage gaps with neighbouring countries. Evaluate the effects of the reform of the wage setting mechanism on competitiveness, employment and inflation. Introduce a more flexible mechanism that still ensures wage coordination if the evaluation finds that indexation rule is shown to fail to take into account the business cycle.
The planned investments in the recovery plans could be delayed by lengthy regional permit procedures.	Frontload reform of construction and environment permits to ensure timely and effective implementation of the recovery plans.
Belgium made progress in policies to address solvency needs of viable firms and to facilitate the exit of unviable ones, but some gaps remain.	Further make use of private sector expertise to ensure that the direct aid through public solvency funds reach viable firms. Transpose the EU Directive on insolvency swiftly.
Existing macroprudential tools are working, but rising house prices and house price to income ratios, and high share of real estate loans could create financial stability risks.	Continue close monitoring of the macrofinancial risks related to the residential and commercial real estate sector and strengthen macroprudential measures if needed.
Strengthening the effectiveness of fiscal policy	
Fiscal support during the pandemic was appropriate, but increased the public debt as a share of GDP by around 10% from 2019. Public spending is one of the highest in the OECD. Gaps in the fiscal framework can lower the effectiveness of implementing a medium-term fiscal strategy.	Start to lower public spending and the public debt to GDP ratio through a medium-term consolidation strategy, based on spending reviews. Strengthen the rules-based fiscal framework, for example through the introduction of multiannual budgeting, including an expenditure rule. 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 levels of government, based on a uniform methodology.
There is room to improve the efficiency of public spending to create space for growth-enhancing public investment and address medium-term fiscal challenges.	Use cost-benefit analysis and spending reviews with common methodologies across policy areas and different levels of government and link them to medium-term expenditure frameworks and the annual budget process to gradually lower public spending. Consider implementing a performance budgeting framework with indicators and in-year monitoring arrangements.
Taxation remains tilted towards labour, while there is scope to broaden the tax base eroded by a number of regressive tax expenditures. Differences in taxation of different types of financial income increase capital misallocation and there is no personal capital gains tax.	Reduce tax expenditures that do not benefit low-income households to finance lower labour taxation for low-wage earners. Consider introducing a progressive tax rate schedule for taxation of all types of capital, as part of the properly prepared broad tax reform.
The effective age of exit from the labour market is low. Pension of the self-employed have been increased, without a compensating increase in their contribution rates. The pension system is fragmented, with varying schemes for different workers. Pension reforms should be accompanied by higher employment of older workers, but their participation in lifelong learning is low.	Introduce penalties and bonuses for retirement before and after the statutory retirement age. Increase pension contribution rates of self-employed. Continue to align the pension treatment of public and private sector workers. Increase the participation of older workers in lifelong learning by providing guidance for training selection.
Boosting productivity and reallocation	
The way wages are set for individual workers and firms may be hindering job reallocation and lowering productivity growth.	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.
Despite some progress, competition in professional services is low. Belgium lags the EU average in terms of the systemic use of evaluation of new regulations.	Continue to liberalise professional and craft services. Integrate regulatory impact assessments and ex-post evaluations of new regulations.

The share of fibre broadband and the roll-out of 5G are lagging European peers. High broadband prices and high level of market concentration in broadband market shares could reflect weak competition in the communication sector.	Address the barriers (e.g. strict limits on electromagnetic fields and slow permits) that can delay broadband network and 5G deployment. Extend existing measures that ease consumer mobility across service providers.
The recovery plans aim to boost public sector digitalisation, but relevant skills shortages could prevent effective use. Belgium lags behind on open government data and the share of individuals and firms interacting with public authorities online.	Prioritise recruiting and developing existing public sector skills to implement and use digital tools. Promote coherence of digital strategies across different levels of government, for example through a data governance framework to enhance access to and sharing of data.
Insufficient data availability and evaluation lower the efficiency and speed of the judicial system.	Use digitalisation of courts to improve evaluation and the use of alternative dispute mechanisms.
Rules in the interaction of public servants with lobbyists have some gaps. There is no general whistle-blower legislation in place.	Enhance the transparency regarding lobbying rules. Complete the transposition of the EU whistle-blower directive.
Advancing the green and energy transition	
There is room to improve the coherence of regional and federal policies in the national energy and climate plan. The agreement on effort sharing of the 2020 climate objectives took seven years to reach.	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.
Cost-benefit analysis of infrastructure projects (e.g. in mobility) is ad hoc and public entities at different levels apply their own practices. While there are many initiatives to boost sustainable mobility, coordination is lacking.	Use cost-benefit analysis more extensively in public infrastructure investment to ensure that environmental impacts of projects are correctly evaluated. Increase the coherence of sustainable mobility plans across regions.
Belgium makes no use of explicit carbon taxation beyond EU Emissions Trading System (ETS). Fossil-fuel consumption is encouraged by moderate taxation and widespread subsidies.	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.
The commitment to phase out nuclear energy by 2025 is being postponed in light of recent events. A capacity remuneration mechanism (CRM) that will use auctions to support deployment of alternatives to nuclear has been developed, but uncertainties remain regarding adequacy and timeliness.	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.

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2 Improving economic opportunities for all

Nicolas Gonne, OECD

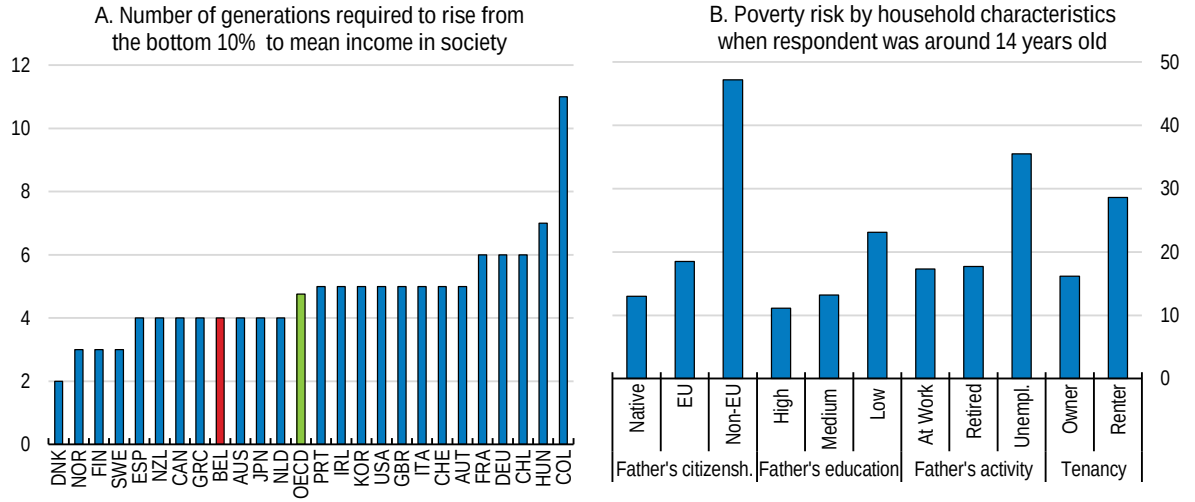
Income inequality is low in Belgium, and intergenerational income mobility is on par with the average OECD economy. However, as in other OECD countries, there is scope to improve equal access to opportunities across the population. Poverty risks are high for the unemployed and the low-skilled. Vulnerable socio-demographics, in particular the low educated, single mothers and people with a migrant background and with disabilities have persistently low incomes. Moreover, low-income households are overburdened by housing costs. To foster upward income mobility, employment should be increased among vulnerable groups by enhancing skills through life-long learning, effective career guidance and continuing to strengthen work incentives. To prevent the transmission of disadvantages across generations, social segregation in compulsory education should be addressed, in particular through better-designed school choice policies, higher mobility between general and vocational tracks, and stronger incentives and training for teachers. Promoting quality and affordable housing is also necessary to reduce spatial segregation and mitigate barriers to opportunity.

Belgium has low income inequality overall, thanks to extensive tax and transfer policies and strong institutionalised social dialogue. The Gini coefficient is one of the lowest in the OECD, comparable to Nordic countries and below neighbouring countries, such as France, Germany and the Netherlands. Moreover, the overall share of the population at risk of poverty or social exclusion at 18.9% in 2020 is lower than the EU average of 22%, with regional disparities.

Intergenerational income mobility is also high in international comparison, i.e., the extent to which people's income depends on that of their parents is less than the OECD average. Around 35% of the earnings differences between fathers carry over to the next generation in Belgium, below 50% in France or Germany (OECD, 2018[1]). On average, the offspring of a low-income family could reach Belgium's mean income level in around 100 years (about four generations), a slow process, yet faster than in many OECD countries (Figure 2.1, Panel A). Belgium also does well in international comparison in other dimensions that help to lower income inequality, like access to healthcare and education (WEF, 2020[2]; Eurofound, 2017[3]).

However, the policies that deliver low inequality and good intergenerational mobility do not necessarily ensure equality of opportunities, i.e., access to the same life chances irrespective of initial life conditions. Indeed, Belgium's good overall performance regarding income distribution and intergenerational mobility hides an uneven distribution of economic opportunities. Considerable disparities exist across groups according to, notably, parental background and the country of origin. For example, the offspring of non-EU citizens, low-educated or unemployed parents, and tenants are significantly more at risk of poverty or social exclusion (Figure 2.1, Panel B). Disparities also exist across occupations, as children of manual workers are 11.9 percentage points more likely to be manual workers than managers, a gap close to the OECD average but twice as large as in France or Germany (OECD, 2018[1]).

Figure 2.1. Relatively high intergenerational income mobility overall masks unequal opportunities



Note: Panel A: simulation based on estimates of earnings elasticities between fathers and sons, and on current household income levels at the bottom decile and the mean of the distribution, assuming constant elasticities; OECD is unweighted average based on 25 countries for which data were available. Panel B: respondents aged 25-59 at risk of poverty or social exclusion.
Source: OECD Income Distribution Database; and Statistics Belgium.

StatLink https://stat.link/983exj

Unequal access to economic opportunities implies low intra-generational income mobility for members of vulnerable groups, i.e., their income changes little over their life course. Income stability over the life course partly reflects the existence of strong social security safety nets in Belgium, like in other countries, such as the Netherlands or the Nordic countries. However, such persistence can also point to structural impediments to improving one's initial socio-economic condition. While data restrictions prevent a full analysis of income over the life cycle (Box 2.1), existing measures suggest that Belgium overall is characterised by strong intra-generational income persistence. For example, the so-called permanent

income inequality, i.e., income inequality pooled over several years, is only slightly lower than income inequality at any point in time (Figure 2.2, Panel A).

Like several other OECD countries, Belgium is a country of "sticky floors and ceilings", where income persistence is not distributed evenly across groups. While around half of the working age population remained in the same quintile of the income distribution over the period 2011-14, close to the OECD average, persistence is significantly and increasingly stronger for high- and low-income groups than for middle-income groups. Almost 64% of working age individuals in the bottom income quintile and 70% of those in the top income quintile remain in the same quintile over a four-year period (Figure 2.2, Panel B).

Upward income mobility is very low for low-income groups in Belgium and, at the same time, lower-middle income households are at a relatively high risk of sliding down to the bottom (Figure 2.2, Panel C). In Belgium, the unemployed, single-parent families and tenants are the most vulnerable to poverty (StatBel, 2019[4]). Economic opportunities are particularly weak for people with a migrant background. For example, the probability to be employed and the chances of upward occupational mobility are relatively low for the native-born with foreign parents (Figure 2.2, Panel D).

Differences between socio-demographic groups tend to persist across generations in OECD countries. Parents' income is a key determinant of access to good-quality education, adequate healthcare and professional networks and, hence, of children's career options and income (OECD, 2018[1]). Such uneven opportunities can entrench inequalities at significant economic cost, in particular as talents and human capital investments are missed out (OECD, 2015[5]). Ensuring that income is not stuck over time or transmitted across generations can be socially desirable, in particular in cases where initial conditions reflect discrimination against certain groups or are the results of cultural, ethnic or family backgrounds. Yet, attenuating frequent and uncertain swings in disposable income can also be desirable to reduce economic insecurity, e.g., through social insurance.

Box 2.1. Measuring income mobility: data availability

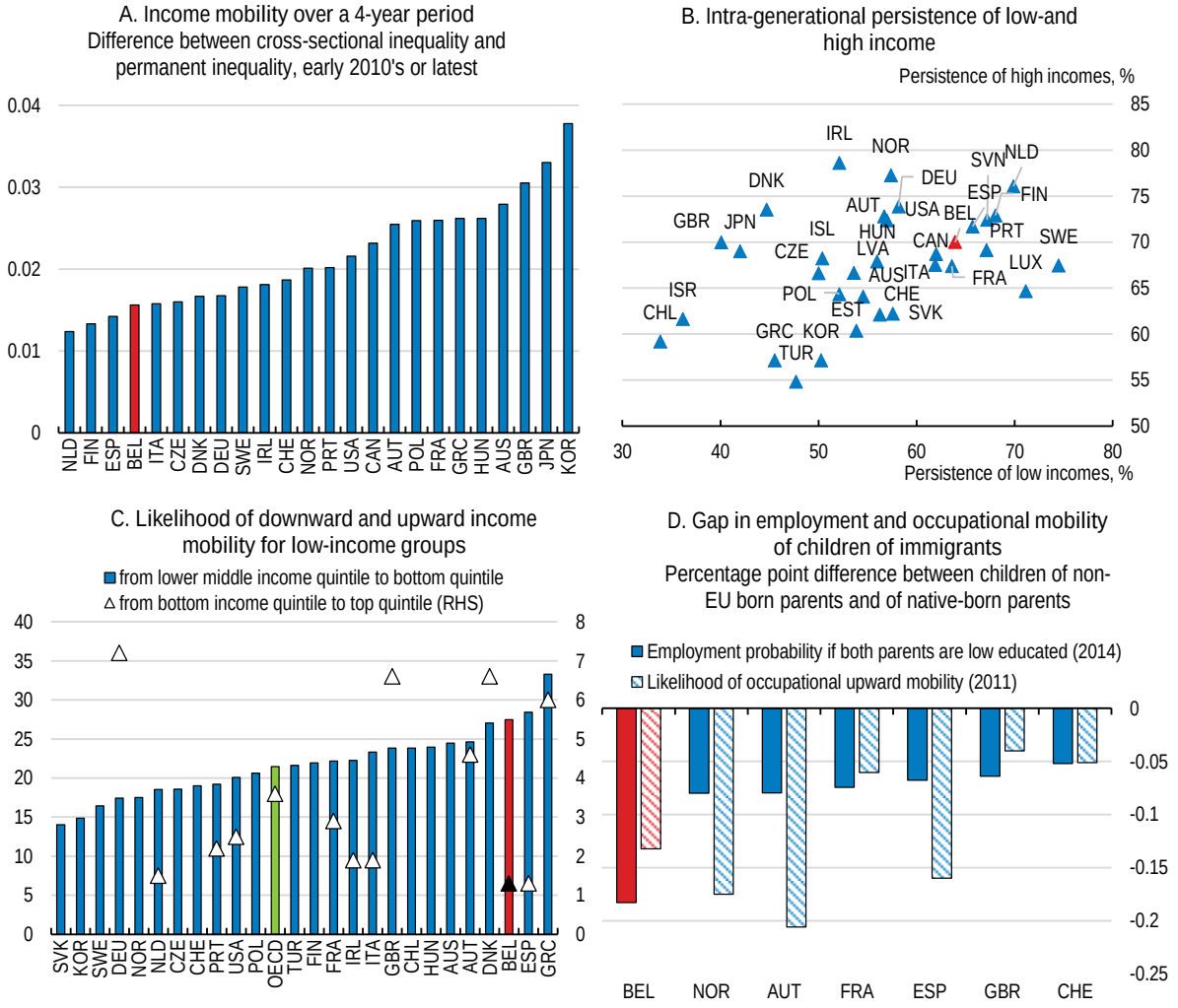
Measuring income mobility across a lifetime requires longitudinal data, i.e., repeated information for a consistent group of individuals over a relatively long period. Such data are rare as they are costly to collect, and they include caveats, in particular attrition bias. Moreover, some relevant survey variables are collected as part of thematic modules that are discontinued.

This chapter relies extensively on data from the 2018 OECD report, *A Broken Social Elevator? How To Promote Social Mobility*, a large-scale effort to pull together different data sources to provide a comprehensive, cross-country picture of social mobility. The data used at the time of publishing, which sometimes dates from the early 2010s, often remain the most relevant data to this day as the persistent and structural nature of income mobility patterns makes them still relevant for the analysis in this chapter.

Source: OECD (2018), *A broken social elevator? How to promote social mobility*.

Beyond lowering welfare and well-being of individuals, unequal opportunities weigh on key macroeconomic outcomes, namely potential growth, public finances and social cohesion. First, unequal access to economic opportunities contributes to misallocating or underusing talent and resources, in particular human capital, thereby dragging on productivity growth (OECD, 2018[6]). This is especially important in the context of high and rising labour market shortages in Belgium (Chapter 1). Second, persistently low incomes for some groups require extensive redistribution, thereby worsening medium-term fiscal sustainability challenges (Chapter 1). Third, low prospects of accessing opportunities (or the perception thereof) tends to decrease democratic participation and trust (OECD, 2018[1]; OECD, 2021[7]), a concern of particular relevance in Belgium, where trust in government experienced the strongest deterioration among OECD countries since 2007 (OECD, 2021[8]).

Figure 2.2. Intra-generational income mobility is relatively low and uneven across groups



Note: Data refer to working-age population (aged 18-65), early 2010s or latest. Panel A: difference between average cross-sectional Gini coefficient of annual incomes and Gini coefficient of 4-year averaged incomes. Panel B: share of individuals in the top or bottom income quintile staying in the same quintile after four years. Panel C: share of individuals moving to the bottom quintile after four years. Panel D: OLS estimates controlling for age, gender and highest educational attainment; probabilities are for population aged 25-54.
Source: OECD (2018,) *A broken social elevator? How to promote social mobility*; and OECD (2017), *Catching up? Intergenerational mobility and children of immigrants*.

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This chapter reviews Belgium's capacity to provide economic opportunities for all, irrespective of initial conditions, while continuing to promote low overall income inequality and economic security thanks to its outstanding social safety net. It identifies three key barriers, the labour market, education and housing, and discusses policies that can improve economic opportunities, especially concentrating on the situation of vulnerable groups, such as the low-skilled, people with a migrant background and single mothers. These include policies to: *i)* improve labour market transitions among vulnerable groups (e.g., lifelong learning); *ii)* attenuate the effect of socio-economic background on the educational attainment of disadvantaged students (e.g., teachers' incentives); and *iii)* make quality housing affordable for low-income households (e.g., housing subsidies). As competencies concerning the labour market, education and housing are spread across different levels of government (Box 2.2), some recommendations related to non-federal competencies are more relevant to specific regions and communities according to their policy needs and priorities in various areas.

Box 2.2. Levels of government and competences regarding barriers to economic opportunities

Besides the federal government, the Belgian governance system comprises three regional authorities and three language communities (cutting across the regions), with significant autonomy and separate competencies. The regions refer to the Flemish, Brussels-Capital and the Walloon regions. The communities refer to the French, Flemish and German-speaking communities. Each authority has its own legislative and executive powers for its field of competences, and its own parliament and government to exercise these powers. The federal state, the regions and the communities are on an equal footing, so that no authority has precedence over another.

Competences concerning the barriers to economic opportunities identified in this chapter, namely the labour market, education and housing, are spread across different levels of government (Table 2.1).

Table 2.1. Allocation of competences related to barriers to economic opportunities

	Federal	Regions	Communities
Labour market	Unemployment, pensions and health insurance	Active labour market policies, family benefits, health, social security contribution reduction for targeted groups	
Education	Start and end age of compulsory education, minimal requirements for granting degrees, pension regimes for education staff	Parts of adult learning and apprenticeships	Pre-primary to tertiary and adult education, including granting of degree equivalence
Housing	Mortgage tax credit for non-owner occupied dwellings	Social housing and property taxes, mortgage tax credit of owner occupied dwellings, housing allowances	

Note: The table is not exhaustive as only the main policies and responsibilities are listed. Flanders merged community and regional institutions. The Walloon region transferred some of its competences concerning German speakers to the German-speaking Community, including public employment services (ADG).

