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**Assessment of the 2011 national reform programme and stability programme for
BELGIUM**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the National Reform Programme 2011 of Belgium and delivering a Council Opinion
on the updated stability programme of Belgium, 2011-2014**

{SEC(2011) 802 final}

1. INTRODUCTION

The Belgian economy has recovered well from the economic and financial crisis, with solid GDP growth and a relatively good outlook for the labour market although the inflation differential with neighbouring countries is rising and competitiveness continues to weaken. The crisis severely affected both the financial sector and public finances and had a negative impact on the growth potential of the country, although the decline was lower than in other Member States. Measures to improve the situation of public finances, the financial sector, competitiveness and labour market issues are provided in the National Reform Programme (NRP) and the Stability Programme (SP), submitted to the Commission on 15 April 2011. These documents also reflect the short-term commitments that the Belgian government presented on 25 March 2011 under the Euro Plus Pact.

2. ECONOMIC OUTLOOK

2.1 RECENT ECONOMIC DEVELOPMENTS

Belgium experienced robust GDP growth averaging 2.3% per year in 1994-2008, slightly higher than the euro area average. The country felt the full impact of the global economic recession in 2009 and GDP contracted by 2.8%. Thanks to the pick-up in world trade, the recovery in 2010 was stronger than expected, with GDP growing by 2.2%.

The Belgian financial sector has been severely hit by the financial crisis, requiring substantial state aid¹ and resulting in reduced balance sheets and a modification of banking supervision. Extra liquidity by the Eurosystem and state guarantees helped to restore confidence on the market and kept positive credit supply to households and firms.

The impact of the recession on employment was relatively contained. A temporary decline in hours worked and a decline in labour productivity per hour acted as a buffer. After a decrease of 0.4% in 2009, employment increased again in 2010 (by 0.6%).

Following an earlier decline in exports and imports, the recovery in 2010 has been export-led. Inflation reached an annual average of 2.3% in 2010, compared to 1.6% in the euro area. The recent acceleration of inflation is mainly related to the sharp increase in energy and food prices since mid-2010.

2.2 OUTLOOK

According to the Commission Services' Spring 2011 Forecast, GDP is projected to grow faster than the euro area average, expanding by 2.4% in 2011 and by 2.2% in 2012, with an increasing contribution from domestic demand. Inflation will further accelerate in 2011 to 3.6% and is expected to return to 2.2% by 2012. Prospects on the labour market remain positive, with employment growth expected to further accelerate in 2011 and 2012 by 0.8% and 0.7% respectively, and the unemployment rate to start decreasing again in these years.

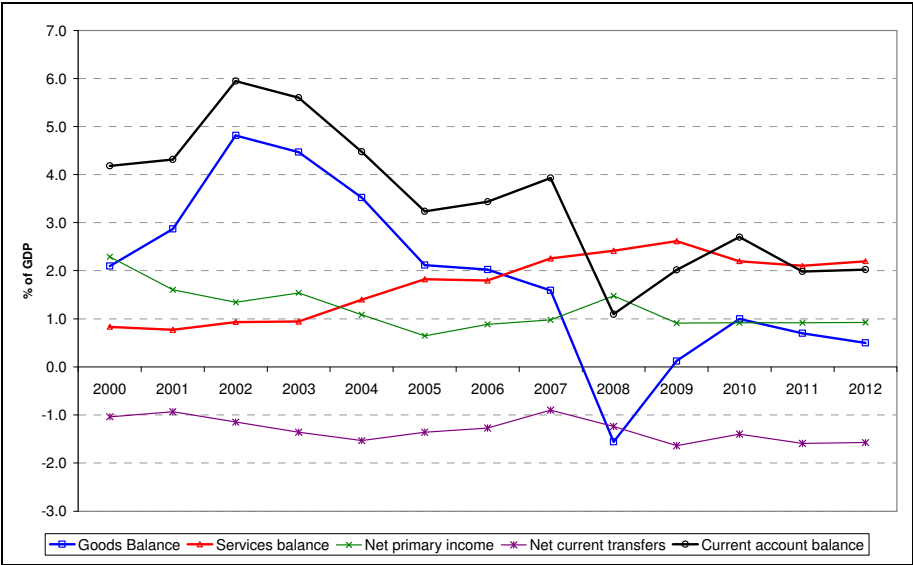
The current account balance is expected to remain positive over the next years, stabilizing at around 2.0%, suggesting that Belgium currently has no significant external imbalances. The deterioration in the goods balance is offset by an expected increase in the services balance²

¹ The Belgian government participated in the recapitalisation of financial institutions in need when no private sector solution could be found (Fortis, KBC, Dexia and Ethias).

² This evolution in the current account balance composition, i.e. the increased importance of the balance of services, has also been recognised in the 2010 Annual Report of the National Bank of Belgium. See, NBB, "Report 2010 – Economic and Financial developments", pp. 67-68.

(Figure 1). While developments in the current account are projected to remain positive in the short run, there has been a structural loss of market share for Belgian exports for goods and services over the last few years, indicating that Belgium is losing competitiveness.³

Figure 1: Evolution Current Account Balance, 2000-2012 (National Accounts Definition)



Source: Commission Services

While the macro-economic situation is relatively stable with no significant internal or external imbalances, the economic and financial crisis did reverse the previous long-term trend of declining debt and made the – already high – public debt rise to 96.8% in 2010. It also resulted in a renewed increase in the public deficit from 1.3% of GDP in 2008 to 5.9% of GDP in 2009, This decreased again in 2010 to 4.1% of GDP and is expected to further decline to 3.7% in 2011, hereby performing better than the targets in the Belgian 2009/10 Stability Programme and the euro area average.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

The NRP presents a programme clearly focused on employment. The contributions of each entity (Federal State, Communities, and Regions) are integrated in each of the five main areas covered. The NRP also provides a – limited – list of monitoring indicators for the employment part; means of evaluation have also been developed by some Regions or Communities, which all have their own strategic programme. The NRP is presented as an aggregate of measures from the different political entities with contributions from the social partners. Since the June 2010 elections Belgium has had a caretaker government at federal level. Therefore, some structural measures for which the federal government is responsible (e.g. on the labour market) have not yet been developed.

Table 1: Belgian Europe 2020 targets

Europe 2020 targets	Current situation in Belgium ⁴	Belgian Europe 2020 Target in the NRP
R&D investment (% of GDP)	1.96%	3%
Employment rate (%)	67.6%	73.2%

³ As calculated by the growth differential between Belgian export markets and Belgian exports.

⁴ Eurostat figures

Early school leaving (%)	11.7%	9.5% by 2020
Tertiary education attainment (%)	43.2%	47% by 2020
Reduction of number of people in or at risk of poverty or exclusion	2.2 million	-380,000
Energy efficiency – reduction of energy consumption in Mtoe ⁵		Reduction in primary energy consumption: 9.80 Mtoe
Reduction in greenhouse gas emissions (from sources not covered by the Emission Trading System)	-1.5% ⁶	-15% ⁷
Renewable energy (% of total energy use)	3%	13%

4. POLICY CHALLENGES, AGENDA AND ASSESSMENT

4.1 CHALLENGES

The most important challenge for Belgium is public finances. The government debt level, having been on a downward trend since 1993 (when it peaked at 134% of GDP after which it fell steadily to 84% of GDP in 2007), has increased again since 2008 and will remain slightly below the 100% level in the coming years. This is particularly worrying given that age-related expenditure in Belgium is among the highest in the EU.

While the assets of the Belgian banking sector contracted in the first three quarters of 2010, Belgian credit institutions have become profitable again and solvency indicators have been improving⁸. A challenge for the Belgian banking sector will be to further reduce its exposure to external risks stemming from activities in vulnerable foreign markets.

Belgium is losing competitiveness. Over the period 2005-2010, wages grew faster than in the three neighbouring countries, while productivity growth was lower, so that unit labour costs were also rising at a faster pace. This is all the more important as Belgian exports are mainly composed of low-tech goods, facing fiercer competition from lower-cost countries. A major challenge for the Belgian R&I system to stay competitive is to increase business investment particularly in services and by further diversifying manufacturing in demand-led knowledge-intensive sectors.

Inflation is accelerating and standing well above that of the euro area and the three neighbouring countries. Belgian inflation is more sensitive to energy price rises for a number reasons, such as (i) higher energy household consumption, (ii) relatively low excise duties on energy products, and (iii) the price setting mechanism for electricity and gas. Also, prices for many other goods and services in Belgium are higher than in other Member States, reflecting weak competitive pressures, especially in the retail sector (due to competition-restricting

⁵ As estimated by the Commission. Mtoe = Million tonnes of oil equivalent.

