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Assessment of the 2013 national reform programme and stability programme for BELGIUM

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Belgium's 2013 national reform programme and delivering a Council Opinion on Belgium's stability programme for 2012-16

{COM(2013) 351 final}

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Economic Outlook

GDP contracted by 0.3% in 2012 and is expected to remain flat in 2013, as a result of weak domestic demand, while in 2014, more robust domestic demand is projected to bring about 1.2% GDP growth. The unemployment rate is forecast to rise from 7.6% in 2012 to 8% in 2013, and remain at this level in 2014. Consumer prices (HICP) are expected to increase by 1.3% in 2013 and 1.6% in 2014, as compared with 2.6% in 2012.

Despite considerable consolidation efforts, the correction of the excessive deficit is not yet sustainable. The 2012 headline deficit came out at 3.9% of GDP, as compared with the Belgian authorities' target of 2.8% of GDP (on the back of the Dexia recapitalisation, lower growth and spending slippages at local government level), with the average annual fiscal effort since 2010 estimated at around 0.3% of GDP, significantly below the ¾% of GDP recommended by the Council. Under the current growth projections, the deficit is expected to remain around the 3% of GDP threshold in 2013 and 2014. Belgium's public debt is expected to rise above 100% of GDP in 2013 (from 99.6% in 2012) and broadly stabilise in 2014.

Key Issues

1. Weak euro area growth and the sovereign debt crisis have had serious repercussions for growth and employment in the open Belgian economy. Moreover, Belgium is one of 13 countries identified by the Commission as experiencing macroeconomic imbalances, particularly when it comes to the loss of export market share as a consequence of declining shares in goods exports that can be related among others to the country's labour costs and the high level of public debt.

2. Belgium has made some progress in implementing reforms relating to the 2012 CSRs, though they vary in scope and ambition. Despite consolidation efforts, Belgium failed to meet its budgetary targets. A pension reform has been implemented, but the long-term sustainability of public finances is still at risk. Reforms are ongoing to improve cost competitiveness and competition and raise employment and education levels, but more sustained efforts will be needed to ensure their success. Belgium has taken effective measures to stabilise its banking sector.

3. Belgium's challenges remain broadly the same as last year's and additional efforts will be needed to address public finances, competitiveness, labour and product markets, and greenhouse gas emissions. Overall, greater coordination between regional and national governments is essential.

- **Public finances**: Belgium's main challenge is to put the debt ratio firmly on a declining path by making progress towards its medium-term objective and by curbing age-related expenditure. Belgium did not bring the excessive deficit below 3% of GDP by the 2012 deadline and now foresees the correction of the excessive deficit by 2013. Some of the consolidation measures are not structural and the deficit is projected to rise again in 2014. Belgium's medium-term objective is to reach a structural budget surplus of ¾% of GDP by 2016, though this could be put at risk by the 2014 elections and the absence of clear and transparent effort sharing among the different layers of government.. The pension and pre-retirement reforms represent a step in the right direction, but given the magnitude of the challenge Belgium faces, they are insufficient to secure the long-term sustainability of public finances. Additional efforts will be required to close the gap between the effective and the statutory retirement age. The long-term financial sustainability of the pension system would also benefit from measures linking the statutory retirement age to life expectancy.

- **Competitiveness**: Belgium has made limited progress on curbing the deterioration of its overall competitiveness, a result of non-cost elements such as the country's innovation capacity and its geographical export specialisation and cost elements such as the price of intermediary inputs and labour costs with high nominal wage growth and low productivity gains. The effectiveness of several measures adopted to address the labour cost element still needs to be established. Given the persisting challenge Belgium faces in this area, decisive reforms are called for, including not just remedial measures to address past hikes in unit labour costs but a thorough modernisation of the wage-setting system in order to prevent any future decoupling between nominal wage evolutions and productivity developments.

- **Labour market**: At 67.2%, Belgium's employment rate stands below the EU average and has stagnated since 2009. Although reforms have been undertaken to boost employment, high wage costs continue to hamper job creation and the high tax burden creates disincentives to work as there has been no substantial shift in taxation away from labour. The efforts to increase the effectiveness of active labour market policies and the coherence between on the one hand education and training and on the other hand employment policies could be complemented by additional measures to reduce skills mismatches and enhance labour mobility.

- **Product markets**: Prices for energy and other goods and services are generally higher in Belgium than in other Member States, reflecting weak competition and structural barriers. Mobile broadband penetration is amongst the lowest in the EU and mobile phone costs are still above levels in other countries. Regarding the energy markets, ensuring effective competition continues to represent an important challenge, while domestic production capacity risks falling to a level that would jeopardise a robust security of supply.

- **Climate and energy**: Belgium appears to be falling short of its 2020 target for reducing greenhouse gas emissions. According to projections, Belgium anticipates it will miss its 2020 emission reduction target by 11 pps. Coordination and effort-sharing among the various authorities involved is currently lacking.

1. INTRODUCTION

In May 2012, 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 2012. These CSRs concerned public finances, the pension system, the financial sector, the labour market and wage setting, product markets 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 Annual Growth Survey 2013 (AGS)[1] and the second annual Alert Mechanism Report (AMR),[2] which were published in November 2012. 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 a complete and durable rebalancing is achieved, Belgium and 13 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances.[3]

Against the background of the 2012 Council Recommendation, the AGS and the AMR, Belgium presented updates of its National Reform Programme (NRP) and its Stability Programme on 29 April 2013. These programmes provide detailed information on progress made since July 2012 and on the future plans of the government. The information contained in these programmes provides the basis for the assessment made in this Staff Working Document. The programmes submitted went through an inclusive consultation process involving regional and community authorities as well as social partners and civil society.[4]

Overall assessment

The analysis in this SWD concludes that Belgium has made some progress on measures taken to address the CSRs in the 2012 Council Recommendation. Steps taken go in the right direction, but need to be complemented by further action. As a consequence, the challenges in 2013 remain broadly similar to those of 2012.

First, the long-term sustainability of public finances is still at risk. Belgium made only limited progress in implementing the Council's 2012 recommendation on public finances. It failed to bring the deficit below 3% of GDP by 2012 as agreed in the Excessive Deficit Procedure (EDP). Belgium fully applied the recommendation relating to the banking sector by recapitalising Dexia at the end of 2012, which had a one-off negative impact on the 2012

[1] COM(2012) 750 final.
[2] COM(2012) 751 final.
[3] 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure in view of the advanced preparations for a 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 respective regional governments. The federal government held consultations with social partners on Europe 2020 matters prior to adoption of the NRP.

deficit outcome. However, even without this operation, the 2012 deadline for correction of the excessive deficit would have been missed. Additionally, some of the measures to reduce the deficit were not structural in nature and the correction is not yet sustainable, as the deficit is projected to rise again from 2014 onwards. Belgium made some progress on the recommendation to improve the long-term sustainability of its public finances. It initiated a pension and pre-retirement reform with the aim of keeping older workers in the labour market but did not take measures to link the statutory retirement age to life expectancy in order to safeguard the sustainability of public finances over the long term.

Second, to restore cost-competitiveness and boost job creation, measures were taken to curb inflationary pressures on wages, though without reforming the practice of automatic wage indexation. In addition, the government took initiatives to overcome the accumulated relative wage gap vis-à-vis the main trading partners. These initiatives comprise a real wage freeze for the period 2013-14, reinforced structural reductions of employer's social security contributions and a revision of the 1996 law on competitiveness and collective wage bargaining. However, as discussion of the legislative proposal is ongoing, it remains unclear whether the planned revision will be truly structural in nature. Overall, progress on the recommendation in question remains therefore limited for the time being. Given the persisting challenges Belgium faces in this area, a decisive reform is called for, including not just remedial measures to address past hikes in unit labour costs but a thorough modernisation of the wage-setting system in order to prevent any future decoupling between nominal wage evolutions and productivity developments.

Third, while reforms have been implemented to address shortcomings of the labour market, there has been no major overhaul of the Belgian tax system. The government has taken steps to reduce the tax burden for specific categories of workers, sectors and types of firms by means of a targeted approach to decrease social security contributions for employers. Despite these efforts, Belgium has the highest implicit tax rate on labour in the EU-27, hampering job creation and creating disincentives to take up work. Also, the interplay between the measures taken by the federal authorities and the various employment support schemes implemented at the regional levels generates considerable complexity and potential dead-weight losses. Belgium has achieved some progress in addressing the Council Recommendation on these issues, by reforming its unemployment benefit system and gradually extending activation efforts to older workers. Since the number of registered job seekers is increasing, it will be crucial to ensure close follow-up and effective enforcement of job search requirements as well as appropriate job search support in all regions. In order to increase labour force mobility and to address skills shortages and mismatches, more effective coordination between the different regional actors, more efficiency and better outcomes in terms of skills and relevance of the education systems including through continuing training will also be essential. A reinforced coherence between education, employment policies and actors is also needed.

Fourth, there has been limited progress on addressing operational restrictions and strengthening competition in retail and network industries. Retail prices continue to be considerably higher than in other countries, reflecting not only structural aspects but also competitive restrictions. As regards electronic communications, mobile broadband penetration remains hampered by administrative restrictions, while prices for mobile telephony have been more responsive of late but remain well above levels in other countries. As to the energy markets, effective competition at retail level for electricity and gas and at wholesale level for electricity continues to be an important challenge.

Finally, there has not been sufficient progress in reducing greenhouse gas emissions towards the Europe 2020 target. According to projections, Belgium will miss its reduction target by a wide margin. This may stem from the general lack of coordination and effort-sharing among the various authorities involved in reaching the national target.

The policy plans submitted by Belgium address most of the challenges identified in last year's Staff Working Document, and broad coherence between the two programmes has been ensured. The national reform programme confirms Belgium's commitment to 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. Sometimes, however, planned measures do not address the challenges in a comprehensive way. In order to ensure that national 2020 targets and budgetary targets are reached, consistency between regional and national targets and coordination among regional actors are essential.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

Weak economic performance across the euro area and the sovereign debt crisis have had serious repercussions for growth and employment in the open Belgian economy. As a result of persistent uncertainty, domestic demand has been subdued in recent quarters with GDP contracting by 0.3% in 2012, as compared with -0.6% for the euro area. A robust contribution by net exports could not prevent the Belgian economy from shifting into recession as household spending and investment both fell by 0.6%.

Private consumption has fallen almost continuously since the beginning of 2011, with 2012 marking the first time in many years that private consumption shrank over the full year. It also contrasted with the 2009 recession, when private spending proved resilient. Real disposable income shrank both in 2011 and 2012. Also the general economic climate and announcements of big lay-offs has been exerting a downward drag on consumer confidence. Given these announcements and the sluggish performance by the domestic economy, it is no surprise that unemployment has risen to 7.6% in 2012 as compared with 7.2% in 2011.

Overall inflation slowed down in 2012, reaching 2.6% for the year, which corresponds to the EU average. While this reflected mainly the freeze of energy prices between the second and final quarters, the general weakness observed across all economic sectors also plays a role. In the first few months of 2013, inflation has been continuing its downward trend, falling below levels observed in neighbouring countries.

Economic outlook

According to the Commission's 2013 Spring Forecast (hereafter 'Spring Forecast'), real GDP will remain flat in 2013, with domestic demand continuing the contraction that started in 2012. While it is assumed that household consumption will stagnate with confidence indicators near historic lows, investment is expected to drop further, driven by an economy-wide lack of confidence, a depressed construction sector, tightening credit conditions and an industry featuring ample spare capacity.

It is anticipated that both private consumption and investment will gain pace only as of 2014 when domestic demand becomes the main driver behind a real GDP growth rate of 1.2%. In the slipstream of this more dynamic domestic demand, it is assumed that import growth will catch up with export growth. This would limit further gains from net exports in 2014, whereas in 2013 positive net foreign demand growth would prevent the headline GDP from contracting as the open Belgian economy is expected to take advantage of an upturn in world trade.

Falling international energy prices and government measures to enhance competition on the domestic retail market for energy are projected to result in a further noticeable slow-down in inflationary pressures. Consumer prices are expected to increase by 1.3% in 2013 and 1.6% in 2014, as compared with 2.6% in 2012.

With regard to the labour market, the trend of gradually rising unemployment is expected to continue during 2013, touching 8.0% on average. This level is also forecast for 2014, as job creation fails to outpace labour force growth.

The macroeconomic assumptions in Belgium's 2013 National Reform Programme and Stability Programme broadly follow the latest forecast figures of the Commission services. For 2013 and 2014, real GDP growth of 0.2% and 1.5% respectively is assumed. This is slightly more optimistic than the Commission's 0.0% and 1.2%, but still within a reasonable margin.[5] The Stability Programme does not take into account the potential impact on growth of the planned fiscal consolidation. The National Reform Programme presents two sets of CSR-related scenarios for which a qualitative impact assessment is executed.[6] The first set deals with adopted measures to increase labour-cost competitiveness. The scenario assumes a modest 1.43% decrease in nominal hourly labour cost by 2020 which increases employment by 0.5% and GDP by a about 0.2%. The second set contains selected administrative measures to reduce energy prices and interventions to modify the calculation of the national price index. According to the estimation, they sort very modest GDP effects, which seems reasonable given the small size of the sector.[7]

2.2. Challenges

Belgium faces important and interrelated challenges as regards the state and sustainability of its public finances, deteriorating external competitiveness, the functioning of the labour and product markets, and greenhouse gas emissions. The challenges presented here are all linked to the growth priorities identified in the 2013 Annual Growth Survey and some are also identified in the second in-depth review (IDR) on Belgium, the findings of which are highlighted in Box 1.

Belgium's public debt is expected to rise above 100 % of GDP in 2013 and broadly stabilise in 2014. Despite considerable consolidation efforts, the correction of the excessive deficit is not yet sustainable. Apart from the scale of the required consolidation, **the effort sharing between the different tiers of government represents an additional challenge.** Once the 6th reform of the state has been implemented, regions and communities will enjoy increased tax autonomy, while debt servicing and ageing costs continue to be borne to a large extent at federal level.

