Council of the
European Union

Brussels, 12 June 2017
(OR. en)

9283/17

ECOFIN 392
UEM 141
SOC 371
EMPL 286
COMPET 389
ENV 488
EDUC 216
RECH 172
ENER 211
JAI 469

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	ST 9230/17 ECOFIN 363 UEM 112 SOC 341 EMPL 256 COMPET 358 ENV 458 EDUC 186 RECH 142 ENER 182 JAI 433 - COM(2017) 501 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2017 National Reform Programme of Belgium and delivering a Council opinion on the 2017 Stability Programme of Belgium

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2017) 501 final.

COUNCIL RECOMMENDATION

of …

on the 2017 National Reform Programme of Belgium

and delivering a Council opinion on the 2017 Stability Programme of Belgium

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies,[1] and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 16 November 2016, the Commission adopted the Annual Growth Survey, marking the start of the 2017 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission adopted the Alert Mechanism Report, in which it did not identify Belgium as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area, which was endorsed by the European Council on 9-10 March 2017. On 21 March 2017, the Council adopted the Recommendation on the economic policy of the euro area ('Recommendation for the euro area').[3]

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Belgium should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendations (1) to (2) below.

(3) The 2017 country report for Belgium was published on 22 February 2017. It assessed Belgium’s progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the country-specific recommendations adopted in previous years and Belgium’s progress towards its national Europe 2020 targets.

(4) On 28 April 2017, Belgium submitted its 2017 National Reform Programme and its 2017 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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2 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

3 OJ C 92, 24.3.2017, p. 1.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds (ESI Funds) for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council,[4] where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking effectiveness of the ESI Funds to sound economic governance.

(6) Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2017 Stability Programme, the Government plans a gradual improvement of the headline balance from a deficit of 2,6 % of GDP in 2016 to -0,1 % of GDP in 2020. The medium-term budgetary objective, set at a balanced budgetary position in structural terms, is planned to be reached by 2019. However, the recalculated[5] structural balance still points to a deficit of 0,3 % in 2019. After having peaked at almost 107 % of GDP in 2014 and decreasing to around 106 % of GDP in 2015 and 2016, the general government debt-to-GDP ratio is expected to decline to 99 % by 2020 according to the 2017 Stability Programme. The macroeconomic scenario underpinning those budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2018 onwards have not been specified, which contributes to the projected deterioration of the structural balance in 2018 under unchanged policies according to the Commission 2017 spring forecast.

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4 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

5 Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

(7) On 22 May 2017, the Commission issued a report under Article 126(3) of the TFEU, as Belgium did not make sufficient progress towards compliance with the debt reduction benchmark in 2016. The report concluded, following an assessment of all the relevant factors, that the debt criterion should be considered as currently complied with. At the same time, additional fiscal measures are to be taken in 2017 to ensure broad compliance with the adjustment path towards the medium-term budgetary objective in 2016 and 2017 together.

(8) The 2017 Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees and security-related measures in 2016 and 2017 is significant, and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure in 2016 amounted to 0,08 % of GDP for the exceptional inflow of refugees and to 0,05 % of GDP for security-related measures. In 2017, the additional impact compared to 2016 of the security-related measures is currently estimated at 0,01 % of GDP. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are unusual events, their impact on Belgium's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2016 has been reduced to take into account additional refugee-related and security-related costs. Regarding 2017, a final assessment, including on the eligible amounts, will be made in spring 2018 on the basis of observed data as provided by the Belgian authorities.

(9) On 12 July 2016, the Council recommended Belgium to achieve an annual fiscal adjustment of at least 0,6 % of GDP towards the medium-term budgetary objective in 2017. Based on the Commission 2017 spring forecast, there is a risk of some deviation from that requirement in 2017. However, there is still a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective over 2016 and 2017 taken together. This conclusion would not change in case the budgetary impact of the exceptional inflow of refugees and of security measures were deducted from the requirement.

(10) In 2018, in light of its fiscal situation and in particular of its debt level, Belgium is expected to further adjust towards its medium-term budgetary objective of a balanced budgetary position in structural terms. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure[6] which does not exceed 1,6 % in 2018. It would correspond to an annual structural adjustment of at least 0,6 % of GDP. Under unchanged policies, there is a risk of a significant deviation from that requirement in 2018. Belgium is prima facie not forecast to comply with the debt rule in 2017 and 2018. Overall, the Council is of the opinion that further measures will be needed as of 2017 to comply with the provisions of the Stability and Growth Pact. However, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in light of the cyclical conditions. As recalled in the Commission Communication on the 2017 European Semester accompanying these country-specific recommendations, the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Belgium's public finances. In that context, the Council takes note that the Commission intends to carry out an overall assessment in line with Regulation (EC) No 1466/97, in particular in light of the cyclical situation of Belgium.

