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OVERVIEW

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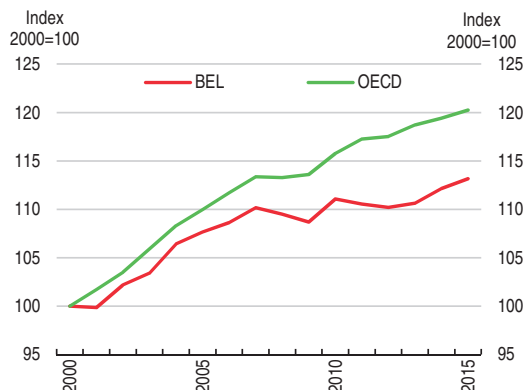
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Executive summary

- *Productivity gains have been modest*
- *Raising skills and work opportunities for vulnerable groups would make growth more inclusive*
- *Greater public investment to enhance productivity and inclusiveness while ensuring public debt sustainability*

Productivity gains have been modest

GDP per hour worked



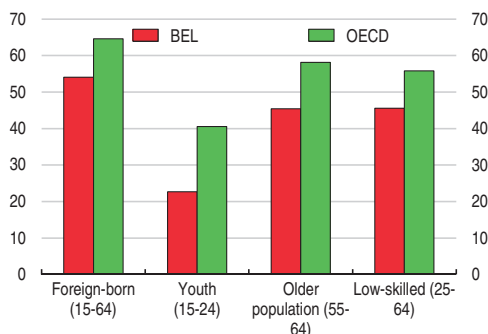
Source: OECD Productivity Statistics Database.

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Belgium performs well in many economic and social dimensions. The macroeconomic policy framework is sound and has been strengthened by many important reforms in recent years, including in labour taxation, business regulation and support for the self-employed and SMEs. However, recent productivity gains have been comparatively modest, partly reflecting stronger inclusion of low-skilled workers in employment. Raising productivity is vital to sustaining increases in living standards and supporting inclusive growth. Keys to higher productivity lie in increasing market entry and exit in the business sector, improving public infrastructure to reduce heavy traffic congestion around major urban areas, fostering innovation and more widespread diffusion of advanced technologies. Digitalisation and the rapid growth of the sharing economy through the use of web-platforms can invigorate productivity growth and job creation, but create significant social challenges.

Raising skills and work opportunities for vulnerable groups would make growth more inclusive

Employment rate, % of population of working age in each group, 2016



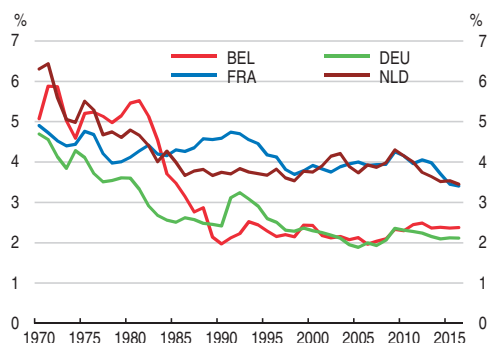
Source: OECD, Labour force statistics Database; and OECD, Migration statistics Database.

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While overall education levels are high, some suffer from poor skills, especially those with a low socio-economic or immigrant background. The labour market performance of immigrants, especially women, and low-skilled and older workers is comparatively weak. Improving the capacity of the educational system to provide disadvantaged students with necessary skills would enhance inclusiveness and improve labour market integration of youth and the children of immigrants. Further efforts to reduce labour costs would help the labour market performance of low-skilled natives and migrants. While recent pension reform will contribute to raise the participation of older people in the labour market, their employment and productivity could be further supported by on-the-job training and increased use of flexitime.

Greater public investment to enhance productivity and inclusiveness while ensuring public debt sustainability

Public investment, as a percentage of GDP



Source: OECD, Economics Department Database.

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Enhancing productivity and inclusiveness will depend on social and physical infrastructure investment. Transport infrastructure investment to relieve bottlenecks around big agglomerations would promote both productivity and environmental goals. Given high public debt and the need for fiscal consolidation, these investments could be financed through reductions in inefficient public spending, user fees or by tapping private sources of finance. In addition, a further shift of taxation away from labour would boost activity and job creation.

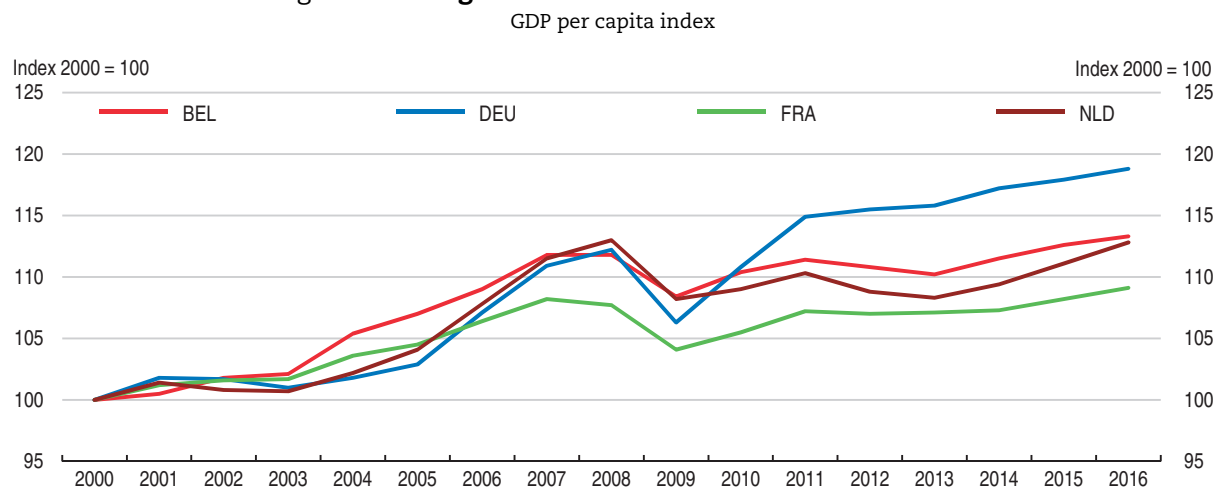
MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic policies to support productivity and inclusiveness	
Public investment is too low.	To ensure fiscal sustainability, continue with planned fiscal consolidation. Finance growth-enhancing public investment by reducing inefficient public spending, considering user fees and private sources of finance.
The tax mix is not sufficiently conducive to inclusive growth.	Shift taxes further away from labour by lowering employer social security contributions on low wages and broaden the capital income tax base, including by considering the introduction of a federal capital gains tax, as part of a balanced broader reform of household savings taxation.
The high statutory corporate tax rate hurts investment. The corporate tax system is inefficient.	Reduce the federal statutory corporate tax rate. Broaden the tax base by reforming exemptions that facilitate tax avoidance such as the notional interest rate deduction.
Making growth greener	
Traffic congestion contributes to air pollution.	Increase investment in transport infrastructure around major urban areas through joint federal and regional initiatives and when possible through increased private sector involvement. Suppress the favourable tax treatment of company cars, extend the use of congestion charges and continue increasing the tax rate on fuel.
High transaction costs on buyers and support for homeownership impedes residential mobility and increases commuting.	Reduce transaction taxes on housing and phase out the favourable tax treatment of home ownership.
Boosting competitiveness	
Wages grew faster than domestic productivity under the wage-setting mechanism, which the government has recently reformed.	Evaluate the results of the Federal government's wage-setting reform, and make further changes if needed.
Making the business environment more dynamic and innovative	
R&D activity and innovation performance lags behind best performers. Better technology transfer would raise the innovative capacity of firms.	Further streamline public support for R&D and innovation within each region. Regions and communities could step up their innovation support co-operation where appropriate.
Business dynamism is weak, with low rates of enterprise start-ups and exits. Start-ups face several barriers and entrepreneurship is underdeveloped.	Further reduce administrative burdens on SMEs stemming from federal and regional measures; reduce the level of paid-in minimum capital requirements and strengthen contract enforcement by strengthening court automation and case management. Ensure appropriate financing tools are available for scaling up of young, innovative firms.
Raising and mobilising skills to help boost productivity and inclusiveness	
The employment rate of seniors is low.	Ensure firms comply with the new federal legislation to provide workers with at least five working days of education and training per year. Develop flexitime and abolish remaining early retirement schemes.
Educational outcomes of socio-economically disadvantaged individuals and first and second-generation immigrants are comparatively poor.	Where appropriate, expand controlled school-choice schemes in the communities to reduce the concentration of pupils with a non-EU immigrant background. Improve teacher training and incentives to attract teachers to schools with a high concentration of disadvantaged pupils.
The decline in spending per student in tertiary education has recently recovered. Too few students graduate with skills in demand.	Where appropriate, consider increasing or adjusting tuition fees, while maintaining the grant and waiver system for disadvantaged students along with income-contingent loans. Better publicise labour market shortages and wage premia to motivate students to choose fields of study more relevant to the labour market.

Assessment and recommendations

- *Macroeconomic developments and short-term prospects*
- *Medium-term policy challenges to reignite productivity and strengthen inclusiveness*
- *Making the business environment more supportive of productivity gains*
- *Raising and mobilising skills to boost growth and inclusiveness*

A sound macroeconomic policy framework, high quality education and a combination of market-based policies and a redistributive welfare state have boosted GDP per capita to well above the OECD average. Although growth weakened since the global financial crisis (Figure 1), Belgium ranks among the ten most competitive countries in Europe (WEF, 2016). The financial sector has recovered from the severe shock which hit the banking system in the aftermath of the financial crisis, aided by government bailouts and new prudential measures (IMF, 2016a). Belgians enjoy high well-being in many dimensions, notably work-life balance, health, education and civic engagement. Income inequality after tax and transfers is comparatively low. Belgium has the lowest gender wage gap among the OECD countries (Figure 2).

Figure 1. **GDP growth has weakened since the crisis**

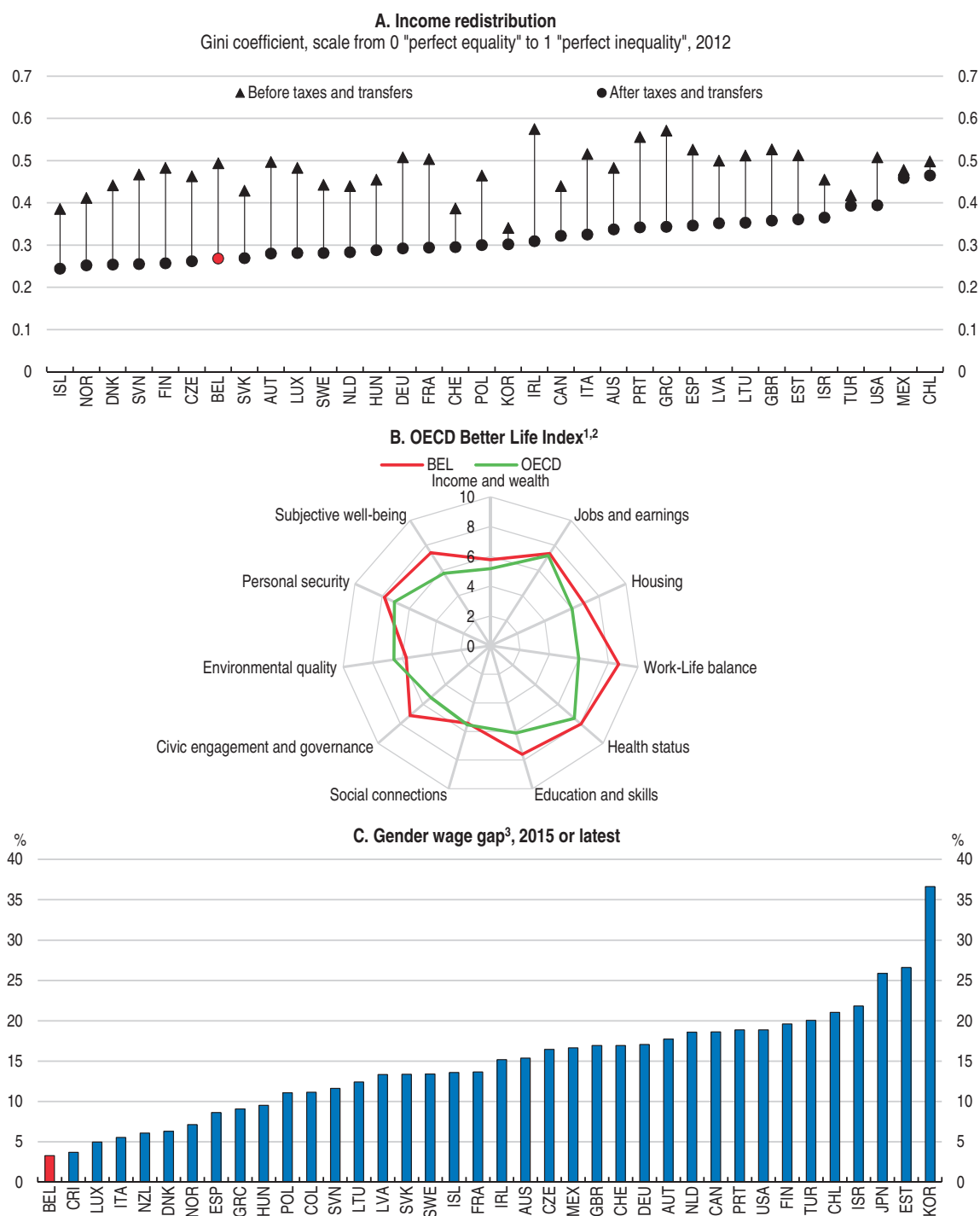


Source: OECD Productivity Database.

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Belgium's strong performance has been supported by important reforms, in line with previous OECD recommendations, at both the federal and regional levels in recent years. Belgium appears as a top performer in the 2017 *Going for Growth* exercise, which evaluates structural reform progress (Figure 3). Notable reforms include:

- A shift of taxation from direct to indirect taxes to support private sector activity and boost job creation, especially by lowering high taxes on labour for vulnerable groups.
- Measures to moderate wages to halt the decline in competitiveness.
- Pension reform to increase incentives to work longer and to strengthen long-term sustainability, including tightening of early retirement schemes and an increase of the statutory retirement age.
- A reform of unemployment benefits to make them decline over time and a reduction of the tax wedge have strengthened financial incentives to find work.

Figure 2. **Belgium performs well on almost all dimensions of inclusiveness and well-being**

1. Each well-being dimension is measured using one to three indications from the OECD Better Life Indicator set with equal weights.

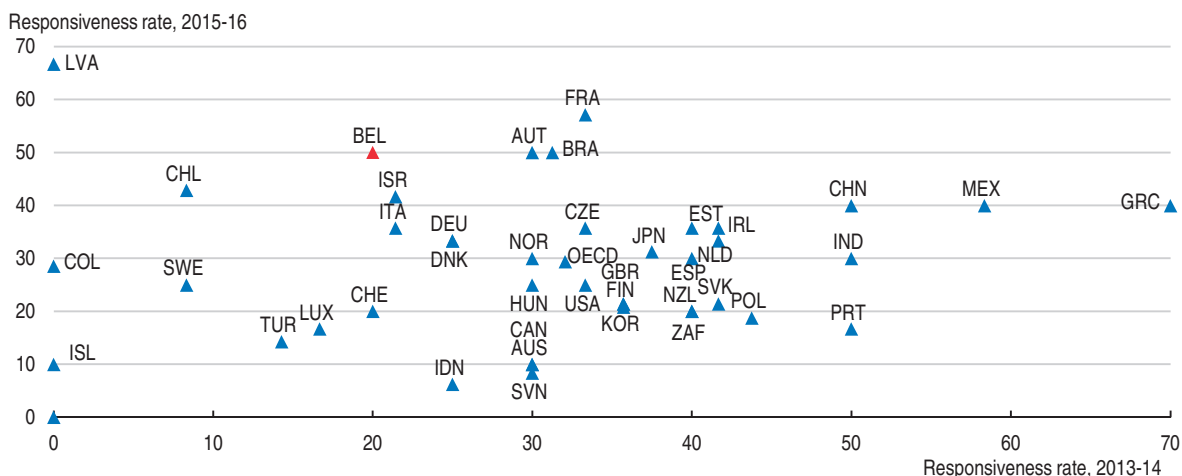
2. Indicators are normalised by re-scaling to be from 0 (worst) to 10 (best).

3. The gender wage gap is defined as the difference between male and female median wages divided by the male median wage.

Note: In panel A, calculations for Latvia and Lithuania were made on the basis of EU-SILC – preliminary results. For Japan, data refer to 2009. For Canada and Chile, data refer to 2011. For Finland, Israel, Korea, the Netherlands and the United States, data refer to 2013. For Hungary, data refer to 2014.

Source: Adapted from OECD Income Distribution Database; OECD "Better Life Index 2016", OECD Social and Welfare Statistics (database) and; OECD Gender Data Portal.

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Figure 3. The pace of reforms has increasedResponsiveness to *Going for Growth* recommendations

Note: For Colombia and Latvia, there is no responsiveness rate computed for 2013 and 2014.

Source: OECD, *Economic Policy Reforms 2017: Going for Growth*.

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- Measures to improve the business environment for self-employed and SMEs, especially through a reduction of social security contributions, increased R&D and innovation budgets, simplification of administrative procedures, improved access to finance and increased access to public procurement.
- The Sixth State Reform of 2012-14 increased the fiscal autonomy of the regions and devolved a number of competences, including several functions within the labour market and health care.

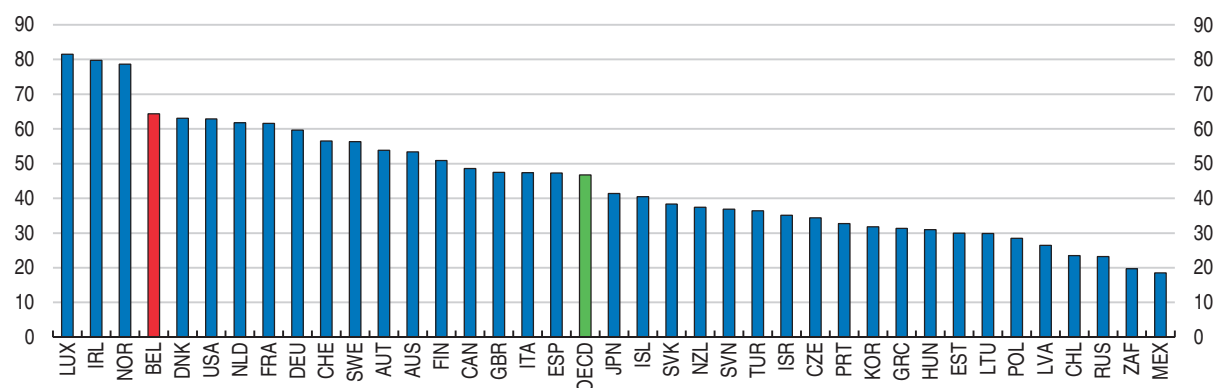
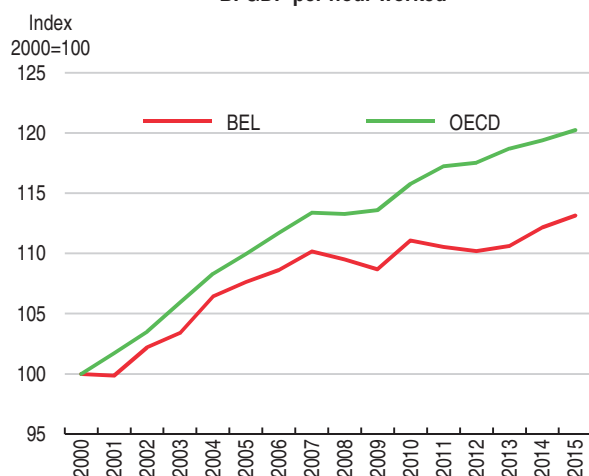
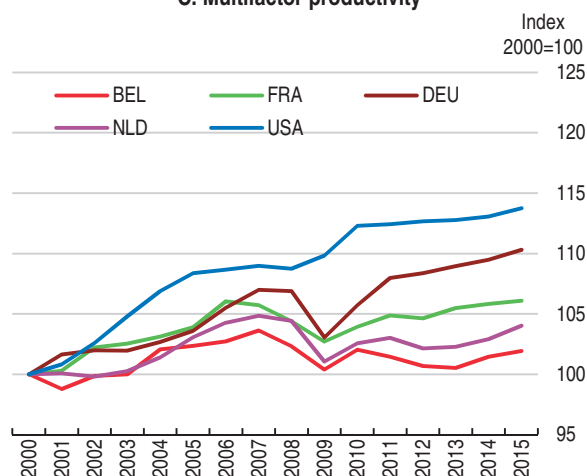
The level of productivity is among the highest in the OECD, but its growth has been comparatively low in the past decade, especially since the 2008 financial crisis (Figure 4). The high level of productivity is related to a substantial accumulation of productive capital in the past, a highly qualified workforce, and innovative technologies introduced in the lead manufacturing sectors, including in chemicals and chemical products, and basic metal and fabricated metal products (Biatour et al., 2007).

The productivity growth slowdown is partly related to structural change as the demand for low productive services has expanded and absorbed more low-skilled workers into the labour market (Dumont and Kegels, 2016). As these factors reflect the rising demand for services and greater inclusivity they are not in themselves of concern. More worrisome is the continued slowdown of multifactor productivity growth (Figure 4.C), both in the manufacturing and services sectors. This is the result of lower efficiency gains, and weaker innovation and diffusion of advanced technologies within firms. Raising multifactor productivity is an important challenge, and will be crucial in allowing Belgium to maintain sustainable and inclusive growth going forward. As such the in-depth chapters of this Survey examine productivity-enhancing policies.

Regional inequalities are broadly in line with neighbouring countries in terms of disposable income, education, housing and access to services. However, inequalities are much more pronounced in the labour market (employment and unemployment rates), and to a lesser extent with respect to health outcomes (mortality rate and life expectancy) (Figure 5). The labour market is segmented between regions, in part due to institutional

Figure 4. **The level of productivity is high but productivity growth has slowed**

A. Labour productivity is one of the highest in the OECD
 GDP per hour worked, 2016 or latest available (USD 2010 PPPs)

**B. GDP per hour worked****C. Multifactor productivity**

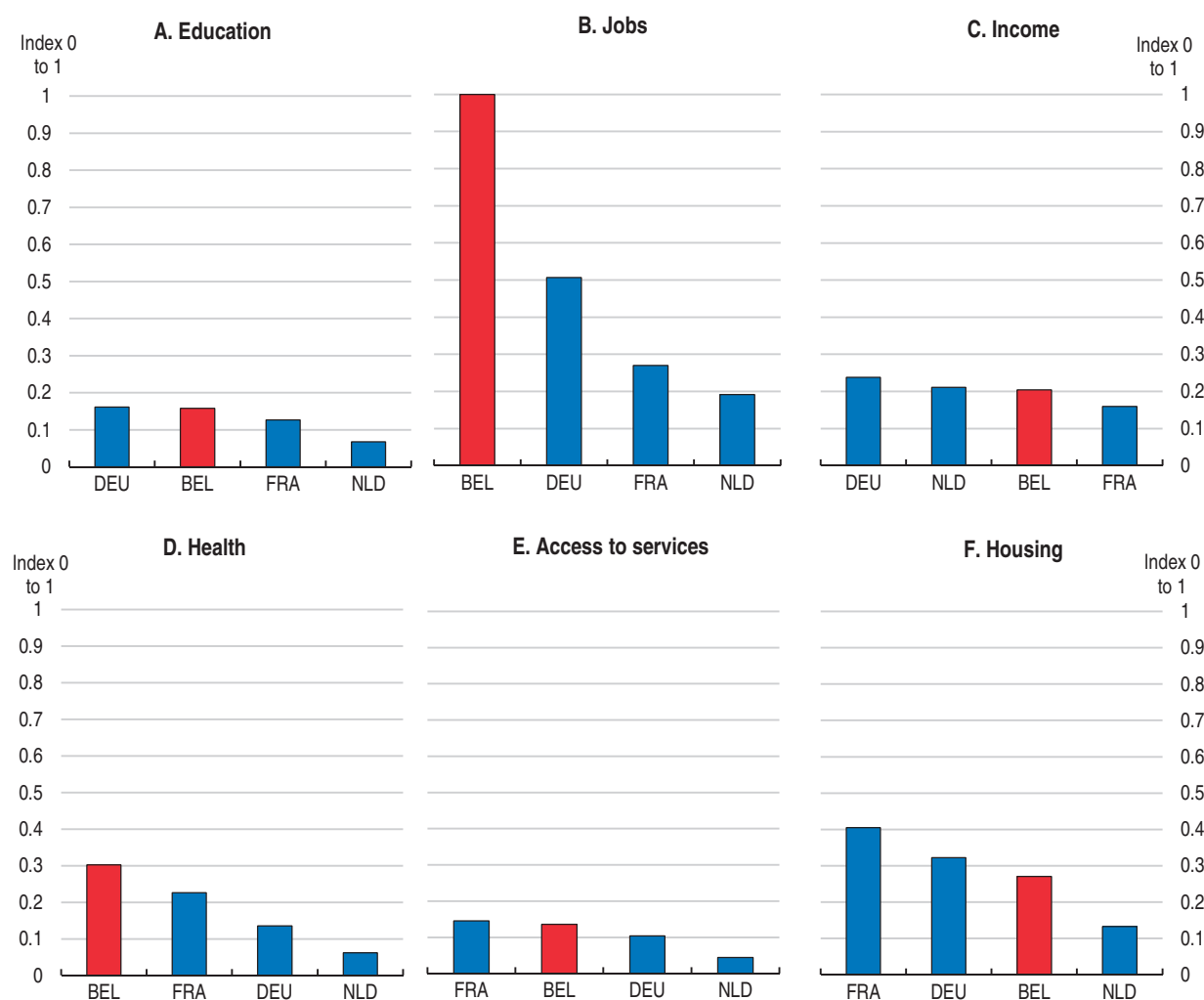
Note: For Australia, Belgium, Chile, Iceland, Ireland, Japan, Korea, Mexico, Poland, Russia, South Africa, Turkey and United States, data refer to 2014 in the panel B.