The **financial sustainability of the old-age social security system, especially with regard to pensions and long-term care,** remains a key challenge given the low employment rate among the elderly and the rising costs of population ageing. Moreover, since a comparatively high proportion of the Belgian elderly is at risk of income poverty, the need to achieve

[5] The figures used by the Belgian authorities correspond to projections in the Commission's Winter Forecast, which were, at the moment the NRP was submitted, the latest available Commission data.
[6] NRP, Annex II, pp. 48-49. Assessment has been performed making use of HERMES macroeconometric model.
[7] Also, the effect of increased competition in the energy sector was not taken into account for the simulation Although, the simulated macroeconomic effects are small this is (admittedly) due to the limited scope of the reforms which were taken into account (e.g. no additional competitiveness effects were assumed in the utilities sectors).

financial sustainability should be carefully balanced with the need to maintain the adequacy of old-age social security schemes. The residual tax space to address the debt burden is narrow given that the tax-to-GDP ratio in Belgium reached 44.1% of GDP in 2011 — the third highest in the EU. Despite the reinforced targeted and structural reductions of social security contributions, Belgium still imposes heavy taxes on labour.

Observed losses in export market shares can be partially attributed to a loss of cost competitiveness induced by the wage-setting system and inefficient product markets. Given that Belgium is specialised in intermediate products, for which international competition is fierce, unit labour costs (ULCs) need to be closely monitored. However, ULCs have risen more rapidly in Belgium than in neighbouring and competing countries over the past decade, especially since 2005. In this respect, the wage norm of 1996, meant to preserve competitiveness vis-à-vis the main trading partners, has not always fulfilled its role. Additionally, prices for energy and many other goods and services are higher in Belgium than in other Member States, reflecting weak competition and structural barriers.

Other factors which explain the observed losses in export market shares are related to non-cost competitiveness issues. The strengths of the Belgian research and innovation system have to some extent counter-balanced and mitigated the country's cost-competitiveness issue. Indeed, very good trade performances in a limited number of innovative and knowledge-intensive sectors have boosted the contribution of high-tech and medium-tech products to the trade balance since 2004. As business research and development (R&D) is still very concentrated in a few sectors and firms, Belgium would benefit from broadening its innovation base and speeding up the renewal of its economic fabric. Despite a high rate of tertiary graduates, the country's weaknesses in terms of availability of skilled professionals, entrepreneurship and firms' dynamics may impede this renewal.

Belgium suffers from below-average and stagnating labour market participation and high employment/unemployment disparities across regions and population subgroups. Both issues have a number of drivers, such as the erosion of cost-competitiveness, high labour taxation, still low overall innovation capacity and low job creation potential in certain areas where the predominant industrial mix is in decline, limited labour mobility, persisting educational, geographical and skills mismatches and ineffective activation policies. Among the population subgroups participating least in the labour market are people with a migrant background, the elderly and low-skilled youngsters in all regions. Overall youth unemployment is also high in Wallonia and the Brussels Capital Region and in specific urban areas in Flanders. Generally speaking, Belgium's education systems perform better than the EU average, although results vary between communities.[8] Overall performance is marred by poor educational achievements in vocational education and training, a rising share of early school leavers, strong differences between nationals and pupils with migrant background, low participation in adult learning[9] - in particular among older workers - and varying degrees of school autonomy in the different education networks.

Poverty and social exclusion risk indicators also point to a number of persisting challenges. For instance, Belgium records an above-average and rising share of low work

[8] Belgium still outperforms the EU average in terms of early school leaving (ESL), despite the fact that it is one of the few countries faced with an increase of the ESL rate between 2009 and 2012 (from 11.1% to 12.0%). Belgium's tertiary attainment rate is significantly above the EU average. In terms of basic skills attainment, 15-year-olds' performance on 2009 PISA tests is better than the EU average in reading and mathematics and very close to it for science. Participation in early childhood education is among the highest in the EU.

[9] Learning participation rate of adults in Belgium in 2011: 7.1%; older workers: 3.9%; low-skilled: 3.1%.

intensity households, elderly people are more exposed to income poverty risk and people with a migrant background are markedly more exposed to the risk of social exclusion than elsewhere in Europe.

Lastly, as regards climate and energy, the picture is mixed. Belgium has been progressing at a slow but stable pace on the proportion of renewable energy in energy consumption. Nevertheless, according to the latest national projections submitted to the Commission, the 15 % reduction target for greenhouse gas emissions in the non-ETS[10] sectors will not be met: Belgium's most recent projections anticipate a decrease of 4% by 2020 as compared with 2005, representing a shortfall of 11 pps against the target.

Box 1: Summary of the 2013 in-depth review (IDR) under the Macroeconomic Imbalance Procedure

The second IDR on Belgium found that the country continues to suffer from export market share losses as a consequence of declining shares in goods exports. This weakening export performance reflects an increasing specialisation in cost-sensitive, intermediate products and ULCs rising faster than in trading partner countries. While the authorities have announced measures to reduce the widening wage gap, this correction will materialise only gradually and additional measures may be needed to close the historic gap entirely with several trading partners also implementing relevant labour market reforms.

More specifically, the ‘wage norm’ would benefit from modernisation through, for example, the inclusion of productivity growth differentials in the benchmark, the automatic application of ex-post corrections, and all-in agreements. This would help align wage developments more closely with productivity dynamics, allow more wage diversification between sectors and push back structural labour mismatches. With regard to the automatic wage indexation system, introducing more flexibility in its application would help the very open Belgian economy to absorb external shocks more smoothly. Competitiveness could also be enhanced by a further shift in the tax burden from labour to other sources of revenue and a continued effort to improve the functioning of network industries.

Belgium will also have to foster total factor productivity, as gains to be expected from already high labour productivity are limited. For this to happen, it is vital to speed up the transition towards a more knowledge-intensive economy, enabling the full exploitation of research activities. While the broad thrust of research and innovation polices in recent years has been appropriate – exports with a high-tech content have been on an upward trend – efforts need to be stepped up. In particular, further development of the support to clusters and better conditions for the growth of innovative firms are required.

The high level of public debt continues to represent an imbalance in view of sustainability concerns as it makes Belgium vulnerable to tensions in financial markets that could result in an upward debt spiral. A large proportion of Belgian debt is held domestically, which may reduce external vulnerabilities but reinforces risks for spillovers between the public sector, the banking sector and the real economy. Sizeable contingent liabilities to the financial sector constitute an additional risk. Moreover, the remaining fiscal space to address the debt burden is very limited, while the fiscal sustainability risk is high in the medium to long term due to the budgetary impact of ageing. As a consequence, the economy as a whole would benefit from a sustained consolidation of public finances.

Although there is a high degree of intra-group loans, fostered by advantageous tax schemes, in consolidated terms the indebtedness of non-financial corporations does not point to emerging risks. Household indebtedness is mostly mortgage-related. The IDR concludes, however, that a possible

[10] In Belgium only 38 % of emissions come from sectors included in the EU Emission Trading Scheme (ETS). Of the more important non-ETS sectors road transport (22.5%) and residential and commercial energy use (18.5%) are the largest sources of non-ETS GHG emissions in the country.

downward correction of housing prices would most likely have only limited effects on consumption and on the construction and financial sectors.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The objective of the budgetary strategy outlined in the 2013 Stability Programme is to reach a balanced budget in structural terms by 2015 and to achieve the MTO the year after, one year later than the target year set in last year's programme. The programme has changed the MTO from a surplus of 0.5% to 0.75% of GDP. The new MTO reflects the objectives of the Stability and Growth Pact.

The 2012 deficit came out at 3.9% of GDP, as compared with a target of 2.8% of GDP in the 2012 programme. The recapitalisation of Dexia bank at the end of 2012 had a negative impact of 0.8% of GDP on the outcome. Lower-than-expected GDP growth and slippages at the level of local government also contributed to the shortfall.

This year's programme sets deficit targets in structural terms. The macro-economic scenario of the programme would result in a reduction of the nominal deficit to 2.5% of GDP in 2013, as compared with 2.15% of GDP in last year's programme. The Spring Forecast projects a deficit of 2.9% of GDP in 2013. This is due partly to the different macro-economic assumptions, and partly to a different assessment of the impact of some measures and expected shortfalls at local level.

For 2014, the programme projects a deficit of 2.0% of GDP, as compared with 1.1% in the 2012 programme. This revision is partly due to the negative base-effect and lower GDP growth, but also in structural terms the improvement is smaller than predicted in last year's programme. Under the no-policy-change assumption of the Spring Forecast, the deficit is expected to rise again above the reference value of 3% of GDP in 2014, to 3.1%.

While last year's programme projected a return to a balanced budget in 2015, this is now not projected until 2016. Under the growth assumptions of the programme, the nominal deficit will come out at -0.5% of GDP in 2015.

Partially due to the low growth outlook for the short term, the adjustment in nominal terms is rather back-loaded. In addition, contrary to last year's programme, the adjustment in structural terms is also somewhat back-loaded due to unambitious improvement in the (recalculated) structural balance[11] projected for 2014. No consolidation measures have been specified beyond 2013. According to the indicative distribution in the programme, the adjustment strategy between 2012 and 2016 will be balanced between revenue increases and expenditure restraint (excluding the impact of Dexia in 2012). In 2013, one-offs should contribute an estimated 0.3% of the nominal improvement.

[11] 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 and using the commonly agreed methodology.

Box 2: Main measures

According to the programme, the federal government took around EUR 3.8 bn (1% of GDP) of discretionary measures in the 2013 budget. On the expenditure side, the government reduced both central government expenditure and social security expenditure by 0.2% of GDP (of which 0.1% in the healthcare system) as compared with an unchanged policy scenario. New tax measures accounted for around 0.3% of GDP, while other measures (mainly non-tax revenues) accounted for another 0.3%. In March 2013, the government agreed on a series of additional measures with an impact of around 0.1% of GDP on revenue and 0.1% expenditure in order to ensure a 1% of GDP improvement in the structural balance.

Main budgetary measures

Revenue	**Expenditure**
2013	
• Increase in the financial income withholding tax (0.1% of GDP) • Change in the reference rate of the notional interest deduction in corporate income taxation (0.1% of GDP) • Increase in several indirect taxes (0.1% of GDP): excise duties on tobacco and alcohol, tax on premiums of life insurance contracts • Fiscal amnesty and anti-fraud measures (0.2% of GDP) • Sale of telecom licenses and emission permits (0.1% of GDP) • Reduction in social security contributions (-0.1% of GDP)	• Reduction in central government expenditure (-0.2% of GDP): *inter alia* on development cooperation, diplomacy, defence, functioning costs, and transfers to the national railway company • Reduction in healthcare expenditure (-0.1% of GDP) • Other social security measures (-0.1% of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign indicates that revenue/expenditure increases as a consequence of the measure.	

In the context of the 2013 budget, the government also introduced measures to restrain wage costs with a view to closing the accumulated wage gap vis-à-vis Belgium's neighbours. A real wage freeze was enacted for the period 2013-14, while at the same time the inflation measurement for wage indexation purposes has been altered. Also, the government has earmarked an annual budget of EUR 400 mn (0.1% of GDP) for additional reductions in social security contributions. Finally, a reform of the 1996 law on the so-called 'wage norm' has been announced. The effectiveness of these measures remains to be seen, as some of them are still to be fleshed out and translated into legislation, while the relative impact of measures such as the wage freeze will be contingent on developments in Belgium's main trading partners. In the context of the reform of the unemployment benefit system initiated in 2012, the rate at which benefits are reduced over time has been increased since November 2012.

The programme projects a balanced consolidated budget at Entity II level (regions, communities and local authorities) in 2013. Beyond 2013, the programme does not explain how the planned adjustment will be shared among the different layers of government, an issue also addressed in last year's CSRs.

The absence of clear and transparent effort sharing among the different layers of government poses a substantial risk to the achievement of the consolidated programme targets. There are also implementation risks in view of the 2014 elections at both federal and regional level. While the programme targets a sizeable adjustment in 2015, a long period of political uncertainty after the elections as observed in 2007 and 2010 would put this target at risk. Lastly, given that targets are set in structural terms, the return to a balanced budget in nominal terms by 2016 may be delayed if growth turns out lower than currently expected. On the other hand, the nominal deficit outcome may also be better than currently projected if the economy recovers faster than currently anticipated, particularly if the authorities do not offset the positive cyclical effect on the nominal balance by a relaxation of the structural effort.

The programme anticipates correction of the excessive deficit by 2013, one year after the deadline recommended by the Council in 2009. However, according to the Spring Forecast, the safety margin against breaching the Treaty reference value is narrow.

Box 3. Excessive deficit procedure for Belgium

On 2 December 2009, the Council decided that an excessive deficit existed in Belgium and adopted the most recent Council Recommendation under Art. 126(7) TFEU. The Council recommended that the Belgian authorities should put an end to the present excessive deficit situation by 2012. Specifically, in order to bring the general government deficit below 3% of GDP in a credible and sustainable manner, the Belgian authorities were recommended to (a) implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010 and strengthen the planned fiscal effort in 2011 and 2012; (b) ensure an average annual fiscal effort of ¾% of GDP over the period 2010-2012, which should also contribute to bringing the gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus; (c) specify the measures that are necessary to achieve the correction of the excessive deficit by 2012, cyclical conditions permitting, and to accelerate the reduction of the deficit if economic or budgetary conditions turned out better than expected at the time the EDP recommendations were issued; and (d) strengthen the monitoring mechanisms to ensure that fiscal targets are respected. In addition, the Belgian authorities were recommended to seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. Finally, the Council invited the Belgian authorities to implement reforms with a view to raising potential GDP growth, including reforms conducive to enhancing the quality of public finances, in particular the introduction of enforceable, multi-annual expenditure ceilings and budgetary agreements among the different government tiers.

