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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Delegations will find attached document COM(2014) 402 final.

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Recommendation for a

COUNCIL RECOMMENDATION

on Belgium's 2014 national reform programme

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

{SWD(2014) 402 final}

Recommendation for a

COUNCIL RECOMMENDATION

on Belgium's 2014 national reform programme

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

THE COUNCIL OF THE EUROPEAN UNION,

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

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

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

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

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

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2014) 402 final.
4 P7_TA(2014)0128 and P7_TA(2014)0129.

coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 9 July 2013, the Council adopted a recommendation on Belgium's national reform programme for 2013 and delivered its opinion on Belgium's updated stability programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013[5], the Commission presented its opinion on Belgium's draft budgetary plan for 2014[6].

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey[7], marking the start of the 2014 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[8], in which it identified Belgium as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Belgium[9], under Article 5 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. The Commission's analysis leads it to conclude that Belgium continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, developments with regard to the external competitiveness of goods continue to deserve attention as a persistent deterioration would threaten macroeconomic stability.

5 OJ L 140, 27.5.2013, p.11.
6 C(2013) 8000 final
7 COM(2013) 800 final.
8 COM(2013) 790 final.
9 SWD(2014) 75 final.

(8) On 30 April 2014, Belgium submitted its 2014 national reform programme and its 2014 stability programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) 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 medium-term objective the year thereafter. The programme confirms the previous medium-term objective of 0.75% of GDP, which reflects the objectives of the Stability and Growth Pact, but its achievement is postponed to 2017, one year later than the target year set in last year's programme. The planned annual progress towards the medium-term objective is in line with the adjustment required by the Stability and Growth Pact. According to the programme, the expenditure benchmark is broadly met over the programme period. The debt is above the Treaty reference value of 60% of GDP, at 101.5% of GDP in 2013, and is expected to gradually decline to around 93% of GDP in 2017 according to the programme. Overall, the objectives of the programme are in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the programme, which has been prepared by an independent institution (the Federal Planning Bureau), is plausible. Growth projections are close to the projections of the Commission 2014 spring forecast. The fiscal trajectory is not yet supported by measures. The Commission spring forecast shows no 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 medium-term objective over 2014-15. Moreover, according to the Commission spring forecast, Belgium will not be compliant with the debt rule in both 2014 and 2015. Based on its assessment of the programme and the Commission spring forecast, pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that Belgium has brought its general government deficit sustainably below 3% of GDP in 2013, but is at risk of significantly deviating from the requirements of the preventive arm as from 2014.

(10) Belgium has made substantial progress in introducing more structural coordination arrangements. A Cooperation Agreement on fiscal coordination concluded end of 2013 introduces a structural budget balance rule (defined in line with the medium-term objective) at general government level as required by the Fiscal Compact. Furthermore, it formalises established coordination practice by making (i) the role of the inter-governmental 'Consultative Committee' in the process official and (ii) the advisory role of the High Council of Finance more explicit. In addition, the Agreement foresees 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. Additional arrangements might be needed to make targets beyond 2014 binding.

(11) While Belgium has recently managed to curb the rise in its public debt ratio, the public debt burden at 101.5% of GDP is high and there are substantial liabilities and future obligations from pension commitments. If these are to be covered whilst maintaining high standards of living, future budgetary cost developments must be contained; activity and employment rates should be increased; and international competitiveness must be improved. In each of these areas, Belgium continues to face important challenges. Although Belgium has taken steps in the right direction that

will produce effects in coming years, more ambitious action will be required, all the more so as reforms are also unfolding in trading partners.

(12) The overall tax level in Belgium is among the highest in the EU and the tax burden is heavily skewed towards labour, resulting in one of the largest tax wedges in the EU. A number of specific features of the tax system are environmentally harmful, such as the tax treatment of company cars. Some targeted measures have been taken to decrease labour costs for specific groups and to reduce the gap between gross and net wages at the bottom of the pay scale. However, no significant shift of the tax burden towards bases that are less detrimental to growth has taken place. First reflections on a comprehensive tax reform to facilitate the achievement of sustainability of public finances, support competitiveness and employment growth, and preserve the environment have been launched. Such comprehensive tax reform would need to involve shifting taxes away from labour, simplifying the tax system, increasing VAT efficiency, broadening tax bases, reducing tax expenditures, closing legislative loop-holes and phasing out environmentally harmful subsidies.

(13) Belgium faces a very significant projected impact from ageing, with ageing costs projected to rise by more than 8% of GDP between 2010 and 2060, in particular from pensions and long-term care. The recently initiated reform of social security for older people is set to have a positive impact on their employment. Nevertheless, given the magnitude of the challenge, additional efforts are required to achieve fiscal sustainability. These must take account of the need to maintain the adequacy of old age social security schemes. Measures are needed to link the statutory retirement age to developments in life expectancy, to reduce the gap between the statutory and effective retirement age, and to improve the cost-effectiveness of public spending on long-term care.

