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Assessment of the 2014 national reform programme and stability programme for BELGIUM

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Belgium's 2014 national reform programme and delivering a Council opinion on Belgium’s 2014 stability programme

{COM(2014) 402 final}

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EXECUTIVE SUMMARY

According to the Commission 2014 spring forecast, real GDP growth in Belgium is expected to accelerate to 1.4 % in 2014, driven mainly by domestic demand, which is benefiting from improved confidence. Net exports will continue to contribute positively to growth, though to a lesser extent than in previous years. Unemployment, however, is expected to increase slightly from 8.4 % to 8.5 % before marginally falling back in 2015. Inflation is projected to remain below the 2 % threshold up to the forecast horizon because of low price pressures and the government's decision to cut the value added tax rate on household electricity consumption.

Overall, Belgium has made some progress in implementing the 2013 country-specific recommendations. Belgium has reduced its deficit, to 2.6% of GDP in 2013, improved fiscal policy coordination between government layers and enacted an old-age social security reform to increase employment of older workers while making public finances more sustainable over the long run. With regard to the latter, additional reforms will be required, however, to address the sizeable ageing challenge. While measures were taken to curb rising labour costs and to improve participation to the labour market, the risk of decoupling of wages and productivity has not been effectively addressed and employment performance remains marred by persisting structural issues. In addition, there is room for greater synergies between education, training and employment actors and policies. Finally, only limited progress has been achieved in shifting taxes from labour income to less growth-distortive revenues sources, in reducing operational restrictions in the retail and services sectors and in decreasing greenhouse gas emissions from buildings and transport. Overall, steps taken go in the right direction, but still need to be supplemented by additional action.

As a result, Belgium continues to face important and interrelated challenges concerning the state and sustainability of its public finances, the external competitiveness of the economy, the functioning of its labour and product markets, and its greenhouse gas emissions. The policy plans submitted by Belgium deal with most of these challenges, and broad consistency between the two programmes has been ensured. The national reform programme has confirmed Belgium's commitment to addressing shortcomings in the areas of long-term sustainability of public finances, competitiveness, the labour market, competition and the environment, though the actions undertaken over the last year are not ambitious enough. The national reform programme also lacks a forward-looking vision. The stability programme demonstrates Belgium's commitment to improving the budgetary position towards the medium-term objective in line with the Stability and Growth Pact, yet the fiscal trajectory is only indicative. In a number of areas, more effective policy coordination between the various actors involved and consistency between regional and national targets is required to meet the targets set and the commitments made.

- **Public finances**: Belgium has brought its deficit below 3% of GDP. While it is expected to remain below this ceiling, further deficit reduction remains necessary in order to bring the high debt-to-GDP ratio resolutely on a declining path. The risks to the long-term sustainability of public finances are high because of the high projected ageing costs. The recent pension and pre-retirement reforms are important steps towards improving the sustainability of the pension system but, given the scale of the challenge ahead, they will have to be complemented by further measures. The gap between the effective and the statutory retirement age remains wide, the retirement age is not linked to life expectancy and the cost-effectiveness of long-term institutional care could be improved. Lastly, despite the high tax burden on labour, no major tax shift towards less growth-distortive revenue sources has taken place. Piecemeal changes to an already complex tax system have not helped Belgium to restructure a relatively growth-distorting tax system nor served other objectives in which taxation could play a role.

- **Competitiveness**: Competitiveness issues persist, most notably with regard to manufactured goods. These are due to high factor prices, particularly energy and labour costs, which are insufficiently compensated by higher productivity levels and/or a reorientation of exports to more dynamic markets or higher-value-added products. Given the country's specialisation in intermediate products, which are more vulnerable to price competition, developments in unit labour costs are particularly relevant. In recent years, Belgium's labour costs have risen more than those of its main trading partners and more than its productivity. Regarding non-cost competitiveness, sophisticated and comprehensive policy plans at different government levels to foster research and innovation are bearing fruit but support schemes are complex, time-consuming and highly fragmented. Finally, persistent mismatches on the labour market create bottlenecks to growth in specific sectors.

- **Labour market, education and training**: Labour market participation remains below average and high employment/unemployment disparities across regions and population subgroups persist. The tax wedge on labour is very high and unemployment and inactivity traps are pervasive. Professional mobility is limited, high entry barriers for outsiders and a high mismatch between education and training outcomes and labour market demand have negative impact on employment and hamper growth. In particular, the share of early school leavers reaches worrisome levels in certain regions. This is due to the significant share of youngsters leaving the education system without qualification and to unqualified newcomers/migrants. While improving, effective coordination between the various public community and regional actors responsible for education, training and employment continues to be a challenge.

- **Product markets**: Prices of goods and services are generally higher in Belgium than in other Member States, reflecting weak competition and structural barriers. Operational restrictions and obstacles to competition in the retail sector have yet to be addressed and the risk of further increases of distribution tariffs requires an effective policy response. Finally, restrictions on professional services remain excessive.

- **Climate and energy**: Without further measures or use of additional flexible mechanisms, Belgium will not meet its Europe 2020 target for reducing greenhouse gas emissions in sectors not covered by the EU's emissions trading scheme. Challenges in the transport sector have not been adequately addressed. A clear division of greenhouse gas reduction efforts between the different government entities is still lacking.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Belgium. On the basis of these recommendations, the Council of the European Union adopted seven CSRs in the form of a Council Recommendation in July 2013. These CSRs concerned public finances, the pension system, wage setting, product markets, taxation, the labour market, and greenhouse gas reductions. This staff working document (SWD) assesses the state of the implementation of these recommendations in Belgium.

The SWD assesses policy measures in light of the findings of the Commission’s 2014 Annual Growth Survey (AGS)[1] and the third annual Alert Mechanism Report (AMR),[2] which were published in November 2013. The AGS sets out the Commission’s proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that complete and durable rebalancing is achieved, Belgium and 15 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission Communication.[3]

Against the background of the 2013 Council Recommendation, the AGS, the AMR and the in-depth review, Belgium presented a national reform programme (NRP) and a stability programme on 30 April 2014. These programmes provide detailed information on progress made since July 2013, though future plans are indicative in the stability programme and absent from the NRP in light of the general parliamentary elections of May 2014. The information contained in these programmes provides the basis for the assessment made in this staff working document. The programmes underwent an inclusive consultation process involving regional and community authorities as well as social partners and civil society.[4]

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

In 2013, growth and employment in Belgium were affected by weak capital formation and still timid household consumption. The beginning of 2013 saw a drop in investments and of both exports and imports which was not offset by still weak private consumption. However, private consumption improved over the year and capital formation began a fragile recovery. Expectations on the general economic climate and confidence indices have

[1] COM(2013) 800 final.
[2] COM(2013) 790 final.
[3] In addition to the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the Council's conclusion that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.
[4] The NRP was approved by the federal government, while the regional NRPs annexed to the NRP were approved at an earlier stage by the relevant regional governments. The federal government held consultations with social partners on Europe 2020 matters prior to adoption of the NRP.

gradually improved, reaching their highest level since mid-2011. After falling by 2.5 % in 2013 due to a weak start, capital formation progressively recovered, led by company investment. Net exports have been able to compensate for negative domestic demand and to bring yearly GDP growth to 0.2 %.

Despite renewed employment growth since mid-2013, the unemployment rate has been rising, from 7.6 % in 2012 to 8.4 % in 2013. Although the figure stabilised towards the end of the year at a level below the EU average, it remains high by historical standards. In addition, overall employment was steady at a level below EU average and the very low employment rate of specific groups (the low-skilled, the young, the elderly and people with a migrant background[5]) is worrisome.

Overall inflation slowed down in 2013 to 1.2 % for the year, below the EU average of 1.5 %. This deceleration is mainly due to lower import and input prices and government measures to foster competition and increase transparency on domestic energy markets. This reduced inflationary pressure might make it easier for Belgium to achieve wage moderation given the reduced impact of wage indexation on total wage growth, which in the past has been one of the drivers behind wage increases exceeding productivity growth. In the first few months of 2014, inflation continued its downward trend, falling below levels observed in neighbouring countries.

Economic outlook

According to the Commission 2014 spring forecast, real GDP is expected to accelerate over 2014 to 1.4 %, thanks to revived domestic demand, and a temporary contribution from net exports. Both private consumption and investment are expected to accelerate further towards the end of the year and then stabilise again as of 2015 when domestic demand is foreseen to become the main driver behind a real GDP growth rate of 1.6 %. Better labour market prospects, stronger income growth and renewed investments will underpin this projected GDP growth. At the same time, this will translate into higher import growth expected to outpace export growth, while temporary competitiveness gains are vanishing.

The generally low-inflation environment and the government's decision to lower the VAT rate on household electricity consumption are projected to result in a further deceleration of inflationary pressures and to delay wage indexation for most workers. Combined with the real wage freeze and productivity gains, this will contribute to slowing down the rise in unit labour costs. Unemployment is expected to rise marginally in 2014 to 8.5 % on average, before decreasing slowly from 2015.

The macroeconomic assumptions in Belgium's 2014 national reform programme and stability programme are based on projections of 24 March 2014 from the Federal Planning Bureau and on the Commission forecasts for the international environment. For 2013 and 2014, real GDP growth is projected at 1.4% and 1.8% respectively. This is marginally more optimistic than the Commission's 1.4% and 1.6%, but still within a reasonable margin. Inflation and unemployment rate projections are also very close to the Commission's figures. On the other hand, the potential growth estimates in 2013 and 2014 contained in the stability programme are significantly higher than Commission's estimates based on the spring forecast. As a consequence, the output gap and estimated impact of the cycle on the government deficit are substantially more negative in the programme than in the Commission's assessment. The national reform programme presents an impact assessment for the reduction in social security contributions agreed in the Pact on Competitiveness and Jobs,

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[5] This group includes both newcomers and so-called "second and third generation"-migrants, many of whom have Belgian nationality.

on top of the impact of the reduction of the VAT rate on electricity. The simulations used two different hypotheses on the wage evolution (controlled and free wages). Both have a positive impact on GDP growth and employment and result in a reduction of nominal hourly wage cost, but the impact is greater in case of controlled wages. According to those projections, by 2020, those reductions would decrease labour costs between 0.19% and 1.1%, which would increase employment between 0.09% and 0.27% and GDP between 0.11% and 0.18%.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The objective of the budgetary strategy outlined in the 2014 Stability Programme is to reach a balanced budget in structural terms by 2016 and to achieve the MTO the year after. Due to the end of the government's term and the national and regional elections held at the end of May 2014, the fiscal trajectory contained in the programme, which is based on the recommendations of the fiscal council (High Council of Finance), is labelled as indicative. The programme confirms the previous MTO at a structural surplus of 0.75% of GDP, which reflects the objectives of the Pact. While the MTO implies a significant budgetary effort as shown by the corresponding primary balance, there is a need to take into account the implicit liabilities related to ageing. The programme foresees the achievement of the MTO in 2017, one year later than the target year set in last year's programme.

The 2013 headline deficit came out at 2.6% of GDP, just above the target of 2.5% of GDP foreseen in the 2013 Stability Programme. The structural deficit decreased from 3.0% of GDP in 2012 to 2.3%. The structural improvement therefore attained 0.7 pp of GDP, below the target of 1 pp of GDP set in the 2013 programme.

For 2014, the Stability Programme reaffirms the headline deficit target of 2.15% of GDP as planned in the Draft Budgetary Plan for 2014, which is slightly above the 2.0% of GDP target set in last year's Stability Programme. The improvement in the (recalculated) structural balance[6] targeted in the programme amounts to 0.5 pp. of GDP, compared to 0.6 pp. of GDP in the Draft Budgetary Plan, resulting in a (recalculated) structural deficit of 1.7% of GDP in 2014. This is an upward revision compared to the (recalculated) structural target of 1.3% of GDP set in the Draft Budgetary Plan, due to the downward revision in potential growth and because a larger part of the improvement of the headline balance will come from one-off factors. The European Commission 2014 spring forecast projects a headline deficit of 2.6% of GDP in 2014. The difference with the programme is due to more dynamic expenditure developments in the Commission's projections. Almost half of the gap is situated at local government level. According to the spring forecast, the structural balance does not improve further in 2014. Contrary to the spring forecast, the Stability Programme assumes that around 0.25% of GDP of wage subsidies would be transformed in direct reductions of social contributions, which distorts the comparison of revenue and expenditure ratios between both projections.

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[6] 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.

Box 1. Main measures

Main budgetary measures

Revenue	Expenditure
2013	
• Increase in excise duties • Increase in taxes on revenue from financial property • Introduction of a minimum tax in corporate income taxation	• n.a.
2014	
• Decrease in the VAT rate on electricity • Increase in excise duties	• Efficiency gains in the public administration • Only partial replacement of retiring civil servants • Capping (real) growth of health care expenditure at 3%
2015	
• Decrease in social contributions	• n.a.
2016	
• n.a.	• n.a.
2017	
• Decrease in social contributions	• n.a.
Note: The budgetary impact has not been reported in the programme.	

Belgium has also taken macro-structural measures which are expected to boost economic growth and support the fiscal consolidation: structural reforms in the labour market and the pension system should stimulate the employment rate of elderly workers. Reductions in social contributions and taxes for low wage workers aim to make work financially more attractive. Labour demand is stimulated by a decrease in the wage burden, generally and for specific target groups, for companies. Competitiveness is further fostered by a real wage freeze and measures tempering inflation, which has a slowing impact on the automatic indexation of wages. Tax measures taken focus on taxation of consumption and capital and tried to avoid higher taxes on labour.