Source: OECD Productivity Statistics Database.

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and linguistic differences, but also because underdeveloped transport networks and housing market rigidities hamper mobility. Political decision making is highly decentralised (see Box 1).

Labour market inequalities and regional disparities in employment challenge inclusiveness (Figures 5 and 6). Youth unemployment is above the EU average and is particularly high among the low-skilled with differences among regions (Figure 7.A). Furthermore, labour market integration of non-EU immigrants, especially women, and their offspring is poor. The employment rate gap between second-generation non-EU immigrants and Belgians with a non-immigrant background is among the highest in the EU (EC, 2016a). The employment rate of women of non-EU origin is almost 20 percentage points below the national average (Eurostat, 2016; Figure 7.B). Efforts are being made, however. For example, the youth unemployment rate in the Brussels-Capital Region declined from 40% in 2013 to 36% in 2016 (the youth unemployment rate was 28% in the Walloon Region and 14% in the Flemish Region in 2016). This may in part be due to the

Figure 5. **Regional disparities in well-being**

Note: The indicators measure the dispersion across regions within a country expressed as normalised indexes; for each dimension, countries with the lowest and the highest dispersion levels in the OECD take values 0 and 1. Education category refers to labour force with at least secondary education; Jobs category refers to employment and unemployment rates; Income category refers to household disposable income per capita; Health category refers to mortality rate and life expectancy; Access to services category refers to broadband access; and Housing category refers to number of rooms per person.

Source: OECD Regional Well-Being Database 2016.

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establishment of a Youth Guarantee which offers 80% of newly registered young jobseekers either employment, training or a traineeship opportunity within six months of registration. The Flemish Region aims to improve employment performance through a new policy approach called “Focus on Talent”, which gives tailor-made guidance to workers and jobseekers, by supporting companies to improve their human resource policies, and by addressing discrimination in the labour market. Policies to improve the employment performance of vulnerable groups were thoroughly discussed in the last two Economic Surveys and remain relevant (OECD, 2013a; OECD, 2015a).

Regional inequalities in terms of health are somewhat higher than in neighbouring countries, partly reflecting socioeconomic differences between regions. The Belgian population enjoys relatively good health and long life expectancy, reflecting good access to

Box 1. Government of Belgium

Besides the Federal government, the Belgian governance system comprises three regional authorities with significant autonomy, and three language communities (cutting across the regions), with separate competencies (e.g., in education). Authority to tax and spend is thus spread across different levels of government, with complicated sharing arrangements and sometimes overlapping responsibilities. This complex political and institutional setting means that a consensus on economic issues is difficult to achieve. Fiscal policy needs to be negotiated across many different dimensions, and deeper reforms, both fiscal and structural, can be challenging to adopt.

Belgium's federal structure of government has evolved through six state reforms over the past decades (in 1970, 1980, 1988-89, 1993, 2001 and 2012-14). As a result the power to make decisions has been gradually devolved from the Federal Government and the Federal Parliament to the regions and communities.

The Federal government retains control over the judicial system, the army, the Federal police, labour law, social security (unemployment, pensions, health insurance), public debt, prices, income and wage policy financial sector and financial markets (incl. protection of savings and macroprudential policies (the National Bank of Belgium), nuclear energy, state-owned companies (such as Belgian Railways and the Post Office), and the federal scientific and cultural institutions. Furthermore, the Federal State is responsible for the obligations of Belgium and its federalised institutions towards the European Union and NATO.

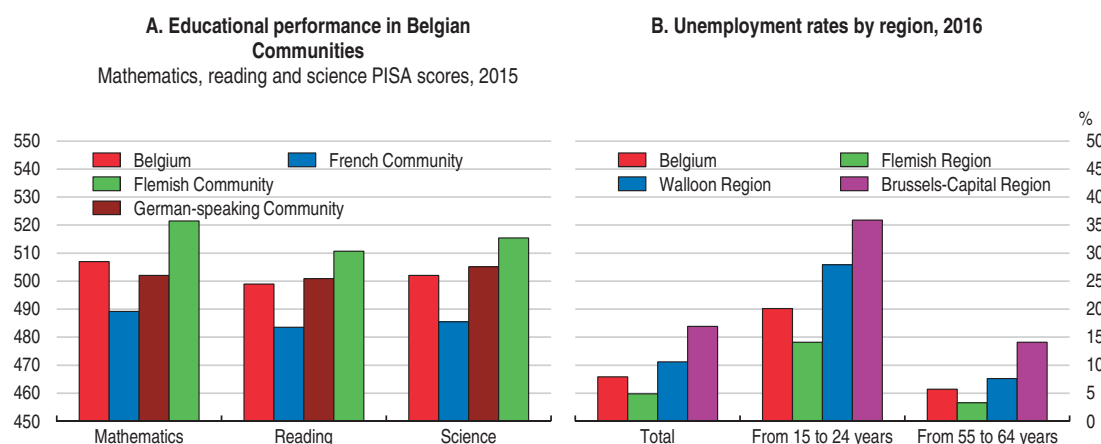
The powers of the three regions, the Flemish Region, the Brussels-Capital Region and the Walloon Region have been extended in the course of the various reforms. During the Second State Reform in 1980, the Flemish and the Walloon Regions were given their parliament and government. The Brussels-Capital Region, on the other hand, was only granted its institutions following the Third State Reform in 1988-89. The regions have powers relating to the economy (including direct support, guarantees, business sites and cluster policy), employment, minor aspects of social security (such as reduction of social security contributions for targeted groups), economic migration agriculture, water policy, housing, public works, energy, transport (except Belgian Railways), the environment, town and country planning, nature conservation, credit, FDI and foreign trade, supervision of the provinces, communes, and intercommunal utility companies. They also have powers relating to scientific research and innovation and over the research centres and international relations in those fields.

The competences of the three communities, the French, the Flemish and the German-speaking, are culture (theatre, libraries, audio-visual media, etc.), education, (pre-primary to higher and adult education) the use of languages and matters relating to the individual which concern on the one hand health policy (curative and preventive medicine) and on the other hand assistance to individuals (protection of youth, social welfare, aid to families, immigrant assistance services, etc.). They also have powers in the field of scientific research in relation to their powers, the community scientific institutes and international relations associated with their powers.

In Flanders, the community and regional institutions have been merged. So in Flanders, there is one parliament, one government and one administration.

Source: www.belgium.be, OECD.

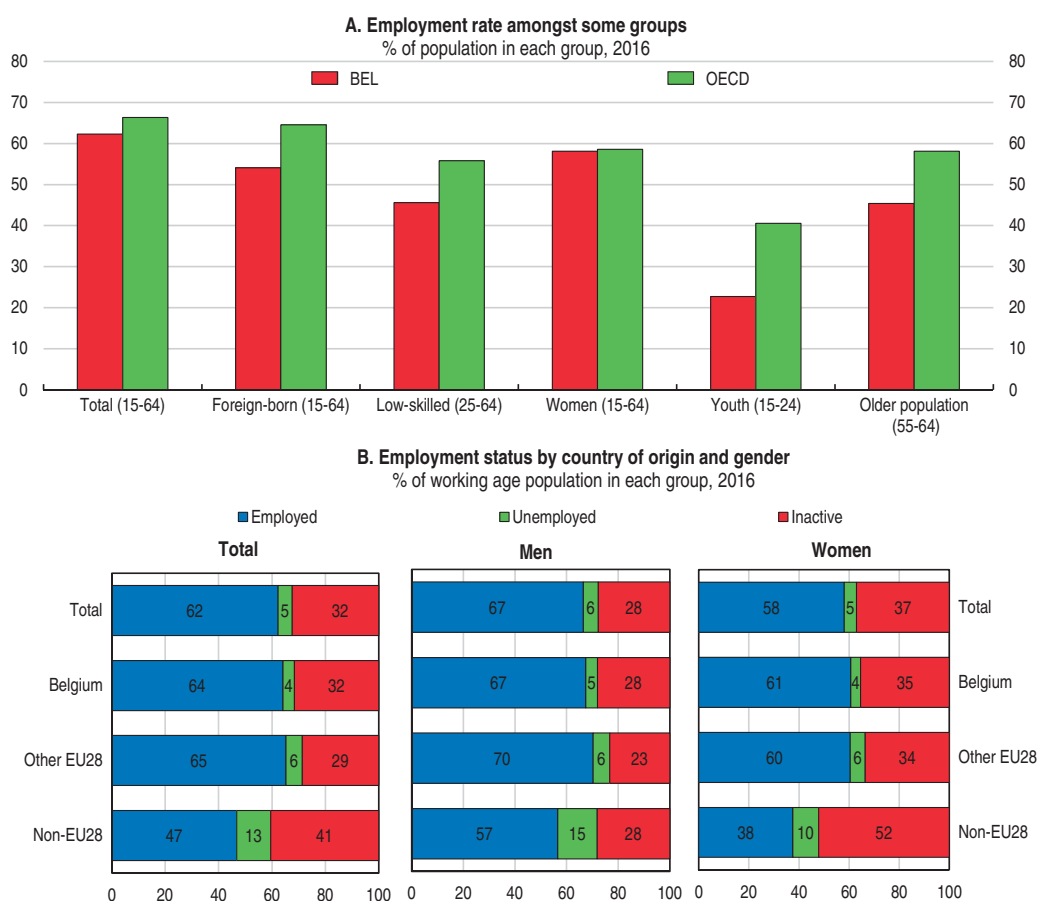
high-quality and safe care. However there are large variations in medical practices across the country, suggesting there is scope to improve equity and efficiency in health care delivery (OECD, 2014a; 2016i). Cost, waiting time and travelling distance related to the distribution of medical practitioners in the country result in higher unmet medical needs for low-income

Figure 6. **Regional disparities in student performance and unemployment are large**

Note: Mathematics, reading and science PISA scores for OECD are 490, 493 and 493.

Source: OECD, PISA 2015 Database; and Statistics Belgium.

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Figure 7. **Employment rate amongst some groups is low**

Note: In panel A, for the low-skilled group, data refer to individuals with a level of educational attainment below upper secondary education (ISCED-11 levels 0-2). For OECD, figures are calculated as a simple average of the available data. In panel B, numbers may not add up to 100 due to rounding.

Source: OECD, Labour force statistics Database; OECD, Migration statistics Database; OECD, Education at a glance Database; and Eurostat, Labour Force Survey.

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people. Despite health expenditure being higher than the OECD average as a share of GDP, 5.5% of low-income individuals had unmet needs for medical examinations in 2013, slightly above the OECD average. At 3% of final household consumption, out-of-pocket spending on health is just above the OECD average. With regard to hospital medical admissions, however, the variation across provinces in Belgium is generally very low, reflecting an equal distribution of hospital facilities across the country, and that people do not face financial barriers to hospitalisation (OECD, 2014a).

The main messages of the Survey are:

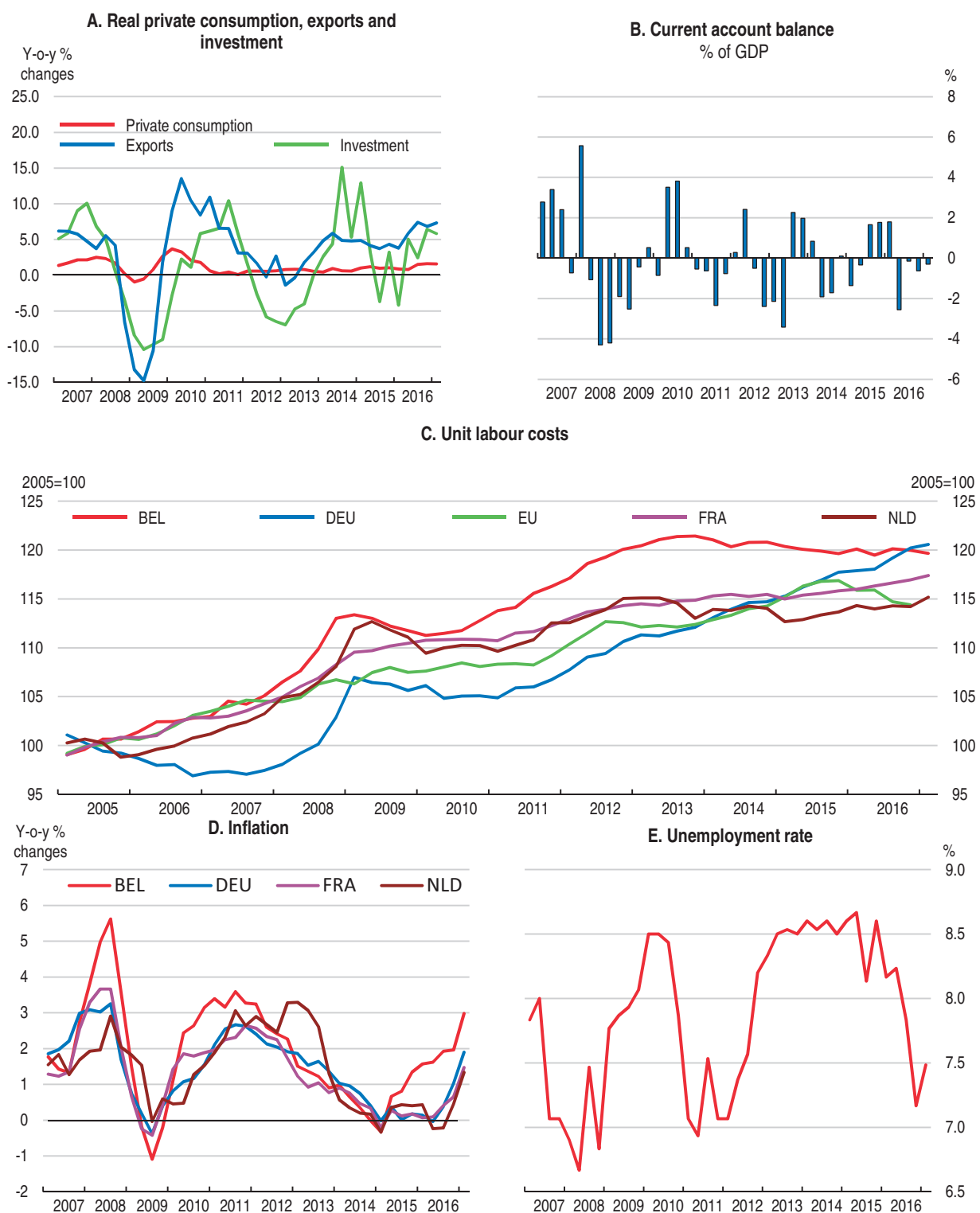
- Incomes and productivity levels are high, but invigorating productivity growth is needed to raise prosperity and help address future challenges related to population ageing and fiscal sustainability.
- Increased public investment in infrastructure and R&D is needed to enhance productivity while promoting inclusiveness and sustainability. More investment in transport infrastructure would reduce bottlenecks around large agglomerations, addressing both productivity and environmental challenges. Given high public debt and the need to continue fiscal consolidation, reducing inefficient public spending, user fees, well-designed public-private partnerships and higher non-distortionary taxes could all help finance an investment-led growth strategy.
- Well-functioning labour markets, a dynamic business environment and an effective education and training system would ease adaptation to digitalisation and the sharing economy, and are needed to boost productivity and employment and reduce inequality. Improving opportunities to acquire and maintain skills is particularly important to better integrate youth, older workers and low-skilled immigrants into the labour market.

Macroeconomic developments and short-term prospects

Growth has been modest

As in several other European countries, trend growth has decelerated in recent years. The modest economic growth in the post-crisis period has mainly been driven by domestic demand (Figure 8.A). In contrast to many OECD countries business investment in Belgium has remained relatively robust, supported by increased capacity utilisation, low interest rates and high corporate profits. Weak wage growth has held back consumption, but it has also raised international competitiveness. The current account deficit has narrowed since the 2008 financial crisis, supported by low oil prices and a weaker euro (Figure 8.B).

Inflation remains significantly higher than in other euro area countries in part due to transitory factors, but also reflecting high price increases in several services sectors (Figure 8.D). Slightly less than half of the inflation gap with the neighbouring countries in 2016 can be attributed to increases in indirect taxation. Inflation in services prices remained higher than the weighted average of neighbouring countries for the ninth consecutive year. Since 2008 the main contributors to the services price inflation differential have been restaurants and cafés, telecommunication services, and cultural services. Even if price developments are corrected to eliminate price adjustments stemming from government intervention, service inflation remains higher than expected inflation on the basis of macroeconomic variables (Observatoire des Prix, 2017). To safeguard labour cost competitiveness, the authorities have recently reformed the wage-setting system (see below).

Figure 8. **Short-term macroeconomic developments**

Source: OECD, Economic Outlook 101 and Economic Department Database.

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Stronger growth has contributed to a moderate decrease in the unemployment rate since the end of 2015 (Figure 8.E). Wage moderation and lower labour taxation also boosted employment in 2016. Longer-term labour market performance hinges on reducing the labour cost of low wage earners to support the employment of vulnerable groups such as low-skilled, youth and immigrants (see Figure 7).

Outlook and risks

Domestic demand will accelerate through 2018, while a pick-up in international trade will support export demand. Employment growth will remain solid and lead to further declines in the unemployment rate. The past evolution of energy prices will push up headline inflation in 2017, but core inflation will slow due to labour tax reductions and a waning inflationary impact of other measures. Lower unemployment and continued tight capacity utilisation will push up core inflation in 2018 (Table 1).

Table 1. **Macroeconomic developments**

	Current prices (billion EUR) 2013	2014	2015	2016	(projected)	
					2017	2018
GDP	391.7	1.6	1.5	1.2	1.6	1.7
Private consumption	204.4	0.6	1.1	1.2	1.5	1.6
Government consumption	95.9	1.5	0.3	-0.1	0.0	0.0
Gross fixed capital formation	86.9	5.0	2.5	1.9	2.6	3.3
Housing	19.7	4.7	0.8	4.5	2.3	2.0
Business	58.0	5.6	3.1	1.2	2.8	3.5
Government	9.2	2.1	2.8	0.7	1.8	4.8
Final domestic demand	387.3	1.8	1.2	1.0	1.4	1.6
Stockbuilding ¹	0.0	0.4	0.3	0.1	0.4	0.0
Total domestic demand	387.3	2.2	1.5	1.1	1.7	1.6
Exports of goods and services	320.5	5.1	4.3	6.0	5.1	3.8
Imports of goods and services	316.0	5.9	4.3	6.0	5.3	3.7
Net exports ¹	4.5	-0.6	0.0	0.1	0.0	0.2
Other indicators (growth rates, unless specified)						
Potential GDP	..	1.1	1.2	1.2	1.3	1.3
Output gap ²	..	-1.6	-1.4	-1.3	-1.0	-0.5
Employment	..	0.4	0.9	1.3	1.3	1.3
Unemployment rate	..	8.6	8.5	7.9	7.2	6.6
GDP deflator	..	0.7	0.9	1.6	2.1	1.6
Harmonised consumer price index	..	0.5	0.6	1.77	2.5	1.8
Harmonised core consumer prices	..	1.5	1.6	1.75	1.4	1.7
Household saving ratio, net ³	..	4.5	3.9	3.8	3.1	3.8
Current account balance ⁴	..	-0.7	0.4	-0.4	-0.3	-0.3
General government fiscal balance ⁴	..	-3.1	-2.5	-2.6	-1.9	-1.9
Underlying government fiscal balance ²	..	-1.6	-1.2	-1.6	-1.2	-1.5
Underlying government primary balance ²	..	1.3	1.5	0.9	1.1	0.5
General government gross debt (Maastricht) ⁴	..	106.7	106.0	106.0	104.3	102.9
General government net debt ⁴	..	100.3	98.0	98.1	96.4	95.0
Three-month money market rate, average	..	0.2	0.0	-0.3	-0.3	-0.3

1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of potential GDP.

3. As a percentage of household disposable income.

4. As a percentage of GDP.

Source: OECD (2016), OECD Economic Outlook: Statistics and Projections (database).

The housing market is only a moderate downside risk, although a sharp dip in house prices could dampen household consumption and weaken bank balance sheets, potentially slowing credit growth. These risks are mitigated by recent macroprudential measures, as discussed below. The economy is also vulnerable to a deterioration of competitiveness. The high inflation rate combined with wage indexation could lead to self-reinforcing increases of prices and wages, hurting competitiveness, incomes and jobs. The recent reform to the wage-setting system could help to contain this risk, as discussed below.

External risks have increased due to uncertainty regarding Brexit. Although financial linkages with the UK are moderate (OECD, 2016h), the UK is Belgium's fourth largest export market, accounting for 9% of merchandise exports. Brexit will lead to a marked change in the UK trade regime, raising barriers to market access to many exporters, especially in Europe. The UK's eventual exit from the EU will therefore provide a renewed shock to demand through the trade channel, and could increase economic uncertainty (Kierzenkowski et al, 2016). Beyond bilateral trade links, weak trade growth in Europe more broadly, whether Brexit-induced, as a result of a slowdown in the People's Republic of China (hereafter "China"), or for other reasons, would reduce jobs and incomes, given Belgium's deep integration in global value chains. As other OECD countries Belgium also faces risks stemming from potential economic, financial or geopolitical instability (Table 2).

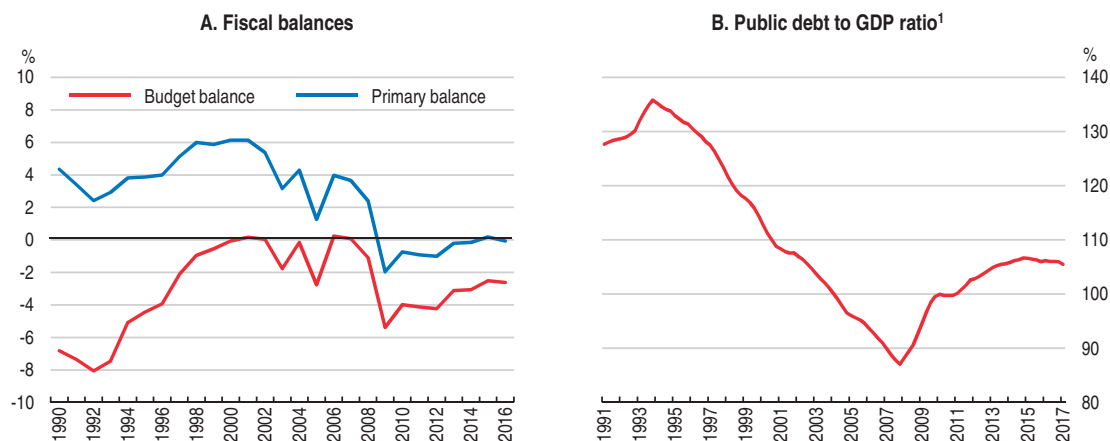
Table 2. **Extreme vulnerabilities for the Belgian economy**

Shock	Possible impact
Financial market instability	A persistent low-interest rate environment has magnified distortions and risks in international financial markets, and a re-appearance of global and euro area tensions cannot be ruled out. If severe, such disturbances could once again seriously damage Belgium's economic prospects.
Trade protectionism	A new wave of global trade protectionism would be detrimental to Belgium's economy, given its deep integration in global value chains. Besides holding back export growth and FDI, increased protectionism could weaken confidence, dampening demand from the domestic household and business sectors.

