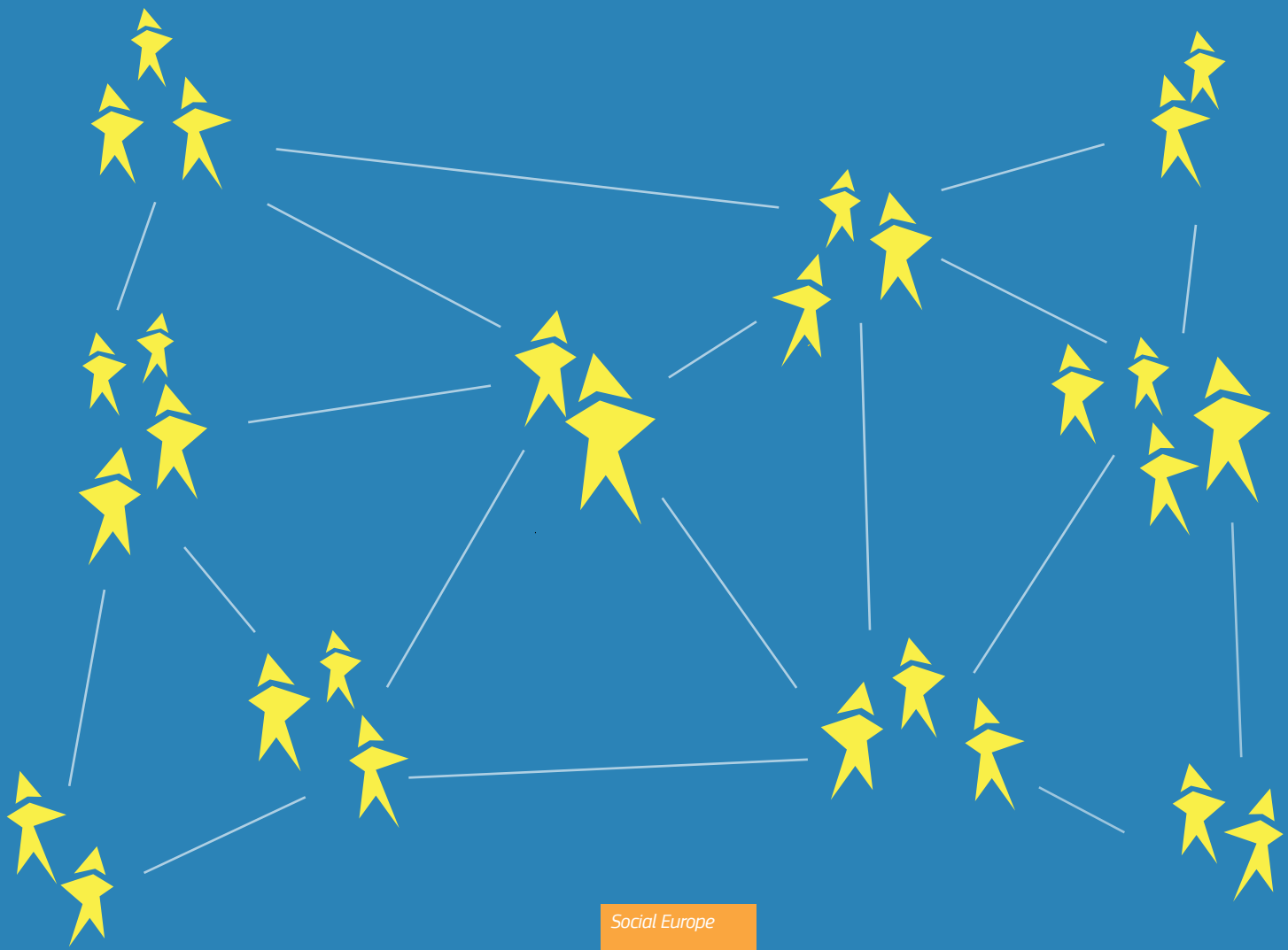
European Commission

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Financing social protection

Belgium

Jozef Pacolet



Social Europe

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European Social Policy Network (ESPN)

ESPN Thematic Report on Financing Social Protection

Belgium

2019

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Directorate-General for Employment, Social Affairs and Inclusion

2019

The European Social Policy Network (ESPN) was established in July 2014 on the initiative of the European Commission with a view to providing high-quality and timely independent information, advice, analysis and expertise on social policy issues in the European Union and neighbouring countries.

The ESPN brings together into a single network the work that used to be carried out by the European Network of Independent Experts on Social Inclusion, the Network for the Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) and the MISSOC (Mutual Information Systems on Social Protection) secretariat.

The ESPN is run by the Luxembourg Institute of Socio-Economic Research (LISER) and APPLICA, together with the European Social Observatory (OSE).

More information on the ESPN can be found here:
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Quoting this report: Pacolet, Jozef (2019). ESPN Thematic Report on Financing Social Protection – Belgium, European Social Policy Network (ESPN), Brussels: European Commission.

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Summary

Belgium scores highly on measures of social protection, including levels of spending, breadth of coverage and degree of protection. Total spending on social protection was €125 billion in 2016, of which €85 billion was on social security. Total gross spending on social protection was 30% of GDP, and net spending 28%; Belgium was thus ranked fourth and third, respectively, among European Union Member States. The system is also characterised by a high level of universalism, since only 6% of social benefits are means-tested. Behind this overall picture, we can first observe an increase in spending on unemployment benefits, followed by old age, sickness and disability, and finally healthcare.

As a Bismarckian system, Belgium's welfare state has retained a high level of financing through social contributions, though this fell from around 70% in the early 1990s to 65% in 2005, and 59.2% in 2016. However, in 2015 social contributions still financed 70% of spending on social security, despite decades of policies designed to reduce that share. The financing mix has also remained broadly the same despite devolution of substantial responsibilities to the federated entities (Brussels, Flanders and Wallonia regions) in the areas of labour market policies, health, family allowances and long-term care – since these are financed either by fiscal grants from the federal level to the regions or, to a lesser extent, by regional taxes. Cuts in federal state subsidies for social security have been counterbalanced by increased transfers to the federated entities. Between 2005 and 2016, the share of general government contributions in total social protection spending increased from 32.5 to 39%.

At the same time, Belgium has a 'pillarised', or corporatist, welfare state regime, with separate schemes for salaried workers (sometimes different ones for blue- and white-collar workers), for self-employed people and for civil servants. The most recent (sixth) state reform of 2014 has done nothing to make the system less complex and more transparent.

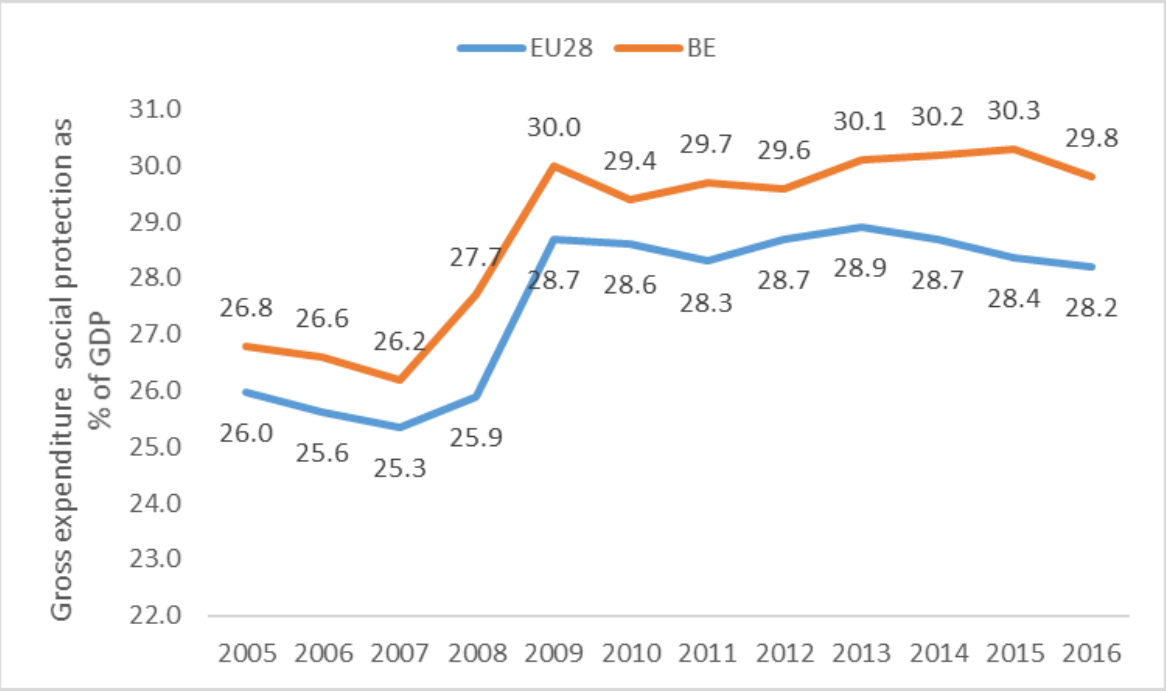
In recent years, fragmented and complex financing arrangements have led to a shift from social contributions to other sources of income, either to finance new initiatives or guarantee a balance between income and spending. This multiplicity of financing sources nevertheless underpins the high level of social protection spending observed today. Ever since the mid-1980s, the government has faced the trilemma of wanting to restore economic competitiveness by reducing labour costs, redressing the budgetary balance and expanding the level of social protection. The creation in 1995 of the so-called 'global management of social security financing' at the federal level was an attempt to improve flexibility and transparency, but this process is far from complete, and complexity and fragmentation seem to be endemic in the system. This is illustrated by the complexity of fiscal and parafiscal rules, including the long list of exemptions and fiscal expenditures for all kinds of economic and social reasons. Global management involves a single social contribution rate, while the funds collected are distributed between the different branches of social security according their needs. But typical of a pillarised system, global management is separately organised for the employed and the self-employed.

