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(Resolutions, recommendations and opinions)

RECOMMENDATIONS

COUNCIL

COUNCIL RECOMMENDATION

of 13 July 2018

on the 2018 National Reform Programme of Belgium and delivering a Council opinion on the 2018 Stability Programme of Belgium

(2018/C 320/01)

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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

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 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission also adopted the Alert Mechanism Report, in which it did not identify Belgium as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was endorsed by the European Council on 22 March 2018. On 14 May 2018, the Council adopted the Recommendation on the economic policy of the euro area ([3]) ('Recommendation for the euro area').

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) 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 (OJ L 306, 23.11.2011, p. 25).
([3]) OJ C 179, 25.5.2018, p. 1.

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Belgium should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendations (1) to (3) below.

(3) The 2018 country report for Belgium was published on 7 March 2018. It assessed Belgium's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017 ([1]), the follow-up given to the country-specific recommendations adopted in previous years and Belgium's progress towards its national Europe 2020 targets.

(4) On 27 April 2018, Belgium submitted its 2018 National Reform Programme and its 2018 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council ([2]), where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.

(6) Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2018 Stability Programme, the Government plans a gradual improvement of the headline balance from a deficit of 1,0 % of GDP in 2017 to a surplus of 0,1 % of GDP in 2021. The medium-term budgetary objective, set at a balanced budgetary position in structural terms, is planned to be reached by 2020. However, the recalculated structural balance ([3]) still points to a deficit of 0,2 % in 2020. After having peaked at almost 107 % of GDP in 2014 and decreasing to around 103 % of GDP in 2017, the general government debt-to-GDP ratio is expected to decline to 94,6 % by 2021 according to the 2018 Stability Programme. The macroeconomic scenario underpinning those budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2019 onwards have not been specified, which contributes to the projected deterioration of the structural balance in 2019 under unchanged policies according to the Commission 2018 spring forecast.

(7) On 23 May 2018, the Commission issued a report under Article 126(3) of the TFEU, as Belgium did not make sufficient progress towards compliance with the debt reduction benchmark in 2017. Following an assessment of all the relevant factors, as there is currently not sufficiently robust evidence to conclude on the existence of a significant deviation in Belgium in 2017 and over 2016 and 2017 together, the report could not fully conclude as to whether the debt criterion as defined in the Treaty and in Council Regulation (EC) No 1467/97 ([4]) is or is not complied with. The Commission will reassess compliance with the debt reduction benchmark on the basis of the *ex-post* data for 2018 to be notified in Spring 2019.

(8) The 2018 Stability Programme indicates that the budgetary impact of the security-related measures in 2017 is significant, and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure in 2017 amounted to 0,02 % of GDP for security-related

([1]) OJ C 261, 9.8.2017, p. 1.
([2]) Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).
([3]) Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.
([4]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

measures. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the severity of the terrorist threat is an unusual event, its impact on Belgium's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2017 has been reduced to take into account these additional costs.

(9) On 11 July 2017, the Council recommended Belgium to ensure that the nominal growth rate of net primary government expenditure ([1]) does not exceed 1,6 % in 2018, corresponding to an annual structural adjustment of 0,6 % of GDP. At the same time, it was stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Belgium's public finances. Following the Commission's assessment of the strength of the recovery in Belgium while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Belgium's 2018 Draft Budgetary Plan, no additional elements in that regard need to be taken into account. Based on the Commission 2018 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2018 and over 2017 and 2018 taken together.

(10) In 2019, in view of Belgium's general government debt ratio above 60 % of GDP and projected output gap of 0,4 %, the nominal growth rate of net primary government expenditure should not exceed 1,8 %, in line with the structural adjustment of 0,6 % of GDP stemming from the commonly agreed adjustment matrix of requirements under the Stability and Growth Pact. Under unchanged policies, there is a risk of a significant deviation from that requirement in 2019 and over 2018 and 2019 taken together. Belgium is prima facie not forecast to comply with the debt rule in 2018 and 2019. Overall, the Council is of the opinion that the necessary measures should be taken as of 2018 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be prudent.