Fiscal, monetary and financial policies

Sustained primary surpluses helped Belgium reduce its debt-to-GDP ratio by over 40 percentage points from 131% in 1995 to 87% in 2007 (Figure 9). This consolidation created room to absorb the budgetary shock associated with the 2008 financial crisis without undermining financial market confidence. Following the crisis public debt rose to 106% of GDP in 2016. Nevertheless active debt management has improved debt sustainability. The government has taken advantage of low interest rates to extend the duration of outstanding debt, thereby reducing the share of federal debt that matures in the coming year to 15% in 2016 from 20% at the end of 2012 (EC, 2016a). Despite this progress, the high debt-to-GDP ratio suggests that putting debt on a declining path remains an important challenge for the future.

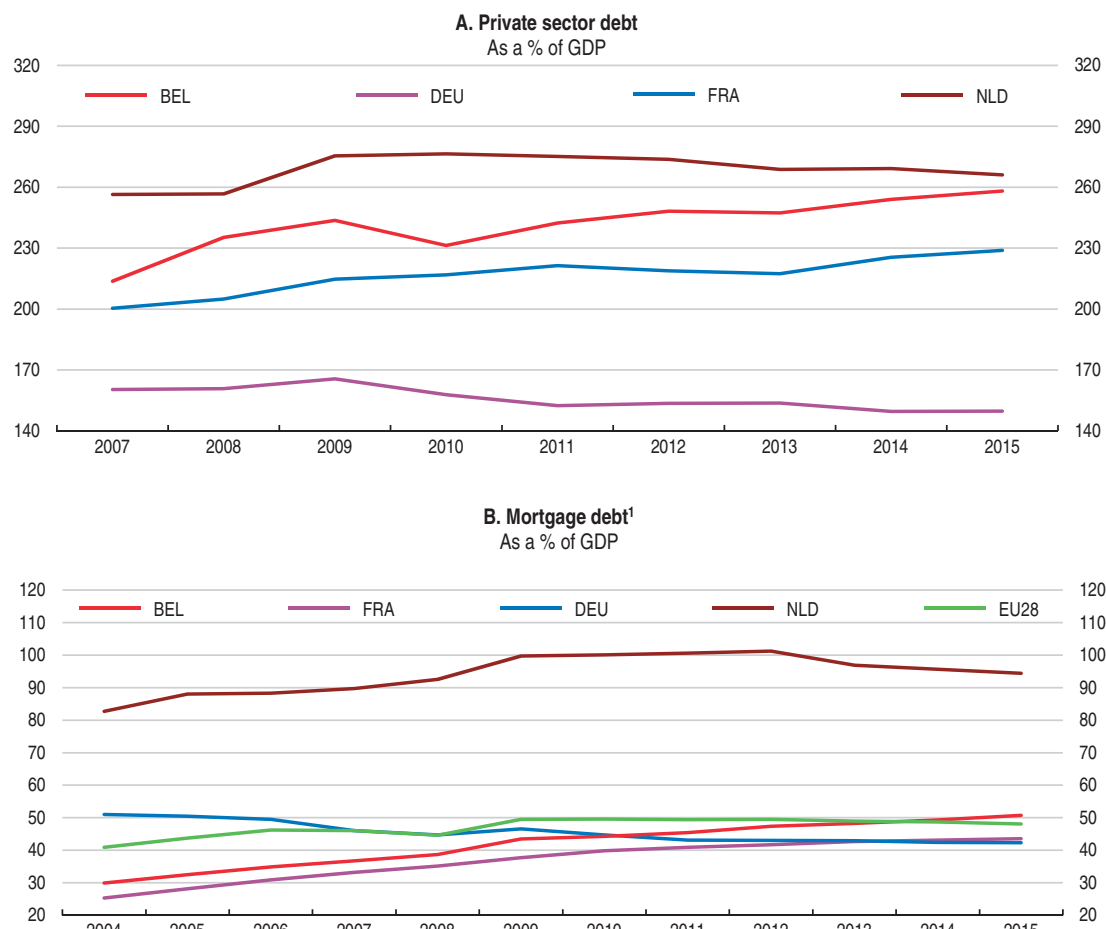
Prudent policies combined with the end of one-off banking support reduced the general government deficit from 5.4% of GDP in 2009 to 2.6% of GDP in 2016, and Belgium exited the EU excessive deficit procedure in 2014. The federal and regional governments have also taken steps, in line with previous OECD recommendations, to make fiscal consolidation more expenditure-based and to strengthen the fiscal framework (See Table 3). Notwithstanding high public debt, the somewhat accommodative fiscal stance in 2016 was appropriate as weak GDP growth weighed on revenues and spending was increased by one-off measures related to security and refugee inflows (EC, 2017a).

Figure 9. **The fiscal situation is improving**

1. Maastricht criterion.

Source: OECD, Economic Outlook 101 Database.

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Figure 10. **Private sector debt**

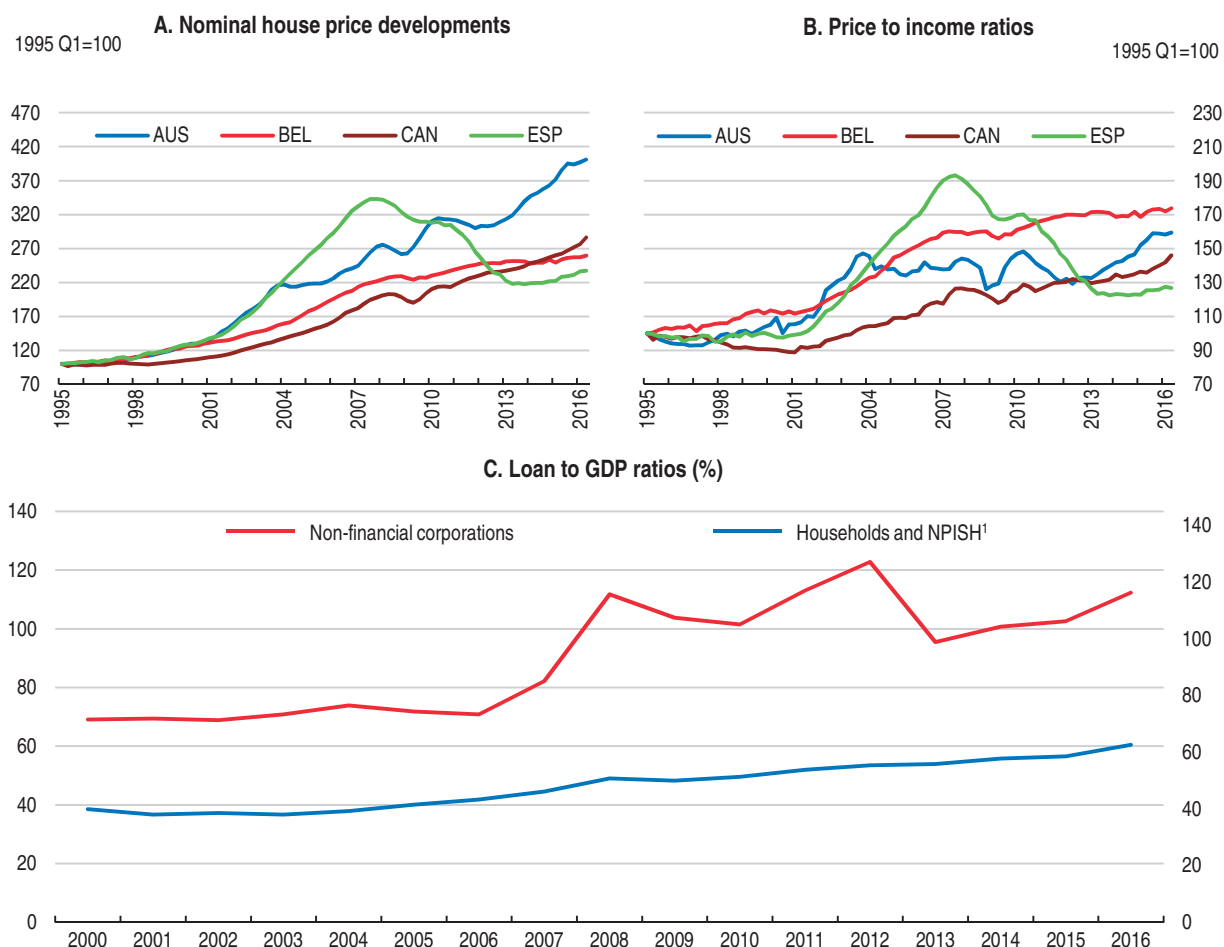
1. Total outstanding residential loans.

Source: OECD, STD Financial Statistics Database and; European Mortgage Federation, Hypostat 2016, ECB, Statistical Data Warehouse (database).

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The European Central Bank's (ECB) monetary policy stance remains highly accommodative, and lending rates in Belgium have declined markedly over the past two years. The side-effect has been a steady rise in private debt (Figure 10.A). Anticipated reductions in tax relief on mortgages provided additional upward pressure in 2015. Mortgage debt now stands around the EU average (Figure 10.B). However, the overall financial position of households appears relatively robust. House prices have more than doubled in nominal terms since 2000, but have not risen very much in the last decade (Figure 11.A). Mortgage liabilities are only around 15% of the banking sector's balance sheet, although for some banks they are over 40% (NBB, 2016a). Banks report that the majority of the increase in mortgage liabilities can be attributed to more favourable terms and conditions rather than an easing of credit standards (NBB, 2016a; NBB, 2016b). Furthermore, the prevalence of fixed rate mortgages (65% of the total stock of loans) reduces the risk of defaults should interest rates increase, although it also shifts interest rate risk to the banks themselves. However, in view of the trend increase in household indebtedness, and group of mortgages with high loan-to-value (LTV) and high income-to-debt-service ratios, the European Stability Risk Board has drawn attention to

Figure 11. **The housing market is a relatively moderate downside risk**



1. Non-Profit Institutions Serving Households.

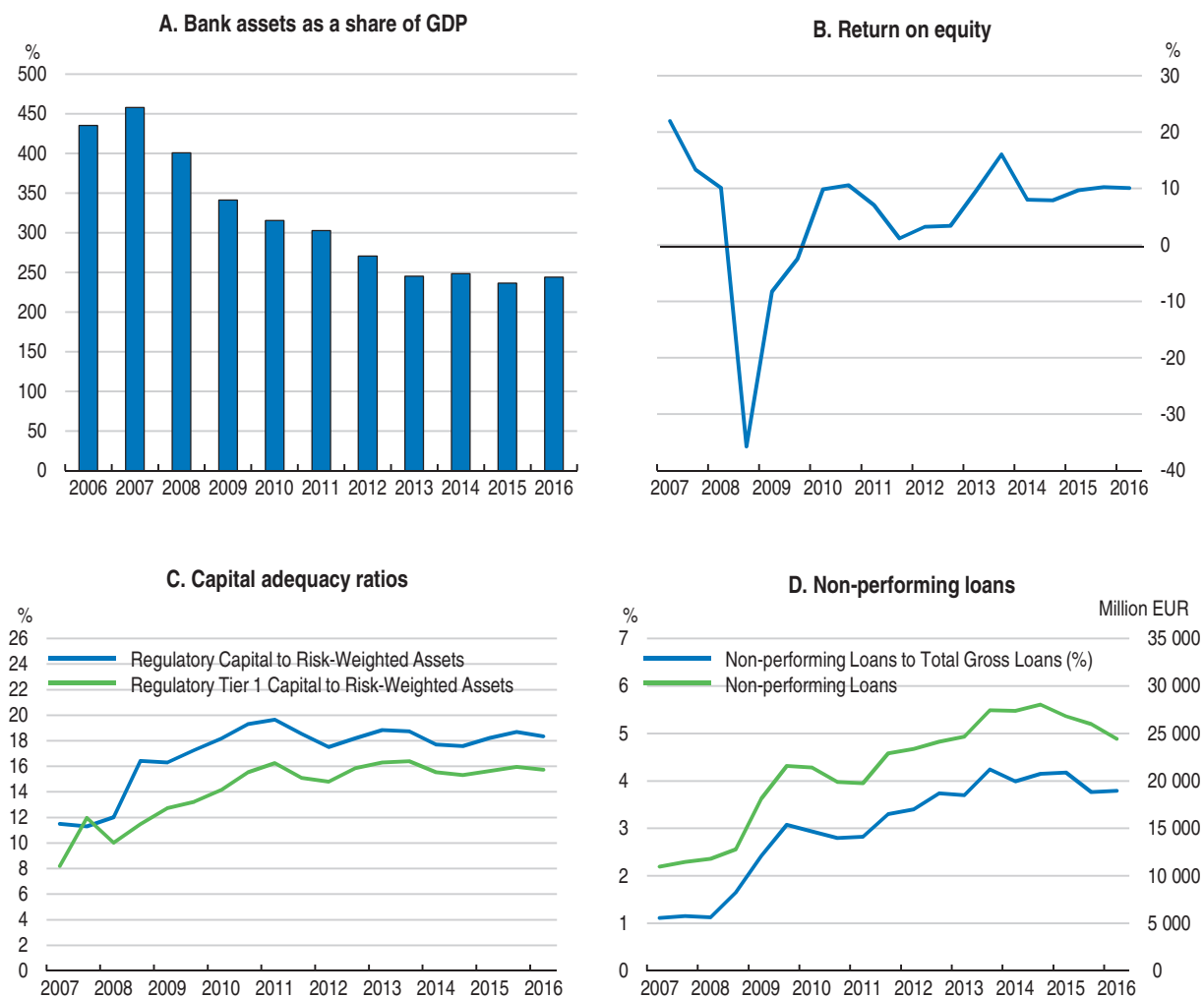
Source: OECD, Analytical house prices indicators Database; and OECD, National Accounts Database.

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vulnerabilities in the residential property market (ESRB, 2016). In this context, macro-prudential authorities are considering additional measures to mitigate financial risks related to risky mortgages. Reducing the tax deductibility of mortgage debt could help dampen the growth in mortgage debt.

Deleveraging and reorientation of activities towards domestic markets have boosted capital adequacy ratios following the financial crisis (Figure 12). The share of non-performing loans has increased but remains low by international comparison, at 30% below the EU average. Stress test results indicate that the largest systemic banks have made significant headway in shedding legacy assets and appear resilient to economic and financial shocks (EBA, 2016).

Figure 12. **The banking sector has been strengthened**



Source: National Bank of Belgium and; IMF, IFS database.

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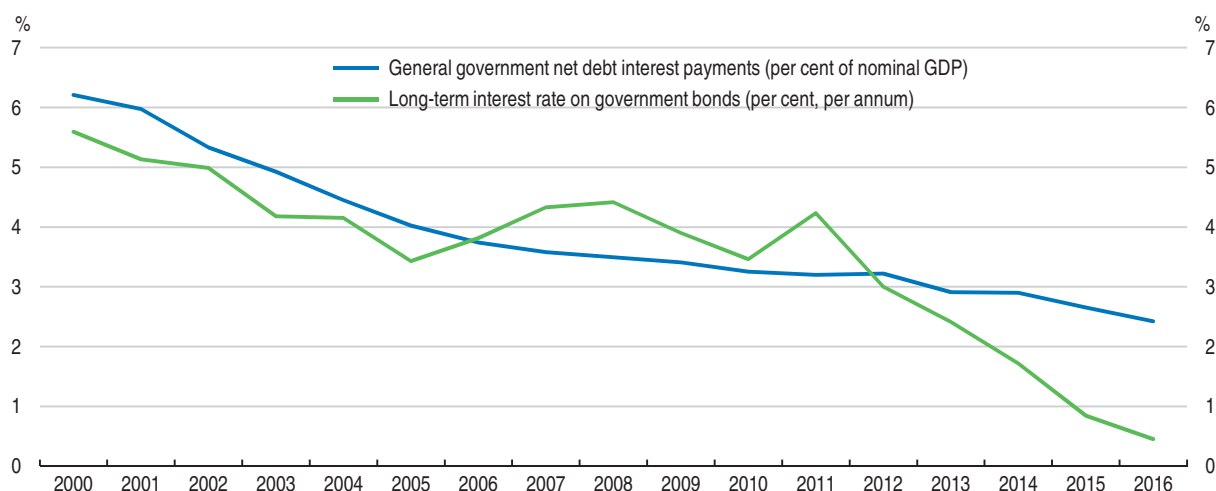
Table 3. **Past OECD recommendations on macroeconomic and financial policies**

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Make fiscal consolidation expenditure-based through savings in social transfers and public consumption	A framework was established since October 2014 at federal level to reduce public expenditure over the period 2015-19: the wage bill, operating costs and personnel costs were reduced. The growth of health care spending and other social transfers were also reduced in structural terms. A "redesign" of public administration aimed at increasing its efficiency was decided in October 2015. The fight against social fraud has been strengthened.
Introduce multi-year expenditure rules at all levels of government, with monitoring by the High Council of Finance	No domestic expenditure rules (other than expenditure benchmark, preventative arm of SGP). Lack of political agreement between federal and regional governments on budget targets implies the High Council of Finance cannot fully monitor compliance. Since the transposition of EU directive in 2014 all entities have the legal requirement to establish medium-term budgets. Since the 2015 budget, the Federal government integrates a multi-annual approach in its yearly budget.
Further improve budget reporting to ensure full coverage of the balance sheets and contingent liabilities of general government and other entities under public control, and publish these data.	Contingent liabilities are published. The Federal government has changed legislation such as to make a completely consolidated balance sheet and annual accounts available.

Medium-term policy challenges to reignite productivity and strengthen inclusiveness

Boosting public investment to increase potential output

The current low interest rate environment could facilitate future consolidation efforts. Long-term government bond yields declined from 5.6% in 2000 to 0.5% in 2016 and Belgian sovereign bond yields are now among the lowest in Europe. Historically low interest rates are reflected in lower interest payments which have fallen from 4% to 2.7% of GDP since 2008 (Figure 13).

Figure 13. **Interest rates have declined**

Source: Calculations made on the basis of Economic Outlook 101 Database data.

StatLink  <http://dx.doi.org/10.1787/888933496551>

Against a backdrop of subdued growth since the crisis, fiscal adjustments have fallen short of targets (Table 4). The primary balance has recorded a small deficit for some years. A financing gap related to the Federal government's tax shift policy and unexpected spending related to security and inflows of refugees in 2016 have narrowed fiscal space. Table 5 summarises the fiscal projections of the main forecasting institutions.

Table 4. **Changes in the structural balance (efforts realised and planned) and the primary balance**

	2011	2012	2013	2014	2015	2016
Structural Efforts realised ¹	-0.1	0.6	0.7	-0.2	0.3	0.3
Structural effort planned in Stability Programme ²	+0.2	+0.7	+1.1	+0.5	+0.7	+0.6
Primary balance	-0.9	-1	-0.2	-0.2	0.2	-0.1

1. As reported in the stability Programme published in each year.

2. Respective stability programmes.

Source: OECD Economic Outlook 101 Database.

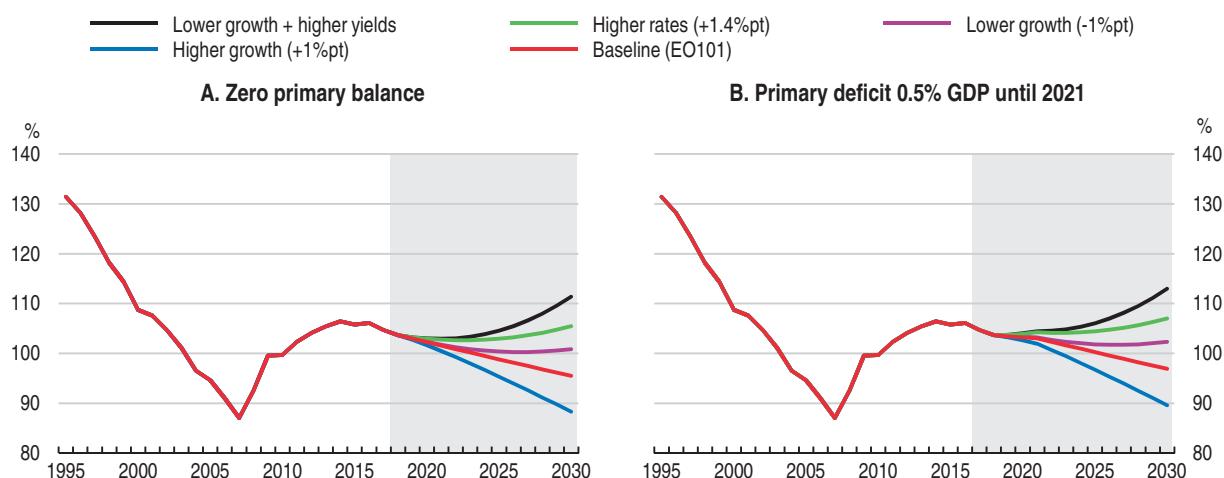
Table 5. **Fiscal projections of main forecasting institutions**

	Primary balance			Fiscal balance		
	2016	2017	2018	2016	2017	2018
EU	0.2	0.7	0.5	-2.6	-1.9	-2.0
NBB	-0.1	0.1	-0.2	-2.8	-2.3	-2.3
FPB	-0.2	0.3	-0.0	-2.8	-2.2	-2.3
OECD	-0.1	0.4	0.2	-2.6	-1.9	-1.9
Stability Programme 2017	0.2	1.0	1.6	-2.6	-1.6	-0.7

Source: EU: European Economic Forecast Spring 2017, May 2017; NBB: For 2016: Annual Report, February 2017, for 2017-18: Economic Review, December 2016; OECD: Economic Outlook 101, June 2017; Federal Planning Bureau, Medium-Term Economic Outlook (2016-21), June 2016.

Nevertheless, the debt-to-GDP ratio is projected to decline gradually (OECD, 2017o, Figure 12). According to OECD simulations, if the primary balance were held at zero, the debt-to-GDP ratio would decline by 9 percentage points by 2030 (Figure 14.A). A primary deficit of 0.5% for the next five years would still result in debt falling by 7 percentage points. On one hand these simulations are conservative as they do not take into account multiplier effects. On the other hand, substantial increases in interest rates or lower growth could reverse this trend, underlining the need for some caution when formulating policy. More

Figure 14. **Debt-to-GDP ratio simulations**



Note: The baseline scenario considers the projections for the Economic Outlook No. 101 until 2018 and thereafter assuming yearly real GDP growth of 1%, primary fiscal balance for panel A and a deficit of 0.5% of GDP during five years in panel B, effective interest rate of 2.42% and inflation of GDP deflator of 1.6%.

Source: Calculations made on the basis of Economic Outlook 101 Database data.