(14) Belgium faces a chronic underutilisation of labour. Activity and employment rates are below the EU average and stagnant, while long-term unemployment as a percentage of total unemployment remains high. In most cases, the large tax wedge on labour, through interaction with the benefit system, creates significant unemployment and inactivity traps for most categories of workers. While action has been taken to reduce unemployment traps for people with very low salaries, the trap has widened for most other categories and inactivity traps remain pervasive. With labour costs remaining high, recruitment policies tend to minimise risk and penalise outsiders such as the young, the low-skilled and people with a migrant background, who, together with elderly workers, show labour market participation rates well below the EU average. Strong insider protection whereby changing job implies losing entitlements (e.g. severance pay, early retirement, seniority benefits), discourages professional mobility between jobs and sectors. Such inertia makes active labour market policies in Belgium relatively inefficient and leads to a situation where high unemployment in some areas and sectors exists alongside tight labour markets and growth-hampering skills shortages in others. Youth unemployment has increased significantly over the past year, with large differences across the regions and groups. Addressing the structural problem of skills mismatches will have to go hand in hand with fighting the pressing problem of early school leaving and of youngsters leaving education without qualifications. The sixth state reform offers the opportunity to improve the efficiency and targeting of employment policies, provided that cooperation between the federal and regional level is optimised.

(15) Belgium continues to experience worsening competitiveness, including as regards non cost aspects. Notably, the ability of manufacturing to compete internationally is eroding, which is reflected in diminishing margins for producers and in job destruction. Belgium has traditionally relied on wage indexation to maintain purchasing power. However, overshoots in total wage growth have been corrected late and insufficiently. Moreover, the central wage norm does not always allow for sectorial productivity developments and local labour market conditions to be reflected adequately. Consequently, wages have grown more quickly than productivity, leading to job and competitiveness losses. In consultation with the social partners and in accordance with national practice, Belgium would need to reform its system of wage formation so as to allow for greater sectorial wage dispersion and for wages to be better aligned with productivity developments. Prices in the retail sector remain higher than in neighbouring countries, while restrictions in professional services impede the development of innovative business models and restrain investment. Distribution tariffs for electricity remain among the highest in Europe and their planned regionalisation adds to the uncertainty with regard to the future evolution of distribution costs for end-users as the currently frozen tariff does not cover distributors' rising costs. If the country is to maintain high wages and at the same time create new jobs, it must produce and sell more sophisticated and higher value added goods in world markets than it is doing today. Belgium lacks fast-growing firms in innovative sectors. Innovation support is considered complex and highly fragmented. Where high added value activities do take off, their growth is often hampered by the lack of sufficient skilled human resources.

(16) Belgium is expected to fail to meet its 15% reduction target for greenhouse gas emissions in the sectors not covered by the EU emission trading system by 2020. While some initiatives are being undertaken, they seem to lack coherent direction and the combined impact of measures on reducing emissions, in particular from the transport sector and buildings, remains unclear. The reduction of VAT on electricity could further undermine efforts in that respect. Negotiations on a cooperation and burden-sharing agreement between federal state and regions have not resulted in a clear distribution of efforts. Road congestion is placing a heavy burden on the Belgian economy, as compared with most other countries. The severity of the problem requires a comprehensive policy response taking into account the potential of time differentiated congestion charging, reviewing the favourable tax treatment of the private use of company cars and fuel cards and increasing the efficiency of public transport.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy. It has assessed the stability programme and the national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Belgium but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

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

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

(19) In the light of the Commission's in-depth review and this assessment, the Council has examined the national reform programme and the stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2), (4), and (5) below.

(20) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Belgium should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Belgium should take action within the period 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5% of GDP based on the Commission 2014 spring forecast, pointing to a risk of significant deviation relative to the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure the required adjustment of 0.6% of GDP towards the medium-term objective, which would also ensure compliance with the debt rule. Thereafter, until the medium-term objective is achieved, pursue the planned annual structural adjustment towards the medium-term objective, in line with the requirement of an annual structural adjustment of at least 0.5% of GDP, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ensure a balanced contribution by all levels of government to the fulfilment of fiscal rules including the structural budget balance rule, through a binding instrument with an explicit breakdown of targets within a medium-term planning perspective.

2. Improve the balance and fairness of the overall tax system and prepare a comprehensive tax reform that will allow shifting taxes away from labour towards more growth friendly bases, simplifying the tax system, closing loopholes, increasing VAT efficiency, broadening tax bases, reducing tax expenditures and phasing out environmentally harmful subsidies.

3. Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the statutory retirement age and career length requirements to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care.

4. Increase labour market participation, notably by reducing financial disincentives to work, increasing labour market access for disadvantaged groups such as the young and people with a migrant background, improving professional mobility and addressing skills shortages and mismatches as well as early school leaving. Across the country, strengthen partnerships of public authorities, public employment services and education institutions to provide early and tailor-made support to the young.

5. Restore competitiveness by continuing the reform of the wage-setting system, including wage indexation, in consultation with the social partners and in accordance

with national practice, to ensure that wage evolutions reflect productivity developments at sectorial and/or company levels as well as economic circumstances and to provide for effective automatic corrections when needed; by strengthening competition in the retail sectors, removing excessive restrictions in services, including professional services and addressing the risk of further increases of energy distribution costs; by promoting innovation through streamlined incentive schemes and reduced administrative barriers; and by pursuing coordinated education and training policies addressing the pervasive skills mismatches and regional disparities in early school leaving.

6. Ensure that the 2020 targets for reducing greenhouse gas emissions from non-ETS activities are met, in particular as regards buildings and transport. Make sure that the contribution of transport is aligned with the objective of reducing road congestion. Agree on a clear distribution of efforts and burdens between the federal and regional entities.

Done at Brussels,

For the Council
The President