⁶ This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

⁷ The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

⁸ The average solvency ratio (CAR) and Tier 1 ratio of Belgian banking groups increased from 11.2% and 12.1% in 2007 to 18.9% and 15% in the third quarter of 2010, respectively.

regulation) and network industries (due to high entry-barriers and dominant incumbent firms), and a weak supervisory framework.

The overall employment rate (67.6% in 2010) remains below the Europe 2020 target and the effective retirement age (59 years) is low. The Belgian labour market is characterised by several rigidities stemming from (i) unlimited unemployment benefit duration⁹, (ii) large financial disincentives to take up work (particularly for low paid workers) due to high effective marginal tax rates, and (iii) the interaction between the withdrawal of social assistance benefits and high taxation when taking up work. Wage setting mechanisms may produce a high degree of real wage rigidities and structural mismatches between labour supply and demand. Moreover, several exit routes for older workers provide them incentives to leave the labour market before the statutory retirement age of 65 has been reached. Additionally, despite Belgium's high expenditure on active labour market policies, activation remains largely inefficient, mainly due to the combination of long time lags in the follow-up of job seekers and limited coordination of institutional actors. Employability may also be hampered by the fact that only 7% of workers participate in lifelong learning, with almost no change since 2000.

Box 1 – Actions and commitments under the Euro Plus Pact

The following concrete measures have been communicated by the Belgian authorities in a letter to the Commission of 25 March related to the Euro Plus Pact and also in the NRP:

First, on the 18th of March the federal caretaker government has adopted a budget for 2011, which contains measures to bring the deficit down to 3.6% of GDP in 2011 (0.5pp better than predicted in the 2009/10 Stability Programme) and below 3% of GDP in 2012, the deadline specified in the Council recommendation of December 2009 under the Excessive Deficit Procedure. These commitments are also reflected in the 2010/11 Stability Programme submitted by Belgium on the 15th of April.

Second, in order to tackle the high inflation in Belgium measures have been taken to keep energy prices under control. In March 2011, the government announced a decision to give the Price Observatory extra powers to conduct surveys in sectors where competition seems to be harmed, and to investigate price evolutions.

Third, real wage increases in 2011-2012 are to be kept to a maximum of 0.3% (excluding the automatic wage indexation). This would keep the rise in unit labour costs (ULC) below the euro area average. This measure is also presented in the NRP as a way to keep labour costs under control and in line with the average of the three neighbouring countries.

Fourth, the supervisory framework for the financial sector has been reformed, in line with what has been decided at European level. From 1 April 2011 onwards, all supervisory activities will be the responsibility of the National Bank of Belgium, tasked with micro-macro-prudential oversight.

Finally, Belgium will take measures to increase the effective retirement age, which is currently far below the statutory retirement age of 65. In October, an evaluation of the Generations Pact will take place. The NRP states that in the light of that evaluation, the government will take decisions about applying further structural measures to increase the employment rate of older workers and to prevent unjustified early retirement from the labour market.

⁹ Although unlimited in duration, certain degressivity paths have already been introduced in the unemployment benefit scheme, depending on the family status (single, cohabitant, children) and previous individual history (age, last gross salary, history of social security contributions). Empirical evidence has shown that (1) higher unemployment benefits are associated with longer unemployment spells (Nickell, S. (1979), "Estimating the Probability of Leaving Unemployment", *Econometrica* 47(5), pp. 1249-66), and (2) the probability of leaving unemployment increases around the time of benefit exhaustion (Meyer B.D. (1990), "Unemployment Insurance and Unemployment Spells", *Econometrica* 58(4), pp. 757-82).

The reduction of the public deficit to 3.6% of GDP in 2011 and to below the 3% of GDP level in 2012 would comply with the Council recommendation to bring an end to the situation of excessive deficit by 2012 at the latest. However, it would fall short of the Council recommendation to make a fiscal effort of ¾% of GDP. Moreover, the programme provides no information on the measures that will allow Belgium to reach its objectives in 2012 and the subsequent years. The measures to control inflationary pressures by keeping energy prices under control are welcomed, although merely conducting investigations in sectors where competition might be harmed could be insufficient to control energy prices. Given the higher-than-expected inflation for 2011 (also above that in the three neighbouring countries) the measures to keep real wage growth limited to a maximum of 0.3% over the next two years, are unlikely to keep unit labour costs in check as automatic wage indexation will lead to higher nominal wage increases compared to the neighbouring countries and the euro area average. There have already been slippages compared to the wage norm during recent bargaining rounds. In the banking sector, the initiatives taken seem to have been appropriate as the soundness of the banking sector has improved. The review of the Generations Pact to evaluate the early retirement schemes is welcomed, though it is not certain when and whether this study will be carried out, nor whether it will indeed lead to concrete measures that will raise the effective retirement age.

4.2 ASSESSMENT OF THE POLICY AGENDA

4.2.1 Macroeconomic policies

4.2.1.1 Public finances

The macroeconomic scenario presented in the programme projects real GDP growth to strengthen slightly from around 2% to 2.3% over the period 2011-2014. This scenario is rather close to that of the Commission Services' Spring 2011 Forecast (with 2012 as the horizon), the main difference being a 0.4% stronger GDP growth for 2011 due to the fact that the forecast was finalised after the release of the flash estimate for the first quarter of 2011, which was exceptionally strong (+1.0% quarter-on-quarter). The programme's projection for private consumption, which to a large extent determines developments in indirect taxes, is close to that in the Commission services' forecast. The same holds for total compensation of employees, which for a large part determines developments in income tax and social contributions. As far as the cyclical conditions implied by this macroeconomic scenario are concerned, the output gap¹⁰, which is still substantially negative at the moment, would progressively narrow over the period and eventually close in 2014.

Both the employment and the inflation projections in the programme are very close to those in the Commission services' forecast. The wage projection in the programme is slightly lower than in the forecast but the forecast projection is more favourable for government revenues. Overall, the programme macroeconomic scenario may be considered as plausible.

In 2010, the general government deficit declined from 5.9% of GDP in 2009 to 4.1%, compared with the 4.8% target in the 2010 Stability Programme. Although total revenues increased by less than anticipated in the 2010 programme, they accounted for nearly half of the improvement (0.8 pp of GDP out of 1.8), with revenue ratios in all categories rising except for social contributions. Expenditure control accounted for slightly more than half of the reduction in the deficit as it decreased by 1.0 pp of GDP instead of rising by 0.2 as planned.

The decline in the expenditure ratio in 2010 was due not only to the rather strong growth in nominal GDP (4.1% instead of 2.4% as projected in the 2010 programme, partially resulting from more robust real GDP growth), but also to the fact that expenditure only rose by 1.7% in value (vs. 6.2% in 2009), which corresponds to a 0.2% decline in real terms. The public sector

¹⁰ This is the output gap as recalculated by the Commission services based on the information in the programme, following the commonly agreed methodology.

wage bill, intermediate consumption and social transfers substantially slowed down, while interest payments and public investment decreased in absolute value.

For 2011, the programme targets a deficit of 3.6% of GDP, 0.5 pp of GDP lower than the 2010 outcome. However, the draft 2011 budget was based on the previous deficit estimate for 2010 – 4.5% of GDP – and not on the most recent outcome of 4.1%. It thus implicitly planned the deficit to improve by 0.9 pp of GDP in 2011. The likely improvement in the deficit in 2011 (compared with the 2010 actual outcome, i.e. a reduction of only 0.5 pp of GDP) is supposed to result from a 0.9 pp of GDP increase in revenues, partially offset by a 0.4 pp of GDP rise in expenditure. The main measures presented in the draft budget and aimed at achieving this objective are detailed in Box 2.

Box 2. Main budgetary measures (% of GDP)	
Revenue	Expenditure
2011	
<ul style="list-style-type: none"> • Abolition of bank secrecy, "regularisation" of evaded taxes, etc. (0.12%) • Additional dividends from financial institutions(0.11%) 	<ul style="list-style-type: none"> • Reduction in primary expenditure (other than social benefits) (-0.15%) • Reduction in health care spending and fight against " fraud in social security"(-0.15%)
From 2012 to 2014	
No measures announced (see footnote 11)	

The primary balance is expected to improve slightly more than the nominal deficit as interest payments are projected to increase somewhat, in line with the expected rise in interest rates. By contrast, due to the progressive closing of the negative output gap (0.5 pp of GDP less in 2011 than in 2012 according to the programme¹¹), the cyclically-adjusted balance and the structural balance would improve less than the headline deficit; i.e. by only 0.4 pp of GDP.

The Commission Services Spring Forecast projects a deficit of 3.7% of GDP for 2011, which is very close to the government's objective of 3.6%. However, the forecast incorporates the latest estimate of the 2010 outcome, namely a 4.1% of GDP deficit, instead of the previous 4.6% of GDP estimate on which the 2011 draft budget rests. Moreover, with a slightly higher headline deficit and a smaller (in absolute value) negative output gap, the Commission services' forecast projects the structural deficit to improve by only 0.1% of GDP in 2011, substantially less than projected in the programme.

