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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Belgium

and delivering a Council opinion on the 2015 Stability Programme of Belgium

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THE COUNCIL OF THE EUROPEAN UNION,

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

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

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

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

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

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2015) 252
4 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a recommendation on Belgium's National Reform Programme for 2014 and delivered its opinion on Belgium's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[5], the Commission presented its opinion on Belgium's draft budgetary plan for 2015[6].

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[7], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[8], in which it identified Belgium as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Belgium[9]. This assessed Belgium's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Belgium is experiencing macroeconomic imbalances which require policy action and monitoring. In particular, developments with regard to the external competitiveness of goods continue to present risks and deserve attention, as renewed deterioration would threaten macroeconomic stability. Further action to ensure the convergence of cost parameters would slow down the decline of employment in the tradable sectors, while tangible progress to narrow the historical cost gap could be reinforced by a tax shift towards non-labour tax bases. Public debt remains high, but several factors temper the associated macroeconomic risks.

(7) On 30 April 2015, Belgium submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule for the period 2014-2016. On 27 February 2015, the Commission issued a Report under article 126(3) of the TFEU[10], as Belgium was not expected to make sufficient progress towards compliance with the debt rule in 2014-2015 and the deficit reference value of 3% of GDP was breached in 2014. The analysis concluded that the debt criterion should be considered as complied with at that time and that the excess of the deficit over the reference value was close, temporary, and exceptional (due to methodological statistical changes). This analysis is still broadly valid. In its 2015 Stability Programme, the government plans a gradual improvement of the structural balance in order to reach a balanced budgetary

[5] OJ L 140, 27.5.2013, p.11.
[6] C(2014) 8800 final
[7] COM(2014) 902.
[8] COM(2014) 904.
[9] SWD(2015) 21 final/2
[10] COM(2015) 112.

position in structural terms by 2018. However, the recalculated structural balance[11] points to a structural deficit of 0.3% of GDP in 2018. The government does not plan to reach the medium-term objective – a surplus of 0.75% of GDP in structural terms – within the programme period. The government debt-to-GDP ratio is expected to peak at 106.9% in 2015 and to gradually decline to 102% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, net expenditure growth in 2015 is expected to be in line with the expenditure benchmark. However, there is a risk of some deviation in 2014-2015 mainly resulting from the slippage in 2014. If policy is unchanged, there is also a risk of a significant deviation from the required adjustment path towards the medium-term objective in 2015-2016. Therefore further measures will be needed in both years. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Belgium will not comply with the provisions of the Stability and Growth Pact.

(9) The federal government has agreed a major pension reform aimed at reducing the gap between the effective and statutory retirement ages, and raising the latter. The early retirement age is to be raised further after 2016, to 63 years by 2019, with a minimum career-length requirement of 42 years. Over the longer term, there are plans to increase the statutory retirement age from 65 to 66 in 2025 and 67 in 2030. The gradual introduction of a credit-based pension system is planned, with adjustment mechanisms that respond to demographic or economic developments such as higher life expectancy or changes in the economic dependency ratio. A successful consolidation strategy offsetting the budgetary impact of an ageing population and safeguarding the long-term sustainability of public finances depends on the swift implementation of this pension reform. Considering that there are still few incentives to support the employability of older workers, these pension reforms would need to be accompanied by employment-support measures and labour market reforms conducive to active ageing.

(10) The Belgian tax system is characterised by a high overall tax burden, relatively high rates, and narrow bases. The tax burden is heavily skewed towards labour. This results in high labour costs, which discourage job creation, and large tax wedges, which contribute to unemployment traps. In addition, partly to alleviate the high tax rates, tax bases are generally eroded by numerous specific exemptions, deductions, reduced rates, and tax expenditures, which create efficiency losses and introduce distortions and possible loopholes. Certain features of the tax system are environmentally harmful. Given these weaknesses, Belgium has been repeatedly advised to simplify and redesign its tax system in order to rebalance the tax burden, close tax loopholes, and reduce the sometimes harmful differentiation created by taxation niches. So far, limited progress has been made towards a comprehensive tax reform entailing, in particular, a shift from labour towards less growth-distorting tax bases. Tax bases with scope for broadening include environmental and consumption taxes and certain types of financial income. Combining a shift away from labour with tax-base broadening (reviewing existing tax provisions, subsidies, exemptions, and

[11] The structural balance as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology.

deductions) could improve the overall balance and fairness of the tax system, support employment, competitiveness and social and environmental objectives, and counter tax evasion and aggressive tax planning.

(11) Structural problems characterising the Belgian labour market continue to result in a chronic underutilisation of labour and low aggregate employment and activity rates. Shortcomings relate mainly to the weak link between wages and productivity and to financial disincentives to work. Belgium also faces shortages of highly skilled workers and skills mismatches. The various government agreements make reference to the need for stronger links between education, training and employment actors so as to improve linguistic, vocational and educational training and develop alternative training for students and the unemployed. Progress is slow, however. The impact of these structural factors on certain groups in the labour market, such as the young and elderly unemployed and those from migrant backgrounds, is particularly pronounced.

(12) Belgium's weakened external competitiveness continues to give rise to macroeconomic risks for its economy. The economy is marked by a problem of high labour costs, which have on average outpaced those in neighbouring countries. There is a need to align wage growth more closely with productivity and to make wage-setting more flexible so as to increase the economy's potential for adjustment. Some targeted measures have been taken to reduce labour costs for specific groups and to narrow the gap between gross and net wages at the bottom of the pay scale. However, closing the gap entirely will require additional action which hinges on reforms of the wage-setting system. The build-up of a cost disadvantage comes with job losses and will eventually provoke a correction if left unaddressed. Other key cost factors for companies are energy costs and the cost of intermediate business services, which are highly regulated and shielded from competition. There is also considerable scope for improving the non-cost dimension of external competitiveness. To safeguard and enhance current welfare levels, more emphasis will have to be put on productivity gains. This requires a sustained push towards products and associated services higher up the value chain, on the basis of stronger performance on innovation and R&D valorisation. Administrative barriers should be reduced and measures should be taken to promote entrepreneurship and unleash business dynamism. The very low start-up rate suggests a business climate that is unfavourable to new activities and expansion. Increasing competition in retail and professional services also represents a challenge. Eliminating public infrastructure bottlenecks and improving the quality and adequacy of the capital stock through additional investments, in particular in the area of road and rail infrastructure, would also strengthen the country's overall productivity.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Belgium in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Belgium but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.

(14) In the light of this assessment, the Council has examined Belgium's Stability Programme, and its opinion[12] is reflected in particular in recommendation 1 below.

(15) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations 1 to 4 below.

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

HEREBY RECOMMENDS that Belgium take action in 2015 and 2016 to:

1. Achieve a fiscal adjustment of at least 0.6 % of GDP towards the medium-term objective in 2015 and in 2016. Use windfall gains to put the general government debt ratio on an appropriate downward path. Complement the pension reform by linking the statutory retirement age to life expectancy. Agree on an enforceable distribution of fiscal targets among all government levels.

2. Adopt and implement a comprehensive tax reform broadening the tax base, shifting the tax burden away from labour and removing inefficient tax expenditures.

3. Improve the functioning of the labour market by reducing financial disincentives to work, increasing labour market access for specific target groups and addressing skills shortages and mismatches.

4. Restore competitiveness by ensuring, in consultation with the social partners and in accordance with national practices, that wages evolve in line with productivity.

Done at Brussels,

For the Council
The President

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