1 Current levels of, and past changes in, financing social protection

1.1 Overall spending

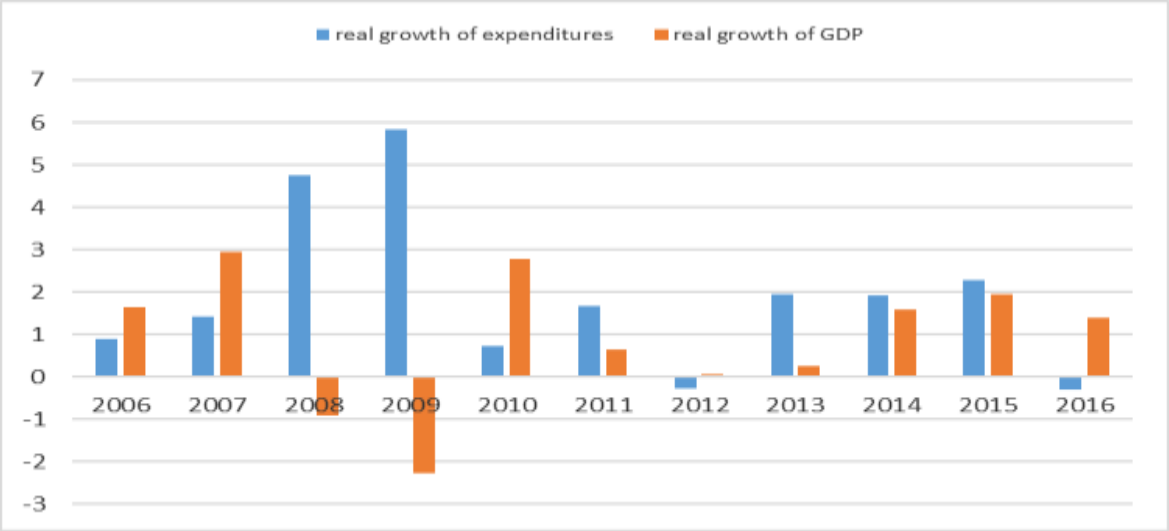
Gross social protection spending increased from 26.8% of GDP in 2005 to 29.8% in 2016. It increased sharply in 2009 after the financial crisis, and subsequently remained high, reaching a peak of 30.3% of GDP in 2015. This was the consequence of a reduction in nominal GDP in 2009 and a relatively slow recovery after that – if not in real GDP, then certainly in real GDP per capita. It was only in 2015 that real GDP per capita returned to its 2008 level. As can be seen in Graph 2, GDP shrank in 2008 and 2009, and grew only slowly during 2011-2013. At the same time, the population grew significantly, partly because of net migration. Table 2.2 in the Appendix shows that wages and salaries increased less than GDP in the period 2009-2016, and that the total disposable income of households grew more slowly than GDP. In real terms, disposable income hardly increased over that period, and in per capita terms it fell by 5%. This was accompanied by a substantial rise in counter-cyclical social protection spending. As illustrated in Graph 2, real growth in social spending was especially high in the crisis years 2008 and 2009, but also in 2011 and 2013. Unsurprisingly, with wages and salaries falling relative to GDP (Appendix Table 2.2), the effective social contribution rate for salaried workers (contributions divided by the wage bill) rose, from 35.2% in 2011 to 37.9% in 2015 (Appendix Table 2.5). The employer contribution rate increased from 23.1% to 25.6%.

Graph 1. Gross social protection spending as share of GDP, Belgium and EU 28, 2005-2016



Source: Own calculations based on ESSPROS data for Belgium.

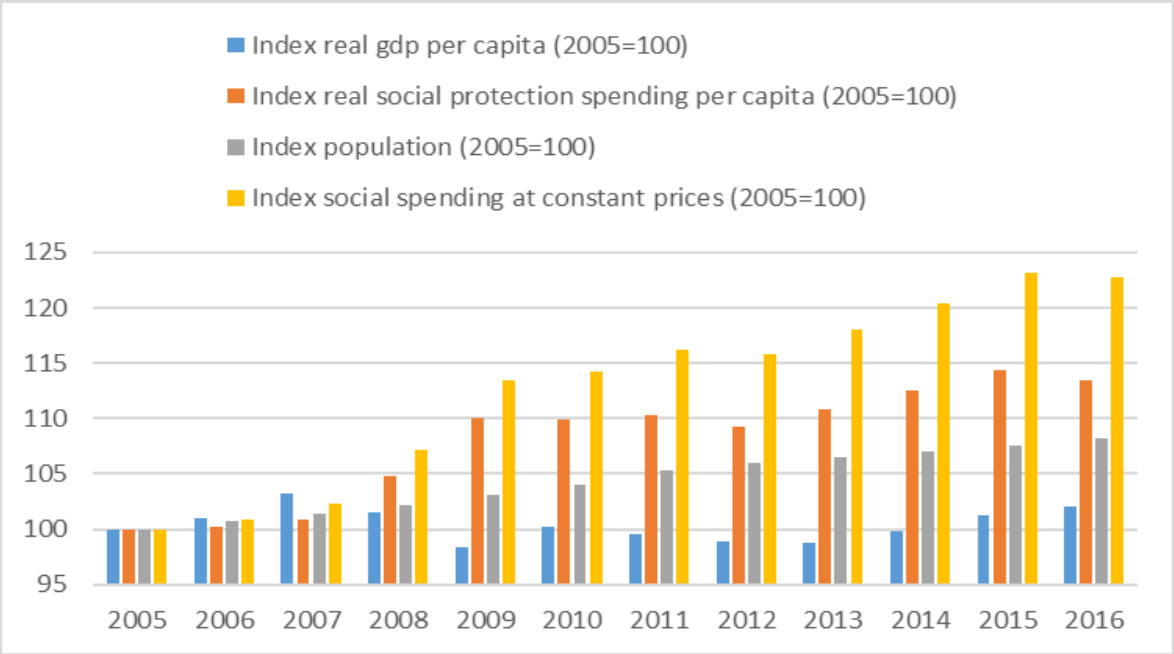
Graph 2. Real growth rate of GDP and social protection spending, Belgium 2006-2016



Source: own calculations based on Spasova and Ward (2019), Annex ESSPROS tables.

Total social protection spending at constant prices was almost 25% higher in 2016 than in 2005 (Graph 3). Real total social spending per capita (at constant prices again) increased substantially in 2008 and 2009, but then remained relatively stable for a couple of years, before accelerating again during 2013-2015.

Graph 3. Drivers of social protection spending: Belgium 2005-2016 (index 2005=100)



Source: own calculations based on Spasova and Ward (2019), Annex ESSPROS tables.

1.2 Spending by function

Table 1 shows the evolution of spending on the different branches/functions of social protection in Belgium during 2005-2016 – in nominal terms, as a share of total social spending and as a share of GDP.

The first increase was in spending on **unemployment benefits** after the crisis of 2008, taking it from 3.4% of GDP in 2008 to 3.8% in 2010. After that it fell in line with the unemployment level, and in response to stricter eligibility conditions and lower benefit rates. In addition, under the sixth state reform the financing of the service voucher system (*dienstencheque/chèque-service*)[1] was transferred to the regions and no longer appears in the national social security accounts: in 2012 this amounted to no less than €1.6 billion, or 4% of the total bill of the 'Global management salaried workers – see further' (Rekenhof, 2014, p. 29)[2]. In 2016 spending on unemployment was 2.7% of GDP[3].

The second important spending increase, in terms of share of GDP, was on **healthcare** (and implicitly also **long-term care**), though this also fell back between 2010 and 2016. Real growth in spending covered by health insurance was initially allowed at a relatively high level (4.5% annually in real terms in the period 2004-2012), but was gradually reduced thereafter; it was capped at 1.5% in 2016 (and 0.5% in 2018).

Spending on **old age** reflected the 'baby boom' generation reaching retirement age, increasing from 8.7% of GDP in 2005 to 11.4% in 2016.

Spending on **survivor's benefits** remained steady at around 2% of GDP. Since the late 1990s, the number of persons entitled to a survivor's pension has been falling, not least caused by changing marital relations (Commissie Pensioenhervorming, 2014, annex 2.1, p. 46 and Federale Overheidsdienst Sociale Zekerheid, 2018). The number benefiting from a survivor's pension fell from 467,193 to 453,162 in the period 2011-2015, while the number of women benefiting from an old-age pension rose from 656,428 to 761,835. More recently, as an austerity measure, it has also been decided to gradually raise the minimum age of entitlement from 45 to 50 between 2015 and 2025 (Federale Overheidsdienst Sociale Zekerheid 2018, p. 36).

[1] A system for encouraging the employment of domestic servants.

[2] An illustration of the generosity of the Belgian welfare state is that this service voucher system benefits not only from a direct government subsidy but also from a personal income tax credit, and is exempted from VAT. The latter two types of support are not reflected in the figures for direct spending.

[3] Total spending in Belgium on unemployment according to the ESSPROS statistics is considerably higher than on a more limited definition based on the direct financing of replacement income for persons confronted with unemployment, with the latter only accounting for 62 to 67% of the ESSPROS figure during 2009-2016 (see Appendix Table 2.4). Spending on public employment offices (training and employment measures) accounts for the difference.

Table 1. Spending on separate branches/functions of social protection, Belgium 2005-2016: € million, % total spending and % GDP

	2005	2008	2010	2016
			€ million	
Sickness/Health	23,520	28,034	30,702	33,470
Old age	26,998	32,407	34,785	48,272
Disability	5,834	6,668	7,506	10,826
Survivors	6,922	7,756	7,897	8,263
Family	6,626	7,845	8,505	9,424
Unemployment	10,857	11,999	14,031	11,381
Housing	211	838	827	1,063
Social exclusion n.e.c.	2,583	2,693	3,060	3,109
Total social spending	83,551	98,240	107,312	125,808
Other (total minus sickness/health and old age)	33,034	37,799	41,825	44,066
Total GDP	311,759	354,658	365,007	422,174
			% total spending	
Sickness/Health	28.2	28.5	28.6	26.6
Old age	32.3	33.0	32.4	38.4
Disability	7.0	6.8	7.0	8.6
Survivors	8.3	7.9	7.4	6.6
Family	7.9	8.0	7.9	7.5
Unemployment	13.0	12.2	13.1	9.0
Housing	0.3	0.9	0.8	0.8
Social exclusion n.e.c.	3.1	2.7	2.9	2.5
Other (total minus sickness/health and old age)	39.5	38.5	39.0	35.0
Total	100	100	100	100.0
% means-tested	4.7	5.1	5.1	5.2
			% GDP	
Sickness/Health	7.5	7.9	8.4	7.9
Old age	8.7	9.1	9.5	11.4
Disability	1.9	1.9	2.1	2.6
Survivors	2.2	2.2	2.2	2.0
Family	2.1	2.2	2.3	2.2
Unemployment	3.5	3.4	3.8	2.7
Housing	0.1	0.2	0.2	0.3
Social exclusion n.e.c.	0.8	0.8	0.8	0.7
Total social spending	26.8	27.7	29.4	29.8
Other (total minus sickness/health and old age)	10.6	10.7	11.5	10.4

Source: Spasova and Ward (2019), Annex ESSPROS tables; own calculations for share of total spending.