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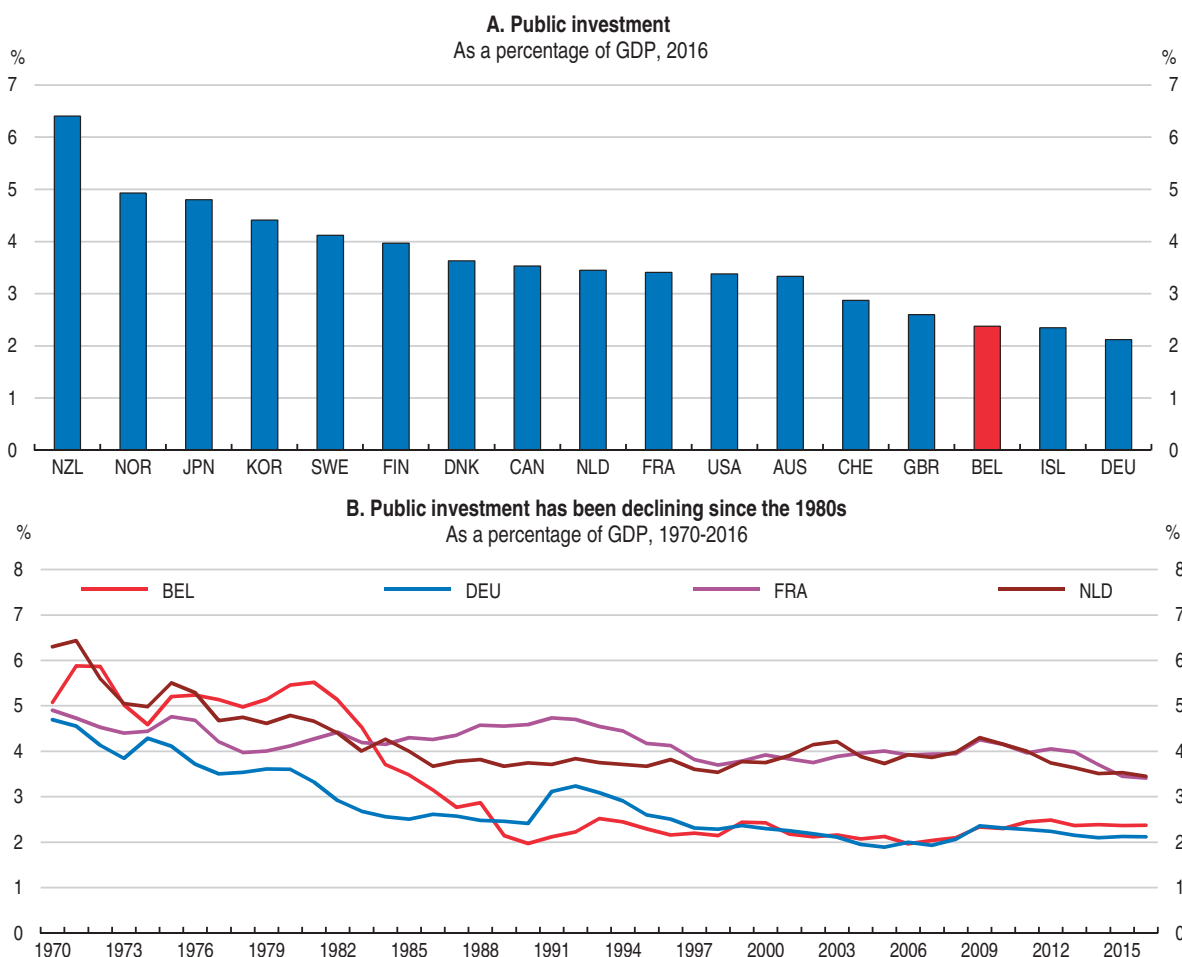
sophisticated exercises estimating the impact of public investment on potential output (OECD, 2016g; Fournier and Fall, 2015; Botev et al., 2016) suggest that delaying the path to the Medium Term Objectives to take advantage of low interest rates, for a period of at least five years, would allow the government to finance investment projects without undermining long-run fiscal sustainability.

However, given high public debt and population ageing, fiscal consolidation is needed even in the short term, both to build risk buffers and to ensure long-term sustainability.

The deficit rules encompassed in the European Stability and Growth Pact are a potential hurdle to public investment. In the Belgian context, where public investment is mainly the responsibility of regional and local authorities, the implementation of the rule should imply a high degree of internal coordination to meet the overall fiscal target. Actually each entity's internal fiscal deficit target is aligned to Belgium's overall target, which could make it harder for an individual entity to undertake very large investment projects in one region.

A boost of well-targeted and cost-efficient investment would be expected to have sizable, positive effects on the economy in the long term given that public investment is comparatively low (Figure 15). The quality of project selection is crucial for the success of

Figure 15. **Public investment is low**



Note: For Switzerland, data refer to 2014.

Source: OECD Economics Department Database.

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investment-led growth and should therefore be guided by cost-benefit analyses. As discussed in previous Economic Surveys (OECD, 2015a; OECD, 2013a) there is a particular need to relieve infrastructure bottlenecks. For example, Antwerp and Brussels are among the five worst affected urban centres in Europe, with commuters on average spending 70 hours or more in traffic per year (Inrix, 2015). The authorities should hence prioritise investment in road and public transport infrastructure around the major agglomerations. Such green investments could also reduce air pollution and generate revenue through toll, ideally adjusted to reduce congestion and make better use of infrastructure (OECD, 2015a; Chapter 1).

In April 2016 regional governments introduced a new toll on heavy trucks. The levy is charged for using motorways, as well as a number of regional and municipal roads. In addition, and in line with recommendations made in previous Surveys, regional and federal authorities have taken steps to strengthen investment in transport infrastructure (Table 6; Box 2). The Investment Plan for Europe, the so-called Juncker Plan, set up in 2014 has also made a positive contribution (EC, 2017b). As of March 2017, 11 infrastructure and innovation projects have been approved in Belgium, amounting to over EUR 740 million in European Investment Bank financing. The projects are expected to trigger more than EUR 3.8 billion in investment. Approved projects include support for construction and operation of wind parks off the Belgian coast.

Table 6. Past OECD recommendations on public investment

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Develop long-term infrastructure plan supported by regions and the Federal government	Agreement for a national plan for strategic investments. The Federal government granted loans to finance investment in railways The government of Wallonia has set up a EUR 640 million investment plan for the period 2016-19 to rehabilitate inland waterways and highways. The Flemish government has set up a EUR 3.6 billion investment plan for the period 2017-23 to complete the Oosterweel Junction in the economic heartland of the Antwerp region. The Brussels government has set up a EUR 1.5 billion investment plan for mobility for the period 2018-25.
Abolish the favourable taxation of company cars and the tax advantages of diesel cars and of diesel as a transport fuel	Tax deduction on company cars was reduced when fuel cards are granted and excises duties on diesel were increased. The Federal government has decided to introduce a multimodal mobility budget for employees as an alternative to company cars.
Introduce a road pricing system and differentiated public transport fares to reduce congestion	New toll on heavy vehicles, but with no higher peak charge.

The government could also increase public investment by broadening the tax base and raising the rates of non-distortionary taxes such as green taxes, capital gains taxes and recurrent taxes on property. The need for tax reform is discussed in detail below. The authorities could also finance investment by making savings in other areas. Certain public spending items (public investment and education) boost growth, while others (pensions and public subsidies) lower it (Fournier and Johansson, 2016). Well targeted reductions in public subsidies, enhanced means-testing in social spending and improved budgetary control can reduce public expenditure needs (IMF, 2016a; Cournede et al., 2014). Moderate progress has been made in this area (see Table 3). Directions to consider, discussed in more details below and in previous Surveys (OECD 2013a; OECD 2015a), are to abolish early retirement schemes and the favourable tax treatment of company cars and mortgage repayments. Dynamic

growth in private investment and high corporate profitability suggest there may also be scope to engage the private sector in infrastructure projects. Along these lines, the authorities are developing a framework for public-private partnerships (see Box 2). Public-private partnerships, if used, should be fiscally transparent and follow best practices identified in OECD guidelines (OECD, 2012c). Establishing a green investment bank has been identified as a useful way to scale up private investment in low carbon infrastructure (OECD, 2016m).

Box 2. Plans for a Strategic Investment Pact

To address the deficit in public investment the Federal government has proposed to establish a Strategic Investment Pact. The aim is to mobilise public and private funds for public investment, ensure the sustainability of public finances and promote structural reform. The Pact will be headed by a political steering committee consisting of federal and regional ministers. Since the Sixth State Reform regions are the prime decision makers on public investment. The final strategy note outlining the government's intentions will be presented in early 2017 after consultation with European institutions, policy experts, including the OECD, and social partners. However, the government has already identified several policy areas as potentially within the remit of the pact:

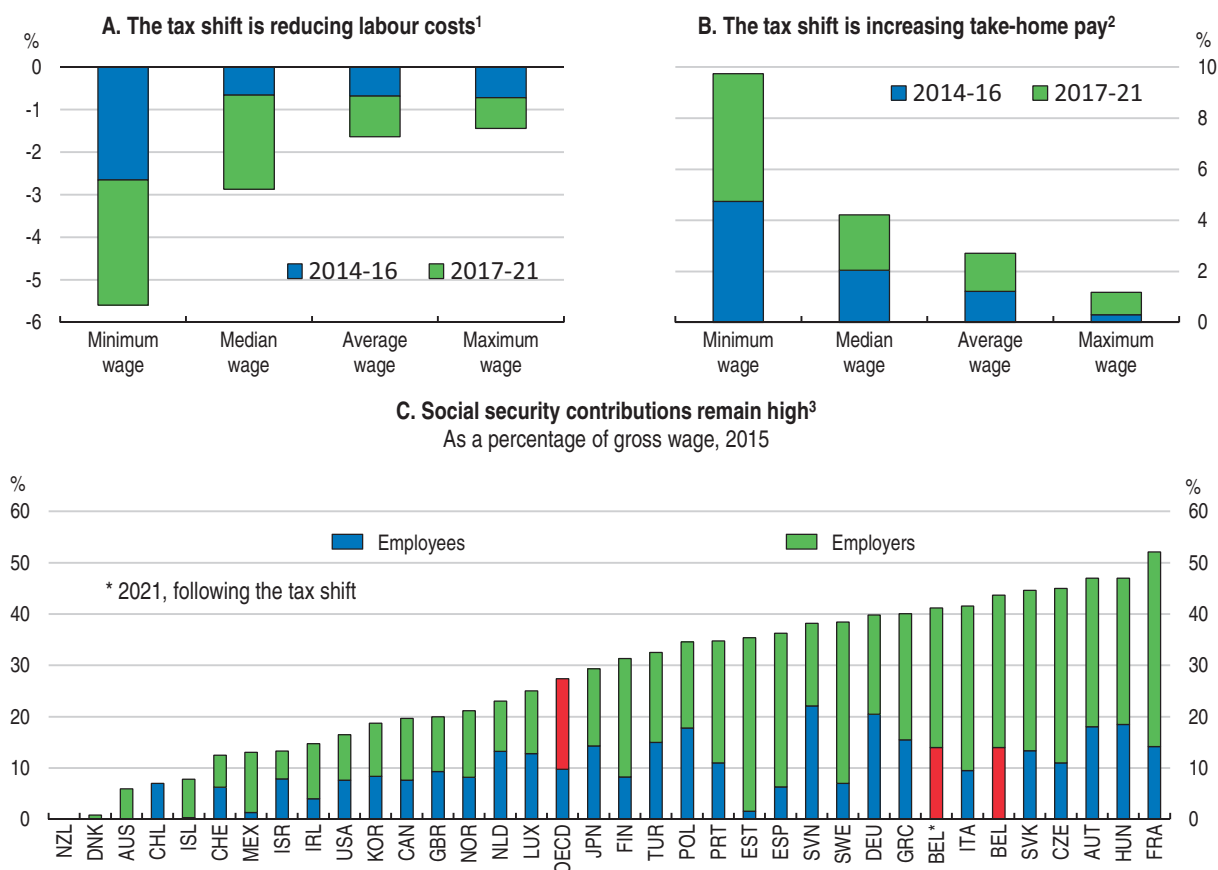
- Public support for innovative firms and funding for research and development
- The impact of tax and regulation on investment
- Developing a framework for public-private partnerships for investment

Making the tax mix more supportive of growth and jobs

The rate for employers' social security contributions is being gradually reduced from 33% (effective rate of around 29%) in 2015 to 25% in 2018. Contributions on low wages have been reduced by more (NRP, 2016) to help the low-skilled enter the labour market. Contributions for targeted groups, including young and older workers which since the Sixth State reform of 2012-14 is the responsibility of the regions, are also subject to reduced rates. In addition, a reduction of employee social security contributions, higher tax deductions for professional expenses and revision of tax scales have boosted take-home pay (Figure 16) and provide stronger incentives to enter the labour market, particularly at the lower end of the pay scale. Moreover, a reduction in employer social security contributions, as recommended in the 2015 Economic Survey, has reduced labour costs. However, even after these measures, labour costs will remain relatively high, and will warrant further reduction.

To finance lower labour taxation, and in line with recommendations made in previous Economic Surveys, less distortionary taxes have been increased (Tables 7 and 8). However, the tax shift has not been fully financed (NBB, 2016d). Less distortionary tax bases are available in Belgium:

- Suppressing the favourable tax treatment of company cars, increasing the tax rate on diesel fuel to at least the level of that on petrol as planned by the end of 2018, broadening the base of existing distance-based charges to include cars, increasing congestion charges (Van Steenberghe, 2015), reducing the tax deductibility of commuting costs and increasing taxation of house heating fuel could all help raise revenue. Removing the favourable tax treatment of company cars would also be desirable from an equity perspective as it amounts to a subsidy to high-income individuals.

Figure 16. **Taxation on labour has been reduced**

1. Change in social security contribution rate following the tax shift (as a share of gross income).

2. Change in average taxation of households following the tax shift (as a share of gross income).

3. Average rates of social security contribution, calculated for a single person, with no children, at 100% of the gross wage.

Source: OECD, Tax-Benefit Models; OECD, Taxing Wages Database.

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- The value added tax (VAT) gap, a measure of the shortfall in revenue due to exemptions and reduced VAT rates on certain products, is currently one of the highest in Europe, despite a recent broadening of its tax base (Figure 17.B). The base could be broadened further.
- There may be room to raise tax on household capital income. While the withholding tax has been increased since the last Survey, the authorities could identify room for further enlargement of the capital income tax base, including by considering a carefully designed capital gains tax.
- Federal authorities could raise the cadastral values of dwellings to make them better reflect market values, while regional authorities could reduce the tax deductibility of mortgage debt, as recommended in the last Survey

Reforming the corporate income tax regime could increase competitiveness and firm creation. The authorities are considering reducing the statutory rate from 34% to between 20 and 25% by 2020 (Figure 18). In order to prevent corporate tax reform from translating into a permanent reduction in budget revenues particular attention should be paid to closing tax loopholes. The implementation of the Anti-Tax Avoidance Directive (ATAD) provides a first basis for a simultaneous broadening of the tax base. In addition, the authorities should consider reforming the following schemes:

Table 7. **Main federal and regional measures on taxation**

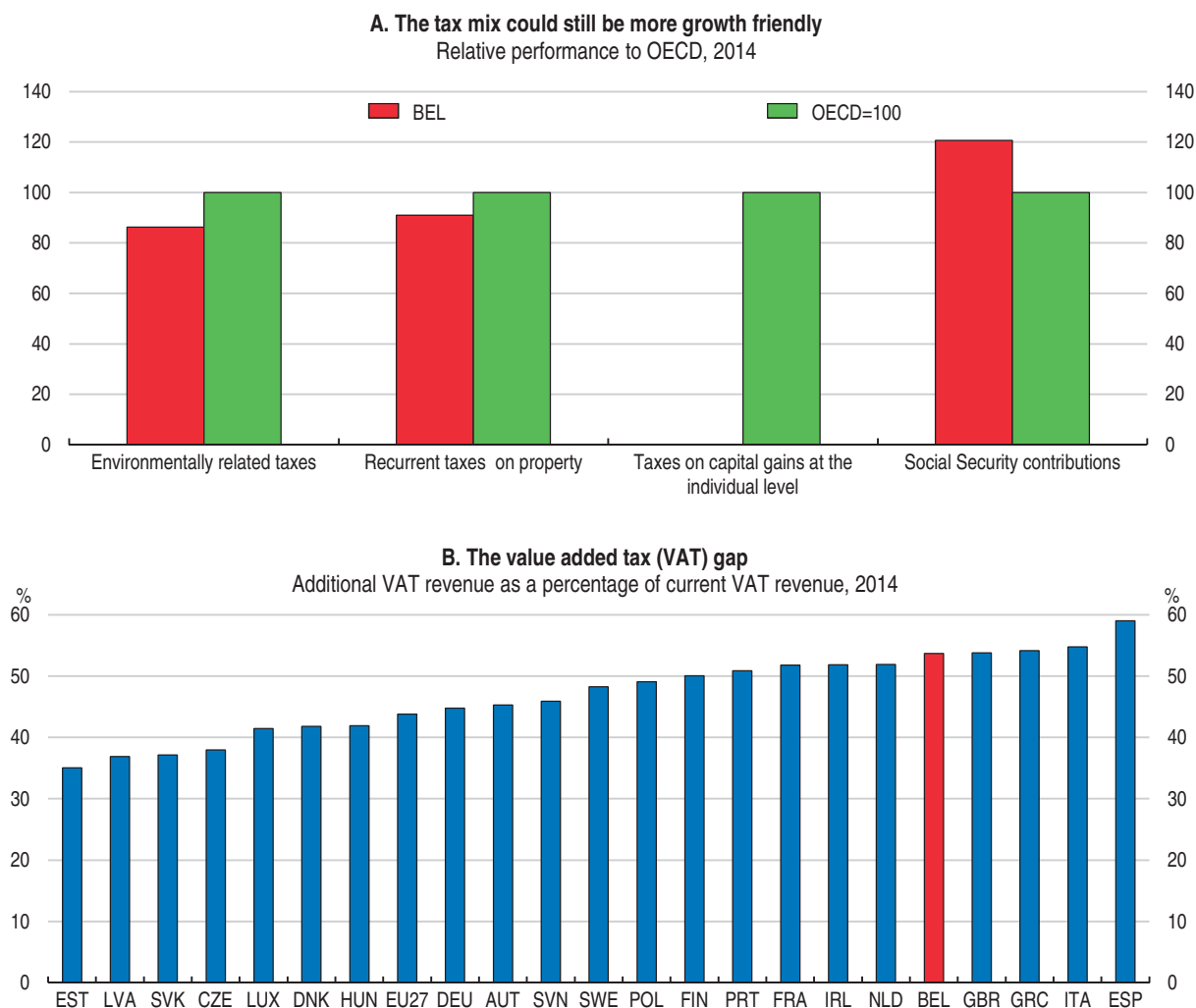
Type of taxes	Main measures taken in 2015 and 2016
Environmental taxation	• New toll on heavy vehicles. • Increase of excise duty on diesel coupled with a smaller decrease of excise duty on petrol. • Indexation of electricity and gas prices, on the basis of market-based parameters. • Lower tax deduction on company cars. • Stronger link established between tax on cars and the air pollution of vehicles due to small particles in the Flemish Region. Reduction or elimination of vehicle tax for less polluting vehicles in the Flemish Region.
Real estate taxation	• Reform of the housing bonus by establishing a “cheque Habitat” conditional on income in the Walloon Region. • Reduction of the housing bonus for individuals with more than one residence in the Flemish Region. • Suppression of the housing bonus in the Brussels-Capital Region, but increase of the abatement of the registration tax for the acquisition of the first house. The gift tax on real estate has been reduced in the Brussels-Capital Region. • As of July 2015 the gift tax on real estate has been substantially reduced in the Flemish Region. • Higher deductions on property tax for energy refurbishments of existing buildings in the Flemish Region.
Value added tax	• Elimination of the reduced rate on electricity, e-commerce and esthetical surgery. • Limitation of the reduced rate applied on renovation of property older than 10 years compared to 5 years previously.
Excise duties	• Increased excise duties on tobacco, alcohol and soft drinks.
Labour taxation	• Reduction of employers' social security contributions (SSC) to 25% by 2019. • Reduced rates of SSC for low wages and other targeted groups. • Exemption of SSC for SMEs and self-employed for the first hire, and reduced rates for the second to the sixth hire. • Exemption of wage withholding tax for shift and night work increased from 15.6% to 22.8%. • Reduction of the Regional surcharge on personal income tax in Brussels-Capital Region combined with abolition of tax deductions on personal income for a number of expenses relating to housing refurbishment.
Capital gains taxation	• Introduction of tax on capital gains on shares held for less than six month in 2016 but the measure was abolished in 2017. • In line with the OECD/G20 BEPS “modified nexus approach”, the Federal government established a new regime for tax deductions for income stemming from patents.

Source: NRP, 2016.

Table 8. **Past OECD recommendations on taxation**

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Broaden tax bases and lower tax rates. Reduce labour tax wedge. Tilt housing taxation towards recurrent taxes and away from transaction taxes. Increase less growth-distorting taxes, including environmental and consumption taxes	Employer social security contributions reduced, social contributions for self-employed reduced and various personal income tax adjustments made to boost take-home pay. VAT revenue and excise duties increased. Price indexation of energy products and electricity and elimination of reduced VAT rate on electricity as September 2015 for residential consumers
Consider increasing taxation of capital income	Withholding tax on income from investment has been harmonised and increased. Increase of the tax on stock-exchange transactions and abolition as of 2017 of the speculation tax on listed shares and derivative instruments introduced in 2016. Introduction of anti-abuse measures (internal capital gains)
Gradually remove the tax deductibility of interest and capital repayments on mortgage loans. Tilt housing taxation towards recurrent taxes and away from transaction taxes.	The housing bonus has been made means-tested in the Walloon Region and its application has been narrowed in the Flemish Region Abolition of the housing bonus in the Brussels-Capital Region and replacement by a reduction of transaction taxes.

- The notional interest deduction allows firms to deduct an imputed return calculated on the basis of their equity from their taxable income. This reduces debt bias, and has strengthened the capital structure of firms and their resilience to shocks (Hebous and Ruf, 2015). However it has also been used for tax avoidance, the opportunity for which should be eliminated through better enforcement.

Figure 17. **Tax rates relative to other OECD countries**

Note: Panel A, presents the shares of fiscal revenues for a selection of tax categories. These are calculated as a % of total tax revenue and displayed as a percentage of OECD average in 2014 which equals 100. For Belgium, underlying data on recurrent taxes on property refer to 2015.

Source: OECD, *Environment Database* – Instruments used for environmental policy; OECD, *Revenue Statistics Database* and; European Commission. Study and Reports on the VAT Gap in the EU-28 Member States: 2016 Final Report (Directorate General Taxation and Customs Union).

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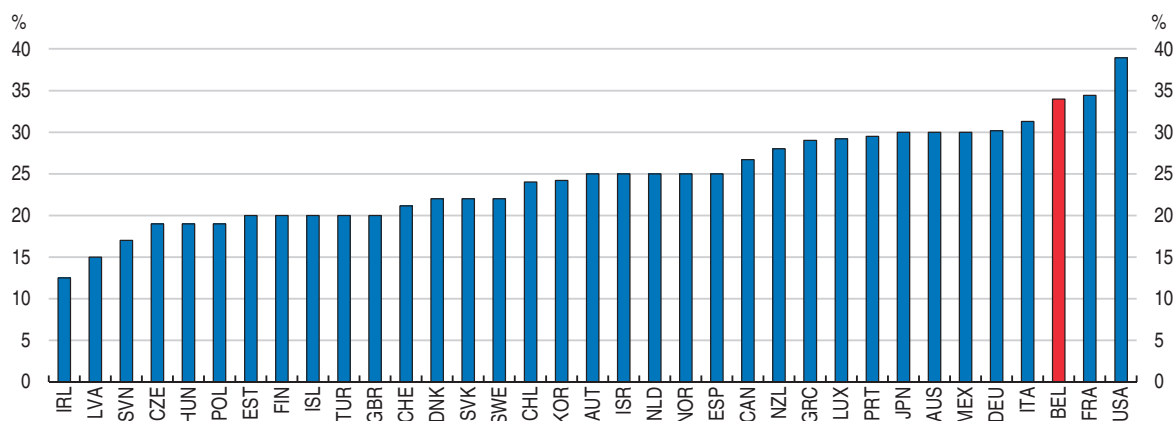
- Ensuring a more equal tax treatment of different financial assets could push savings into a broader range of asset classes. It could also improve the effectiveness of existing tax incentives for retail investors to lend to SMEs.
- Other avenues to broaden the tax base currently considered by the authorities are repealing certain tax expenditures, and on the corporate side, stricter rules for depreciation and a basket for carried-over deductions. A review of the tax system by the OECD could help identify additional directions for reform.

Continuing pension reform to promote active ageing

Population ageing will put the pension and health care systems under pressure. Ageing also affects growth via employment and spending as people tend to work less as they grow older. The old age dependency ratio (the share of those aged 65 years or above to the working

Figure 18. **The statutory corporate income tax rate is high**

Tax rates, 2016



Source: OECD Tax Database.

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age population) is expected to increase from 28% in 2015 to 40% in 2060 (Figure 19.A). While the contribution period of 45 years is one of the longest in the OECD, the effective retirement age remains below the OECD average (Figure 19.B). Age-related spending on health care was discussed at length in the 2013 OECD Economic Survey.

