

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Belgium's 2012 national reform programme and delivering a Council opinion on Belgium's stability programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 30 April 2012, **Belgium** submitted its 2012 stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is** plausible for the years 2012 and 2013 and optimistic for the years 2014 and 2015 as it foresees GDP growth to be substantially higher than the latest estimates of potential growth emerging from the Commission's 2012 spring forecast.

The objective of the budgetary strategy outlined in the programme is to bring the deficit below 3% of GDP in 2012 (to 2.8% of GDP, down from 3.7% of GDP in 2011) and to zero in 2015. However, there are risks stemming from the fact that the additional measures to be taken from 2013 onwards are not yet specified and that the macroeconomic scenario from 2014 onwards is too optimistic.

The government debt, which at 98.0% of GDP in 2011 is well above the 60% threshold, is planned by the programme to stabilise and then to decline to 92.3% in 2015, which would imply sufficient progress towards meeting the debt reduction benchmark of the Stability and Growth Pact. Moreover, implicit liabilities stemming from the guarantees given to the financial sector are particularly large. The rules based, multi-annual framework for general government, particularly with regard to expenditure would benefit from enforcement mechanisms and/or commitments from the regions and communities, as well as from the local level, in order to meet their allocated deficit targets.

According to the Commission, the **main policy challenges** for the country are as follows:

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- The costs associated with ageing should be addressed and a structural decline in the deficit should be achieved to reduce the high public debt.
- The Belgian financial system still faces considerable challenges. Restructuring of the Belgian banks is on-going, and state aid granted in 2008/2009 as a response to the financial crisis has not yet been fully repaid.
- The current account is gradually deteriorating over time. Belgian exports of goods have lost ground not only with respect to expanding world trade, but also with respect to other euro area countries and the euro area as a whole.
- Given the existence of an automatic wage-indexation system, the efforts of the government to limit real wage increases to no more than 0.3 % in the period 2011-2012 may not have prevented nominal wage growth from exceeding that in the neighbouring countries.
- Although productivity levels are high, its growth is weak and also the costs of intermediary inputs, mainly energy, are high.
- Retail gas and electricity prices have been frozen in order to limit inflation, but no concrete measures have been taken with respect to reforming the wage-bargaining and wage-indexation system itself.
- The R&D intensity of the private sector has stagnated in recent years and shortage of skilled professionals, particularly in sciences and engineering, could become a major barrier in terms of further improving the innovation performance of the Belgian economy.
- Some structural measures have been taken to boost employment of younger and older workers and to bring more of the unemployed into the work force. Belgium has engaged in a wide reform of its unemployment-benefit system. However structural problems in the labour market persist and more could be done to tackle them.
- No significant headway has been made on the reduction of the tax burden on labour. No shift of the fiscal burden away from labour towards consumption and/or eco-taxes has been undertaken.
- Prices for many goods and services are generally higher than in other Member States, reflecting weak competitive pressures — especially in the retail sector and network industries — and a weak supervisory framework.
- While Belgium is on track to meet the target to increase the share of renewable energy in the economy, progress towards reaching the 15 % reduction target for greenhouse gasses (GHG) in the non-ETS sectors is forecast to be virtually non-existent. Belgium has not adopted sufficient measures or policy initiatives in 2011 to address this situation.

Recommendations proposed for Belgium for the period 2012-2013:

Budgetary measures:

- implement the budget for the year 2012 to make sure the excessive deficit is corrected by 2012;
- specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond, thereby ensuring that the excessive deficit is corrected in a durable manner and that sufficient progress is made towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure progress towards compliance with the debt reduction benchmark;
- adjust the fiscal framework to ensure that the budgetary targets are binding at federal and sub-federal levels, and increase transparency of burden-sharing and accountability across layers of government.

Ageing:

- continue to improve the long-term sustainability of public finances by curbing age-related expenditure, including health expenditure;
- implement the reform of pre-retirement and pension schemes and introduce measures linking the statutory retirement age with increases in life expectancy.

Banking sector:

- further increase capital of the weakest banks to underpin the strength of the banking sector so that it can play its normal role in lending to the economy.

Wages:

- to boost job creation and competitiveness, take steps to reform, in consultation with the social partners and in accordance with national practice, the system of wage bargaining and wage indexation;
- as a first step, ensure that wage growth better reflects developments in labour productivity and competitiveness, by (i) ensuring the implementation of ex-post correction mechanisms foreseen in the 'wage norm' and promoting all-in agreements to improve cost-competitiveness and (ii) facilitating the use of opt-out clauses from sectoral collective agreements to better align wage growth and labour productivity developments at local level.

Tax, labour market:

- significantly shift taxes from labour to less growth-distortive taxes including for example environmental taxes;
- pursue the initiated reform of the unemployment benefit system to reduce disincentives to work and strengthen the focus of employment support and activation policies on vulnerable groups, in particular people with a migrant background;
- take advantage of the planned further regionalisation of labour market competencies to boost interregional labour mobility and to strengthen the coherence between education, life-long learning, vocational training and employment policies;
- extend existing activation efforts to all age groups.

Competition:

- continue to strengthen competition in the retail sector by lowering barriers to entry and reducing operational restrictions;
- introduce measures to strengthen competition in the network industries (electricity and gas, telecom, postal services and transport) by revising regulatory barriers and reinforcing the institutional arrangements for effective enforcement of state aid rules.

Environment:

- take measures to correct the lack of progress towards reaching the targets for reducing greenhouse gas emissions from non-ETS activities, in particular by ensuring a significant contribution to this goal from transport.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.