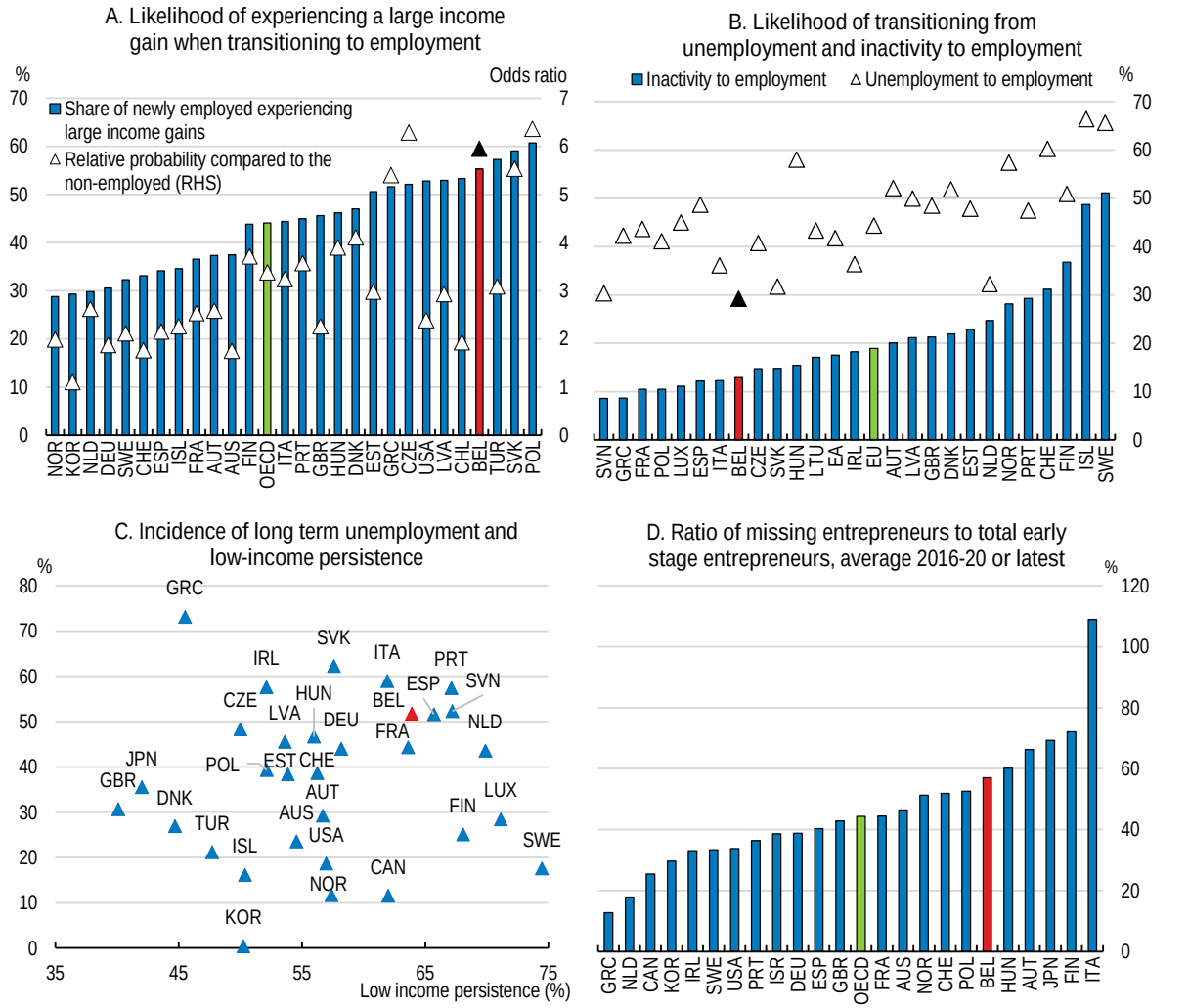
Barriers to economic opportunities in Belgium

Low labour market transitions hinder upward income mobility

Participation and transitions in the labour market are key drivers of income mobility over the life course (Box 2.3). In particular, long-term inactivity or unemployment and low-wage work contribute to the persistence of low income (OECD, 2020[9]). Difficult school-to-work transitions also hinder upward income mobility as they lead to unemployment spells and precarious early careers, especially for the disadvantaged youth (OECD, 2018[1]). Moreover, non-standard forms of work raise new challenges, as they have the potential to increase labour market participation, but often offer limited access to certain forms of social protection, which could exacerbate existing disparities (OECD, 2019[10]).

Stronger labour market outcomes are key for upward income mobility in Belgium. Indeed, individuals transitioning into employment are six times more likely to experience a large income gain than individuals who remain non-employed in Belgium (Figure 2.3, Panel A). More than half of the people becoming employed obtain an income increase of at least 20% in Belgium, compared to about a third in neighbouring countries. However, transitions from unemployment or inactivity to employment are particularly low in Belgium (Figure 2.3, Panel B). The probability of becoming employed conditional on being unemployed is less than 30%, the lowest value in the European Union. The incidence of long-term unemployment is also associated with low-income persistence (Figure 2.3, Panel C).

Figure 2.3. There is room for upward income mobility through better labour market outcomes



Note: Panel A: large income gains are defined as 20% or more income gains from one year to the next; data cover the working-age population (18-65). Panel B: probability of changing labour market status conditional on status at the end of the previous year; averages from weighted sample for the period 2005-2015; EU is the simple average across the 22 EU countries that are also members of the OECD, except Germany for which data are not available. Panel C: share of individuals in the top income quintile staying in the same quintile after four years; data refer to working-age population (18-65), early 2010s or latest; long-term unemployment as a share of total unemployment; data are from 2015. Panel D: OECD is the unweighted average of OECD countries for which data are available; data for Belgium are from 2015.
Source: OECD (2018), *A broken social elevator? How to promote social mobility*; Adalet-McGowan et al. (2020), *Addressing labour market challenges in Belgium*; OECD (2021), *Missing entrepreneurs 2021: Policies for inclusive entrepreneurship and self-employment*; and OECD (2020), *Inclusive entrepreneurship policies country assessment notes: Belgium 2020*.

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Entrepreneurship offers upward mobility paths for people with the capability to identify new market opportunities and create value added. However, vulnerable groups are disproportionately affected by barriers to entrepreneurship, partly because necessary entrepreneurial skills and knowledge are often transmitted informally from parents to children or acquired in professional networks and alumni associations (OECD, 2018[1]). Belgium has a large share of "missing entrepreneurs", i.e., individuals who would engage in entrepreneurial activity if the group to which they belong had the same early-stage entrepreneurship rate than that of men aged 30-49 (Figure 2.3, Panel D). Closing gaps in entrepreneurship activity across all socio-demographic groups would add 270 000 entrepreneurs to the existing 475 000, with women accounting for two-thirds of these missing entrepreneurs and migrants for 20% (OECD, 2020[11]).

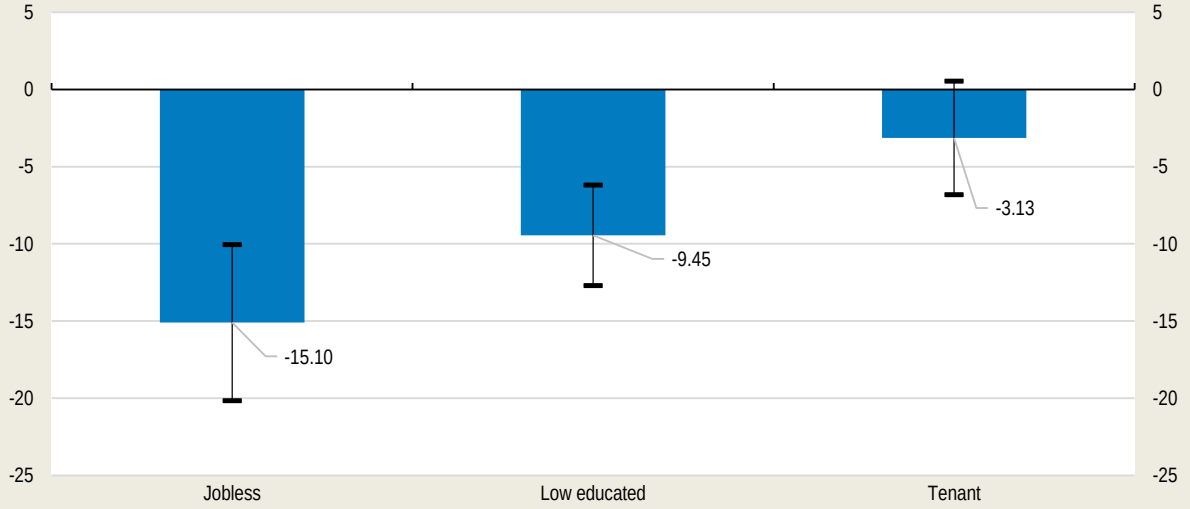
Box 2.3. Barriers to upward income mobility in Belgium: new evidence from survey microdata

New OECD research uses the Household Finance and Consumption Survey (HFCS) for Belgium to estimate the correlation between labour market, education and housing characteristics of households and their mobility in the distribution of income, following the methodology in Martinez-Toledano et al. (2019[12]).

Preliminary results show that low education and joblessness are significantly associated with lower income mobility over the period 2011-17. Figure 2.4 shows the coefficients of a regression of the change of households' position in the income distribution on dummy variables related to their labour market status, education level and housing tenure, controlling for age, income and wealth. Everything else equal, households of which the head is jobless will be about 15 percentiles lower in the income distribution after a three-year period, compared to a household of which the head either has a job or is retired. Similarly, households of which the head does not have tertiary education will be more than nine percentiles lower in the income distribution after three years than households of which the head attended tertiary education. Hence, policies that improve the labour market outcomes of vulnerable groups and enhance equal opportunities in education are key to boost upward income mobility.

Figure 2.4. Employment and education are significantly correlated with income mobility

Change in household income percentile position associated with selected determinants



Note: estimated coefficients from a household-level regression of the percentile position change in the distribution of equivalised gross income over a three-year period on three dummy variables capturing joblessness, low education level and housing tenancy (significant at the 10% level). Controls comprise age, income and wealth. All monetary variables are deflated and expressed in initial year prices. Data cover the years 2011-2017. The reference category is a household with equivalised gross income between the median and the 60th percentile of the distribution, which owns its residence and of which the head is of prime working age, active and with tertiary education. Whiskers indicate the 95% confidence interval.
Source: OECD calculations based on Household Finance and Consumption Survey.

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Better school-to-work transitions are also necessary to improve upward income mobility prospects for the youth in Belgium. The proportion of people aged 15-24 not in education, employment or training (NEET) at 9.2% was lower than the EU average in 2020 according to Eurostat data, but significantly higher than in the Netherlands (4.5%) and Germany (7.3%), with regional differences. The proportion of NEET aged 15-24 is particularly large among those born outside of the EU at 18.1% in 2020. Moreover, more than one in five unemployed people aged 15-24 had been so for more than 12 months in 2020, compromising chances of upward mobility.

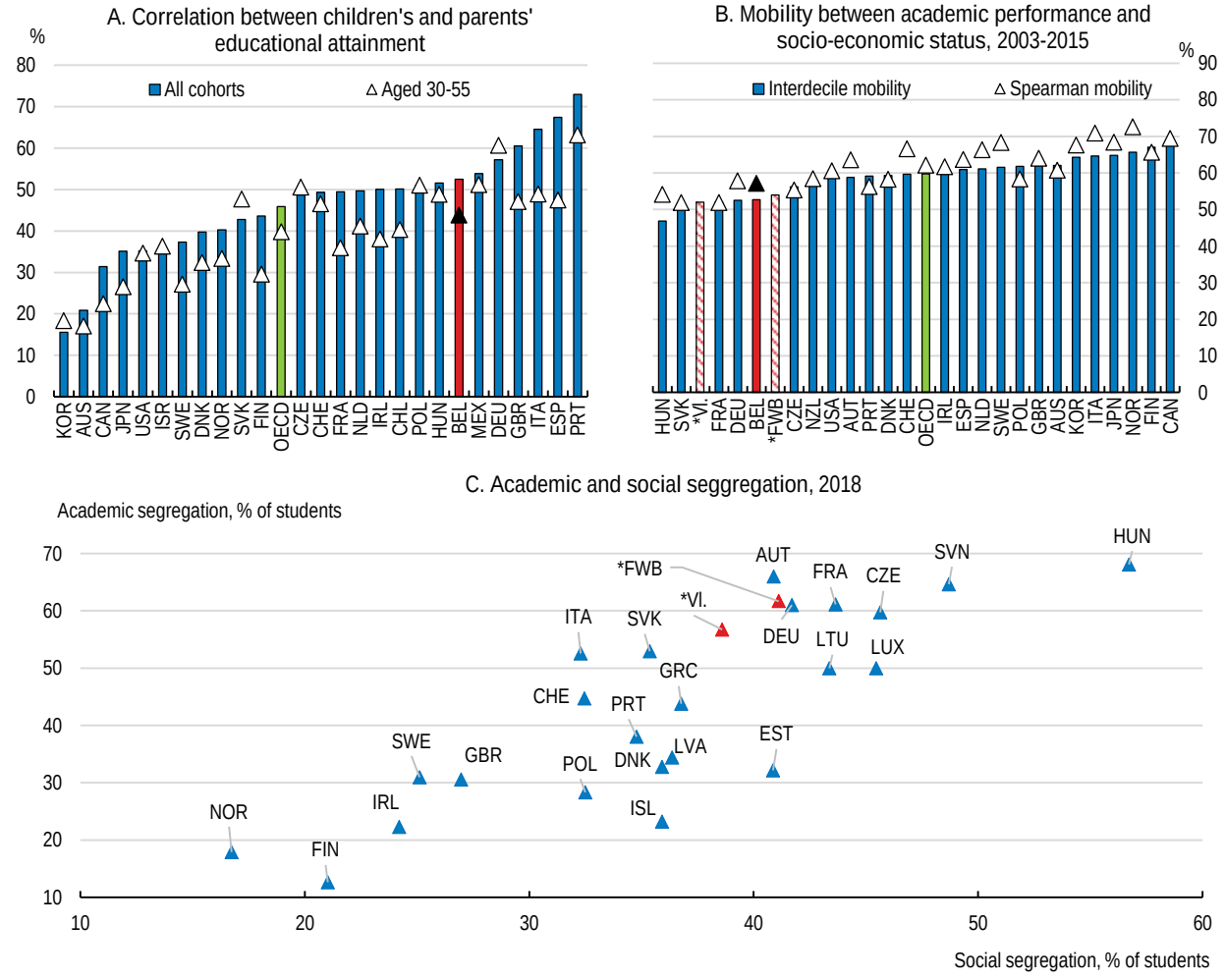
Inequalities of opportunity in compulsory education drag on intergenerational mobility

Education is a key factor affecting intergenerational income mobility (OECD, 2018[1]; OECD, 2018[13]). Children with better-educated parents obtain better educational outcomes, in part due to the investments that better-educated parents are able to make in their children. Therefore, the mere transmission of skills and educational preferences from parents to children contributes to intergenerational income persistence to the extent that earnings are correlated with educational attainment (Hanushek et al., 2021[14]; Blanden, Gregg and Macmillan, 2007[15]). While non-compulsory, early childhood education and care also have a large impact on social mobility (see below).

The education systems in Belgium feature high intergenerational persistence in attainment and strong links between students' academic performance and socio-economic status. For example, the correlation between children's and parents' years of schooling is one of the strongest in the OECD, as an additional year of parental schooling is associated with more than half a year of additional schooling for their offspring (Figure 2.5, Panel A). The correlation is less strong for younger cohorts due to the overall expansion of participation in education, but remains higher than the OECD average. Social mobility at school, as measured by the average ratio of students' position in the distribution of socio-economic status to their position in the distribution of academic performance, is also low (Godin and Hindriks, 2018[16]). By this measure, Belgian schools offer the fifth lowest level of social mobility at school among the 27 OECD countries that have participated in the Programme for International Student Assessment (PISA) since 2003 (Figure 2.5, Panel B). High persistence and low mobility at school point to the existence of strong intergenerational education transmission mechanisms in Belgium.

Strong segregation is prevalent in compulsory education (Figure 2.5, Panel C). The most recent PISA results indicate that Belgium is characterised by high shares of students attending "socially segregated schools" (schools with either a relatively high or a relatively low socio-economic background) and "academically segregated schools" (schools with either relatively high or relatively low average academic performance) (Hirtt, 2020[17]). Social and academic segregation go hand-in-hand due to a cumulative process of academic and social selection in Belgian students' compulsory education path, which explains the particularly strong effect of schools on academic outcomes.

Figure 2.5. Educational disparities by socio-economic conditions are high



Note: Panel A: correlation measured as the coefficient of the regression of individuals' years of schooling on their parents' years of schooling and a constant; all cohorts cover individuals aged 25-90. Panel B: interdecile mobility measured as students' average ratio of PISA mathematic score decile to PISA index of economic, social and cultural status (ESCS) decile, normalised so that 100% is perfect mobility; Spearman mobility measured as one minus the rank correlation between PISA mathematics score and ESCS score, so that 100% indicates the absence of correlation; "Vl." and "FWB" stand for the Flemish and French communities, respectively. Panel C: the share of students attending a school with average ESCS score more than half a standard deviation away from the country average.

Source: OECD (2018), *A broken social elevator? How to promote social mobility*; Godin and Hindrikx (2018), *An international comparison of school systems based on social mobility*; and Hirtt (2020), *L'inégalité scolaire, ultime vestige de la Belgique unitaire?*

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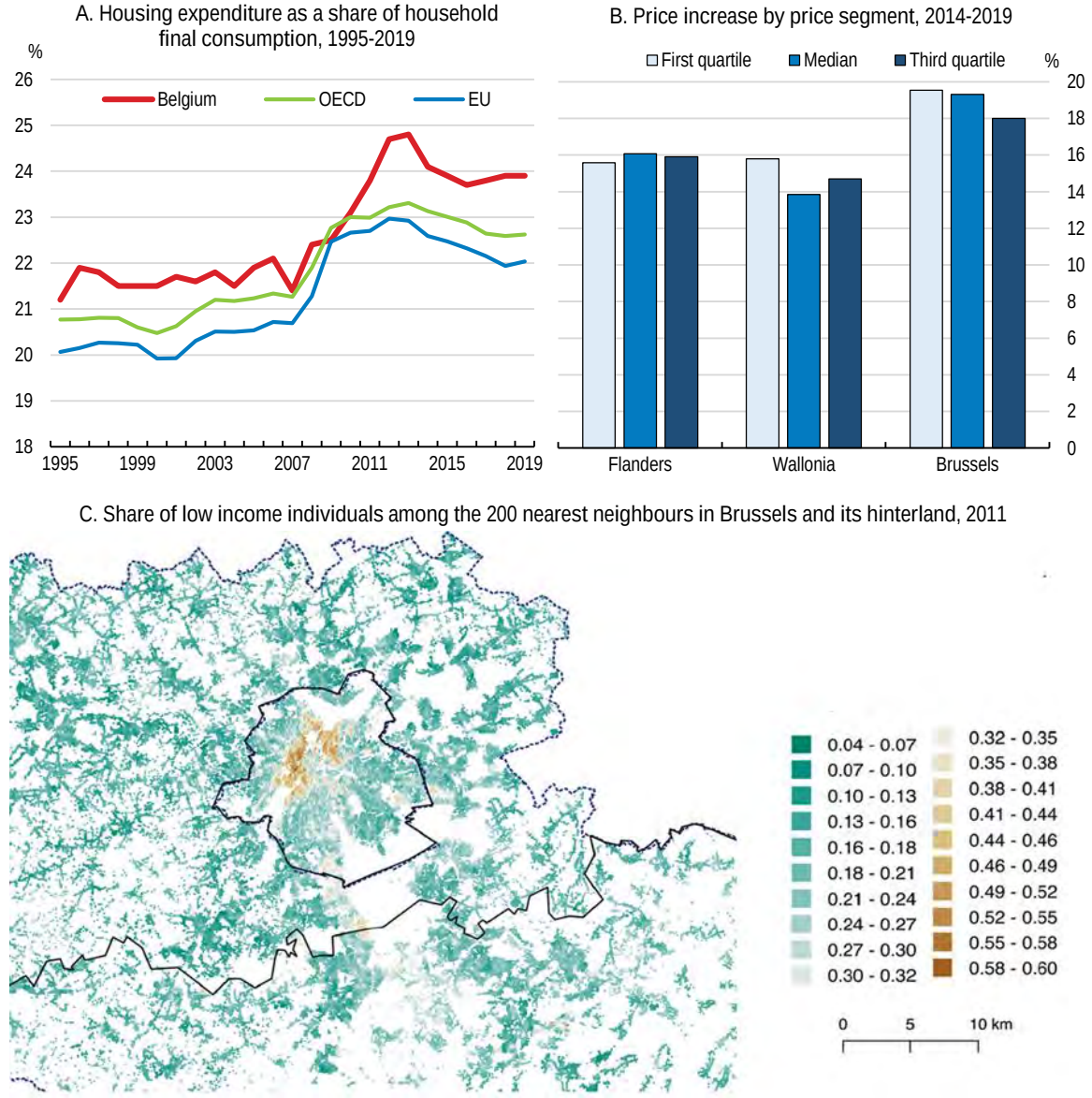
Lack of adequate affordable housing contributes to the persistence of low incomes

Affordable and quality housing availability is key in achieving equality of opportunity, as neighbourhood characteristics and peer effects can influence both educational attainment levels and access to public services and higher quality job networks (OECD, 2018[1]). Housing affordability promotes residential mobility, which increases labour market efficiency by improving job matching and boosts income mobility by facilitating access to better paying jobs and better quality education, especially for disadvantaged children and young people (Caldera Sánchez and Andrews, 2011[18]; OECD, 2021[19]). By contrast, large price differentials across neighbourhoods prevent households from moving and can lead socio-economic groups to sort into separate neighbourhoods.