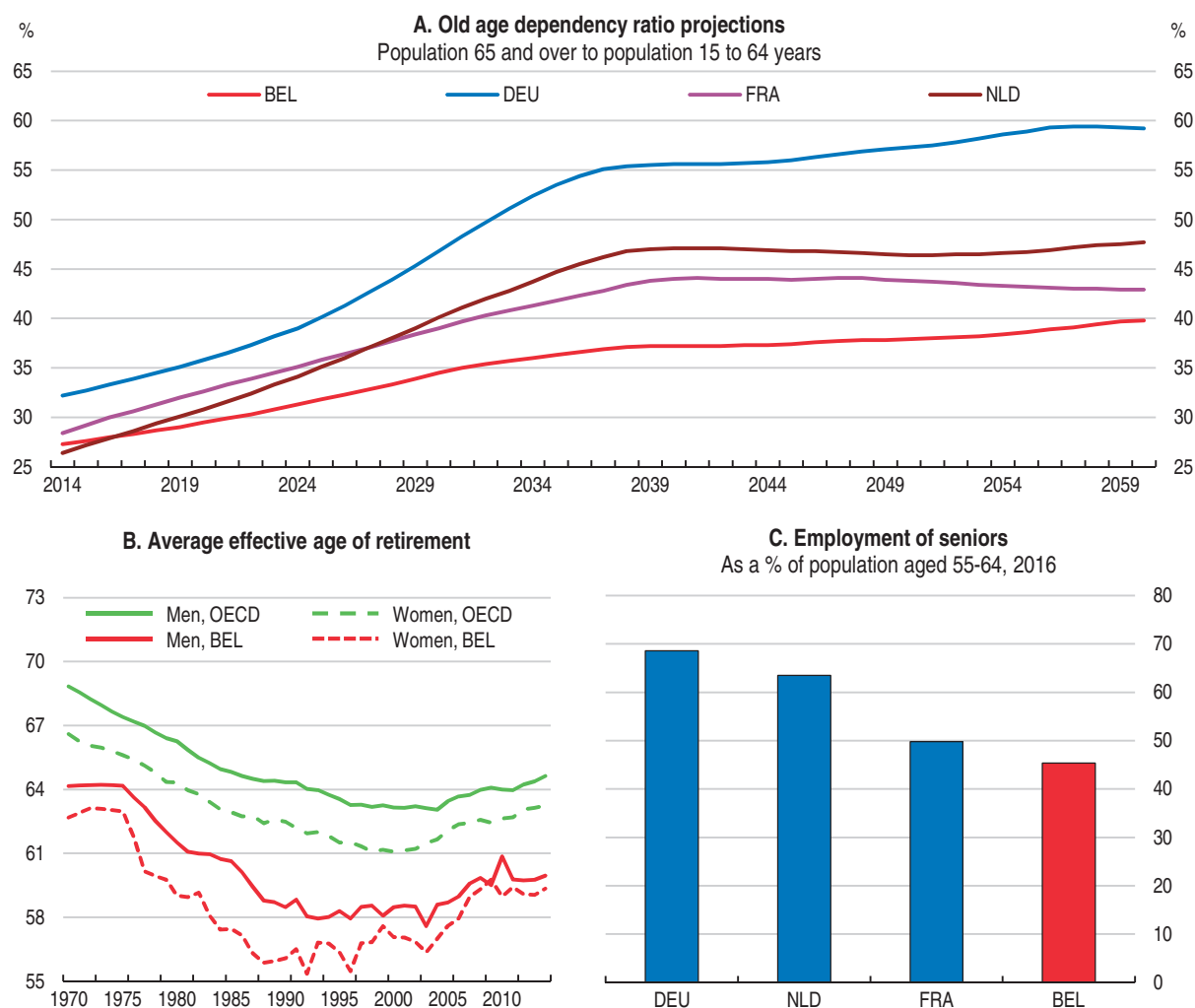
In line with recommendation made in previous Economic Surveys, the authorities have implemented several pension reforms since the 2000s (Table 9). The 2015 reforms will enhance inclusiveness by allowing older workers to remain in the labour market and are an important step towards long-term fiscal sustainability (Box 3). The Working Group on Ageing Populations and Sustainability projects pension spending to increase from 11.8% of GDP in 2013 to 13.1% of GDP in 2060, compared to an increase to 15.1% of GDP in 2060 in a no-reform scenario (EC, 2016b).

Keeping people in work longer would enhance inclusiveness and reduce age-related public spending. Further tightening of early retirement schemes and increasing taxes on occupational pensions in case of early retirement could reduce incentives to retire prematurely. The incentives for retirement could be made more balanced by taking additional years of work (above the minimum 45 years) into account when determining pension benefits and by reducing benefits upon early retirement. The goal should be to make the fiscal aspect of the retirement decision as neutral as possible. Poverty risks should be considered when designing such measures given that the replacement rate is already below the OECD average (OECD, 2015f). Additional measures are also needed to strengthen the employability of seniors (workers aged 55 and above), including promoting lifelong learning, enhancing career counselling and ensuring age-friendly working environments (OECD, 2013a; OECD, 2015a; Chapter 2).

Reducing barriers to SME growth

While access to finance is not a significant impediment to the business sector at the macro level (WB, 2016a), young innovative firms face financing constraints, particularly in the scale-up phase, and SMEs more broadly rely heavily on banks (Figure 20). According to an ECB survey, in both 2015 and 2016 roughly 35% of Belgian SMEs reported having applied

Figure 19. Ageing and jobs



Source: Eurostat; OECD database on effective ages of labour market exit, OECD pension models and; Eurostat.

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Table 9. Past OECD recommendations on pension reform

Summary of recommendations	Summary of action taken since 2015 Survey
Raise the statutory and effective retirement age to enhance long-run debt sustainability.	Progressive increase in the retirement age and career length requirements. Changes in the calculation of the amount of pension to encourage a rise in the effective retirement age.
Create stronger links between working careers and pensions in the early retirement system and subject all older unemployed to standard search monitoring and activation conditions.	Progressive increase in the contribution period and minimum age for early retirement and older workers submitted to job search and activation programmes.

for a bank loan during the previous six months, which is among the highest rates in the EU (ECB, 2015; 2016). At the same time the share of SMEs that consider debt securities to be relevant is lower in Belgium than in the EU (ECB, 2016). The heavy dependence on bank finance makes the SME sector vulnerable to downturns. Although there was no credit crunch, increased risk-aversion led banks to tighten credit standards for SMEs during the crisis years of 2008 and 2009 (Piette and Zachary, 2015). Finally, while the level of venture

Box 3. Main elements of the 2015 pension reform

A number of measures were taken in 2015 to increase the effective average age of retirement from the labour market, thereby improving the sustainability of the pension system.

The statutory *retirement age* will be increased from 65 to 66 years in 2025 and to 67 years in 2030.

Early retirement conditions will be made more stringent.

- The minimum age and number of career years required to qualify for early retirement will progressively increase: starting from 62 years and 40 years respectively in 2016, they will increase to 62.5 and 41 years in 2017, then to 63 and 41 years in 2018 and finally to 63 and 42 years in 2019.
- Exceptions for long careers will also be tightened. The required career length to retire at 60 (61) will increase from 42 (41) years in 2016 to 43 (42) years in 2017 and 44 (43) years in 2019.
- In the civil servants scheme, the years of studies taken into account in the aforementioned career condition for early retirement will be progressively phased out as from 2016 (by steps of 4 to 6 months/year).

The terms for *pre-pension benefits* (unemployment benefits with employer top-up) have been made more stringent:

- The minimum age has been increased from 60 years to 62 years in 2015, subject to transitional arrangements.
- The age limit for pre-pension benefits for loss-making and restructuring companies is to increase from 55 years in 2015 to arrive at 60 years in 2020.
- The minimum age for pre-pension benefits after very long careers (40 years) has been increased from 56 years to 58 years in 2015.
- The minimum age for pre-pension benefits in case of night and shift work or incapacity to work in the building sector has been increased from 56 years to 58 years in 2015 and will be raised to 60 years on a date to be set by the National Labour Council.
- The minimum age for pre-pension benefits in case of arduous jobs will be raised to 60 years on a date to be set by the National Labour Council.

The possibility to use a *complementary pension* to retire earlier and to bridge the income gap until being eligible to a full pension has been abolished, subject to transitional arrangements.

The minimum age required to qualify for *government subsidy for working time reduction (end of career)* to part time has been raised from 55 years in 2013 to 60 years in 2015, subject to transitional arrangements.

The minimum age for receiving a *survivor's pension* (46 years in 2017, increased by 6 months/year until 2025) will be increased from 50 years in 2025 to 55 years in 2030.

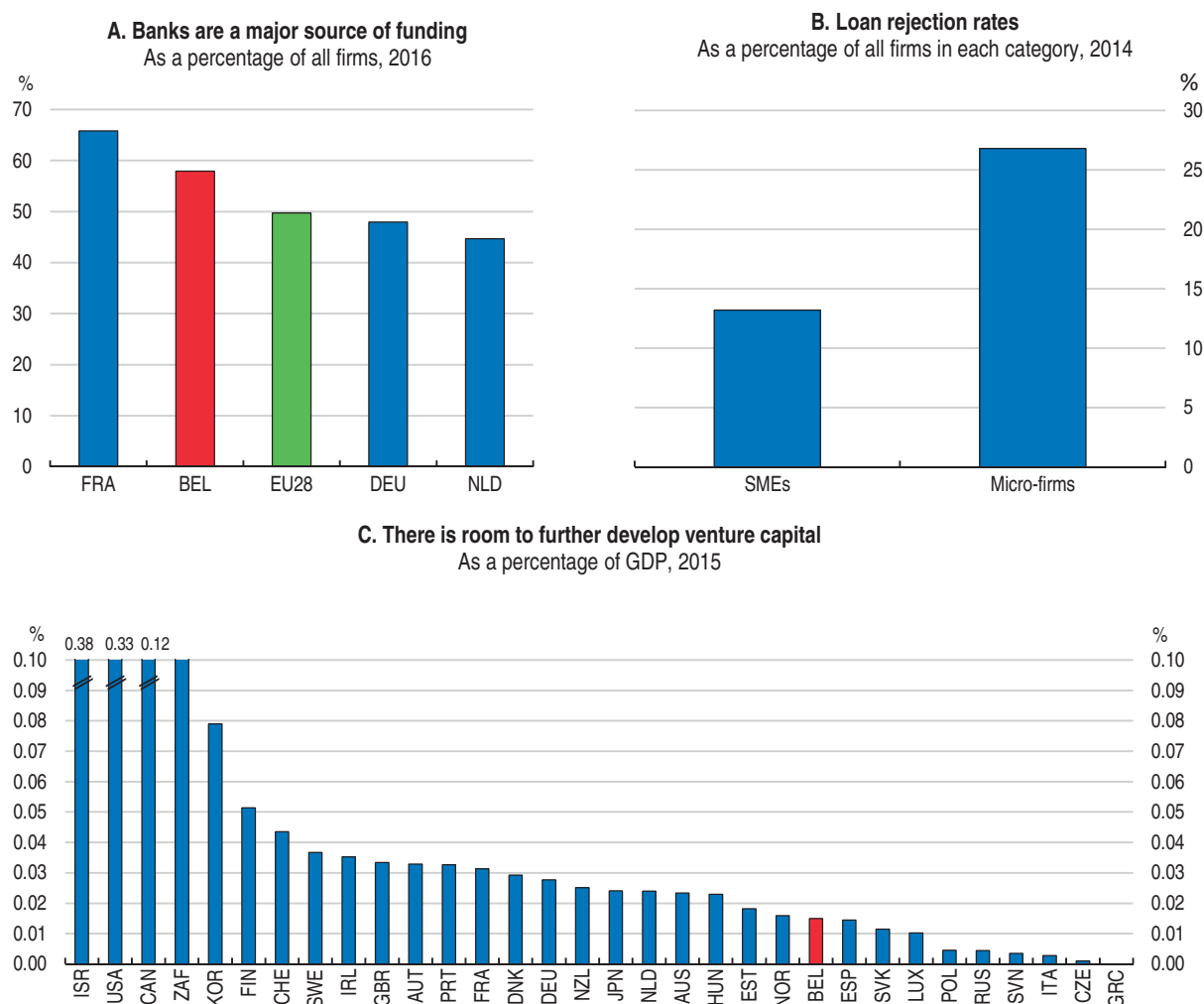
The provisions for purchasing credits related to the years of studies in the various retirement schemes will be gradually harmonised. Civil servants will have to purchase credits related to their years of studies if they want to increase their pension amount (as for workers from the private sector and for self-employed) instead of benefitting automatically and free of these years. This will be fully applied after a long transition period.

Pensioners could combine pension benefits and professional incomes within limits. Since 1/1/2015, pensioners who either are aged 65 years or have a 45-year career are no longer subject to a limit.

Source: Ministry of Pensions, Federal Planning Bureau, IMF.

capital investment is in line with other euro area countries, Belgium lags far behind OECD best-performers (OECD, 2015b, Figure 20.C).

The federal and regional authorities have launched several programmes to improve SMEs' financing, including tax incentives to stimulate investment in SMEs through venture capital and by retail investors, as well as loan guarantees (OECD, 2016a; Chapter 1). Loan

Figure 20. **SMEs' access to finance could be improved**

Note: Panel A, shows the share of enterprises which consider bank loans as a relevant source of financing, that is, they have used them in the past or consider to use them in the future. Data exclude subsidised bank loans, overdrafts and credit lines. Scope population includes firms with at least one employee which were active in September and October 2016.

Source: ECB and the European Commission, Survey on the access to finance of enterprises, September to October 2016; Belgian Federal Public Service of Economy, SMEs, Self-employed and Energy – SME Observatory and; OECD (2016), *Entrepreneurship at a Glance 2016*, OECD Publishing.

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guarantees help overcome collateral requirements and can be particularly useful to micro-firms that are more subject to loan rejection (Figure 20.B).

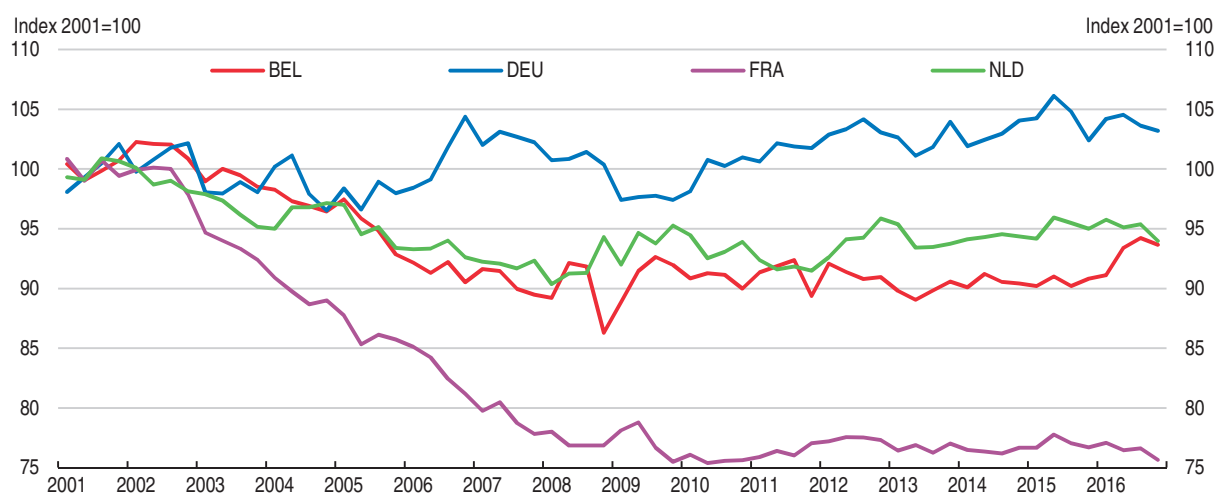
To broaden the range of funding options the government could promote the use of instruments which allow SMEs to access capital markets directly without obtaining a credit rating or preparing a prospectus (HLEG, 2016). A more neutral tax treatment of income from savings deposits could improve the effectiveness of existing tax incentives for retail investor-based SME financing. Increased integration through the Capital Market Union could help diversify Belgian capital markets. To mobilise private capital and support access to finance for young, dynamic enterprises, a new personal income tax reduction from 30% to 45% was introduced for investments in start-ups. Since mid-2015, investors benefit from this tax shelter for direct investments up to 100 000 EUR in start-ups. As of 2017, indirect investments via licenced crowdfunding platforms or starter funds also benefit from this tax shelter for start-ups.

Enhancing external competitiveness

Belgium is one of the most open economies in the OECD and is deeply integrated in global value chains. One-third of exports have foreign content (OECD, 2016l). Access to foreign markets enhances productivity as firms specialise in line with comparative advantage, reap economies of scale and benefit from technology transfers (Kegels and van der Linden, 2011; NBB, 2013).

Weak productivity growth and rapid wage growth adversely affected export performance in the 2000s, as unit labour costs grew faster than in neighbouring countries (See Figure 8.C). Moreover, a relatively large share of exports are oriented towards low-growth European markets (Idea Consult, 2013). As a result, Belgium lost over 10% of its export market share between 2000 and 2009, although the share has remained stable since then (Figure 21). Belgium's largest export market is Germany (17% of merchandise exports), followed by France (16%) and the Netherlands (11%). The same countries dominate imports. 17% of merchandise imports are from the Netherlands, 13% from Germany and 10% from France. The largest product groups of exports are chemical products (25%), transport equipment (11%) and machinery and equipment (11%) (NBB, 2016c).

Figure 21. Ratio of export volumes to export markets



Source: OECD, Economic Department Database.

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Wage growth has moderated more recently. Following a lack of agreement between social partners, the Federal government intervened directly in collective bargaining setting a moderate wage norm for both 2011-12 and 2013-14. Furthermore, in April 2015 the government suspended wage indexation, allowing for a 2% decline in real wages. Indexation was resumed in 2016. The reduction of employers' social security contributions also reduced labour costs. On the back of these measures unit labour costs declined slightly in 2014-16 (Figure 8.C). Social partners decided on a maximum real wage growth of 1.1% for the period 2017-18. As explained below, the wage-setting system has been fundamentally reformed (see Box 4; Table 10).

The new system has features that should make it more effective in safeguarding competitiveness. However, under some circumstances indexation to inflation could conflict with maintaining competitiveness. In the past, wage indexation caused wages to grow

Box 4. Amendments to the wage-setting system

The wage formation process in Belgium is defined by the Competitiveness Law of 1996. With the aim to support employment, safeguard cost competitiveness by ensuring that wage increases are in line with developments in the three main trading partners, the law prescribes a ceiling for wage growth which must be respected by social partners. The ceiling is set according to projected wage growth in Belgium's main trading partners (the Netherlands, France and Germany). In addition, wages are indexed to inflation. In the absence of direct government intervention in wage bargaining, this system has allowed for rapid wage increases, both because wages in trading partners tended to be overestimated (by on average 0.9 percentage points for the eight two-year periods preceding 2013 [CCE, 2014]), and because inflation in Belgium was relatively high (Figure 8.D).

As part of the 2017 budget the Federal government proposed several changes to the Competitiveness Law of 1996. The reforms' principal aim is to better safeguard cost competitiveness, but without removing wage indexation. The ceiling for wage growth ("the maximal available margin") will be set in the following way:

- First, the expected wage growth in France, Germany and the Netherlands for the two coming years (A) is established.
- Projected inflation in Belgium will form the basis of the expected wage indexation (B).
- An *ex-post* correction term (C) will then be applied in order to correct for divergence in wage evolution between Belgium and the neighbouring countries since 1996. Thus when determining wage growth for the forthcoming two-year period, cumulated wage developments in Belgium and neighbouring countries from 1996 will be considered.
- An *ex-ante* correction mechanism, or safety margin (D), will also be put in place in order to reduce the possibility of forecasting errors (in domestic inflation and/or wage growth in the neighbouring countries) arising in the first place.
- The ceiling will be determined in the following way: A-B-C-D. Based on this and other information provided in the report of the Central Economic Council, the social partners will bargain over the maximum margin.
- In addition, the reductions of employers' social security contribution that result from the Federal government's tax shift in the period 2016-20, at least half of all future employers' social contribution reductions and half of all negative handicaps since 1996 will be excluded from calculations of wage growth. These exclusions will be used to reduce the historical wage gap that existed before 1996.

Source: Office of the Minister for Economy, Employment and Consumer Affairs.

Table 10. **Past OECD recommendations on wage-setting and competition policy**

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Reform the wage formation process, notably the system of wage indexation, to better reflect domestic productivity developments	Wage indexation temporarily suspended. Reform to the wage formation process.
Make regulation retail distribution and professional services less restrictive	On the federal level the professional qualifications directive has been transposed horizontally and vertical transposition is on-going. In the Flemish Region, the decision was approved to deregulate most of the regulated professions on 17 March 2017.
Reduce administrative burdens on start-ups	Federal and regional initiatives aimed at simplifying administrative procedures for SMEs, including for micro-firms (e.g. The Brussels-Capital Region's Small Business Act).

faster than domestic productivity (OECD, 2015a), and it reduces adjustment to real shocks that would require internal devaluations, important in a currency union. In this respect competitiveness would be better safeguarded by linking wages more directly to

productivity, although productivity growth can be difficult to reliably estimate and predict. The authorities should evaluate the results of the reformed wage-setting system and assess the need for additional reform.

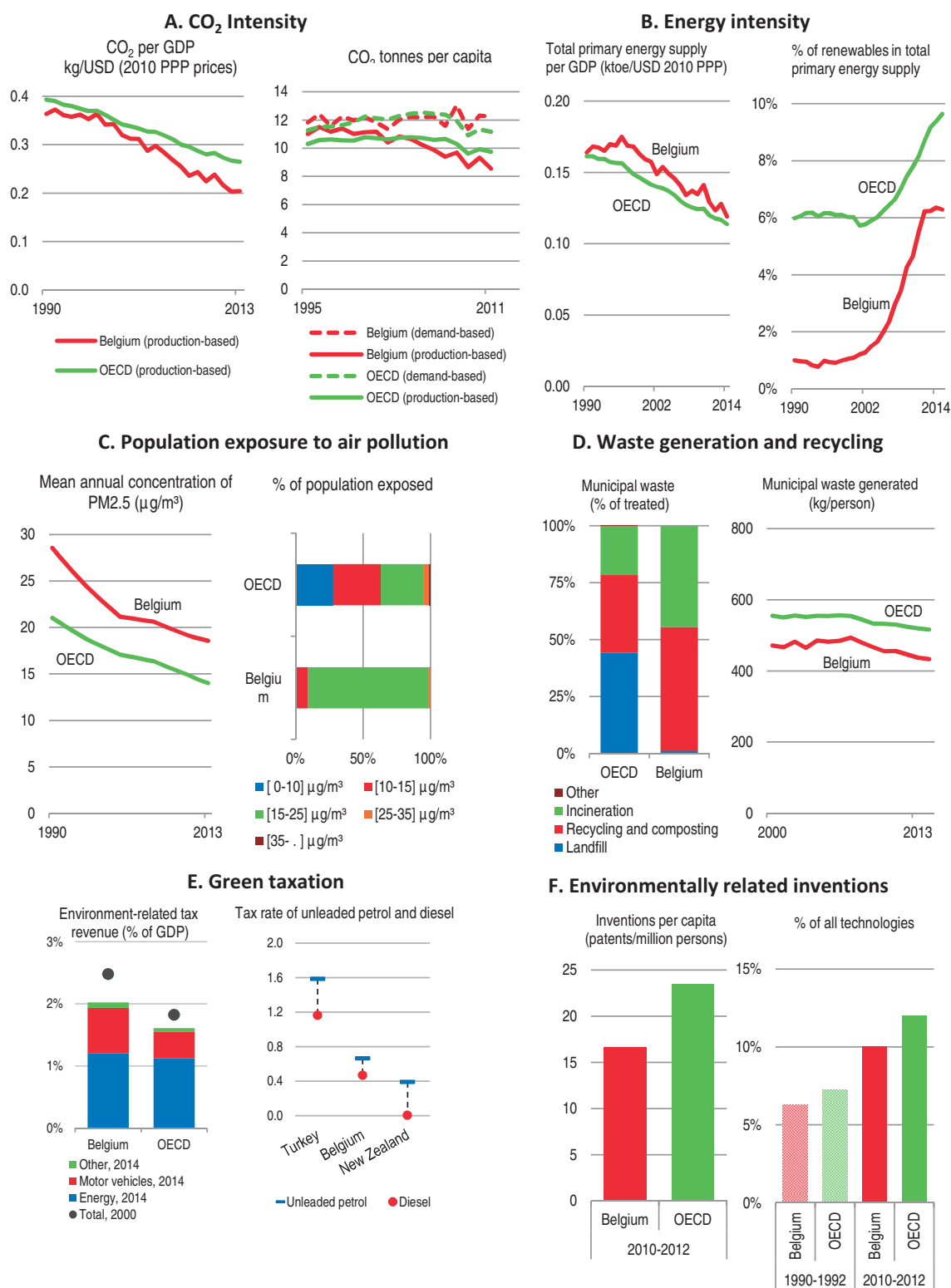
Improving environmental quality and promoting a greener and more inclusive economy

Belgium's high degree of urbanisation and extensive commuting and congestion contribute to an average exposure to harmful small particles that is significantly higher than the OECD average. However, the proportion of people exposed to some of the highest levels of pollution is below the OECD average. The overall trend is improving in Belgium, but it is not catching up with the also improving OECD average (Figure 22.C). Green investment, especially in transport infrastructure, could reduce bottlenecks and contribute to the transition to a low-carbon economy. Besides raising growth and productivity, such investments combined with environmental taxes could make growth greener and more inclusive. Improving public transport, increasing use of congestion charges and eliminating the favourable tax treatment of company cars are all policies that could improve air quality. The authorities have already taken steps in this direction (Table 11). The transition toward a greener economy can also reshape the labour market and create new opportunities, including for the most vulnerable (OECD, 2012b). Appropriate skills policies, as discussed below, are key to making the most of these new opportunities.