An overview of the current state of excessive deficit procedures, including additional steps adopted after the finalisation of this Staff Working Document, is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

For the years after the correction of the excessive deficit, the planned annual progress towards the MTO is higher than the minimum requirement of 0.5% of GDP and in line with the calendar for convergence. However, the planned (recalculated) effort in 2014 of 0.5% (0.6% according to the programme) lacks ambition, thus making the remaining effort that needs to be made in 2015 in order to reach a balanced budget in structural terms rather challenging. According to the information provided in the programme, the growth rate of government expenditure, net of discretionary revenue measures, in 2014-16 is expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. Following an overall assessment of the Member State’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, the credibility and commitment of the budgetary strategy would be enhanced by a more balanced distribution of the effort between 2014 and 2015.

According to the programme, the debt ratio will peak at 100.0% of GDP in 2013 and will decline gradually to 93.0% of GDP by 2016. Given the low growth, the planned deficit reduction in 2013 is not enough to prevent the debt from rising above 100% of GDP. Therefore, the authorities commit themselves in their programme to taking additional measures by the end of June 2013 to curb the rise in the debt level. In this context, the government has already announced the sale of Royal Park Investments, the remnants bank of the former Fortis Bank. According to the programme, the reduction of the nominal deficit will put the debt level on a downward path from 2014 onwards (see Graph below Table V in annex), in contrast to the rise projected under the no-policy-change assumption of the Spring Forecast. In 2014 and 2015, Belgium will be in a transition period and plans would ensure sufficient progress towards compliance with the debt criterion. According to the plans, the debt benchmark will be met at the end of the transition period. According to the Commission 2013 Spring Forecast, which projects that the debt ratio will reach 101.4% of GDP in 2013 and rise further to 102.1% of GDP in 2014 under a no-policy-change assumption, the transition towards the debt reduction rule will not be respected in 2014. As compared with 2012, contingent liabilities linked to guarantees provided to the financial sector have decreased by more than 2pps of GDP, but remain substantial (at around 13.5% of GDP according to the programme).

Long-term sustainability

Belgium does not appear to face a risk of fiscal stress in the short term. Nonetheless, there are some indications that the fiscal side of the economy poses potential risks. Fiscal sustainability risks are high in a medium- to long-term perspective, influenced by the budgetary impact of the cost of ageing, which derives from a rapidly ageing population and a high level of expenditure on social transfers. Indeed, government debt (99.6% of GDP in 2012 and expected to rise to 102.1% in 2014) is above the 60% of GDP Treaty threshold. Risks would be lower in the event of the structural primary balance reverting to the higher values observed in the past, such as the average for the period 1998-2012. The focus should, therefore, be on resolutely continuing to implement sustainability-enhancing measures. In addition, government debt needs to be reduced. Further containing age-related expenditure growth, including through pension reform, appears necessary to contribute to the sustainability of public finances in the medium and long term.

For Belgium, the 2012 Ageing Report shows a very significant projected increase (+2.0 pps) in total age-related public expenditure as a proportion of GDP already over the years 2010-20. In particular, public pension expenditure is projected to increase by 1.6 pps of GDP (one of the largest increases in the EU),[12] due to a rapidly ageing population and a high level of expenditure on social transfers, in spite of relatively low individual pensions.

The Commission services consider that Belgium has made some progress on measures taken to address the CSR. In 2012, Belgium implemented the 2011 pension reform designed to boost older workers' labour market participation and to curb age-related expenditure (see section 3.3). In particular, the reform tightens eligibility requirements for early retirement and gradually rolls back early exit or pre-retirement systems; it extends the reference period for the calculation of benefits, and reduces pension rights accrued during periods of inactivity.

[12] The latest pension reform has been taken into account in the projections. Total age-related public expenditure was updated accordingly after the publication of the 2012 Ageing Report.

Although these reforms represent a step in the right direction, given the magnitude of the challenge Belgium faces, they are insufficient to secure the long-term sustainability of public finances and to reach the elderly employment target Belgium has set for itself. Further reforms in this area are warranted to reach these twin goals. In the short term, it is crucial for Belgium to close the gap between the statutory retirement age and the effective exit age from the labour market by rapidly phasing out pre-retirement and other early exit schemes, while preventing shifts to disability or long-term sickness schemes. To be effective, such social security reforms need to be underpinned by labour market reforms conducive to active ageing and employment support for elderly. In addition, the long-term financial sustainability of old-age social security would benefit greatly from measures linking the statutory retirement age to life expectancy.

Besides reforms directed at the labour market, several steps have been taken in the area of healthcare and long-term care, such as a more efficient use of resources for pharmaceutical products and the development of new and better integrated forms of care. Nevertheless, further efforts will be needed given that fiscal sustainability risks are high in the medium to long term for Belgium and long-term care is flagged as an area that adds considerably to this challenge (see Table V in annex). Public expenditure on long-term care (2.3% of GDP in 2010) already surpasses the EU average of 1.8%[13], while, according to the 2012 Ageing Report, Belgium has relatively high expenditure projections – in both the medium and long term – in the area of public long-term care (+2.7 pps of GDP by 2060 compared to 1.5 pps for the EU average).[14] The high current and projected levels of spending are partly due to the focus on relatively costly institutional care.[15] A stronger focus on cash benefits that also support home care, as against institutional care, could prove more efficient. In addition, the eligibility criteria could be more clearly defined. Indeed, Belgium has a very high coverage rate and does not apply a means-tested criterion for in-kind benefits, while it appears to define the criteria loosely on the basis of dependency.[16]

Fiscal framework

Belgium benefits from the existence of independent fiscal institutions (such as the High Council of Finance), but its fiscal rules and the domestic medium-term budgetary framework still appear to be weak, and this has contributed to frequent slippages in the past. Belgium has not yet fully transposed the Directive on national budgetary frameworks[17] nor introduced a structural budget balance rule in its legislation, as provided for by the Treaty on Stability, Coordination and Governance.[18]

[13] Public expenditure on in-kind long-term care has increased by 33% between 2003 and 2009 while the share of long-term care represents 4.4% of total government expenditure, compared with an EU average of 3.6%.

[14] The 2012 Ageing Report indicates an expected increase of long-term care related expenditure by around 30% in the medium term and more than doubling by 2060. Further, the projected expenditure on long-term care represents about 30% of the total age-related increase in public spending up to 2060.

[15] In 2010, 10% of the total population and about 100% of the calculated dependent population were covered by some form of formal long-term care (see Ageing Report 2012). The average cost of such services per user, calculated in % of GDP per capita, was 102% in institutions and 14% at home, against EU averages of 67% and 28% respectively (see Ageing Report 2012).

[16] See Mutual Information System on Social Protection (MISSOC), 2012.

[17] The legal deadline for transposition is 31 December 2013. However, Heads of State and Government of euro-area Member States committed themselves to transposing by end 2012.

[18] Belgium has not yet ratified this Treaty.

Following the political agreement of December 2011 on institutional reforms, regions and communities will be granted more responsibilities and greater tax autonomy. In this context, there is a need for more transparent expenditure rules and the extension of effective medium-term fiscal planning to all levels of government; up to now this has been done on a rather *ad hoc* basis. In line with the 2012 recommendation, in addition to a rules-based multi-annual framework for general government, it would be helpful to design and agree on an internal stability pact to secure and enforce more robust, automatic commitments from the regions, communities and local authorities, to meet budgetary targets. Finally, Belgium suffers from vertical imbalances in its fiscal decentralisation: regions and communities do not currently bear the full financial consequences of their policies, e.g. their employees' pensions are paid at federal level.

Tax system

The 2012 country-specific recommendations called for a significant tax shift from labour to less growth-distortive taxes, e.g. environmental taxes. The Commission services consider that Belgium has made only limited progress on measures taken to address the CSR. To stimulate hiring, Belgium has taken targeted measures to further decrease social security contributions for small and medium-sized enterprises (SMEs) and for certain categories of employees, such as the elderly and low- and middle-schooled youngsters. In addition, the structural reduction of employers' social security contributions has been reinforced as of April 2013. Finally, to increase the take-home salary of the low-paid, the 'work bonus'[19] was strengthened in two steps, resulting in a net wage increase of approximately EUR 250 a year for the lowest wage earners.

In parallel, the federal authorities increased taxes on individuals' capital income and took measures to strengthen the fight against tax fraud. As from 2013, withholding tax rates on all passive income (interests and dividends) are harmonised (a 25%[20] single rate has been adopted and made final). Taxation of private capital gains is almost non-existent (except for those on some capitalisation vehicles). At the end of 2012, the government set the end of 2013 as a deadline for the existing tax amnesty scheme, which is expected to yield extra revenues this year. At the same time, penalties for tax fraud have been quadrupled and tax authorities have been granted increased access to personal data. The use of the notional interest deductibility (Allowance for Corporate Equity[21]) in corporate income tax has been further restricted.[22]

[19] The 'work bonus' consists of a reduction of the employees' social security contributions and of a personal income tax credit. Both elements were been reinforced as of 1 January 2013. The reduction of employees' social security contributions was increased a second time in April 2013.

[20] Except on saving accounts and on government bonds issued at the end of 2011 for which the rate is 15%, interest on ordinary saving accounts (still exempted up to EUR 1830) and pension savings that benefit from special arrangements resulting in negative actual rates, as in other EU countries.

[21] The Allowance for Corporate Equity (ACE) was introduced in 2006 to stimulate the self-financing capacity of companies and safeguard the attractiveness of Belgium for multinationals after the phasing out of the coordination centre regime. The tax-free presumptive rate of return on equity applied under the ACE system is based on the rate of 10-year government bonds (OLO 10) with a cap of 3% as of 2012 (3.5% for SMEs). As from 2013, the new rate is based on the average OLO 10 rate for the months of July, August and September of the previous year. For 2013, this rate is 2.742 % (3.242 % for SMEs).

[22] The Belgian ACE contains an incentive for a triangular construction, where a subsidiary provides capital to a financing vehicle of the same group, which in turn lends this capital to the same or another subsidiary. The capital increase in the financing centre allows for a more extensive use of the notional interest deduction by the

However, little has been done to shift the tax burden from labour towards consumption, energy or immovable property. Moreover, the tax system remains complex through numerous tax expenditures in direct taxation and exemptions and reduced rates in VAT. In 2012, there was a limited targeted VAT increase on digital TV and the abolition of the exemption for notaries' and bailiffs' services. Mortgage deductibility under personal income taxation at federal level is scheduled to disappear as of 2014, as this competence is due to be passed to the regions. It is not yet clear whether the regions will introduce similar tax relief. Tax expenditure cuts in personal income taxation include the abolition of tax credits for environment-friendly cars and energy-saving investments, which may be replaced only partly by regional subsidies. Tax shifts are complicated by the fact that some of the taxes are exclusive or shared regional or local competences (e.g. some environmental and immovable property taxes). Finally, the tax system still contains environmentally harmful subsidies through relatively low excise duties on diesel and heating fuels and through favourable tax treatment of the private use of company cars.

3.2. Financial sector

The restructuring of the Belgian banking sector is an ongoing process. Total financial assets of the banking sector decreased from 325% of GDP in 2011 to 288% in 2012. The Belgian banking sector is a little ahead of other euro-area countries in the deleveraging process, because disinvestment was often a condition for receiving state aid. Market concentration has been decreasing, given the difficulties encountered by the four big players during the crisis and their subsequent restructuring. Despite substantial deleveraging in 2012, credit supply to households (+4.3% year-on-year increase in loan stock) and non-financial corporations (+1.0%) were not hampered, although recording a weakening loan quality[23]. While exposure to the foreign public and private sector continues to shrink, outstanding loans to Belgian counterparts remain relatively stable. This illustrates the downsizing of Belgian banks to their core market, where they continue to play their intermediary role in the Belgian economy. The loan-to-deposit ratio is relatively low. The profitability of Belgian banks remains weak, although it improved in 2012 due to higher net interest income and lower impairments. Overall, risks for the Belgian financial sector seem to have fallen substantially since last year, although the adjustment is still ongoing. The increased orientation of the banking sector towards the home market, also observed in other euro-area countries, has significantly reduced the sovereign risk. On the other hand, this may cause concentration risk, market fragmentation and inefficient allocation of resources, and it reinforces the interdependence and risks of spillovers between the real economy, the public sector and the financial sector.

In 2012, the Council Recommendations for Belgium contained a CSR to stimulate capital increases in the banking sector, so that it could play its normal role in lending to

financing vehicle and thus a reduction in income taxation, while the interest on the internal loan paid by the subsidiary to the financing centre also reduces the taxable income of the subsidiary. Unlike the Italian ACE, however, the Belgian system involves an allowance for existing stock (restricted to seven years as from 2013) and has no anti-abuse measures to prevent companies from setting up triangular constructions. Shares that already qualify for the participation exemption will no longer benefit from the notional interest deduction but intra-group loans are not targeted by this recent measure.

[23] The non-performing loan ratio increased from 3.3% in 2011 to 3.6% by the end of September 2012. Before the financial crisis, it stood at only 1.5% (National Bank of Belgium). The increase stems predominantly from the corporate sector, but also non-performing retail loans (households and some small and medium-sized enterprises) are steadily rising.

the economy. The Commission services consider that Belgium has fully addressed the CSR. KBC increased its capital base through a capital increase and asset divestment. It reimbursed ahead of schedule around half of the EUR 7 bn of state aid received and intends to pay back another EUR 1.17 bn in the first half of 2013. The remaining outstanding amount of EUR 2.33 bn will be reimbursed over the 2014-20 period. Dexia was recapitalised by the Belgian and French state at the end of 2012 in order to remedy a negative net asset position and allow the orderly resolution of the group to go ahead. Additional recapitalisation needs cannot be excluded since a return to break-even point is not expected before 2018. Other large banks have solid solvency ratios.