Rising housing costs can increase residential segregation on top of increasing vulnerabilities in the real estate sector (Chapter 1), as it puts a disproportionate burden on low-income households in Belgium, as in other OECD countries (OECD, 2021[19]). Housing expenditure accounts for around 24% of household consumption in Belgium, a two-percentage point increase since the global financial crisis, and above the OECD and the EU averages (Figure 2.6, Panel A). The rise in housing costs was particularly strong in the Brussels-Capital Region over the period 2014-19, where apartment prices on the lowest price segment have increased the most (Figure 2.6, Panel B). Moreover, spatial analysis based on the 2011 census shows strong residential segregation within Brussels and its hinterland (Figure 2.6, Panel C). Poverty is clustered in old industrial neighbourhoods offering low-quality housing from the private rental market, which have long been occupied by low-income households (Costa and De Valk, 2021[20]).

Figure 2.6. Low-income households bear a high burden from housing costs



Note: Panel B: percent change in the sale price of apartments at each quartile of the price distribution. Panel C: low-income individuals defined as those with income below 60% of the national median.
Source: OECD Affordable Housing Database; Statistics Belgium; and Costa and De Valk (2021), *Socio-spatial disparities in Brussels and its hinterland.*

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Residential segregation can exacerbate the barriers to social mobility arising from the labour market and the education system and, therefore, negatively affect the life chances of residents of disadvantaged neighbourhoods. For example, local schools are likely less diverse than in mixed neighbourhoods, which is associated with more unequal school performance. The spatial concentration of people of foreign origin further compounds social mobility challenges, as deprived migrants are spatially isolated within large cities, such as Brussels, Antwerp and Liège (Costa and de Valk, 2018[21]).

Improving the labour market outcomes of vulnerable groups

Long-standing labour market challenges hinder social mobility over the life course in Belgium. Until the COVID-19 pandemic, strong job creation and historically low rates of unemployment co-existed with important challenges, including high levels of inactivity, low labour market transitions and growing skill shortages, especially digital, as discussed in the *2020 Economic Survey of Belgium*, as well as sizeable regional disparities (Table 2.2). At the height of the pandemic, swiftly implemented income support measures complemented automatic increases in transfers and decreases in taxes to protect workers' livelihoods. As the labour market recovers, addressing labour market challenges is key to improve opportunities of upward income mobility. Better labour market outcomes are particularly important for vulnerable groups, as they were disproportionately affected by the COVID-19 fallout and are benefitting less from the recovery (Chapter 1).

Table 2.2. Regional disparities in labour market and related outcomes are sizeable

2020 (%)

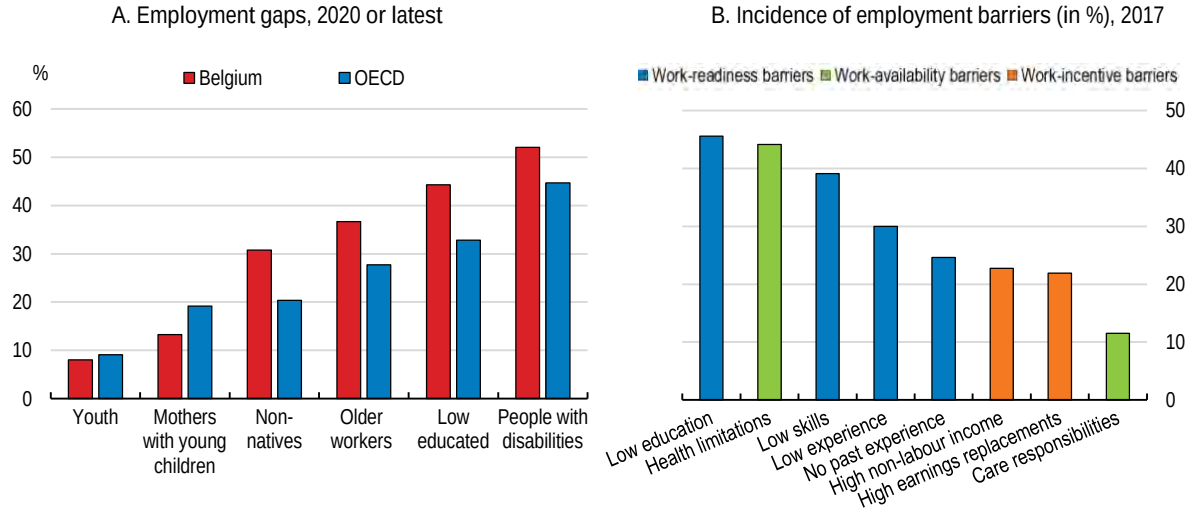
	Belgium	Brussels-Capital	Flanders	Wallonia
Employment rate[1]	64.7	56.5	69.4	59.2
Long-term unemployment rate[2]	2.3	7	0.9	3.6
Youth unemployment rate[3]	15.3	29.1	10.8	21.7
NEET[4]	9.2	11.3	7.3	11.7
Poverty rate[5]	18.9	34.3	13	24.6

1. Aged 15-64.
2. Share of labour force unemployed for 12 months or more.
3. Aged 15-24.
4. Share of 15-24 year olds not in education, employment or training (Eurostat definition).
5. Share of population at risk of poverty or social exclusion.

Source: Eurostat.

Beyond the challenge of decreasing youth unemployment and increasing activity rates of people above 55 (Chapter 1), employment gaps are particularly large for disadvantaged groups, such as the low educated, non-EU migrants and people with disabilities (Figure 2.7, Panel A). Transitions from inactivity or unemployment to employment are particularly low for vulnerable groups. For example, women transition 20 percent less from non-employment to employment than men in Belgium in 2019 (Causa, Luu and Abendschein, 2021[22]), and there is a five percentage points gap in the transition rate of non-EU migrants compared to natives on average over the period 2008-14 (HCE, 2018[23]). Significant increases in employment rates are necessary among these groups to achieve the government's ambitious 80% employment target by 2030 for the 20-64 year-olds. Based on demographic projections and a comparison with top performers among neighbouring countries, the High Council of Employment estimates that the required increases in employment rates are particularly high for the low skilled, the youth and non-EU migrants.

Figure 2.7. Vulnerable groups face multiple barriers to employment



Note: Panel A: employment gap defined as the difference between the employment rate of prime-age men (aged 25-54) and that of the group, expressed as a percentage of the employment rate of prime-age men; OECD figures are unweighted averages of countries for which data are available; youth refers to those aged 15-29 excluding those in full-time education or training; mothers refer to working-age women with at least one child aged 0-14; non-natives refer to all foreign-born people with no regards to nationality. Older workers refer to those aged 55-64. Low educated refers to those aged 25-64 with education below upper secondary; data from 2017 for people with disabilities. Panel B: share of the population experiencing major employment difficulties, defined as those aged 18-64 that report to be long-term unemployed, inactive or to have a weak labour market attachment (unstable job, restricted working hours or near-zero earnings), excluding full-time students; bars do not sum to 100 as individuals can face multiple employment barriers.

Source: OECD calculations based on OECD Employment database, OECD International Migration database, OECD Education Database and OECD Family database; and Fernandez et al. (2020), *Identifying and addressing employment barriers in Belgium, Korea and Norway.*

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Employment gaps often reflect multiple worker-related barriers to employment regarding work readiness, work availability and work incentives (Figure 2.7, Panel B). More than half of those who report to be long-term unemployed, inactive or to have a weak labour market attachment in Belgium face a combination of barriers, the most common of which are low education and health limitations (Adalet McGowan et al., 2020[24]). While many other OECD countries have similar worker-related barriers, Belgium tends to cumulate multiple barriers concurrently (OECD, 2020[25]). Language constitutes an important work-readiness barrier in Belgium and partly explains persistent disparities and imbalances between regions. For people of foreign origin (first and second generation immigrants who account for 32.7% of the population as of January 2021), discrimination likely adds to worker-related barriers (Baert, Heiland and Korenman, 2016[26]; FPS Employment/UNIA, 2019[27]). Unequal opportunities in education contribute to the persistence of work readiness barriers, in particular for children of non-EU migrants, who hardly fare better than their parents in terms of employment outcomes (Piton and Rycx, 2021[28]).

Household characteristics often intersect with gaps associated with the country of origin, so that labour market outcomes are particularly weak for migrant women. Only 46.2% of prime-age women born outside of the EU were in employment in 2020 according to Eurostat. Recent estimates based on social security data suggest that first- and second-generation immigrant women of non-EU origin face a double penalty in terms of employment probabilities that is larger than the sum of the penalties associated with gender and with foreign origin (Piton and Rycx, 2021[28]). Mothers in general are 3.2 percentage points less likely to be employed than women without children in Belgium, according to an analysis based on propensity score matching (Nautet and Piton, 2021[29]).

Important reforms have already contributed to increase the participation of low wage earners and older workers in Belgium, and planned reforms are expected to continue to do so (Box 2.4; Chapter 1). Further to these reforms, focusing policies and resources on vulnerable groups is essential to improve their economic opportunities, especially mothers with children, non-EU migrants and people with disabilities. Beyond promoting upward income mobility and strengthening well-being, such stronger focus can help alleviate fiscal sustainability challenges by reducing the need for redistribution (Chapter 1).

Box 2.4. Planned labour law reforms in Belgium

Labour law reforms discussed in this chapter focus on aspects most relevant for social mobility in Belgium, especially targeting of policies and resources on vulnerable groups. Broader analysis of labour market challenges and necessary reforms to increase participation are discussed in Chapter 1, as well as in the *2020 Economic Survey*'s special chapter. This box offers a brief overview of labour law reforms included in the federal government's October 2021 budget agreement and February 2022 reform package.

Planned reforms are expected to continue increasing labour market participation. A EUR 300 million tax shift away from social security contributions and partly funded through higher consumption (tobacco) and environmental (flights) taxes is intended to reduce the tax wedge on low wages further and to attenuate low-wage traps.

New measures will also improve labour market transitions, conditional on agreement with regional authorities and social partners. The individual training account is being implemented. One third of the employer social security contribution paid in case of layoff will be used for training the dismissed employee. Part of the severance pay will also be used to subsidise the wage at a new employer and starting a new job during the notice period will be possible in order to incentivise work-to-work transitions. Conditions for returning to work from disability leave will be made more flexible. Labour mobility will be incentivised by letting the long-term unemployed who take up a job across the linguistic border or fill a hard-to-fill vacancy to keep parts of their employment benefit for three months.

Finally, the overhaul of labour laws will increase flexibility. Full-time employees will be offered more flexible working weeks, including the option to allocate working hours across four days instead of five. Evening work between 8PM and 12AM will be easier to introduce to promote the development of e-commerce, and the status of platform worker is clarified.

Source: Chancellery of the Prime Minister.

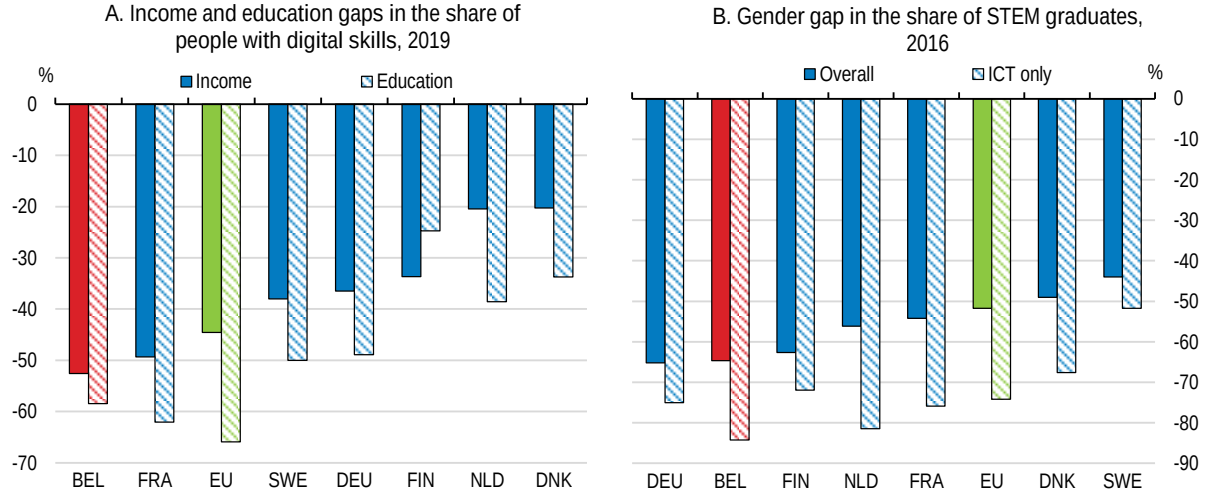
Another set of recent reforms and measures at both federal and regional government levels were intended to increase the relatively low levels of business dynamism and entrepreneurial activity by reducing costs for failed entrepreneurs, lowering administrative barriers and promoting entrepreneurship education (OECD, 2020[9]; OECD, 2019[30]). However, perceived entrepreneurship capabilities remain low (OECD, 2021[31]), and underdeveloped entrepreneurial culture is a major obstacle to entrepreneurship (Mulder and Godefroid, 2016[32]), even though surveys show improvements in Flanders (Roelandt and Andries, 2021[33]). Barriers related to low skills and fear of failure appear particularly detrimental to vulnerable groups, especially women (OECD, 2020[11]). At the same time, the relatively high incidence of necessity self-employment in Belgium suggests that the potential of entrepreneurial activity to provide broad-based upward mobility could be limited. Subsistence entrepreneurship is particularly prevalent among women, as 38% of them report having started a business because they could not secure employment, larger than the 25% overall rate in Belgium and the EU average of 18.8% (OECD, 2020[11]).

Enhancing and recognising skills outside of formal education

Enhancing the digital skills of vulnerable groups is essential to boost upward social mobility by ensuring employability and smoothing labour market transitions (OECD, 2018[1]). Digital skills not only complement digital technologies to enhance productivity and income growth, but also enable individuals to thrive in a fast-changing world of work where automation accelerates the substitution of workers for machines for a range of tasks (OECD, 2019[10]). High-skilled workers generally benefit from digitalisation through higher employment and wages (OECD, 2015[34]). Moreover, current vacancy rates are particularly high in information and communication technology (ICT) related industries.

The distribution of digital skills across groups is particularly uneven in Belgium, with large education, income and gender gaps, which mirror disparities in labour market opportunities. For example, the gap in the share of people with basic or above basic digital skills between those with high and low income is larger than in neighbouring and Nordic countries (Figure 2.8, Panel A), and so is the gender gap in the number of science, technology, engineering and mathematics (STEM) university graduates (Figure 2.8, Panel B). According to the European Commission's *Women in Digital Scoreboard 2021*, only 58% of women have at least basic digital skills in Belgium versus 63% of men, despite women being more educated than men on average. Tapping into the unused potential of these groups will be key to address acute and rising digital skills needs given the rapid spread of information and communication technologies (ICT) in the workplace in Belgium. Furthermore, the strong digital focus of investments under the national and regional recovery plans is expected to increase demand for digital skills (Chapter 1).

Figure 2.8. Digital skills are distributed particularly unevenly across groups



Note: Panel A: income gap: percent difference in the share of individuals with basic or above basic digital skills living in a household in the top quartile of the national income distribution and in the bottom quartile; education gap: percent difference in the share of individuals with basic or above basic digital skills with high and low formal education. Panel B: gender gap expressed as percent difference between the share of male and female graduates in science, technology, engineering and mathematics (STEM) overall and in information and communication technology (ICT) only.
Source: Eurostat Self-Reported Skills Statistics Database; and High Council of Employment (2021), *La formation continue des salariés: Investir dans l'avenir.*

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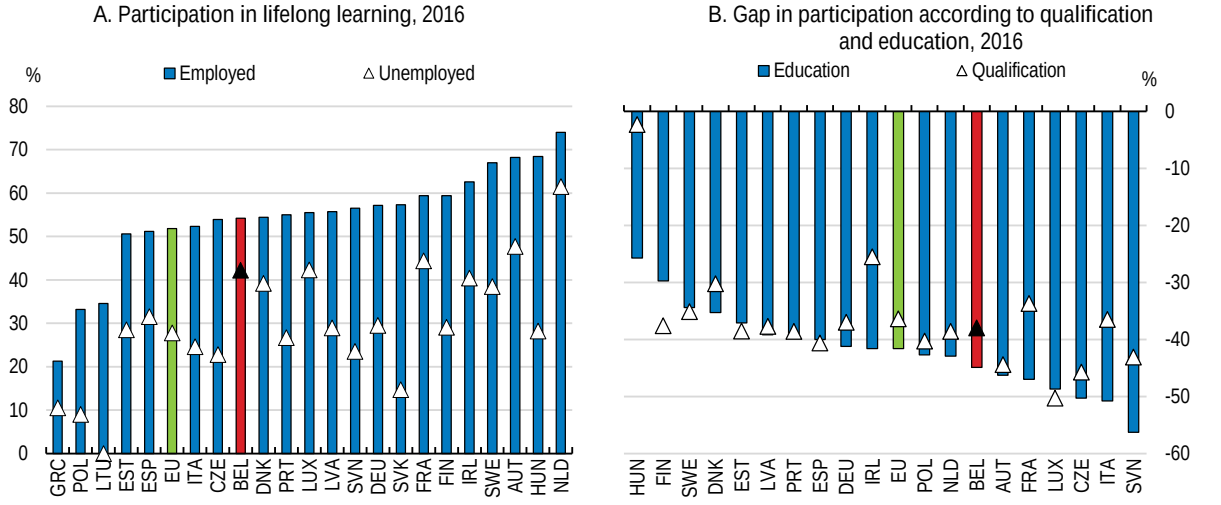
Measures promoting participation in STEM training should be boosted in formal education and among both working and unemployed adults, especially women. Regional governments' measures to promote STEM fields and address shortages of STEM graduates, including the 2020-30 phase of Flanders' *STEM Action Plan*, Brussels' *Digital.Brussels*, and Wallonia's *Digital Strategy 2019-24*, go in the right direction, but more could be done. Making information about wage premia in digital-intensive jobs readily available could help attract candidates for STEM training. As this wage premium is low relative to other countries in the EU,

employers may need to improve the compensation package offered to STEM professionals (OECD, 2020[9]). Stronger financial incentives could be achieved through more flexibility in the wage setting mechanism to allow for a stronger link between wages and productivity (Chapter 1).

Lifelong learning is essential for upward income mobility, as maintaining and upgrading skills help labour market transitions both from declining occupations to emerging ones and from inactivity to employment (OECD, 2018[1]). Adult training focused on ICT is particularly crucial given the large digital skill gaps of vulnerable groups in Belgium, in particular as the COVID-19 crisis is accelerating digitalisation (OECD, 2021[35]). All governments have initiatives to increase digital access by vulnerable groups (*E-inclusionforBelgium* at the federal level, *Digibanks* in Flanders, *Brussels Digital Literacy Action Plan*, *Espaces Publics Numériques* in Wallonia). Furthermore, only 45% of the 55-64 years olds have basic or above basic digital skills according to Eurostat, a major concern as recent pension reforms to delay the effective retirement age exacerbate the need for preventing older workers' skills from becoming obsolete (Chapter 1).

The overall participation in lifelong learning in Belgium is around the EU average, but hides important disparities by skill level (HCE, 2021[36]). Participation among employees is 54%, above the EU's 52%, but significantly below best performers (e.g. the Netherlands) (Figure 2.9, Panel A). Participation among the unemployed is particularly high at 42%, compared to 28% in the EU, and reflects the many training opportunities offered by public employment services in the three regions. The evidence on the quality of training is scarce, but points to an overall strong and persistent effect on job finding trainees in Wallonia (Fonder, Lejeune and Tarantchenko, 2019[37]). However, participation among the low educated is 45 percentage points below the highly educated, and participation among workers in elementary jobs is 38 percentage points below workers in highly qualified jobs (Figure 2.9, Panel B). The age participation gap between young and old is also one of the highest in the EU. Persistent participation gaps risk entrenching current low-income persistence further by increasing pre-existing skill disparities (HCE, 2021[36]).

Figure 2.9. The low skilled participate far less in in lifelong learning



Note: Panel A: formal and informal training, population aged 25-64. Panel B: percentage point difference in participation rate between highly and low educated and between highly qualified workers and workers in elementary jobs.
Source: High Council of Employment (2021), *La formation continue des salariés: Investir dans l'avenir.*

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Lifelong learning measures should be streamlined and better coordinated, as the high number of schemes, providers and governments involved creates complexity that is particularly detrimental to the participation of vulnerable groups (HCE, 2021[36]). The federal government rightly made lifelong learning a major policy goal, in line with the European Commission's agenda. Planned reforms include the activation of Article 39

Ter of the Law on labour contracts, which holds that one third of severance pay will be used for providing training to the dismissed employee. The regions and social partners have their own measures, such as Flanders' *Action Plan on Lifelong Learning* or CP200's *Cefora*, a training initiative organised by the largest sectoral social partner committee. The national recovery and resilience plan also includes lifelong learning measures. This complex institutional framework should be streamlined and coordination between the different levels of government should be ensured.

The federal government's budget agreement to implement an individual training account, as recommended in the *2020 Economic Survey*, is a major step in the direction of increasing lifelong learning efficiency and inclusiveness. By transforming the pre-existing obligation for firms to grant five training days per employee per year on average into an individual right for workers, the individual training account ensures portability, increases workers' responsibility regarding the choice of learning trajectories and ensures that all workers have access to training, including vulnerable groups, such as the low-skilled. Coordination with regional governments will need to be ensured so that the individual training account can accommodate regional lifelong learning initiatives, including the current development of a Flemish learning and career account and the planned reform of the *Congé Education Payé* in the Brussels-Capital Region.