For the period after 2011, the programme's main objective is to reduce the nominal deficit below 3% of GDP in 2012 and to continue the reduction in order to achieve a deficit of 0.8% of GDP in 2014. The annual reduction in the nominal deficit is planned to increase from 0.5 pp of GDP in 2011 to 0.8 in 2012 and 1 pp of GDP both in 2013 and 2014. The programme indicates that a surplus of 0.2% of GDP should be achieved in 2015, in order to approach the medium term objective (MTO), which remains a structural surplus of 0.5% of GDP. However, the programme does not foresee the achievement of the MTO within the period covered since the structural balance would still amount to a 0.9% of GDP deficit in 2014. The improvement

¹¹ See footnote 10.

in the structural balance would be substantially smaller than that in the headline balance (2% of GDP instead of 3.3) because of the progressive disappearance of the negative output gap.

The programme's target for 2012 is a deficit of 2.8% of GDP, 0.8 pp of GDP less than in 2011 and below the 3% of GDP threshold. This reduction would be achieved through a decrease of 1 pp of GDP in expenditure, partially offset by a decline in revenues of 0.2 pp of GDP. The Commission services, whose forecast is based on an unchanged policy assumption, project a deficit of 4.2% of GDP in 2012, an increase of 0.5 pp of GDP compared with 2011, which would essentially result from an increase of about the same size in the expenditure ratio.

The programme does not specify the measures that will allow Belgium to reach this objective since they have not been decided yet.¹² *A fortiori* for 2013 and 2014, the programme does not provide any specific information on the measures that will permit a continuation of the adjustment. Similarly, the programme does not indicate how the adjustment would be shared among government levels. It refers to a scenario presented by the High Council for Finance¹³, whereby the burden would be broadly equally shared between "Entity I" (i.e. federal government and social security) and "Entity II" (i.e. Communities and Regions): the deficit of the former would decline from 3.4% of GDP in 2010 to 1.6% in 2014 (a reduction of 1.8 pp of GDP), while the deficit of 1.1% of GDP recorded in 2010 by the latter would progressively turn into a surplus of 0.8% of GDP in 2014 (an improvement by 1.9 pp of GDP). However, in view of the political discussions taking place at the moment about institutional reforms that could considerably modify the tasks of the different government levels as well as their financial relations, the programme indicates that it is not possible to give more specific information on this issue. This lack of agreement on the distribution of the effort represents a risk factor.

Over the whole period 2010-2014, the headline deficit is projected to narrow by 3.3% of GDP. Total government revenues (and the different categories of revenues) would remain broadly stable as a percentage of GDP, while expenditure is projected to decrease by 2.4% of GDP over the period, with the bulk of the decline in government consumption (-1.6% of GDP) and to a lesser extent in subsidies (-0.5% of GDP) and in the residual category "other expenditure" (-0.6% of GDP). By contrast, social benefits and government investment are projected to remain broadly stable and interest payments would slightly increase.

Taken at face value, this strategy would comply with the 2 December 2009 Council recommendation aimed at bringing the excessive deficit to an end by 2012 at the latest. However, the programme provides little information on the measures that would be taken to achieve this reduction in expenditure. Taking these factors into account, while the deficit objective for 2011 is likely to be met, this would not be the case for 2012 (based on an unchanged policy hypothesis) unless further measures are taken, notably in the 2012 draft budget. Moreover, the current fiscal stance falls short of the Council's recommendation of making a structural effort of at least ¾% of GDP. Since the tax burden, especially on labour income, is very high in Belgium (46.1% of GDP in 2010 as against 39.8% on average in the EU and 40.4% in the euro area¹⁴), the room for additional consolidation measures is essentially limited to the expenditure side.

¹² There is no 2012 budget as the 2011 budget is still being discussed by Parliament. Due to the political stalemate that resulted from the June 2010 election, the submission of the 2011 budget to Parliament was delayed until mid-April 2011.

¹³ "Conseil supérieur des Finances", the high level body advising the government on public finance matters.

¹⁴ According to the OECD report, "Taxing wages", Belgium has one of the highest tax burdens on labour income among industrialised countries and the highest one for a single individual without children at average income.

The debt ratio, which had decreased from a peak of 134.2% of GDP in 1993 to a low of 84.2% in 2007, increased in 2008. It rose by 12 pp of GDP over two years, reaching 96.2% of GDP in 2009, but this increase was more limited than in many other member states of the EU, where government debt rose by 15.4 pp of GDP on average between 2007 and 2009. In 2010, the debt ratio only increased by 0.6 pp of GDP, due to the substantial reduction in the deficit and strong nominal GDP growth.

The programme projects the debt ratio to keep rising in 2011, reaching a peak of 97.5% of GDP, before it starts declining again in 2012 and eventually falls to 92.2% in 2014¹⁵. The increase in the debt in 2011 results from exogenous factors (including the additional borrowing required for support to Greece and Ireland) since, at 3.6% or 3.7% of GDP, the deficit would be below its debt-stabilising level. In 2012, the reduction in the debt ratio (1 pp of GDP) would essentially result from the planned decline in the deficit. By contrast, the Commission services project the debt ratio to increase to 97.5% in 2012, under the aforementioned unchanged policy assumption, as a result of the 0.5 pp of GDP increase in the deficit forecast for 2012. However, should consolidation measures be taken that succeed in bringing the deficit down below 3% of GDP in 2012, as planned in the stability programme, the debt ratio would, *ceteris paribus*, decline as indicated in the programme.

Belgium appears to be at high risk with regard to the long-term sustainability of public finances. The long-term budgetary impact of ageing is clearly higher than the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The current budgetary position compounds the cost of ageing. Based on the current fiscal position, debt would increase to 105.8% of GDP by 2020. However, the full implementation of the programme would be enough to put the debt on a downward path by 2020, although it would still be above 60%. Belgium has little scope to increase its already high tax burden thus the focus needs to be put on decreasing public spending in order to reduce the sustainability gap. Ensuring sufficient primary surpluses over the medium-term and further reforming the Belgian social security system, especially reforming the pension system so as to curb the projected substantial increase in age-related expenditure, would help improve the sustainability of public finances.

4.2.1.2 Financial sector

An important challenge for Belgium is to ensure again a stable and well-functioning financial sector, capable of meeting the financial intermediation needs of the real economy. During the past two years, the Belgian financial sector has been severely hit by the financial crisis, resulting in reduced balance sheets, substantial state aid and a modification of banking supervision. Belgian banks still have a relatively high exposure towards a set of vulnerable countries. On the other hand, foreign exposure to vulnerable foreign markets was gradually reduced during the financial crisis. These risks are all the more important in Belgium as the banking sector is highly concentrated and relatively large compared to the size of the economy.

In the aftermath of the crisis, the Belgian authorities have taken measures and have been implementing reforms in the financial sector. First, the monitoring system has been reformed. The Belgian government has decided to reshape the supervisory architecture of the financial sector, opting for the “twin peaks” model.¹⁶ Second, measures to increase access to credit

¹⁵ The programme adds that the debt ratio will decrease to 88.4% in 2015.

¹⁶ The central bank takes charge of supervising individual financial intermediaries and the system as a whole, while the FSMA (Financial Services and Market Authority) is responsible for supervising the smooth operation of the markets, the conformity of financial products and services, and proper consumer information and protection.

have been put in place. Examples are Belgacap¹⁷, Initio¹⁸, and the establishment of a credit mediator. Third, stricter requirements to guarantee solvability and liquidity have been introduced. In anticipation of the implementation of the Basel III norms, Belgian banks have to comply with quantitative liquidity norms: 20% of all private deposits that can be called upon within one month cannot be used to grant credit. Finally, the deposit guarantee system has been strengthened, whereby the repayment period has been shortened, and measures to improve sound governance have been taken.

4.2.1.3 *Other macroeconomic issues*

To control labour costs and guarantee competitiveness, the NRP emphasizes that the correct application of the 1996 Law on Employment Promotion and Precautionary Protection of Competitiveness should be guaranteed. This law stipulates that the evolution of wages in Belgium should be similar to that in neighbouring countries.¹⁹ The NRP implicitly acknowledges that the 1996 law is sufficient to keep labour costs under control and confirms the federal caretaker government's decisions to control the wage rises (follow-up of the January inter-professional agreement) by limiting the negotiating margin to 0% in 2011 and 0.3% in 2012, over and above automatic indexation, projected to stand at 3.9% over the period 2011-2012. Given the current acceleration of inflation, the estimate of 3.9% for the increase in the health index over the next two years seems to be rather low. As a consequence, the 1996 Law will probably not prevent wages in Belgium from increasing faster over the next two years than in the three neighbouring countries.