According to the European Commission's 2012 Small Business Act Fact Sheet, Belgium is on a par with the EU average in the area of access to finance. Belgian SMEs rely mostly on bank loans for accessing external sources of finance. The latest European Central Bank survey (November 2012) on access to finance in terms of traditional bank lending to SMEs seems to suggest two trends: while there has been a strong decline in interest rates charged by banks, rejection rates have increased in Belgium, though they are still below the euro-area average. As part of a stimulus strategy adopted by the federal government in July 2012, the Belgian export credit agency (ONDD) has recently created a new financial instrument ('Export Funding Guarantee') to facilitate export financing for Belgian firms. At regional level, several measures have been put in place in order to ease SMEs' access to finance.

3.3. Labour market, education and social policies

Belgium's below-average and stagnating employment rate (67.2 % in 2012 as compared with 67.1 % in 2009) and the vast disparities between regions and population subgroups can be attributed to a number of factors.[24] Despite these large regional differences, labour mobility from low- to high-employment areas remains low. As a consequence, tight labour markets and growth-hampering skills shortages in certain areas coexist with persisting high unemployment in others. From a demand-side perspective, the job creation potential of the Belgian economy is hampered by the poor economic situation in its euro area trading partners and by deteriorating cost- and non-cost competitiveness as a result of nominal wage developments outpacing productivity increases, rising prices of intermediary inputs, specialisation in low-growth markets, innovation capacity issues and a high tax burden on labour. These issues are compounded by supply-side factors such as widespread use of early retirement and pre-retirement options, high unemployment traps, persisting skills mismatches, low intra- and interregional labour mobility and only moderately effective activation policies.

In 2012, the Council recommendation for Belgium contained a CSR addressing issues in the labour market and education policies. As outlined in the NRP, Belgium has initiated and pursued reforms in various areas to tackle these challenges, resulting in some progress. However, the Europe 2020 employment rate target of 73.2 % appears ambitious.

[24] The Walloon labour market is highly skewed towards the public sector but has benefited from a positive dynamism in the pharmaceutical and chemical industries and in business services. Nevertheless, unemployment in general and youth unemployment in particular remain worryingly high. The Flemish labour market, with a higher proportion of people in the industry and construction sector, is relatively more dependent on the business cycle. Flanders continues to face a high number of 'shortage' professions. Employment in the Brussels labour market is skewed towards administrative, retail, hospitality and cleaning services with high demand for highly-skilled labour in specific sectors and a local labour force with predominantly low or even very low skills. Total unemployment and youth unemployment have risen to dramatic levels.

In 2012, Belgium tightened the eligibility conditions and reduced the generosity of old-age social security and unemployment benefit schemes to curb passive expenditure and tackle disincentives to work. Career-length and minimum-age requirements for pre-retirement and early conventional pension schemes are being gradually increased, while the part-time pre-retirement scheme has been phased out. Furthermore, pension rights accrued during periods of inactivity will be reduced and the minimum age for the 'seniority surplus' has been raised from 50 to 55. To discourage labour-shedding of older workers, social security contributions on pre-retirement benefits have been increased and the government has proposed legislation to stimulate the development of active ageing strategies at company level and to require companies undergoing restructuring to spread collective dismissals more evenly across age groups.

These reforms of the old-age social security system are projected to have a non-negligible positive impact on the long-term sustainability of public finances and employment among the elderly. However, given the magnitude of the challenge, sustained additional reform efforts will be required. In particular, Belgium would need to step up its efforts to phase out early exit systems while underpinning the current and future reforms of the old-age social security systems by employment support measures and labour market reforms conducive to active ageing. Linking the statutory retirement age to increases in life expectancy would contribute further to maintaining public finances at a sustainable level over the long term.

The reform of the unemployment benefit system has been enacted in several steps. Since January 2012, eligibility requirements for the tide-over allowance for the young unemployed have been tightened, monitoring of job search efforts has been stepped up and benefit duration has been capped at maximum three years. As of November 2012, the rate at which regular unemployment benefits are reduced over time has also been increased. Like the reinforcement of the 'work bonus' for low- and middle-paid workers, these reforms are likely to have a positive impact on the search behaviour of the unemployed. Effective monitoring of the implementation of the reform will have to be ensured to see if further measures are to be taken to effectively reduce disincentives to work, notably for older people and vulnerable groups.

Moreover, if unaccompanied by effective job search assistance, training opportunities and intermediation policies, tighter eligibility requirements do not by themselves guarantee a more effective matching of labour supply and demand and might even increase the risk of a decline in average job quality. Therefore, close follow-up and effective enforcement of job search requirements and appropriate job search and (re-)training support are crucial. In this respect, the decision by the federal authorities to create 10 000 paid traineeships and to gradually raise the age ceiling for the job search follow-up and the further steps taken by the Flemish regional employment service go in the right direction. However, the skills mismatch will require continued attention and more fundamental reforms are needed to improve the fit between the educational systems and the labour market. Also, over the coming years, additional financial investment in and organisational rethinking of the public employment services will be crucial to satisfying the growing demand by job seekers of all age groups for timely and effective assistance.

Although there has been no comprehensive tax reform in Belgium, several initiatives have been taken to reduce the fiscal burden on labour. As discussed above, the federal authorities have taken measures to increase both the structural and the targeted social security contributions reduction, while Flanders revised the wage subsidy for elderly workers, linking it to the hired worker's age and the duration of unemployment spell.

Belgium and its different entities have partially addressed the 2012 CSR regarding greater coherence between education and training (E&T) and employment policies. All communities and regions have taken actions to adapt their education and training systems to the needs of the labour market, in particular for vocational education and training. Some delays persist and these call for determined follow-up. The draft reform of the secondary education system launched in 2010 to improve the quality of vocational education and training (VET) is currently being discussed by the Flemish government, but the 2014 adoption deadline is expected to be missed. The implementation of the series of measures[25] taken by the French-speaking community to reform its VET system presents a mixed picture.[26] In parallel, it has launched or planned key measures to raise the quality of compulsory education, more specifically to implement a learning outcome approach at secondary level. The Pisa 2006 survey provides evidence in support of the benefits of school autonomy/flexibility towards educational outcomes.[27] The degree of school autonomy varies across networks[28] (official and private) and is on average higher in the Flemish community. Reflections on better and more focused spending have started in all communities, though the pace tends to vary. In addition, all communities have taken various measures to address skills mismatches in education and training, via better guidance to youngsters on career opportunities, actions to promote the attractiveness of VET, and initiatives to address language proficiency and promote mathematics, science and technology. These are positive steps forward, which however need close monitoring to assess their impact.

As regards early school leaving (ESL), Belgium remains below the EU-27 average (12.2% as compared with 12.9% in 2012) but above the 10% benchmark, with no evidence of further progress and a diverging performance across regions. Against the general European trend, ESL rates have been rising again in Wallonia and in the Brussels Region since 2009, reaching worrisome levels in 2012 (15.3% and 19.9% respectively). In 2012, a declining rate was observed in the Flemish community which is continuously improving its comprehensive strategy with a focus on disadvantaged students and early intervention. In the French-speaking community, Wallonia and the Brussels region, existing measures to tackle ESL lack coherence and need to be evaluated, which calls for the early development of comprehensive evidence-based strategies to tackle ESL.[29] According to the NRP, a draft decree is under preparation. Nonetheless, there is little information on the use of evidence, on focused measures for those most at risk (youngsters with a migrant background), on prevention measures (prior to compulsory education) and on the participation of non-educational actors. The European Social Fund will remain the main EU source of funding for youth employment policies, in particular through the support of the Youth Employment

[25] 'CPU' pilot project which aims to decrease the level of repetition years, SFMQ, a unique contract for apprenticeships, the development of 'Interagency Vocational Education Steering Committees (IPIEQ) tasked with the reform of the offer of secondary vocational education, the set-up of catchment areas and synergy centres, the opening of additional centres of advanced technologies (CTA).

[26] The CPU and learning outcome projects are progressing as planned whilst some others like the IPIEQ progressed slower than expected. Initiated in 2010-11, the pilot project 'Qualification by units-CPU' concerns the last two years of compulsory education and should be achieved in 2013-14. It introduces the concept of certification by units. The pilot concerns 5 sectors; training programmes consist in different units with corresponding learning outcomes. It is a response to the Ecvet approach that aims at reducing the level of repetition years and drop-outs. Extension after the pilot phase with the timely contribution of qualification profiles by the SFMQ will be crucial.

[27] Inter-regional educational discrepancies in Belgium. How to combat them? Written for the Re-Bel initiative Rethinking Belgium's institutions within the European Context April 2010, V. Vandenberghe, UCL-IRES-Economics School of Louvain (ESL).

[28] Official (community, provincial and municipality) and private (confessional and non-confessional) educational networks exist in the different communities (Flemish, French-speaking and German-speaking)

[29] Council Recommendation of 28 June 2011 on policies to reduce early school leaving (2011/C 191/01).

Initiative, which will deliver measures targeted at young people not in employment, education or training.

Although different measures have been taken at federal, regional and community levels to support professional training and adult learning, participation rates in lifelong learning (LLL) continue to decrease. Increased attention to the effective results in terms of skills improvement is needed and a global evaluation of the LLL strategy[30] is lacking. In 2013, the French-speaking community, the Walloon Region and the Brussels Capital Region have launched a reflection on a radical reorganisation of the post-2014 LLL approaches and governance mode in line with the transfer of responsibilities. Transparency and recognition tools are being implemented, though the pace varies across the communities. The preparation of a National Qualifications Framework is progressing in the French- and German-speaking communities, despite further delay in its adoption (originally expected by the end of 2012).

Box 4: Poverty and social exclusion

Poverty and social exclusion indicators highlight a number of worrying trends, such as an above-average and rising proportion of people in low work-intensity households and a significant dispersion of poverty risks across the regions. Moreover, while Belgium outperforms the EU-27 averages on most social inclusion indicators, some Belgian population subgroups perform worse than their EU counterparts, suggesting the existence of a number of country-specific issues. Thus, for instance, the elderly still face higher income poverty risks than the EU average. To remedy the situation, the government and social partners have in recent years pursued a welfare adjustment policy which focuses on the lowest and oldest pensions. While this policy has proven successful in gradually bringing down the elderly income poverty risk, the average improvement observed in recent years masks a rather diverse reality. Whereas first pillar pensions for civil servants are relatively generous, minimum private sector pensions are just above the relative poverty line and internal inequalities are exacerbated by the fact that second pillar pensions are not universally adopted.

People with a migrant background also face above-average social exclusion risks in all Belgian regions. In 2011, the proportion of non-EU nationals at risk of poverty or social exclusion stood at 66.4 %, by far the highest rate across all Member States and almost 20 pps above the EU-27 average. Employment among migrants with a non-European background is extremely low and unemployment almost four times higher than for Belgian citizens. Although non-country nationals from within the EU-27 are slightly better off than non-EU nationals, Belgium is clearly less inclusive than the average EU Member State in this respect as well. While labour market integration obviously plays a key role, the social exclusion of people with a migrant background results from a wider number of mutually reinforcing drivers, such as low educational achievement levels, the degree of cultural integration, heightened poverty and material deprivation risks, as well as increased risks of intergenerational transmission of poverty, ethnic prejudices and gender stereotyping by both the migrant and the native communities. Combatting this issue therefore requires an all-encompassing, holistic approach.

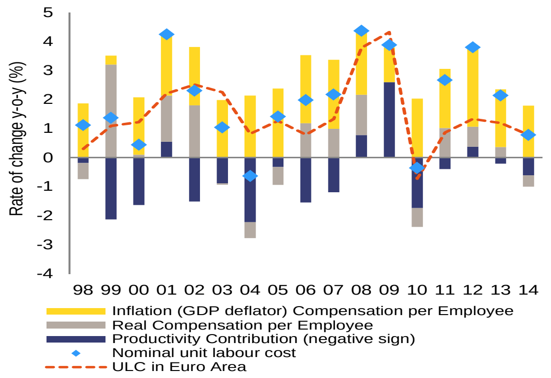
3.4. Structural measures promoting growth and competitiveness

As highlighted in the 2013 IDR, cost competitiveness continues to hamper the Belgian economy. Fast nominal wage growth against the backdrop of weak productivity gains have resulted in unit labour costs rising faster than the euro-area average (see Graph 1). This trend is expected to continue in 2013 and was addressed in last year's CSR 4, which called for a reform of the system of wage bargaining and wage indexation. In addition, CSR 6

[30] The explicit coherent and comprehensive Flemish Lifelong Learning strategy has been pursued as laid down in three main policy documents (Competence Agenda (2007-2010), the 2009-14 policy notes on Education and on employment. Similar documents are not available for the French community, Walloon and Brussels regions.

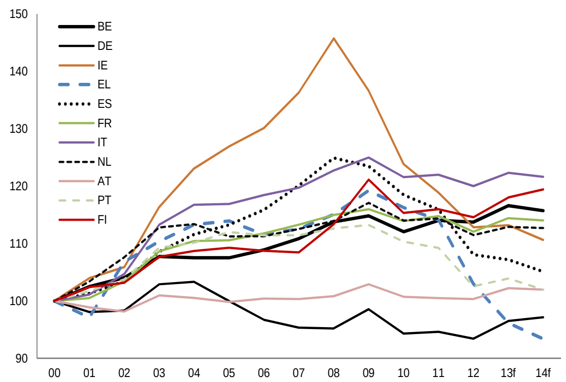
urged the authorities to strengthen competition in both the retail sector and the networking industries as well-functioning product markets are another important element in a country's external price competitiveness as captured by the trade-weighted real effective exchange rate. For Belgium, the latter has remained largely unchanged in recent years, though at a level that indicates a protracted loss in external competitiveness (see Graph 2), accounting for the observed losses in export market shares. This contrasts with the general trend observed for other euro-area countries, which have been improving their competitiveness noticeably. As discussed in the 2013 IDR, non-cost elements also contribute to Belgium's eroding competitiveness.