A key necessary condition to make the individual training account successful is the provision of high quality training in areas of skill needs and of individual guidance on the choice of training programmes (OECD, 2019[38]). As career guidance is increasingly delivered digitally, options for face-to-face delivery should remain in place to avoid excluding populations with poor digital skills or access (OECD, 2021[39]). Targeted delivery could follow the Dutch model, where jobseekers who are statistically the most likely to be long-term unemployed are systematically invited to a face-to-face interview with a caseload worker, while the others are initially referred to digital services. Furthermore, adequate targeting is needed to both reduce fiscal cost and boost vulnerable groups' participation. For example, establishing the individual allowance in monetary terms instead of days, as was done in France in 2018, would enable the low-skilled to get more training as the cost of training them is lower (OECD, 2019[40]). Ensuring continued employer involvement in the design of training programmes is also important to reduce skill mismatch for vulnerable groups (see below).

Better targeting of lifelong learning to vulnerable groups is necessary to promote income mobility, in particular through increasing the participation of the low-skilled. Existing information desks, such as Flanders' *Leerwinkel*, should continue targeting the low skilled and immigrants in collaboration with public employment services and immigration services. Moreover, initiatives to reach out to those with a low participation rate, such as Brussels' *Formtruck,* and Brussels' and Wallonia's *Cité des Métiers*, should be evaluated and expanded as appropriate. Flanders' *Opleidingskrediet* scheme, which tops up the regionally-granted paid training leave, also targets low-participation groups by offering a higher allowance for single households. As they implement the individual training account, governments and social partners can also draw from the French experience with the "*Compte Personnel de Formation*", in which access is universal but financial support varies across groups (Box 2.5).

Numerous regional policy measures and private initiatives aim at promoting entrepreneurship skills and knowledge for specific vulnerable groups, including the youth, the unemployed, women and people with disabilities. However, awareness is limited among some target groups, while complexity tends to reduce participation (OECD, 2020[11]). Moreover, little is known on the effectiveness of these programmes. Streamlining the offer of entrepreneurial skill programmes and creating a one-stop shop would provide clarity and facilitate outreach to target groups. Evaluating existing programmes is crucial and could benefit from the experience of the assessment of measures to promote entrepreneurship culture in secondary education under the Walloon Region's *Plan Marshall 4.0* (Van Haeperen, Meunier and Mosty, 2019[41]). Entrepreneurial skill programmes could also directly target people with a migrant background, given their large employment and skill gaps.

Box 2.5. Individualising training access schemes: the case of France

The French personal training account (*compte personnel de formation*, CPF) is an individualised financing scheme for professional training in which training rights are accumulated over time. Implemented in 2015, the account is open to all economically active persons, and is fully transferable throughout the individual's working life, from the time they enter the labour market until they retire. The account was reformed in 2018 to develop access to training for low-skilled workers and jobseekers. The personal training account was previously measured in training hours, but has now been monetised in euros, a move to correct the disparities in hourly training costs. The amount of the annual payments is based on workers' skills: each worker has EUR 500 per year in his CPF to pay for training, and the least skilled have EUR 800 (up to a ceiling of EUR 5 000 and EUR 8 000 over 10 years, respectively). The reform also introduced guidance for potential beneficiaries, as well as controls of the quality of and information about the training provided. Part of the funds dedicated to professional training and apprenticeship are earmarked for career advice (*conseils en évolution professionnelle*, CEP).

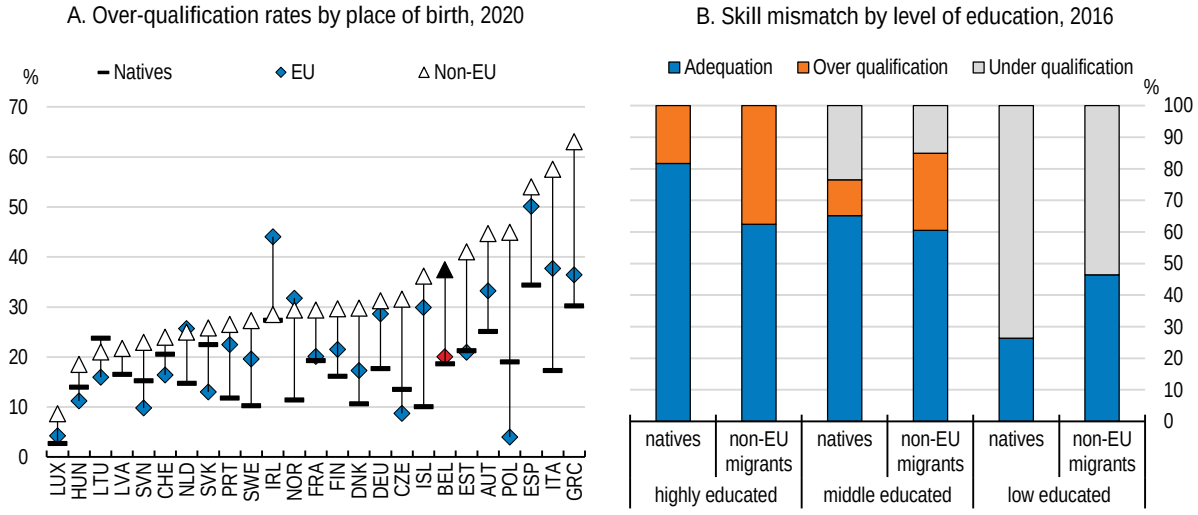
Source: OECD (2020) *Individualising training access schemes: France*; and OECD (2019) *OECD Economic Surveys: France 2019*.

Labour market mismatches also hinder the chances of upward mobility, as having the right skills or field of study for a job has long-lasting effects on wages and employment throughout workers' careers (OECD, 2018[1]). Moreover, labour market mismatches are associated with lower productivity through less efficient allocation of resources and can contribute to income inequality in a context of skill shortages (Mcgowan and Andrews, 2015[42]). Mismatches can be particularly pervasive among immigrant workers, especially among those with non-labour migration motives, as poorer knowledge of the language and labour market of the host country hamper effective networking and job search.

Over-qualification among working non-EU immigrants is relatively high in Belgium (HCE, 2018[23]). Almost 40% of those born outside of the EU working in Belgium are overqualified, twice the rate of those born in Belgium, and significantly more than in Germany, France and the Netherlands (Figure 2.10, Panel A). Mismatches between the level of qualifications possessed by non-EU immigrants and those required in their job is particularly pervasive for the highly educated and can lead to skill depreciation (Figure 2.10, Panel B). The composition of migration inflows, with a large share of migrants admitted on family or humanitarian grounds, also contributes to mismatches with labour market needs (OECD, 2015[43]).

The recognition of skills acquired outside standard education paths should be promoted, especially those acquired abroad by migrants. According to a special module of the 2014 Labour Force Survey, one quarter of over-qualified immigrant workers in Belgium attribute the mismatch to difficulties regarding the recognition of skills acquired abroad (HCE, 2018[23]). Therefore, migrants should be referred rapidly and systematically to services of skill validation. Referrals could go through multiple channels, including digital ones, such as the smartphone app "Recognition in Germany", which was developed on behalf of the German Ministry of Education and Research to provide easily understandable information on recognition procedures and criteria (OECD, 2017[44]). Procedures to recognise degrees obtained abroad could be accelerated, following the example of the Swedish fast-track scheme for shortage occupations, which combines recognition of foreign credentials and prior learning with language classes to provide an occupational certificate (OECD, 2017[44]). Coordination should be ensured between the three communities, which are in charge of degree recognition, and fees could be means-tested or waived, as in the German-speaking Community.

Figure 2.10. Over qualification is high among non-EU immigrant workers



Note: Panel A: share of the highly educated (ISCED levels 5-8) working in low- or medium-skilled jobs (ISCO levels 4-9); data cover population in employment aged 15-64. Panel B: occupations (education) classified into high, medium and low skilled (educated) based on ISCO 2008 (ISCED 2011); over-qualification (under-qualification) is when education level is higher (lower) than occupation skill level.
Source: OECD (forthcoming), *Settling in 2022 : Indicators of immigrant integration*; and High Council of Employment (2018), *Les immigrés nés en dehors de l'Union européenne sur le marché du travail en Belgique.*

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Making activation work for all

Active labour market policies are essential to limit the long-term impact of unemployment on income trajectories and prevent unemployment spells from hampering future upward mobility. Effective activation programmes can also help reduce downward mobility risks, as higher spending on active labour market programmes is associated with a lower share of middle-income households moving down to the bottom of the income distribution (OECD, 2018[1]). The COVID-19 crisis reinforced the importance of activation to foster labour market resilience, while the continuing digital transformation and changing nature of work tend to increase the risk of transitions out of standard forms of employment and, therefore, the need for job-search support (OECD, 2021[45]). Adequate targeting is key to ensure that activation increases job seekers employability in a cost-efficient manner (OECD, 2015[46]).

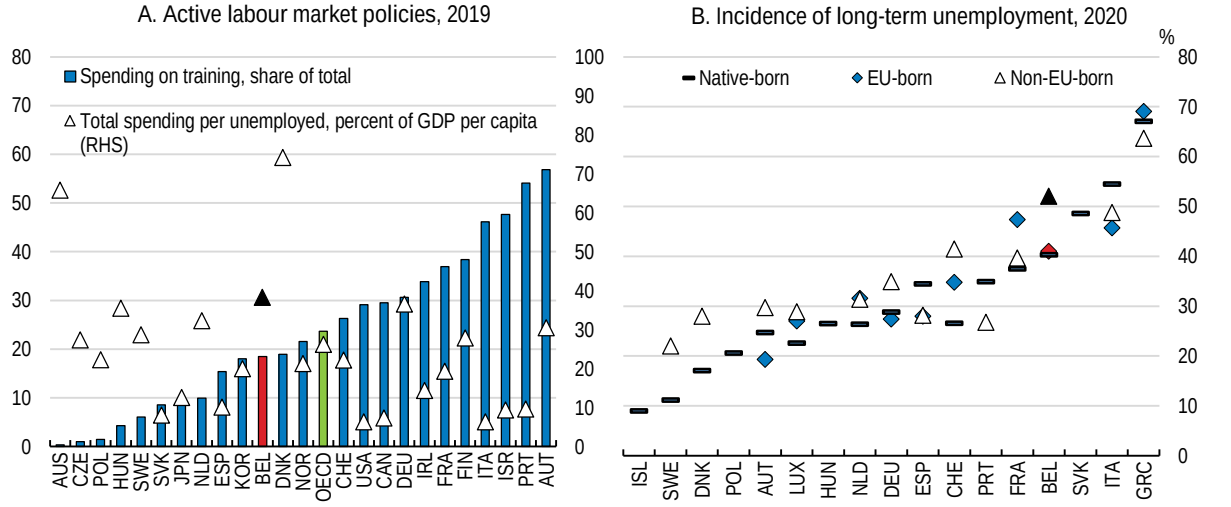
Belgium performs well regarding activation spending and planned reforms are expected to facilitate work-to-work transitions, including the use of parts of the severance pay to subsidise the wage at a new employer. The spending mix improved, as the share of activation spending allocated to training increased from 15.9% in 2017 to 18.5% in 2019, but remains below the OECD average of 23.7% (Figure 2.11, Panel A). However, spending could better target vulnerable groups, in particular migrants and people with disabilities. Non-Belgian citizens (both EU and non-EU) benefit less from activation measures than nationals do (HCE, 2018[23]). Yet, non-EU migrants tend to require more effective activation spending, as the incidence of long-term unemployment is significantly higher among that group, at 52% compared to 40.3% for natives (Figure 2.11, Panel B). Moreover, while labour market transitions out of employment and into inactivity increased for the whole population during the COVID-19 crisis, vulnerable groups were particularly affected: 29% of non-EU migrant workers and 21% of those with disabilities lost temporarily or permanently their job, compared to 14% and 15% of natives and people without disabilities, respectively (Lens, Marx and Mussche, 2020[47]).

The use of statistical profiling tools for delivering employment services should be expanded further in all three regions to target vulnerable groups. Public employment services increasingly complement rule- and caseworker-based profiling with statistical models to predict labour market disadvantage and classify job

seekers into client groups for activation (Desiere, Langenbucher and Struyven, 2019[48]). Designing statistical tools to account for migrant or health status while respecting privacy regulations could facilitate the identification of those more at risk of long-term unemployment and, therefore, enable earlier stage interventions tailored more closely to individual needs. Evidence based on activation measures for the newly unemployed in Flanders shows that job seekers' country of birth, together with their age and knowledge of the Dutch language, are strong predictors of the type of activation measures likely to accelerate return to employment (Boolens, Cockx and Lechner, 2020[49]). Existing machine learning-based models, such as Flanders' *NextBestSteps* programme and the Walloon region's assessment model of proximity to employment, should continue to be extended to develop tailor-made active labour market programmes for jobseekers.

On-the-job language training should be promoted, as knowledge of (at least one of the) national languages is essential not only for labour market integration, but also for participating in lifelong learning. Moreover, knowledge of one of the national languages likely reduces mismatches through faster labour market integration, as indirectly suggested by the fact that non-EU born immigrants are more likely to master a national language when in employment (HCE, 2018[23]). Belgian regional governments are increasingly investing in language training for migrants, like in many other countries (OECD, 2020[50]). Mandatory integration trajectories for migrants include language classes in Flanders, Wallonia and the German-speaking community, and the Brussels-Capital Region should proceed with plans to make the recently passed legislation regarding mandatory integration programmes effective without further delay.

Figure 2.11. Activation spending on training is low despite high long-term unemployment rates



Note: Panel B: share of long-term unemployment in total unemployment of population aged 20-64.
Source: OECD Statistics on Labour Market Programmes; and Eurostat Migrant Integration Statistics.

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The effect of language training on labour market integration is stronger if linked with occupational language skills (OECD, 2021[51]). A larger share of active labour market spending could be allocated to on-the-job occupational language training. In Flanders, the public employment service's *Integratie door Werk* (Integration through work) programme offers activation trajectories targeted to migrants that include Dutch classes at the workplace (HCE, 2018[23]). To implement and extend such measures, regional governments can draw from the experience of the Latvian State Employment Agency's language mentorship programme for working refugees, which proved highly effective at helping migrants adapt to their working environment by providing vocation-specific language training on the job (OECD, 2020[50]).

Continuing to promote diversity and fight against discrimination is necessary to complement activation targeted at migrant populations. Labour market discrimination not only worsens employment gaps and contributes to wage gaps, but also decreases the effectiveness of activation measures (HCE, 2018[23]; FPS Employment/UNIA, 2019[27]; view.brussels, 2019[52]). Measures to protect witnesses in discrimination cases were recently added to an already robust anti-discrimination legislation at different levels of government. The 2018 federal law creating the possibility for social inspectors to prove discriminatory infringements through mystery calls or anonymous field tests is being made more flexible, as stringent conditions have strongly limited its use so far (UNIA, 2020[53]). Similar initiatives are being taken by regional governments. Moreover, legislation should be complemented with measures to support inclusive hiring practices, possibly building on available information on the origin composition of staff at the Crossroad Bank of Social Security to identify discrimination patterns and improve the design of anti-discrimination policies (UNIA, 2020[54]; view.brussels, 2019[52]). The federal government's new measures regarding the monitoring of diversity in sectors are first steps in this direction.

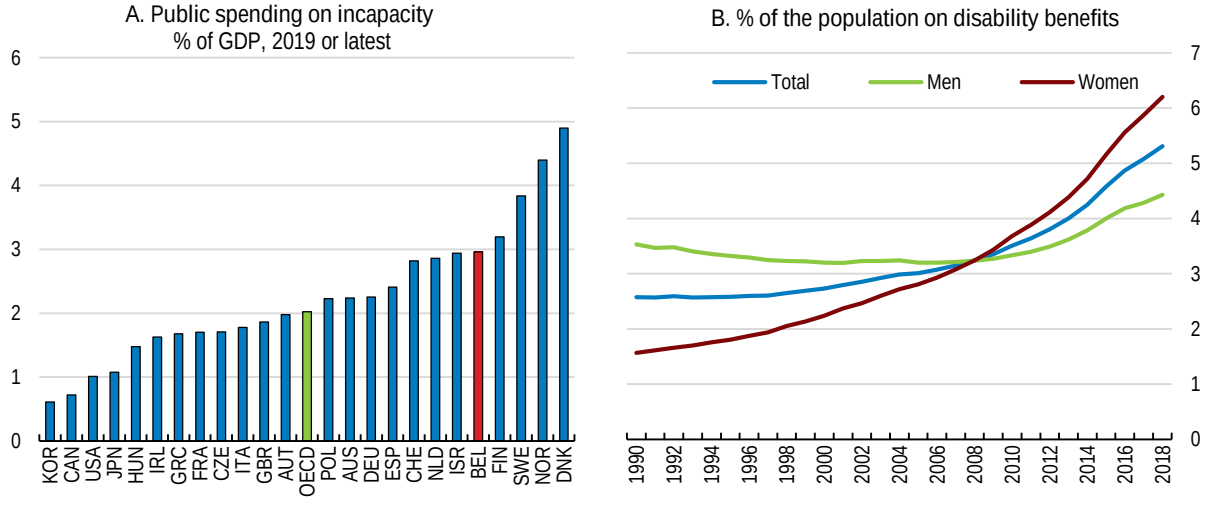
Disability benefit systems should balance protection with work incentives to reintegrate sick workers, while restricting unwarranted inflows into these schemes. Spending on incapacity (disability, sickness, occupational injury) at 3% of GDP in Belgium is higher than the OECD average of 2% (Figure 2.12, Panel A). The share of inactive people not seeking employment due to sickness and disability increased from 10.7% in 2007 to 18.4% in 2020, higher than the EU average of 12.3%. The share of disability recipients, especially for women, has increased (Figure 2.12, Panel B), partly due to the increase in the activity rate of women and the alignment of their statutory retirement age (Saks, 2017[55]), and partly due to the regularisation of previously undeclared workers under the service voucher scheme (Leduc and Tojerow, 2020[56]). The Budget 2022 plans to link funding to regions based on performance of reintegrating workers, introduce tools and incentives to combine partial work and benefits, tighten sanctions for employers and employees, and introduce a reintegration path 2.0, with a view to simplify and speed up the process of integration, including through the use of digital tools, which are welcome.

Early initiation of formal pathways to reintegrate sickness and disability beneficiaries into work should be prioritised. A formal integration procedure was introduced in 2016 to supplement the existing informal pathways, which included a voluntary medical visit with the occupational doctor or the mandatory return to work examination for workers under mandatory medical surveillance. The formal procedure requires mutuality doctors to assess the reintegration possibilities within the first two months of sickness absence. Employers and employees find the formal reintegration procedures to be administratively cumbersome, slow and not individualised and flexible enough. The employee can request formal reintegration anytime during the sick leave and the employer four months after the start of the incapacity, but participation in such formal pathways remains limited. Moreover, 40% of those on formal pathways wait at least one year for their first contact with the occupational physician, compared to 25% for the informal pathways and only 42% return to work (often with another employer), lower than that for informal ones (73%) (Boets et al., 2020[57]).

New reforms aimed to improve policy coordination and data collection to tailor policies to individual needs and track people through the different steps are welcome. Until recently, while some support measures existed for workers deemed unfit to return to their job, this was not systematic and data were not collected for their situation after the dismissal (Lopez-Uroz, Westhoff and Akgüç, 2021[58]). In January 2022, the return-to-work coordination plan created a return-to-work coordinator as employees of mutualities. The coordinator will enable a systematic approach to interact with the employees applying for sickness benefit early and guide them to create a tailor-made path back to work that meets the needs and competences of the person, and the collection of data and data exchange with regional public employment services will help. It will be important to evaluate the effects of this recent reform. Other OECD countries, such as Finland use "one-stop-shops", which bring together public employment services, social and health care services, services of the national insurance agency and subcontracted professional experts, with a non-hierarchical partnership of actors from different levels of government (OECD, 2021[59]).

Incentives to participate in activation programmes should be strengthened. Workers unfit to return to their previous employment need to reskill, but participation in lifelong learning for those with disabilities at 10.8% in Belgium is lower than the EU average of 18.7%. One pathway for return to work is the vocational rehabilitation, which includes financial incentives for participation. Participants continue to receive their benefits and are paid for each hour of training plus a lump-sum payment of EUR 500 at the end of the training. However, participants can lose their entitlement to disability benefits within six months of the training, which can act as a disincentive. This rule should be removed and beneficiaries encouraged to participate in rigorously evaluated activation programmes.

Figure 2.12. There is a need to reform disability and sickness benefits



Note: Panel A: public spending on incapacity refers to spending due to sickness, disability and occupational injury; both benefits in cash and in kind are included. Panel B: population aged 15-64.
Source: OECD (2022), Social Expenditure database; National Institute for Sickness and Disability Insurance; and World Bank.