More generally, despite the 1996 Law on Competitiveness, since 2005 wages in Belgium have been systematically rising faster than in the neighbouring countries²⁰, while productivity growth is slowing down (though remaining at a high level). As a consequence, unit labour costs (ULC) have been rising in recent years (apart from the sharp decline in 2010), increasing faster than the average of the three neighbouring countries and the euro area as a whole (Figure 2). The top-down determination of wages²¹, which is heavily dependent on the wage norm and automatic wage indexation system, has helped to moderate wage growth but has not prevented losses in cost competitiveness over time, while at the same time it limits wage responsiveness to local labour market developments.

¹⁷ Belgacap is a supplementary coverage for credit insurance granted by bank-insurers to companies whereby the government provides extra guarantees in case of default.

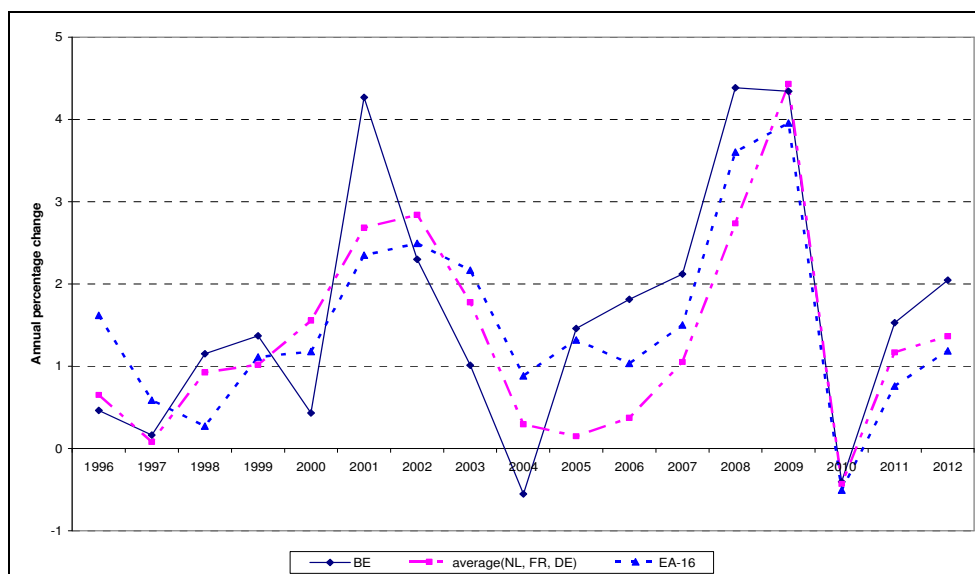
¹⁸ Launched at the end of 2008, Initio aims to provide credit to self-employed persons and small companies to finance their investment needs. In Wallonia a separate system for self-employed workers to have access to credit has been set up.

¹⁹ The three countries (NL, DE, FR) are weighted according to their GDP (Law of 26 July 1996, Article 3, § 2).

²⁰ Apart from the system of automatic wage indexation and the slippages compared to the wage norm in recent years, the relative unit labour costs in the manufacturing sector have also deteriorated as the result of stronger than expected wage moderation in Germany.

²¹ The Belgian wage bargaining system is highly centralized and structured at three levels (the national (cross-sectoral) level, an intermediate sectoral level, and a company level). In principle, lower level agreements can only improve upon what has been negotiated (in terms of wage growth) at higher level.

Figure 2: Change in nominal ULC for Belgium, EA16 and the average of FR, DE, and NL



Source: Commission Services

The NRP does not mention any changes to the wage bargaining system, nor to the system of automatic wage indexation. The wage norm could be improved given that it only focuses on wage differences with neighbouring countries, while ignoring differences in productivity growth. Moreover, the scope for implementing corrections *ex post* (in case the targets of the wage norm are not met) is limited, as the automatic wage indexation system establishes a lower limit to the biannual wage adjustments, so that this corrective mechanism is rather ineffective. Apart from the agreement on limited real wage growth in the next two years, proposals to promote innovation, increase spending on R&D and improve education and training, have been made to boost competitiveness. However, the measures in these areas remain rather vague and no estimation of their impact on competitiveness has been provided.

To counter inflationary pressures, the Competition Authority and relevant Ministries may ask the Price Observatory to investigate sectors and companies where prices seem to be (too) high. These analyses could then also be used in the context of infringements in the competition law. Indeed, in recent years there has been an asymmetrical approach towards price shocks, particularly in the electricity and gas sector: if input prices increase, the price of the final product also increases, whereas if input prices decrease, this decline is not always passed on to the consumer. Therefore, in this kind of situations, the Price Observatory would be able in the future to ask for further details and analyses from the relevant trade federations. In the context of the implementation of the Third Package on the Energy Market (scheduled for July 2011), Belgium would also take measures to reduce the volatility of energy prices, which would address inflation issues as energy products are an important component. Variable contracts will only be allowed to be indexed four times a year, and for other price increases prior authorization from the CREG²² will need to be granted, after the National Bank of Belgium (NBB) has provided its advice.

4.2.2 Labour market policies

The Belgian authorities are aware of the bottlenecks in the labour market. Priority is given to reducing labour costs (by decreasing the tax-wedge), increasing (job-specific) training and counselling, and including certain target groups (through the Win Win Plan). New measures are provided for in all these domains although the NRP also specifically acknowledges that

²² Commission de Régulation de l'Électricité et du Gaz.

more structural measures to improve the functioning of the labour market will have to be taken by the new federal government, once it takes office.

Making work more attractive

Recent reforms have tried to reduce the existing unemployment traps. Belgian authorities gradually reduced social security charges and personal income taxes, introduced a tax credit and increased wage subsidies for all workers. In the NRP, new initiatives to make employment financially more attractive for low-wage workers have been introduced, increasing the gap between wages and unemployment benefits. Specifically, personal social security contributions have been eliminated for people earning the minimum wage while gradually increasing thereafter, achieving the regular 13.07% rate when earning a monthly wage in excess of EUR 2,247. Also, a new tax credit has been introduced, increasing the net wage by EUR 120 on an annual basis. Although reductions in the tax wedge are welcome, having a largely positive impact on labour demand and employment, they do not solve problems of low participation due to persisting high taxes on labour income. Moreover, in view of the substantial consolidation effort ahead, a reduction in the tax-wedge in the near future is expected to come hand in hand with an at least equally large increase in more neutral taxes (e.g. on consumption) or a shift towards green taxes. For instance, the relatively generous tax relief on company cars constitutes an environmentally harmful subsidy and has led to a situation where 40% of the vehicles in circulation are company cars.

Getting the unemployed back to work

To provide the (especially low-skilled) unemployed people with the right incentives to re-enter the labour market and to actively search for a job, a reform of the unemployment benefit system may also have a role to play. No action has been taken recently in this respect²³, nor are improvements to the system (such as reducing the level of the unemployment benefits over time and/or limit their duration) announced in the current NRP

Belgium introduced a substantial reform of active labour market policies (ALMP) in 2004 to improve job search incentives, with individual supervision and regular check-ups for the long-term unemployed, including counselling (from 12 months in unemployment) and job interviews, backed up by financial sanctions in case of no-show or a refusal of training or a suitable job. A shortcoming of the system is that only those under the age of 50 were subject to this procedure. The NRP states that the ALMP scheme will be further improved by shortening deadlines, accelerating the support for jobseekers and raising the age limit from 50 to 52 years. However, since the implementation of these initiatives depends on the agreement of all relevant authorities and since – according to the NRP - it will be the responsibility of the next federal government to launch the process and take further measures, there is some uncertainty about when these measures will be implemented, as well as about their final impact.

In *Flanders*, attention is being given to improved counselling whereby primarily younger workers are offered individual guidance on entering the labour market. Additionally, Flanders will tackle the issue of activation above the age of 50, by extending the systematic support measures to people up to 55-years old (and possibly to 58-years-old later this year). *Wallonia*, *the French-speaking Community* and *the Brussels Capital Region* give priority to the activation strategies through improved individual counselling, focusing on young workers. Finally, all Regions and Communities are focusing on finding a better match between education and the needs of the labour market. Apart from improved activation and

²³ In 2009, in response to the crisis, unemployment benefits were even made more generous during the initial period of unemployment with no compensation elsewhere.

counselling, the federal government has introduced grants to cut employers' wage costs in order to increase labour market participation of certain target groups under the *Win Win Plan* (older (> 50), young (<26), disabled, long-term unemployed, and low-skilled workers). While the impact of these measures is likely to be positive, it might remain limited as many of the measures are scheduled to be phased out by the end of the year.