Graph 1: Breakdown of Belgian ULCs



Source: Commission services

Graph 2: REER as compared with 35 industrial countries



Source: Commission services

Cost competitiveness

As a result of the near-universal application of automatic wage indexation, aggregate nominal wage developments in Belgium are intrinsically linked to price developments. Since inflation levels regularly exceeded expectations during collective bargaining rounds, the cap on nominal wage evolutions ('wage norm') has repeatedly been set at a level that, in retrospect, turned out to be too high relative to weak domestic productivity gains and wage developments in neighbouring countries, resulting in a widening wage differential. To restore the incurred losses in cost-competitiveness, the Belgian authorities have announced and adopted a series of measures to curb inflationary pressures and bring down the accumulated wage gap vis-à-vis neighbouring countries.

While the automatic character of the wage indexation system has not been altered, the Belgian authorities have introduced policies outlined in this year's NRP to limit inflation as measured by the health index to which wages are linked. On the one hand the way in which this cost of living index is calculated has been revised to take better account of actual consumption patterns while on the other hand measures have been taken to curb actual inflationary pressures resulting from energy products.[31] Gas and electricity prices were frozen from April until December 2012. The temporary freeze brought energy price developments during 2012 more into line with those in neighbouring countries. More structurally, though,

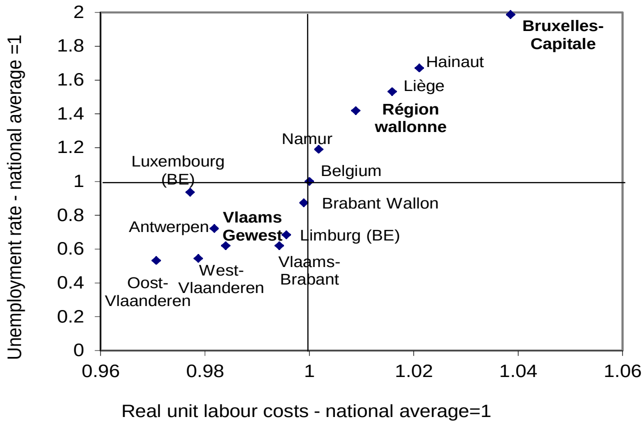
[31] The telecommunication market has also been the subject of government actions (see below). Energy prices, however, have been a main driver behind the strong price pressures of recent years.

measures adopted by the authorities to enhance price transparency and competition on the retail market for gas and electricity have contributed to the decrease in energy prices during the first months of 2013, limiting overall inflation. This encouraging trend needs confirmation over the longer term, also because for some energy carriers price levels remain higher than in other EU countries. Specifically, distribution tariffs[32] and transportation charges for electricity represent an important share of the energy bill for households and SMEs.[33] Regulated distribution charges currently include the costs of public service obligations and could be reviewed so as to reflect costs more accurately.

The government has also initiated a number of measures with the aim of closing the accumulated wage gap vis-à-vis the main trading partners by 2018, as discussed in its NRP. With this aim in mind, a real wage freeze was enacted for the period 2013-14.[34] Also, the government has earmarked an annual budget of EUR 400 mn for additional wage cost reductions. Finally, to prevent future losses in relative cost competitiveness, the government has also announced a reform of the 1996 law on the 'wage norm' but concrete legislative proposals have not yet been tabled.

The effectiveness of these measures hangs in the balance as some of them are still to be fleshed out and translated into legislation, while the relative impact of measures such as the wage freeze will be contingent on developments in Belgium's main trading partners.[35] It thus remains unclear at this time whether they constitute an adequate policy response in the short term. Furthermore, the general practice of wage indexation will continue to over-expose the Belgian economy to terms of trade shocks in future years. Finally, no measures have been adopted to allow for a better alignment between wages and labour productivity developments at local level with the combination of wage indexation and wage norm leaving little room for wage dynamics to reflect differences in productivity and labour market conditions. This can be seen as contributing to the large and persisting regional disparities in employment and unemployment rates that characterise the Belgian labour market (see Graph 3).

Graph 3: Regional unemployment and relative unit labour costs



Source: EUROSTAT, Commission services' calculations.

[32] Full competence over these — currently frozen — tariffs is due to be transferred to the regions in 2014.
[33] 35% to 45% according to the federal energy regulator CREG (January 2012).
[34] No increases are allowed on top of indexation and bracket increases.
[35] While the margin for real wage growth in 2011-12 was capped at 0.3%, this could not prevent an increase in the wage gap given high inflationary pressure. However, the recent alteration in the measurement of inflation for indexation purposes may help to address this issue.

All things considered, Belgium has made limited progress on recommendation 4 and more structural measures than those taken so far are urgently called for to prevent any future decoupling between wages and domestic productivity developments. The announced reform of the 1996 Law on Competitiveness should ensure that wage and productivity developments are better aligned looking forward, including by taking more account of past losses in relative cost competitiveness when setting the wage norm and by ensuring that effective ex-post adjustments are enacted at the appropriate level whenever the norm is not respected or asymmetric inflationary shocks undermine relative cost-competitiveness. In addition, the wage bargaining framework should allow for wages to better reflect productivity developments and labour market conditions at local level. This would favour employment creation and help preserve the cost competitiveness of Belgian firms. Finally, and in line with what the government has been doing recently, it could be ensured that the extension of collective bargaining agreements to non-signatory parties is strictly conditional upon respect of the wage norm set.

Research and innovation

Belgium has a high-quality research system, characterised by strong international openness. The broad consensus on the critical importance of further fostering the innovation-based competitiveness of businesses is reflected in the development of sophisticated and comprehensive policy mixes at national and regional levels. Recent measures include a tax deduction amounting to 80% of patent income and an increase in the payroll withholding tax exemption to 80% for qualifying researchers. In the meantime, some improvements in the relevant indicators have been recorded:

- R&D intensity has been on a slightly positive trend since 2005, thanks to increases in both public and private R&D expenditure. Still, reaching the 2020 target would require an annual growth rate of 4.4%. Moreover, R&D is highly concentrated in a few sectors and in a limited number of large, foreign-owned companies.
- Exports of high- and medium-tech products have increased significantly since 2005.
- Belgium performs well above the EU average in relation to the indicators on cooperation between public research institutions and firms.

In the bio-pharmaceutical sector in particular, high scientific quality and increasing business R&D investment have fostered a robust level of product innovation and export performance. In order to nurture the same dynamics across a wider range of sectors, Belgium will have to speed up the renewal of its economic fabric. This requires facilitating the growth of innovative firms and the further development of the support to clusters in a context of smart specialisation, making full use of structural funds. Further decompartmentalising policy fields and reinforcing overall strategic governance at regional level should allow policies to have greater effect.[36] There is also a case for the national and regional research and innovation policies to integrate demand-side policy tools, such as innovative public procurement, more systematically.

[36] See in particular: OECD (2013), Examen de l'OCDE sur l'innovation régionale: Wallonie, Belgique 2012; Vlaams Raad voor Wetenschap en Innovatie (2013), Advies 186: Conceptnota Slimme specialisatie strategie; Expertgroep Soete (2012), Rapport van de expertgroep voor de doorlichting van het Vlaams innovatie-instrumentarium.

Retail and services sector

Despite efforts to improve the relevant regulatory environment, Belgium still has some operational constraints in the retail sector. It continues to be one of the most expensive countries, with a price level over 10% above the euro-area average. These higher price levels are the result both of competitive restrictions (e.g. ban on sale below costs) and structural aspects of the country (e.g. relative income levels). The competition in the sector could be improved by tackling lengthy administrative procedures for obtaining authorisations for commercial premises. The business environment for retail activities could be strengthened by ensuring that the process for adopting the envisaged new legislative framework on commercial establishment is completed swiftly and with effective coordination amongst regions.

In the services sector, Belgium could generate considerable additional growth of up to 1.73% of GDP through a more ambitious implementation of the Services Directive[37]. Indeed, barriers preventing service providers from entering the market and offering additional services continue to hamper the sector as a whole, such as for instance the territorial validity of authorisations issued by the regional authorities. Professional service providers, which include many SMEs, face a high regulatory burden that holds back growth potential. Restrictions regarding the legal form through which a company can provide services impede the development of certain business models with higher innovation potential and restrain investment.

While the new competition law replaces the existing institutions with a single Competition Authority responsible both for investigating complaints and taking enforcement decisions, the new body remains composed of several organs.[38] The independence and effective functioning of the new Competition Authority will have to be monitored in the light of this new allocation of powers and also considering whether sufficient financial resources and staff have been allocated to enhance its ability to enforce the competition rules effectively.

Electronic communications, transportation and postal services

While mobile telephony rates have been decreasing, they remain above EU averages[39] and price correction has not extended to mobile data so far. Switching internet service providers remains difficult, mainly due to limited competition in the sector and unclear offers which make it difficult for consumers to make informed choices.[40] The independence of the telecom regulator could be further reinforced as the government is currently empowered to suspend or amend its decisions, which raises questions about the independence of the regulatory decision-making process.

[37] The economic impact of the Services Directive: A first assessment following implementation, June 2012, J. Monteagudo, A. Rutkowski and D. Lorenzani, European Commission.
[38] President and his service, Competition Board, Management Committee, Auditor-General and the College of Auditors.
[39] According to the Digital Agenda Scoreboard 2013 the 'average revenue per user' (ARPU) in Belgium decreased from 260 in 2010 to 237 in 2011, well above the EU average of 195.
[40] According to the Consumer Markets Scoreboard (December 2012, European Commission, DG SANCO, http://ec.europa.eu/consumers/consumer_research/editions/cms8_en.htm), internet services in Belgium perform poorly in terms of choice of suppliers and ease of switching suppliers. An in-depth market study (May 2013, European Commission, study on behalf of DG SANCO) on the functioning of the market for internet access and provision from a consumer perspective found problems with the clarity and correctness of bills and offers.

While mobile broadband penetration increased over the past year, it is still amongst the lowest in the EU (33.3% as compared with an EU average of 54.1%). This situation is further aggravated by the slow rollout of mobile networks, hampered by administrative obstacles that hinder investments and the development of the latest technologies. Belgium is one of the few remaining countries in Europe where the 800 MHz band is still not available for mobile broadband, though an auction of the band is planned for later this year. Very strict electro-magnetic-field norms in the Brussels Region are another obstacle to mobile broadband deployment. These serious administrative coordination problems risk further fragmenting the market for electronic communications in Belgium.

Market entry barriers and the abuse of dominant positions in the transport sector are still preventing the market from functioning efficiently. Unlike other Member States, Belgium has still not opened up its domestic rail passenger market to competition. New legislation has been adopted at federal level on regulatory services for railway transport and for airport operations, reinforcing the independence of the regulatory function for railway transport and, to some extent, the regulation of airport charges at Brussels National Airport. However, there is scope to further improve the independence of the transport regulators, both at the federal level (Brussels National Airport) and the regional level (Brussels-South Charleroi Airport). The port labour legislation prevents port service providers from freely choosing their workforce and requires potential workers to register in a labour pool from which employers must select port workers.

A political agreement has been reached on the reform of the national railway company NMBS/SNCB, whereby the current tripartite structure should become a two-fold one, with an infrastructure manager and a railway service provider. The umbrella holding will disappear, though the entities will share a service organisation running a common human resources policy. This reform has not yet been implemented and questions remain as to how the discontinuation of the holding and the creation of this new joint venture will play out.

No progress has been achieved in relation to the regulatory barriers identified in the postal sector.[41] The amended postal legislation raises serious concerns, particularly the provision concerning licensing conditions, especially those regarding mandatory geographical and daily coverage and requiring a uniform tariff for licensed services. Suboptimal functioning of the postal market is reflected in consumer surveys.[42]

Energy, environment and climate change

Projections for greenhouse gas emissions in 2020 indicate that Belgium will miss its 15% reduction target by 11 pps. It also remains unclear how isolated initiatives taken by the various authorities will ensure that the collective target is met. This general lack of coordination and effort-sharing agreement between authorities is also the main concern with regard to the national renewable energy target of 13% by 2020, together with the need to complete transposition of the Renewable Energy Directive.

[41] Pursuant to a Commission Recovery Decision, the Belgian authorities have recovered the incompatible state aid that incumbent postal operator bpost received in 2006-10 and measures are under consideration to ensure that bpost will not benefit from over-compensation in the future.

[42] According to the Consumer Markets Scoreboard (December 2012, European Commission, DG SANCO, http://ec.europa.eu/consumers/consumer_research/editions/cms8_en.htm), postal services are rated by Belgian consumers 6th lowest in the EU and the 5th lowest in terms of choice of suppliers.

Belgium is among the countries with the lowest share of environmental taxation in total tax revenues and there was no significant tax shift in 2012. At 29.2% in 2011, Belgium had the highest ratio of fossil fuel subsidies to environmental taxes among EU Member States, with annual fossil fuel subsidies reaching EUR 2.1 bn or EUR 194 per capita.[43] This implies that one third of environmental taxation revenues is being spent on fossil fuel subsidies — particularly through reduced diesel excise taxes for certain groups of consumers – although the 2013 Annual Growth Survey recommends phasing out such environmentally harmful subsidies.

Road transport offers considerable potential for lowering non-ETS greenhouse gas emissions, the subject of last year's recommendation 7. Congestion is placing a particularly heavy burden on the Belgian economy and environment.[44] Therefore, road pricing or congestion charges as well as further scaling back tax exemptions for company cars and fuel cards could reduce negative transport externalities. However, the introduction of a kilometre-driven charge for trucks and an electronic road vignette for passenger cars has been delayed until 2016. Apart from a project to introduce integrated ticketing for buses, trams and trains and to stimulate demand-led supply – the introduction of which may be possibly delayed until 2015 – no significant initiatives have been put forward to make public transport more efficient. Completion of the Brussels Regional Express Network (GEN/RER), initially planned for 2012, is now not expected until 2020-25. The Commission services therefore consider that Belgium has made no progress with regard to recommendation 7.