Belgium's economy is somewhat more energy intensive than the OECD average, but intensity has declined faster than in other countries over the past two decades. CO₂ emissions per capita and per unit of GDP are below OECD averages, as nuclear energy provides around half of Belgium's electricity and nearly 17% of total primary energy supply. Furthermore, over one fifth of Belgium's electricity is imported. The share of renewables grew quite rapidly during the 2000s, due to increasing exploitation of biofuels and waste. Although there has been a surge in wind and solar generation, the overall share has stagnated in recent years. Renewables contributed 8% of total primary energy supply in 2014. This share will need to increase substantially to meet the national target for 2020 (13% of total final energy consumption). The Federal government's plan to phase out nuclear power production by 2022-25 calls for further renewable energy development and will also require investment in gas-fired power plants. Phasing out nuclear energy is likely to have a significant impact on energy supply, on electricity prices and on Belgium's ability to meet its long-term greenhouse emission targets (IEA, 2016).

The transition to cleaner energies is an opportunity to develop and adopt new technologies which could boost growth, jobs and inclusiveness while addressing environmental concerns. The share of environmental inventions in total patents has risen very substantially since the early 1990s, as in many countries, but still lags the OECD average by around 30% on a per-capita basis.

Other environmental challenges include the coverage of sewage water treatment, where Belgium is still behind some of its neighbours. 84% of households are connected to at least secondary urban wastewater treatment. In some parts of the country the limited coverage is in part due to dispersed building patterns that impede a cost-effective connection of every household to a public water treatment plant. On the positive side, household waste generation in Belgium has been falling since 2007 and remains somewhat below the OECD average. Disposals to landfills have been entirely eliminated and a much higher share of non-landfill waste is recycled or composted than in many other countries.

Figure 22. **Environmental challenges**

Source: OECD (2016), OECD Environment Statistics Database (Green Growth Indicators, Patents: Technology Development, Municipal Waste); OECD National Accounts Database; IEA (2016), IEA World Energy Statistics and Balances database; IEA Energy Prices and Taxes database; OECD calculations based on data from M. Brauer et al. (2016).

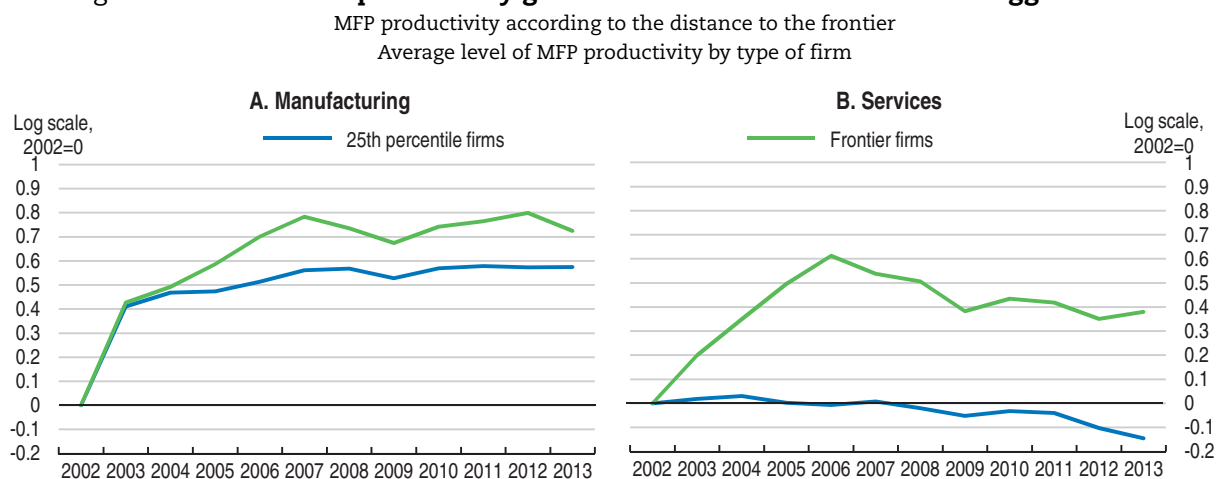
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Table 11. **Past OECD recommendations on green growth**

Summary of recommendations	Summary of action taken since 2015 Survey
Shift subsidies of energy-saving investments towards more cost-effective technologies.	Flemish Region subsidies of energy-saving investments in residential and non-residential buildings reformed: subsidies and property tax discount for new installations in solar and wind energy; subsidies and property tax discount for energy-related renovation of existing buildings.
Increase energy taxation for residential use.	Indexation of electricity and gas prices, on the basis of market-based parameters and elimination of reduced VAT rate on electricity as of September 2015 for residential consumers. Higher consumption tax on electricity in the Flemish Region.
Reduce subsidies to commuting by car and introduce congestion charges in the largest cities.	New toll for heavy trucks. Lower tax deduction on company cars. Introduction of a mobility budget for employees benefiting from a company car. Grants/tax subsidies for individuals/companies buying environmentally friendly cars in the Flemish Region.
Increase power generation from renewables in order to meet 2020 emissions targets.	Co-operation agreement on burden sharing between the regions and federal authority on climate-energy targets by 2020. Flemish Action Plans 2020 and targets for photovoltaic and wind energy were approved in 2016.

Making the business environment more supportive of productivity gains

While GDP per hour worked increased by 1.5% a year between 1996 and 2005, the rate dropped to 0.5% between 2006 and 2015 (see Figure 4.B). A similar deceleration in productivity growth occurred in most OECD countries, but the decline has been more pronounced in Belgium (See Figure 4.C). In most OECD countries, the decline in productivity growth is mainly explained by lower productivity gains from laggard firms (OECD, 2015c). The same is broadly true of Belgium, although productivity gains among frontier firms in the services sector also appear to have stagnated in recent years (Figure 23). The challenge in this context is to revive broad-based productivity growth, notably by fostering a business environment that facilitates innovation and widespread diffusion of advanced technologies.

Figure 23. **Multifactor productivity growth has slowed for frontier and laggard firms**

Note: Frontier firms are those with the 3-year moving average multifactor productivity (MFP) equal or above 95% distribution of productivity within its sector. MFP is calculated using Wooldridge method to estimate productivity, as in Andrews et al. (2016). The calculations are based on the sample of firms with an average of 20 and more employees and at least three years presence in the ORBIS data set. On average, the sample constitutes of about 1432 firms in manufacturing and 3456 firms in services each year.

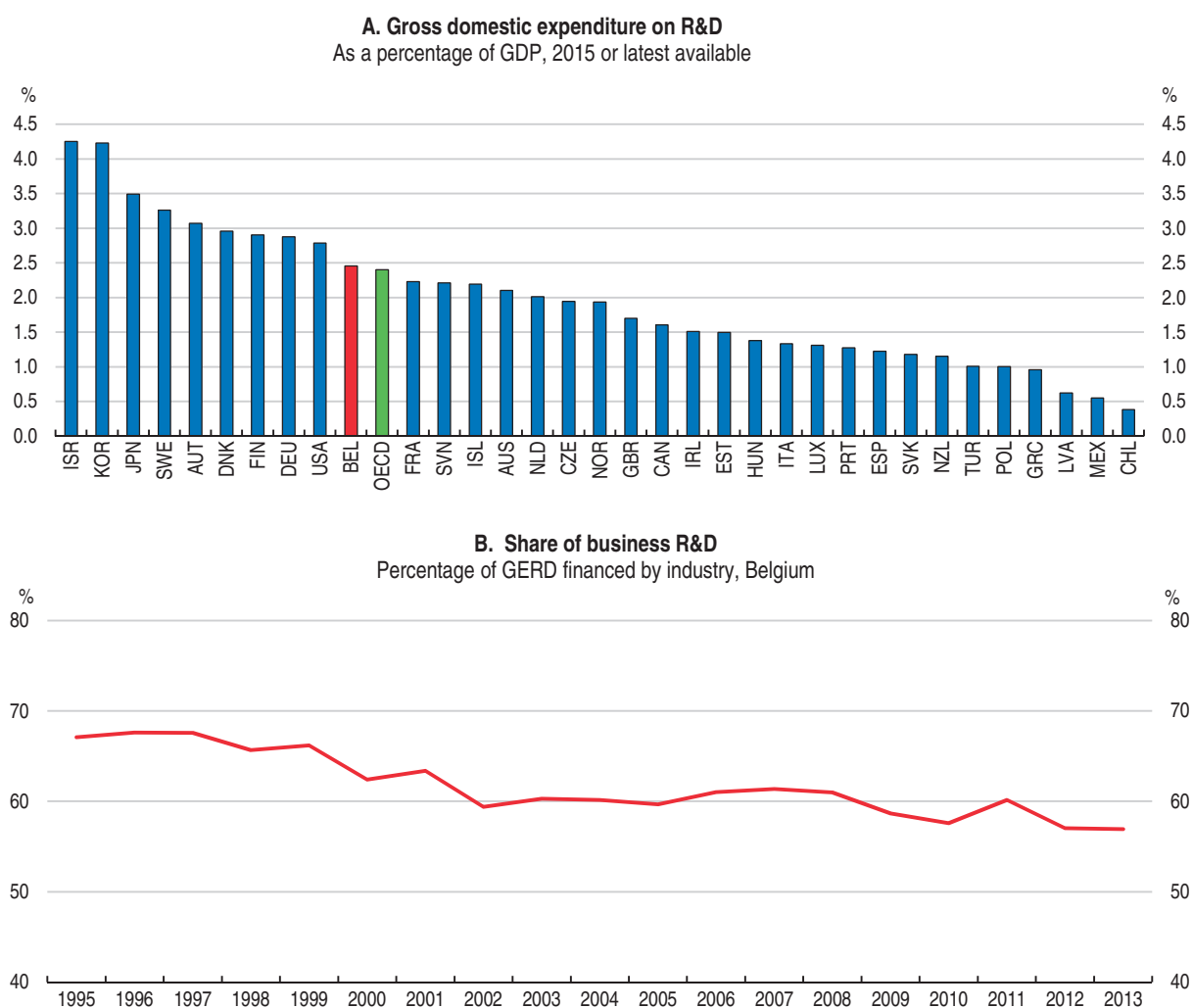
Source: OECD calculation, ORBIS data.

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Strengthening innovation at the frontier

The European Innovation Scoreboard 2016 classifies Belgium as a “Strong Innovator”, with a normalised score of 0.6. One of the main drivers of innovation and productivity is investment in intangibles, in particular spending on research and development (R&D) (OECD, 2015c). Belgium’s gross spending on R&D, at 2.5% of GDP in 2014, was higher than both EU and OECD averages, though short of the Lisbon target of 3% (Figure 24.A). However, the share of business enterprise R&D in total R&D has declined over the past two decades, stabilising below 60% after the financial crisis (Figure 24.B). Business expenditure on R&D tends to be concentrated in firms that are already highly productive and want to stay at or reach the technological frontier (OECD, 2015c). Therefore, the challenge for policy makers is to induce more firms to expand their investment in R&D intangibles.

Figure 24. **R&D investment is around the OECD average**



Note: For Australia, Canada, Ireland and Turkey, data refer to 2014.

Source: OECD, *Main Science and Technology indicators*.

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The federal and regional governments have launched a number of programmes to foster firm-level R&D and innovation. For example, firms may deduct 80% of their patent income from their taxable income, while there is a partial withholding exemption on wages paid to

researchers working on R&D projects. The former was repealed in July 2016, with a grandfathering rule for existing patents. A new regime which is in line with the OECD/G20 BEPS “modified nexus approach” (OECD, 2014b), has recently been approved. Another reform is the widening of the scope of innovation income (such as licences and exclusive rights) qualifying for deductions. Restricting eligibility to firms that engage in substantial R&D activities is under discussion. In this context, the authorities should make sure that tax incentives are backed by R&D activity (spending) to reduce the scope for tax avoidance.

The three regions have developed their own set of research and innovation support policies to nurture economic clusters, simplify government aid procedures and reduce administrative burdens. Industrial cluster promotion in global value chains is among the main policy aims in the Flemish Region and the Walloon Region, and services clusters are prominent in the Brussels-Capital Region. Some progress has been made in reducing fragmentation in support schemes within regions. As of 2016, in the Flemish Region there is a single agency for all business support and a single agency for researcher support. There is also explicit support at the interregional level for joint R&D projects between firms located in different regions.

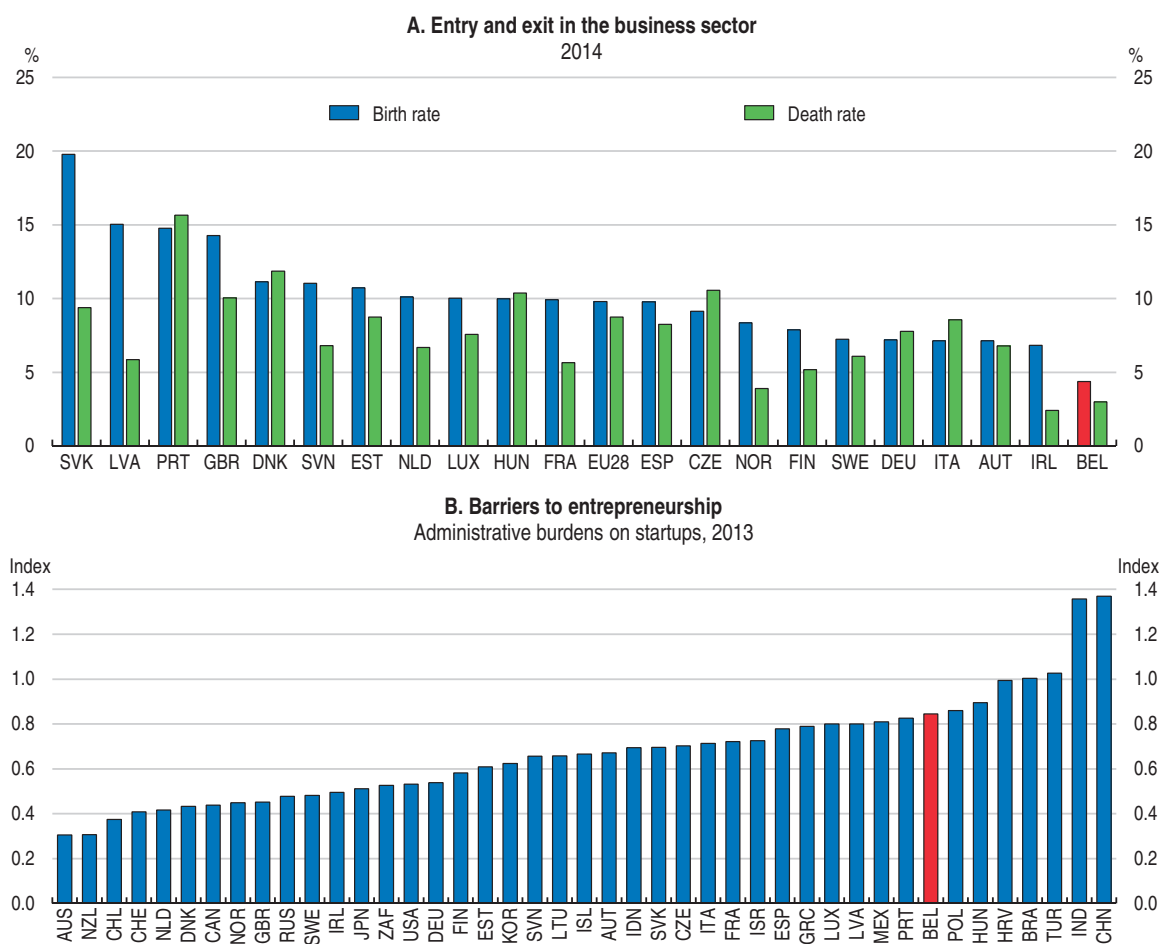
Each regional authority should continue to streamline public support schemes for R&D and innovation. To maximise transparency and the impact of support, federal and regional authorities should further stimulate collaboration between research institutions, all types of companies and community actors.

Strengthening business dynamism

Young firms often have a comparative advantage in commercialising radical innovations (Baumol, 2002), so that a vibrant start-up culture is conducive to innovation and high productivity growth. The business landscape in Belgium is characterised by very low rates of enterprise creation and exit (Figure 25.A), although recently the number of start-ups has accelerated (Table 12). The World Bank’s Doing Business report ranks Belgium favourably overall, especially on its regulatory framework, market conditions, access to finance, and entrepreneurial capabilities (De Mulder and Godefroid, 2016; Figure 26). However, Belgium scores poorly on contract enforcement (Calvino et al., 2016, Table 13) and its high paid-in minimum capital requirements (Dreher and Gassebner, 2013). The relatively poor “enforcing contracts” score is mainly due to low court automation and weak case management (WB, 2016a).

The relatively high administrative burden on start-ups may also have dampened entrepreneurship (Figure 25.B). To encourage start-up enterprises, the Federal government has implemented measures within its “SMEs plan” of February 2015 that aim to reduce administrative costs associated with firm registration by 30%, for example by creating a single administrative contact for SMEs. These efforts are complemented at the regional level by initiatives to simplify administrative procedures for SMEs.

Some elements of the tax system might also hamper growth of young firms and discourage firm creation. In particular, like many other countries, Belgium exempts small companies from registration for VAT in order to simplify their tax procedures. However, the threshold from which registration is required is relatively low and, across EU countries, low VAT registration thresholds are associated with low rates of business entry as they tend to increase administrative burdens (IMF, 2016b). The Belgian authorities, aware of the potentially detrimental impact of a very low VAT registration threshold, raised it to EUR 25 000 as part of the reforms of the “SMEs plan” of 2015.

Figure 25. **Business dynamism is weak**

Source: Eurostat and; OECD, PMR indicators Database.

StatLink  <http://dx.doi.org/10.1787/888933496672>Table 12. **Growth rate of the number and start-ups and failures in Belgium**

	2009	2010	2011	2012	2013	2014	2015	2016
Start-ups	-2%	10%	4%	-6%	1%	4%	2%	7%
Failures	10%	4%	6%	5%	10%	-9%	-6%	-5%

Source: Graydon and Unizo.

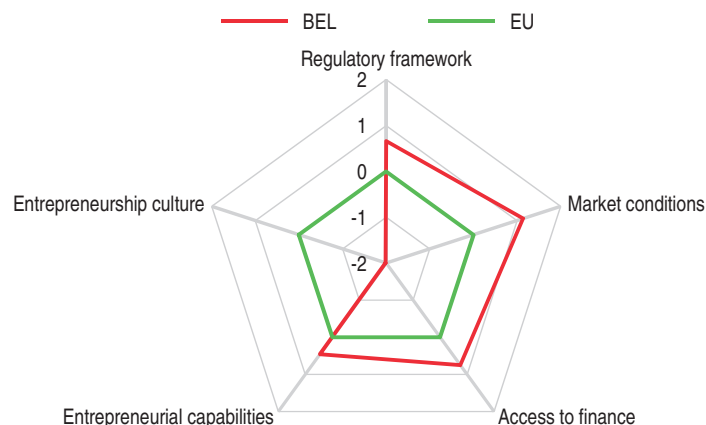
Recent empirical work also found that Belgium ranks last among EU countries in terms of entrepreneurship culture (De Mulder and Godefroid, 2016), which captures factors like job prestige and risk aversion. These findings suggest that the authorities should further extend existing advocacy programmes in schools to strengthen entrepreneurship education and better inform young graduates about the nature and opportunities in private business.

Enhancing technological diffusion

Strong, broad-based productivity growth requires diffusion of technological and organisational advances. Belgium has a rather heterogeneous distribution of productivity performance at the firm level (Figure 27). A small fraction of firms are as productive as any in Europe, but many others are far less productive.

Figure 26. **More should be done to foster entrepreneurship culture**

Relative performance to the EU, 2009-15



Note: Lower scores indicate lower performance. Scores are expressed relative to EU average equal to zero for each indicator. For EU, data refer to the unweighted average of scores calculated for Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden.

Source: De Mulder and Godefroid, 2016.

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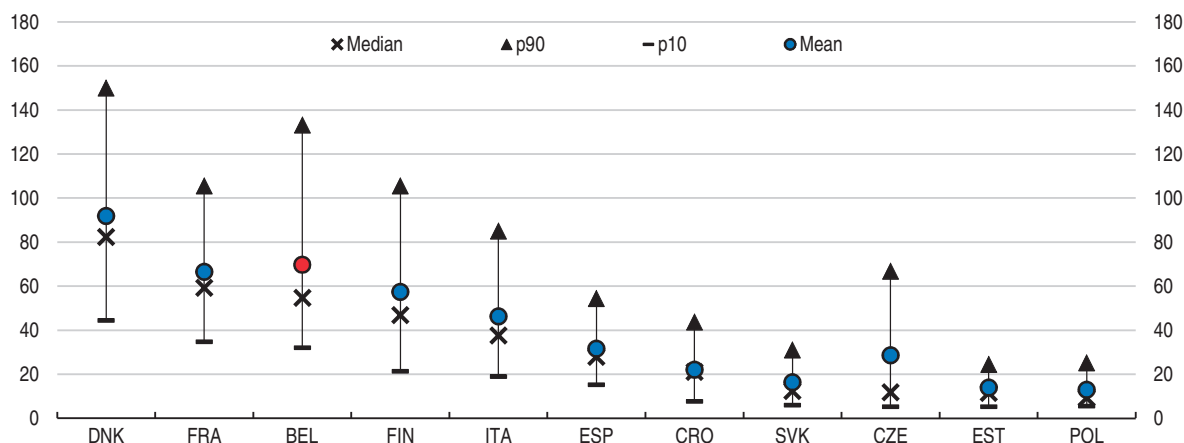
Table 13. **World Bank Doing Business indicator for Enforcing Contracts**

	Time (days)	Cost (% of claim)	Quality of judicial processes index (0-18)
Belgium	505	18	8
OECD Median	431	22.1	11
OECD Best	216	9	15.5
OECD Worst	1 580	43.9	7

Source: World Bank, *Doing Business Database*.

Figure 27. **The distribution of labour productivity across firms is wide**

Real value added per employee averaged over the period 2007-13



Source: CompNet, 2016.

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The inter-firm diversity in productivity performance is partly explained by the level of integration into global value chains (GVCs). Innovations at the global frontier tend to be quickly adopted by multinationals and dispersed to their affiliates around the world.

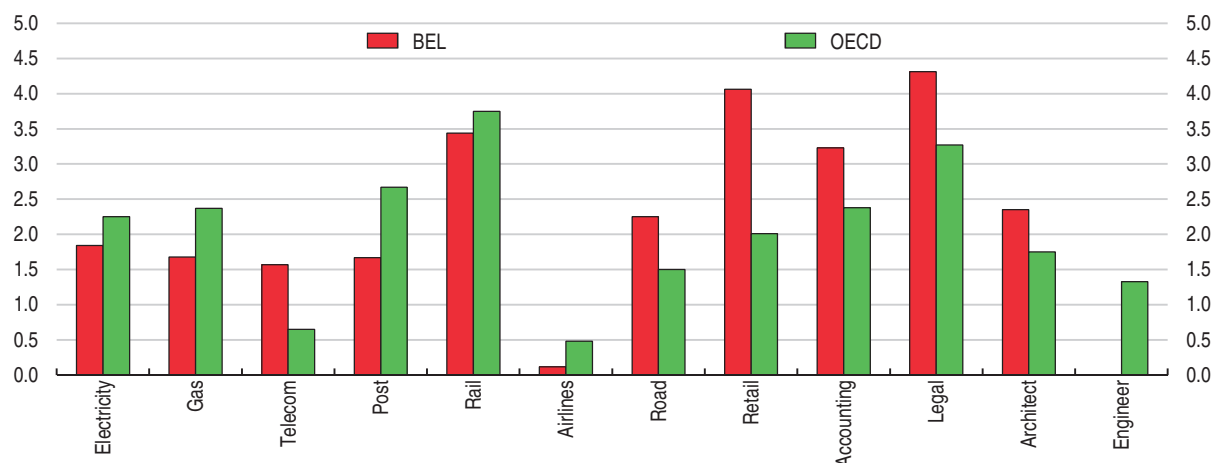
Moreover, domestic companies that have direct commercial relationships with multinationals tend to benefit through spill-over effects (NBB, 2013). Belgium maintains an open trade regime and has less stringent regulations than the OECD average in 20 out of 22 service sectors (OECD, 2016a). However, in accounting, auditing and architectural services ownership restrictions impede international integration. In companies providing auditing and accounting services, 50 % + 1 of the voting rights must be owned by locally registered professionals. In companies providing architectural services, 60% of the voting rights and equities must be owned by locally registered professionals. These rules apply equally to Belgian and foreign nationals. For EU nationals, the rules of recognition of qualifications of directive 2005/36/EG are applicable. The conditions for access of legal persons to economic and intellectual professions such as architects and accountants are currently being studied. The authorities should continue to promote trade openness, international connectivity and mobility of highly skilled labour in order to achieve more pervasive GVC integration of domestic firms.

