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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

{SWD(2012) 314 final}

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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 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament,[4]

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the

[1] OJ L 209, 02.08.1997, p. 1
[2] OJ L 306, 23.11.2011, p. 25
[3] COM(2012)314 final
[4] P7_TA(2012)0048 and P7_TA(2012)0047

Member States[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation on Belgium's national reform programme for 2011 and delivered its opinion on Belgium's updated stability programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[6], in which it identified Belgium as one of the Member States for which an in-depth review would be carried out.

(5) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to give priority to growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for their inclusion in their stability or convergence programmes and their national reform programmes.

(7) 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. The Commission has also assessed in an in-depth review, under Article 5 of Regulation (EU) No 1176/2011, whether Belgium is affected by macroeconomic imbalances. The Commission concluded in its in-depth review[7] that Belgium is experiencing an external imbalance, although not excessive.

(8) Based on the assessment of the 2012 stability programme pursuant to Council Regulation (EC) No 1466/97, 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. The programme confirms the previous medium-term budgetary objective (MTO) of a surplus of 0.5% of GDP in structural terms, which adequately reflects the requirements of the Stability and Growth Pact The planned 2012 headline deficit complies with the deadline set by the Council for the correction of the excessive deficit and the planned fiscal effort complies with the EDP recommendation of a minimal average annual

5 Council Decision 2012/238/EU of 26 April 2012
6 COM(2012) 68 final.
7 SWD(2012)150 final

effort of ¾% of GDP in structural terms. The planned growth rate of government expenditure, taking into account discretionary revenue measures, complies with the expenditure benchmark of the Stability and Growth Pact in 2013 to 2015, but not in 2012. Based on the (recalculated) structural budget balance[8], the programme projects the structural balance to improve by 1.1 percentage point of GDP in 2012 and by about 0.8% of GDP on average over the period 2013-2015. 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.

(9) 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 new federal government agreed in December 2011 on a reform of the Belgian old-age social security system. An effective implementation and monitoring of the initiated statutory reforms is now necessary, with a view to raising the effective retirement age. Underpinning the reform of old-age social security by measures that stimulate active ageing and longer working are crucial, while further reforms, such as linking the statutory retirement age to life expectancy, would also help to achieve this goal.

(10) 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. Moreover, given the high level of guarantees, the risks of the banking and public sectors are interrelated.

(11) The current account is gradually deteriorating over time. The improvement of the services balance does not make up for the deterioration in the trade balance for goods. 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 on average pointing to unfavourable domestic cost developments in unit labour costs compared to Belgium's main trading partners (NL, FR, DE) 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

[8] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

barrier in terms of further improving the innovation performance of the Belgian economy.

(12) 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. Increasing the lifelong-learning participation rate and pursuing the reforms in vocational education and training (VET) are crucial to improving the effectiveness of active labour market policies (ALMP), in particular for older workers and disadvantaged groups, such as people with a migrant background. No significant headway has been made on the reduction of the tax burden on labour. A new tax credit for the lowest wages was introduced in June 2011 but it has not proved sufficient to remedy the significant unemployment traps at the bottom of the pay scale. No shift of the fiscal burden away from labour towards consumption and/or eco-taxes has been undertaken.

(13) 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. In the retail sector, barriers to entry and operational restrictions remain high. In particular, competition-restricting regulations still restrict opening hours, protect incumbents against new entry and inhibit the spread of new business models and technologies. A common competition problem in the network sectors in Belgium is the strong position of the incumbent and the high entry barriers compared to other Member States, meaning that former monopolists in these sectors can still charge higher prices than a competitive market would allow. The Belgian Competition authority is being reformed but it remains unclear whether the new authority will be sufficiently independent and have adequate resources.

(14) 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[9] sectors is forecast to be virtually non-existent. Belgium has not adopted sufficient measures or policy initiatives in 2011 to address this situation.

(15) Belgium has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to improving competitiveness, raising the employment rate, boosting the sustainability of public finances and strengthening financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Belgium’s economic policy. It has assessed both the stability programme and national reform programme and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-

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[9] In Belgium only 37.9 % of emissions come from sectors included in the EU Emission Trading Scheme (ETS). Of the more important non-ETS sectors, road transport (21.5 %) and energy use (38.9 %) are the most important sources of GHG emissions in the country. .

economic policy in Belgium but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input to future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(17) In the light of this assessment, the Council has examined Belgium's stability programme for 2012 and its opinion[10] is reflected in particular in recommendation (1) below.

(18) In the light of the results of the Commission's in-depth review and this assessment, the Council has examined Belgium's national reform programme for 2012 and Belgium's stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in particular in recommendations (1), (4), (5) and (6) below,

HEREBY RECOMMENDS that Belgium should take action within the period 2012-2013 to:

1. Implement the budget for the year 2012 to make sure the excessive deficit is corrected by 2012. Additionally, 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.

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

3. 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.

4. 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.

5. 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

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

and to strengthen the coherence between education, life-long learning, vocational training and employment policies. Extend existing activation efforts to all age groups.

6. 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.

7. 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.

Done at Brussels,

For the Council
The President