The programme targets a (recalculated) structural improvement of 0.6% of GDP in 2015 and of 0.9% of GDP in 2016 and 2017. Under the macro-economic assumptions of the programme, this trajectory is consistent with a headline deficit of 1.4% of GDP in 2015, 0.4% in 2016 and a return to a budget surplus of 0.6% of GDP in 2017. These targets are below those of the previous programme (deficit of 0.5% of GDP in 2015, surplus of 0.4% of GDP in 2016), mainly due to a lower (recalculated) structural effort targeted in 2015 compared to last year's programme (0.6 instead of 1.2 pp. of GDP), while GDP growth has been revised marginally upwards. None of the targets is supported by specified measures yet.

All targets set in the programme are labelled as indicative, which hampers the credibility of the trajectory. Moreover, the reduced powers of the different governments due to the May 2014 elections pose a risk for the 2014 target, which is not yet ensured according to the Commission's forecast. This would result in the need for a bigger effort than projected in the programme for the later years of the programme, in order to reach a balanced budget in structural terms by 2016 and the MTO by 2017. Such a back-loading of the effort poses risks to the attainment of the targets. Moreover, a protracted period of political uncertainty after the elections as observed in 2007 and 2010 which delays the adoption of additional measures could also put the 2015 target at risk. Lastly, while targets are set in structural terms, there is a risk that the authorities will stick to headline targets in case the latter turn out to be less demanding due to positive cyclical effects or positive one-off factors, as witnessed in 2014 (see above). On the other hand, if structural targets are respected, the timing for returning to a budget surplus in nominal terms will be dependent on the macro-economic conditions.

Box 2. Excessive deficit procedure for Belgium

Belgium is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Belgium on 2 December 2009 and recommended to correct the excessive deficit by 2012 at the latest. On 21 June 2013 the Council decided that Belgium had not taken effective action in compliance with the Council's recommendations and decided to give notice. Belgium was given a deadline of 21 September 2013 to take effective action to ensure a sustainable correction of the excessive deficit by 2013. The Council also decided that Belgium shall present structural measures for 2014 which ensure a sustainable correction of the excessive deficit and appropriate progress towards its medium-term objective.

The year following the correction of the excessive deficit, Belgium will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2013 reached 101.5% of GDP, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Belgium is also subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm.

On 21 June 2013 the Council decided to give notice to Belgium to put an end to the excessive deficit situation by 2013. Belgium reported on a quarterly basis on progress made and reported on outstanding government guarantees in accordance with the additional reporting requirements under Article 10(6)(b) of Regulation (EU) 473/2013 activated in December 2013. The 2013 headline deficit came out below the target of 2.7% of GDP set by the Council. In 2014 and 2015, the deficit is projected to remain below the 3% of GDP deficit threshold. Meanwhile, the (adjusted) fiscal effort in 2013 fell short of the effort of 1% of GDP specified in the Council Decision. A bottom-up assessment which estimates the size of the additional fiscal effort on the basis of the discretionary revenue measures and the expenditure developments between the baseline scenario underpinning the Council Decision and the outturn, shows that Belgium has taken additional measures for 2013 adding up to ¼% of GDP, in line with the amount of measures deemed necessary to reach the structural target spelled out in the Decision.

After the correction of the excessive deficit, Belgium will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its medium-term objective (MTO). The planned annual change in the (recalculated) structural balance in 2014 and 2015 is appropriate. However, the Commission's spring forecast shows no actual structural improvement in 2014 and, under the usual no-policy-change assumption, a structural deterioration in 2015. The (recalculated) annual change in the structural effort exceeds the minimum required effort in 2016 and 2017.

According to the indicative information provided in the programme, the growth rate of government expenditure, net of discretionary revenue measures, over 2014-2015 is expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. However, according to the Commission forecast, the growth rate of government expenditure, net of discretionary revenue measures, over 2014 and 2015 is not expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. This is because the growth rate of expenditure is above 0.0%, i.e. the lower reference rate under the expenditure benchmark for these years. This breach would lead to a negative impact on the structural balance exceeding the thresholds of significance as of 2015. This divergence stems from a different assessment of the 2014 budget implementation and from the assumption of unchanged policy in the Commission projections for 2015, whereas the programme is based on a consolidation scenario.

Following an overall assessment of Belgium's budgetary plans, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, the adjustment path towards the MTO seems to be appropriate. However, according to the Commission's spring forecast, a significant deviation from the adjustment path towards the MTO is expected as from 2014, which could put the compliance with the requirements of the preventive arm of the Pact at risk.

In its 2013 Stability Programme, Belgium committed to keep its public debt below 100% of GDP at the end of 2013. However, due to reclassifications of a number of corporations inside the government sector, mainly at the level of regional and local governments, the final figure came out at 101.5% of GDP, and this despite the sale of a number of government assets. In the Commission's forecast, the debt-to-GDP ratio is projected to remain stable over the forecast horizon. Under the consolidation scenario of the programme, it is projected to gradually decline over the programme horizon.

In 2014 and 2015, Belgium is in a transition period with regard to the debt benchmark. According to the plans, the debt benchmark will be met at the end of the transition period. According to the Commission forecast which is based on a no-policy-change assumption, the transition towards compliance with the debt criterion will not be respected in 2014 nor 2015 and thus Belgium risks being put in EDP if corrective measures are not taken. The size of contingent liabilities linked to guarantees provided to the financial sector has further decreased from around 13.5% of GDP at the beginning of 2013 to 11.3% of GDP in February 2014.

Fiscal frameworks

The sixth reform of the state adopted at the end of 2013 devolves additional responsibilities to the Belgian regions and communities as of mid-2014. Their share in general government expenditure will rise from around 24 % before the reform to 31 % after the reform. The associated revision of the Special Finance Law gives the regions additional tax autonomy through ‘enlarged regional surcharges’ on federal personal income taxes, which will be offset by a tax reduction at federal level. The increasingly decentralised structure of Belgium and the lack of a ‘hierarchy of norms’ between the different levels of government call for effective budgetary coordination, including transparent expenditure rules and the extension of effective medium-term fiscal planning to all levels of government.

In the 2013 European Semester, Belgium was recommended to adopt explicit fiscal coordination arrangements. At the end of 2013, Belgium submitted a report on the intended implementation of that recommendation, in accordance with the Council Decision of 21 June 2013 on measures deemed necessary to remedy the situation of excessive deficit in Belgium. In July 2013, the federal and regional and community governments agreed on ad hoc burden-sharing of the consolidation effort for 2013 and 2014, in line with the 2013 stability programme.

Since last year's recommendation, Belgium has made substantial progress in introducing more structural coordination arrangements. A Cooperation Agreement on fiscal coordination, concluded between the federal government and the regional and community governments on 13 December 2013, aims to implement the Fiscal Compact.[7] As required, the agreement introduces a structural budget balance rule (defined in line with the medium-term objective) at general government level. Furthermore, it formalises established coordination practice by making (i) the role of the inter-governmental 'Consultative Committee'[8] in the process official and (ii) the advisory role [9] of the High Council of Finance more explicit. In addition, the Agreement foresees in a strengthening of the monitoring role of the High Council through the introduction of an explicit correction mechanism in case of significant deviation from the agreed targets. While the agreement represents substantial progress, much will depend on implementation and on the High Council of Finance's ability to reach a consensus on both medium-term fiscal targets for general government and the distribution of these targets.[10] Additional arrangements might be needed to make targets beyond 2014 binding and coordinate strategies to minimise the negative impact of remaining consolidation efforts.

Long-term sustainability

Belgium appears to face high fiscal sustainability risks in the medium term. The medium-term sustainability gap,[11] showing the adjustment effort required up to 2020 to bring debt ratios to 60 % of GDP in 2030, is 5.4 % of GDP, primarily related to the high level of government debt (101.5 % of GDP in 2015) and projected ageing costs contributing 2.2 pps. of GDP by 2030. The full implementation of the stability programme would put the debt on a decreasing path, but it would remain above the 60% of GDP reference value in 2030.

In the long term, Belgium appears to face high fiscal sustainability risks, mainly related to the structural primary balance in 2015, and projected ageing costs, contributing 6.6 pps. of GDP over the very long term. The long-term sustainability gap[12] shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path stands at 7.2 % of GDP. The risks would be lower if the structural primary balance reverts to the higher

[7] The Treaty on Stability, Coordination and Governance in the EMU, which includes the Fiscal Compact, was approved by all Belgian parliaments at the end of 2013.

[8] This body (the *Comité de concertation*/*Overlegcomité*), in which all Belgian governments are represented, was set up in 1980 in order to prevent conflicts of competences and solve conflicts of interests between different governments.

[9] Under the Cooperation Agreement, the Consultative Committee negotiates a general government target, whereupon the HCF advises on the breakdown of the general budget balance between the different layers of government. Based on this recommendation, the Consultative Committee must agree individual targets.

[10] The latter, especially, proved difficult in recent years. In its March 2013 opinion, the High Council of Finance was unable to reach a consensus on one single distribution of the fiscal consolidation effort across different levels of government but proposed instead two alternative distribution keys. In contrast, the 2014 opinion does contain an unambiguous distribution of the targets, yet the High Council of Finance was unable to adopt it unanimously.

[11] See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60 % of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population.

[12] See Table V. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position which gives the gap with the debt-stabilising primary balance; and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold.

values observed in the past, such as the average for the period 2004–2013. It is therefore appropriate for Belgium to continue to reduce government debt and to further contain age-related expenditure[13] growth to contribute to the sustainability of public finances in the medium and long term.

Projected ageing costs pose a challenge in Belgium, particularly those of pension and long-term care expenditure. Updated pension projections, taking into account the stricter early retirement rules introduced in 2012, show an increase of 5.1 pp of GDP in public pension spending between 2010 and 2060 (as compared with 1.4 pp in the EU as a whole). Public spending on long-term care is expected to increase by 2.7 pp of GDP by 2060 (as compared with an EU figure of 1.5 pp).

In 2013, Belgium received a country-specific recommendation to step up efforts to close the gap between the effective and the statutory retirement age, to underpin reforms of old-age social security with measures conducive to active ageing, to align the retirement age or pension benefits to changes in life expectancy and to increase the cost-efficiency of long-term institutional care. Belgium made some progress in reducing widespread early-exit options. The old-age social security reform introduced at the end of 2011 is being phased in as planned and the number of people leaving the labour market early has been on a downward trend for several years. Expectations, however, are that this downward trend might be interrupted in 2014 as a result of widespread corporate restructuring, underlining the need for further reform in this area. Additional measures conducive to active ageing were taken to underpin the reforms, notably to align the pension bonus with the new early retirement age, to ensure fair treatment of 'mixed' careers and to strengthen employment incentives in the survivor's pension. In addition, the rules on earnings after retirement have been relaxed, making it more rewarding to continue working past the age of early retirement or to stay in or re-enter the labour market after reaching the legal retirement age. At the same time, dismissals using the pre-retirement scheme ('unemployment with company supplement scheme') have been made more expensive and companies have been asked to introduce 'active ageing' plans. On the other hand, no progress has been achieved in aligning retirement age or pension benefits to changes in life expectancy. An expert group has been set up but has not yet delivered its reform proposals.

No progress has been made in improving the cost-efficiency of public spending on long-term institutional care. As a share of GDP, public spending on long-term care currently amounts to 2.5 % of GDP and is projected to increase to over 5 % of GDP in 2060.[14] A stronger focus on prevention and rehabilitation policies and on improved conditions for independent living, leading to increased cost-effectiveness of long-term care services, would prove useful as a means of containing future needs for and the related costs of long-term care. Whether the ongoing devolution of responsibilities to the federated entities will lead to increased cost-effectiveness depends on political choices that have yet to be made and implemented.

Overall, Belgium made some progress with reforming its old-age social security system. However, given the magnitude of the ageing challenge Belgium is facing, additional measures remain necessary in order to achieve the employment target for older people of 50 % by 2020 and to ensure sustainable public finances over the long-term. In particular, the sizeable gap

[13] Ageing costs comprise long-term projections of public age-related expenditure on pensions, healthcare, long-term care, education and unemployment benefits. See the *2012 Ageing Report* for details.

[14] European Commission and Economic Policy Committee (AWG), 2012, *2012 Ageing Report: Economic and budgetary projections for the 27 EU Member States*, European Economy, No 2/2012, EC, Brussels. Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2012/2012-ageing-report_en.htm.

between the statutory and effective retirement age could be tackled more swiftly by phasing out early exit systems faster than currently planned. In addition, linking the retirement age, pension benefits or career length requirements to increases in life expectancy would contribute to the long-term sustainability of public finances. Since a comparatively high proportion of the population over 65 is at risk of income poverty, the need to achieve financial sustainability of pensions will have to be carefully balanced with the need to maintain adequacy.

Tax system

At 45.4 % of GDP in 2012, Belgium has the second highest tax level in the EU and the tax burden on labour is particularly high.[15] Because of the way the tax system interacts with the benefit system, this creates unemployment and inactivity traps for most categories of workers.[16] By contrast, revenue from less growth-distorting taxes (on consumption, environmental and property bases) is around or below the EU average.[17] In particular, revenue from energy taxation is the second lowest in the EU, despite the high overall tax-to-GDP ratio and the high energy intensity of the Belgian economy. Finally, the Belgian tax system combines relatively high nominal tax rates with a generally complex system including many tax expenditures.[18] The efficiency of the VAT system[19] is undermined by the widespread application of reduced rates which have a huge budgetary cost. The use of reduced VAT rates could be replaced by the use of direct and more cost-effective redistribution measures.[20] This would broaden the tax base of the standard VAT rate and allow a decrease of the tax burden on labour.