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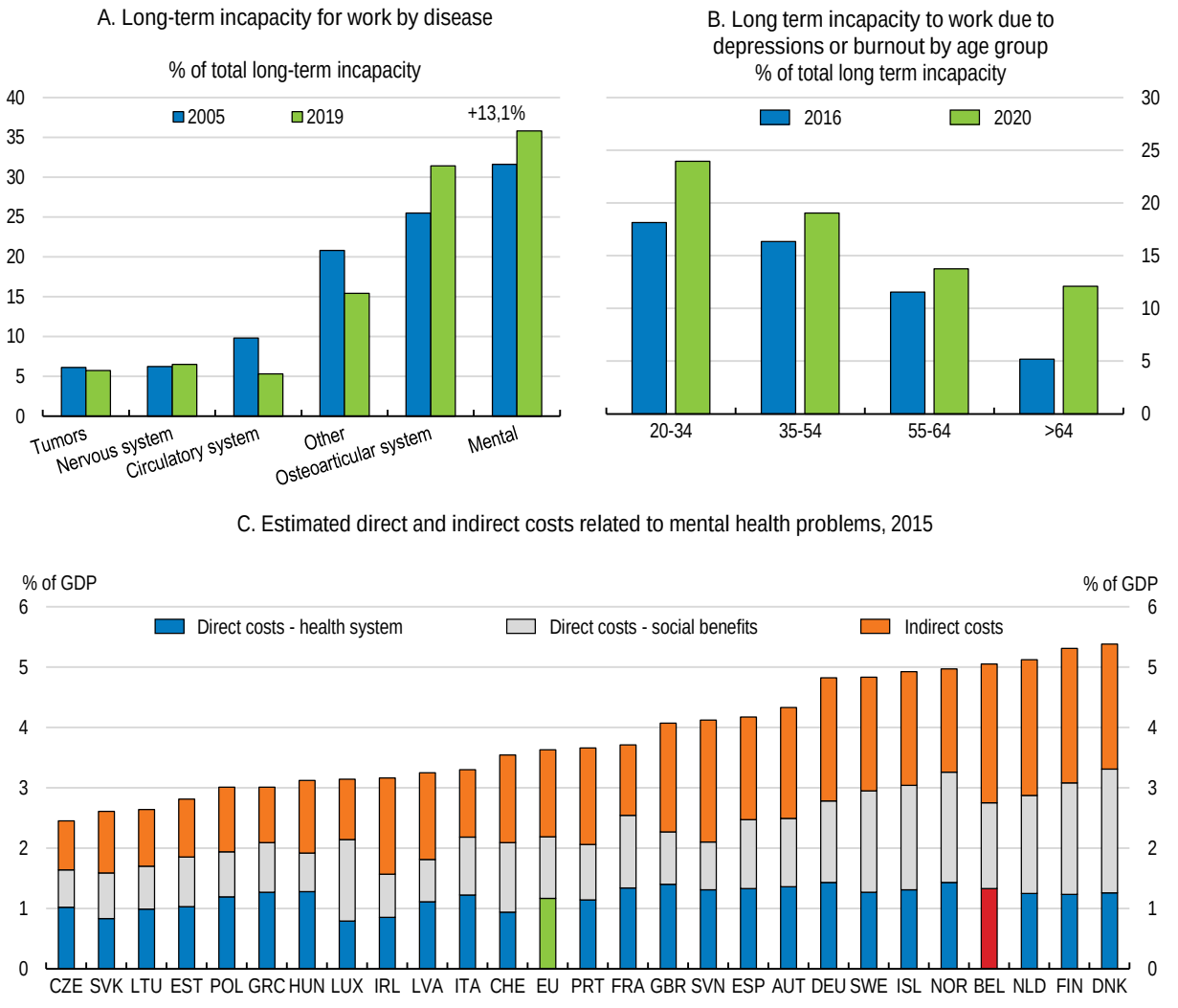
In Belgium, as in other countries, employee absence due to mental illness is rising. In 2019, 36% of those on invalidity benefits had mental-related issues (FPB, 2021[60]), especially among the youth (Figure 2.13, Panels A and B) and single mothers. The direct (health and benefits) and indirect costs (reduced participation and productivity) of mental health problems are 5.3% of GDP in Belgium, compared to the EU average of 3.6% (Figure 2.13, Panel C; OECD, (2021[61]). The pandemic can exacerbate these trends as the share of adults experiencing anxiety doubled in April 2020 from a year ago (OECD, 2020[62]) and stabilised at a higher level since (FPB, 2022[63]) (Sciensano, 2021[64]). Mental health has appropriately became a focus of the policy agenda of all levels of government (CSS, 2021[65]).

Beyond preventive measures, better integration of employment and mental health services and broader steps to identify people with mental health issues early are key. Reforming the disability benefit systems, as discussed above, will help. However, 50% of those persons with mental health conditions who receive benefits were on unemployment benefits in the mid-2010s (OECD, 2021[66]). Several evaluations highlighted the need to improve the continuity of care between services (health, mental health, social) as a priority in the organisation of mental health care for adults in Belgium (Devos et al., 2019[67]; Mistiaen et al., 2019[68]). According to a new benchmarking of mental health care systems, systematic inclusion of employment outcomes in mental health service delivery, or mental health outcomes in employment support services is lacking in Belgium (OECD, 2021[61]).

Individual placement and support (IPS) programmes, which are evidence-based practices where multidisciplinary mental health teams, including an employment specialist, provide co-ordinated health and employment support for jobseekers could be further used. Belgium has pilot IPS programmes for people suffering from mental health issues since 2017, which follows the "place-then-train" model, focusing on helping people to get a job rapidly. IPS programmes have resulted in positive employment outcomes in Australia and Denmark (OECD, 2021[66]). Dependent on the evaluations, which will be fully completed by 2023, such programmes should be scaled up. The design should ensure to address funding and implementation challenges of scaling up, based on international best practices (OECD, 2021[59]). For example, it will be important to complement the program's focus on transitions into employment with measures to sustain jobs and enable career progression.

Figure 2.13. The prevalence of mental health issues is on the rise



Source: Federal Planning Bureau; National Institute for Sickness and Disability Insurance; and OECD/European Union (2018), *Health at a glance: State of health in the EU cycle.*

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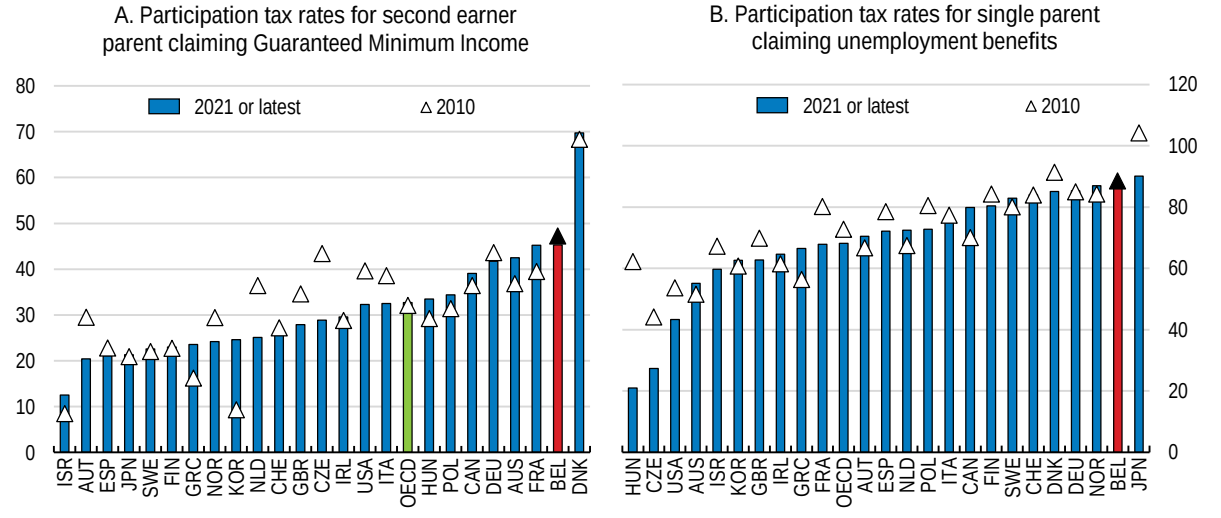
Strengthening work incentives for low-income single parents and second earners

Labour tax and benefit systems have important effects on income mobility, as they alter labour market participation and cushion the impact of adverse labour market transitions, e.g., into unemployment (OECD, 2018[1]). To foster social mobility without creating economic insecurity, taxes and benefits need to strike the right balance between maintaining strong labour market participation incentives and providing effective protection against labour income losses. Moreover, to ensure equality of opportunity on the labour market, tax and benefit systems need to be free of implicit biases against specific groups due to the different socio-economic realities they face, e.g., women due to gender gaps in labour market participation and income (Harding, Perez-Navarro and Simon, 2020[69]).

Belgium combines high replacement rates for the unemployed with strong work disincentives, in particular for formerly low-paid workers (Hijzen and Salvatori, 2020[70]), as explored in depth in the *2020 Economic Survey of Belgium*. Belgium ranks among the countries where tax and transfers have a greater impact in cushioning large market income losses, together with France and most Nordic countries (OECD, 2018[1]). Despite the federal government's intention to continue reforms to increase work incentives for low-earners (Box 2.4 above), participation tax rates (the share of additional earnings from work that is lost due to reduced benefits and increased taxes for workers with low wage) remain high for some groups (Adalet McGowan et al., 2020[24]; OECD, 2020[71]).

Participation tax rates for low-income single parents and second earners with children are among the highest in the OECD and should be reduced. In 2021, the participation tax rate was 45.3% for second earners claiming guaranteed minimum income, higher than the OECD average of 32.7% (Figure 2.14, Panel A). The federal government increased the tax advantage for childcare in 2020. Further measures to increase work incentives should address the case of second earners to achieve the federal government's employment targets for specific groups at lower fiscal cost, in particular women. The partial splitting system for couples, which decreases the household overall labour income tax under progressive taxation by allowing a notional amount of income to be transferred between spouses if one earns 30% or less of the total family income, should be reduced or abolished, as it typically disincentives second earners' participation in the labour market. In-work benefits would offset the accompanying increase in average labour taxation for low-income households (see below).

Figure 2.14. Low-income parents face weak work incentives



Note: participation tax rate expressed as a share of gross earnings in a new job that pays 67% of average wage, for households with two children, without temporary in-work or social assistance benefits. Panel A: first earner income is 67% of average wage. Panel B: participation tax rate after 6 months in unemployment and including housing benefits.
Source: OECD Social Protection and Well-Being Database.

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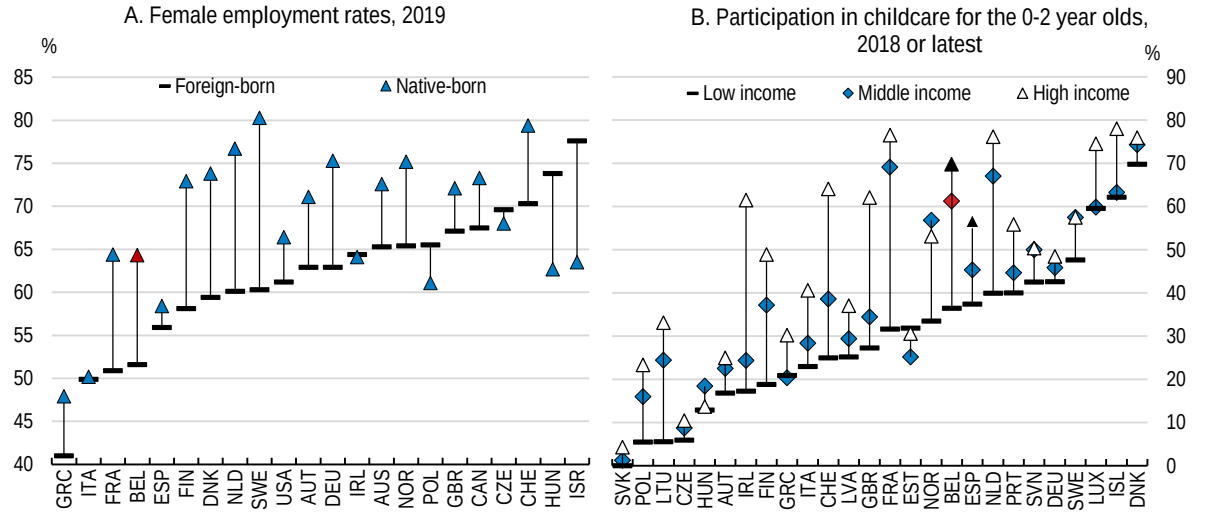
Targeted improvements in work incentives should make work pay for single parents, who face a participation tax rate of 84.8% when claiming unemployment benefits, higher than the OECD average of 68.1% (Figure 2.14, Panel B). Introducing in-work benefits would support return to employment and avoid long-term benefit dependency. Such emphasis towards supporting those in work is common across OECD countries, including France (*Prime d'activité*) and the United States (*Earned Income Tax Credit*). Another option is to let low earners cumulate unemployment benefits and income from work, building on the existing scheme for part-time workers, as with the federal government's planned reform for the long-term unemployed who take up a job across the linguistic border or fill a hard-to-fill vacancy. Effective targeting will be key to limit fiscal costs.

Boosting childcare access for 0-2 year-old children from low-income households would also help decrease participation tax rates for single parents and strengthen women's work incentives, especially migrants. Enrolment in early childhood education and care for children aged three and older is almost universal in Belgium, and enrolment at 60% for children under three years old is still high (OECD, 2020[9]). However, uptake among migrant populations is relatively low despite high availability and moderate cost of formal childcare, which is reflected in large employment gaps for migrant women (Biegel, Wood and Neels, 2021[72]). There is a quasi-13 percent point gap between the employment rate of native women and that of migrants (Figure 2.15, Panel A). At the same time, almost 70% of 0-2 year-old children from high-income households participate in childcare in Belgium, but only 36.4% of those from low-income households, which are disproportionately households with a migrant background (Figure 2.15, Panel B).The provision of early childhood education and care for children below three should be increased, as recommended in the *2020 Economic Survey of Belgium*. Outreach measures should target migrant households and address both cultural norms and the lack of knowledge of the childcare system.

Figure 2.15. **Migrant women's childcare responsibilities contribute to weak employment outcomes**



Note: Panel A: employment rates of foreign born and native women, percent of population. Panel B: participation in centre-based care (e.g. nurseries or day care centres and preschools, both public and private), organised family day care or care services provided by (paid) professional childminders; income levels based on children's position in the national distribution of disposable income; low, middle and high income refers to the first three, middle four and upper three deciles, respectively.
Source: OECD International Migration Statistics; and OECD (2020), *Is childcare affordable?*

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Measures to promote childcare among low-income households should be coupled with targeted activation measures, in particular language training in the case of migrant mothers, building on existing initiatives, such as Actiris' *Maison d'Enfants* and the coordination of childcare structure network. While current practices prioritise working parents in case of scarcity in subsidised childcare facilities, actual utilisation

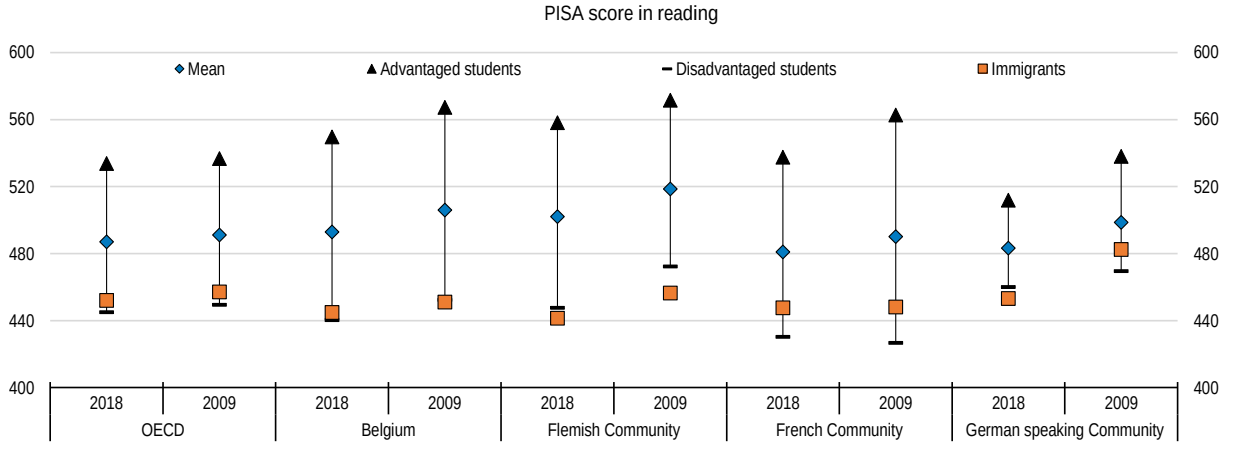
can be below full capacity, e.g., due to sick children. Unused capacity leaves room for children from vulnerable households to attend while their parent participates in activation-based training. Such measures combining childcare and activation would help address the issue of parents, in particular migrants, being unable to attend training because of childcare responsibilities. Coordination between public employment services and public childcare organisers is required to forecast actual utilisation of childcare facilities and allocate the children of trainees accordingly.

Enhancing equal opportunities in compulsory education

Belgian students' overall academic performance is around the OECD average and at par with neighbouring countries, but displays large disparities between students. Performance varies between the three communities (the level of government at which education is organised in Belgium (see Box 2.6 and OECD (2017[73]) for details), with performance high but declining in the Flemish Community, relatively low in the French Community, and in-between in the German speaking Community. However, disparities in performance associated with parental background are substantially larger than differences between the communities. Both the Flemish Community and the French Community are characterised by relatively high socio-economic determination of educational outcomes, as reflected in large test score gaps associated with socio-economic status (Figure 2.16). According to the 2018 PISA results, the gap in reading performance between students in the top quarter of Economic, Social and Cultural Status (ESCS) index and those in the bottom is equivalent to more than three years of schooling, the fifth largest gap in the OECD (OECD, 2019[74]).

A number of other indicators highlight the importance of the correlation between student socio-economic background and performance. 17.2% of the variance in reading performance is explained by parental background, the fifth highest value in the OECD and well above the average value of 12% (OECD, 2019[74]). Only 9% of Belgian students are "academically resilient", that is, score in the top quarter of performance in reading while belonging to the bottom quarter of ESCS, the fourth lowest share in the OECD (OECD, 2019[74]). Disruptions to in-person education due to the COVID-19 pandemic have likely worsened the socio-economic gap in performance due to differences in access to remote learning tools: 84% of Belgian disadvantaged students have access to a computer for schoolwork compared to 98% of advantaged students (OECD, 2021[75]). Against this backdrop, the communities rightly implemented measures targeting students at risk of exclusion from distance education platforms, including special efforts to make online learning more accessible to migrant children in the French Community (OECD, 2021[76]).

Figure 2.16. **Belgian students' good overall performance hides large disparities**



Note: Immigrants are students whose mother and father were born in a country other than that where the PISA test was taken.
Source: OECD PISA database.

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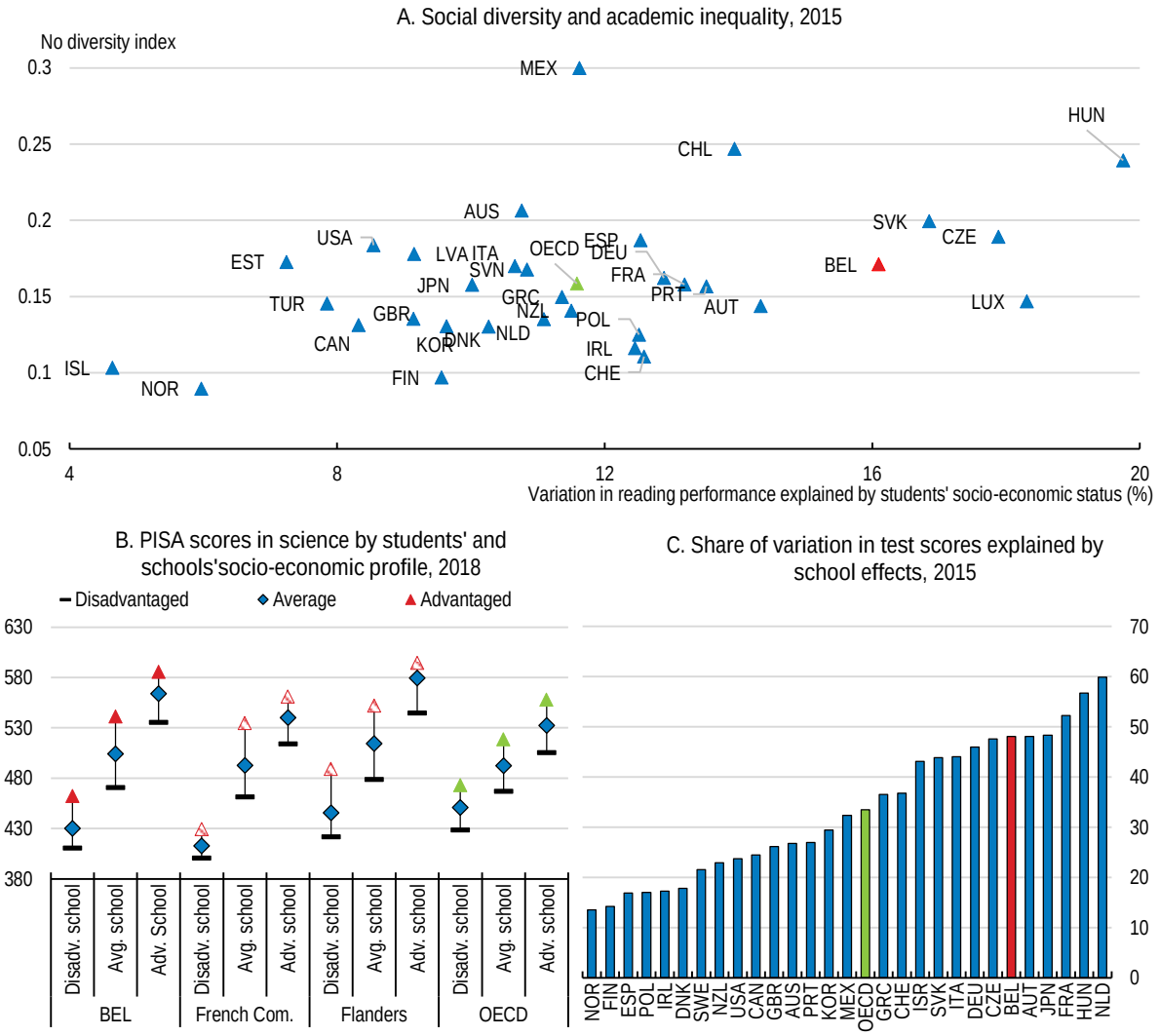
Disparities in the academic performance between advantaged and disadvantaged students are reflected in large differences between schools and programmes to the extent that students' (effectively their parents') free choice of school depends too heavily on their socio-economic background. Spatial segregation exacerbates differences between schools, as students are more likely to choose a nearby school. Sorting by socio-economic status across schools is generally negatively related to equity in education (Figure 2.17, Panel A; and (OECD, 2019[74]). Differences between schools reflect a cumulative process of both social and academic selection (Nicaise, 2019[77]). Initial self-sorting along socio-economic lines leads to unequal performance at school due to a variety of mechanisms, e.g., peer group effects or teachers having lower expectations for disadvantaged students (Nicaise, 2019[77]). Disparities in performance then widen due to the process of academic segregation, i.e., students are placed on different learning tracks based on previous achievement, so that social and academic segregation are mutually reinforcing.