(11) Sustainability of public finances remains a challenge. The pension reforms enacted in 2015 were a significant step to address risks related to the long-term of ageing, yet the 2018 Ageing Report points to a larger than previously expected increase in age-related long-term expenditure for both pensions and long-term care. Pension expenditure is projected to increase by 2,9 percentage points of GDP in 2070, compared with an increase of 1,3 percentage points in 2060 (and a decrease of 0,1 percentage point of GDP on average for the Union) in the previous update. In this respect, the full implementation of the government's reform roadmap could contribute to addressing those risks. In addition, expenditure on long-term care is projected to increase, going from an already above Union average level of 2,3 % of GDP to 4,0 % of GDP by 2070. The reduction of the fragmentation in the organisational landscape of long-term care, due to the distribution of competences across different administrative levels, has the potential to increase the efficiency of spending in this area.

(12) Effective budget coordination is essential in a federal Member State like Belgium, where a large part of the spending power has been devolved to sub-national governments. To improve internal coordination and to transpose the fiscal component of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the 'Fiscal Compact'), the federal Government and the regional and community governments concluded a cooperation agreement in 2013, with the aim to define overall and individual multiannual fiscal paths, to be monitored by the High Council of Finance. An agreement on individual fiscal targets to be achieved by 2020 has been reached, which is a positive step. However, there is still no formal agreement on annual fiscal targets at all levels of government. Progress has been made in relation to establishing sufficient safeguards regarding the independence of the High Council of Finance.

(13) There is scope to give spending restraint a larger role in fiscal consolidation. Total public expenditure as a percentage of GDP is above the euro area average. Despite its potential to stimulate growth in the long run, public investment is low by European standards, particularly in relation to total public spending. Not only is the public capital stock low, the quality of public infrastructure has also been eroded. Spending reviews can

([1]) Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

contribute to a smarter allocation of expenditure and support growth-friendly consolidation. At regional level, only Flanders is planning to introduce a spending review approach in its budgetary process. In addition, no level of government in Belgium is currently bound by domestic expenditure rules, with the exception of a ceiling for healthcare spending. This contrasts with the increasing adoption of such rules across the Union and prevents spending-based fiscal consolidation. Furthermore, contributions to the Belgian Deposit Guarantee Scheme are not invested in a separate portfolio of low-risk assets.

(14) The distribution of debt and assets across Belgian households reveals some pockets of vulnerability, despite their overall favourable wealth position. A prolonged period of house prices increasing faster than households' disposable income accompanied by continued increases in household indebtedness have made the financial situation of households more fragile. A macroprudential measure, primarily focusing on the resilience of the banking sector, has been implemented in April 2018 to address an increase in systemic risks related to the residential real estate sector. In the future, the national framework for macroprudential decision-making could be enhanced to increase the macroprudential authority's ability to deploy macroprudential instruments in a timely manner. House prices appear currently to be slightly overvalued.

(15) As indicated in the Recommendation for the euro area, the fight against aggressive tax planning is essential to impede distortions of competition between firms, provide fair treatment of taxpayers and safeguard public finances. Spill-over effects of taxpayers' aggressive tax planning strategies between Member States call for a coordinated action of national policies to complement Union legislation. The former Notional Interest Deduction system that was based on the stock of equity has been replaced by an incremental system. The new system, which shares an incremental baseline with the Allowance for Growth and Investment proposed in the common corporate tax base, will be limited to incremental equity capital calculated on the basis of a five-year average. This change is meant to contribute to the budget-neutrality of the corporate tax reform while addressing the potential use of the system in aggressive tax planning and still alleviating the debt/equity bias issue. While the absence of some specific anti-abuse rules was a cause of concern, a reform of the anti-abuse framework is now being prepared. This is a positive step. It will be closely monitored to ensure that the new rules address all relevant forms of abuse. Based on recent exchanges, the Commission will continue its constructive dialogue to fight against taxpayers aggressive planning strategies.