Given the high level of labour taxation and the complexity of the tax system, the Council recommended Belgium to shift taxes from labour to less growth-distorting tax bases and to simplify the tax system. While revenue-increasing measures taken in the context of the 2013 budget review and the 2014 budget avoided additional taxation of labour, Belgium has made only limited progress in shifting taxes from labour to less growth-distorting tax bases.[21] Rather than shift taxes, the federal government has implemented successive rounds of labour cost reductions,[22] the majority of which are targeted at specific groups, types of companies or sectors. Reductions of employer social security contributions focusing on the young and low-skilled are appropriate given their employment creation potential. However, sector-specific

[15] The implicit tax rate on labour is one of the highest in the EU, at 42.8 % in 2012, and the labour tax wedge as defined in the OECD methodology is also one of the highest in the EU, except for the category of very low-wage workers (at 50 % of the average wage).

[16] For an analysis of unemployment traps, see chapter 3.1.4 of the *In-depth review on Belgium*, European Commission, 2014.

[17] Consumption taxes made up only 23.7 % of total tax revenue, the lowest in the EU-28. VAT and excise duties accounted for 7.2 % and 2.1 % of GDP respectively, the latter being the lowest in the EU both relative to GDP and relative to total tax revenue.

[18] Revenue losses due to tax expenditures are estimated at 6.6 % of GDP in 2011, mainly from personal income taxation and VAT.

[19] VAT efficiency is defined as the ratio of actual VAT revenue to the revenue that would be raised if VAT were levied at the standard rate on all consumption with perfect enforcement.

[20] In terms of redistribution, reduced VAT rates are a poor instrument as they do not allow targeting identical consumption by lower and higher income groups. See for instance, *Valenduc, 2013, "Réformes Fiscales, Soutenabilité budgétaire et croissance equitable", Contribution au Congrès des Economistes Belges de Langue Française*.

[21] On the scope for a revenue-neutral tax shift, see ‘The Belgian tax system in the context of macro-economic imbalances’ in *In-depth review on Belgium*, European Commission, 2014.

[22] The existing reductions in employers’ social contributions for the first three hires have been extended to the first five hires. The ‘work bonus’ for the low-paid introduced in 2012 has increased, as both the existing social security reduction and the existing tax credit for the low paid have been raised, resulting in an additional annual net salary increase of between EUR 68 and EUR 202.

labour cost reductions (such as in the construction and hospitality sector), while potentially contributing to the fight against social fraud, might have detrimental substitution effects. More substantial structural and targeted reductions of social contributions of around 0.1 % of GDP have been agreed for 2015, 2017 and 2019. With a view to wider tax reform, a special parliamentary committee was set up and reached conclusions,[23] but concrete reform proposals will have to be agreed upon by the next government coalition.

Although it could help to compensate for lower labour taxes, no progress has been made to increase VAT efficiency and to make more use of environmental taxation as recommended in the 2013 country-specific recommendations. As of 1 January 2014, the VAT exemption for lawyers' services has been abolished. On the other hand, the VAT rate on electricity consumption fell from 21 % to 6 % from April 2014, in order to temper inflation and alleviate the upward pressure it exerts on wages through the practice of automatic indexation. However, this measure goes against the objective of simplifying the tax system and its high budgetary cost limits the room for direct reduction of labour costs. It might also lead to disincentives for energy efficiency and greenhouse gas emissions. Excise duties on diesel and fuel have been exempted from the general increase in excise duties. Despite negative environmental and mobility externalities, only very limited measures have been taken to adapt taxation of the private use of company cars and to reduce environmentally harmful subsidies. With a view to meeting the Europe 2020 environmental targets, Belgium might also benefit from the potential of taxation (congestion charges and kilometre charges) as an instrument to help reduce GHG emissions or at least take externalities into account.[24]

While revenues from housing taxation are relatively high compared with other Member States, there is substantial scope for switching from transaction taxes to more recurrent property taxes. In addition to being a stable source of revenue, they have a less distortionary effect on the economy. For this purpose, currently outdated cadastral values might need to be updated as these estimates of imputed rent (the net annual revenue generated by renting out a building or plot of land) form the basis for recurrent taxes on immovable property in Belgium. The power to decide on the deductibility of mortgage repayments against personal income taxation is to be devolved to the regions.

Belgium has also made only limited progress in simplifying its tax system and making it more efficient. Some limited measures have been taken with regard to corporate income tax,[25] but the allowance for corporate equity in corporate income taxation still contains loopholes in its anti-abuse system that potentially allows corporations to cascade their profits for tax planning purposes. It also carries high budgetary costs because, unlike the Italian allowance for corporate equity, it is based on the full stock of equity rather than on new additions to it. Cash registers that help to counter tax fraud, and which were supposed to accompany the VAT reduction in the hospitality sector, will not be fully introduced until 2015. Streamlining and simplifying the tax system would not only further improve tax administration and tax compliance but also leave space to pursue more ambitious measures to reduce the tax burden on labour and to seek a reduction of direct tax rates.

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[23] See: http://www.senate.be/www/webdriver?MItabObj=pdf&MIcolObj=pdf&MInamObj=pdfid&MItypeObj=application/pdf&MIvalObj=83891072.

[24] See for example *Eunomia research & consulting with Aarhus University (2014), "Study on environmental tax reform potential in 12 EU Member States"*

[25] e.g. the 'fairness tax': a minimum level of taxation introduced for companies that take advantage of otherwise generous tax provisions under the notional interest deduction system (the Allowance for Corporate Equity) and/or carry-forward of losses.

Overall, rather than reforming its relatively growth-distorting tax system, Belgium has made only piecemeal changes, adding to the complexity of the system. A fully-fledged tax reform could stimulate growth, improve the performance of the labour market, boost competitiveness and serve environmental objectives by a decrease in the tax burden on labour, thorough base broadening — in particular for indirect taxes — and greater efficiency brought about through comprehensive simplification of the system and the closing of tax loopholes.

3.2. Financial sector

The Belgian financial sector has improved its capacity to withstand adverse shocks but vulnerabilities remain and warrant close monitoring. The capital ratios reported by most Belgian banks have already met the Basel III requirements and they post healthy liquidity ratios. The credit to the private sector continued to grow thanks to the banks' easy access to the domestic liquidity pool of private sector deposits. The feedback loop between the banks and the sovereign is still strong, while the banks' business model is undergoing change and profitability is stuck at a low level.

In 2013, Belgium did not receive a country-specific recommendation related to the financial sector. Belgium implemented a macro-prudential measure raising capital requirements in order to address the banks' exposure to the housing market. A new banking law paves the way for a stronger supervisory and regulatory framework.

The Belgian banking sector has been through a restructuring phase with simultaneous deleveraging and de-risking of banks' balance sheets. The sector has taken significant steps since 2008 and total bank assets fell to 271% of GDP in 2013 from 410 % GDP in 2008. In tandem with deleveraging, the de-risking of banks' balance sheets reduced the risks in the financial sector, and regulatory capital and liquidity ratios improved. The improvement in the regulatory liquidity ratios was made possible by easy access to a large and stable domestic deposit base and most Belgian banks already comply with the Basel III Liquidity Coverage Ratio. The availability of liquidity to banks has also enabled banks to keep credit to the private sector growing.

Credit conditions loosened somewhat in 2013 and access to credit slightly improved for non-financial corporations and for households. Corporate credit growth turned positive again (+0.7 % year-on-year in December 2013) while household credit growth slowed down to +1.98 % in December 2013. Belgian SMEs have better access to finance, continue to have greater access to public financial support and timeliness of payment has improved. The scope of the regions' financial support schemes was broadened, but the complexity of access to crowd-funding, mezzanine financing, micro-credit and guarantees explains the lower take-up of external financing by innovative companies. The early-stage investments of innovative companies fell significantly and the interest rate differential for loans below EUR 1 million remains a cause of concern, pointing to a deterioration of Belgium's position in 2013.

The link between the sovereign and banks is still strong. Although contingent government liabilities related to financial sector guarantees have been reduced[26], they remain substantial. The biggest guarantee scheme concerns Dexia (39.8 billion EUR at the end of 2013). The group's consolidated results for the first half of 2013 indicate that, although it has managed to reduce its balance sheet, to improve the liquidity position and to benefit from lower funding costs, it remains fragile. Continuous efforts are needed to improve solvency and implement group resolution in order to further reduce the systemic risk represented by Dexia. In addition, domestic banks have increased their holdings of Belgian

[26] From EUR 59.6 billion in 2012 to EUR 44.1 billion (11.3% of GDP) in February 2014.

government debt. Thus, any remaining issues on the banks' balance sheets would reflect negatively on the sovereign: the still strong sovereign–bank feedback loop reinforces the need to maintain the pace of reform so as to preserve market confidence and ensure stable funding conditions for banks.

The regulatory and supervisory framework improved in 2013. The banking law adopted on April 24, 2014 is an important step in improving the supervisory and regulatory framework for the financial sector. It essentially aims to transpose the European Capital Requirements Directive on the financial sector and other important components of the structural banking reform into Belgian law. The regulatory changes proposed in the banking law refer to imposing a limit on trading activities and improving the recovery and resolution framework, including depositor protection. In addition, the National Bank of Belgium introduced a macro-prudential measure targeting the banks' portfolios of mortgages with effect from 8 December 2013. This measure increases capital requirements by asking for an extra 5 % in the risk weights of the banks using the internal ratings when calculating exposure to the housing market. The lending standards are sound and despite banks' significant exposure to the housing market, non-performing loans have increased only marginally over the year and the local practices on loan impairments tend to be conservative.

The Belgian banking sector faces the challenge of improving its profitability while adjusting its business model. The banks' profitability has been eroded by the recent changes in the financial sector. While financial strength ratios point to an improvement in Belgian banks, profitability has failed to take off as interest rates are still at low levels. Weak profitability is affecting retained earnings and their contribution to capital increases is thus much more limited than that of deleveraging and de-risking of the balance sheets. Against the background of new regulatory capital requirements, increasing banks' profitability also through the reduction of operating costs seems like an area to be explored by Belgian banks.

3.3. Labour market[27], education and social policies

Though the moderate rise in the unemployment rate indicates that Belgium's labour market has withstood the crisis reasonably well, high barriers to entry and a high degree of mismatch result in a stagnating employment rate which is far below that of some neighbouring countries. These persistent weaknesses with regard to the functioning and adjustment capacity of the labour market hinder competitiveness and erode the economy's growth potential. The employment and the social consequences of the crisis remain relatively contained, but both youth unemployment and the risk of poverty or social exclusion is rising, the share of people in low-work-intensity households exceeds the EU average and the early school leaving rate is high in Wallonia and reaches worrisome levels in Brussels.

Throughout 2013, labour market reforms focused on harmonising employment protection legislation for blue-collar and white-collar workers,[28] implementing the reform of unemployment benefits and increasing the efficiency of activation policies, including jobseekers' follow-up. In 2014, the further regionalisation of responsibility for employment policy in the framework of the sixth state reform provides scope for further increasing the efficiency of activation policies and better tailoring employment incentive schemes for specific target groups to the needs of the regional labour markets.

[27] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

[28] The main elements of this EPL-reform and its anticipated impact are summarised in box 3.3 of the *In-depth review on Belgium*, European Commission, 2014.

In 2013, the recommendation on the labour market highlighted the need for Belgium to further decrease disincentives to work by ensuring effective enforcement of job-search requirements and personalised job-search assistance and to improve inter-regional labour mobility.[29] In this respect, Belgium has made some progress. A new cooperation agreement on active support for and follow-up of jobseekers was concluded at the end of 2013 between the federal State and the regions and communities. It provides for first evaluation interviews (resulting in possible penalties) to take place much earlier in a period of unemployment than is currently the case. In addition, regional employment services are to offer individual action plans more quickly and more frequently and active support and follow-up is to be extended to cover older workers and young people in part-time employment but seeking full-time work. Steps are thus being taken to broaden and intensify personalised guidance and enforcement of job search requirements across the country. However, as rising demand for personalised follow-up might exacerbate existing capacity issues for the regional employment services, effective implementation of the agreement may yet prove challenging.

To boost inter-regional labour mobility, the public employment services have continued to invest in bilateral and multilateral cooperation, focusing on dissemination of job offers, harmonisation of job titles, training of jobseekers, connection of databases and the deployment of inter-regional job counselling teams. The most recent statistics show increased inter-regional mobility. However, while geographical mobility is improving, overall professional mobility between jobs and sectors remains low, and average job tenure in years is amongst the highest in the EU. This is related to several factors such as relatively low wage differentiation between sectors and professions, salary scale practices rewarding sector-specific seniority and the widespread use of temporary unemployment to avoid labour shedding in times of crises. Furthermore, the long-term shift away from labour-intensive manufacturing and the concomitant process of capital deepening in many sectors means lower relative demand for unskilled labour. This, added to high labour costs and the tendency to minimise risk when hiring, makes it very difficult for outsiders such as young people, the low-skilled and people with a migrant background to enter the labour market. This combination of low labour market fluidity and high barriers to entry results in a situation where growth-hampering skill shortages in certain sectors and areas coexist with persisting high unemployment rates in other areas.

Some segments of the population, in particular people with a migrant background, face greater social and labour market exclusion risks in all Belgian regions than the EU average. The employment rate of persons of Belgian origin[30] is about the 2020 national target whereas that of persons of another origin is much lower.[31] In addition, as a consequence of both lower education levels and labour market barriers, people with a migrant background often work in sectors with a high turnover rates, on part-time contracts and for lower salaries.[32] In 2013, action in response to this component of the CSR mainly focused on the issue of newcomer's integration.[33] The former Federal Centre for Equal Opportunities has become ‘Inter-federal’, making it competent also for matters pertaining to the regions and

[29] The recommendations with regard to the redesign of the tax system (CSR5) and with regard to collective wage bargaining and wage and productivity evolutions (CSR3) also have a major potential impact on employment performance. They are dealt with in sections 3.1. and 3.4. respectively.