Tracking along academic performance, itself strongly determined by socio-economic background, is a key driver of social inequality in Belgian education systems (Hindriks and Godin, 2018[78]; De Witte and Hindriks, 2018[79]). For example, in Belgium more than in the OECD, disadvantaged students in advantaged schools perform better than advantaged students in disadvantaged schools (Figure 2.17, Panel B). Moreover, disparities in terms of social mobility at school appear between tracks and types of education provider. For example, it is higher in vocational tracks than in general education in both the French Community and the German speaking Community (Hindriks and Godin, 2018[78]).

The process of academic and social selection explains the strong influence of school background on performance. For example, almost half of the variation in Belgian students' performance in mathematics is explained by the school they attend, largely above the OECD's average of one third (Figure 2.17, Panel C). In all three communities, schools' average socio-economic environment is even more important than parental background, in the sense that students' academic performance is more influenced by the average socio-economic status of parents of other students in the same school than by their own parents' socio-economic status (Box 2.7). Attending a school where students are from more advantaged socio-economic backgrounds is associated with better test scores in all OECD countries, but the effect is particularly strong in Belgium.

Figure 2.17. School environment strongly influences academic performance



Note: Panel A: the no social diversity index measures whether the diversity of students observed within schools reflects the diversity of students observed at the country level, with higher scores indicating more segregation. Lower variation in reading performance explained by students' socio-economic status indicates higher equity. Panel B: disadvantaged (resp. advantaged) students are those students in the bottom (resp. top) quarter of the national distribution of the PISA index of economic, social and cultural status (ESCS); disadvantaged (resp. advantaged) schools are schools in the bottom (resp. top) quarter of the national distribution of the school-level ESCS index, which is calculated as the average ESCS index among students in a school. Only schools with at least 10 students with a valid ESCS index were used for this analysis. The national distribution of the school-level ESCS index is weighted at the student level. Panel C: school effects measured as the share of variation explained by school dummies in a regression of PISA mathematics test scores.

Source: OECD calculations based on OECD PISA 2018 Database; and OECD (2018), *A broken social elevator? How to promote social mobility.*

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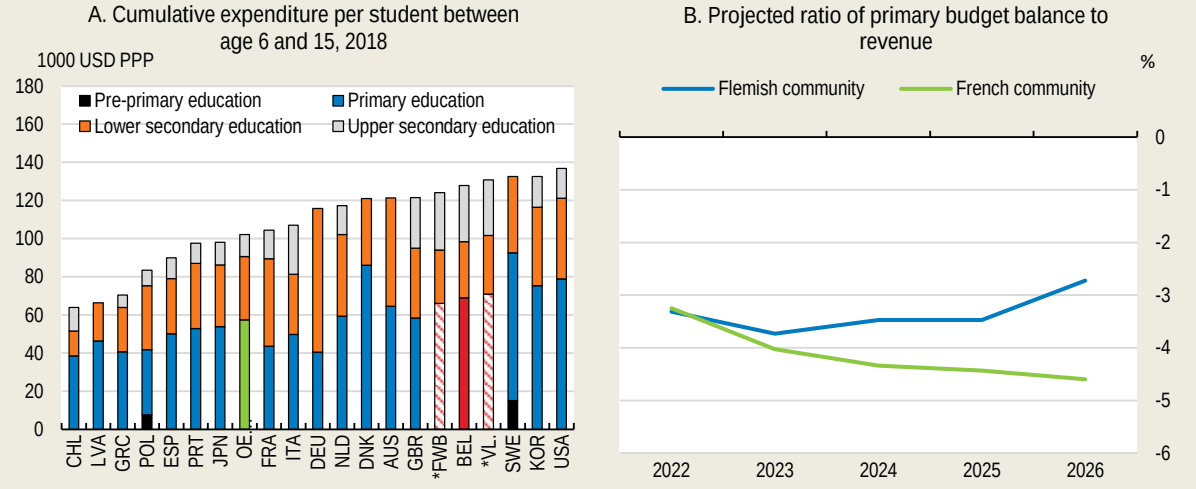
Box 2.6. Structure and funding of compulsory education in Belgium

Despite decentralisation since the Third State Reform of 1988 and recent reforms, the general structure of compulsory education is mostly identical across the three communities, which face similar challenges with respect to social mobility – see OECD (2017[73]) for details.

The system features the characteristics of an educational quasi-market, grounded in the principle of freedom of education enshrined in Article 24 of the Constitution, which encompasses freedom of establishment of schools, free choice of schools and funding mainly based on the number of students. Provision is ensured by both governmental ("official education") and non-governmental bodies ("free education"), with regulation and monitoring by the communities. School choice remained unregulated until reforms in the 2000s attempted to respond to mounting evidence of social segregation, notably from the PISA surveys. Compulsory education ranges from age 5 to 18 and comprises the last year of preschool education (since September 2020), a relatively undiversified primary education (age 6 to 12), a lower secondary education and a (currently reformed) 4-track upper secondary education (general, technical, vocational or arts). Dual vocational education combining school- and work-based learning is offered from age 15 and conditional on successful completion of the second grade of secondary school. Successful completion of compulsory education is required for participating in tertiary education.

The communities are quasi-fully funded by the federal government and education is their main expenditure. Funding is governed by the 2014 reform of the 1989 Special Financing Law and consists in the allocation of part of VAT and federal income tax revenue in proportion to the number of pupils in compulsory education ("pupils key") and the residency of income tax payers ("fiscal key"), respectively. Expenditure per student is relatively high in international comparison and higher in Flanders than in the French Community (Figure 2.18, Panel A). However, funding prospects for education varies across communities due to diverging fiscal outlooks. After a severe deterioration due to the pandemic, the fiscal deficit is projected to stabilise over the medium term in Flanders, but to deteriorate in the French Community, as primary expenditure grows faster than revenue from the Special Financing Law (Figure 2.18, Panel B). Making fiscal space is necessary to implement some of the policy measures recommended in this survey, especially in the French Community. Expanding the use of spending reviews could help to improve spending efficiency in education (Chapter 1).

Figure 2.18. Funding per student is high, but the funding outlook varies across communities



Note: Panel B: budget figures for the Flemish community based on Federal allocation keys.
Source: OECD Education at a Glance Database; and Federal Planning Bureau.

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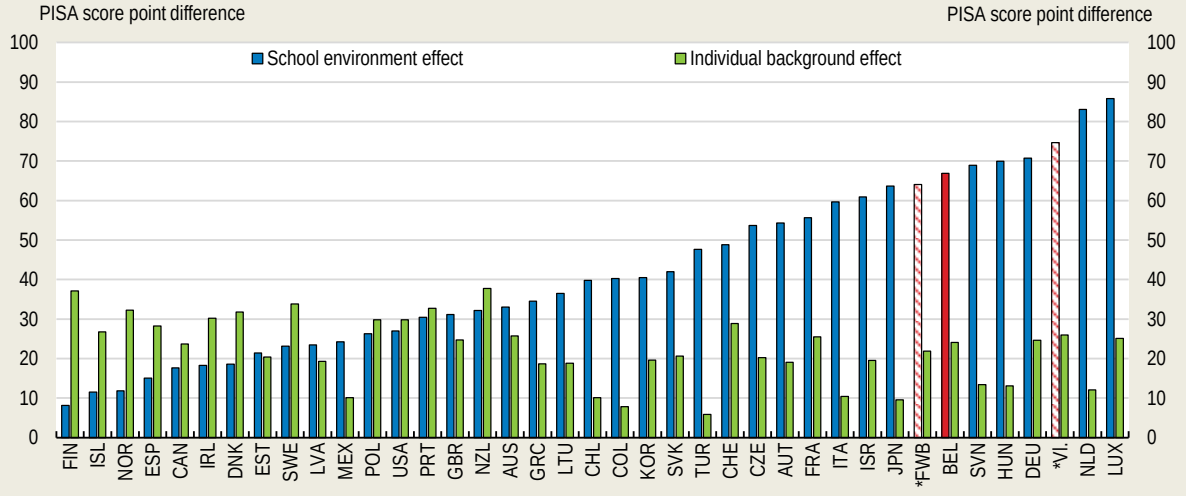
Box 2.7. The influence of school environment: new evidence based on PISA

New OECD research uses the latest results from the OECD Programme for International Student Assessment (PISA) to disentangle the influence of the school environment from the overall effect of parental background on student performance, following the methodology in Causa and Johansson (2010[80]).

Figure 2.19 shows the decompositions of the student-level conditional correlation between test scores in reading and values of the Economic, Social and Cultural Status (ESCS) index in two parts: an individual background effect, which measures the relationship between the student's own parental background and their performance within a given school ("within-school" effect); and a school environment effect, which measures the relationship between the average socio-economic background in a given school and the student's performance, controlling for the student's own parental background ("between-school" effect).

The influence of the school environment appears particularly large in Belgium, suggesting that Belgian students' academic performance strongly depends on the socio-economic composition of their peer group in the school they attend (Figure 2.19). Such a high school effect reflects several dimensions along which Belgian education is de facto segregated, e.g., the sorting of students between schools or the allocation of tracks and programmes between schools.

Figure 2.19. Large differences in PISA scores reflect school environment effects



Note: regression of students' science performance on students' family socio-economic background (as measured by PISA ESCS), and school-level socio-economic background (average PISA ESCS across students in the same school, excluding the individual student for whom the regression is run). Country-by-country (as well as the two biggest communities in Belgium) least-squares regressions weighted by students' sampling probability. The school environment effect is defined as the difference in predicted PISA scores of two students with identical socio-economic backgrounds attending different schools (where the average background of students is separated by an amount equal to the inter quartile range of the country-specific school socio-economic distribution); the individual background effect is defined as the difference in predicted PISA scores of two students within a school (separated by the inter quartile range of the country-specific average within school socio-economic distribution). "VI." and "FWB" stand for the Flemish and French communities, respectively.
Source: OECD calculations based on OECD PISA 2018 database.

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Attenuating the negative consequences of free school choice

Free school choice can bring benefits in terms of innovation, pedagogical freedom or incentives to improve instructional quality, but can also widen social inequality because socio-economically disadvantaged parents are more constrained in their choice of school (Urquiola, 2016[81]). International evidence shows the detrimental effect of free choice on academic and socio-economic sorting (OECD, 2018[13]). Combined with limited capacity, free school choice results in a quasi-market for education services where consumers (parents) compete for the most reputed schools, while suppliers (schools) compete for the best students (Vandenberghe, 1996[82]). These forces tend to create social segregation, as students end up sorted into schools along socio-economic lines, which often overlap with migrant background.

Notwithstanding benefits, free school choice also contributes to disparities in terms of academic performance across schools in Belgium (Nicaise, 2019[77]; Friant et al., 2012[83]; Nusche et al., 2015[84]; OECD, 2015[43]; OECD, 2017[85]). School choice is little regulated in Belgium, despite the implementation of controlled-choice reforms in both the Flemish and the French communities over the past decade to combat enrolment discrimination (Nicaise, 2019[77]; OECD, 2019[86]). Competition for students is also high: 93% of Belgian students are enrolled in schools whose principal reported that there was at least one other school competing for students in the same area, the third highest in the OECD (Figure 2.20, Panel A).

The communities' plans to reform the controlled school choice schemes and further diversify the social mix in secondary education should be implemented as soon as pandemic-related disruptions subside. In the Flemish Community, the introduction of central digital registration for schools located in areas where limited capacity is an issue should improve the transparency of the scheme and remove parents' incentives to enrol their children in multiple schools. In the French Community, planned reforms aim at reducing the administrative burden for schools and decentralising part of the student allocation to a more local level, which should decrease overall resistance to the scheme.

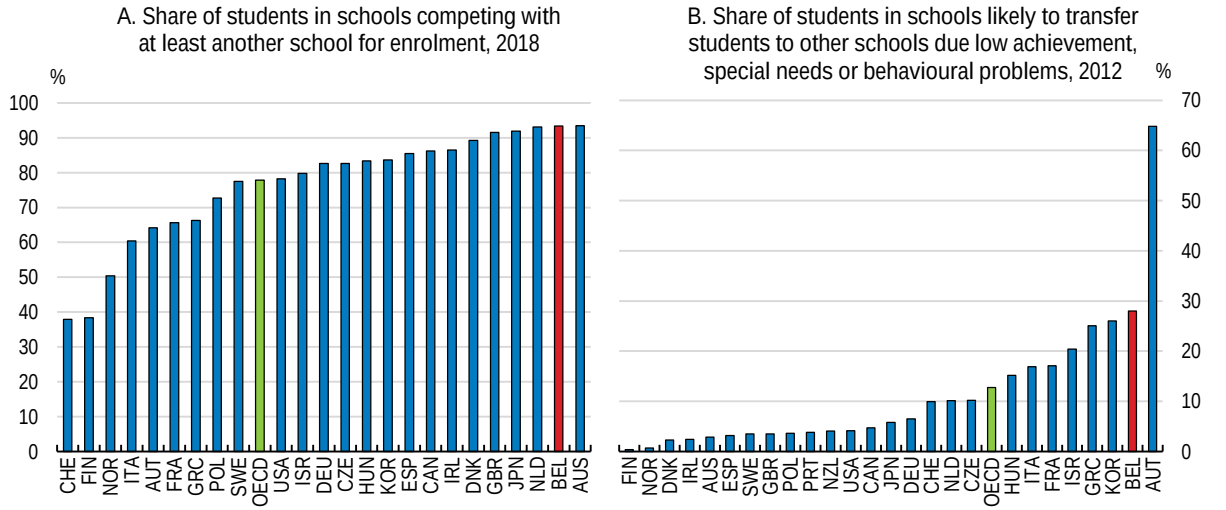
Continuing to address the negative consequences of free school choice should remain a priority. In the Flemish Community, the removal of the current double quota system in secondary education, whereby schools had to take in a proportion of disadvantaged students, could affect the diversity of the social mix. The consequences of this removal and the introduction of the new system starting in the academic year 2023-24, whereby schools set their own criteria for enrolling disadvantaged students, should be monitored and evaluated. In the French Community, the implementation of priority rules for enrolment within controlled school choice schemes should be decentralised to build stakeholder buy-in to the new rules, as achieved by the "local negotiation platforms" in Flanders.

Belgium has the third highest rate of student transfer out of school in the OECD (Figure 2.20, Panel B). This practice works in the opposite direction from the regulation of school choice in terms of achieving a more diverse social mix at school. PISA data show that social background has a stronger impact on learning outcomes in countries where it is more common to transfer weak or disruptive students out of a school, without a positive impact on overall performance (OECD, 2010[87]). Where straightforward transfer options exist, teachers may have fewer incentives to cater to work with struggling students. By contrast, schools that have more responsibility for establishing student assessment policies, deciding course offer, determining course content and choosing textbooks tend to transfer fewer students (OECD, 2011[88]). Teachers' incentives to cater to the needs of struggling students should be promoted and out-of-school transfers limited in order to ensure that policies regulating school enrolment are effective.

School funding could also provide incentives that promote equity in education. In the current system, funding is allocated between schools based on size with a correction for the socio-demographic composition of the school. While this gives schools an incentive to diversity their student intake, it does not reward them for achieving good educational outcomes under challenging conditions. Value-added modelling (i.e., measuring the school's effect on students' achievement by using statistical models to predict each student's test score from students' and schools' characteristics and comparing these

predicted scores to how the student actually scored on the test) or other reliable performance indicators could be used to measure educational improvements of disadvantaged students. Because they account for students' prior performance, such mechanisms provide incentives to improve outcomes for all students, including those who start at an academic disadvantage. Performance indicators and other data on successful study progression could also partly address the process of social and academic segregation by providing objective information about the quality of schools and helping parents make informed school choices.

Figure 2.20. Regulation of school choice is low and student transfers out of school are widespread



Note: Panel B: as reported by principals asked regarding students in the national modal grade for 15-year-olds.
Source: OECD, PISA 2018 Database; and OECD (2013), *PISA 2012 results vol. IV: What makes a school successful?*

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Increasing mobility between general and vocational tracks

Early tracking into vocational education is another factor contributing to disparities in education. While grouping students by ability contributes to more homogeneous classrooms and may facilitate teaching, it can contribute to increasing social inequality in academic performance if tracking mirrors socio-economic background. International evidence indicates that tracking at an early age is associated with less equity in educational outcomes, as suggested by larger gaps in reading performance between advantaged and disadvantaged students (OECD, 2020[89]).

Tracking into two separate instructional programmes effectively takes place at age 12 in Belgium, lower than the OECD average of 14 (Figure 2.21, Panel A). Moreover, students are tracked into one of four different paths from age 14, more than the OECD average of three. Planned and current reforms in the communities intend to delay tracking, provide differentiated instruction and reduce the number of tracks (see below). Despite a curriculum reform for the first two-years of secondary school in Flanders, there remains a risk of tracking at age 12. In the French Community, planned measures under the *Pacte d'Excellence* reform, which include a one-year extension of the common curriculum and the merger of the two vocational tracks ("technical" and "professional"), are steps in the right direction, and should be implemented without delay.

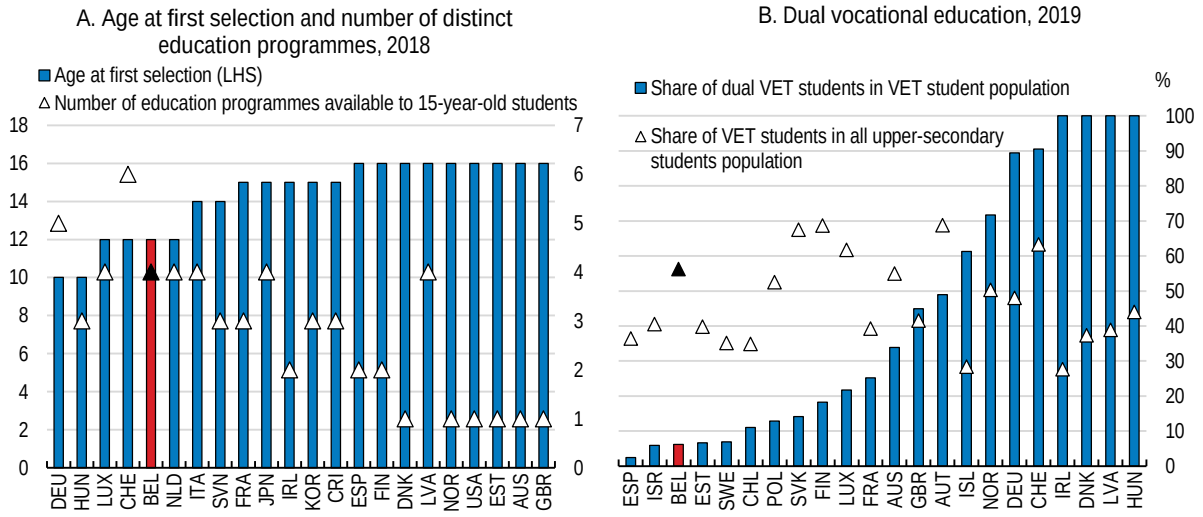
When reforming education systems to delay tracking, the authorities should take complementary measures to avoid unintended consequences. A particular concern is further increasing grade repetition, which is already particularly high in Belgium, with almost one third of students having repeated a year by age 15, above the OECD average of 11% (OECD, 2020[89]). Targeted support to struggling students will be necessary to ensure the acquisition of generic skills. Belgium can draw on the example of the "differentiated

common curriculum" experience of the Ontario province in Canada, where tracking takes place at age 16, but where teaching is adapted to students' needs. Key elements include within-class grouping based on learning style and not level; the availability of full-time "teachers for success" who specialise in supporting struggling students; and the possibility to accrue credits towards graduation from internships in companies (Ontario Ministry of Education, 2021[90]).