Finally, non-EU citizens are under-represented on the Belgian labour market, with an employment rate in 2010 of just 40.4% for those aged 20-64, which is much lower than the EU average (58.5%). The unemployment rate of non-EU nationals aged 20-64 was also considerably higher in 2010 (30.5 %) than that of Belgian nationals (7.2 %) and the EU average (19.4 %).

Older workers and pension reform

In the past, various exit routes have made it easy for older workers to leave the labour market. Until 2002, there were no job search requirements for workers above the age of 50, and early retirement could be taken at the age of 58 or even younger in the case of company restructuring. Most measures designed to limit early retirement were introduced in the "Solidarity Pact between Generations" of 2006. The main shortcoming in this Generations Pact is that activation programmes were not extended to the age cohorts of 50 years and above, and that the overall impact was limited. The Belgian authorities have indicated in the NRP that they will assess the Generations Pact between now and October 2011. In the light of this assessment, the government will decide on whether further structural measures to increase the employment rate of older workers and to prevent early retirement from the labour market will be taken. Therefore, besides the focus in the NRP on improved activation strategies and job counselling, no concrete measures to make the criteria for early retirement more stringent have as yet been announced, while the evaluation of the Generations Pact is ongoing and the outcome of this exercise is unknown. Additionally, the NRP also does not mention the possibility of starting to gradually increase the statutory retirement age (Box 3).

Box 3 – Pension system in Belgium: increasing the effective versus statutory retirement age

Only 30.4% of men and 19.7% of women at the age of 60 were at work in 2009, which represents respectively the fourth and seventh worst results in the EU, still far from the 50% target set in 2001²⁴. This is reflected in the effective retirement age of exit from the labour market, which - at 59 years in 2009 - is below the legal early retirement age of 60 and far below the statutory retirement age of 65.

In the light of increasing life expectancy and sustainability of public finances, urgent action is needed to keep people in work longer. The 2011 Annual Growth Survey points to two strategies that need to be implemented by the Member States in order to activate older workers: (1) increasing the effective retirement age, (2) increasing the statutory retirement age.²⁵ Regarding the first strategy (increasing the *effective retirement age*), a few measures have been taken in the recent past to achieve this, such as increasing the statutory age for early retirement from 58 to 60, while eligibility conditions and conditions for entering the scheme before the statutory age have become tighter, and a pension bonus for staying at work after 62 has been introduced. On the other hand, access to early retirement is still rather easily granted (the retirement age remains flexible from the age of 60, provided that a 35-year career condition is satisfied), while training opportunities and job counselling for older workers (especially those above 50) remain limited. Regarding the second strategy (increasing the *statutory retirement age*), the increase in life expectancy has to be reflected in the *statutory retirement age*. In 2006, Belgium took a first step in this direction by gradually increasing the statutory retirement age for women, from 63 in 2006 to 65 in 2009. This was a welcome first step, also from the point of view of

²⁴ ECP-SPC, "Joint Report on Pensions: Progress and Key Challenges in the Delivery of Adequate and Sustainable Pensions in Europe", *European Economy Occasional Papers No. 71*, November 2010.

²⁵ See, European Commission, "Annual Growth Survey: Advancing the EU's comprehensive response to the crisis", 12 January 2011, p.6.

guaranteeing non-discrimination between men and women. In the future, working longer could be encouraged further as for instance retiring at 67 instead of 65 years would result in a 6.1% gain in the net replacement rate. Adjusting the retirement age would also have an impact on fiscal sustainability. According to the 2009 Ageing Report²⁶ the increase in age-related expenditure up to 2060 would be 0.5% of GDP lower in Belgium if the employment rate of older workers were 5% higher, compared to a 0.2% decrease in the EU.

The Green Paper on Pensions, published in March 2010 by the Belgian Federal Minister of Pensions, put the focus on raising the employment rates by increasing the effective retirement age rather than changing the statutory retirement age. The Minister of Pensions also promoted the principle of a bonus (increasing the pensions of people who work longer than 60 years old) and the suggested rethinking the current taxation framework.

Education, training and lifelong learning

Regarding education and training policy, Belgium's ambition is to raise the percentage of people aged 30-34 who are educated to higher education level from 43.2% in 2009 (42% according to Eurostat) to 47% in 2020, and to reduce the percentage of early school leavers (ESL) from 11.7% in 2009 (11.1% according to Eurostat) to 9.5% by 2020. Educational policy is the responsibility of the Communities. The Flemish Community and Region, having already reached a number of Europe 2020 policy targets, set additional ambitious targets.. As the NEET²⁷ indicator and indicators on ESL have been generally decreasing over the last ten years, with Belgium performing better than the EU average, thanks to longstanding efforts at policy level, the Belgian national targets regarding education and ESL seem to be realistic. However, this might be driven by the Flemish Community (8.6% in 2009), whilst the main challenge is to ensure a significant decrease in the Regions/Communities with a high ESL rate and a high proportion of 20-24-year olds without at least secondary education (respectively 13.8% and 20.5% in Wallonia; 15.6% and 25.2% in the Brussels Capital Region in 2009). Therefore, even though Belgium has a modern education system and is performing better overall than the EU average in the area of education, this masks important regional differences and several problems remain to be tackled, in particular in the area of qualifications of young people (mainly in Wallonia and the Brussels Capital Region), non-EU citizens and women (in particular in the Brussels Capital Region), and skills mismatches and shortages in future-oriented occupations. Belgium is also one of the few countries where participation rates in lifelong learning declined significantly in recent years. To increase lifelong learning and the qualification of jobseekers, the social partners agreed to spend 1.9% of the total payroll on the education and training of employees. As this target has currently not been reached, a penalty mechanism for sectors that fail to make additional training efforts enters into force in 2011.

Combat poverty and promote social inclusion

The percentage of the population at risk of poverty or exclusion in Belgium stood at 20.2% in 2009, below the EU average of 23.1%. The national target aims at reducing the number of people faced with poverty and social exclusion by 380.000 by 2020 (compared with 2008 as year of reference).

Both the federal government and the Regions/Communities have introduced anti-poverty plans, including measures to address excessive indebtedness, to prevent labour market exclusion, to promote affordable housing, and to provide better access to education and

²⁶ European Commission, "2009 Ageing Report", Section 7.3.

²⁷ People neither in employment, education nor training.

training. Concrete measures are provided in the area of social benefits for 2011-2012, whereby pensions are increased alongside other benefits for employees.

4.2.3 Growth enhancing structural measures

Internal market

According to the latest Internal Market Scoreboard²⁸, Belgium has continued its efforts to reduce its transposition deficit below the agreed transposition deficit target (1%)²⁹. Nevertheless, Belgium needs to step up efforts regarding the application of Internal Market legislation as it has the worst results regarding some very important indicators, such as the number of pending infringement cases, the development of infringement cases since November 2007 and the average speed of infringement resolution or the early resolution rate. In the NRP Belgium is committed to fully implementing the Services Directive – eliminating the barriers to development of service activities between Member States – and hopes to be able to implement the Third Package of Energy Market Directives by July 2011.

Retail sector

Competition-restricting regulations in the retail sector still protect incumbents against new entrants and inhibit the diffusion of new business models and technologies. This sector is more regulated than in other euro area countries, especially in terms of specific (zoning) regulation of large outlets, the protection of existing firms, and the regulation of shop opening hours. In addition, regulations specific to Belgium include a ban on the announcement of price reductions within six weeks before the sales period (the so-called “black-out period”). Although many of these regulations may contribute to public policy goals (e.g. by addressing congestion issues and noise pollution planning), they also lead to the protection of local monopolies. While measures to make regulations less stringent in some areas and to reduce the administrative burdens involved in opening new shops, have been taken in the retail sector - under the new law on "Market Practices and Consumer Protection" (WMPC, 2010) and the "Ikea law" (2004)³⁰ - Belgium still has many regulations that serve to protect incumbent firms or big shops. No new measures in this area are presented in the NRP.

Network industries

Despite liberalisation, prices in many network sectors (electricity, gas and telecom) are higher in Belgium than in other Member States. Belgium stood at the fifth and eighth place in the EU regarding household electricity and gas prices respectively, while it had the third highest prices for local phone calls in the EU in 2008. A common competition problem in the network sectors in Belgium is the strong position of the incumbents and the high entry barriers compared to other Member States, especially in the electricity and gas sectors. In 2008, the combined market share of the three biggest electricity generators (by capacity) was as high as 97.5% (HHI³¹ of 7206), where the largest generator had a market share of 80%, compared to an average of 60% in the EU. In the gas market the three biggest gas suppliers have a

²⁸ Internal Market Scoreboard n° 22. See, http://ec.europa.eu/internal_market/score/docs/score22_en.pdf.

²⁹ In this context, transposition refers to how quickly and how well each of the Member States transposes Internal Market directives into national law.

³⁰ The "Ikea law" and the reduction in administrative burden during the last decade fostered the ease of entry to the market, while the new "WMPC law" seems to have promoted competition in the retail market.