[30] Persons whose both parents are Belgians. Source: *Monitoring socio-économique*, 2013.

[31] According to OECD estimates (2013), the net budgetary impact of closing the employment gap between immigrants and native-born citizens has been estimated at nearly one per cent of GDP.

[32] *Monitoring socio-économique*, 2013.

[33] See, for instance, the newly adopted Decree on Integration policy of the Flemish Government and the decision to create the Flemish Agency for Integration as well as the decree/ordinance adopted by the Walloon and Brussels regional governments respectively on integration pathways for new immigrants. Regions and communities also increased their offer of language courses, accessible to migrants.

communities. Belgium also developed a statistical tool to describe and monitor the labour market inclusion of people of migrant origin. However, comprehensive strategies aimed at successful integration of people with a migrant background in society have yet to be completed and fully implemented. In this regard, only limited progress has been made.

The 2013 country-specific recommendations also called upon the authorities to simplify and reinforce the coherence between employment, education and training policies. To this end, Flanders has adopted a roadmap for a major reform of its secondary education system (2013 – 2025) with a view to reduce early school leaving, to limit the impact of socio-economic status on educational outcomes and to facilitate transitions between education pathways and levels. While a number of measures have already entered into force,[34] the more fundamental decisions regarding the overall structure of secondary education were postponed to 2016. The French-speaking pursued the implementation of a series of (pilot) measures to improve their vocational education and training system, have reached agreement to set up 'Qualifying education- training employment living areas', harmonised the existing regulations for dual-education apprenticeships and took measures to stimulate enrolment in such programmes by job seekers. Nevertheless, the scope, results and pace of the ongoing initiatives appear to be insufficient in view of the challenges. While all communities now have a qualification framework to increase transparency on acquired skills and to facilitate the communication between education and the labour market, Flanders has progressed further in its implementation. With regard to lifelong learning, participation of adults still lags far behind the EU average, and it is unclear at this stage whether on-going reflections and the recommendations on how to reform the offer and improve cooperation between private and public actors involved will lead to decisive political action.

The issue of skills mismatch needs to be tackled as of an early stage and throughout the entire education and training system. In this regard, the observed regional, socio-economic and cultural disparities with regard to early school leavers (ESL) and with regard to basic skills performance are worrying. While the nation-wide ESL-rate has been improving, the levels observed in Wallonia and, especially, Brussels are still worrisomely high. In addition, the Belgian education systems seem unable to significantly reduce the educational inequalities due to socio-economic and/or migration backgrounds. To reduce early school leaving, the Flemish government continues to develop its ESL strategy. In 2013 it adopted a comprehensive action plan which integrates prevention, intervention and compensation measures based on improved data and coordination of policy actors. It is too soon to tell, whether the implementation of the planned measures will allow to reach the ambitious targets set. The French Community adopted decrees to improve the coordination to fight ESL and recently reached agreement to reform its first grade of secondary education in view of reducing school failure. Although there is growing sense of urgency with regard to the issue in the French Community and the Brussels Capital Region, a comprehensive approach to counter early school leaving is still missing and hampered by a lack of data, evaluation and coordination of efforts between regional, community and local actors and related policies.

With regard to the overall social situation, the increasing risk of poverty or social exclusion is below the EU average, but higher than in neighbouring countries. The share of people living in households with very low work-intensity has increased continuously since 2008 and exceeds the EU average. Also, young children from disadvantaged backgrounds are

[34] Thus, for example, steps are taken to reinforce both Dutch- and foreign-language learning, to rationalise the study orientations in view of their labour-market relevance and to better integrate scientific and technical education in the educational curriculum. In addition, mandatory internships are gradually being integrated in technical and vocational secondary education programmes, higher vocational training is being reinforced and an action plan to encourage careers in science, mathematics and engineering is being rolled out.

significantly less likely to attend early childhood education and care, which is known to reduce early school leaving and may have an effect on women's labour market participation. Belgium has adopted a Child Poverty plan in 2013 and all three regions have decided to increase investments in child care.[35] People with a migrant background face a wide range of mutually reinforcing drivers of social exclusion, such as low educational achievement levels, discrimination and increased risks of intergenerational transmission of poverty. In addition, the rate of severe material deprivation of non-EU nationals is more than twice the EU average, while the gap with nationals is nearly four times the average EU gap.

As indicated above, the sixth state reform will further devolve a number of employment policy responsibilities to regional level as of mid-2014. This brings new opportunities and risks with regard to the challenges highlighted above. More specifically, the institutional reform could help increase the efficiency of activation policies by aligning job search support and the power to monitor and incentivise job search behaviour at regional level. In addition, the regionalisation of employment incentives for specific categories of workers provides an opportunity to rationalise existing incentive schemes and tailor them to the needs of the regional labour markets. Nevertheless, to maximise potential gains and reduce the risks of negative spillovers, double financing and suboptimal allocation of resources, the regionalisation of these additional employment levers will require effective policy coordination among regions and between the regions and the federal level, which retains important labour market policy responsibilities.

3.4. Structural measures promoting sustainable growth and competitiveness

The growth potential of the Belgian economy is currently estimated at about half its pre-crisis level. While other components also weakened over the past decade, the very low gains from total factor productivity are particularly notable. This points to problems with the capacity to engender innovation and efficiency gains. Particularly problematic is the fact that weak productivity growth has gone hand in hand with rapid wage growth, eroding the cost competitiveness in manufacturing. This was highlighted in the 2014 In-Depth Review for Belgium (see Box 3). External competitiveness, including the role of the wage setting system, was addressed in last year's country-specific recommendations and is discussed next. Subsequent sections look into market functioning issues and action on energy targets and greenhouse gas emissions, which were also the subject of recommendations last year.

Box 3: Conclusions from the March 2014 In-Depth Review on Belgium

The third In-Depth Review (IDR) on Belgium under the Macroeconomic Imbalance Procedure was published on 5 March 2014. Based on this review, the Commission concluded that Belgium is still experiencing macroeconomic imbalances, which require monitoring and policy action. Specifically, the IDR arrived at the following findings:

- The twofold trend of a deteriorating current account balance and export market share losses points to a persistent loss of competitiveness. Product specialisation geared towards products in the medium range of the value chain has not been able to compensate for these losses. Expansion of the scope for innovation, through more thoroughgoing use of technology in products, therefore remains crucial. Policy-makers could further increase emphasis on support for clusters and aim for a simplified subsidy structure to stimulate business spending on research and development. Addressing persistent skills mismatches would also help the transition towards a knowledge-based economy.

[35] See notably the Child Poverty Fund and decree on the organisation of childcare services in Flanders, the nursery plan of Brussels Region and the Cigogne 3 plan in Wallonia.

- Manufacturing activities, especially, are feeling the impact of fast wage growth on their ability to compete internationally, as reflected in shrinking profit margins and job destruction. Preserving Belgium's manufacturing basis will require more ambitious and timelier action than that taken so far by the Belgian authorities. Wage formation is one candidate for a more ambitious reform agenda, to make the system more responsive to economic realities and intersectoral differences, which are substantial but inadequately reflected in the current wage setting mechanism. The current approach of repeated, small reductions in the parafiscal pressure on labour could be replaced by a comprehensive tax overhaul with a shift towards non-labour taxation.
- Belgium's high public debt remains a concern for the sustainability of public finances. Nevertheless, government action has prevented a further rise since last year's IDR, while related macro-economic risks are mitigated by long average maturities, reduced interlinkages with the domestic financial sector and the healthy state of the private sector.

External competitiveness

Current projections show unit labour costs rising more slowly in 2014-15 as compared with preceding years, as a result of both lower inflationary pressures and corrective government measures. On the one hand, abating inflation – partly the result of government action in several key markets – results in lower upward pressure on wages through the practice of automatic indexation. On the other hand, the government's wage moderation strategy also helped to curb wage growth.[36] Nevertheless, the effect will most likely be insufficient to achieve an effective correction of the historic wage gap any time soon. If left unchecked, this cumulative deviation may further reinforce the long-term trends of capital-deepening through automation or outright delocalisation of activities, both of which have a negative impact on employment.

At the end of 2013, the federal and regional authorities adopted a 'Competitiveness and Employment Pact'. At federal level, this included a reduced VAT rate on electricity consumption by households (see section 3.1) and three additional structural reductions in social security contributions (in 2015, 2017 and 2019) of EUR 450mn each.[37] These – prospective and unfunded – reductions are accompanied by some smaller measures aimed for example at SMEs, shift work and young unemployed. As part of the Pact, the regions also announced some initiatives, including EUR 125mn to reduce wage costs for employees under 30 or over 55 in Flanders.

The outgoing government has made no progress on reforming the wage setting system in order to prevent future decoupling of wages and productivity. Following repeated postponement, the reform of the collective wage bargaining framework will be left to the next government. The current framework is governed by the 1967 law on collective bargaining agreements and the 1996 law on the promotion of employment and the preventive safeguarding of competitiveness. The latter determines the margin for real wage growth but does not interfere with the freedom of social partners to conclude wage indexation agreements at industry level. As the practice of wage indexation is widespread, an important part of the wage growth margin of individual companies is excluded from wage negotiations at their level, limiting their ability to deal with factors such as low productivity growth, decreasing

[36] The government actions referred to were discussed in more detail in last year's SWD.

[37] One third of this would be allocated to linear reductions, one third to low wages and one third to sectors exposed to international competition, whose growth potential is at risk because of the relative rise of labour costs compared with productivity.

demand or rising production costs. This practice also ignores the economic environment, which helps to explain the rapid growth of unit labour costs in recent years in spite of the weak business cycle.

As to non-cost aspects of competitiveness, one key challenge is to speed up the transition towards a more knowledge-intensive economy. A broad consensus on the critical importance of further fostering innovation-based business competitiveness is reflected in the development of sophisticated and comprehensive policy plans at different government levels. The Walloon Region's new 'Marshall Plan 2022' strengthens the focus on support to clusters. In addition to its 'challenge-driven' innovation policies around six hubs, Flanders has been moving towards a more cluster-driven approach as well in recent years under impetus of its 'New Industrial Policy'. At federal level, the payroll withholding tax exemption for researchers has been increased to 80%, as of July 2013. Enhanced public support for business R&D seems to have borne fruit as R&D intensity has been increasing continuously since 2005.[38] The continuation of this trend would allow Belgium to nearly reach its Europe 2020 target of 3% of GDP spending on R&D. However, Belgium lacks fast-growing firms in innovative sectors. The sluggish renewal of its economic fabric is the key bottleneck to address with a view to better translating the strengths of its research and innovation system into economic performance. Furthermore, access to subsidies is still considered complex and time-consuming, while available support is highly fragmented and full exploitation of trans-regional synergies is hindered by a lack of coordination between federated entities. Finally, R&D and the development of activities with a higher value added are hampered by skills availabilities as the number of graduates in science, mathematics, engineering and technology remains low.

Market functioning

Insufficient steps have been taken to remove excessive restrictions for service providers. Some professional services continue to be faced with competition-hampering entry and conduct regulations.[39] Obstacles identified under the Services Directive such as the existence of different authorisation systems across regions or the obligation for SMEs to furnish proof of their competence to exercise a regulated profession have only been partially reduced. Such impediments hamper the economic potential. As an illustration, it has been estimated that more ambitious implementation of the Services Directive would yield gains of up to 1.7% of GDP.[40] The on-going mutual evaluation exercise of regulated professions at European level provides an opportunity for Belgian authorities to review restrictions. In addition, the sixth state reform devolves establishment rules for certain professions to the regional level, thus providing the opportunity to revisit and simplify existing regulations. However, it is unclear at this stage whether this opportunity will indeed be seized. On the other hand, such regionalisation also entails the risk of market fragmentation if additional administrative burdens are created for firms that operate in more than one region. If this would happen, the principles of mutual recognition[41] and nation-wide authorisation-scheme validity may be

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[38] See Dumont, M., *The impact of subsidies and fiscal incentives on corporate R&D expenditures in Belgium* (2001-2009), Working Paper 1-13 Federal Planning Bureau, 2013.

[39] OECD, Product market regulation, data for 2013. This report identifies obstacles for legal, accounting and architecture professions. However, a general assessment of all professional services would be required to identify potential unjustified restrictions in other professions than those analysed by the OECD.

[40] Monteagudo, J., Rutkowski, A. & Lorenzani, D., *The economic impact of the Services Directive: A first assessment following implementation*, 2012, European Commission. Difference between 'what if – 5 best scenario' and 'central scenario'.

[41] While the Special Act on the State Reform explicitly invokes "mutual recognition" as a key implication of the principle of free movement, the possibility for one region to impose stricter regulation than the others on the

endangered.[42] With regard to the postal sector, there are concerns about the compatibility of certain regulatory barriers with EU directives aimed at opening up the postal market to competition. No progress has been made with regard to the services sector.

Retail prices for both food and non-food products are substantially higher in Belgium than in neighbouring countries.[43] This difference has risen further in recent years. According to analysis by the Belgian FPB,[44] among the various factors causing these higher retail prices, the most important ones include market size, total labour costs and procurement conditions. However, the sector also has a number of regulations and operational restrictions which hinder its development and can have an important effect on prices. These include for example a ban on sale below costs. While a recent law changed its justification (from consumer protection to SME protection) and calculation method, the principle of the ban has, as such, been maintained. Retail establishment barriers remain a concern, with relatively low market entry and exit in Belgium compared with other EU countries. The forthcoming devolution of retail establishment regulation provides an opportunity to simplify existing rules and to move towards a single permit regime. However, it remains to be seen to what extent the new measures, in their entirety, would ease establishment and whether competition would be affected by potential inconsistencies between regions. Only limited progress has been achieved over the past year.