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6 Net government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

(11) Effective budget coordination is essential in a federal Member State like Belgium, where a large part of the spending power has been devolved to sub-national governments. In an attempt to improve internal coordination and to transpose the Treaty on Stability, Coordination and Governance in the economic and monetary union (the 'Fiscal Compact'), the federal government and the regional and community governments concluded a cooperation agreement in 2013, with the aim of defining overall and individual multiannual fiscal paths, to be monitored by the High Council of Finance. However, this process has not succeeded in reaching a formal agreement on fiscal trajectories, nor has it established sufficient safeguards regarding the monitoring role of the High Council of Finance. This lack of coordination on the sharing of effort undermines the viability of the country's overall trajectory towards its medium-term objective as laid down in the 2017 Stability Programme.

(12) Despite its potential to stimulate growth in the long run, public investment is very low by European standards, particularly in relation to total public spending. Not only is the public capital stock low, the quality of public infrastructure has also been eroded. Given the very tight budgetary constraints for all levels of government, preserving enough room for investment hinges on restructuring the composition of overall public spending by improving the efficiency of public services and policies and curbing the rapid increase for certain expenditure items.

(13) Belgium has made substantial progress in reforming its wage-setting system. The revision of the 1996 law regulating wage bargaining aims at safeguarding the cost competitiveness gains realised as a result of the recent wage moderation efforts. The more conservative baseline projections and the built-in prior adjustments in the calculation of the wage norm mean the reformed framework goes a long way in improving Belgium's cost competitiveness relative to key trading partners within the euro area. In addition, the reform provides more guarantees that government measures to reduce non-wage labour costs will effectively benefit cost competitiveness, and expands the role of the Government in preventing detrimental cost competitiveness trends as a result of excessive inflation. The collective bargaining framework provides for close monitoring of wage and productivity trends and other cost and non-cost competitiveness determinants by the social partner organisations represented in the Central Council for the Economy. As the practice of linking wage developments to inflation is still widespread in many sectors, and in the context of the widening inflation gap between Belgium and its neighbours, changes in unit labour costs will continue to be closely monitored under the European Semester.

(14) Some progress has been made on the functioning of the labour market. A higher retirement age and further limits on pre-retirement encourage older people to stay in or return to work. Gradual decreases in the tax wedge have helped to boost employment rates. Job creation has been robust, fuelled by economic growth and improved cost competitiveness. This also reflects labour tax cuts and wage moderation that have improved the labour cost competitiveness of Belgian companies. Nevertheless, a number of structural shortcomings remain. Transition rates from unemployment or inactivity to employment are low, and the overall employment rate is still weighed down by the poor performance of specific groups. These include the low-skilled, the young, older workers and people with a migrant background such as non-EU-born workers but also second-generation migrants. The employment outcomes for people with a migrant background, even adjusting for other individual characteristics, are among the worst in the Union. In particular, the employment gap for the non-EU-born is the highest in the Union: their employment rate for the age group 20-64 was 49,1 % in 2016, compared to 70,2 % for native-born people, and was even lower for non-EU-born women (39,1 %). In 2015, the risk of poverty and social exclusion was 50,7 % for non-EU-born residents, compared to 17 % for the native-born. These sizeable employment differentials between specific population groups continue to result in a chronic under-utilisation of labour. Although ongoing regional reforms of employment incentive schemes aim to rationalise and tailor the system, the cost-effectiveness of the policy choices made should be monitored on a regular basis. Some design features of the target-group policies may have windfall and displacement effects. Coordination and communication between and within the different policy levels is also key for the effectiveness of targeted policies. Taxes, including social contributions on lower wages and the withdrawal of social benefits upon entering the labour market or increasing hours worked, may create inactivity and low-wage traps.

(15) Some progress has been made in educational and training reforms aiming to improve equity, key competences and the quality of education. However, despite good average performance compared internationally, the share of top performers among the 15-year-old students declined while the percentage of low-achievers increased. In addition, educational inequalities linked to socioeconomic background are above the Union and OECD averages. The gap in performance based on migrant background is also large and the second generation performs only slightly better than the first, even taking socioeconomic background into account. Addressing educational inequality will thus require a broad policy response going beyond the educational system. The strong growth of the school population, in particular among pupils with a migrant background (their proportion rose from 15,1 % in 2012 to 17,7 % in 2015), will exacerbate the equity challenge. Moreover, Belgium faces an emerging shortage of teachers, and the teachers are not always well prepared or supported to cope with an increasingly diverse school population. The main reasons are the difficulty of attracting the most suitable students and candidates to the profession, the high exit rate of starting teachers, and the unavailability of a proportion of teachers for teaching. Also, at 3 years currently, the course length for initial teacher training is relatively short in Belgium. Education and training reforms are key to improving the labour market participation of low-skilled young people and to supporting the transition to a knowledge-intensive economy.

(16) The non-cost dimension of competitiveness still requires improvements. Higher productivity gains and broader investment in knowledge-based capital, in particular for adopting digital technologies, are essential in this respect. Although the public research system is of high quality, stronger performance in innovation would require more knowledge diffusion across less productive sectors. All federated entities acknowledge this need, and in recent years have adopted different strategies and measures to promote innovation. However, to foster such developments, more could be done to improve the framework conditions for innovation. Moreover, there seems to be scope for improving the efficiency and effectiveness of public support for research and innovation in Belgium, in particular in evaluating possible crowding-out effects and further simplifying the overall system.