³¹ The HHI or Herfindahl-Hirschman Index is a measure for market concentration. It is calculated by squaring and summing the market shares of all competing firms in a market. The HHI number can range from close to zero (perfect competition) to 10,000 (monopoly). The higher the HHI, the more the market is concentrated.

combined market share of 92% (HHI of 5438).³² In the electricity sector competition in the wholesale market is limited in part due to limited international interconnection capacity³³, while in the gas market transmission network congestion is an important concern, due to insufficient gas entry points.

The NRP does not refer to any measures to improve competition in the telecom sector, but plans to take measures in the energy sector, by implementing the Third Package of Energy Market Directives. If the Third Package were implemented properly as scheduled, the functioning of the energy market would be expected to improve. First, the NRP foresees a continuation of the unbundling process, whereby energy transmission will be separated from energy generation and distribution. This should have a positive effect on competition in the energy market and would encourage investment in renewing infrastructure (and possibly increase investment in renewable energy). It is, however, not clear from the NRP which further concrete measures Belgium is going to take to improve unbundling and whether the measure suffices to meet the 2020 renewable energy target. Second, a single national authority would be granted regulatory independence, exercising its powers impartially and transparently. In that context, the powers of the CREG would be extended and its independence improved. Operational details (such as when the reform will be implemented and the resources to be allocated to) are however not provided in the NRP. Finally, in order to extend consumer protection and reinforce market competition, the Third Package proposes e.g. that customers should be able to switch between energy suppliers within three weeks, and that price adjustments to energy contracts should be kept limited. While measures regarding the second point have been announced in the NRP, measures to improve customer switching are lacking.

In sum, despite the usefulness of the measures presented on the energy market, the operational details are missing, and there is still the risk that the announced reforms will not take place.

R&D and innovation

R&D intensity fell slightly in the period 2000-2009, from 1.97% to 1.96% of GDP. This fall was mainly due to a decrease in the R&D intensity of the private sector.

Business R&D is highly concentrated in a few large companies and multinationals. A large majority of these firms are in the chemicals, pharmaceuticals and biotech sectors, thus giving Belgium a specialist profile for these sectors. The dominance of the service sector, growing at a faster rate than manufacturing would also justify specific measures to improve their knowledge intensity in that sector over time.

Increased tax credits for R&D have been introduced and there are also plans to provide suitable incentives for setting up and developing new science-base companies spinning out of large enterprises or spinning off from research institutions is foreseen.

All Belgian Regions/Communities are also drafting strategic innovation plans covering all major elements of a successful innovation strategy. Flanders is planning a new Innovation Pact, while Wallonia, the Brussels Capital Region and the French-speaking Community are contemplating a joint research strategy. Most actions are at Regional/Community level,

³² European Commission (2010), "Report on progress in creating the internal gas and electricity market – Technical annex". Figures on market share of largest firms in network industries from Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators/economic_reform.

³³ See e.g. Küpper et al. (2009), "Does More International Transmission Capacity Increase Competition in the Belgian Electricity Market?", *The Electricity Journal* 22(1).

although federal research covers 25-30% of total public research expenditure due to space research (a remaining federal competence).

In the Walloon Region the focus has been on the implementation of the so-called "Marshall plan", with a stronger focus on research poles (les pôles de compétitivité, a cluster approach) and on the implementation of a new culture intending to increase public private partnerships. Structural Funds are being substantially used in establishing partnerships and networks between large firms and SMEs.

In Flanders, cluster policy is also part of the strategy for green and sustainable development. Societal challenges are the main drivers, leading to a shift towards new fields. The Science and Technology Council identified six priority areas: regulation and education in general; framework conditions for private R&D; a model for mobilising industry to the factory of the future; the role of infrastructures in supporting intelligent networks; the role of industrial innovation with risk funding; and the role of human capital and social innovation.

In the Brussels Capital Region, strategic platforms are being or will be launched in three innovative sectors: information and communication technologies (ICT) in 2010, the life sciences in 2011 and the environment in 2012. It is worth mentioning that about 90% of the research is concentrated on ICT and ICT services. The NRP mentions greater assistance to smaller innovative companies and more resources for European and international cooperation.

Energy and Climate

Under Directive 2009/28/EC on the promotion of the use of energy from renewable sources, Belgium is committed to reaching a target of 13% of renewable energy sources in final energy consumption and a 10% share of renewable energy in the transport sector by 2020. In November 2010 Belgium submitted its National Renewable Energy Action Plan which sets sectoral targets and details its current and future measures aiming at developing renewable energy sources.

In spite of the influence of the economic crisis, the recent trend in greenhouse gas emissions is not in line with the Europe 2020 national target (-15% lower than 2005 levels). The NRP does not provide a quantitative assessment of the sufficiency of existing and proposed emissions reduction measures in order to reach the 2020 targets.

5. SUMMARY

The fiscal adjustment path set out in the Stability Programme update leads to an end of the excessive deficit in 2012 as recommended by the Council in December 2009 in the context of the Excessive Deficit Procedure. Additionally, the debt ratio (96.8% of GDP in 2010) would reach a maximum of 97.5% of GDP in 2011, after which it would gradually decline to 92% in 2014. However, in 2011, the proposed adjustment (reducing the public deficit to 3.6% of GDP) would fall short of the recommended average annual fiscal effort of at least 0.75% of GDP. Moreover, from 2012 onwards, an additional effort will be needed in order to achieve the planned targets since, with unchanged policies, the Commission services forecast the deficit to resume increasing to about 4.2% of GDP in 2012. The programme does not give any information on the measures that will be taken after 2011. While the objectives set out in the NRP are appropriate and ambitious, the concrete measures underpinning the targets often remain vague. The list of projects and intentions described in the NRP does not include a substantial number of important structural measures that could more effectively address long term economic challenges, particularly on reducing inefficiencies in the labour market.

Initiatives to reduce the tax wedge, to improve activation of unemployed workers and to evaluate the early retirement schemes are presented in the NRP, although for some measures no agreement on their implementation has yet been reached. The effectiveness of other measures might turn out to be small as their duration is limited. More importantly, long-term structural measures on the labour market and pension system, such as adjustments to the unemployment benefit system and the statutory retirement age, are lacking. Unit labour costs have been rising faster in Belgium than in the neighbouring countries in recent years. The NRP acknowledges that Belgium should limit wage growth, but considers the 1996 Law to be sufficient for this purpose and therefore does not propose additional measures to further fine tune the wage-setting mechanism. Improvements in the business environment and competition framework would also contribute positively to the country's growth potential. The current R&D and innovation reforms respond well to the challenges. However, the NRP does not address the problem of fragmentation within the research and innovation system. Apart from the energy sector, no concrete measures to increase competition in the telecom and retail sector, or to strengthen the competition framework, are provided in the NRP. The national targets regarding early school leavers and higher education seem attainable. However, there are important differences between Regions/Communities and a lack of information regarding the monitoring of progress and of budgets. Recent developments in energy and climate policy do not appear in line with Europe 2020 targets. A quantitative assessment of existing and proposed measures could guide policy development.