The integrated Competition Authority was set up in September 2013 and the new structure is now in the early stages of implementation. Despite a budget increase, the authority is still smaller than competition authorities in similar-sized countries. Moreover, the recruitment of new staff members has stopped because it is unclear who is in charge of the process.

Belgium is considered to have made substantial progress in improving conditions for the provision of mobile broadband over the past year. Although use of mobile broadband is picking up, Belgium still has one of the lowest penetration rates in the EU. The frequency spectrum in the 800MHz band has been allocated to mobile broadband services and strict radiation norms in the Brussels Region are being revised. In line with similar initiatives in the energy sector, the Belgian authorities have taken measures to increase price awareness among telecom consumers. These follow the adoption of the Telecommunications Law in 2012, which made it easier to switch providers. Recent studies point to increased dynamism in the Belgian market for mobile telephony. Consumers' assessment of the market has seen a considerable increase between 2012 and 2013, and switching provider or tariff plan became the 4th highest in the EU.[45] Nevertheless, for certain bundles with (fast) broadband connections, prices remain higher in Belgium.[46] While consumers' overall assessment of the market has improved since 2012, it is still the second lowest across the EU when it comes to satisfaction with the choice of internet service providers.[47] Finally, the current legal framework does not fully guarantee the independence of the telecom regulator.

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grounds of "legitimate objectives" remains. As a result, the possibility of distortion of competition between regions cannot be excluded.

[42] See Article 10 (3) and (4) of the Services Directive.

[43] *Analyse van de prijzen – Jaarverslag 2013 van het Instituut voor de Nationale Rekeningen*, Prijzenobservatorium, 2014. Belgian retail prices (2012 data) were 11.7%, 8.6% and 6.5% higher than those of the Netherlands, Germany and France, respectively.

[44] Van der Linden, J., *Consumptieprijzen in België en de buurlanden*, Working Paper 13-12, Federal Planning Bureau, 2012.

[45] 10th Consumer Markets Scoreboard, http://ec.europa.eu/consumers/consumer_research.

[46] *Vergelijkende studie Prijsniveau Telecomproducten in België, Nederland, Frankrijk, Duitsland en het Verenigd Koninkrijk*, BIPT, February 2014. The study is based on prices in August 2013.

[47] 10th Consumer Markets Scoreboard.

The transport sector is still suffering from inefficient market functioning. Firstly, Belgium has not yet opened up its domestic rail passenger market to competition. A new dual structure has been set up, consisting of a formally separate railway operator and infrastructure manager. It remains to be seen whether this structure will more effectively address market access issues and rail punctuality and reliability. Moreover, the introduction of the Brussels Regional Express Network has been delayed. Secondly, the port labour legislation prevents port service providers from freely choosing their workforce and requires workers to register in a labour pool. Moreover, these restrictions on the freedom of establishment are applied in a discriminatory manner. Lastly, the airport regulator's independence is incomplete, in relation to the setting of airport charges for Brussels airport and the independence of its members for Brussels South–Charleroi airport.

Peak hour traffic congestion constitutes an important problem in Belgium, both inside urban agglomerations and on essential interurban links.[48] Air pollution in Belgium is responsible for almost 10,000 premature deaths annually and 2.5 million workdays lost due to illness.[49] Despite the severity of the problem, several issues remain unaddressed, such as: the potential of time-differentiated congestion charging to encourage better use of the infrastructure, the favourable tax treatment for private use of company cars and fuel cards, and inefficiencies in public transport.

Wholesale gas and electricity markets are well integrated with neighbouring countries and retail markets have become more dynamic in recent years as government measures have made consumers more price-conscious and price setting more responsive. Belgian consumers' assessment of gas and electricity services has improved considerably since 2012 and switching tariff plan or service provider is the highest in the EU.[50] Yet, distribution tariffs for electricity, charged by distribution network operators and an important component of total energy prices, remain among the highest in Europe and partly offset the effect of lower commodity costs on end-user prices. Following legal disputes regarding responsibility for determining the distribution tariff methodology and in anticipation of the devolution of this responsibility, 2012 tariffs were extended throughout 2013-14. Meanwhile, the costs incurred by network operators have continued to rise, as a result of both increased public service obligations and investment needs. This risks triggering a sharp rise in gross electricity prices, once the current tariff freeze expires and the regionalisation of distribution tariffs is fully accomplished and operational.[51] As the costs incurred by distribution system operators vary significantly, it is difficult at this stage to estimate which types of households and companies and which areas would be most affected by future rising costs, but it is clear that additional gross energy costs would further negatively affect the overall competitiveness of the Belgian economy. A Constitutional Court ruling has largely settled disputes on the independence and powers of the regulators. However, further work is needed to fully align legislation with the third Internal Energy Market Directives. Some progress has been achieved with regard to the functioning of the energy sector.

The decision to close the oldest two nuclear power plants in 2015 has raised concerns about the security of the Belgian electricity supply over the medium term, especially given the shutting-down of several other (gas-fired) power plants. The repeated inactivity of two other nuclear reactors adds to the problem. Against this background, the authorities

[48] http://www.inrix.com/scorecard/summary.asp and Commission estimate on congestion in urban and interurban areas, http://ec.europa.eu/europe2020/pdf/themes/14_transport.pdf.
[49] Impact assessment of Clean Air Policy Package, 2014.
[50] 10th Consumer Markets Scoreboard,
[51] Such a risk is all the more real given the existence of an excess, underfunded stock of certificates to support alternative energy which sooner or later will transpire in end-user prices or burden public finances.

decided on the further development of offshore wind farms; a call for bids for the construction of new gas-fired plants;[52] and the creation of a strategic back-up capacity through an annual tender procedure. The timely improvement of interconnection appears to be less developed in the government plans. Further integration with the physical grid and electricity markets of neighbouring countries would help to assure both security of supply and the absorption of occasional excess domestic production arising from higher production from renewables and a growing share of intermittent generation capacity in the overall energy mix. In this context, increased cooperation with neighbouring countries and demand-side response could be encouraged.

Box 4: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as labour market participation or the degree of competition in the economy. Improvements on these indicators could raise Belgium's GDP by about 4½% in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of this staff working document, according to which the largest gains would likely stem reforms enhancing labour market participation, in particular among low-skilled cohorts; enhancing market competition; reducing benefit replacement rates (though the estimation is based on data which do not yet account for the entitlement reform initiated in November 2012); and pursuing a tax shift towards consumption taxation. In addition to considerable gains in potential output, there are also positive effects on employment (+6% after 10 years) and on the fiscal position (an improvement of 4% of GDP after 10 years). This highlights how structural reforms help to safeguard long-term sustainability of public finances.

[52] The federal regulator (CREG) has delivered a (very) negative opinion on this procedure. See Advies over 'de modaliteiten voor de procedure van offerteaanvraag voorzien in artikel 5 van de wet van 29 april 1999 betreffende de organisatie van de elektriciteitsmarkt', CREG, May 2013.

Table 1: Structural indicators, targets, and potential GDP effects[53]

Reform areas		BE	Average 3 best EU performers	GDP % relative to baseline 5 years	GDP % relative to baseline 10 years
Market competition	Final goods sector markups (price-cost margin)	0.16	0.13	0.7	0.8
Market regulation	Entry costs	5.20	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	21.0	28.6	0.4	0.4
Skill enhancing reforms*	Share of high-skilled	8.1	10.7	0.0	0.1
	Share of low-skilled	28.4	7.5	0.0	0.1
Labour market reforms	Female non-participation rate (25-54ys):			0.6	1.1
	- low-skilled	45.8	26.4		
	- medium-skilled	19.6	10.5		
	- high-skilled	8.9	4.3		
	Low-skilled male non-participation rate (25-54ys)	19.3	7.7	0.1	0.2
	Elderly non-participation rate (55-64ys):			0.6	1.2
	- low-skilled	25.6	13.4		
	- medium-skilled	10.7	4.8		
	- high-skilled	6.8	3.3		
	ALMP (% of GDP over unemployment share)	43.9	37.4	0.0	0.0
	Benefit replacement rate**	65.0	52.6	0.4	0.5
Total				2.7	4.5

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[54] * The long-run effect of increasing the share of high-skilled population would be 1.1% of GDP and of decreasing the share of low-skilled would be 5.1%. ** EU average is set as the benchmark.

Greenhouse gas emissions, energy targets and resource efficiency

Federal and regional authorities have not been able to come to a clear and full division of efforts regarding the target for reducing greenhouse gas emissions in the sectors outside the EU emissions trading system by 15% in 2020 as compared with 2005. At regional level, mitigation plans have been adopted or are in the process of being adopted, but their impact on total emissions and the potential use of flexible mechanisms to attain national targets remains unclear. Similarly, the extent to which the federal level will take measures remains unknown. No significant tax shift towards environmental taxation took place over the past year. This situation is particularly pressing for measures related to road transport, which in 2011 represented 21% of total emissions and is the only large sector that has seen emissions increase since 2005. As a result, it is very doubtful whether the 2020 target will be met without additional use of flexible instruments. According to Belgium's own latest projections (2013), the target will be missed by 11pps.[55] The Commission services therefore

[53] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

[54] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

[55] The Commission's projections, assuming full implementation of existing and agreed policies, are more optimistic, with a reduction in non-ETS emissions of 12.5% compared with 2005 by 2020, though it assumes the renewable energy target will be met and the Energy Efficiency Directive implemented.

consider that Belgium has made only limited progress with regard to the relevant recommendation.

Considerable headway has been made towards the 2020 renewable energy target of 13% of final energy consumption, despite the lack of a common strategy between the different entities. In 2012, renewable sources accounted for 6.8% of final energy consumption with especially renewable electricity generation rising fast. The development of renewable electricity is supported through green certificates, guaranteed price schemes and an offshore wind deployment programme. Their cost, however, transpires into high distribution tariffs, as discussed above. The fragmentation of responsibilities adds to the complexity of Belgium's renewable energy policies, considering that the regions are responsible for most renewable energy, while offshore wind energy remains a federal responsibility. Efficiency gains could be reached through increased fungibility between green certificates in the different regions, though this would require harmonisation of eligibility criteria.

Belgium has the second highest energy intensity of all EU-15 countries[56] and there is scope for energy use optimisation in all economic sectors. Measures by the regions particularly target the residential sector (renovation), transport, the public sector and information provision obligations. A key challenge is the financing of energy efficiency programmes, which face increasing budgetary constraints and uncertainties from year to year. The imminent implementation of the Energy Efficiency Directive would provide additional tools to promote efficiency. Further efforts to ensure proper training and certification of the relevant experts also appear to be needed. Belgium could benefit from implementation of the Europe 2020 resource efficiency Flagship Initiative and of a transition to a more 'circular economy'.[57] There is particular scope to improve the business environment by setting up support programmes for SMEs to use fewer resources – including energy – in order to cut costs and create or maintain jobs.[58]

3.5. Modernisation of public administration

Based on the latest World Bank's governance indicators for 2012, Belgium is among the good performers in general government effectiveness. Nevertheless, this overall indicator hides the low level of use of innovative practices and the existence of administrative obstacles in certain areas. Regarding administrative modernisation, Belgium tends to score a little above the EU average in the take up of e-government services by citizens and enterprises. Despite significant efforts to increase online access and electronic simplification, the use of ICT and innovative tools in public administration is low compared to private service sectors. According to the EU Justice Scoreboard,[59] there are also significant gaps in Belgium's ability to collect data on the quality and efficiency of the justice system.

With regard to the business environment, the generally low level of bureaucracy masks the adverse impact of red tape in key areas for competitiveness. While the time needed to start up a new business is significantly below the EU average, Commission data show that the

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[56] This is largely driven by the energy intensity of Belgian industry, which is 50 % above the EU average. Because of its geographical location, Belgium has a relatively large number of oil refineries and hence a large petro-chemical industry, which uses oil not only for energy generation but also as a basis for production.

[57] 7th Environmental Action Programme, Official Journal L 354, 28.12.2013, p. 171–200.

[58] RPA (2014) 'Study on Economic and Social Benefits of Environmental Protection and Resource Efficiency related to the European Semester'.

[59] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, The 2014 EU Justice Scoreboard, COM(2014) 155 final, available at: http://ec.europa.eu/justice/effective-justice/scoreboard/index_en.htm

cost proves to be higher. The World Bank Doing Business indicators rank Belgium in the lowest part of the EU group for dealing with construction permits and registering property. Some legislation on tax and social security also remains complex and rigid, although improvement is noticeable in the area of environmental legislation. Lastly, available indicators[60] suggest that the use of evidence-based instruments in the policy-making process (e.g. regulatory impact assessments) is especially low. However, complications and delays following the gradual introduction of evidence-based tools are being addressed.

Belgium implemented measures aimed at simplifying tax administration by providing simplified (pre-filled) tax forms for targeted groups and further encouraging the use of online services (Tax-on-web, Zoomit). On the other hand, the Belgian Point of Single Contact for services remains only an information portal and is not linked to existing e-government solutions. This means that 'enterprise counters'[61] do not allow formalities to be completed online, which would contribute to a simplified administrative environment, efficiency gains and possible savings in the long run for the public administration as well as businesses. The lack of availability and cross-border accessibility of e-procedures is a serious shortcoming. No progress has been achieved in recent years besides the availability of additional information.