Spending on disability increased from 1.9% of GDP in 2005 to 2.6% in 2016, reflecting a substantial increase in the incidence of long-term incapacity for work. There is growing concern regarding the increasing number of people on sickness benefits and permanent invalidity or disability benefits, albeit that the increase seems to have levelled off recently. By the end of the period examined, combined spending on disability and **sickness benefits** had for the first time exceeded spending on unemployment benefits. In 2015, total spending on short- and long-term disability benefits, together with benefits for people suffering occupational diseases and accidents at work, was €7.9 billion, compared with spending on unemployment benefits and early retirement (unemployment benefit supplemented by the employer)

of €7.4 billion (and in 2017 the respective figures were €8.2 billion and €7.7 billion). In 2006 the respective figures had been €4.3 billion and €7.4 billion. The most recent report of the Belgian Ageing Commission (Studiecommissie Vergrijzing, 2019, p. 33-34) tells us that in 2019 spending on incapacity for work will be 2.0% of GDP, while spending on unemployment will be 1.4%; by 2024 those percentages will be 2.2% and 1.1% respectively, and the long-term forecasts are for a continuation in the trend. The decades-old societal concern over the risk of unemployment will probably shift to a similar concern for the risk of incapacity for work in the future.

The National Institute for Health and Disability Insurance (RIZIV/INAMI) reports each year on primary inactivity for reasons of sickness and on permanent disability. In 2015, approximately 370,000 permanently disabled people (employees and self-employed) received an invalidity benefit, double the number in 1996 (RIZIV/INAMI, 2017). Explanatory factors are the ageing workforce, the increased labour market participation of older (female) workers, the rise in the pension age for women from 60 to 65 over the period 1997-2009, increasingly demanding working conditions, and possibly the reduced scope for those aged 50-60 to leave the labour market (for instance, through early retirement).

Confronted with the increasing number of people who are off sick for long periods of time, the sickness fund CM and its volunteer organisations, Samana and Altéo, studied the financial and social situation of those who were off sick in the first half of 2016 (Avalosse, Vancoorenland, & Verniest, 2016). The results illustrated the precarious financial situation of those concerned: people were confronted with having to devote more than 11% of their income to healthcare costs; 54% reported that their income was hardly sufficient; 47% reported they had difficulties paying for healthcare costs, and 44% of them even postponed paying for some as a result. The level of social protection in this area is at risk of becoming inadequate. This illustrates a general characteristic of the Belgian social protection system: with a high level of costs and a high number of entitled persons, the danger is that the level of individual benefits may be insufficient despite the high level of total spending. In 2014, 4.5 million people were employed, but almost 5 million were entitled to at least one benefit of some kind (Pacolet & De Wispelaere, 2015, p. 735-739): no wonder that a report by the Federal Public Service (Social Security) in 2018 was headlined 'Increasing pressure on social protection adequacy' (Federal Public Service (Social Security), 2018).

The social protection system in Belgium is characterised by a high level of universalism, and a low level of **means-testing**. Only 5.2% of social protection spending was means-tested in 2016, and it was almost non-existent in all areas except housing (100%), social inclusion (85%) and disability (14%)[4]. The latter seems to be an exception compared with other strands of social security. For housing, means-testing does not mean that the rest of the population is excluded from support: for example, home-ownership is supported via tax incentives, the cost of which actually exceeds those for people in rented property. Whereas total social protection spending on housing in Belgium was around €1 billion (0.3% of GDP) in 2016, in the Flanders region alone the total had already previously reached €2.5 billion once support for home-ownership was taken into account, with only €350 million going on support for the rental sector (Haffner, Van den Broeck, & Winters, 2014, p. 107).

The **difference between gross and net spending on social protection** is rather limited. In 2015 Belgium was ranked fourth in the EU on gross spending (30.3% of GDP) and third on net spending (28.2%). Taxes (and social contributions) on social benefits were thus just 2.1% of GDP, and will fall further as several special crisis-related contributions are phased out.

Belgium is characterised by a relatively high level of taxation, starting from relatively low levels of income. This has less impact on replacement incomes, especially when they are low. Replacement incomes are also capped most of the time, so less

[4] Own calculation based on ESSPROS tables by functions, aggregated benefits and grouped schemes – in MIO of national currency [spr_exp_nac]; extracted on 20 February 2019.

influenced by higher marginal tax tariffs. They typically benefit from personal income tax credits, which are one of the major areas of tax expenditures. In 2016, tax expenditures on unemployment benefits, invalidity benefits and pensions totalled €4.5 billion, equivalent to 6.5% of total spending on those functions (Appendix Table 2.7). The benefits would have been 6.5% lower if those tax credits did not exist.

The examples above, of housing support and tax expenditures on social benefits, illustrate the existence of a 'hidden' social protection system that is not visible in the figures for direct spending alone. Belgium has a long tradition of using tax expenditures, or other forms of forgone tax revenue, for economic and social purposes – something more common in Anglo-Saxon countries than in European ones. We estimate that total outright tax expenditures were 6-8% of GDP in the period 2005-2007; or as much as 16% of GDP on a broader definition[5]of forgone tax income that includes, for instance, tax credits for unemployment, sickness and invalidity, and old age benefits, but also for pension saving, occupational pensions, childcare, housing and service vouchers. Total tax expenditures and other forgone tax revenue in the sphere of social protection was nearly €8 billion in 2016, or 6.3% of total spending on social protection (Appendix Table 2.7). Some tax expenditure was meant for the active population, for instance to reinforce savings for second- and third-pillar pensions. But nevertheless, the 6.3% of lost income (the rate of 'non taxation') is comparable to the effective tax/contribution rate on social spending of 7.2%. In other words, the volume of 'non taxation' is almost as important as the volume of 'taxation'[6]. Tax expenditures in the social sphere amounted to 1.4-1.9% of GDP in the period 2007-2016 (see Appendix Table 2.7).

This forgone revenue is also present in the sphere of social contributions, in the form of all kinds of exemptions and redcutions. This kind of 'para-fiscal' expenditures has a direct impact on social contributions. In 2015 the value of social security contributions forgone – principally employer contributions – totalled nearly €7.5 billion, or 1.8% of GDP (Appendix Table 2.3). Foregone employer contributions amounted to more than 18% of gross contributions in 2015 (Appendix Table 2.5).

To summarise, in 2015 taxes and contributions on social spending were equivalent to 2.1% of GDP. At the same time, however, non-taxation (tax expenditures) in the social sphere was 1.9% of GDP. Reductions in social security contributions accounted for 1.8% of GDP.

This fiscal spending implies, of course, a substantial erosion of the fiscal base, with the consequence that nominal tax rates remain high.

[5] See, for instance, Pacolet, De Wispelaere, & Vanormelingen (2014). See also the yearly annexes to the federal budget, in Chambre des Représentants de Belgique (2018).

[6] This is a general characteristic of Belgian public finances, where fiscal spending and social spending are high compared with the total level of taxation. See also Pacolet & Strengs (2011).

2 Current mix and past changes in the sources of financing for social protection

2.1 Financing mix of total social protection

Social security contributions made up around 70% of financing for social protection spending in Belgium in the 1990s, a relatively high share in EU terms (Pacolet & Coudron, 2006; National Bank of Belgium, 2011, Table A.3b). From early 2000, however, the share of social contributions began to fall, and this trend continued in the period 2005-2016. The share fell from 65.2% in 2005 to 59.2% in 2016. The reason for this is described in more detail in Section 2.2. The trend will continue because of measures taken from 2017 onwards, with cuts in employer contributions being financed from general taxation.

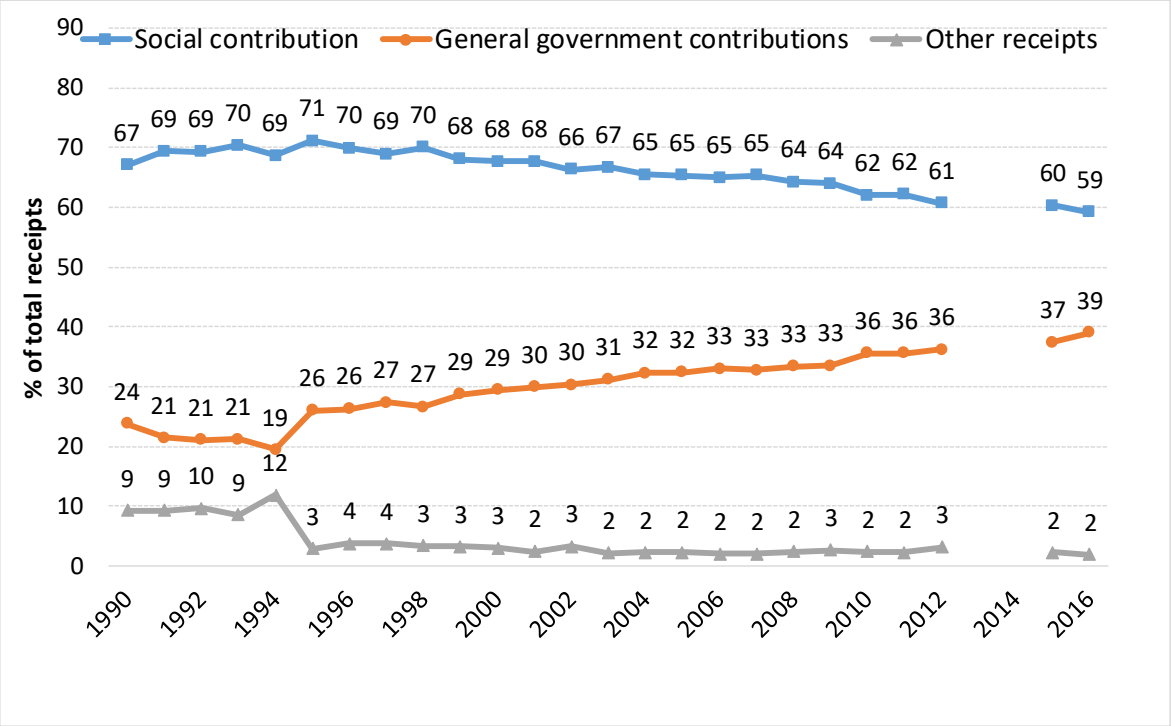
The sixth state reform, which came into force in 2015, devolved several competencies to the regions (including employment, some healthcare and long-term care). These are now completely financed by either national-level grants or own taxes (including personal income taxes). This implies a partial transfer from federal general government contributions to federal social security institutions to regional entities. However, it does not imply a change in the overall financing mix of social protection, since federal government transfers to social security are replaced by transfers to the regions.