A further issue with tracking comes from the social stigma attached to vocational tracks in Belgium. Parents often prefer grade repetition in the general track to switching to another track. The resulting cascade effect, whereby struggling students first repeat grades before being transferred to another track deemed academically inferior, means that non-general tracks are effectively relegation tracks (Nicaise, 2019[77]; De Witte and Hindriks, 2017[91]). The cascade effect also contributes to disparities in academic outcomes between schools, which are mostly organised by track. In Belgium, the gap in reading performance between general and non-general tracks after accounting for socio-economic status is 69 points, or around one year and a half of schooling, and much larger than the OECD average of 29 points (OECD, 2020[89]). Upgrading and enhancing the quality of vocational education thus constitutes a priority.

Education reforms should increase mobility between vocational and general tracks. This would help address the image deficit of vocational education in Belgium and reduce academic segregation. By encouraging schools to organise programmes by domain across tracks ("domain schools" and "campus schools"), the modernisation reform in Flanders effectively makes vocational tracks more attractive, and allows students to transfer from vocational to general track, which can lower the cascade effect. In the French Community, vocational education reform within the *Pacte d'Excellence* aims at strengthening the acquisition of generic skills to reduce differences with general education. However, tracks remain fully separated, with little direct possibilities for students to transition from vocational to general or higher education. This could be reformed based on the Flemish experience.

Figure 2.21. Early tracking to VET is common, but the use of dual VET is rare



Note: Panel A: in Belgium, de jure tracking into one of the four instructional programmes takes place at age 14, but de facto tracking to pre-vocational stream takes place at age 12. Panel B: vocational programmes combining school and work-based learning are defined as those in which 25%-90% of the curriculum is delivered in the work environment
Source: OECD (2020), *PISA 2018 results vol. V: Effective policies, successful schools*; and OECD Education at a Glance Database.

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The use of dual vocational education, which combines school- and work-based learning, is relatively low in Belgium (Figure 2.21, Panel B) and should be extended, as recommended in the *2020 Economic Survey*. Workplace training and experience facilitate school-work transitions and promote social mobility. The

impact of vocational education on employment probability at all points of the career is higher in countries with high participation in combined work-study schemes, such as Austria and Germany (Forster, Bol and van de Werfhorst, 2016[92]). Recent reforms could help. In the Flemish Community, all secondary schools can offer dual vocational education since September 2019, and more than 100 courses are currently on offer (OECD, 2021[93]). The *Pacte d'Excellence* in the French Community aims at improving synergies between vocational education and the labour market, but lacks clarity on the necessary co-ordination with regional authorities, which are in charge of training and employment policies.

To ensure that dual vocational training is aligned with labour market needs, funding should be allocated by training block rather than to schools. The current model, in which vocational education schools receive the student funding and use it to organise the training programme, lacks the flexibility to adapt to rapidly changing labour market needs, and prevents specialisation and collaboration at the level of the firms providing the training. Moving to a demand-driven model, like in the United Kingdom, by allocating funding directly to providers would reduce skill mismatches and ensure that the skills acquired in vocational education are those in demand on the labour market (Sodermans et al., 2018[94]). Moreover, the role of the French Office of Dual Training (OFFA) in coordinating dual vocational education and training between the Walloon Region, the Brussels-Capital Region and the French Community should be clarified and certifications harmonised.

Providing teachers with stronger incentives

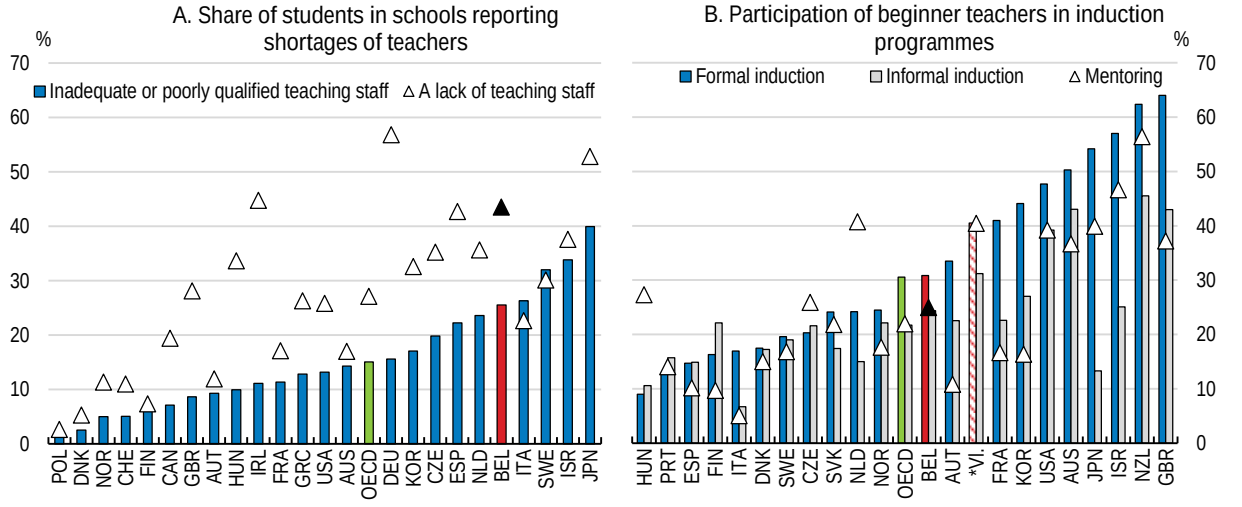
Effective teacher policies are essential for successful education systems, and lack of teachers or inadequate qualification are detrimental to the quality and equity of education (OECD, 2019[74]; OECD, 2020[89]). Evidence shows that students' academic outcomes partly depend on teacher characteristics, such as initial education and certification, working conditions or collaboration and peer mentoring. For example, differences in the percentage of teachers fully certified by an appropriate authority accounted for about 13% of the differences in mean reading performance across all countries and economies participating in PISA (OECD, 2020[89]). A measure of teacher's quality, the improvement of students performance over a year of schooling, after accounting for factors beyond teachers' control, has a lasting impact on former students' educational attainment and earnings (Chetty, Friedman and Rockoff, 2014[95]; Chetty, Friedman and Rockoff, 2014[96]; Hanushek and Rivkin, 2010[97]; Kane and Staiger, 2008[98]). The availability of well-qualified teachers is thus essential to promote social mobility.

Schools face difficulties in recruiting teachers and are often forced to hire staff without adequate certification in Belgium. According to the data based on the 2018 Teaching And Learning International Survey (TALIS), 44% of Belgian students attended schools that reported a lack of teaching staff, higher than the OECD average of 27% (Figure 2.22, Panel A), and 26% of students attended schools with inadequate or poorly qualified staff, the seventh highest rate in the OECD. Teacher shortages reflect significant attrition rates among young teachers. In the Flemish Community in 2014, 44% of secondary school teachers and 25% of primary schools teachers quit teaching within five years of starting (De Witte and Hindriks, 2018[79]). In the French Community, the attrition rate within five years of teaching is 39% for the cohort that started in 2006-07 (Delvaux et al., 2013[99]). Reported reasons for quitting include precarious working conditions, issues with challenging classrooms, difficulties with transitioning from theory to practice and lack of support within the school.

To reduce young teacher attrition, the authorities should strengthen induction programmes for beginner teachers. Only 43% of Belgian teachers report having participated in some kind of induction (Figure 2.22, Panel B). Yet, early career support programmes that provide systematic guidance have been shown to decrease teacher drop-out rates (OECD, 2019[100]). Induction should become systematic and include essential elements, such as an adapted workload for new teachers, their inclusion in the school strategy and culture, regular in-class observation and feedback, and professional development plans.

The recent introduction of a right to guidance for new teachers in the Flemish Community and the definition of a three-phase career with appropriately adapted tasks in the French Community are steps in the right direction. Further reforms could aim at going beyond induction and helping the transition of young teachers by collaborating directly within initial teacher education programmes. For example, the Netherlands introduced in 1997 an "independent teaching practice" phase in the final year of the curriculum, which consists in teaching under a training and employment contract for a period not exceeding five months (European Commission, 2010[101]). The trainee teacher works as a regular staff member, e.g., speaking to parents at parent evenings and discussing reports.

Figure 2.22. There is room to better attract and retain teachers



Source: OECD (2020), *PISA 2018 results vol. V: Effective policies, successful schools*; and OECD (2019), *Working and learning together*.

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Early career working conditions, which are precarious in Belgium, should be improved. Most beginning teachers only get part-time contracts, substitute for an absent teacher with a fixed appointment and often have their teaching load spread across several schools. For example, according to the 2012 study of the French Community's General Administration of Education, 25% of new teachers were hired on a part-time contract and 52% were hired as a substitute. Moreover, new teachers are more likely to teach in a disadvantaged school, which makes the task more difficult. The Flemish Community has recently taken measures to increase job stability for beginning teachers, including a reduction in the number of working days required to convert temporary appointments into fixed appointments. The French Community counts on the improvement of the quality of initial teacher education within the *Pacte d'Excellence* to improve the attractiveness of teaching careers.

To make teacher careers more attractive while promoting equity in education, teachers could be incentivised to address the needs of disadvantaged students. Teaching in disadvantaged schools could be rewarded with either a premium on salaries, lower teaching load, faster conversion to fixed appointment or priority transfer to other schools after a given number of years. For example, in Japan and Korea, there are policies to ensure that high-quality teachers go to disadvantaged schools, *via* formal and informal schemes to ensure that teachers periodically change schools, and extra incentives, such as additional salary, less instruction time and the ability to choose their next school (Box 2.8).

Box 2.8. Attracting good teachers to disadvantaged schools: the cases of Japan and Korea

Disadvantaged students are at least as likely as others to be taught by high-quality teachers in Korea and Japan, as evidenced by teachers' characteristics, such as years of experience, being certified for all the subjects taught and, for science teachers, having a university degree with a major in science.

In Japan, teachers are expected to periodically change schools throughout their career, so that all schools have access to effective teachers and a balance of experienced and beginner teachers. Local education authorities decide on and implement the allocation of teachers to schools.

Korea has a mandatory rotation scheme for teachers, which requires them to move to a different school every five years. Multiple incentives are offered within the scheme to attract teachers to high-needs schools, including additional salary, smaller classes, less instructional time, additional credit towards future promotion to administrative positions, and the ability to choose the next school where one works. The latter two career incentives are seen as particularly attractive.

Source: OECD (2018), *Effective teacher policies: Insights from PISA.*

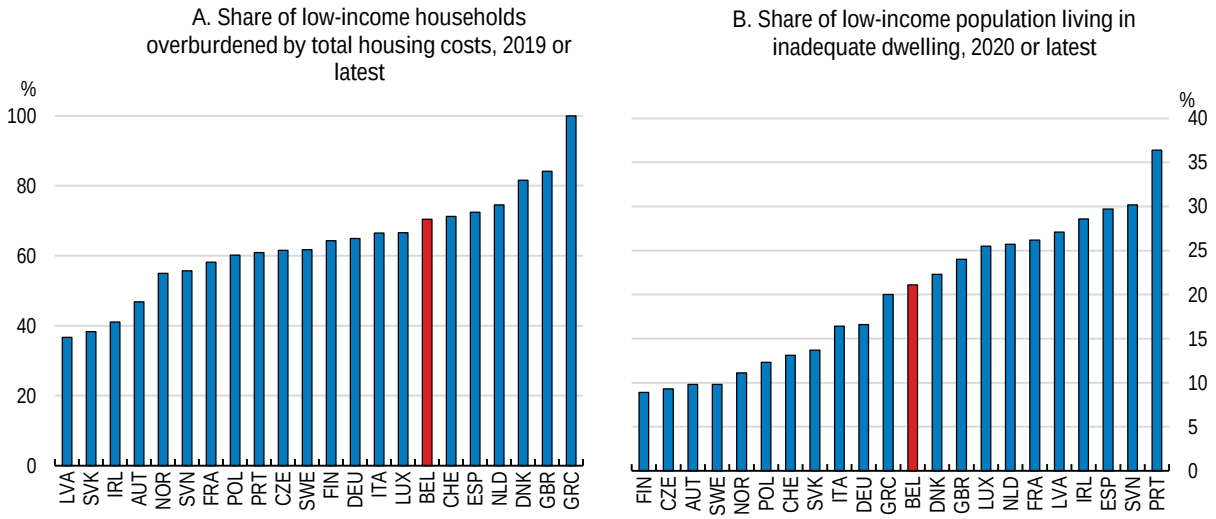
Promoting affordability and quality on the housing market

Rising house prices limit access to quality dwelling for households that spend a relatively large share of their income on housing, and contribute to the persistence of low incomes, as inadequate living conditions are often associated with poor access to good job opportunities and education, especially for children and young adults (OECD, 2020[102]). The COVID-19 crisis exacerbated affordability challenges, as both stay-at-home orders and telework (and schooling at home, see above) are more difficult under poor housing conditions. Affordability will be further hampered by the energy efficiency improvements required in the housing sector to meet climate goals, which are putting a disproportionate burden on low-income households (IEA, 2019[103]).

In Belgium, housing conditions overall are among the best in the OECD according to the Better Life Index, with large dwellings and moderate housing costs. However, access to affordable housing has become increasingly challenging for low-income households. Low-income tenants on the private market are particularly at risk of housing cost overburden, as 70% of households in the bottom income quintile spend more than 40% of their income on total housing costs (Figure 2.23, Panel A). Quality is also an issue, especially for low-income households, with 26% living in inadequate housing, a higher share than the EU average of 22% (Figure 2.23, Panel B). These affordability challenges are more acute in large urban areas (see above).

A number of housing-related reforms were implemented by the regions following the second phase of the 6th State Reform in 2014, mostly related to the repeal of the tax deductibility of interest and capital repayments on mortgage loans for owner-occupied dwelling (*housing bonus*), as recommended in the *2020 Economic Survey* (Box 2.9). These reforms address issues related to the regressive nature of such tax advantages and could attenuate market price pressures, as the bonus is no longer capitalised into housing prices. This welcome move towards tax neutrality between renting and owning supports social mobility. Continuing to remove remaining unwarranted tax advantages for homeownership would promote social mobility further by freeing up public resources to fund rental support for low-income households. Flanders and the Brussels-Capital Region rightly tilted housing taxation away from transaction taxes. The Walloon Region should follow the same approach and consider replacing its mortgage tax credit.

Figure 2.23. Low-income households bear a high burden from housing costs



Note: Panel A: households on the private rental market; low-income households belong to the bottom income quintile; overburden is more than 40% of disposable income on total housing costs (comprising mortgage principal and interest payments, rents, structural insurance, mandatory services and charges, regular maintenance and repair, taxes and utilities). Panel B: low-income is below 60% of equivalised median income; inadequate dwelling has any of the following: a leaking roof, damp walls, floors or foundation, rot in window frames or floor.
Source: OECD Affordable Housing database; and Eurostat.

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Box 2.9. Regional reforms of the *housing bonus*

Regions are in charge of (most of) housing taxation and rental legislation since the implementation of 6th State Reform, which enabled regional governments to set priorities on housing-related issues. The most notable reform implemented in all three regions regards the repeal of the tax deductibility of interest and capital repayments on mortgage loans for owner-occupied dwelling (*housing bonus*).

- Flanders: Since 2022, the housing bonus is replaced by a reduction of the transaction tax from 6% to 3% (1% if energy-efficiency renovation works are done) for owner-occupied dwelling.
- Wallonia: Since 2016, the housing bonus is replaced by a tax credit (*cheque habitat*) available to households that contracted a mortgage for the purchase of their owner-occupied dwelling; the credit amount decreases with household net taxable income and can be used for the duration of the mortgage up to twenty years but is reduced after ten years.
- Brussels-Capital Region: Since 2017, the housing bonus is replaced by an increased abatement of EUR 175 000 on the 12.5% transaction tax for owner-occupied dwelling.

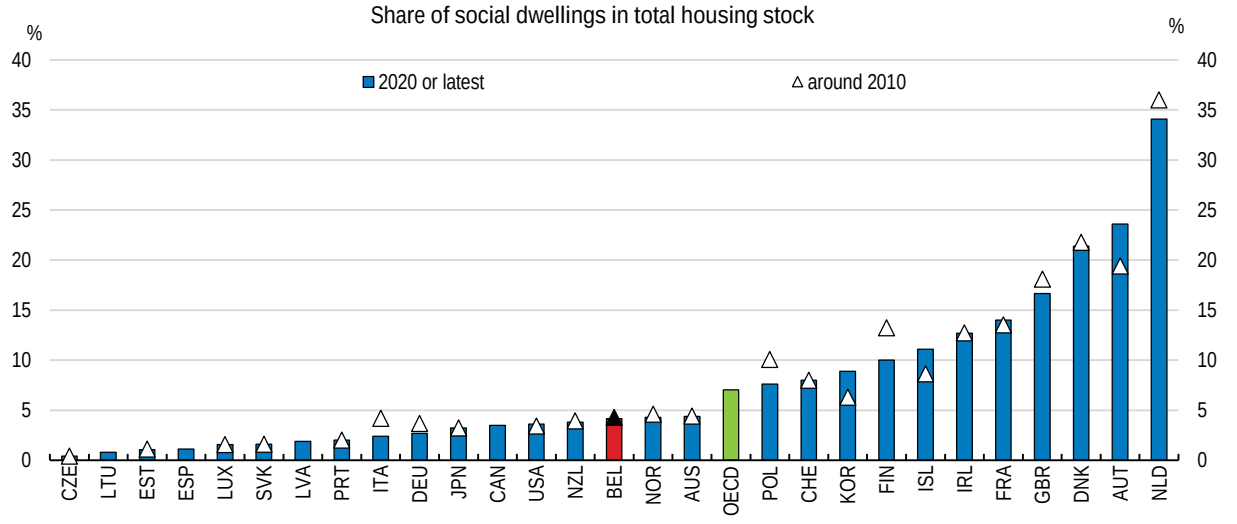
Improving the effectiveness of housing support for low-income households

The provision of social housing and housing-related benefits helps to alleviate the negative consequences of rising housing costs for low-income households. As it increases housing supply, investment in social housing not only results in greater affordability for eligible low-income tenants but also for the rest of the housing market (OECD, 2021[19]). Design is key to ensure that scarce resources reach vulnerable groups without resulting in social segregation or hampering their mobility, in particular on the labour market (OECD, 2020[104]).

In Belgium, the share of social dwellings in the total housing stock at about 4% is low in comparison to some OECD countries, such as France (around 15%) or Denmark (around 20%) (Figure 2.24). Although stable over the past decade, this relatively low share of social housing is not enough to meet demand, as evidenced by very large waiting lists of social housing-eligible households. Lack of social housing is particularly strong in Brussels, where 37 077 households were living in a social housing as of March 2020 but almost 50 000 households were on the waiting list, according to the *Société du Logement de la Région de Bruxelles-Capitale*, the responsible public agency. Therefore, expanding the supply of social housing is an urgent priority, as recognised by all three regional governments.

The lack of available land makes social housing extension particularly challenging in the Brussels-Capital Region, implying that boosting housing affordability requires complementary policies, such as rental support for low-income tenants on the private market and supply-friendly regulations (see below). Furthermore, density-friendly land use can also help, as regulatory barriers to new construction, in particular regarding height, can restrict housing supply and contribute to higher housing costs, especially in the most expensive OECD cities (OECD, 2021[19]), Yet, Belgium has lower "building-height gaps" (i.e., the difference between actual high-rise building and that predicted based on national income and agricultural land) than neighbouring countries such as Germany or the Netherlands (Jedwab, Barr and Brueckner, 2020[105]). The Brussels-Capital Region is advancing densification with its *Plans d'Aménagement Directeurs*, but these often face residents' opposition, especially regarding the height of new constructions.

Figure 2.24. The social housing stock is relatively low



Source: OECD (2021), *Brick by brick: Building better housing policies*; and OECD Affordable Housing database.

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Social housing development needs to avoid resulting in further spatial segregation. The existing minimum quotas for social housing at the municipality level, which are intended to limit socio-economic and ethnic segregation in social housing estates, do not seem effective in Belgium, especially as penalties for non-compliance are not dissuasive. In general, explicit social-mixing policies in social housing have achieved little positive results in most OECD countries, including the 20% municipality-level quota in France (OECD, 2018[106]). By contrast, large-scale revitalisation projects of social housing estates and the immediate surroundings have shown potential (Box 2.10). An alternative approach is to consider the development of smaller social housing estates distributed throughout and across urban areas, effectively deconcentrating social housing estates (OECD, 2020[104]).

Box 2.10. Large scale revitalisation of social housing: the case of Toronto (Canada)

The experience of the City of Toronto with the revitalisation of Regent Park's social housing estate is an example of the potential of inclusive revitalisation of social housing. The project started in 2005 as Regent Park topped the list of Toronto's most deprived neighbourhoods and had long suffered from austerity measures and physical deterioration. The redevelopment plan involved community partners, the municipal social housing agency and private sector developers, and had a CAD 1 billion budget.