Belgium has a highly decentralised institutional structure with responsibilities often scattered among different layers of government. Hence, cooperation and coordination between different levels is key for efficient public administration. The recent adoption of the sixth state reform substantially changes the distribution of responsibilities and their financing. While the implementation of the reform is an administrative challenge for the next legislature, it also represents an opportunity to pursue further efficiency gains.

4. CONCLUSIONS

The Belgian economy faces many challenges, most of them in the areas covered by the Annual Growth Survey and the Europe 2020 objectives. Medium-term budgetary planning and long-term fiscal sustainability of public finances are still pressing issues. The tax system remains complex and inefficient and the high tax burden on labour contributes to the low employment rate and persistent unemployment traps. Low labour market fluidity and barriers to entry result in low labour market participation and a persistent level of mismatches, while some indicators with regard to educational achievement point towards worrisome evolutions. The loss of competitiveness is partly due to cost factors such as high unit labour costs and non-cost factors such as untapped R&D potential and market functioning issues. Environmental shortcomings remain unaddressed. Finally, the low level of ICT use in public administration, the complexity of legislation and government schemes is notable.

The analysis in this staff working document concludes that Belgium has made some progress in addressing the 2013 country-specific recommendations. The deficit was reduced to 2.6% of GDP in 2013. The Treaty on Stability, Coordination and Governance was implemented through a Cooperation Agreement which introduces a structural budget balance rule for general government and formalises fiscal policy coordination among different layers of government. The 2011 old-age social security reform is being phased in as planned and additional measures conducive to active ageing have been taken. Job-search requirements and personalised job-search assistance for all unemployed people have been stepped up. Past drivers of high price pressures have been addressed through competition-reinforcing measures

[60] *Sustainable Government Indices* (2011), Bertelsmann Stiftung.
[61] The goal of enterprise counters (*ondernemingsloketten/guichet d'entreprises*) is to provide a single point of contact for enterprises by centralising access to different services.

in several key markets such as energy and telecommunication. However, most of the measures taken since the adoption of the recommendations require further action, e.g. on competitiveness, on restrictions and competition in retail and network industries, on taxation and on reducing greenhouse gas emissions.

The policy plans submitted by Belgium broadly address the relevant challenges and broad coherence between the two programmes has been ensured. The national reform programme presents steps taken since the 2013 country-specific recommendations in addressing shortcomings in the areas of long-term sustainability of public finances, competitiveness, the labour market, competition and the environment. The stability programme demonstrates Belgium's commitment to improving the budgetary position towards the medium-term objective in line with the Stability and Growth Pact. However, the national reform programme lacks forward-looking vision. Furthermore, the delay in some reform areas (tax reform, wage bargaining) is to be noted. In order to ensure that national Europe 2020 targets and budgetary targets are reached, consistency between regional and national targets and coordination among regional actors are essential.

OVERVIEW TABLE

2013 commitments	Summary assessment[62]
Country-specific recommendations (CSRs)	
CSR 1: Adopt additional measures to achieve the structural adjustment effort specified in the Council Decision to give notice to correct the excessive deficit by 2013 and to enhance the sustainability and credibility of the consolidation. A durable correction of the fiscal imbalances requires the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth. After the correction of the excessive deficit, pursue the structural adjustment at an appropriate pace so as to reach the medium-term objective by 2016 and ensure that the high debt ratio is put on a firm downward path. To this end, present growth-friendly structural measures for 2014 by 15 October 2013 which ensure a sustainable correction of the excessive deficit and sufficient progress towards its medium-term objective. Ensure that the adjustment path is balanced over time or even front-loaded. Adopt explicit coordination arrangements to ensure that budgetary targets are binding at federal level and sub-federal levels within a medium-term planning perspective including through the prompt adoption of a rule on the general government budget balance/surplus that complies with the requirements of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and to increase the transparency of burden sharing and accountability across government layers.	**Belgium has made some progress in addressing CSR 1.** • **Substantial progress in reducing the deficit**. The 2013 headline deficit came out at 2.6% of GDP, below the target of 2.7% of GDP set by the Council in June 2013. In 2014 and 2015, the deficit is projected to remain below the 3% of GDP deficit threshold. • **Limited progress in making progress towards the medium-term objective**. The 2014 budget contains consolidation measures of a structural nature, ensuring the sustainable correction of the excessive deficit. However, the Commission's spring forecast shows no further structural improvement in 2014 and, under the usual no-policy-change assumption, a structural deterioration in 2015. This puts the achievement of the targets at risk and could lead to a significant deviation from the adjustment towards the MTO over 2014-2015. • **Substantial progress in improving the fiscal framework.** The ongoing sixth state reform provides for a contribution by regions and communities to the fiscal consolidation effort and to the cost of population ageing. The Fiscal Compact, part of the Treaty on Stability, Coordination and Governance, has been implemented through a Cooperation Agreement concluded between the federal government and regional/community governments on 13 December 2013, which introduces a structural budget balance rule for general government and formalises fiscal policy coordination among different layers of government.

[62] The following categories are used to assess progress in implementing the 2013 country-specific recommendations:
No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures.
Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk.
Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.
Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR.
Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

CSR 2: Step up efforts to close the gap between the effective and statutory retirement age, including by pursuing the on-going reforms to reduce the early-exit possibilities. Underpin reforms of the old-age social security systems with employment-support measures and labour-market reforms conducive to active ageing. Increase the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy. Continue to improve the cost-efficiency of public spending on long term institutional care.	**Belgium has made some progress in addressing CSR 2.** • **Some progress in reducing early-exit possibilities.** The ongoing old-age social security reform started by the end of 2011. Additional measures conducive to active ageing were taken to underpin the reforms of the old-age social security system, notably to align the pension bonus with the new early retirement age, to ensure fair treatment of mixed careers and to strengthen the reactivation incentives of the survivor's pension. Also, the rules on earnings after retirement have been relaxed, rewarding people who continue working past the age of early retirement or stay in or re-enter the labour market after reaching the legal retirement age. In tandem, dismissals through the pre-retirement scheme have been made more expensive and companies have been asked to implement 'active ageing' plans. • **No progress in aligning retirement age or pension benefits to changes in life expectancy.** An expert group has been set up but has not yet delivered its reform proposals. • **No progress in cost-effectiveness of long-term institutional care.** The sixth state reform transfers a number of responsibilities for long-term care (and for healthcare) to community level, hence somewhat alleviating the ageing burden borne by the federal government. Whether the devolution of responsibilities will lead to increased cost-effectiveness depends on political choices that have yet to be made and implemented.
CSR 3: To restore competitiveness, pursue the on-going efforts to reform the wage setting system, including wage indexation; in particular, by taking structural measures, in consultation with the social partners and in accordance with national practice, to ensure that wage setting is responsive to productivity developments, reflects sub-regional and local differences in productivity and labour market conditions, and provides automatic corrections when wage evolution undermines cost-competitiveness.	**Belgium has made limited progress in addressing CSR 3.** • **Some progress in restoring competitiveness***:* Several measures to curb rising wage costs have been enacted and past drivers of high price pressures have been addressed by competition-reinforcing measures in several key markets. A second set of revisions of the health index calculation formula came into force as of 1 January 2014, with the aim of better reflecting consumption patterns and the method of determining prices of several commodities and services has been revised. These various revisions are expected to increase downward pressure on measured inflation, thereby contributing to wage moderation. • **No progress on reforming the wage setting system, linking it to productivity developments, better reflecting local differences in productivity and labour market conditions**. • **No progress on introducing automatic corrections.** According to the government declaration to parliament, the reform of the 1996 law on competitiveness would introduce a new, more stringent method of determining the wage norm by reducing the risk of overestimating wage developments in neighbouring countries, by reinforcing the discretionary authority of the government to intervene in the wage setting process and by reinforcing the mechanism for ex post corrections. However, this reform has stalled and will most likely not be enacted during the current legislature.
CSR 4: Present concrete and time-specific structural measures to improve competition in the services sector, by removing barriers in retail and excessive restrictions in professional services and	**Belgium has made limited progress in addressing CSR 4.** • **Limited progress in removing barriers in the retail sector.** Belgium has made limited progress on retail establishment. The transfer of relevant competences to the regions that will occur in July 2014 provides the opportunity for a reform of the current rules but no concrete measures have been taken so far. The effectiveness of the new rules in simplifying retail establishment remains to be seen.

improve the provision of mobile broadband. Continue to improve the functioning of the energy sector by reducing distribution costs and monitoring retail prices, strengthen the independence of the regulators in the energy, telecoms and the transport sectors (railway, airport). Remove remaining regulatory barriers in the postal sector.	• **No progress on removing excessive restrictions in professional services.** Some professions still face obstacles when entering the market and offering additional services in the sector as a whole. • **Substantial progress in improving the conditions for the provision of mobile broadband.** The frequency spectrum in the 800 MHz band has been finally awarded for the provision of mobile broadband services and EMF issues are being resolved in the Brussels Region. • **Some progress on improving the functioning of the energy sector.** Wholesale gas and electricity markets are well integrated with neighbouring countries. Retail markets have become more dynamic; information campaigns have made consumers more price-conscious. Electricity distribution tariffs, however, are the second highest in Europe (after Spain) and further work is outstanding to fully align legislation with the third Internal Energy Market Directives. • **Some progress in strengthening the independence of the regulators.** In the energy sector, the independence of the regulators is not ensured and their tasks are not conform to the internal market Directives (third package). In the telecom sector, the rules under which the Belgian Council of Ministers can intervene in the decisions or plans of the BIPT are in breach with the independence of the Belgian Institute for Post and Telecommunications (BIPT). In the transport sector, the 2012 adopted legislation on the regulatory body for railway transport and for Brussels Airport operations, reinforcing the independence of the regulator, has been implemented. No further major issues exist with regard to the regulatory function for railway transport. However, in the case of Brussels Airport, the main issue concerns the excessive power exerted by the Minister in arbitrating airport charges-related disputes. In the case of Brussels-South Charleroi Airport, the independence of the Walloon supervisory authority should also be guaranteed. • **No progress on removing remaining regulatory barriers in the postal sector.** Persisting regulatory barriers (i.e. excessive licensing requirements, notably mandatory geographical and daily coverage and a uniform tariff for licensed services) reduce consumer choice and hinder the development of licensed postal markets.
CSR 5: Establish concrete and time-specific proposals for shifting taxes from labour to less growth-distorting tax bases, notably by exploring the potential of environmental taxes, for example on diesel, heating fuels and the taxation of the private use of company cars. Simplify the tax system by reducing tax expenditures in income taxation, increasing VAT efficiency and improving tax compliance by closing existing loopholes.	**Belgium has made limited progress in addressing CSR 5.** • **Limited progress in shifting taxes from labour to less growth-distorting tax bases.** Though a number of small measures have been taken in the context of a 'competitiveness pact', no substantial tax shift from labour to less growth-distorting tax bases has taken place. No concrete proposals have been made to make more use of environmental taxes, and diesel and fuel were excluded from the general increase in excise duties as of 1 August 2013. • **Limited progress in simplifying the tax system.** A number of simplification measures have been legislated. With regard to increasing VAT efficiency, the VAT exemption for lawyers' services has been abolished but the reduction from 21 % to 6 % of the VAT rate for electricity (effective in April 2014) goes against both objectives of simplifying the tax system and moving towards a less growth-distorting tax base. Tax compliance has been improved by a stepping-up of the fight against fraud. The 'fairness tax' for large companies can be seen as an indirect reaction to the use of tax planning in

	corporate income taxation linked in particular to loopholes in the allowance for corporate equity (ACE) that potentially allow corporations to cascade ACE benefits out of the same initial equity funding. These loopholes have not been addressed.
CSR 6: Further reduce disincentives to work by ensuring effective enforcement of job-search requirements and personalised job search assistance for all unemployed. Take measures to increase interregional labour mobility. Simplify and reinforce coherence between employment incentives, activation policies, labour matching, education, lifelong learning and vocational training policies for older people and youth. Develop comprehensive social-inclusion and labour market strategies for people with a migrant background.	**Belgium has made some progress in addressing CSR 6 .** • **Some progress on reducing disincentives.** A new cooperation agreement between the federal government and the regions on follow-up of and guidance for jobseekers entered into effect on 1 January 2014, providing for enhanced activation, conditionality, quicker follow-up and sanctions. Disincentives to work are set to fall at the bottom of the pay scale, as a result of the reform of the unemployment benefit system and the reinforcement of the work bonus, though unemployment traps in Belgium remain both sizeable and pervasive. • **Some progress on inter-regional labour mobility.** The regional employment services have continued to invest in bilateral and multilateral cooperation. Recent statistics show increasing commuter flows from high- to low-unemployment areas across regional borders. • **Limited progress on simplifying and reinforcing coherence.** Labour market and education and public training institutions in the three regions/communities have intensified cooperation to make initial vocational training more relevant to market needs and to cope with the increasing need for continuous vocational training as well as adult training. There is no coherence among the different policies/actors to address the early school leaver issue country-wide, Statistics show persisting and increasing regional/community differences. • **Limited progress on comprehensive strategies for people with a migrant background.** The federated entities have taken action mostly affecting newcomers, without developing a coherent strategy to address the issues affecting second- and third-generation migrants, many of whom have Belgian nationality with the notable exception of an increased offer of language courses. Yet the creation of a statistical tool allowing describing and monitoring the labour market inclusion of people of migrant origin is notable.
CSR 7: Take concrete measures and agree a clear division of efforts between the federal and regional authorities to ensure progress towards reaching the targets for reducing greenhouse gas emissions from non-ETS activities, in particular from transport and buildings.	**Belgium has made limited progress in addressing CSR 7.** • **Limited progress** in taking concrete measures towards reducing greenhouse gas emissions. • **Limited progress on a clear division of efforts between the regional and federal authorities.** The Walloon Region has adopted its '*Décret Climat*', and the Brussels Region has adopted the Brussels code of air, climate and energy legislation (COBRACE) but their respective first five-yearly 'air, climate and energy plan' presenting concrete measures has yet to be adopted and implemented. The Flemish Region has adopted the 'Flemish Climate Policy Plan 2013-20', but full implementation has not yet been achieved.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
Employment rate target set in the 2012 NRP: 73.2 %	The employment rate stood at: 67.6 % in 2010 67.3 % in 2011