The Belgian government seized the occasion of this reform to change and simplify – at federal level – the state's contribution to the social security system. At the same time, it introduced a greater number of conditions for qualification for those state contributions (see Section 2.3).

Every year, the Belgian Federal Public Service (Social Security) provides a detailed social security overview in a so-called 'Vademecum'. On the basis of this information, we can calculate the implicit (or effective) social contribution rate in respect of salaried workers (Appendix Table 2.5). Between 2011 and 2015, the total contribution rate (employers and employees) increased from 35.2 to 37.9%. This was lower than the nominal rate, because of foregone contributions amounting to 6% of the total wage bill. Employers seemed to benefit most from the reductions. Their contribution will have declined further by 2018, when the nominal tariff for employers was reduced to 25%[7].

[7] At the same time, some exemptions, for instance the 'structural reduction', were partly, if not completely, abolished.

Graph 4. Financing mix for social protection spending in Belgium, 1990-2016



Source: Updated from Pacolet & De Wispelaere (2015).

Table 2 shows that, by the end of 2016, both employer and employee contributions had declined since 2005 as a share of total financing of social protection, but particularly those of employers. The share of contributions by the self-employed had remained constant. The fall in the share of contributions was matched by an increase in the share of government revenues.

Table 2. Financing mix for social protection spending in Belgium, 2005-2016, % of total spending

	2005	2008	2010	2015	2016
Social contributions, of which:	65.2	64.1	61.9	60.4	59.2
• **employers**	43.4	43.2	41.6	40.7	39.4
• **employees**	17.3	16.4	15.8	15.2	15.1
• **self-employed**	3.3	3.2	3.2	3.2	3.3
• **benefit recipients**	1.1	1.3	1.2	1.3	1.4
Government revenue	32.5	33.5	35.8	37.4	39
Other receipts	2.3	2.4	2.4	2.2	1.8

Source: Spasova and Ward (2019), Annex ESSPROS tables.

Appendix Table 2.1 shows the basic social contribution rates for salaried work and for the self-employed. In 2015, the employer rate was 24.92% of the wage bill, and the employee rate was 13.07%. From the mid-1980s, the employer contribution was increased by a 'wage moderation' element, which was still 5.67% in 2015[8]; together with some other add-ons, the employer rate reached 32.4% in that year. Together

[8] From the mid-1980s, in the context of austerity measures, three consecutive indexations of 2% of the wages were cancelled, in 1984,1985 and 1986; but the social contributions that would otherwise have been paid on these increases continued to be paid by employers (National Bank of Belgium, Study Department, s.n. & s.d.).

with the employee contribution rate of 13.07%, the total social contribution rate was 45.47% of the wage bill. But several exemptions were in place. For low-income groups, a so-called 'work bonus' was introduced from 2000 onwards, exempting gross income below €1,641 per month completely from the employee contribution, with a taper up to €2,500 per month (figures for 2018). From 2018, when the overall employer contribution was cut from 32.4% to 25%, the contribution in respect of low wages was reduced further. The revenue impact of these changes was offset in various ways. From 2016, an exemption for employers of 1 percentage point of the withholding tax on the wage bill was abolished (Federaal Planbureau, 2015)[9]. And in 2018 the general lump sum ('structural reduction') was abolished, along with the additional reduction for high wages[10].

The basic tariff for the self-employed was 22% in 2015, which was half the percentage for salaried work. It was also regressive, dropping to 0% above a certain income level. Moreover, the basic rate was cut from 22% to 20.5% by 2018.

2.2 Financing mix of social protection by function

An analysis in 2015 by the European Commission and Social Protection Committee examined the financing of social protection systems in the EU (European Commission and Social Protection Committee, 2015). In terms of overall spending, the financing split was almost two thirds from social contributions and one third from general government revenue. In terms of individual areas of spending, however, Belgium appeared to be an outlier, since 'other receipts' accounted for a remarkably high level of financing (as high as 75%) for spending on old age, healthcare and unemployment in 2011 (ibid, p. 17-18). This was caused by the existence of the 'global management' system, under which transfers are made between different social insurance schemes: in the ESSPROS data, these transfers are treated as 'other receipts' rather than social contributions[11]. We have therefore attempted to correct for this by presenting estimated figures for the financing mix per spending function, for both 2005 (Table 4) and 2015 (Appendix Tables 1.4). This process involves applying the financing structure of the global management system (Appendix Table 2.6)[12] to the individual spending schemes[13].

According to our estimates, social contributions were the largest single source of financing for social protection spending – 65.2% in 2005 and 60.4% in 2015. General government revenues accounted for the bulk of the remainder – 32.5% in 2005 and 37.4% in 2015.

[9] The final law on reforming social security financing (Chambre des Représentants de Belgique, 2017) provides for additional subsidies from the general government for 2017-2020. From 2021 the alternative financing will be defined again.

[10] Groep S, Taxshift: de sociale bepalingen.

[11] For that reason, the latest ESPN comparative report (Spasova and Ward, 2019) omitted Belgium (and some other countries) from further analysis of the financing mix by function.

[12] For 2005, social contributions made up 70.46% of global scheme revenues, government revenue made up 28.7% and other receipts 0.55%.

[13] At the moment of finalizing this ESPN report end September 2019, similar statistics became available for 2017 and 2018 on the website of the Federal public Service Social Security, under 'Budgettaire statistieken-Budgetary Statistics'. Unfortunately no distinction is provided between employers and employee contributions. See https://socialsecurity.belgium.be/nl/cijfers-van-sociale-bescherming/statistieken-sociale-bescherming/budgettaire-statistieken

Table 3. Imputed financing mix of different areas of social spending, Belgium 2005

	Social contributions	Of which employers	Of which employees	Of which self-employed	Of which benefit recipients	Government revenue	Other receipts	Total
% total receipts								
Old age	62.0	44.7	17.0	0.0	0.3	20.3	17.7	100.0
Sickness/Healthcare	10.7	3.7	3.1	1.1	2.7	14.8	74.5	100.0
Survivors	29.7	8.0	21.0	0.0	0.6	4.5	65.8	100.0
Disability	1.5	1.1	0.3	0.1	0.0	24.2	74.4	100.0
Unemployment	9.5	9.5	0.0	0.0	0.0	12.4	78.1	100.0
Family/Children	30.2	8.8	0.1	21.3	0.0	29.8	40.0	100.0
Housing	0.0					100.0	0.0	100.0
Social exclusion	16.0	16.0	0.0	0.0	0.0	83.4	0.6	100.0
All functions	65.2	43.4	17.3	3.3	1.1	32.5	2.3	100.0
€ million								
Old age	16,742	12,067	4,591	0	84	5,477	4,778	26,998
Sickness/Healthcare	2,518	878	734	260	645	3,474	17,528	23,520
Survivors	2,053	557	1,452	0	44	315	4,554	6,922
Disability	86	67	16	3	1	1,410	4,338	5,834
Unemployment	1,034	1,034	0	0	0	1,344	8,479	10,857
Family/Children	1,998	582	8	1,408	0	1,975	2,653	6,626
Housing	0	0	0	0	0	211	0	211
Social exclusion	413	412	1	0	0	2,154	16	2,583
All functions	54,456	36,299	14,485	2,741	932	27,169	1,926	83,551
All functions imputed	24,845	15,597	6,801	1,672	775	16,360	42,347	83,551
As % of total imputed	29.7	18.7	8.1	2.0	0.9	19.6	50.7	100.0

Source: Own calculations based on the Annex ESSPROS tables in Spasova and Ward, 2019.