The plan called for a combination of social housing, market-rate condominiums and affordable housing units in order to foster a socially mixed community, requiring the demolition of the initial estate and a new design to better connect the area to the city's core. It also had an explicit "right to return" for former tenants, as well as support to finance rent and relocation costs during development-related displacement. As redevelopment nears completion, the existing evidence suggests that about 60% the households have returned to or near their old home, while 10-20% have found alternative social housing in Toronto. Overall, residents report increased satisfaction and positive attitudes towards social mixing across tenures.

Source: OECD (2019) *Social housing: A key part of past and future housing policy*.

Rules regarding social rental tenure, which were reformed to increase availability for eligible households through, for example, the abolition of permanent contracts, revisions of eligibility status of shrinking households or income tests, should be enforced. However, large differences in average rents with the private market means that households that lose eligibility cannot be easily relocated. Moreover, means-testing could distort labour market incentives if taking up (better paid) employment leads to losing social housing. With that respect, improving the portability of social housing benefits in case of employment opportunity requiring relocation, as achieved by England's *Right to Move* policy, would help. Means-tested relocation allowances could also help (see below).

Social housing rents could be set in proportion to household income and wealth in order to avoid distorting labour market incentives and ensure that social housing is allocated to the most vulnerable. In the Netherlands, social rents increase by a threshold in proportion to the combined household income (Box 2.11). In order to avoid hard threshold effects, rents should be set in proportion of income and wealth at all levels, as is partially the case in Australia. Adjusting rents as social tenants' income increases can lead to more mixed neighbourhoods as richer households remain in social housing. However, such a system would require a significant ramp up of social housing stock extension as it becomes partly occupied by households that would have relocated otherwise. Moreover, incentives for social housing estates to select tenants based on income growth potential at the expense of the most vulnerable households should be avoided.

Box 2.11. Income-dependent rent increases: the case of the Netherlands

Since 2013, yearly rent increases by Dutch social housing corporations are calculated based on the combined household income for each tenancy instead of following inflation rates. Maximum rent increases and the respective income thresholds are set each year by ministerial decree (*Uitvoeringsregeling Huurprijzen Woonruimte*). The available evidence shows that the reform incentivised richer residents out of regulated units.

The approach is effective to ensure effective allocation in countries in which a broad cross-section of the population is eligible to social housing, including the working population, as it does not necessarily generate strong employment disincentives.

Source: OECD (2019) *Social housing: A key part of past and future housing policy*.

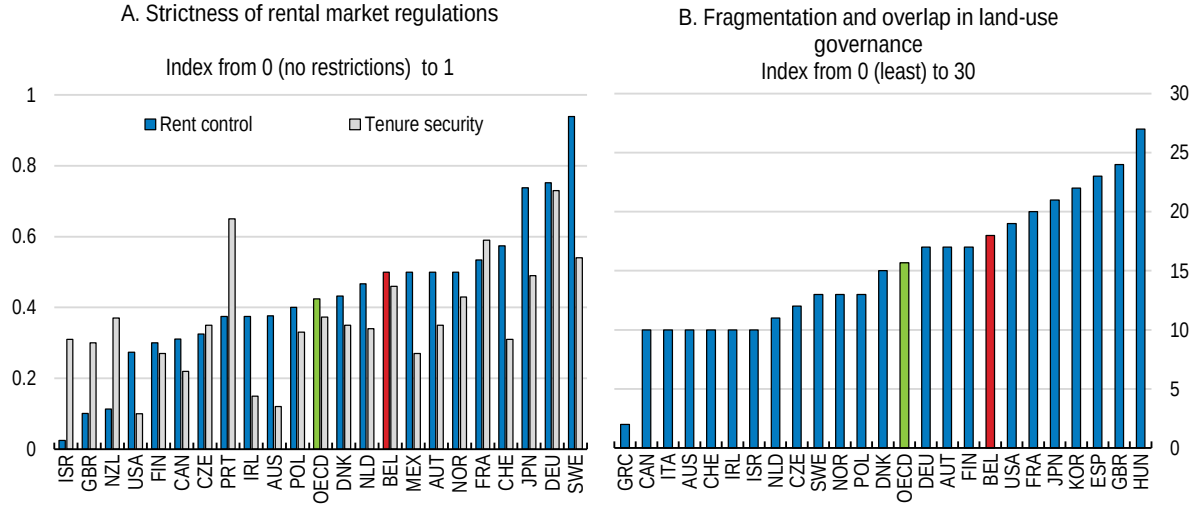
The regions should continue expanding support to low-income households on the private rental market, given the lack of social housing and the necessary time to expand supply. Existing regional rental allowances to households who are on social housing waiting lists or living in inadequate dwellings should be extended to cover all tenants in the private market who qualify for social housing, as recommended in the *2015 Economic Survey*, and made available faster where allowances have already been expanded. Broadening existing housing allowance schemes would raise the supply of rental housing towards the lower end of the market, as it would alleviate potential landlords' reluctance due to weak financial positions of low-income tenants. A concern is that such expansion of rental allowances puts further upward pressure on housing rents in the short run, through the capitalisation of the subsidy into rents before supply adjusts. However, the current rent indexation mechanism, which caps within-tenancy rent increases to inflation as measured by the health index, should prevent this. If necessary, the regions could consider capping rent increases between tenancies where rental allowances are granted, but the expected short-run benefit of such measure should be assessed against possible longer run-drawbacks, including a potential decline in the rental supply (OECD, 2021[19]).

Easing housing price pressures through more efficient regulation

Efficient regulation complements social housing policies to make housing markets more affordable, in particular to address challenges for many low-income and vulnerable households to afford high and increasing rents (OECD, 2021[19]). Striking the right balance between tenants and landlords is key with, on one hand, secure tenure in good-quality housing and, on the other, limited investment risk for landlords. Moreover, land-use governance arrangements that avoid overlap of responsibilities across government levels can facilitate demand and supply matching. Better land-use governance can improve the responsiveness of supply to evolving demand, thereby mitigating upward pressures on housing prices and contributing to housing affordability.

Tenant-landlord relations appear broadly balanced in Belgium as they lie in the mid-range of their respective index, but the overall level of regulation is higher than the OECD average (Figure 2.25, Panel A). OECD simulations suggest that relaxing rental regulations would contribute to long-term decreases in real house prices in terms of price-to-income ratios, as higher housing investment leads to lower prices. Belgian households would need on average one third of a year less to buy a 100m^2 dwelling if rental regulations were at the level that prevails in New Zealand (Cournède, Ziemann and De Pace, 2020[107]).

Figure 2.25. There is room to make housing market regulations more supply friendly



Note: OECD is calculated as unweighted average. Panel A: indicators of rent control and tenure security range from 0 (no restriction) to 1 (all types of restrictions). Panel B: land-use regulations indicator ranges from 0 (least fragmented and overlapped) to 30 (most fragmented and overlapped).
Source: OECD (2021), *Brick by brick: Building better housing policies*.

StatLink https://stat.link/7lkxzj

Aspects of rental legislation that deter landlords from renting good quality dwellings to low-income households or individuals with non-standard forms of employment should be eased, in particular those due to the perceived strong legal protection of renters and difficult eviction in case of non-payment. Such a reform should avoid the excessive removal of tenant protection, given the already relatively high rate of evictions in Belgium. With that respect, broadening eligibility for housing rental allowances would strengthen the financial position of low-income tenants (see above). Another important way to ease rental market regulations is to allow rent increases during a contractual period when justified by energy-efficiency improvements, as recommended in the *2015 Economic Survey of Belgium* and implemented in the 2019 Flemish Housing Rental Decree, but providing specific allowances for low-income tenants (see below). Reforms of rental regulation should balance short-term with long-term affordability, as laxer regulation could deteriorate incumbent tenants' position in the short run. Rental support (discussed above) would be required during the transition phase.

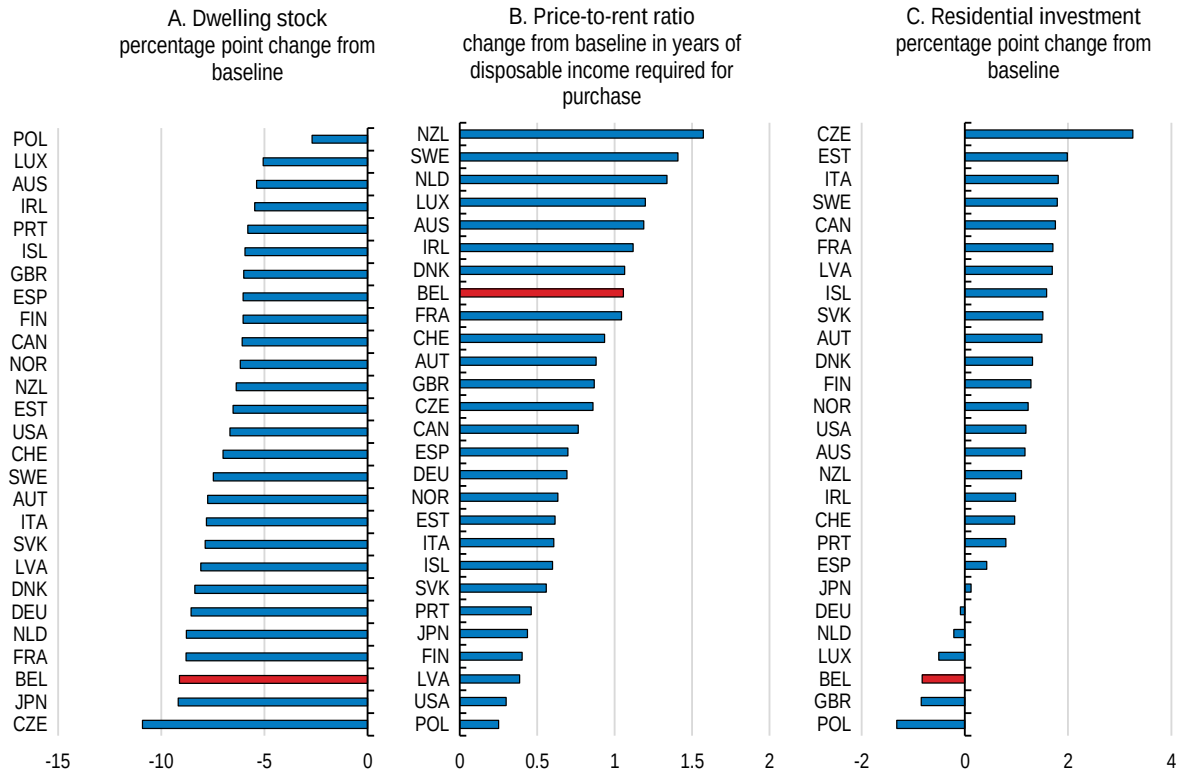
Fragmentation and overlap in land-use governance is relatively high in Belgium, which is likely explained by the inefficient allocation of competencies between regions, municipalities and even provinces (Figure 2.25, Panel B). More efficient land-use governance is associated with higher housing supply elasticity (Gyourko and Molloy, 2015[108]). According to OECD simulations, streamlining land-use governance to levels observed in best practice countries (e.g. Australia, Canada, and Switzerland) would improve affordability in Belgium, reducing the price to income ratio by one quarter of a year of income (Cournède, Ziemann and De Pace, 2020[107]). More efficient governance could be achieved by reallocating the municipalities' and the provinces' competencies to regions, with special attention to the specific case of Brussels and its hinterland, which overlaps three regions.

Addressing the distributional consequences of energy-efficiency upgrading

Despite resulting in lower energy costs to be borne by homeowners or renters in the long run, energy-efficiency upgrading to comply with stricter energy efficiency and other regulations can undermine affordability in the short run, as it puts upward pressure on the costs of construction and maintenance and, in turn, on house prices (OECD, 2021[19]). Moreover, low-income households are less likely to be able to invest in energy efficiency improvements since they are disproportionately tenants and, in case of ownership, they are more likely to be cash-constrained.

Addressing the consequences of required energy-efficiency upgrading is critical in Belgium given the high level of greenhouse gas emissions due to the old age of the housing stock. Energy CO_2 emissions from fuel combustion (including electricity and heat) in the Belgian residential sector are particularly high at 1.6 ton per capita in 2019, the 8th highest in the OECD and largely above the OECD average of 1.1 ton per capita. OECD simulations of the effect of the necessary increased environmental regulations to reach carbon neutrality in 2050 point to large negative impacts on housing availability and affordability in Belgium (Figure 2.26, Panel A). The house price increase would be equivalent to over a year of disposable income (Figure 2.26, Panel B) and residential investment would decrease (Figure 2.26, Panel C). EU grants and regional government investments under the recovery plans should attenuate the housing market impact of energy efficiency upgrading (see Chapter 1).

Figure 2.26. The necessary greening of the housing stock entails affordability challenges.



Note: changes to baseline dwelling stocks (percentage points), price-to-rent ratios (number of years of disposable income to purchase the average 100m^2 dwelling for the price-to-rent ratio) and residential investments (percentage points) due to a tightening of environmental regulation to move towards carbon neutrality consisting in an immediate increase of 10% in construction costs as well as a gradual increase in the heavy renovation rate of one percentage point from baseline (varies by country) until 2035. After 2035, the heavy renovation rate declines uniformly towards 1% per year by 2050.
Source: Cournède et al. (2020), *The Future of housing: Policy scenarios*.

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Compensatory measures are needed to reconcile sustainability and affordability objectives. Federal and regional measures exist to stimulate the renovation of existing housing, including the reduced 6% VAT rate for ordinary renovations, and specific energy efficiency improvements investments, for which regions offer subsidies depending on income and the type of technology. To create incentives for upgrading rental property beyond existing minimum energy efficiency requirements, rental legislation could include energy-efficiency improvement provisions. On top of the existing obligation to provide tenants with information regarding the dwelling's energy efficiency class, energy audits could be required, including specific estimations of expected energy expenses, as in France. Investments in energy efficiency in rental dwellings could also be encouraged through targeted subsidised loans to cash-constrained landlords, often older people. Since savings from energy improvements are likely to be priced in rents, tenants at the lower end of the rental market whose housing conditions are improved should be shielded from too large rent increases through specific rental support.

Subsidising energy-efficient renovation of old, underused buildings can both expand the useable stock of quality housing and ease affordability challenges from the cost of energy-efficiency upgrading. Subsidies for energy-efficiency upgrading could be financed at least in part by raising recurring property taxes. Addressing disincentives for renovations related to property taxes necessitates to regularly update the cadastral value (still based on values from January 1975, but indexed to consumer price inflation since 1991), as recommended in the *2020 Economic Survey of Belgium*, so that owners do not postpone renovation works to avoid disproportionate increases in property taxes.

Energy subsidies for low-income households provide beneficiaries with the wrong incentive and contribute to the high residential emissions (OECD, 2015[43]). Subsidised tariffs should be replaced with lump-sum transfers for low-income households to prevent energy poverty while preserving energy saving incentives. Although necessary in the current context of global energy price inflation, the extension of eligibility for the subsidised electricity tariff should be repealed as soon as price pressures subside, as well as the temporary reduced VAT rate on electricity and natural gas. To keep costs manageable and avoid distorting price signals, additional support to offset the additional energy price rises since the start of the war in Ukraine should be means-tested, well-targeted and temporary (OECD, 2022[109]). Specifically, targeted lump sum transfers should be preferred to across-the-board measures that effectively subsidise household energy consumption irrespective of their income. With that respect, measures, such as the autumn 2021 EUR 80 one-off payment to low-income households, go in the right direction.

Table 2.3. Recommendations on increasing economic opportunities

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Improving the labour market outcomes of vulnerable groups	
Digital skills and participation in lifelong learning are low for the low educated, the low income and those with disabilities, leading to large gaps in employment rates and in labour market transitions.	Streamline lifelong learning programmes and actors involved, and prioritise vulnerable groups for face-to-face career guidance. Ensure effectiveness of the planned individual training account by focusing on the quality of training.
The share of STEM graduates is low, especially among women.	Promote STEM by publicising wage premia in digital-intensive jobs.
Entrepreneurial activity is particularly low among vulnerable groups.	Evaluate and streamline targeted entrepreneurship skill programmes.
Skill mismatches and over-qualification are high among non-EU migrants.	Refer immigrants systematically to services of skill validation. Facilitate degree recognition by waiving or means-testing fees and ensuring coordination across communities.
Discrimination and weak language skills are barriers to the employment of people of foreign origin.	Support firms with inclusive hiring practices, for example through reporting of the origin of staff. Allocate a larger share of active labour market spending to on-the-job occupational language training.
The long-term unemployment rate is high and the employment of mothers with young children, migrants and those with disabilities is low.	Expand the use of statistical tools to target vulnerable groups for tailored active labour market programmes.
Formal reintegration procedures for disability benefit recipients start late.	Simplify and make formal reintegration procedures more flexible.
Workers unfit to return to their previous employment need to reskill.	Remove the rule that participants in training programmes lose entitlement to disability benefits within six months of training.
Gaps in policy coordination for individuals with mental health challenges lower their employment prospects.	Systematically focus on employment outcomes in mental health service delivery, and mental health outcomes in employment support services.
Gaps in individual support for sickness and disability beneficiaries hamper their return to work.	Further scale up individual placement and support programmes for sickness and disability beneficiaries, conditional on their evaluation.
High participation tax rates for low-income single parents and second earners with children weaken work incentives, especially for women.	Introduce in-work benefits for low-wage workers with children. Reduce work disincentives for second earners by removing the partial splitting system for couples, while compensating low-income households through in-work benefits. Promote early childhood education and care for low-income households, especially migrants.
Enhancing equal opportunities in compulsory education	
Free school choice leads to social segregation and drives academic disparities across schools.	Evaluate the consequences of the removal of schools' obligation to take in a proportion of disadvantaged students in Flanders. Decentralise the implementation of priority rules for enrolment to ensure buy-in in the French Community.
Out-of-school transfers of students lower social diversity within schools and reduce the effectiveness of controlled school choice reforms.	Limit out-of-school transfer possibilities to increase teachers' incentives to improve the performance of struggling students.
Schools are incentivised to diversify their student intake, but not to achieve good educational outcomes under challenging conditions.	Use reliable performance indicators and other data on successful study progression to inform school funding based on educational improvements made with disadvantaged students.

Tracking into general and vocational education sorts students along socio-economic lines. Low mobility between general and vocational tracks contributes to social inequality in education outcomes. Participation in dual vocational education that combines school and work based learning is low, despite a high share of vocational students. Vocational education funding lacks the flexibility to adapt to rapidly changing labour market needs.	Pursue efforts to delay tracking by extending the common curriculum in Flanders. Target support to struggling students to ensure that delayed tracking does not increase grade repetition in the French Community. Further encourage schools to organise programmes across tracks and enable transfers between them. Strengthen the use of dual vocational education through financial incentives and compulsory accreditation for training providers. Allocate funding directly to training providers in a demand-driven model based on training blocks rather than to schools.
New teacher attrition is high, especially in disadvantaged schools, and early career working conditions are precarious.	Reward teaching in disadvantaged schools with higher pay or faster conversion to fixed appointments. Enable and expand professional insertion before graduation from initial teacher education and strengthen induction of new teachers.
Promoting affordability and quality on the housing market	
Social housing supply is too low and price differentials with the private market hinder moves, thereby distorting work incentives.	Expand rent allowances to cover low-income private market tenants while proceeding to increase the social housing stock. Means-test social housing eligibility regularly and set rents proportionately.
Some aspects of rental legislation deter landlords from renting good quality dwellings to low-income households. The fragmentation of land-use governance makes housing supply less responsive to demand, contributing to price pressures.	Strengthen the financial position of low-income tenants by broadening eligibility for housing rental allowances. Reallocate municipalities' and provinces' competencies related to land-use governance to regions.
Energy-efficiency upgrading of the housing stock is critical, but will weigh on affordability. High energy prices disproportionately affect low-income households, but insufficiently targeted energy subsidies can provide wrong incentives.	Encourage investments in energy efficiency in rental dwellings through targeted subsidised loans to cash-constrained landlords. Use targeted measures against the impact of high energy prices, such as lump-sum support to low-income households.

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Belgium's recovery from the COVID-19 pandemic has been robust thanks to extensive policy support. However, the new shock from the war in Ukraine is exacerbating inflation, and supply and labour market shortages, highlighting the importance of boosting the resilience of the Belgian economy. Medium-term fiscal sustainability challenges should be addressed by limiting early exit possibilities from the labour market, improving the efficiency of public spending, in particular through spending reviews, and boosting the coordination of fiscal policies by all levels of government to create room for public investment. Removing disincentives to work and strengthening the effectiveness of active labour market policies, in particular for disadvantaged groups, raising digital skills and reducing disparities in education outcomes would boost employment, lower skill mismatches and improve equal access to opportunities. Well-targeted investments in green and digital infrastructure by addressing bottlenecks and providing the right price signals are needed to raise productivity growth and contribute to more sustainable growth.

SPECIAL FEATURE: IMPROVING ECONOMIC OPPORTUNITIES FOR ALL

PRINT ISBN 978-92-64-81983-2
PDF ISBN 978-92-64-43892-7

Volume 2022/12
June 2022

ISSN 0376-6438
2022 SUBSCRIPTION
(18 ISSUES)

9 789264 819832