	67.2 % in 2012 and 67.3 % in the first three quarters of 2013 In view of past performance, the Europe 2020 employment rate target of 73.2 % appears ambitious. Achieving it would require the creation of around 50 000 jobs a year, many more than the average since 2008 and even more than before the 2008 crisis.
R&D target set in the 2012 NRP: 3 %	Belgium's R&D intensity has been increasing steadily since 2005 (2005: 1.8 %, 2012: 2.2 %), thanks to increases in both business (from 1.24 % to 1.52 %) and public R&D expenditure (from 0.56 % to 0.70 %). The continuation of such a trend would allow Belgium to nearly reach its 2020 target. In 2013, the public R&D budgets of all entities were protected (or even significantly increased in the cases of the federal and Walloon budgets), in line with the principle of 'growth-friendly consolidation'.
National greenhouse gas (GHG) emissions target: **-15 % in 2020 compared to 2005 emissions (in non-ETS sectors).**	Change in non-ETS greenhouse gas emissions between 2005 and 2012: -6 %. According to the latest national projections submitted to the Commission and taking into account existing measures, it is expected that the target will be missed: -4 % in 2020 compared to 2005 (projected shortfall of 11 percentage points).
2020 renewable energy target: 13 % **Share of renewable energy in all modes of transport: 10 %**	Belgium made good progress in renewable energy development: renewables' share of final energy consumption reached 6.8 % in 2012, thus Belgium had already exceeded its 2011/12 and 2013/14 interim targets as set out in the Renewable Energy Directive.[63] Renewables' share in transport reached 4.5 %[64] in 2012.
Energy efficiency target: 6.911 Mtoe in final energy consumption **By 2020: level of 43.7 Mtoe primary consumption and 32.5 Mtoe final energy consumption**	Belgium notified the Commission of the policy measures it plans to adopt to implement Article 7 of the Energy Efficiency Directive.
Early school leaving target: 9.5 %	The early school leaving rate was: 11.9 % in 2010 12.3 % in 2011 12.0 % in 2012 and 11.0 % in 2013. Although Belgium's early school leaving (ESL) rate remains below the EU-28 average (11.9 % as compared with 12.9 % in 2012), it remains above the 10 % benchmark. In line with the average EU trend, the ESL rate decreased in 2013 compared to 2012. However, this hides large disparities between population sub-groups and high and persisting discrepancies between regions. The rate of early school leaving amongst young people with a migrant background is twice that of nationals. Against the EU general trend, ESL rates have even been rising again in Wallonia and in the Brussels Region since 2009, reaching worrisome levels in Brussels (15.6 % in 2009, 17.7 % in 2013).

[63] 2012 EUROSTAT.
[64] Idem.

	As a result of its 2012 agreement between the Flemish government and the social partners on Professional Careers, Flanders adopted a new action plan to fight ESL. Despite some measures and new decrees to improve the coordination, there is no strategy to fight ESL in the Brussels and Walloon Regions in cooperation with the communities and there is a lack of evidence-based policy. In particular, the specific situation in Brussels (involvement of the region and different language communities) points to specific challenges regarding cooperation between the many authorities involved.
Tertiary education target: 47 %	The tertiary education attainment rate stood at: 44.4 % in 2010 42.6 % in 2011 43.9 % in 2012 and 42.7 % in 2013. Whilst Belgium's tertiary education attainment rate significantly exceeds the EU average (42,7% against 36,8% in 2013), Belgium is one of the three EU countries where the participation rate decreased in 2013. Reaching the national target might become challenging.
Target on the reduction of population at risk of poverty or social exclusion in number of persons: -380 000	The number (in 1 000 persons) of people at risk of poverty or social exclusion stood at: 2.235 in 2010 2.271 in 2011 2.353 in 2012 As a result of an upward trend, Belgium is moving away from its 2020 target. Moreover, some population sub-groups are disproportionally at risk, with, in 2012, the proportion of non-EU nationals at risk of poverty at 50.5 %, by far the highest rate and biggest gap with nationals across all Member States. The rate of severe material deprivation of non-EU nationals is amongst the worst and more than double the EU average, while the gap with nationals is nearly four times the average EU gap.

ANNEX

Standard tables

Table I. Macro-economic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	2.9	1.6	1.2	1.8	-0.1	0.2	1.4	1.6
Output gap [1]	0.5	0.3	0.7	-0.3	-1.3	-1.7	-1.1	-0.5
HICP (annual % change)	1.6	2.0	2.2	3.4	2.6	1.2	0.9	1.3
Domestic demand (annual % change) [2]	2.5	1.3	1.4	2.0	-0.6	-0.4	1.3	1.9
Unemployment rate (% of labour force) [3]	8.7	7.8	7.8	7.2	7.6	8.4	8.5	8.2
Gross fixed capital formation (% of GDP)	20.7	19.9	21.2	20.7	20.4	19.7	19.8	20.2
Gross national saving (% of GDP)	25.8	25.2	24.3	22.5	20.8	19.6	20.0	19.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.6**	**-0.5**	**-2.0**	**-3.8**	**-4.1**	**-2.6**	**-2.6**	**-2.8**
Gross debt	**117.6**	**98.8**	**90.7**	**99.2**	**101.1**	**101.5**	**101.7**	**101.5**
Net financial assets	**-106.8**	**-88.7**	**-76.5**	**-81.2**	**-81.8**	**n.a**	**n.a**	**n.a**
Total revenue	49.0	49.6	48.5	49.6	51.0	52.0	51.4	51.4
Total expenditure	50.6	50.1	50.5	53.4	55.0	54.6	53.9	54.2
of which: Interest	7.4	5.2	3.7	3.3	3.4	3.2	3.0	3.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**0.8**	**0.7**	**1.0**	**2.1**	**0.8**	**0.3**	**1.0**	**0.3**
Net financial assets; non-financial corporations	**-90.5**	**-101.4**	**-100.9**	**-73.8**	**-88.6**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-7.0**	**-5.7**	**2.1**	**4.4**	**2.9**	**n.a**	**n.a**	**n.a**
Gross capital formation	13.2	13.2	13.7	14.1	13.2	12.4	12.4	12.8
Gross operating surplus	20.5	21.3	23.1	24.1	22.8	22.7	23.9	23.9
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**5.2**	**4.5**	**3.2**	**2.0**	**2.9**	**2.1**	**1.9**	**2.1**
Net financial assets	**253.6**	**232.7**	**210.3**	**205.4**	**217.3**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.8	39.3	38.8	39.0	39.7	39.6	38.8	38.8
Net property income	11.6	9.6	8.7	7.7	7.9	7.2	7.4	7.5
Current transfers received	21.8	21.7	21.7	22.6	23.2	23.8	23.8	24.1
Gross saving	11.4	10.3	10.2	8.6	9.5	8.6	8.4	8.5
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**4.4**	**4.6**	**2.1**	**0.3**	**-0.3**	**-0.4**	**0.4**	**-0.3**
Net financial assets	**-47.2**	**-35.0**	**-32.6**	**-50.3**	**-45.3**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	3.6	4.7	2.7	0.8	1.1	1.8	2.5	1.9
Net primary income from the rest of the world	2.0	1.2	0.9	0.9	0.3	-0.1	-0.3	-0.3
Net capital transactions	0.0	-0.1	-0.3	-0.1	-0.1	-0.1	0.1	-0.1
Tradable sector	42.1	40.8	38.5	36.8	36.3	36.2	n.a	n.a
Non tradable sector	47.2	48.6	50.8	52.6	52.9	53.1	n.a	n.a
of which: Building and construction sector	4.6	4.5	5.0	5.3	5.3	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	98.5	98.4	104.2	106.2	106.2	108.8	108.4	108.7
Terms of trade goods and services (index, 2000=100)	102.3	100.7	99.1	97.6	97.4	97.5	98.1	97.9
Market performance of exports (index, 2000=100)	110.7	103.6	97.0	97.6	99.0	100.1	99.5	98.8

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.2	0.2	1.4	1.4	1.6	1.8	1.7	1.7
Private consumption (% change)	0.7	0.6	1.6	1.3	1.9	1.6	1.6	1.6
Gross fixed capital formation (% change)	-2.5	-1.6	1.6	1.3	3.2	3.1	3.1	2.9
Exports of goods and services (% change)	1.7	1.9	3.0	3.0	4.7	4.1	3.7	3.7
Imports of goods and services (% change)	0.9	1.3	2.7	2.7	5.1	3.9	3.7	3.6
Contributions to real GDP growth:								
- Final domestic demand	0.1	-0.1	1.4	1.2	1.8	1.7	1.7	1.6
- Change in inventories	-0.5	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0
- Net exports	0.7	0.5	0.2	0.3	-0.2	0.2	0.1	0.1
Output gap[1]	-1.7	-1.7	-1.1	-1.2	-0.5	-0.5	-0.2	-0.1
Employment (% change)	-0.2	-0.3	0.3	0.3	0.8	0.7	0.7	0.8
Unemployment rate (%)	8.4	8.4	8.5	8.4	8.2	8.3	8.2	7.9
Labour productivity (% change)	0.5	0.4	1.1	1.2	0.8	1.1	1.0	1.0
HICP inflation (%)	1.2	1.2	0.9	0.9	1.3	1.3	1.5	1.6
GDP deflator (% change)	1.2	1.4	1.4	1.4	1.4	1.6	1.6	1.6
Comp. of employees (per head, % change)	2.0	2.3	0.6	0.7	2.2	2.0	2.6	2.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.4	-0.1	0.4	0.8	-0.3	1.4	1.9	2.4

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	**COM**	**SP**	**COM[1]**	**SP**	**SP**	**SP**	**SP**
Revenue	**52.0**	**51.4**	**51.1**	**51.4**	**51.3**	**51.7**	**52.3**	**0.3**
of which:								
- Taxes on production and imports	12.9	12.8	12.9	12.8	12.8	12.8	12.9	0.0
- Current taxes on income, wealth, etc.	17.1	17.1	17.2	17.3	17.7	17.9	18.2	1.1
- Social contributions	17.3	17.0	16.8	17.1	16.8	17.0	17.1	-0.2
- Other (residual)	4.7	4.4	4.3	4.2	4.0	4.0	4.1	-0.6
Expenditure	**54.6**	**53.9**	**53.3**	**54.2**	**52.8**	**52.2**	**51.8**	**-2.8**
of which:								
- Primary expenditure	51.4	50.9	50.2	51.2	49.8	49.3	49.0	-2.5
of which:								
Compensation of employees and intermediate consumption	16.8	16.4	16.3	16.3	16.0	15.7	15.3	-1.4
Social payments	26.5	26.5	26.3	26.8	26.1	26.0	25.9	-0.6
Subsidies	2.6	2.6	2.3	2.7	2.4	2.4	2.4	-0.2
Gross fixed capital formation	1.6	1.6	1.5	1.6	1.6	1.6	1.6	0.0
Other (residual)	3.9	3.7	3.7	3.7	3.8	3.7	3.7	-0.2
- Interest expenditure	3.2	3.0	3.1	3.0	3.0	2.9	2.8	-0.4
General government balance (GGB)	**-2.6**	**-2.6**	**-2.1**	**-2.8**	**-1.4**	**-0.4**	**0.6**	**3.2**
Primary balance	**0.6**	**0.5**	**1.0**	**0.2**	**1.6**	**2.5**	**3.4**	**2.8**
One-off and other temporary measures	0.6	0.3	0.3	0.0	0.0	0.0	0.0	-0.6
GGB excl. one-offs	**-3.2**	**-2.9**	**-2.4**	**-2.7**	**-1.4**	**-0.4**	**0.6**	**3.8**
Output gap[2]	-1.7	-1.1	-1.2	-0.5	-0.5	-0.2	-0.1	1.6
Cyclically-adjusted balance[2]	-1.7	-2.0	-1.4	-2.5	-1.1	-0.3	0.7	2.3
Structural balance (SB)[3]	**-2.3**	**-2.3**	**-1.7**	**-2.5**	**-1.1**	**-0.3**	**0.7**	**2.9**
Change in SB	*0.7*	*0.0*	*0.5*	*-0.2*	*0.6*	*0.9*	*0.9*	-
Two year average change in SB	*0.6*	*0.3*	*0.6*	*-0.1*	*0.6*	*0.7*	*0.9*	-
Structural primary balance[3]	0.9	0.8	1.4	0.5	1.9	2.6	3.5	2.6
Change in structural primary balance		*-0.1*	*0.5*	*-0.2*	*0.5*	*0.8*	*0.8*	-
Expenditure benchmark								
Applicable reference rate[4]	n.a.	0.2	0.2	0.0	0.0	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	-0.1	1.1	-1.5	-0.1	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	-0.8	0.5	n.a.	n.a.	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**96.4**	**101.5**	**101.7**	**101.2**	**101.5**	**99.4**	**96.7**	**93.2**
Change in the ratio	3.4	0.4	0.2	-0.3	-0.2	-1.8	-2.7	-3.5
Contributions[2] *:*								
1. Primary balance	**0.2**	**-0.6**	**-0.5**	**-1.0**	**-0.2**	**-1.6**	**-2.5**	**-3.4**
2. "Snow-ball" effect	**1.4**	**1.7**	**0.2**	**0.3**	**0.1**	**-0.4**	**-0.4**	**-0.3**
Of which:								
Interest expenditure	3.5	3.2	3.0	3.1	3.0	3.0	2.9	2.8
Growth effect	-0.4	-0.2	-1.4	-1.4	-1.5	-1.8	-1.6	-1.6
Inflation effect	-1.7	-1.2	-1.4	-1.5	-1.3	-1.6	-1.6	-1.6
3. Stock-flow adjustment	**1.9**	**-0.8**	**0.5**	**0.4**	**0.0**	**0.2**	**0.2**	**0.3**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2013	2014		2015		2016	2017
		COM	SP	COM	SP	SP	SP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a
Structural adjustment[5]	n.a.	0.0	n.a	-0.2	n.a	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	0.3	n.a	0.5	n.a	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