Table 4. Alternative estimated financing mix of different areas of social spending, Belgium 2005

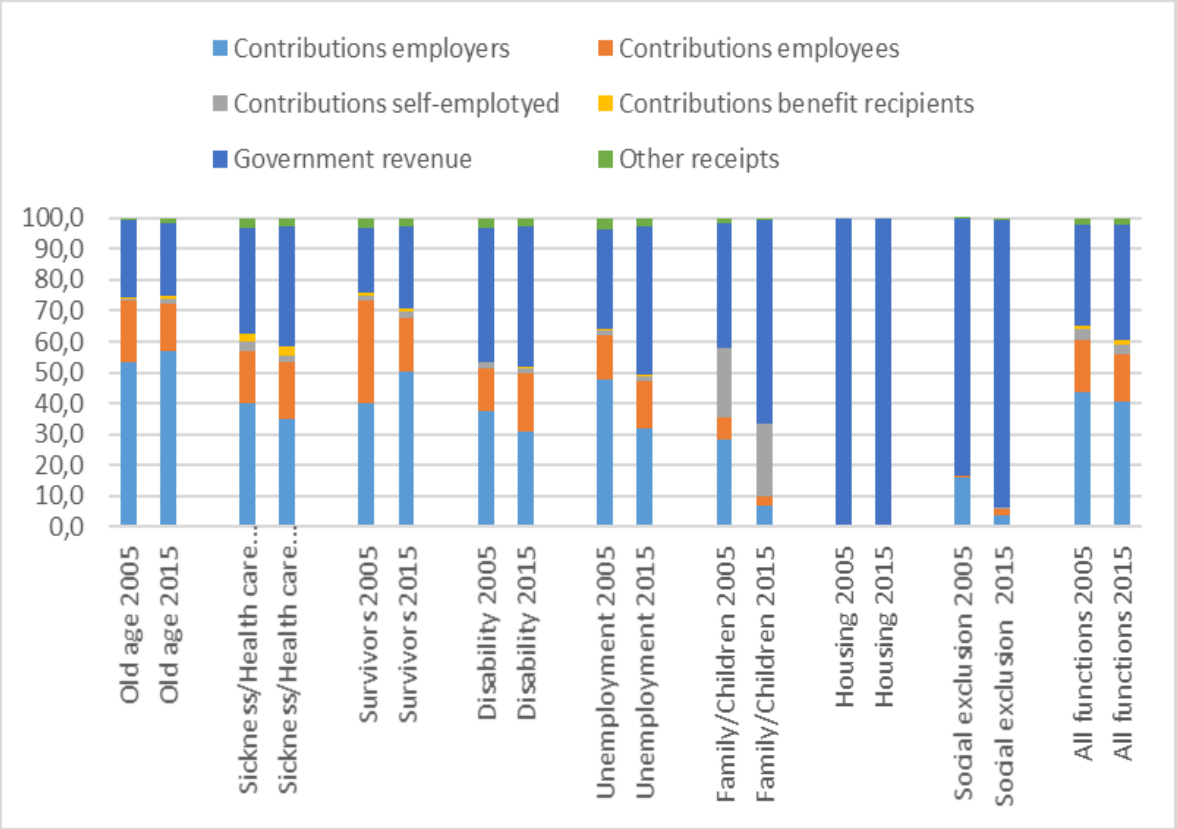
	Social contributions	Of which employers	Of which employees	Of which self-employed	Of which benefit recipients	Government revenue	Other receipts	Total
Financing mix of 'other receipts' used in the alternative estimated financing mix of different functions								
as % of total	69.9	48.9	18.1	2.5	0.4	25.5	4.5	100.0
€ million								
Old age	20,084	14,403	5,458	121	102	6,697	217	26,998
Sickness/Healthcare	14,774	9,446	3,915	703	710	7,948	797	23,520
Survivors	5,237	2,783	2,278	115	61	1,477	207	6,922
Disability	3,119	2,187	803	112	17	2,517	197	5,834
Unemployment	6,963	5,179	1,539	214	31	3,509	386	10,857
Family/Children	3,853	1,878	489	1,475	10	2,652	121	6,626
Housing	0	0	0	0	0	211	0	211
Social exclusion	425	420	3	0	1	2,158	1	2,583
All functions (accounting information)	54,456	36,299	14,485	2,741	932	27,169	1,926	83,551
All functions estimated	54,456	36,299	14,485	2,741	932	27,169	1,926	83,551
As % of total	65.2	43.4	17.3	3.3	1.1	32.5	2.3	100.0
% total receipts								
Old age	74.4	53.3	20.2	0.4	0.4	24.8	0.8	100.0
Sickness/Healthcare	62.8	40.2	16.6	3.0	3.0	33.8	3.4	100.0
Survivors	75.7	40.2	32.9	1.7	0.9	21.3	3.0	100.0
Disability	53.5	37.5	13.8	1.9	0.3	43.1	3.4	100.0
Unemployment	64.1	47.7	14.2	2.0	0.3	32.3	3.6	100.0
Family/Children	58.2	28.3	7.4	22.3	0.2	40.0	1.8	100.0
Housing	0.0	0.0	0.0	0.0	0.0	100.0	0.0	100.0
Social exclusion	16.4	16.3	0.1	0.0	0.0	83.5	0.0	100.0
All functions (accounting information)	65.2	43.4	17.3	3.3	1.1	32.5	2.3	100.0
All functions estimated	65.2	43.4	17.3	3.3	1.1	32.5	2.3	100.0

Source: Own calculations, reallocating 'other receipts' in Table 3 based on the underlying financing mix of the global management system.

In Graph 5, we compare the financing mix by function and in total for the years 2005 and 2015. Spending on **old age** had the highest level of financing by social contributions (over 70%) over this period. Family benefits were mostly financed by other government revenue, with the percentage substantially larger in 2015 than in 2005. Government revenue was also the main source of finance for **unemployment** in 2015, probably because areas other than unemployment benefit were included, such as activation measures and service vouchers. For spending on **sickness and disability,** general government financing was also the principal source. For **family benefits,** ESSPROS included data on family benefits for self-employed people; after excluding that element, the dominance of general government financing becomes evident. This was in line with the growing tendency to consider these as universal benefits, something which came to an end when responsibility for them was transferred to the regional authorities, albeit financed by general government revenue. New family benefits schemes organised by the federated regions came into force in 2019. Finally, **housing benefits** and benefits to fight **social exclusion** were almost completely financed by general government revenue in 2015.

The overall picture is that, up to 2015, there was only a slight change in the financing mix towards more government tax financing and a smaller share for social contributions. The changing relative importance of the different functions had a dampening effect on this trend: in areas where spending was increasing (old age, survivors), employer contributions were increasing slightly, whereas in others where spending was falling (sickness, unemployment), employer contributions became relatively less important. The reduction of the nominal employer contribution rate, which was completed in 2018, will accentuate this trend.

Graph 5 Estimated financing mix of different functions of social spending and of total social spending, Belgium 2005-2015, %



Source: Own calculations; see Table 3 and 4 and Appendix Table 1.3 and 1.4.

2.3 Origins of present financing mix

In this paragraph, we describe how Belgium arrived at the present complex financing mix for social protection spending.

It is difficult to summarise the overall financing rules, because of the pillarised, or corporatist, system of social security in Belgium, with special regimes for salaried workers (distinguished further between blue-collar and white-collar workers), self-employed workers and civil servants. Furthermore, each area of spending may be financed differently; and many exemptions exist, for instance, for certain industries, for people on high or low incomes, and for certain other categories. In the past, there was also a growing disequilibrium between contribution income and the level of spending for certain functions. To facilitate greater flexibility, the 'global management' system for financing social security spending was introduced in 1995, aggregating the revenues from social security contributions and additional tax revenue from government. Total revenues were then distributed between the different social security functions according to needs, breaking the link between social contribution rates (listed in Appendix Table 2.1) and the funding of separate social security functions. However, the distinction between salaried workers and self-employed workers remained.

Starting in the early 1980s, with the goal of reducing labour costs and protecting economic competitiveness, the government began reducing employer contributions and replacing them with so-called 'alternative financing'. The 'Maribel measure', from 1981 onwards, aimed to replace social security contributions with financing from VAT or excise taxes (Meurs, 2009). This aim was later dropped, but the mixture of financing that had been established still remains, with financing mainly by social contributions, plus direct state subsidies and alternative financing, both of the latter deriving from general taxation.

From 2001, alternative financing evolved from a compensation mechanism for reduced social security contributions, to a financing instrument for new initiatives, such as increased healthcare spending or the service voucher system. Alternative financing increased from €3.6 billion in 2001 to €14.2 billion in 2009. Three forms can be discerned, but all came mostly from VAT: i) alternative financing based on a predetermined percentage of a certain fiscal revenue; ii) alternative financing earmarked for a specific expenditure or to compensate for the loss of a specific source of income; and iii) alternative financing to guarantee the financial equilibrium of social security. In 2009, revenues under these headings were respectively: i) €6.9 billion; ii) €5.3 billion; and iii) €2 billion. Decision-making was often ad hoc and focused on very narrow areas (for instance, additional alternative financing was needed for psychiatric nursing homes); this sometimes resulted in administrative delay, and sometimes came up against a depletion of VAT revenues, since there were so many competing demands on it. This resulted in the use of other sources such as excise tax on tobacco (Meurs, 2009).

No wonder that one expert on social security administration concluded her study of the reforms between 2000 and 2009 by saying that: 'due to several extensions and applications of alternative financing, it became so complex that with the exception of a few "insiders" not many can follow the way it is calculated' (Meurs, 2009, p. 248).

When 'global management' introduced more flexibility in the financing system, it also introduced a risk of reduced 'ownership' – in other words, those who were paying contributions saw less relationship with what the contributions paid for, in turn reducing willingness to pay them. The sixth state reform complicated matters further, by devolving some benefits from 2015 to the federated regions – including family benefits and parts of healthcare. Appendix Table 2.1 shows the original, separate, contribution rates for the different branches of social security (such as healthcare, old age, family benefits, unemployment and invalidity). Those contribution rates also reflected the relative importance of each of the social risks involved: thus, unemployment was originally considered as a less important risk than incapacity for work, with lower contribution rates. In fact spending on short-term sickness and on

invalidity is now higher than unemployment insurance (as described in Section 1.2), and perhaps this should be the case in a social policy aiming at full employment, on the one hand, and adequate coverage of the invariably unavoidable risk of illness and incapacity to work, on the other. Restoring transparency over the link between perceived risks and the benefits received could improve the willingness to pay for social protection.

In several reports on the welfare state in Belgium (see among others, Pacolet & Coudron, 2006) it has been shown that, in the two decades 1980-2000, employers and employees accepted higher contributions to offset stagnating state contributions, as governments sought to reduce the state deficit. This was coupled with 'wage moderation' measures to protect the financing of social security: even now a share of the employer contribution can be identified as a 'wage moderation' element, so that workers are still helping to financing social security, even when it is labelled as an employer contribution[14]. Direct state financing of social security accordingly fell from 35% in 1980 to 11% in 2005, but alternative financing gradually took off from 1995 onwards (National Bank of Belgium, Study Department, 2011, Tableau A.1b). In 2016, direct state subsidies to social security, this time for salaried workers and the self-employed, were only 12% of total receipts, declining further to 8.9% in 2017, while alternative financing increased from 12% in 2016 to 16% in 2017[15]. However, as emphasised above, alternative financing also derives from general government revenue, such as a 20% share of VAT[16] or (since 2004) additional state financing of hospital stays.