(16) Recent economic growth has been job-rich. Employment growth was robust in 2017 and the unemployment rate is now close to the pre-crisis level. Nevertheless, with regard to the employment rate of the population aged 20 to 64 (68,5 % in 2017), Belgium is not on track to achieving its Europe 2020 target of 73,2 %. Limited progress has been made on the participation in the labour market of disadvantaged groups, as inactivity and unemployment are largely concentrated among the low-skilled, people with a migrant background and older workers, suggesting that both structural and group-specific factors hinder integration in the labour market. In particular, people with a migrant background, which are a large share of the working-age population, continue to face unfavourable labour market outcomes and thus represent a significant untapped labour market potential. In 2016, the employment rate of non-EU born was 49,1 %, which is more than 20 percentage points lower than for native born (the gap was even more pronounced for women). Activation measures could help people from disadvantaged backgrounds, but there is some evidence that those activation measures are not equally effective for all population groups. While some measures have been taken to help new arrivals integrate and to tackle discrimination, there is still a lack of coordination across policy domains and political levels to address the challenge of integrating people with a migrant background in the labour market. Strong regional disparities in labour market performance persist.

(17) In spite of efforts to reduce the tax wedge on labour, disincentives to work remain high for some groups, such as single households earning the average wage and second earners. Despite previous measures, the tax wedge for a single household earning the average wage remained among the Union's highest in 2016. The unemployment trap for low-wage earners (67 % of the average wage for a single household) is also one the Union's highest. High tax disincentives for second earners – mainly women – remain.

(18) The vacancy rate is among the highest in the Union indicating major skills mismatches related to, among other factors, low mobility and, especially in the bilingual Brussels region, inadequate language skills. Participation in lifelong learning is low. More commitments by individuals and employers to continuous lifelong learning is important to enable people to handle employment transitions.

(19) Some progress has been made as regards equal opportunities to participate in quality education and vocational training as the Flemish and the French-speaking Communities are phasing in school reforms. However, despite good average performance in international comparison, long-standing high educational inequalities remain. Educational outcomes of 15 year-old pupils show significant variation linked to the socioeconomic background and migrant status. The performance differences between the Flemish and the French-speaking Communities as well as the underrepresentation of disadvantaged groups among top achievers in science, reading and mathematics are raising concerns. Wide performance gaps between schools go hand-in–hand with unequal educational opportunities. The proportion of tertiary education graduates is high. Yet, inequalities in access to quality education, skills shortages and regional disparities are seen. The proportion of graduates in science, technology and mathematics is one of the lowest in the Union and shortages in these fields could become a major barrier to growth and innovation. Teacher shortages are raising concerns, yet teacher training reforms progress slowly. There is a need to adapt teachers' continuous professional development. Both the Flemish and the French-speaking Communities have embarked on major reforms of their education systems. The implementation of these reforms is planned over the next decade and beyond. However, at the end of 2017, Flanders took the decision to postpone the entry into force of key measures of these reforms by one year. The impact of the reforms and measures will very much depend on their effective implementation and monitoring.

(20) Only limited reforms have been undertaken to address the restrictive regulatory framework in services. Flanders abolished the Establishment Act for a selected number of craft professions. Nevertheless, regulation remains high in some professional services. As a result, competition is subdued in these sectors with low entry rates of new companies coming into the market. In the construction sector, horizontal authorisation schemes for access to the construction market are imposed and building permits remain complex despite measures adopted in recent years. The churn rates in the Belgian construction sector are substantially below the Union average, which may indicate that the sector suffers from insufficient competition. This also impacts the delivery of important infrastructure projects. There are also important restrictions in the area of rail and road transport services. The low productivity growth of the Belgian economy is largely driven by low productivity growth in the services sector. Regulatory restrictions also have adverse spill-over effects on users of these services, in particular the manufacturing sector. More in-depth structural reforms of key services sectors would help boost productivity growth, essential to ensure future growth as well as the sustainability of public finances.