Regarding the energy markets, ensuring effective competition at retail level for electricity and gas and at wholesale level for electricity remains a challenge, whereas domestic production capacity looks likely to fall below a level commensurate with a robust security of supply. While higher consumer switching has diminished the dominance of the historical operator in generation, it requires further monitoring. Although the federal energy regulatory body (CREG) saw its competences bolstered in 2011, full operational independence from political interference has not yet been assured. A clearer policy response is needed to the CREG's warning that shortages in domestic production could arise by 2015, undermining security of supply.[45] Efforts to further integrate the physical grid and electricity markets with neighbouring countries should be pursued, as enhanced interconnection could help to accommodate higher levels and peaks in demand. Furthermore, a review of the contingency planning in energy capacity and required investments in domestic production capacity seems necessary. For instance, to provide a stable framework for investment, any uncertainty about the life expectancy of existing nuclear plants should be removed. Finally, the regulatory authorities at federal and regional level should improve their coordination in order to promote transparency, consistency and efficiency. Particular areas of attention are the relation between, on the one hand, the adequacy of generation and grid capacity and, on the other hand, the promotion of renewable energy, the setting of transmission and distribution charges;[46] and the development of EU-wide network codes.[47]

[43] Based on OECD data available at http://www.oecd.org/site/tadffss.

[44] Estimates of the cost of congestion go as high as 2 % of GDP, among the highest in Europe.

[45] Belgium almost had to activate its contingency plan in January 2013, as electricity demand approached the maximum supply: domestic capacity was down with several nuclear plants offline and the imported volume of electricity was close to its maximum.

[46] These are federal and partly regional competences respectively, which implies unnecessary regulatory overhead costs and hence a loss in synergies.

[47] These affect regulatory issues for which regional authorities bear the main responsibility even though they are excluded from discussions at EU level.

Overall progress on recommendation 6 has been limited given the outstanding issues with regard to product markets and networking industries, which have been addressed only partially over the past year.

3.5. Modernisation of public administration

The World Bank's Government Effectiveness indicator suggests that Belgium continues to outperform the EU average in overall public administration performance, with an index of 94, as compared with an EU average of 82 in 2011.[48] Perceived quality of public services, including the quality of the civil service and policy implementation in Belgium is quite good, although not exceptional. On the other hand, the use of tools to improve public administration performance is less widespread than the average across the Member States and inefficient government bureaucracy has been identified as one of the factors causing most problems for those wanting to do business in Belgium.[49]

One of the main tools for administrative simplification is the use of ICT in public administration. Reforms in public administration to further the impact of information and communication technologies are progressing slower than in other service sectors. Belgium could make use of the European Structural and Investment Funds to further strengthen ICT applications for e-government, e-learning, e-inclusion and e-health. Furthermore, evidence-based instruments, such as comprehensive impact assessments, are rarely used, even though they would improve policy coherence and effectiveness, strengthen the evidence base of measures and save costs (e.g. costs of non-action, costs caused by lock-in effects of inadequate measures, and indirect and long-term costs).

The ease of obtaining business licences also differs at the regional level. Brussels Capital Region and Wallonia have one-stop-shops while Flanders is lagging behind. It is important to address the limitations of the Belgian system of single points of contact, in particular as regards enabling businesses to complete administrative procedures online.[50] Belgium has recently adopted a package to modernise its public procurement legislation and initiatives are being taken at the federal and regional levels to simplify and streamline investment procedures and to enhance the performance of the authorities vis-à-vis the business sector.[51]

Structural fund absorption in Belgium in the current programming period is comparatively high for both ERDF and ESF. Nevertheless, the complex architecture of the ESF programmes calls for effective coordination between the regional, community and federal management authorities. Joint priority- and target-setting during the operational

[48] Scale of 0 to 100; 100 = best. Belgium increased its ranking by one notch as compared with 2010.

[49] According to the World Economic Forum Global Competitiveness Report 2012-13.

[50] Belgian points of single contact are unsatisfactory in particular as regards user-friendliness, the online completion of procedures, the integration between the central portal and the nine decentralised contact points and awareness of the contact point among business users.

[51] One of the projects covered by the Flemish multiannual programme 'Slagkrachtige overheid' (Decisive Governance) concerns fast procedures for investment files. An example of this is the Flemish government's decision (July 2011) to introduce a single permit integrating the environmental with the urban planning licences. Wallonia and the French Community continue to implement their Administrative Simplification Plan (Ensemble Simplifions) and Industry Action Plan, aiming to minimise administrative complexity and reduce administrative burdens for all users of public services, particularly companies. The introduction of the confidence principle was launched as a pilot project. To achieve the 25 % reduction goal, the Brussels government approved a list of 11 projects; the main focus is on businesses. The new federal government established the priority of reducing the administrative burden for all companies by 30 % by 2014.

programme design phase would mean that transregional issues (e.g. low inter-regional labour mobility from Brussels towards the two other regions) could be tackled more effectively, increase the overall coherence of the action being financed and improve targeting of investments. In addition, regular formal exchanges between the management authorities throughout the Operational Programme cycle would reduce the risk of double-financing and improve the programmes' capacity for coordinated action.

4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Implement the budget for the year 2012 to make sure that the excessive deficit is corrected by 2012. Additionally, specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond, thereby ensuring that the excessive deficit is corrected in a durable manner and that sufficient progress is made towards the MTO, including meeting the expenditure benchmark, and ensure progress towards compliance with the debt reduction benchmark. Adjust the fiscal framework to ensure that the budgetary targets are binding at federal and sub-federal levels, and increase transparency of burden-sharing and accountability across government layers.	**Partial implementation / Limited progress** Belgium did not correct its excessive deficit by the 2012 deadline. This was partly due to the urgent need to recapitalise the Banking Group Dexia at the end of 2012. However, even without this operation the deadline would have been missed. The average annual fiscal effort is estimated at 0.3% of GDP, significantly below the ¾ % of GDP recommended by the Council. In 2013, the deficit is expected to decrease to 2.9% of GDP. It is projected to rise again in 2014 (to 3.1 %). Hence the correction is not yet sustainable. No progress has been made on the fiscal framework. A revision of the Law on the financing of regions and communities is under way, but this will not alter the current *ad hoc* effort-sharing of budgetary targets.
CSR 2: Continue to improve the long-term sustainability of public finances by curbing age-related expenditure, including health expenditure. In particular, implement the reform of pre-retirement and pension schemes and take further steps to ensure an increase in the effective retirement age, including through linking the statutory retirement age to life expectancy.	**Partial implementation / Some progress** The reform of the old-age social security system is well under way and the bulk of the measures has either been legally adopted or is on schedule. First projections underline the positive impact of the reforms enacted. Nevertheless, given the magnitude of the challenge, Belgium is still likely to fall short of the elderly employment objective it set for itself if no additional measures are taken. In addition, the positive contribution of the enacted reforms to the long-term sustainability of public finances is likely to be partially offset by lower growth as a result of the crisis. Current plans to transfer competencies in the field of long-term care (e.g. residential elderly care homes) from the federal level to communities may, at least partially, address the inefficiency issues raised by administrative complexity. No measures have been taken to link the statutory retirement age to life expectancy. Additional measures in the field of publicly reimbursed medicinal products in the outpatient sector came into effect on 1 April 2012 and 1 May 2012, thus bringing efficiency gains in the healthcare sector over the last year. Further measures in the outpatient sector announced for 2013 concern budget reductions for clinical (diagnostic) laboratories and cholesterol-lowering medicinal products. For the inpatient sector, changes in lump sum financing were introduced in 2013.
CSR 3: Stimulate capital increase of the weakest banks	**Full implementation**

to underpin the strength of the banking sector so that it can play its normal role in lending to the economy.	- Dexia was recapitalised by the Belgian and French state at the end of 2012. - KBC increased its capital and reimbursed state aid ahead of schedule. - Belfius is 100 % state-owned and is currently adequately capitalised. - Other big Belgian banks (ING, BNP Paribas) are part of bigger, international banking groups.
CSR 4: To boost job creation and competitiveness, take steps to reform, in consultation with the social partners and in accordance with national practice, the system of wage bargaining and wage indexation. As a first step, ensure that wage growth better reflects developments in labour productivity and competitiveness, by (i) ensuring the implementation of *ex post* correction mechanisms foreseen in the 'wage norm' and promoting all-in agreements to improve cost-competitiveness and (ii) facilitating the use of opt-out clauses from sectoral collective agreements to better align wage growth and labour productivity developments at local level.	**Partial implementation / Limited progress** To restore the losses in cost-competitiveness incurred in past years, the Belgian authorities have (a) taken measures to curb inflationary pressures in several key markets and (b) started to implement various reforms to bring down the accumulated wage gap vis-à-vis neighbouring countries by 2018. Although overall inflation has been declining and is projected to remain low throughout 2013, it is unclear if the initiated trend can be sustained over the longer run. Also, as a result of regulatory barriers, a lack of competition remains in several other networking industries and service and goods sectors. This might contribute to persisting upward pressure on the general price level which, due to the widespread practice of wage indexation, indirectly feeds back into wage inflation. With regard to the wage gap relative to trading partners, so far the Belgian authorities have focused their reform efforts on remedial measures intended to bring nominal wage evolutions back into line with the low productivity levels observed in recent years. No measures have been taken to facilitate the use of opt-out clauses and/or to ensure better alignment between wage and productivity evolutions at sectorial level.
CSR 5: Significantly shift taxes from labour to less growth-distortive taxes including for example environmental taxes. Pursue the initiated reform of the unemployment benefit system to reduce disincentives to work and strengthen the focus of employment support and activation policies on older workers and vulnerable groups, in particular people with a migrant background. Take advantage of the planned further regionalisation of labour market competencies to boost interregional labour mobility and to strengthen the coherence between education, lifelong learning, vocational training and employment policies. Extend existing activation efforts to all age groups.	**Partial implementation / Some progress** No major shift of labour taxes to less growth-distortive taxes: existing reductions of employer's social security contributions have been increased, new reductions have been added and the 'work bonus' for the low paid has been reinforced. Those reductions will be compensated by an increase in the withholding tax on capital income. The reform of the unemployment benefit system accelerates the gradual decrease of the unemployment allowance and ensures that it applies to all beneficiaries. Progress is observed as regards efforts in all communities (and regions) to increase the relevance of the E&T systems as regards the needs of the labour market. VET reform delays call for swift follow-up.

	Disparities in E&T performance are reflected in regional unemployment levels and in people more at risk. There is a mixed picture as regards the coherence between education and employment policies given the specific needs of the migrant population. Measures are less developed in the French community and there is a lack of surveys. The efforts to increase the traineeship and lifelong learning capacity are positive developments but a more fundamental reflection on the fit between the educational system and the labour market is required as well as on the effective results of adult training in terms of skills acquired. Moreover, the interaction between the traineeship support schemes developed at the federal level and those developed by the regions could generate considerable complexity and potential dead-weight losses. Closer coordination of efforts taken in this field would be beneficial. Existing multilateral and bilateral cooperation agreements on labour mobility continue to be honoured but there is room for more ambitious target setting and financial investment. The age ceiling below which the unemployed are actively followed up has been raised to 55 in all regions. A further increase to 58 is due by 2016.
CSR 6: Continue to strengthen competition in the retail sector by lowering barriers and reducing operational restrictions. Introduce measures to strengthen competition in the network industries by revising regulatory barriers and reinforcing the institutional arrangements for effective enforcement of state aid rules.	**Partial implementation / Limited progress** **- Retail:** All three regions are considering new legislation on the opening of large retail establishments. However, the transfer of competence from the federal to the regional level will probably not be finalised before 2014. A new competition law is currently under discussion in Parliament which gives more power to the Competition Authority (*Conseil de Concurrence*) and reinforces the role of the Price Observatory in monitoring unwarranted price increases. **- Energy**: The Law of 8 January 2012 implements the third internal energy market directives (Directives 2009/72/EC and 2009/73/EC) and gives more power to the national regulator, while at the same time increasing consumer protection, promoting renewable energy, imposing stricter unbundling rules on regulators and raising the competent authorities' awareness of the need to take structural measures. Price increases not resulting from indexation must receive advance clearance from the CREG through benchmarking with neighbouring countries. The mechanism is temporary and will expire, in principle, on 31 December 2014. Electricity and gas prices were frozen in 2012. Now, energy prices are again

	subject to market forces, though they will have to reflect relevant and real input costs. Belgian consumers were more price-conscious and found it easier to change provider, which encouraged providers to keep their prices at or below 2012 levels. The government's decision to control end-user electricity and gas prices at retail level may have a negative impact on investments and generate losses for the companies which are not sustainable in a market economy. Belgium is already short on generation capacity and this system may create additional uncertainties for new entrants on the market. - **Electronic communications:** The government took measures to increase competition and consumer protection. The new Telecom Law (October 2012) allows the consumer to compare easily and terminate the contract after six months. It is still unclear to what extent this will improve competition and drive prices down - **Railways**: A political agreement was reached on the reform of the NMBS/SNCB Holding, aiming to make it less complex, more transparent and more service-oriented (safety, punctuality). A two-fold structure will be introduced, involving (1) the infrastructure manager (Infrabel) and (2) the railway service provider (NMBS/SNCB). Social dialogue has started in a very tense climate. There is no certainty yet about timely and effective implementation of the political agreement. Also, no progress has been made on opening the domestic rail passenger market to competition. - **Independence and strength of the transport regulators**: New legislation has been adopted at federal level on regulatory services for railway transport and airport operations, reinforcing the independence of the railway transport regulatory function. - **Port labour:** The port labour legislation prevents port service providers from freely selecting their workforce (potential workers must be registered as part of a labour pool from which employers must select port workers). Belgium has not taken any corrective action.
CSR 7: Take further measures to enhance the progress towards reaching the targets for reducing greenhouse gas emissions from non-ETS activities, in particular by ensuring a significant contribution to this goal from transport.	**No implementation / No progress achieved** Belgian emissions projections remain well above the target. There appears to be no clear agreement on how to work towards the non-ETS activity greenhouse gas targets. There appears to be no agreement on how to use auctioning revenue, of which at least 50 % should be used for climate-related purposes. Whereas individual federated entities have made