As can be observed in Appendix Table 2.6 and the attached footnote, the share of social contributions in the financing of social security was still as high as 70% in 2015, despite continued efforts to replace them. Perhaps this illustrates the difficulty of finding an alternative source. As a result of some responsibilities that were previously included in social security (such as family benefits) being devolved to the federated regions under the sixth state reform, without any change to the global social security contribution rate, social contributions became even more important in the financing mix of social security (see also final footnote to Appendix Table 2.1).

Social security is the most important element in social protection spending[17]. Other categories of social spending that are mostly financed by general taxation include civil servants' pensions, measures of social inclusion, services and support for people with disabilities, and housing. After the sixth state reform areas devolved to the federated regions will also become tax-financed.

Table 5 below shows in greater detail the financing mix of total social spending for the period 2005-2016.

The expansion of social protection spending between 2005 and 2016 in terms of share of GDP was completely financed by general government contributions, most of it under the form of general revenue. Thus although social contributions remained the most important element in the financing of social security, they declined as share of overall financing, albeit remaining stable in relation to GDP. Only in 2016 can a clear decline be observed in employer contributions, of 0.6% of GDP.

Table 5 also illustrates the gradual replacement of alternative financing by general revenue sources. Earmarked taxes declined from a peak in 2010 of 4.4% of GDP to 3% in 2016. General revenues, on the other hand, increased consistently, from 5.2%

[14] In Appendix Table 2.5 we see that wage moderation by employees in 2011 was €3.8 billion (most recent figure available). It can also be seen in Appendix Table 2.1, on nominal contribution rates.

[15] Own calculations based on Rekenhof & Boek (2018, p. 23-24).

[16] This percentage is variable. See Federale Overheidsdienst Sociale Zekerheid ,Vademecum van de financiële en statistische gegevens over de sociale bescherming in België 1999-2005, p. 101-103.

[17] Appendix Table 2.6 shows spending on social security alone, with and without civil servants' pensions. In 2016, social security spending without civil servants' pensions was €85 billion, compared with total social spending of €125 billion.

of GDP in 2008 to 8.6% in 2016. Following the 2008-2009 crisis this was completely in line with the stabilising macro-economic role of social spending.

Table 5. Financing mix of social protection spending in detail, Belgium 2005-2016, % total receipts and GDP

	2005	2008	2010	2015	2016
% total receipts					
Social contributions	65.2	64.1	61.9	60.4	59.2
Employers	43.4	43.2	41.6	40.7	39.4
Employees	17.3	16.4	15.8	15.2	15.1
Self-employed	3.3	3.2	3.2	3.2	3.3
Benefit recipients	1.1	1.3	1.2	1.3	1.4
General government contributions	32.5	33.5	35.8	37.4	39.0
Earmarked taxes	13.2	14.7	15.0	9.6	10.1
General revenue	19.3	18.8	20.8	27.8	28.9
Other receipts	2.3	2.4	2.4	2.2	1.8
Total	100	100	100	100	100
% GDP					
Social contributions	17.5	17.8	18.2	18.3	17.6
Employers	11.6	12.0	12.2	12.3	11.7
Employees	4.6	4.6	4.7	4.6	4.5
Self-employed	0.9	0.9	0.9	1.0	1.0
Benefit recipients	0.3	0.4	0.4	0.4	0.4
General government contributions	8.7	9.3	10.5	11.3	11.6
Earmarked taxes	3.5	4.1	4.4	2.9	3.0
General revenue	5.2	5.2	6.1	8.4	8.6
Other receipts	0.6	0.7	0.7	0.7	0.5
Total	26.8	27.7	29.4	30.3	29.8

Source: own calculations based on Spasova and Ward (2019), Annex ESSPROS tables.

The share of social contributions fell over the period examined, not least because the share of labour income in total income was declining. It can be called a success story of reducing social contributions and topping them up with all kinds of other revenues, sometimes substituting for contributions, sometimes adding to them. The question is how this trend will be maintained with the reduction of employer contributions from 2016 onwards. This trend seems to be in line with what is happening in the rest of Europe. It could influence future spending, since additional financing needs to be found elsewhere, which is not easy.

The federal governmental agreement of 2014 proposed a substantial revision of the state contribution to ensuring the financial equilibrium of the social security system. The shift from employer contributions to general government revenue financing, as well as the sixth state reform, rendered this revision more urgent. The agreement noted that the state financed one third of social security spending: this included a general state subsidy, several alternative financing measures, and an 'equilibrium subsidy' to balance the budget. 90% of the latter was distributed to the budget for salaried workers and 10% to that for the self-employed.

From 2017 onwards, a new structure has been in place for the state financing of social security, as follows.

i) The alternative financing arrangements were reformed and simplified, being defined as a percentage of VAT and withholding taxes and also, as a last resort,

excise taxes on alcohol consumption18. They should also take into account the sixth state reform, which transferred, among other areas, part of long-term care services and family benefits to the regional authorities. Illustrating the flexibility that is needed in this financing mechanism, for the period 2017-2020 an additional part is required to absorb the consequences of the 'tax shift' from employer contributions to taxes; a third part is directly earmarked for health insurance19.

ii) The traditional state contribution became a fixed amount, indexed to prices (based on the health index, a corrected consumer price index) and adjusted for the cost of ageing. However, this link to the cost of ageing is conditional on a significant increase in the effective retirement age (an increase of six months each year) and real GDP growth of a minimum 1.5%.

iii) The 'equilibrium subsidy' ('evenwichtsdotatie'), which is negotiated annually to balance the social security budget, was made conditional on increased responsibility on the part of the social security administration for its own equilibrium (by reducing fraud or misuse, a contribution by social security to achieving the objectives of the stability and growth pact, and many other measures that could help to safeguard the budget balance). For that reason, a stricter monitoring of the social security budget is assigned to two new commissions, one for salaried workers20 and one for the self-employed21. Although simplification and streamlining is welcomed by the social partners, they expressed great concern about the new commissions, in which they are not explicitly involved. Future funding now depends on conditions that are, to a large extent, beyond their control (real growth, actual retirement age, return on the fight against fraud etc.). Some fear the reform is the start of a paradigm shift that could lead to recurrent cutbacks and a race to the bottom of social protection (van Cutsem, 2017). Additionally, the trade unions and sickness funds see this as a shift from tripartite governance of social security towards one that is more and more dominated by conditions defined by the government (Hassan, 2017, p. 43).

The federal budget for 2017 already reflected the proposals for reforming social security financing. For example, previously earmarked subsidies for health insurance were included in the overall subsidies to social security. At the same time, the 2017 health insurance budget was confronted with a substantial package of savings, of €0.9 billion. As a result, the target for real expenditure growth for health insurance (1.5% in 2016 and 2017), was implicitly reduced to 0.5%, one of the lowest rates for decades (Pacolet & De Wispelaere, 2016, p. 745). This illustrates the fear of social partners that reformed social security financing will result in an emphasis on spending cuts rather than a search for new funding and expansion of the welfare state. At the very least it implies that social contributions will need to remain high, or even be increased. The fragility of the present system is illustrated by the fact that for 2019 a deficit in the social security system is forecast of €1.45 billion; and for the period 2018-2024 contributions are expected to increase by €9.3 billion, while spending will increase by €17.8 billion (Deiteren, 2019; Belga, 2019).

[18] In 2017 they were 13.41% and 3.33% of VAT receipts, and 40.73% and 10.12% of withholding taxes, for the financing of social security for salaried workers and the self-employed, respectively (Rekenhof, 2018, p. 67).

[19] Rekenhof (2018, p. 67).

[20] Commissie voor Financiën en Begroting in de schoot van de RSZ Globaal Beheer.

[21] Commissie voor Financiën en Begroting in de schoot van het globaal financieel beheer in het sociaal statuut der zelfstandigen.

3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing – national debate on the topic

Although at a relatively high level, the role of social security contributions in the general financing of social protection declined over the period examined. This reflects attempts, since the 1980s, to restore economic competitiveness by reducing the cost of labour. On top of that, Belgium is characterised by a high level of tax expenditures for both social and economic reasons, including the social protection, and also reductions in social security contributions: this has added to the erosion of the revenue base, and made it necessary to seek additional revenue from elsewhere. From 2022 onwards, for example, the share of the additional financing from VAT and capital revenues will have to be increased, placing an undue strain on these revenue sources. Earmarking revenues in this way also exacerbates the complexity of the system (Meurs, 2009).

Whereas global management of social security financing has reduced complexity and increased flexibility, it has also reduced transparency by breaking the link between contributions and benefits. It also reduces the potential, when spending needs to increase (for instance, on pensions or healthcare), for increasing contributions (see also Larmuseau & Algoed, 2007, p. 425). If social contributions are tied to certain social risks, it is easier to convince people to increase contributions when the risks become more important. Global contribution rates are more likely to be considered as a kind of general taxation.

Belgium is characterised by a highly developed system of social protection, including a low level of means-testing and a low level of taxation of social benefits. At the same time, there are indications in several areas that adequacy is not at the level of expectations. This is the case, for instance, with the high level of poverty risk for unemployed or other inactive people (invalidly for instance), the growing importance of private insurance for hospital costs, and the inadequacy of financing for long-term residential care. The government's fiscal consolidation programme for 2015-2018 focused on substantial spending cuts (Pacolet & De Wispelaere, p. 732). The shift from employer contributions to taxes has proven to be a tax cut (Capéau, Decoster, Maes, & Vanheukelom, 2018). Against this background, maintaining the high level of social protection, or even improving it, will mean giving greater priority to limiting the numbers of people confronted with social risks – for example, by increasing the legal pension age, targeting full employment for all, and better inclusion and reintegration of people confronted with incapacity for work.