Table I. Macro economic indicators

	1995- 1999	2000- 2004	2005- 2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	2.6	2.0	2.1	-2.8	2.2	2.4	2.2
Output gap ¹	0.4	0.8	1.3	-3.1	-2.3	-1.5	-0.8
HICP (annual % change)	1.3	2.0	2.8	0.0	2.3	3.6	2.2
Domestic demand (annual % change) ²	2.2	1.5	2.5	-2.2	0.4	1.9	2.1
Unemployment rate (% of labour force) ³	9.2	7.5	7.8	7.9	8.3	7.9	7.8
Gross fixed capital formation (% of GDP)	20.4	19.9	21.4	21.2	20.3	20.4	20.6
Gross national saving (% of GDP)	25.5	25.5	25.7	22.2	22.8	22.3	22.5
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	-2.5	0.0	-1.0	-5.9	-4.1	-3.7	-4.2
Gross debt	122.3	102.2	88.5	96.2	96.8	97.0	97.5
Net financial assets	-110.4	-92.0	-76.6	-80.0	n.a	n.a	n.a
Total revenue	48.8	49.7	48.7	48.1	48.9	49.3	49.4
Total expenditure	51.3	49.7	49.8	54.0	53.0	53.1	53.6
of which: Interest	7.8	5.7	3.9	3.6	3.4	3.4	3.5
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	1.3	-0.1	0.9	2.6	1.7	1.3	1.7
Net financial assets; non-financial corporations	-88.8	-94.6	-97.9	-89.8	n.a	n.a	n.a
Net financial assets; financial corporations	0.6	-0.8	-2.3	-2.5	n.a	n.a	n.a
Gross capital formation	12.7	13.4	14.5	11.8	12.4	12.5	12.7
Gross operating surplus	20.5	20.8	23.1	21.8	23.2	23.4	23.6
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	5.7	5.0	3.0	5.2	4.6	4.3	4.3
Net financial assets	237.9	235.9	209.6	208.2	n.a	n.a	n.a
Gross wages and salaries	38.9	39.5	38.7	40.2	39.4	39.2	39.3
Net property income	12.1	10.2	8.7	8.2	8.3	8.3	8.6
Current transfers received	22.1	21.6	21.3	23.3	23.0	23.1	23.2
Gross saving	12.0	10.6	9.9	11.7	10.8	10.4	10.4
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	4.5	4.8	2.7	1.6	2.6	1.8	1.8
Net financial assets	-37.0	-46.5	-31.3	-32.6	n.a	n.a	n.a
Net exports of goods and services	3.8	4.5	3.1	2.7	3.2	2.8	2.8
Net primary income from the rest of the world	1.8	1.6	1.0	0.9	0.9	0.9	0.9
Net capital transactions	0.0	-0.1	-0.2	-0.4	-0.1	-0.2	-0.3
Tradable sector	41.3	39.4	37.8	34.6	34.7	n.a	n.a
Non tradable sector	48.2	49.9	51.4	54.8	54.2	n.a	n.a
of which: Building and construction sector	4.4	4.3	4.6	4.8	4.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	109.2	104.2	109.2	114.2	111.3	112.6	113.7
Terms of trade goods and services (index, 2000=100)	102.8	100.5	98.8	100.3	98.5	97.4	97.3
Market performance of exports (index, 2000=100)	105.7	99.1	93.1	92.4	92.7	92.7	92.1
Notes:							
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2000 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' spring 2011 forecast							

Table II: Comparison of macroeconomic developments and forecasts

	2010		2011		2012		2013	2014
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.2	2.1	2.4	2.0	2.2	2.3	2.1	2.3
Private consumption (% change)	1.6	1.4	1.5	1.5	1.9	1.7	1.7	1.8
Gross fixed capital formation (% change)	-1.3	-1.9	3.5	2.9	3.4	3.4	1.5	2.4
Exports of goods and services (% change)	10.5	10.1	5.9	4.6	5.5	4.4	4.7	4.9
Imports of goods and services (% change)	8.4	7.8	5.4	4.2	5.5	4.3	4.3	4.6
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	0.8	0.2	1.8	1.5	2.0	2.1	1.7	1.9
- Change in inventories	-0.4	-0.5	0.0	-0.1	0.0	0.0	0.0	0.0
- Net exports	1.8	1.9	0.6	0.5	0.2	0.2	0.4	0.4
Output gap ¹	-2.3	-2.3	-1.5	-1.8	-0.8	-1.1	-0.5	0.2
Employment (% change)	0.7	0.6	0.8	0.9	0.7	0.9	1.0	1.1
Unemployment rate (%)	8.3	8.4	7.9	8.3	7.8	8.3	8.1	8.0
Labour productivity (% change)	1.5	1.4	1.6	1.1	1.5	1.4	1.1	1.3
HICP inflation (%)	2.3	2.3	3.6	3.5	2.2	1.9	1.9	2.0
GDP deflator (% change)	1.8	1.5	1.9	1.9	2.1	1.9	1.8	1.9
Comp. of employees (per head, % change)	1.1	1.0	3.1	3.3	3.6	2.7	3.1	3.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.6	2.3	1.8	1.5	1.8	2.3	3.0	3.7
<u>Note:</u>								
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.								
<u>Source:</u>								
Commission services' spring 2011 forecasts (COM); Stability programme (SP).								

Table III: Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	Change: 2010-2014
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	48.9	49.3	49.8	49.4	49.6	49.9	49.9	1.0
<i>of which:</i>								
- Taxes on production and imports	12.9	13.0	15.9	13.0	15.8	15.9	15.9	3.0
- Current taxes on income, wealth, etc.	15.6	15.7	13.0	15.8	13.0	12.9	12.9	-2.7
- Social contributions	16.5	16.5	16.7	16.6	16.7	16.8	16.8	0.3
- Other (residual)	3.9	4.1	4.2	4.1	4.1	4.3	4.3	0.4
Expenditure	53.0	53.1	53.4	53.6	52.4	51.7	50.7	-2.3
<i>of which:</i>								
- Primary expenditure	49.6	49.7	49.9	50.1	48.8	48.0	47.1	-2.5
<i>of which:</i>								
Compensation of employees and intermediate consumption	16.5	16.4	16.2	16.4	15.8	15.5	15.0	-1.5
Social payments	25.2	25.3	25.4	25.6	25.4	25.4	25.4	0.2
Subsidies	2.5	2.5	2.5	2.6	2.1	2.0	2.0	-0.5
Gross fixed capital formation	1.7	1.8	1.9	1.8	1.9	1.7	1.7	0.0
Other (residual)	3.7	3.7	3.9	3.8	3.5	3.4	3.0	-0.7
- Interest expenditure	3.4	3.4	3.5	3.5	3.6	3.7	3.6	0.2
General government balance (GGB)	-4.1	-3.7	-3.6	-4.2	-2.8	-1.8	-0.8	3.3
Primary balance	-0.7	-0.4	-0.1	-0.7	0.8	1.9	2.8	3.5
One-off and other temporary measures	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	-4.1	-3.6	-3.5	-4.2	-2.8	-1.8	-0.8	3.3
Output gap ²	-2.3	-1.5	-1.8	-0.8	-1.1	-0.5	0.2	2.5
Cyclically-adjusted balance ²	-2.8	-2.9	-2.6	-3.7	-2.2	-1.5	-0.9	1.9
Structural balance³	-2.9	-2.8	-2.5	-3.7	-2.2	-1.5	-0.9	2.0
<i>Change in structural balance</i>		<i>0.1</i>	<i>0.4</i>	<i>-0.9</i>	<i>0.3</i>	<i>0.7</i>	<i>0.6</i>	
Structural primary balance ³	0.5	0.6	1.0	-0.3	1.4	2.2	2.7	2.2
<i>Change in structural primary balance</i>		<i>0.0</i>	<i>0.4</i>	<i>-0.8</i>	<i>0.4</i>	<i>0.8</i>	<i>0.5</i>	
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 information in the programme.								
³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
<i>Source:</i>								
<i>Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations</i>								

Table IV: Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014
			COM	SP	COM	SP	SP	SP
Gross debt ratio¹	90.1	96.8	97.0	97.5	97.5	96.5	95.1	92.2
Change in the ratio	0.4	0.6	0.2	0.7	0.5	-1.0	-1.4	-2.9
<i>Contributions²:</i>								
1. Primary balance	-1.9	0.7	0.4	0.1	0.7	-0.8	-1.9	-2.8
2. "Snow-ball" effect	1.2	-0.2	-0.7	-0.2	-0.5	-0.4	0.1	-0.3
<i>Of which:</i>								
Interest expenditure	3.9	3.4	3.4	3.5	3.5	3.6	3.7	3.6
Growth effect	-0.9	-2.0	-2.2	-1.9	-2.1	-2.2	-2.0	-2.1
Inflation effect	-1.7	-1.5	-1.9	-1.8	-1.9	-1.8	-1.6	-1.8
3. Stock-flow adjustment	1.1	0.1	0.6	0.8	0.4	0.2	0.4	0.2
<i>Of which:</i>								
Cash/accruals diff.	-0.1	0.2						
Acc. financial assets	1.3	-0.1						
<i>Privatisation</i>	-0.5	-0.1						
Val. effect & residual	-0.1	0.1						
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.								
<i>Source:</i>								
<i>Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations</i>								

Table V. Long-term sustainability indicators

Belgium	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	4.7	5.2		2.7	3.3	
of which:						
Initial budgetary position (IBP)	0.5	0.6		-1.4	-1.3	
Debt requirement in 2060 (DR)	0.6	-		0.5	-	
Long-term change in the primary balance (LTC)	3.6	4.6		3.6	4.6	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	96.8	97.3	105.8	96.8	90.9	85.8

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium-term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure: Medium term debt projection