	progress in developing policy plans, most of these are not definitive or implemented and there seems to be a lack of coordination between the various authorities. On fiscal measures, the abolition of almost all federal incentives for energy efficiency, heat pumps and solar panels will probably have a negative impact on the achievement of greenhouse gas and renewables targets. It is not clear whether regional incentives will be more effective or more cost-efficient. **Transport** - **Fiscal measures**: The effect on greenhouse gas emissions of new federal fiscal measures — introduced mainly for reasons of fiscal consolidation — is unclear, but could in certain cases entail more emissions from transport. In this respect, relevant fiscal measures are the company car taxation reform and the abolition of the eco-premium for environment-friendly cars. The 'greening' of Flanders' first registration car tax in 2012 is welcome. The reform whereby the annual vehicle circulation tax will become a true eco-tax will probably not be introduced until 2016. - **Road charging**: The implementation of the 2011 political agreement on the introduction of a kilometre-driven charge for trucks and an electronic road vignette for passenger cars has been delayed until 2016. There is no certainty yet about credible, timely, correct and effective implementation of the political agreement. - No significant new initiatives have been put forward to make public transport more efficient and further reduce greenhouse gas emissions from transport.
Europe 2020 (national targets and progress)	
Employment rate target set in the 2011 NRP: 73.2%	The employment rate stood at 67.1% in 2009 67.6% in 2010 67.3% in 2011 67.2% in 2012 Despite stronger than average employment growth, the employment rate has been stagnating at a below-average level due to faster growth in the working-age population. In the light of past performance, the employment rate target seems ambitious
R&D target: 3% by 2020	R&D intensity has been on a slightly positive trend since 2005, thanks to increases in both public R&D expenditure (from 0.56% to 0.65% of GDP) and in private R&D expenditure (from 1.24% to 1.37%). However, Belgium is not on track to reach its 2020 target.
Greenhouse gas (GHG) emissions target: -15% (compared to 2005 emissions, ETS emissions not	Change in non-ETS greenhouse gas emissions between 2005 and 2011: -11%.

covered by this national target)	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 as compared with 2005 (i.e. a projected shortfall of 11 percentage points).
Renewable energy target: 13% Share of renewable energy in the transport sector: 10%	Share of total renewable energy in gross final energy consumption was 4.1 % in 2011 and 0.3 % in the transport sector. (Source: Eurostat's estimate. April 2013. For 2011, only formally reported biofuels compliant with Art. 17 and 18 of Directive 2009/28/EC are included).
Indicative national energy efficiency target for 2020: reducing primary energy consumption by 18% compared to projections for 2020	Belgium has set an indicative national energy efficiency target in accordance with Art. 3 and 24 of the Energy Efficiency Directive (2012/27/EU). However, it has neither expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020, nor has provided information on the basis on which data this has been calculated.
Early school leaving target: 9.5%	Belgium (12.3% in 2011) still outperforms the EU average in terms of early school leaving. However, the situation has deteriorated: it is one of two countries which faced an increase in the early school leaving rate between 2009 and 2011 (from 11.1% to 12.3%), cancelling out longstanding efforts to achieve a modest decrease between 2006 and 2009. Pupils from migrant backgrounds are almost twice as likely to leave school early. Achieving the national target of 9.5% in 2020 might become a real challenge and requires collective effort. The situation deteriorated in all regions, with 2011 rates above the EU average in Wallonia (14.7%) and the Brussels Capital Region (15.6% in 2009, 18.4% in 2010, 18.9% in 2011). The Flemish community continues to improve its comprehensive early school leaving strategy with a focus on disadvantaged pupils like those from migrant backgrounds. Despite the various measures that have been taken, the French-speaking community, the Walloon region and the Brussels Capital Region do not have a comprehensive evidence-based strategy to tackle early school leaving. It is crucial to speed up the preparation by end 2013, and swift adoption of the draft decree announced to tackle ESL.
Tertiary education target: 47%	Belgium’s tertiary attainment rate significantly exceeds the EU average (43.0% as compared with 35.8 % in 2012). The national target has been set at 47 % in 2020, which appears feasible. All communities have taken measures to widen access and address the persistent high drop-out rates. The 2013 draft decree on the modernisation of the higher education landscape in the French-speaking community aims *inter alia* to reduce the drop-out rate and to improve quality. However, it lacks

	information on the financing of the reform and on quality/performance criteria. The Flemish reform of higher vocational education (HBO5) is progressing more slowly than expected
Target on the reduction of population at risk of poverty or social exclusion in number of persons: Reduce the number of people at risk of poverty or social exclusion by at least 380 000 people, compared to 2008 (from 2 194 000 to 1 814 000)	The number of people at risk of poverty or social exclusion amounted to 2 145 000 in 2009 2 235 000 in 2010 2 271 000 in 2011 As a result of the upward trend in recent years, Belgium is further removed than ever from the social inclusion target it set for itself, which now seems highly ambitious.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	2.6	2.0	1.1	2.4	1.8	-0.2	0.0	1.2
Output gap [1]	-0.3	0.5	0.9	-0.8	0.0	-1.1	-1.9	-1.5
HICP (annual % change)	1.3	2.0	2.2	2.3	3.4	2.6	1.3	1.6
Domestic demand (annual % change) [2]	2.2	1.5	1.5	1.7	1.8	-0.6	-0.4	1.1
Unemployment rate (% of labour force) [3]	9.2	7.5	7.8	8.3	7.2	7.6	8.0	8.0
Gross fixed capital formation (% of GDP)	20.4	20.0	21.3	20.0	20.7	20.7	20.3	20.5
Gross national saving (% of GDP)	25.5	25.5	24.7	23.6	22.8	22.2	22.1	22.2
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.5**	**0.0**	**-1.7**	**-3.8**	**-3.7**	**-3.9**	**-2.9**	**-3.1**
Gross debt	**122.1**	**102.0**	**89.8**	**95.5**	**97.8**	**99.6**	**101.4**	**102.1**
Net financial assets	**-110.2**	**-91.8**	**-77.0**	**-79.8**	**-81.3**	**n.a**	**n.a**	**n.a**
Total revenue	48.7	49.6	48.6	48.7	49.5	50.8	51.1	51.0
Total expenditure	51.2	49.6	50.3	52.4	53.2	54.7	54.1	54.2
of which: Interest	7.8	5.7	3.9	3.4	3.3	3.4	3.2	3.2
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**1.3**	**-0.1**	**0.9**	**4.0**	**2.6**	**2.1**	**2.0**	**2.2**
Net financial assets; non-financial corporations	**-85.3**	**-97.3**	**-108.3**	**-113.0**	**-99.2**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-5.5**	**-5.3**	**-1.3**	**8.7**	**5.0**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.7	13.4	14.0	12.5	13.9	13.4	13.2	13.2
Gross operating surplus	20.5	20.8	23.0	23.8	24.1	23.0	22.7	23.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**5.7**	**4.9**	**3.2**	**2.8**	**2.2**	**2.4**	**3.0**	**2.8**
Net financial assets	**239.9**	**241.8**	**215.1**	**204.8**	**202.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.9	39.4	38.7	38.8	39.0	39.5	39.8	39.4
Net property income	12.0	10.2	8.7	8.6	7.7	7.4	7.1	7.3
Current transfers received	22.1	21.6	21.5	22.5	22.6	23.1	23.6	23.6
Gross saving	12.1	10.7	10.1	9.7	8.9	9.0	9.4	9.2
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**4.5**	**4.8**	**2.2**	**2.9**	**0.9**	**0.8**	**1.9**	**1.7**
Net financial assets	**-36.5**	**-45.3**	**-26.6**	**-16.7**	**-22.4**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	3.8	4.5	3.0	2.3	1.2	1.3	1.8	1.9
Net primary income from the rest of the world	1.8	1.6	0.7	2.0	1.1	0.9	1.1	1.0
Net capital transactions	0.0	-0.1	-0.3	-0.1	-0.2	-0.1	0.5	0.3
Tradable sector	42.5	41.0	39.1	37.4	37.5	37.0	n.a	n.a
Non tradable sector	47.1	48.4	50.2	51.9	51.9	52.1	n.a	n.a
of which: Building and construction sector	4.7	4.6	4.9	5.0	5.1	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	101.8	97.1	103.4	104.2	106.1	105.8	108.5	107.6
Terms of trade goods and services (index, 2000=100)	103.0	100.7	99.3	98.9	97.6	97.2	97.3	97.3
Market performance of exports (index, 2000=100)	112.9	104.9	97.7	96.6	97.5	97.4	96.8	95.5

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 services' 2013 spring forecasts (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	-0.2	-0.2	0.0	0.2	1.2	1.5	1.6	1.7
Private consumption (% change)	-0.6	-0.7	0.0	0.3	1.2	0.9	1.0	1.3
Gross fixed capital formation (% change)	-0.6	-0.5	-1.6	-1.1	1.6	1.7	2.3	2.0
Exports of goods and services (% change)	0.4	0.6	0.8	0.5	3.3	3.1	3.8	3.5
Imports of goods and services (% change)	-0.1	0.0	0.2	0.4	3.3	2.5	3.4	3.2
Contributions to real GDP growth:								
- Final domestic demand	-0.4	-1.1	-0.2	0.1	1.1	1.0	1.2	1.3
- Change in inventories	-0.2	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0
- Net exports	0.4	0.5	0.5	0.1	0.1	0.6	0.4	0.4
Output gap[1]	-1.1	-1.1	-1.9	-1.9	-1.5	-1.4	-0.9	-0.4
Employment (% change)	0.2	0.2	0.1	0.0	0.6	0.6	0.7	0.9
Unemployment rate (%)	7.6	7.3	8.0	7.5	8.0	7.6	7.7	7.5
Labour productivity (% change)	-0.4	-0.3	-0.1	0.2	0.6	1.0	0.9	0.8
HICP inflation (%)	2.6	2.8	1.3	1.4	1.6	1.3	1.6	1.6
GDP deflator (% change)	2.1	2.1	1.6	1.8	1.7	1.6	1.7	1.7
Comp. of employees (per head, % change)	3.3	3.3	2.4	1.6	1.1	1.5	2.1	2.1
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.8	1.2	1.9	1.8	1.7	2.8	3.7	4.4

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 services' 2013 spring forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**50.8**	**51.1**	**51.3**	**51.0**	**51.1**	**51.7**	**52.1**	**1.3**
of which:								
- Taxes on production and imports	12.9	12.8	12.9	12.8	12.9	12.9	13.0	0.1
- Current taxes on income, wealth, etc.	16.4	16.6	16.8	16.9	17.3	17.7	18.1	1.7
- Social contributions	17.0	17.1	16.9	16.9	16.8	16.8	16.8	-0.2
- Other (residual)	4.5	4.6	4.7	4.4	4.1	4.3	4.2	-0.3
Expenditure	**54.7**	**54.1**	**53.8**	**54.2**	**53.0**	**52.2**	**51.6**	**-3.1**
of which:								
- Primary expenditure	51.3	50.9	50.5	50.9	49.9	49.1	48.6	-2.7
of which:								
Compensation of employees and intermediate consumption	16.5	16.4	16.4	16.2	16.0	15.7	15.5	-1.0
Social payments	25.8	26.4	26.3	26.7	26.1	25.9	25.8	0.0
Subsidies	2.7	2.7	2.5	2.7	2.5	2.5	2.4	-0.3
Gross fixed capital formation	1.7	1.6	1.6	1.6	1.5	1.5	1.5	-0.2
Other (residual)	4.6	3.7	3.8	3.8	3.8	3.6	3.5	-1.1
- Interest expenditure	3.4	3.2	3.3	3.2	3.1	3.1	3.0	-0.4
General government balance (GGB)	**-3.9**	**-2.9**	**-2.5**	**-3.1**	**-2.0**	**-0.5**	**0.4**	**4.3**
Primary balance	**-0.5**	**0.3**	**0.8**	**0.1**	**1.2**	**2.5**	**3.4**	**3.9**
One-off and other temporary measures	-0.3	0.4	0.3	0.0	0.0	0.0	0.0	0.3
GGB excl. one-offs	**-3.6**	**-3.3**	**-2.8**	**-3.1**	**-2.0**	**-0.5**	**0.4**	**4.0**
Output gap[2]	-1.1	-1.9	-1.9	-1.5	-1.4	-0.9	-0.4	0.6
Cyclically-adjusted balance[2]	-3.4	-1.9	-1.4	-2.3	-1.2	0.0	0.6	4.0
Structural balance (SB)[3]	**-3.0**	**-2.3**	**-1.7**	**-2.3**	**-1.2**	**0.0**	**0.6**	**3.7**
Change in SB	*0.5*	*0.7*	*1.3*	*0.0*	*0.5*	*1.2*	*0.6*	-
Two year average change in SB	*0.2*	*0.6*	*0.9*	*0.4*	*0.9*	*0.9*	*0.9*	-
Structural primary balance[3]	0.4	0.9	1.6	0.9	1.9	3.1	3.6	3.2
Change in structural primary balance		*0.5*	*1.1*	*0.0*	*0.3*	*1.2*	*0.5*	-
Expenditure benchmark								
Applicable reference rate[4]	0.40	0.40	0.40	0.17	0.17	0.17	0.17	-
Deviation[5] (% GDP)	-0.4	-1.2	-1.8	0.7	-0.1	-0.9	-0.3	-
Two-year average deviation (% GDP)	0.4	-0.8	-1.0	-0.2	-0.9	-0.5	-0.6	-

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 positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013 COM	2013 SP	2014 COM	2014 SP	2015 SP	2016 SP
Gross debt ratio[1]	**92.4**	**99.6**	**101.4**	**100.0**	**102.1**	**99.0**	**96.5**	**93.0**
Change in the ratio	2.0	1.8	1.8	0.4	0.7	-1.0	-2.5	-3.5
Contributions[2] *:*								
1. Primary balance	**-0.8**	**0.5**	**-0.3**	**-0.8**	**-0.1**	**-1.2**	**-2.5**	**-3.4**
2. "Snow-ball" effect	**1.0**	**1.6**	**1.6**	**1.4**	**0.4**	**0.1**	**0.0**	**-0.1**
Of which:								
Interest expenditure	3.6	3.4	3.2	3.3	3.2	3.2	3.0	3.0
Growth effect	-0.9	0.2	0.0	-0.2	-1.2	-1.5	-1.5	-1.6
Inflation effect	-1.7	-2.0	-1.6	-1.8	-1.6	-1.6	-1.5	-1.6
3. Stock-flow adjustment	**1.8**	**-0.3**	**0.5**	**-0.2**	**0.4**	**0.1**	**0.1**	**0.1**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2012	2013 COM/SP[3]	2013 SP[4]	2014 COM/SP[3]	2014 SP[4]	2015 SP	2016 SP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	0.5	0.5	1.2	0.6
To be compared to:							
Required adjustment[8]	n.r.	n.r.	n.r.	0.1	0.2	0.0	-1.5

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] Assessment of the consolidation path set in SP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the SP assuming growth follows the SP projections.