Belgium is also characterised by both a high level of 'non taxation' (reduction of, or exemption from, social contributions) and also a high level of fiscal spending (Pacolet, & Strengs, 2011; Chambre des Représentants de Belgique, 2018). This lost income is, by definition, an alternative to subsidies and spending, but is less transparent. In certain cases there are moves to reverse this trend; for instance, some people have proposed abolishing fiscal spending on pension savings and occupational pensions, which requires further scrutiny. Financing the 30% of GDP spent on social protection would be facilitated by reducing foregone social contributions (equal to almost 2% of GDP) or lost taxation income (6-16% of GDP). On the other hand reducing lost contribution income, for example, would mean increasing the fiscal burden on contribution payers.

As indicated in Section 1.2, personal income tax rates in Belgium are rather flat, implying that taxation is already substantial for people on low incomes. Social contribution rates are even flatter: in an attempt to remedy this, since 2018 there has been a reduced rate for an extended group of people on low incomes, which will be reduced even further from 2019 onwards, while exemptions for high-income groups are to be abolished. For the self-employed however, contribution rates remain regressive. In order to make work pay and to stimulate labour market participation, including among lower-income groups, it would be worthwhile reintroducing greater

progressivity in personal income taxes, and extending it still further in the case of social security contributions.

With a standstill in economic growth in the wake of the global crisis, and a downturn in household purchasing power and the share of wages and salaries in GDP, the increase in social spending from 2009 onwards and its maintenance since then illustrates the important stabilising role that social protection spending has played in the last decade. Over the period examined up to 2015, social contributions increased from 35.2% to 37.9% of the total wage bill for salaried workers. But more recently the government has moved to reduce employer contributions, shifting the burden of financing further increases in social spending – for old age, healthcare and long-term care – on to taxation.

Appendix 1. Financing mix of different functions of social protection spending in Belgium, 2005-2015

Table 1.1 Imputed financing mix of different functions of social spending, Belgium 2005-2015, % of total spending

	Old age	Sickness/ Healthcare	Survivors	Disability	Unem-ployment	Family/ Children	Housing	Social exclusion n.e.c.	Total spending on social protection
2005									
Social contributions	62.0	10.7	29.7	1.5	9.5	30.2	0.0	16.0	65.2
of which employers	44.7	3.7	8.0	1.1	9.5	8.8		16.0	43.4
of which employees	17.0	3.1	21.0	0.3	0.0	0.1		0.0	17.3
of which self-employed	0.0	1.1	0.0	0.1	0.0	21.3		0.0	3.3
of which benefit recipients	0.3	2.7	0.6	0.0	0.0	0.0		0.0	1.1
Government revenue	20.3	14.8	4.5	24.2	12.4	29.8	100.0	83.4	32.5
Other receipts	17.7	74.5	65.8	74.4	78.1	40.0	0.0	0.6	2.3
2008									
Social contributions	46.9	10.8	28.3	1.4	9.1	31.0	0.0	15.8	64.1
of which employers	38.3	4.6	22.7	1.2	9.1	8.6		15.7	43.2
of which employees	7.6	3.4	4.6	0.2	0.0	0.0		0.0	16.4
of which self-employed	0.0	0.0	0.0	0.0	0.0	22.4		0.0	3.2
of which benefit recipients	1.0	2.7	1.0	0.0	0.0	0.0		0.0	1.3
Government revenue	6.9	12.7	3.2	24.3	13.4	31.3	100.0	81.7	33.5
Other receipts	46.2	76.5	68.5	74.3	77.4	37.6	0.0	2.6	2.4
2010									
Social contributions	46.9	10.7	26.8	1.1	8.7	30.7	0.0	14.1	61.9
of which employers	38.5	4.6	21.6	0.8	8.7	8.2		14.1	41.6
of which employees	7.6	3.5	4.4	0.2	0.0	0.0		0.0	15.8
of which self-employed	0.0	0.0	0.0	0.0	0.0	22.4		0.0	3.2
of which benefit recipients	0.8	2.6	0.8	0.0	0.0	0.0		0.0	1.2
Government revenue	6.7	12.8	3.0	23.4	12.1	31.3	100.0	82.9	35.8
Other receipts	46.4	76.5	70.2	75.5	79.3	38.0	0.0	3.0	2.4
2015									

Social contributions	43.3	10.8	24.7	4.4	2.2	24.0	0.0	0.0	60.4
of which employers	37.0	5.0	21.0	0.9	2.2	1.1		0.0	40.7
of which employees	5.5	2.9	3.0	3.5	0.0	0.0		0.0	15.2
of which self-employed	0.0	0.1	0.0	0.0	0.0	22.9		0.0	3.2
of which benefit recipients	0.8	2.9	0.8	0.0	0.0	0.0		0.0	1.3
Government revenue	7.2	13.9	2.7	20.8	23.5	61.2	100.0	90.1	37.4
Other receipts	49.5	75.3	72.5	74.8	74.3	14.7	0.0	9.9	2.2

Source: Spasova and Ward (2019), Annex ESSPROS tables.

Table 1.2 Imputed financing mix of different functions of social spending , Belgium 2005-2015, in € million

	Old age	Sickness/ Healthcare	Survivors	Disability	Unemployment	Family/ Children	Housing	Social exclusion n.e.c.	Total spending on social protection	Total based on the imputed financing structure for the subfunctions	As % of total
2005											
Total spending	26,998	23,520	6,922	5,834	10,857	6,626	211	2,583	83,551	83,551	100.0
Social contributions	16,742	2,518	2,053	86	1,034	1,998	0	413	54,456	24,845	29.7
of which employers	12,067	878	557	67	1,034	582	0	412	36,299	15,597	18.7
of which employees	4,591	734	1,452	16	0	8	0	1	14,485	6,801	8.1
of which self-employed	0	260	0	3	0	1,408	0	0	2,741	1,672	2.0
of which benefit recipients	84	645	44	1	0	0	0	0	932	775	0.9
Government revenue	5,477	3,474	315	1,410	1,344	1,975	211	2,154	27,169	16,360	19.6
Other receipts	4,778	17,528	4,554	4,338	8,479	2,653	0	16	1,926	42,347	50.7
2008											
Total spending	32,407	28,034	7,756	6,668	11,999	7,845	838	2,693	98,240	98,240	100.0
Social contributions	15,191	3,014	2,197	93	1,093	2,434	0	425	63,002	24,446	24.9
of which employers	12,409	1,295	1,764	79	1,093	676	0	424	42,422	17,739	18.1
of which employees	2,471	961	354	13	0	0	0	1	16,153	3,800	3.9
of which self-employed	0	1	0	0	0	1,757	0	0	3,151	1,757	1.8
of which benefit recipients	311	757	79	1	0	0	0	1	1,276	1,149	1.2
Government revenue	2,243	3,569	249	1,619	1,613	2,458	838	2,199	32,894	14,789	15.1
Other receipts	14,973	21,451	5,311	4,956	9,293	2,953	0	69	2,344	59,006	60.1
2010											

Total spending	34,785	30,702	7,897	7,506	14,031	8,505	827	3,060	107,312	107,312	100.0
Social contributions	16,325	3,286	2,115	79	1,215	2,608	0	433	66,376	26,061	24.3
of which employers	13,399	1,426	1,708	63	1,215	700	0	432	44,659	18,942	17.7
of which employees	2,654	1,060	345	16	0	0	0	1	16,986	4,076	3.8
of which self-employed	0	0	0	0	0	1,907	0	0	3,446	1,907	1.8
of which benefit recipients	272	800	62	0	0	0	0	1	1,286	1,136	1.1
Government revenue	2,334	3,929	239	1,760	1,691	2,661	827	2,537	38,394	15,978	14.9
Other receipts	16,126	23,487	5,543	5,667	11,125	3,236	0	91	2,542	65,273	60.8
2015											
Total spending	47,721	33,088	8,169	10,702	11,251	9,317	1,051	3,073	124,371	124,371	100.0
Social contributions	20,661	3,579	2,021	467	246	2,239	0	0	75,072	29,215	23.5
of which employers	17,666	1,660	1,717	96	246	102	0	0	50,586	21,488	17.3
of which employees	2,611	957	243	370	0	1	0	0	18,954	4,181	3.4
of which self-employed	0	18	0	0	0	2,136	0	0	3,955	2,155	1.7
of which benefit recipients	385	944	61	0	0	1	0	0	1,576	1,391	1.1
Government revenue	3,457	4,608	222	2,231	2,642	5,704	1,051	2,770	46,519	22,684	18.2
Other receipts	23,602	24,901	5,926	8,005	8,363	1,374	0	303	2,781	72,473	58.3

Source: own calculations based on Spasova and Ward (2019), Annex ESSPROS tables.

Table 1.3. Imputed financing mix of different functions of social spending, Belgium 2015, in € million and as % total receipts

	Social contributions	Of which employers	Of which employees	Of which self-employed	Of which benefit recipients	Government revenue	Other receipts	Total
% of total receipts								
Old age	43.3	37.0	5.5	0.0	0.8	7.2	49.5	100.0
Sickness/Healthcare	10.8	5.0	2.9	0.1	2.9	13.9	75.3	100.0
Survivors	24.7	21.0	3.0	0.0	0.8	2.7	72.5	100.0
Disability	4.4	0.9	3.5	0.0	0.0	20.8	74.8	100.0
Unemployment	2.2	2.2	0.0	0.0	0.0	23.5	74.3	100.0
Family/Children	24.0	1.1	0.0	22.9	0.0	61.2	14.7	100.0
Housing	0.0					100.0	0.0	100.0
Social exclusion	0.0	0.0	0.0	0.0	0.0	90.1	9.9	100.0
All functions	60.4	40.7	15.2	3.2	1.3	37.4	2.2	100.0
€ million								
Old age	20,661	17,666	2,611	0	385	3,457	23,602	47,721
Sickness/Healthcare	3,579	1,660	957	18	944	4,608	24,901	33,088
Survivors	2,021	1,717	243	0	61	222	5,926	8,169
Disability	467	96	370	0	0	2,231	8,005	10,702
Unemployment	246	246	0	0	0	2,642	8,363	11,251
Family/Children	2,239	102	1	2,136	1	5,704	1,374	9,317
Housing	0	0	0	0	0	1,051	0	1,051
Social exclusion	0	0	0	0	0	2,770	303	3,073
All functions	75,072	50,586	18,954	3,955	1,576	46,519	2,781	124,371
All functions imputed	29,215	21,488	4,181	2,155	1,391	22,684	72,473	124,371
as % of total imputed	23.5	17.3	3.4	1.7	1.1	18.2	58.3	100.0

Source: own calculations based on Spasova and Ward (2019), Annex ESSPROS tables.