(21) Also limited progress has been made in improving the functioning of the retail sector. Despite recent reforms, regulatory restrictions still weigh on the sector's performance and deter investment. Prices for many product categories continue to be higher than in the neighbouring countries. More effort is needed to render the business environment competitive and investment-friendly to allow consumers enjoy a greater choice of products and lower prices. In April 2018, the Commission has proposed best practices to guide Member States' reforms of the retail sector.

(22) Entrepreneurship performance in Belgium remains low, despite some reforms in the recent years and recent measures whose impact has yet to be assessed. Business dynamism is low, as the business creation rate remains among the lowest in Europe, far lower than the Union average, accompanied by a low destruction rate. Moreover, the administrative burden for firms remains heavy, characterised by complex procedures and a low level of regulatory certainty.

(23) Belgium is an average performer in digital public services. In contrast to its good overall position on development of its digital economy, it ranks only average in digital public services. Belgium's federal structure poses specific challenges in establishing coherent and nationwide e-government services. Diverse systems that are not necessarily interoperable systems create friction losses. Serious concerns remain about the justice system in particular as regards delayed actions, digitalisation, and the reliability, comparability and uniformity of court data. The roll-out of initiatives to digitalise certain court services to all courts such as e-box or e-deposit are behind schedule. However, as long as this uniform coding system is not applied across all courts, data on the efficiency of court proceedings will remain of limited reliability and comparability.

(24) In spite of recent reforms, the Belgian tax system remains complex. The reform of the corporate income tax will lower statutory rates and contribute to simplifying the system. Nevertheless, many exemptions and distortionary incentives remain, as the rising trend in the total amount of tax breaks shows. The opportunity to shift taxes to more growth-friendly bases could be further used. Revenues from environment-related taxes are still among the

lowest in the Union. Indeed, there is considerable potential for a genuine 'green' tax shift dealing, inter alia, with the favourable treatment of company cars, which contribute to air pollution, congestion and greenhouse gas emissions.

(25) There has been limited progress in dealing with traffic congestion. Mobility suffers from insufficient public investment in infrastructure, distortive tax incentives and lack of competition in transport services, causing major congestion and hindering productivity growth. Road traffic congestion is worsening year by year deterring foreign investment and incurring high social, economic and environmental costs. The most urgent challenges are to complete and upgrade rail and road transport infrastructure especially around and inside Antwerp and Brussels. There are also substantial restrictions in the area of rail and road transport services. The authorities can encourage a more efficient use of existing infrastructure and a modal shift away from individual transport use towards more collective and low-emitting alternatives.

(26) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy and published it in the 2018 country report. It has also assessed the 2018 Stability Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to Belgium in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Belgium but also the extent to which they comply with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(27) In the light of this assessment, the Council has examined the 2018 Stability Programme and its opinion ([1]) is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Belgium takes action in 2018 and 2019 to:

1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 1,8 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Pursue the envisaged pension reforms and contain the projected increase in long-term care expenditure. Pursue the full implementation of the 2013 Cooperation Agreement to coordinate fiscal policies of all government levels. Improve the efficiency and composition of public spending at all levels of government to create roo for public investment, in particular by carrying out spending reviews.

2. Remove disincentives to work and strengthen the effectiveness of active labour market policies, in particular for the low-skilled, people with a migrant background and older workers. Pursue the education and training reforms, including by fostering equity and increasing the proportion of graduates in science, technology, engineering and mathematics.

3. Reduce the regulatory and administrative burden to incentivise entrepreneurship and increase competition in services, particularly retail, construction and professional services. Tackle the growing mobility challenges, in particular through investment in new or existing transport infrastructure and reinforcing incentives to use collective and low-emission transport.

Done at Brussels, 13 July 2018.

For the Council
The President
H. LÖGER

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