Global production chains rely on well-functioning transport and logistics networks. Belgium is a major logistics hub in Europe due to its geographical position and strong port infrastructure (WB, 2016b). The quality of some types of infrastructure, in particular the road and rail network, is slowly adjusting to changing needs after a period of weakness in public investment contributed to the deterioration of infrastructure. The World Economic Forum ranked Belgium 10th in the world with respect to the quality of roads in 2006/07, but only 30th in 2015 (WEF, 2016).

The co-existence of firms with very different productivity levels in Belgium may also suggest that there is room to further improve the allocation of resources. Part of the slowdown in productivity growth has been attributed to a change in the composition of the Belgian economy, with the contraction of highly productive manufacturing activities and the expansion of relatively less productive services sectors (Biatour and Kegels, 2015). Some non-tradable services, such as retail distribution or some professional services, remain highly regulated (Figure 28). Better implementation of the Single Market for Services could also yield important benefits for Belgium. Main other areas to be considered by the authorities for reform include:

Figure 28. Some sectors remain highly regulated

OECD PMR indicator, lower is less restrictive



Source: OECD (2013), Product Market Regulation Database.

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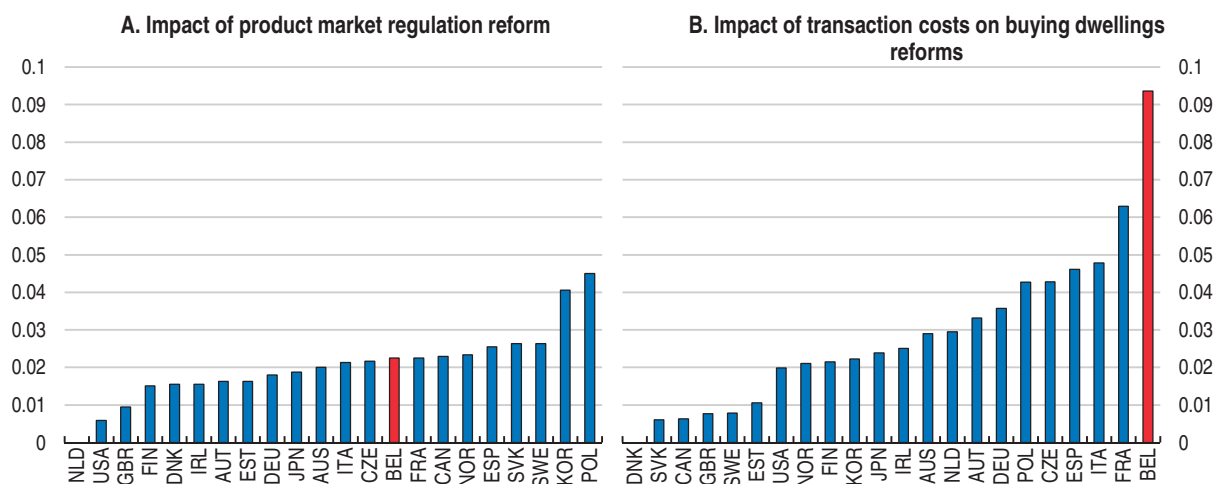
- In retail trade, specific regulation of large outlets persists, protecting existing firms.
- In accounting, architectural and legal services, professional association membership remains compulsory.

Raising and mobilising skills to boost growth and inclusiveness

Making better use of existing skills

Recent evidences suggest that university-educated workers are not optimally located in firms where they might contribute the most to the creation of economic value (Vanderberghe, 2016; Chapter 2). PIAAC micro-data drawn from interviews of a panel of employers in the Flemish Region suggest that skills mismatches risk to negatively affect productivity at both the aggregate and sector level (Adalet and Andrews, 2015). While over-educated workers may improve the productivity of individual firms (Mahy et al., 2015), macroeconomic performance may be reduced as the productivity-enhancing effect of advanced education is greater among the most productive and innovative firms that are part of the efficiency frontier or located close to it (Aghion et al., 2006; 2009) and if some firms have difficulty attracting the workers that they would employ more productively (Andrews and Cingano, 2014). Overall, OECD estimates suggest that reducing skills mismatches to the lowest level of the OECD could increase economy-wide productivity gains by about 3% in Belgium (Adalet and Andrews, 2015).

Figure 29. **The potential impact of regulation on skills mismatches**



Note: Estimation of cross-country reductions in skill mismatch from reforms to the best practice level of the two policy variables. For instance, if Belgium reformed product market regulation to best practice the probability of skills mismatch would fall by almost 2.5%. Product Market Regulation is the aggregate indicator for 2008. Transaction costs include a number of fees such as transfer taxes (e.g. stamp duties), registration fees incurred when registering the property in the land registry, notarial or other legal fees and typical real estate agency fees and refer to 2009.

Source: Adalet and Andrews (2015).

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Housing, product and labour market policies (Figure 29) could all contribute to a better allocation of resources:

- Residential mobility is low, with about 10% of workers changing place of residence within a two-year period and job-to-job mobility below the EU average (Eurostat, 2016). This contributes to skills mismatches as it is associated with weak worker reallocation (Caldera Sánchez and Andrews, 2011). Despite recent reductions in fiscal support for

home ownership (see Table 7), owner occupancy as a share of total housing tenure and transaction costs in the housing market are high. Federal authorities could thus raise the cadastral values to make them better reflect market values, while regional authorities could reduce the tax deductibility of mortgage debt, as recommended in the 2015 OECD Economic Survey. At the same time the authorities should assess the need for compensatory measures for financially constrained owner-occupiers, such as the right to accumulate tax arrears until the property is sold.

- Comparatively stringent product market regulation and high barriers to entry also protect low-productivity incumbents and contribute to skills mismatches and lower productivity growth by preventing more productive firms from entering the market and making better use of highly skilled workers (Adalet and Andrews, 2015). As discussed above, there is some scope to ease product market regulation, particularly in service industries and retail trade, to boost firms dynamism and improve the allocation of resources (see also Chapter 1).

Improving the employability of seniors for a more productive and inclusive society

In terms of demographic trends, the situation in Belgium is very similar to that of other European countries. Population ageing heightens the importance of ensuring older workers are not excluded from the labour market. Adult education and training (AET) is useful in this regard as it can help workers maintain and update their skills to match labour market demands. Participation in AET is well below the EU average and is particularly poor among older workers (Figure 30). While a higher retirement age will increase incentives for both employer and employee to invest in AET, more proactive policies should also be considered. The government's decision to oblige firms to provide workers with at least five working days of AET per year as legislated in the recent *Werkbaar, Wendbaar Werk* (WWW) labour market reform is welcome.

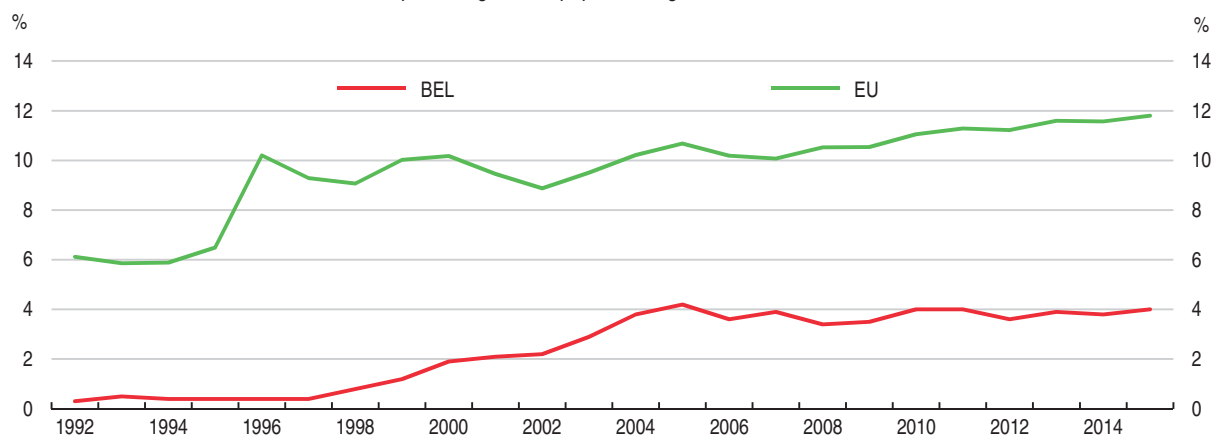
Establishing age-friendly organisational structures and working environments can help older workers make the most of their skills (Appannah and Biggs, 2015). Existing measures aimed at older workers, like the obligation for every firm with more than 20 workers to implement a *Werkgelegenheidsplannen voor oudere werknemers* (Employment opportunity plan for older workers), or the financial help provided by the regions to accommodate the needs of older workers should be evaluated and, if appropriate, amplified. The Flemish government is currently developing a new scheme to help workers retrain or reorient themselves towards different professional careers. Social partners should more systematically identify and disseminate best practices to improve the working environment for older workers.

Greater work flexibility should be used to accommodate older workers' need for flexible work. However, authorities should ensure that fewer hours worked are associated with lower labour costs. If flexitime leads to an increase in unit labour costs it is likely to be negative for employment growth (Kantarci and Soest, 2008). The WWW reform will introduce an annualisation of the calculation of working time, an extended right to teleworking and portability of paid holidays in case of job changes.

As many other countries Belgium has a seniority-based pay structure. Such arrangements have been found to motivate greater effort over a working life (Lazear, 1979; Kirsten and Heywood, 2007), but if wages increase too steeply a seniority-based pay structure may also dampen professional mobility and decrease employment opportunities of older workers as their wages and productivity levels diverge (Zwick, 2012). Although

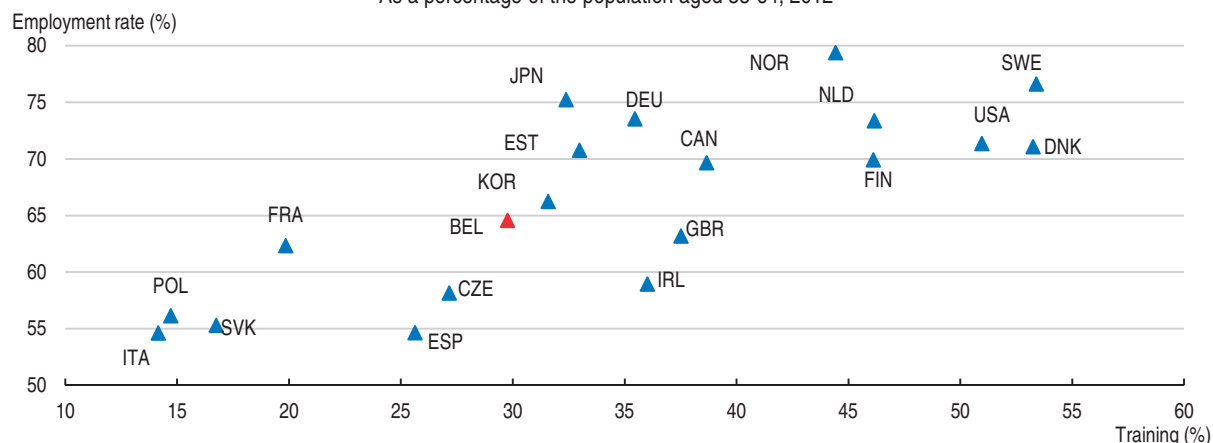
Figure 30. **Participation in adult education and training is low**

A. Individuals aged 55-64 who have participated in education and training in the last 4 weeks
As a percentage of the population aged 55-64, 1992-2015



B. Adult education and training is associated with higher employment rates

As a percentage of the population aged 55-64, 2012



Note: In panel B, training axis refers to participation in training activities over the past year. For Belgium, data refer to Flanders.

Source: Eurostat, Labour Force Statistics and; OECD, PIAAC 2013.

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confined to white-collar workers, seniority-based wages are relatively high in Belgium (Figure 31). The Federal government's General Policy Statement of 2014 contains an explicit commitment to reduce seniority-based pay, concomitantly to pension and early retirement reforms. The government could guide efforts to reduce the steepness of seniority-based wage profiles through the well-established tri-partite wage bargaining process.

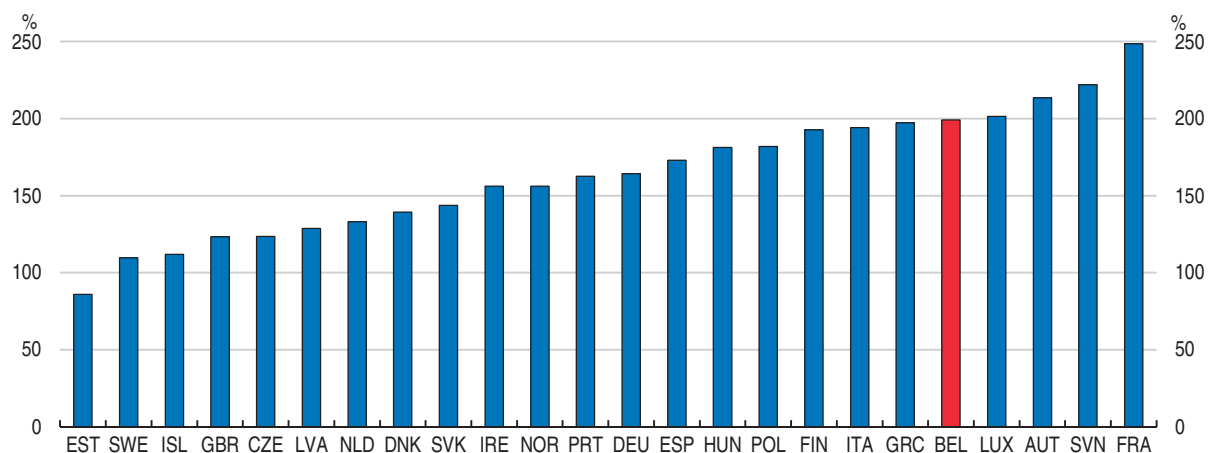
With one of the highest shares of long-term unemployed for those aged 55 and above (Table 14), the risk of skills loss for older people is high. Federal and regional authorities have introduced a number of initiatives to support older jobseekers, including job placement services and stricter job search obligations. These efforts should continue, also by tightening of the career-break scheme for public sector workers.

Building the skills for the future and a future for all

A relatively large share of youth does not complete upper-secondary education (Nusche et al., 2015). This may explain the gradual reduction of Belgium's lead in tertiary education

Figure 31. **Estimation of relative wages for seniors are comparatively high in Belgium**

Wage of male workers aged 60-64 relative to workers aged 30-35, 2012



Note: For Belgium, data refer to Flanders. Relative wages are obtained using HECKIT 2-stage estimation, regressing (log) gross hourly wages on age group, controlling for years of schooling, PIAAC scores and occupational status.

Source: OECD, PIAAC 2013.

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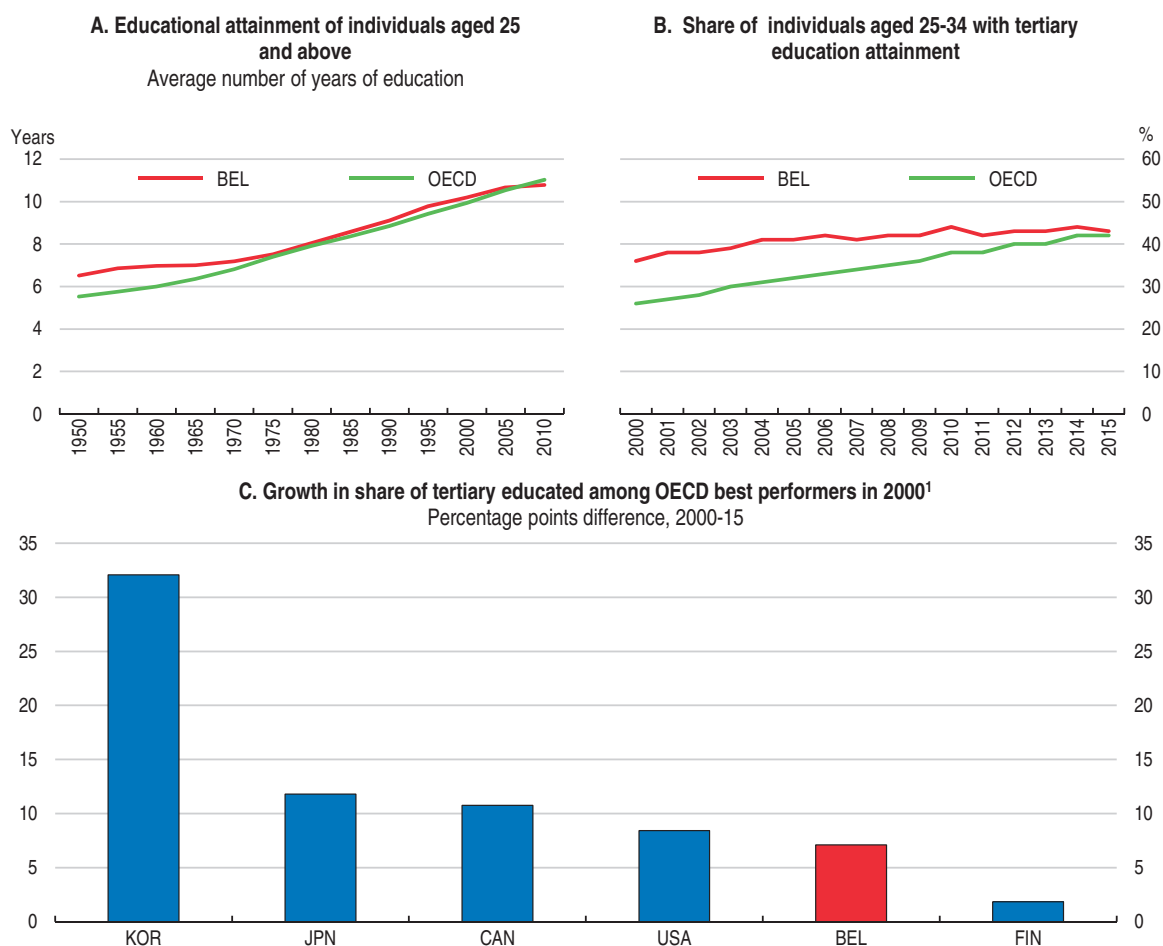
Table 14. **Long-term unemployment among seniors (aged 55+)**

	Unemployment duration above 1 year
Belgium	76.2
France	63.7
Germany	60.1
The Netherlands	68.4
OECD	42.6

Source: OECD Database.

vis-à-vis other countries in recent decades. Although Belgium does well in absolute terms, progression has been slow (Figure 32). These dynamics cannot be explained by a catching-up effect. All but one of the countries that had higher shares of tertiary-educated individuals in 2000 have made more progress than Belgium (Figure 32.C). Moreover, the share of over-educated among workers is comparatively low, suggesting that there is still room to increase educational attainment (Chapter 2; Adalet and Andrews, 2015). Shortcomings in the educational system extend to the labour market. The youth unemployment rate (15-24 years) was 20.1% in Belgium in 2016, compared to an OECD average of 13%.

Socio-economic background is an important determinant of educational attainment, as described in the previous Economic Survey (OECD, 2015a). Youth with an immigrant background are only 65% as likely to obtain a tertiary degree as their native peers; almost the lowest ratio across the OECD (Figure 33). Cross-country evidence suggests that educational support for migrant children and youth is most effective in early childhood (Nusche, 2009). Despite having spent their entire childhood in Belgium, many second-generation (non-EU) immigrants may have limited proficiency in the language of instruction when they start primary school. Providing pre-primary language education to these children would improve their school readiness and allow them to start on an equal footing with their peers. The 2015 Survey analysed in detail the determinants behind lower educational outcomes of children of (non-EU) immigrants and identifies a set of actions

Figure 32. **The progression of education attainment is slowing down**

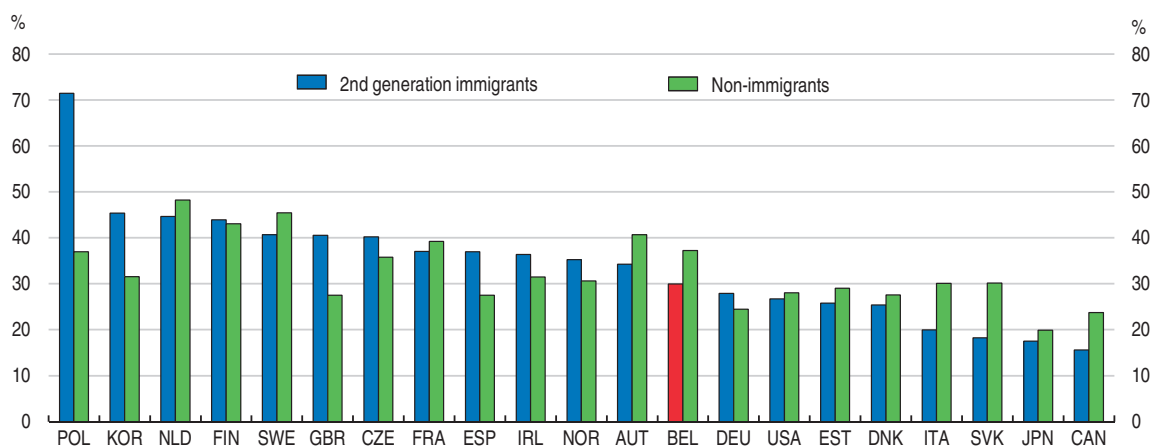
1. Top six countries with highest share of individuals aged 25-34 with tertiary education attainment in 2000.

Source: Barro & Lee, 2016 and; OECD, *Education at a Glance 2016 Database*.

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Figure 33. **The educational attainment of immigrants is low**

Share of people aged 25-34 with tertiary education by population group, 2012



Note: For Belgium, data refer to Flanders.

Source: OECD, PIAAC 2013.