Table 1.4. Alternative estimated[22] financing mix of different functions of social spending, Belgium 2015, in € million and as % total receipts

	Social contributions	Of which employers	Of which employees	Of which self-employed	Of which benefit recipients	Government revenue	Other receipts	Total
as % of total	63.3	40.1	20.4	2.5	0.3	32.9	3.8	100.0
				€ million				
Old age	35,595	27,142	7,422	586	445	11,220	906	47,721
Sickness/Healthcare	19,335	11,658	6,033	637	1,008	12,797	955	33,088
Survivors	5,771	4,096	1,451	147	77	2,171	227	8,169
Disability	5,532	3,310	2,002	199	21	4,863	307	10,702
Unemployment	5,538	3,604	1,705	208	21	5,392	321	11,251
Family/Children	3,108	653	281	2,170	4	6,156	53	9,317
Housing	0	0	0	0	0	1,051	0	1,051
Social exclusion	192	122	62	8	1	2,870	12	3,073
All functions (accounting information)	75,072	50,586	18,954	3,955	1,576	46,519	2,781	124,371
All functions estimated	75,072	50,586	18,954	3,955	1,576	46,519	2,781	124,371
As % of total	60.4	40.7	15.2	3.2	1.3	37.4	2.2	100,.0
				% of total receipts				
Old age	74.6	56.9	15.6	1.2	0.9	23.5	1.9	100.0
Sickness/Healthcare	58.4	35.2	18.2	1.9	3.0	38.7	2.9	100.0
Survivors	70.6	50.1	17.8	1.8	0.9	26.6	2.8	100.0
Disability	51.7	30.9	18.7	1.9	0.2	45.4	2.9	100.0
Unemployment	49.2	32.0	15.2	1.8	0.2	47.9	2.9	100.0
Family/Children	33.4	7.0	3.0	23.3	0.0	66.1	0.6	100.0
Housing	0.0	0.0	0.0	0.0	0.0	100.0	0.0	100.0
Social exclusion	6.2	4.0	2.0	0.2	0.0	93.4	0.4	100.0
All functions (accounting information)	60.4	40.7	15.2	3.2	1,3	37.4	2.2	100.0
All functions estimated	60.4	40.7	15.2	3.2	1,3	37.4	2.2	100.0

Source: Own calculations based on Appendix Table 1.3.

[22] The estimate uses the financing structure of the global management system to reallocate 'other receipts' to the different social security functions: i.e. 63.6% social contributions, 35.45% government revenue and 0.5 % other receipts.

Appendix 2. Institutional and macro-economic context of the financing of social protection spending in Belgium

Table 2.1 Social security contribution rates for private sector workers in Belgium

Social contributions in respect of workers, as % of gross wage[23]		
	Employers[24]	**Employees**
Pensions	8.86	7.5
Health insurance – care	3.8	3.55
Health insurance – sickness and invalidity	2.35	1.15
Unemployment	1.46	0.87
Occupational diseases	1	
Accident at work	0.3	
Family benefits	7.0	
Total global contribution rate in 2015[25]	24.92	13.07
Wage moderation	5.67	
Contribution on wage moderation (5.67% of 24.92)	1.41	
Additional wage moderation	0.40	
Total employer contribution with wage moderation 2015	**32.40**	**13.07**
Total after first step in 'tax shift': 1 April 2016	**30**	**13.07**
Total after second step in 'tax shift' :1 January 2018	**25**	**13.07**
Self-employed (main activity)		
Professional income per bracket	Amount of the provisional contribution	
Up to €13,010.66	€699.32 per quarter	
Between €13,010.66 and €56,182.45	21.5% of net professional income in 2016 (22% in 2015; 21% in 2017; 20.5% in 2018)	
Between €56,182.45 and €82,795.16	14.16% of net professional income	
Over €82.785,16	0%	

Source: Administrative instructions of the National Social security Office and UNISOC (Belgian employers' organisation).

[23] Rates in place since the first quarter of 2015. The previously existing contribution rate for family benefits is still part of the global contribution rate, despite the fact that scheme was devolved to the federated states in the sixth state reform. For blue-collar workers there is also an additional contribution for annual holidays, since that is not paid directly by the employer but by topping up the employer contribution.

[24] Several reductions for certain categories existed, later streamlined into a lump sum 'structural' reduction for all income levels, and an additional reduction for low incomes and one for high incomes. From 2018 on this lump-sum reduction was abolished, while the additional reduction for low incomes was extended from the group earning less than €6,900 per quarter in 2016 to those earning less than €9,035 per quarter in 2019. The additional reduction that existed for the high-income group (earning more than €13,401.07 per quarter) was also abolished in 2018. (Groep S, retrieved 2019)

[25] The global employer contribution rate also included 7 percentage points for family benefits. After the sixth state reform, family benefits (among others) became the responsibility of the federated regions. In addition, part of health insurance for care (elderly homes) was transferred to the regions. The (employer) contributions were not adapted, but general government financing was reduced, with the amounts included in the budgets of devolved responsibilities (Rijksdienst voor Sociale Zekerheid, 2014).

Table 2.2. Gross primary income and disposable income of households in perspective, Belgium 2009-2016

	2009	2016	Index (2009=100)
Wages and salaries (in € million)	184,525	216,157	117
Property income (in € million)	32,635	26,780	82
Gross mixed income (in € million)	23,558	27,108	115
Gross operating surplus (in € million)	21,719	23,294	107
Gross disposable income (in € million)	217,919	242,425	111
GDP (in € million)	348,781	424,660	122
Wages and salaries as % of GDP	53	51	
Real disposable income (in € million)	241,824	242,425	100
Population (in million)	10.8	11.3	105
Gross disposable income per capita (in €)	20,184	21,394	106
Real disposable income per capita (in €)	22,398	21,394	96

Source: National Bank of Belgium (2019).

Table 2.3 Reduction of social contributions, Belgium 2014-2015 (€ million)

	2004	2007	2011	2015
Special allocation	396	469	546	623
of which social Maribel[26]	396	438	497	577
Reduction of social contributions employers	3,873	5,003	5,390	5,966
Reduction of social contributions employees	157	657	736	885
of which work bonus for low income	157	656	733	882
Total	4,426	6,129	6,672	7,474

Source: Vademecum, period 2004-2010 and Vademecum 2011-2015.

Table 2.4 Comparison of unemployment benefits strictly defined and total spending on unemployment function, Belgium 2009-2018, € million

	2009	2013	2016	2018 estimate
Unemployment benefits with employer top-up (a)	1,502	1,548	1,405	1,101
Unemployment benefits (b)	6,903	6,627	5,799	5,091
Career breaks (temporarily interruption of the job) and time credit (partly or total reduction of weekly job time) (c)	750	831	817	647
Total narrow definition in National Bank of Belgium reports (d)	9,155	9,006	8,021	6,839
Total spending for unemployment in ESSPROS (e)	12,903	13,241	10,792	
(a)+(b) as % of (e)	65	62	67	

Source: National Bank Belgium annual reports and ESSPROS.

[26] See Section 2.3.

Table 2.5 Implicit social contribution rate to general management system for salaried workers, Belgium 2011-2015

	2011	2015
	in € billion	
Social contributions to general management system for salaried workers	**41.3**	**47.6**
• **of which employer contributions**	27.1	32.2
wage moderation included in employer contributions	3.8	included in employer contributions
• **of which social Maribel**	0.544	0.577
• **of which employee contributions**	13.8	14.98
Forgone contributions	**6.7**	**7.5**
• **of which employer contributions**	5.4	5.965
• **of which employee contributions (mostly work bonus)**	0.735	0.885
• **of which special allocation of social Maribel**	0.496	0.577
Wage sum private sector	81	87.8
Wage sum public sector	36.3	37.9
Wage sum total	117.3	125.7
	(% of total wages)	
Effective total social contribution rate	35.2	37.9
Effective rate of total forgone social contributions	5.7	6.0
Effective employer contribution rate	23.1	25.6
Effective employee contribution rate	11.8	11.9

Source: Vademecum, 2018, tables 1.5,1.6,1.8,1.9,1.10.

Table 2.6 Consolidated financing of global management system for salaried workers, global management system for the self-employed, healthcare, other systems and public pensions, Belgium 2014-2017 (€ million)

	2014	2015	2016	2017
Social contributions	55,642	55,518	57,357	59,518
General government subsidies	14,198	9,617	20,537	18,835
including pensions civil servants	Not included	Not included	10,768	Included in total
Alternative financing	15,935	9,178	9,784	13,650
Other revenue	5,186	4,568	4,548	4,420
Total	90,961	78,881	92,226	96,422
Social contributions as % of total	61.2	70.4	62.2	61.7

Note: The fall in total spending in 2015 reflected the impact of the sixth state reform. Spending on social security (narrow definition but including pensions of civil servants) was €92.6 billion in 2016, about 74% of total social protection spending.
Source: Rekenhof (2017; 2018).

Table 2.7 Partial overview of some tax expenditures and other lost income in the sphere of social protection (€ million)

	2007			2016		
	Fiscal expenditure	Other forgone taxes	Total	Fiscal expenditure	Other forgone taxes	Total
Family allowances		1,475	1,475		2,025	2,025
People with disabilities		267	267		363	363
Personal contributions for pensions	90		90	105		105
Pension savings	388		388	532		532
Forgone income for unemployment	199		199	347		347
Forgone income for invalidity	217		217	637		637
Forgone income for pensions	2,056		2,056	3,562		3,562
Service vouchers	70			215		215
Childcare					156	156
Total	3,020	1,741	4,691	5,398	2,543	7,941
GDP			345,308			422,174
As % of GDP	0.87	0.50	1.38	1.28	0.60	1.88

Source: Pacolet & Strengs (2011), Chambre des Représentants de Belgique (2018).

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