[5]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.

[6]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.

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

[8]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) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	BE		EU27	
	No-policy change scenario	**Programme (SCP) scenario**	**No-policy change scenario**	**Programme (SCP) scenario**
S2	6.9	4.3	3.0	1.3
of which:				
Initial budgetary position (IBP)	0.3	-2.2	0.8	-0.9
Long-term cost of ageing (CoA)	6.6	6.4	2.2	2.2
of which:				
Pensions	4.0	3.9	1.0	1.1
Health care	0.3	0.3	0.9	0.8
Long-term care	1.9	1.8	0.6	0.6
Others	0.4	0.4	-0.4	-0.3
S1 (required adjustment)*	5.2	1.7	2.2	0.5
of which:				
Initial budgetary position (IBP)	0.5	-3.1	0.0	-1.8
Debt requirement (DR)	2.5	2.3	1.9	1.9
Long-term cost of ageing (CoA)	2.1	2.4	0.3	0.4
S0 (risk for fiscal stress)**	0.30		:	
Debt, % of GDP (2012)	99.6		87.0	
Age-related expenditure, % of GDP (2012)	28.0		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source :
Commission services; 2013 stability programme.

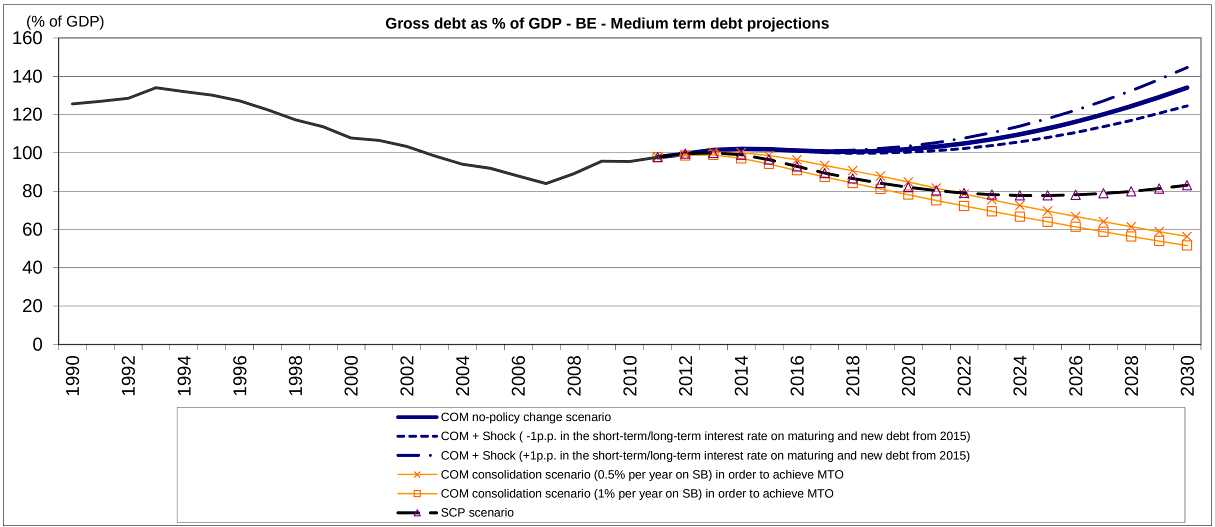


Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	45.2	44.4	44.2	43.4	43.8	44.1
Breakdown by economic function (% of GDP)[1]						
Consumption	10.9	11.1	10.7	10.6	10.8	10.7
of which:						
- VAT	6.9	7.1	7.0	6.9	7.1	7.0
- excise duties on tobacco and alcohol	0.8	0.7	0.7	0.7	0.7	0.6
- 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	22.0	21.9	22.0
Labour non-employed	2.1	1.7	1.9	1.9	2.0	2.0
Capital and business income	5.9	6.3	6.2	5.1	5.2	5.5
Stocks of capital/wealth	3.4	3.8	3.7	3.6	3.7	3.7
p.m. Environmental taxes[2]	2.2	2.1	2.0	2.0	2.1	2.1
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	48.3	50.6	48.7	46.9	48.4	47.9

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 (2013) 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. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. 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'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	368.5	339.6	318.6	324.7	288.0
Share of assets of the five largest banks (% of total assets)	80.8	77.1	74.9	70.8	…
Foreign ownership of banking system (% of total assets)	26.8	60.7	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	1.7	2.7	2.8	2.8	...
- capital adequacy ratio (%) [1)]	16.2	17.3	19.3	19.1	...
- return on equity (%) [1), 2)]	-36.5	-2.7	10.7	0.7	...
Bank loans to the private sector (year-on-year % change)	-0.2	-5.1	-2.4	-1.4	-1.2
Lending for house purchase (year-on-year % change)	-23.8	-8.1	6.6	-1.9	6.0
Loan to deposit ratio	70.5	65.2	61.7	60.1	56.6
CB liquidity as % of liabilities	7.9	3.9	0.8	4.9	4.0
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	33.7	21.9	18.2	13.1	9.7
Private debt (% of GDP)	96.1	94.4	88.9	85.4	84.3
Gross external debt (% of GDP)[4)]					
- Public	59.0	61.2	57.0	51.4	56.9
- Private	90.7	91.7	92.4	106.2	107.8
Long term interest rates spread versus Bund (basis points)*	0.4	0.7	0.7	1.6	1.5
Credit default swap spreads for sovereign securities (5-year)*	45.1	66.1	95.2	173.3	125.3

Notes:

[1)] Latest data (September 2011).

[2)] After extraordinary items and taxes.

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

[4)] Latest data 2012Q3.

* 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	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	67.7	68.0	67.1	67.6	67.3	67.2
Employment growth (% change from previous year)	1.7	1.8	-0.2	0.7	1.4	0.2
Employment rate of women (% of female population aged 20-64)	60.3	61.3	61.0	61.6	61.5	61.7
Employment rate of men (% of male population aged 20-64)	75.0	74.7	73.2	73.5	73.0	72.7
Employment rate of older workers (% of population aged 55-64)	34.4	34.5	35.3	37.3	38.7	39.5
Part-time employment (% of total employment, 15 years and more)	22.1	22.6	23.4	24.0	25.1	25.1
Part-time employment of women (% of women employment, 15 years and more)	40.6	40.9	41.5	42.3	43.4	43.6
Part-time employment of men (% of men employment, 15 years and more)	7.5	7.9	8.6	9.0	9.8	9.7
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	8.6	8.3	8.2	8.1	9.0	8.1
Transitions from temporary to permanent employment	1.6	1.8	2.6	1.8	2.5	:
Unemployment rate1 (% of labour force, age group 15-74)	7.5	7.0	7.9	8.3	7.2	7.6
Long-term unemployment rate2 (% of labour force)	3.8	3.3	3.5	4.1	3.5	3.4
Youth unemployment rate (% of youth labour force aged 15-24)	18.8	18.0	21.9	22.4	18.7	19.7
Youth NEET rate (% of population aged 15-24)	11.2	10.1	11.1	10.9	11.8	12.3
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.1	12.0	11.1	11.9	12.3	12.0
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	41.5	42.9	42.0	44.4	42.6	43.9
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	21.0	20.0	17.0	17.0	19.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	23.0	23.0	16.0	19.0	20.0	:
Labour productivity per person employed (annual % change)	1.2	-0.8	-2.6	1.7	0.4	-0.4
Hours worked per person employed (annual % change)	-0.4	0.5	-1.2	0.1	1.7	0.0
Labour productivity per hour worked (annual % change; constant prices)	1.6	-1.3	-1.5	1.7	-1.3	-0.3
Compensation per employee (annual % change; constant prices)	1.0	1.4	0.0	-0.6	1.0	1.2
Nominal unit labour cost growth (annual % change)	2.2	4.4	3.9	-0.4	2.7	3.7
Real unit labour cost growth (annual % change)	-0.2	2.2	2.7	-2.3	0.6	1.6

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)	**2006**	**2007**	**2008**	**2009**	**2010**
Sickness/Health care	7.20	7.23	7.47	8.10	8.01
Invalidity	1.89	1.83	1.94	2.10	2.13
Old age and survivors	10.60	10.22	10.81	11.63	11.25
Family/Children	2.02	2.07	2.07	2.22	2.19
Unemployment	3.41	3.26	3.30	3.83	3.79
Housing and Social exclusion n.e.c.	0.13	0.14	0.23	0.25	0.22
Total	25.71	25.50	26.54	28.91	28.40
of which: means tested benefits	1.09	1.23	1.36	1.45	1.45
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	21.6	20.8	20.2	20.8	21.0
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	21.6	21.3	20.5	23.2	23.3
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	25.0	22.9	23.1	21.0	21.6
At-Risk-of-Poverty rate[2] (% of total population)	15.2	14.7	14.6	14.6	15.3
Severe Material Deprivation[3] (% of total population)	5.7	5.6	5.2	5.9	5.7
Share of people living in low work intensity households[4] (% of people aged 0-59)	13.8	11.7	12.3	12.6	13.7
In-work at-risk-of poverty rate (% of persons employed)	4.4	4.8	4.6	4.5	4.2
Impact of social transfers (excluding pensions) on reducing poverty	44.7	45.6	45.3	45.3	45.0
Poverty thresholds, expressed in national currency at constant prices[5]	10540	10598	10892	10977	11028
Gross disposable income (households)	202106	213195	217598	219389	224374
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.8	17.2	18.1	18.0	18.6

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	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	1.3	-0.8	-2.6	1.7	0.4	-0.4
Labour productivity[1] in manufacturing (annual growth in %)	3.4	-0.2	-10.1	9.1	3.4	-1.5
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	1.6	-3.0	16.4	-0.4	-5.0	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	2.8	-1.8	-2.6	-0.2	2.9	0.4
Total number of patent[2] applications per million of labour force	323.8	304.4	299.8	288.4	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	505	505	505	505	505	505
Time to start a business[3] (days)	31	4	4	4	4	4
R&D expenditure (% of GDP)	1.9	2.0	2.0	2.0	2.0	n.a.
Tertiary educational attainment (% of 30-34 years old population)	39.9	42.9	42.0	44.4	42.6	43.2
Total public expenditure on education (% of GDP)	5.97	6.43	6.57	6.57	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	1.4	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	3.7	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.8	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

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

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[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. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

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

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.22	0.20	0.20	0.20	0.21	0.20
Carbon intensity	kg / €	0.54	0.46	0.47	0.44	0.46	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.69	0.64	0.64	0.63	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.17	n.a.	0.22	n.a.
Energy balance of trade	% GDP	-3.3%	-3.7%	-5.4%	-3.2%	-3.8%	-4.8%
Energy weight in HICP	%	n.a.	10	11	11	11	11
Difference between change energy price and inflation	%	n.a.	-2.2	21.7	-12.9	4.7	14.6
Environmental taxes over labour taxes	ratio	9.3%	9.1%	8.5%	8.4%	8.8%	n.a.
Environmental taxes over total taxes	ratio	5.0%	4.8%	4.5%	4.6%	4.8%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.24	0.23	0.22	0.19	0.22	n.a.
Share of energy-intensive industries in the economy	% GDP	11.2	10.8	10.1	9.6	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.10	0.11	0.11	0.11
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.03	0.04	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.	0.02%	0.01%	0.02%	0.02%	0.01%
Recycling rate of municipal waste	ratio	85.2%	88.8%	91.2%	90.4%	92.0%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	39.5%	40.6%	37.1%	38.0%	38.4%
Transport energy intensity	kgoe / €	n.a.	0.41	0.48	0.49	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.10	1.17	1.19	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	77.1%	79.9%	74.3%	76.8%	72.9%
Diversification of oil import sources	HHI	n.a.	0.20	0.15	0.15	0.17	n.a.
Diversification of energy mix	HHI	n.a.	0.28	0.29	0.30	0.29	0.27
Share renewable energy in energy mix	%	n.a.	2.7%	3.1%	3.9%	4.2%	4.8%

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

*Provisional data (15 April 213). Commission Services and EEA.

** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.

*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.