(17) Limited progress has been made in removing operational and establishment restrictions on retail. Following the Sixth State Reform, which transferred competences on retail establishment to the regions, new regional laws have been put in place simplifying the administrative procedure for authorisation. However, there is a wide margin for interpretation of certain provisions, which risks leading to unjustified market entry barriers. Consumer prices continue to be higher than in neighbouring Member States, beyond the level which could be explained by higher labour costs. A comprehensive strategy to tackle these issues would be necessary to ensure that consumers can benefit from a competitive market and lower prices.

(18) High regulation in the network industries and some professional services is restricting competition in Belgium, in particular for real estate agents, architects and accountants. Barriers include shareholding and company form restrictions for architects, in addition to the other requirements; the incompatibility rules prohibiting the simultaneous exercise of any other economic activity for all types of accountancy professions; limitations on real estate agents' access to the profession; and shareholding and voting rights restrictions. Reducing such barriers could generate more intensive competition, resulting in more firms entering the market and benefits for consumers in terms of lower prices. The Commission presented a package of measures to tackle barriers in services markets in January 2017. This package includes various reform recommendations addressed to Belgium to tackle these challenges.

(19) The transport network represents one of the most pressing investment gaps. There is a growing problem of peak-hour traffic congestion, which undermines the country's attractiveness for foreign investors and has major economic and environmental costs. Belgium also suffers from serious air pollution problems and is not expected to reach its target of reducing non-ETS emissions by 15 % in 2020 compared to 2005, although it will most probably meet its commitments under the Union climate legislation by making use of the existing flexibility provisions. The most urgent challenges are upgrading basic rail and road transport infrastructure and eliminating missing links between the main economic hubs. At the same time, it is important to tackle peak-hour congestion by improving public transport services, optimising traffic management and eliminating market distortions and adverse tax incentives, such as favourable treatment for company cars. Another challenge relates to the adequacy of domestic power generation and the security of supply in general. Unplanned outages of several nuclear installations had raised concerns about the way to balance electricity demand and supply, while the repeatedly revised timetable for phasing out the nuclear park continues to create a climate that is not conducive to taking long-term investment decisions. Although short-term supply risks have been abated, in particular by the increase of the strategic reserve, and some progress was made in increasing the interconnections, longer-term investment needs are still considerable. In addition to further increases in interconnections, smart grids are needed to develop demand-side management. Given the considerable lead time for projects in the energy sector and the high need for replacement capacity over the next decade, swift action will be required, in particular in the form of a suitable legal framework that also promotes the development of flexible capacities (i.e. generation, storage and demand-side management).

(20) Belgium has made some progress in reforming the tax system, in particular by shifting taxes from labour to other tax bases, which will gradually reduce the tax wedge on labour. Taxes on labour, including social contributions, are being reduced in several steps between 2016 and 2020. The effects of the ongoing tax reform are beginning to materialise. Nevertheless, the tax system remains complex, with tax bases eroded by specific exemptions, deductions and reduced rates. Some of these involve revenue losses, economic distortions and a heavy administrative burden. The tax shift does not seem to be neutral from a budgetary point of view since labour tax cuts have only been partially compensated by increases in other taxes, including consumption taxes. There is still considerable scope for improving the design of the tax system by further broadening tax bases, allowing for both lower statutory rates and fewer distortions. There is also considerable potential for a 'green' tax shift stemming from, among other things, the favourable tax treatment of company cars and fuel cards which impedes further progress in tackling congestion, air pollution and greenhouse gas emissions. The Government envisages changes to the company car system, but the environmental benefit of this reform is likely to be limited.

(21) In the context of the 2017 European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy and published it in the 2017 country report. It has also assessed the 2017 Stability Programme, the 2017 National Reform Programme and the follow-up given to the recommendations addressed to Belgium in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Belgium, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(22) In the light of this assessment, the Council has examined the 2017 Stability Programme and its opinion[7] is reflected in particular in recommendation (1) below,

[7] Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Belgium take action in 2017 and 2018 to:

1. Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Belgium's public finances. Use windfall gains, such as proceeds from asset sales, to accelerate the reduction of the general government debt ratio. Agree on an enforceable distribution of fiscal targets among government levels and ensure independent fiscal monitoring. Remove distortive tax expenditures. Improve the composition of public spending in order to create room for infrastructure investment, including on transport infrastructure.

2. Ensure that the most disadvantaged groups, including people with a migrant background, have equal opportunities to participate in quality education, vocational training, and the labour market.

3. Foster investment in knowledge-based capital, in particular with measures to increase digital technologies adoption, and innovation diffusion. Increase competition in professional services markets and retail, and enhance market mechanisms in network industries.

Done at Brussels,

For the Council
The President