	Belgium			European Union		
	2013 scenario	**No-policy-change scenario**	**Stability programme scenario**	**2013 scenario**	**No-policy-change scenario**	**Stability programme scenario**
S2*	7.0	7.2	4.3	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	0.3	0.6	-2.1	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	6.7	6.6	6.4	1.9	2.0	2.0
of which:						
pensions	4.1	4.0	3.8	0.7	0.8	0.9
healthcare	0.3	0.3	0.3	0.9	0.9	0.8
long-term care	1.9	1.9	1.9	0.6	0.6	0.6
others	0.4	0.4	0.4	-0.4	-0.4	-0.3
S1**	4.9	5.4	1.4	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.4	0.5	-3.2	-0.2	-0.4	-2.0
Debt requirement (DR)	2.4	2.7	2.5	1.5	1.8	1.5
Long-term cost of ageing (CoA)	2.2	2.2	2.2	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.09	:		:		
Debt as % of GDP (2013)	101.5			88.9		
Age-related expenditure as % of GDP (2013)	28.2			25.8		

Source *: Commission; 2014 stability programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

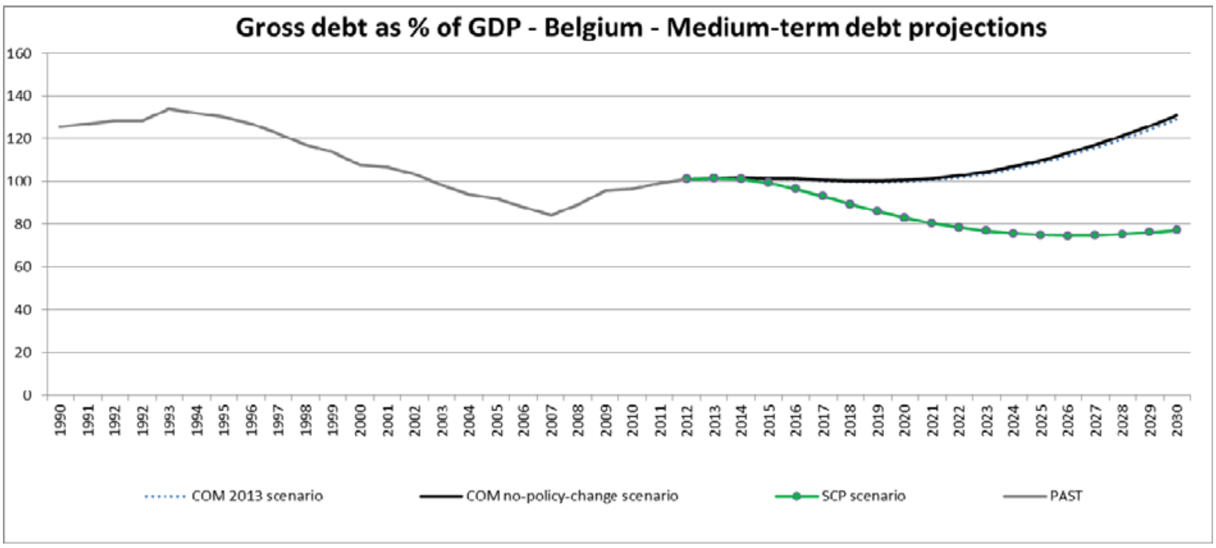

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	45.2	44.4	44.2	43.8	44.2	45.4
Breakdown by economic function (% of GDP)[1]						
Consumption	10.9	11.1	10.7	10.8	10.7	10.8
of which:						
- VAT	6.9	7.1	7.0	7.1	7.0	7.2
- excise duties on tobacco and alcohol	0.8	0.7	0.7	0.7	0.6	0.7
- energy	1.4	1.4	1.2	1.3	1.3	1.3
- other (residual)	1.9	1.9	1.8	1.7	1.7	1.7
Labour employed	22.7	21.3	21.7	21.9	22.2	22.4
Labour non-employed	2.1	1.7	1.9	2.0	2.0	2.0
Capital and business income	5.9	6.3	6.2	5.2	5.5	5.9
Stocks of capital/wealth	3.4	3.8	3.7	3.7	3.7	4.1
p.m. Environmental taxes[2]	2.4	2.3	2.1	2.2	2.3	2.2
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	48.3	50.6	48.7	48.2	47.9	48.2

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), Taxation trends in the European Union, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	339.8	319.0	325.2	288.7	267.8
Share of assets of the five largest banks (% of total assets)	77.1	74.9	70.8	66.3	-
Foreign ownership of banking system (% of total assets)	60.6	59.4	64.3	64.1	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1]	3.1	2.8	3.3	3.8	3.8
- capital adequacy ratio (%) [1]	17.3	19.3	18.5	18.2	18.9
- return on equity (%) [1), 2)]	-2.5	10.6	1.2	3.4	6.3
Bank loans to the private sector (year-on-year % change)	-5.1	-2.4	-1.4	-1.2	6.2
Lending for house purchase (year-on-year % change)	-8.1	6.6	-1.9	6.0	10.1
Loan to deposit ratio	65.2	62.4	60.1	56.6	58.2
CB liquidity as % of liabilities	4.6	0.9	6.1	4.8	2.0
Banks' exposure to countries receiving official financial assistance (% of GDP)[3]	17.7	14.8	10.8	8.4	8.0
Private debt (% of GDP)	144.7	140.0	150.1	146.8	149.4
Gross external debt (% of GDP)					
- Public	61.2	57.1	51.4	57.1	57.6
- Private	91.7	92.5	106.4	115.5	94.8
Long term interest rates spread versus Bund (basis points)*	67.9	71.9	162.5	150.5	84.0
Credit default swap spreads for sovereign securities (5-year)*	66.0	94.9	173.2	124.8	36.3

Notes:

[1] Latest data 2013Q3.

[2] After extraordinary items and taxes.

[3] Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	68.0	67.1	67.6	67.3	67.2	67.2
Employment growth (% change from previous year)	1.8	-0.2	0.7	1.4	0.2	-0.2
Employment rate of women (% of female population aged 20-64)	61.3	61.0	61.6	61.5	61.7	62.1
Employment rate of men (% of male population aged 20-64)	74.7	73.2	73.5	73.0	72.7	72.3
Employment rate of older workers (% of population aged 55-64)	34.5	35.3	37.3	38.7	39.5	41.7
Part-time employment (% of total employment, 15 years and more)	22.6	23.4	24.0	25.1	25.1	24.7
Part-time employment of women (% of women employment, 15 years and more)	40.9	41.5	42.3	43.4	43.6	42.7
Part-time employment of men (% of men employment, 15 years and more)	7.9	8.6	9.0	9.8	9.7	9.4
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	8.3	8.2	8.1	9.0	8.1	8.2
Transitions from temporary to permanent employment	40.6	36.1	36.1	32.5	43.1	:
Unemployment rate[1] (% of labour force, age group 15-74)	7.0	7.9	8.3	7.2	7.6	8.4
Long-term unemployment rate[2] (% of labour force)	3.3	3.5	4.1	3.5	3.4	3.9
Youth unemployment rate (% of youth labour force aged 15-24)	18.0	21.9	22.4	18.7	19.8	23.7
Youth NEET rate (% of population aged 15-24)	10.1	11.1	10.9	11.8	12.3	12.7
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.0	11.1	11.9	12.3	12.0	11.0
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	42.9	42.0	44.4	42.6	43.9	42.7
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	20.0	17.0	17.0	19.0	21.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	23.0	16.0	19.0	20.0	27.0	:
Labour productivity per person employed (annual % change)	-0.8	-2.6	1.6	0.4	-0.3	0.5
Hours worked per person employed (annual % change)	-0.4	-1.2	0.3	0.7	-0.1	-0.2
Labour productivity per hour worked (annual % change; constant prices)	-0.4	-1.5	1.3	-0.3	-0.2	0.7
Compensation per employee (annual % change; constant prices)	1.4	0.0	-0.7	1.1	1.7	0.8
Nominal unit labour cost growth (annual % change)	4.4	3.9	-0.3	2.7	4.1	1.9
Real unit labour cost growth (annual % change)	2.2	2.7	-2.3	0.7	2.1	0.3

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	7.2	7.6	8.3	8.2	8.3
Invalidity	1.8	1.9	2.1	2.1	2.2
Old age and survivors	10.2	10.8	11.6	11.3	11.5
Family/Children	2.1	2.1	2.2	2.2	2.3
Unemployment	3.3	3.3	3.8	3.8	3.7
Housing and Social exclusion n.e.c.	0.1	0.2	0.2	0.2	0.2
Total	25.5	26.7	29.1	28.6	29.0
of which: means tested benefits	1.2	1.4	1.4	1.5	1.4

Social inclusion indicators	2008	2009	2010	2011	2012
At-risk-of-poverty or social exclusion[1] (% of total population)	20.8	20.2	20.8	21.0	21.6
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	21.3	20.5	23.2	23.3	23.1
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	22.9	23.1	21.0	21.6	19.6
At-Risk-of-Poverty rate[2] (% of total population)	14.7	14.6	14.6	15.3	15.0
Severe Material Deprivation[3] (% of total population)	5.6	5.2	5.9	5.7	6.5
Share of people living in low work intensity households[4] (% of people aged 0-59)	11.7	12.3	12.7	13.8	14.1
In-work at-risk-of poverty rate (% of persons employed)	4.8	4.6	4.5	4.2	4.6
Impact of social transfers (excluding pensions) on reducing poverty	45.6	45.3	45.3	45.0	45.5
Poverty thresholds, expressed in national currency at constant prices[5]	10 598	10 892	10 977	11 028	10 696
Gross disponsable income (households)	213 171	217 208	218 884	223 600	231 779
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.2	18.1	18.0	18.6	18.0

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Labour productivity[1] total economy (annual growth in %)	0.7	-2.7	1.4	0.7	-0.4	0.4
Labour productivity[1] in manufacturing (annual growth in %)	1.9	-10.1	9.0	-0.7	-1.3	1.8
Labour productivity[1] in electricity, gas, water (annual growth in %)	0.1	16.5	-0.4	-4.7	-3.4	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	0.8	-2.6	-0.1	5.4	0.6	-0.2
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	324.7	288.2	272.8	260.6	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	505.0	505	505	505	505	505
Time to start a business[3] (days)	20.6	4	4	4	4	4
R&D expenditure (% of GDP)	1.9	2.0	2.1	2.2	2.2	n.a.
Tertiary educational attainment (% of 30-34 years old population)	41.0	42.0	44.4	42.6	43.9	42.7
Total public expenditure on education (% of GDP)	6.1	6.6	6.6	n.a.	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	1.6	n.a.	n.a.	n.a.	n.a.	1.4
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	4.6	n.a.	n.a.	n.a.	n.a.	4.1
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.1	n.a.	n.a.	n.a.	n.a.	1.8

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

Source:

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.21	0.20	0.20	0.21	0.20	0.19
Carbon intensity	kg / €	0.52	0.47	0.44	0.45	0.41	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.67	0.64	0.63	0.62	0.62	n.a.
Waste intensity	kg / €	n.a.	0.17	n.a.	0.22	n.a.	n.a.
Energy balance of trade	% GDP	-3.5%	-5.4%	-3.3%	-3.8%	-4.8%	-5%
Energy weight in HICP	%	10	11	11	11	11	12
Difference between change energy price and inflation	%	2.84	21.70	-12.90	4.70	14.60	3.30
Environmental taxes over labour taxes	ratio	9.5%	8.3%	8.4%	8.6%	8.7%	n.a.
Environmental taxes over total taxes	ratio	5.0%	4.4%	4.7%	4.7%	4.7%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.24	0.22	0.20	0.23	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	11.0	10.1	9.6	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.10	0.09	0.10	0.10
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.03	0.03	0.03	0.03
Public R&D for energy	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	0.01%
Public R&D for the environment	% GDP	n.a.	0.01%	0.02%	0.02%	0.01%	0.02%
Recycling rate of municipal waste	ratio	87.6%	93.3%	95.8%	97.4%	96.8%	97.3%
Share of GHG emissions covered by ETS*	%	n.a.	40.8%	37.5%	38.4%	38.4%	37.0%
Transport energy intensity	kgoe / €	0.44	0.48	0.49	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.16	1.17	1.19	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	79.1%	79.8%	73.7%	76.4%	72.8%	74.0%
Diversification of oil import sources	HHI	n.a.	0.15	0.15	0.17	0.19	n.a.
Diversification of energy mix	HHI	0.28	0.29	0.29	0.29	0.26	0.26
Share renewable energy in energy mix	%	2.0%	3.1%	3.9%	4.2%	4.8%	5.9%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
- Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
- Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
- Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
- Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
* Commission and EEA.
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 4 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[65]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

[65] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics. www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.