StatLink <http://dx.doi.org/10.1787/888933496750>

Table 15. **Past OECD recommendations to enhance labour market integration of immigrants, mobility and skills**

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Monitor enrolment to reduce the concentration of disadvantaged students in particular schools. Improve teacher training and incentives to attract more qualified teachers to disadvantaged schools.	Adoption of a concept note by Flemish Government on March 25, 2016 containing proposed measures for raising the profile of new entrants to teacher education programmes and streamlining of programmes and quality enhancement of teacher training. Recent evidence suggests that a 2011 decree by the Flemish government to grant priority to certain places in oversubscribed schools in proportion to the socioeconomic composition of each school's neighbourhood, has led to a decrease in segregation. As part of the "Pact for Excellence in Education" (FWB) The French Community has implemented measures to foster inclusive education, reduce school dropouts and grade repetition.
Proceed with reforms to reduce grade repetition and delay tracking in secondary education. Expand workplace-based learning in vocational education.	Increased funding by regions and communities for a variety of initiatives to reduce early school leaving: a Youth Guarantee scheme in Brussels-Capital Region, a decree to closely monitor those at risk of leaving school early by Parliament of the French Community, an action plan 'together against early school leaving' and a pilot programme on dual learning in Flemish Community. The "Opleidingsplan 2020/Plan Formation 2020" adopted by the Brussels-Capital Region on December 6, 2016 plan to strengthen work-based learning.
Continue to co-operate with social partners to further expand diversity plans in firms. Expand training offers, including on languages, and skill validation for immigrants	In response to the refugee crisis, the Federal Individualised Project for Social Integration (IPSI) was expanded to provide immigrants with necessary skills to enter the labour market: a job-insertion plan including languages training, skills validation and proposition of a training offer in the future and in-demand technological jobs in the Walloon Region A social, professional and linguistic assessment of migrants as well as specific offer of training and/or validation for newly arrived migrants included in The "Plan Formation 2020" in Brussels-Capital Region. The Flemish Region also recruited additional language counsellors to its employment service and extra language support in pre-primary, primary and secondary education. In addition, the Flemish government approved a 'Horizontal Integration Policy Plan' in July 2016. The plan aims to reduce the ethnic gap: the social position of persons with a migrant background is in many areas worse than the position of persons of Belgian origin.
Improve vocational training to better reflect labour market demands	The Walloon Region and the Brussels-Capital Region has set up a single contract for young people attending dual vocational education to strengthen incentive from employers. Both regions have also appointed sectoral tutors, financed both by the regional authority and employers. The French Community reformed the apprenticeship training in September 2015. Increase in the number of trainee placements in the Brussels-Capital Region. In Flanders multi-annual planning, including through dual learning programmes, has contributed to a clear increase in the outflow from vocational training to work over the past two years In the French Community "Pact for Excellence in Education" (FWB) includes an upgrade of vocational education. An employment and training observatory was established in December 6, 2016 to improve the relevance of the training offer.
Enhance labour market flexibility in order to facilitate entry of excluded groups	Implementation of the <i>Werkbaar, Wendbaar Werk</i> reform will make working time more flexible

(Table 15; OECD, 2015a). The three communities are all aware of these challenges and have implemented major education reform (Chapter 2).

Another important challenge is to reduce the concentration of pupils with low socio-economic and (non-EU) immigrant backgrounds in some schools as this tends to be detrimental to educational outcomes. The introduction of controlled school-choice schemes is welcome and should be expanded if proven effective in reducing school segregation (Nusche et al., 2015). Authorities should also consider the use of incentives schemes to attract teachers to schools with a high concentration of disadvantaged pupils. Another challenge is to promote the participation of teachers in training with content on teaching in multicultural settings, currently comparatively less developed in Belgium (OECD, 2013d). In addition, measures to improve the socio-economic conditions of disadvantaged pupils by

combatting persistent underemployment among their adult family members (Table 16), when relevant, and reinforcing national languages learning (Fondation Roi Baudouin, 2016) are examples of policies that could have a positive indirect impact.

Table 16. **A persistent immigrant-native employment gap**
Employment rate by country of birth

	Employment rate (20-64 years old)		
	Native	Extra-EU28	Gap
2006	68.8	47.4	-21.4
2008	69.9	50.7	-19.2
2015	69.7	48.7	-21.0

Source: Eurostat, 2016.

Educational outcomes also differ by gender. As in every participating country in PISA 2015 among 15 year-old girls outperform boys in reading, although the gap in Belgium is narrower than the OECD average (OECD, 2016j). On the other hand Belgian boys outperform girls in mathematics and science by a wider margin than the OECD average. These differences extend to the tertiary level. Around 49% of 25-34 year-old women had attained tertiary education in 2015, compared to 37% for men (OECD, 2016b). However, in 2014 only 26% of bachelor's degrees in science, mathematics and computing were awarded to women, compared to an OECD average of 40%. This is the third lowest share of all OECD and partner countries with available data. The share of female graduates in this field is also considerably lower than the OECD average at the master's and doctoral or equivalent levels (OECD, 2016b). The underrepresentation of women in science-related fields reflects gender differences in attitudes (OECD, 2016j). Providing girls and boys with objective and reliable career information about science-related careers, including personal contact with employers and professionals could help reduce the influence of informal sources of information, which may lack reliability, solid information and impartiality, and confine choices to the known and familiar.

Per-student spending at the tertiary level has declined over the past few years (Table 17). In primary and secondary school, there is no mechanical link between expenditure (or the number of teachers per student) and learning outcomes (OECD, 2012a; Hanushek and Woessmann, 2017). Less is known about the tertiary level. However, highly skilled researchers and graduate students are increasingly mobile, and favour well-funded institutions (Gérard and Uebelmesser, 2014). Although both the French and Flemish communities increased funding for the fiscal year 2017, concerns remain about the long-term sustainability of the current model of financing tertiary education.

Table 17. **Changes in the number of students, expenditure on educational institutions and expenditure per student in tertiary education**
In % (2008-13)

	Change in expenditure	Change in the number of (full time) students	Change in expenditure per student
EU	11	7	6
OECD	17	11	5.5
Belgium	15	18	-3

Source: OECD (2016b).

Belgium has one of the lowest shares of private expenditure on educational institutions in the OECD. Public sources account for 95% of the expenditure for all levels of education combined, compared with an OECD average of 84% (OECD, 2016b). In 2015 roughly 6% of students in tertiary education were from other European countries, particularly from neighbouring countries with restricted access to studies in certain academic fields in their own national higher education system. Rather than entering the Belgian labour market many of these students choose to leave Belgium upon completion of their studies (Gérard and Vandenberghe, 2007).

The level of tuition fees in Belgium depends on a student's financial situation, the type of qualification (regulated for initial programmes, free for most advanced/executive programmes) and whether or not the student is an EU national. In the French Community around 70% of students in public or government-dependent private higher education institutions pay the maximum fee of EUR 836 per academic year. In the Flemish Community 77% of students in initial bachelor's degree and master's degree programmes pay the maximum fee of EUR 890, while in the German-speaking Community nearly all students pay EUR 450 (EC, 2015). In Germany students do not pay tuition fees. In France fees are generally fixed at around EUR 400 a year for an undergraduate degree and EUR 470 for a master's degree, although around one-third of students are exempt from fees. At certain schools and for certain subjects fees are higher and may reach up to EUR 10 000 per year. In the Netherlands all students pay fees of EUR 1951 per year.

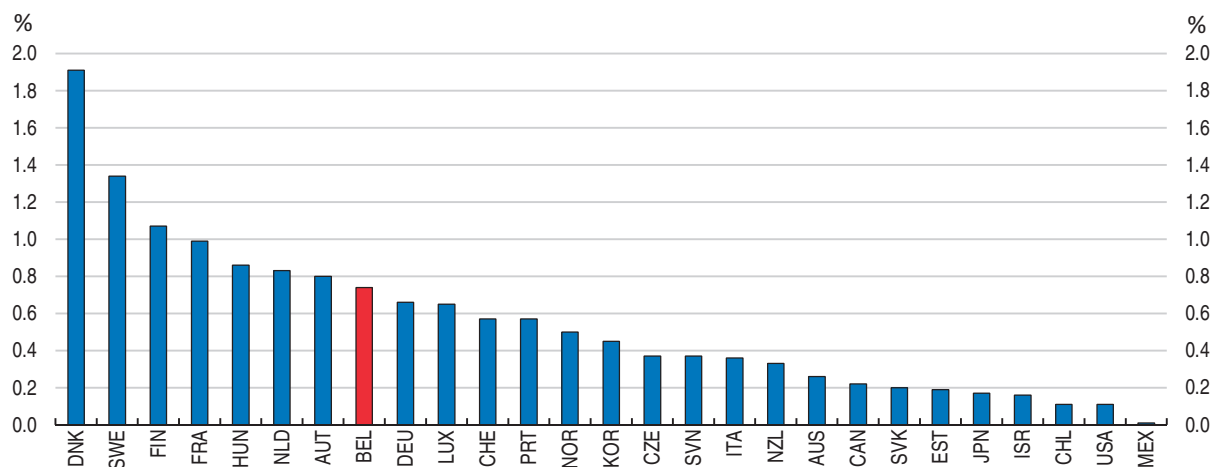
Against a background of high public debt and significant fiscal constraints some OECD countries have chosen to increase tuition fees to sustain spending on tertiary education. For instance, tuition fees were increased in England in 2011, which markedly increased overall spending on tertiary education. Despite an initial decline, the participation rate in higher education has continued to increase (Department for Education, 2016). The Belgian authorities could consider increasing tuition fees in tertiary education while maintaining the grant and waiver system to support disadvantaged students. Granting loans with repayment contingent on the level of their future income would help compensate graduates who have not achieved wage gains from their studies.

Seizing the benefits of digitalisation and addressing related social challenges

Productivity gains from digitalisation are likely to be accompanied by structural changes (Brynjolfsson and McAfee, 2014). While benefitting living standards overall these changes will affect employment patterns and have distributional consequences. Disadvantaged groups may be at risk of exclusion from the labour market due to job automation (CSE, 2016). To ensure that the benefits from productivity gains are widely dispersed, labour market institutions should be improved to help workers transition smoothly between tasks, jobs, firms, industries and regions.

International evidence demonstrates that well designed and targeted activation measures can increase the employability of jobseekers and their employment opportunities in a cost-effective manner (OECD, 2015d). For example, resources devoted to training have raised employability and the quality of jobs in the medium to long-term (Card et al., 2015; Wulfgramm and Fervers, 2013). Training programmes are most effective when focused on identified employer needs, but there is also some evidence in favour of classroom and preparatory programmes (OECD, 2015e). At 0.75% of GDP in 2014, Belgium's public expenditure on activation policies, is well above the OECD average (Figure 34). However, there is scope to improve the spending mix and increase public expenditure on training,

Figure 34. **Public expenditure on active labour market policies**
Public expenditure as a percentage of GDP, 2014

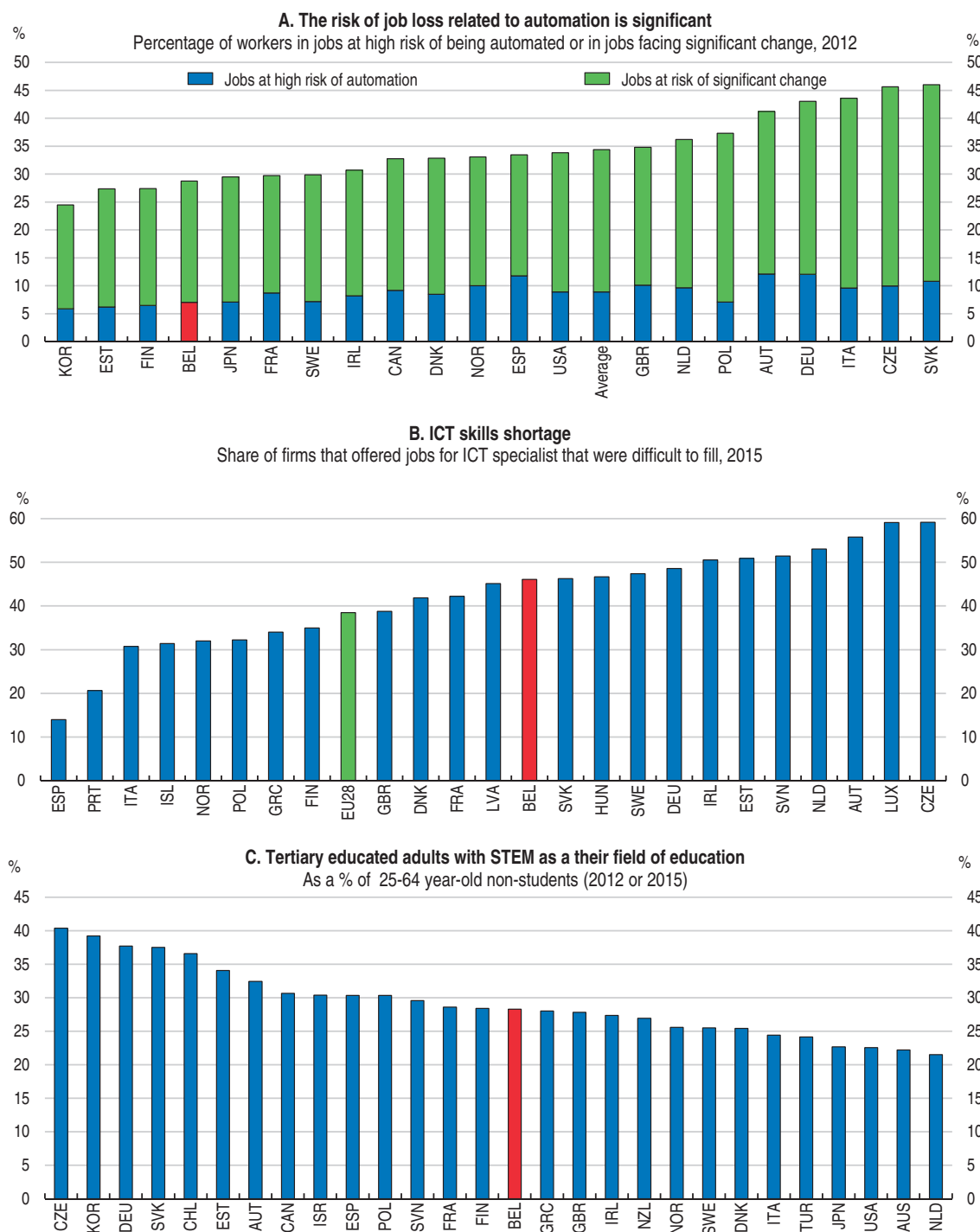


Source: OECD labour market policy statistics.

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which at 0.16% of GDP in 2014 is around the OECD average and below the average level of neighbouring countries (OECD, 2017b). Training programmes should primarily aim to improve the skills of those with lower educational attainment. In addition to active labour market policies redistributive policies should play a role in supporting those people who are unsuccessful in adapting to structural changes in the labour market.

Firms will increasingly seek advanced information and communications technology (ICT) skills (OECD, 2016c). Despite labour market shortages (Figure 35), in 2013 only 17% of students in tertiary education enrolled in science, technology, engineering and mathematics (STEM) subjects (OECD, 2016c), although STEM enrolment in the Flemish Community has increased over the past few years and more students are enrolled in courses that partly integrate STEM subjects in the curriculum. The heterogeneity of wage premia across fields of study is largely overlooked by both students and policy makers (Chapter 2). A first step would simply consist of largely disseminating data on wage premia by field of study. This could entice more people to opt for STEM and other high-income fields.

Figure 35. **Building skills for the future**

Notes: In panel A, jobs are at high risk of automation if the likelihood of their job being automated is at least 70%. Jobs at risk of significant change are those with the likelihood of their job being automated estimated at between 50 and 70%. Data for Belgium correspond to Flanders and data for the United Kingdom to England and Northern Ireland.

In panel B, STEM refers to science, technology, engineering and mathematics subjects, data for Germany refer to 2014. For Iceland, data refer to 2012 and 2014.

In panel C, data for Chile, Greece, Israel, New Zealand, Singapore, Slovenia and Turkey refer to 2015. For all other countries, 2012 is the reference year. For Belgium, data refer to Flanders. For United Kingdom, data refer to England.

Source: Arntz and Zierahn (2016); Eurostat, Information Society database and; OECD Survey of Adult Skills (PIAAC) (2013, 2016).

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ANNEX

Follow-up to previous OECD policy recommendations

This Annex reviews action taken on recommendations from previous Surveys. They cover macroeconomic and structural policy priorities. Each recommendation is followed by a note of actions taken since the February 2015 Survey. Recommendations that are new in this Survey are listed in the relevant chapter.

Macroeconomic and financial policies

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Make fiscal consolidation expenditure-based through savings in social transfers and public consumption	A framework was established since October 2014 at Federal level to reduce public expenditure over the period 2015-2019: the wage bill, operating costs and personnel costs were reduced. The growth of health care spending and other social transfers were also reduced in structural terms. A “redesign” of public administration aimed at increasing its efficiency was decided in October 2015. The fight against social fraud has been strengthened.
Introduce multi-year expenditure rules at all levels of government, with monitoring by the High Council of Finance	No domestic expenditure rules (other than expenditure benchmark, preventative arm of SGP). Lack of political agreement between Federal and Regional governments on budget targets implies the High Council of Finance cannot fully monitor compliance. Since the transposition of EU directive in 2014 all entities have the legal requirement to establish medium-term budgets. Since the 2015 budget, the Federal government integrates a multi-annual approach in its yearly budget.
Further improve budget reporting to ensure full coverage of the balance sheets and contingent liabilities of general government and other entities under public control, and publish these data.	Contingent liabilities are published. The Federal government has changed legislation such as to make a completely consolidated balance sheet and annual accounts available.

Public investment

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Develop long-term infrastructure plan supported by regions and the federal government	Agreement for a national plan for strategic investments. The federal government granted loans to finance investment in railways The government of Wallonia has set up a 640 million euro investment plan for the period 2016-2019 to rehabilitate inland waterways and highways. The Flemish government has set up a 3.6 billion euro investment plan for the period 2017-2023 to complete the Oosterweel Junction in the economic heartland of the Antwerp region. The Brussels government has set up a 1.5 billion euro investment plan for mobility for the period 2018-2025.
Abolish the favourable taxation of company cars and the tax advantages of diesel cars and of diesel as a transport fuel	Tax deduction on company cars was reduced when fuel cards are granted and excises duties on diesel were increased. The federal government has decided to introduce a multimodal mobility budget for employees as an alternative to company cars.
Introduce a road pricing system and differentiated public transport fares to reduce congestion	New toll on heavy vehicles, but with no higher peak charge.

Taxation

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Broaden tax bases and lower tax rates. Reduce labour tax wedge. Tilt housing taxation towards recurrent taxes and away from transaction taxes. Increase less growth-distorting taxes, including environmental and consumption taxes	Employer social security contributions reduced, social contributions for self-employed reduced and various personal income tax adjustments made to boost take-home pay. VAT revenue and excise duties increased. Price indexation of energy products and electricity and elimination of reduced VAT rate on electricity as September 2015 for residential consumers
Consider increasing taxation of capital income	Withholding tax on income from investment harmonised and increased. Increase of the tax on stock-exchange transactions and abolition as of 2017 of the speculation tax on listed shares and derivative instruments introduced in 2016. Introduction of anti-abuse measures (internal capital gains)
Gradually remove the tax deductibility of interest and capital repayments on mortgage loans. Tilt housing taxation towards recurrent taxes and away from transaction taxes.	The housing bonus has been made means-tested in the Walloon Region and its application has been narrowed in the Flemish Region Abolition of the housing bonus in the Brussels-Capital Region and replacement by a reduction of transaction taxes.

Pension reform

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Raise the statutory and effective retirement age to enhance long-run debt sustainability.	Progressive increase in the retirement age and career length requirements. Changes in the calculation of the amount of pension to encourage a rise in the effective retirement age.
Create stronger links between working careers and pensions in the early retirement system and subject all older unemployed to standard search monitoring and activation conditions.	Progressive increase in the contribution period and minimum age for early retirement and older workers submitted to job search and activation programmes.

Wage-setting and competition policy

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Reform the wage formation process, notably the system of wage indexation, to better reflect domestic productivity developments	Wage indexation temporarily suspended. Reform to the wage formation process.
Make regulation retail distribution and professional services less restrictive	On the federal level the professional qualifications directive has been transposed horizontally and vertical transposition is on-going. In the Flemish Region, the decision was approved to deregulate most of the regulated professions on 17 March 2017.
Reduce administrative burdens on start-ups	Federal and regional initiatives aimed at simplifying administrative procedures for SMEs, including for micro-firms (e.g. The Brussels-Capital Region's Small Business Act).

Green growth

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Shift subsidies of energy-saving investments towards more cost-effective technologies.	Flemish Region subsidies of energy-saving investments in residential and non-residential buildings reformed: subsidies and property tax discount for new installations in solar and wind energy; subsidies and property tax discount for energy-related renovation of existing buildings.
Increase energy taxation for residential use.	Indexation of electricity and gas prices, on the basis of market-based parameters and elimination of reduced VAT rate on electricity as of September 2015 for residential consumers. Higher consumption tax on electricity in the Flemish Region.
Reduce subsidies to commuting by car and introduce congestion charges in the largest cities.	New toll for heavy trucks. Lower tax deduction on company cars. Introduction of a mobility budget for employees benefiting from a company car. Grants/tax subsidies for individuals/companies buying environmentally friendly cars in the Flemish Region.
Increase power generation from renewables in order to meet 2020 emissions targets.	Co-operation agreement on burden sharing between the regions and federal authority on climate-energy targets by 2020. Flemish Action Plans 2020 and targets for photovoltaic and wind energy were approved in 2016.

Enhancing labour market integration of immigrants, mobility and skills

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
Monitor enrolment to reduce the concentration of disadvantaged students in particular schools. Improve teacher training and incentives to attract more qualified teachers to disadvantaged schools.	Adoption of a concept note by Flemish Government on March 25, 2016 containing proposed measures for raising the profile of new entrants to teacher education programmes and streamlining of programmes and quality enhancement of teacher training. Recent evidence suggests that a 2011 decree by the Flemish government to grant priority to certain places in oversubscribed schools in proportion to the socioeconomic composition of each school's neighbourhood, has led to a decrease in segregation. As part of the "Pact for Excellence in Education" (FWB) The French Community has implemented measures to foster inclusive education, reduce school dropouts and grade repetition.
Proceed with reforms to reduce grade repetition and delay tracking in secondary education. Expand workplace-based learning in vocational education.	Increased funding by Regions and Communities for a variety of initiatives to reduce early school leaving: a Youth Guarantee scheme in Brussels-Capital Region, a decree to closely monitor those at risk of leaving school early by Parliament of the French Community, an action plan 'together against early school leaving' and a pilot programme on dual learning in Flemish Community. The "Opleidingsplan 2020/Plan Formation 2020" adopted by the Brussels-Capital Region on December 6, 2016 plan to strengthen work-based learning.
Continue to co-operate with social partners to further expand diversity plans in firms. Expand training offers, including on languages, and skill validation for immigrants	In response to the refugee crisis, the Federal Individualised Project for Social Integration (IPSI) was expanded to provide immigrants with necessary skills to enter the labour market: a job-insertion plan including languages training, skills validation and proposition of a training offer in the future and in-demand technological jobs in the Walloon Region A social, professional and linguistic assessment of migrants as well as specific offer of training and/or validation for newly arrived migrants included in The "Plan Formation 2020" in Brussels-Capital Region. The Flemish Region also recruited additional language counsellors to its employment service and extra language support in pre-primary, primary and secondary education. In addition, the Flemish government approved a 'Horizontal Integration Policy Plan' in July 2016. The plan aims to reduce the ethnic gap: the social position of persons with a migrant background is in many areas worse than the position of persons of Belgian origin.
Improve vocational training to better reflect labour market demands	The Walloon Region and the Brussels-Capital Region has set up a single contract for young people attending dual vocational education to strengthen incentive from employers. Both regions have also appointed sectoral tutors, financed both by the regional authority and employers. The French Community reformed the apprenticeship training in September 2015. Increase in the number of trainee placements in the Brussels-Capital Region. In Flanders multi-annual planning, including through dual learning programmes, has contributed to a clear increase in the outflow from vocational training to work over the past two years In the French Community "Pact for Excellence in Education" (FWB) includes an upgrade of vocational education. An employment and training observatory was established in December 6, 2016 to improve the relevance of the training offer.
Enhance labour market flexibility in order to facilitate entry of excluded groups	Implementation of the <i>Werkbaar, Wendbaar Werk</i> reform will make working time more flexible

Other past OECD recommendations

Summary of recommendations	Summary of action taken since 2015 <i>Survey</i>
As one way to improve labour market outcomes, in particular for the low-skilled, consider reintroducing lower statutory minimum wages for younger workers.	Reintroduction of the exceptions to the minimum wage for younger workers (with compensation by an increase in the work bonus for the worker). Negotiations with the social partners on best way to implement the exception are on-going.
Expand regional rental allowance schemes for low-income tenants renting on the private market. In parallel, increase subsidies for social rental agencies and make publicly-owned plots available for construction of affordable housing, notably by the private sector.	In Flanders financing for the rental allowance scheme has been increased. Subsidies and a mandatory growth path for social rental agencies have contributed to an increase in the number of rented dwellings. The Flemish Decree on Land and Housing Policy requires municipalities to use part of undeveloped plots for the construction of social housing.
Increase urban building densities by re-designating land and converting non-residential buildings, further easing restrictions on the construction of denser buildings, and increasing the costs of keeping urban land and buildings unused.	The Flemish Government has adopted a White Paper on spatial development calling for a dampening of additional space requirements and an increase in residential density and business floor space around strategic public transport nodes
Health care: Once adequate incentives to control costs are in place, enable a more flexible health supply by phasing out the overly prescriptive regulation on hospital supply.	No significant action taken.
Infrastructure: Make the costs of public services obligations (PSO) explicit and compensate service providers for the provision of these PSOs	No significant action taken.