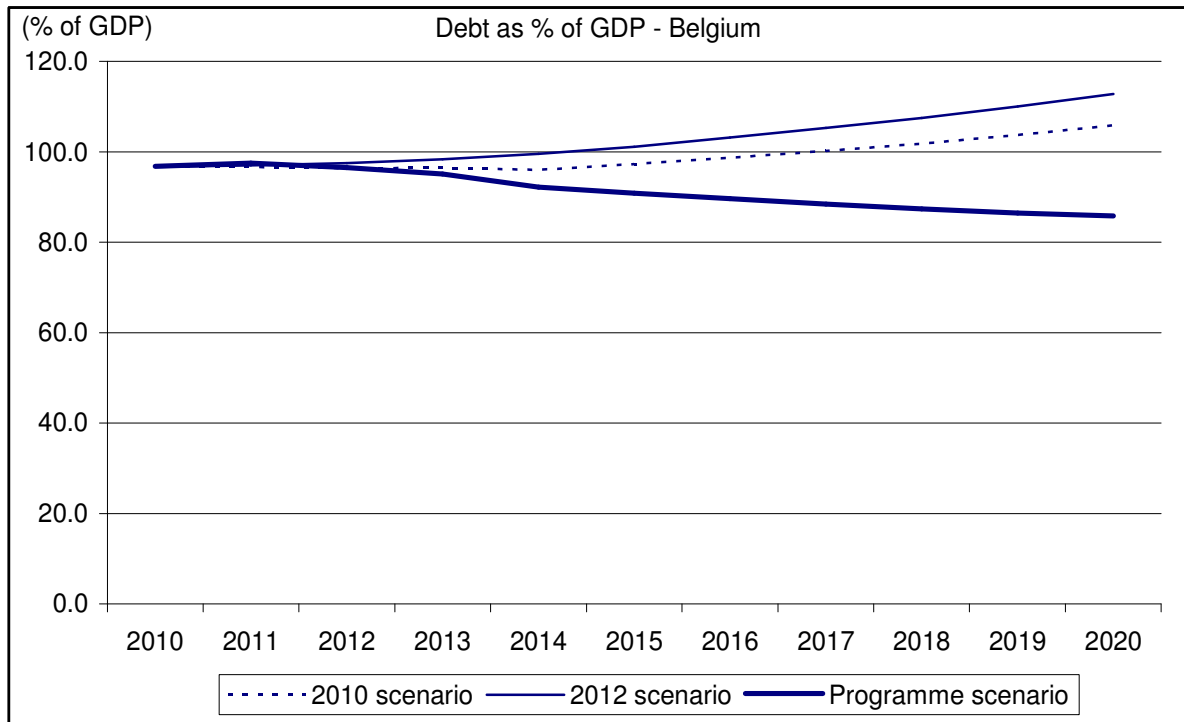


Table VI. Financial sector indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	337,0	361,3	392,5	354,2	331,9
Share of assets of the five largest banks (% of total assets)	84,4	83,4	80,8	77,1	...
Foreign ownership of banking system (% of total assets)	24,9	24,8	26,8	60,7	...
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	1,7	1,1	1,7	2,7	2,8
- capital adequacy ratio (%) ^{1), 2)}	11,9	11,2	16,2	17,3	18,9
- profitability - return on equity (%) ^{1), 3)}	22,4	13,2	-36,5	-2,7	10,6
Private credit growth (annual % change)	12,7	14,7	11,3	-6,7	-5,2
Residential property prices (y-o-y % change)	11,8	9,3	4,9	-0,3	5,4
Exposure to countries receiving/repaying official financial assistance (% of GDP) ⁴⁾	27,6	28,4	25,7	17,0	13,8
Private debt (% of GDP)	89,4	99,0	95,8	93,3	88,0
Gross external debt (% of GDP) ⁵⁾					
- Public	45,2	52,8	62,5	60,7	67,9
- Private	38,1	45,4	92,1	79,0	83,2
Long term interest rates spread versus Bund (basis points)**	5,2	11,2	43,3	67,9	71,9
Credit default swap spreads for sovereign securities (5-year)**	45,1	66,1	95,2
Notes:					
1) Latest data September 2010.					
2) The capital adequacy ratio is defined as total capital divided by risk weighted assets.					
3) Net income to equity ratio.					
4) Covered countries are IE, EL, PT, RO, LV and HU.					
5) Latest data 2010Q3.					
** Measured in basis points.					
Source:					
Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt), Eurostat (residential property prices) and ECB (all other indicators).					

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	66.5	66.5	67.7	68.0	67.1	67.6
Employment growth (% change from previous year)	1.4	1.2	1.6	1.7	-0.4	0.6
Employment rate of women (% of female population aged 20 - 64)	58.6	58.8	60.3	61.3	61.0	61.6
Employment rate of men (% of male population aged 20 - 64)	74.3	74.0	75.0	74.7	73.2	73.5
Employment rate of older workers (% of population aged 55 - 64)	31.8	32.0	34.4	34.5	35.3	37.3
Part-time employment (% of total employment)	22.0	22.2	22.1	22.6	23.4	24.0
Fixed term employment (% of employees with a fixed term contract)	8.9	8.7	8.6	8.3	8.2	8.1
Unemployment rate ¹ (% of labour force)	8.5	8.3	7.5	7.0	7.9	8.3
Long-term unemployment ² (% of labour force)	4.4	4.2	3.8	3.3	3.5	4.1
Youth unemployment rate (% of youth labour force aged 15-24)	21.5	20.5	18.8	18.0	21.9	22.4
Youth NEET ³ rate (% of population aged 15-24)	13.0	11.2	11.2	10.1	11.1	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	12.9	12.6	12.1	12.0	11.1	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39.1	41.4	41.5	42.9	42.0	:
Labour productivity per person employed (annual % change)	0.3	1.5	1.3	-0.7	-2.4	1.5
Hours worked per person employed (annual % change)	1.0	0.1	-0.4	0.5	-1.2	0.3
Labour productivity per hour worked (annual % change; constant prices)	-0.7	1.4	1.7	-1.2	-1.2	1.2
Compensation per employee (annual % change; constant prices)	-0.6	1.0	1.1	1.7	0.7	-0.8
Nominal unit labour cost growth (annual % change)	1.5	1.8	2.1	4.4	4.3	-0.3
Real unit labour cost growth (annual % change)	-0.9	-0.5	-0.2	2.4	3.2	-2.0

Notes:

¹ According to ILO definition, age group 15-74)² Share of persons in the labour force who have been unemployed for at least 12 months.³ NEET are persons that are neither in employment nor in any education or training.

Sources:

Commission services (EU Labour Force Survey and European National Accounts)

Table VII. Labour market and social indicators - continued

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	7.63	7.64	7.36	7.31	7.56
Invalidity	1.97	1.97	1.90	1.79	1.89
Old age and survivors	12.24	12.63	13.48	10.21	10.83
Family/Children	2.05	2.04	2.03	2.07	2.07
Unemployment	3.46	3.45	3.42	3.27	3.32
Housing and Social exclusion n.e.c.	0.50	0.51	0.60	0.81	0.95
Total	27.8	28.2	28.8	25.5	26.6
of which: Means tested benefits	1.02	1.03	1.10	1.15	1.36
Social inclusion indicators	2005	2006	2007	2008	2009
Risk-of-poverty or exclusion ¹ (% of total population)	22.6	21.5	21.6	20.8	20.2
Risk-of-poverty or exclusion of children (% of people aged 0-17)	23.7	21.4	21.6	21.3	20.5
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	23.3	25.2	25.0	22.9	23.1
At-Risk-of-Poverty rate ² (% of total population)	14.8	14.7	15.2	14.7	14.6
Value of relative poverty threshold (single HH per year) - in PPS	9324	9708	9792	10044	10500
Severe Material Deprivation ³ (% of total population)	6.5	6.4	5.7	5.6	5.2
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	15.1	14.3	13.8	11.7	12.3
In-work at-risk-of poverty rate (% of persons employed)	3.9	4.0	4.3	4.7	4.5
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: 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 work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table VIII. Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity ¹ total economy (annual growth in %)	0.9	1.3	1.2	-0.4	-2.4	1.4
Labour productivity ¹ in manufacturing (annual growth in %)	2.4	1.6	4.4	-0.7	n.a.	n.a.
Labour productivity ¹ in electricity, gas, water (annual growth in %)	0.6	4.3	-1.9	-2.9	n.a.	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	2.0	4.6	-1.3	-2.8	-2.6	0.1
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	2.9	2.6	1.4	n.a.	n.a.	n.a.
Policy indicators	2001-2005	2006	2007	2008	2009	2010
Enforcing contracts ³ (days)	n.a.	505	505	505	505	505
Time to start a business ³ (days)	n.a.	27	4	4	4	4
R&D expenditure (% of GDP)	1.9	1.9	1.9	2.0	2.0	n.a.
Tertiary educational attainment (% of 30-34 years old population)	37.4	41.4	41.5	42.9	42.0	n.a.
Total public expenditure on education (% of GDP)	6.0	6.0	6.0	6.5	n.a.	n.a.
	2003	2005	2006	2008	2009	2010
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	1.6	n.a.	n.a.	1.4	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	3.9	n.a.	n.a.	3.7	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	2.4	2.0	1.9	1.8*	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 Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the Product market regulation indicators are presented in detail at 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 ETCR.						
*figure for 2007.						
Source:						
Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						