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# COMMISSION STAFF WORKING DOCUMENT

## Assessment of the 2012 national reform programme and stability programme for BELGIUM

*Accompanying the document*

**Recommendation for**

**COUNCIL RECOMMENDATION**

**on Belgium's 2012 national reform programme and delivering a Council opinion on Belgium's stability programme, 2012-2015**

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## EXECUTIVE SUMMARY

In 2012, Belgium's GDP is expected to remain broadly flat in the first half of the year, followed by a modest export-led recovery from the third quarter onwards. Unemployment is expected to gradually increase from 7.2% in 2011 to around 8% in 2013.

Belgium has recently adopted reforms, including in key areas such as the labour market and pensions. It also introduced a budget for 2012 which helped in taking forward fiscal consolidation. Reflecting the outstanding challenges, some of which have become more acute, Belgium has announced plans to take further measures to pursue fiscal consolidation and strengthen structural reforms.

Ensuring the reduction of the budget deficit to below 3% of GDP by 2012 remains an important policy challenge, as well as continuing to improve the long-term sustainability of public finances by curbing age-related expenditure. The evolution of competitiveness of the Belgian economy is worrisome, due to low growth in productivity and rising labour costs, with wage-setting and indexation mechanisms hampering efforts to limit real wage increases. Relative weak competitive pressure and some structural barriers remain in the retail sector and in network industries. There is room to complement initiated reforms of the unemployment benefit system in order to increase incentives to work, and to improve the effectiveness of active labour market policies, in particular for young unemployed, older workers and non-EU nationals. The financial situation of Belgian banks remains fragile. Finally, reducing greenhouse gas emissions from non-ETS activities, in particular transport, also appears to be a challenge for Belgium.

# 1. INTRODUCTION

## *Procedural aspects*

In June 2011, the Commission proposed six country-specific recommendations (CSRs) for economic and structural reform policies for Belgium. In July 2011 the Council adopted these recommendations which concerned public finances, the pension system, the financial sector, the labour market and wage setting, and competition policy, and were in line with the commitments of the Belgian authorities under the Euro Plus Pact of March 2011.

In November 2011, the Commission published its Annual Growth Survey for 2012 (AGS 2012) in which it set out its proposals for building the necessary common understanding about the priorities for action at national and EU level in 2012. It focused on five priorities — growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and social consequences of the crisis, and modernising public administration. It also encouraged Member States to implement them in the 2012 European Semester.

Against this background, Belgium presented updates of its national reform programme (NRP) and stability programme in April 2012. These programmes provide details of the progress made since July 2011 and plans going forward. This Staff Working Document assesses the status of implementation of the 2011 recommendations and Euro Plus Pact commitments, as well as the AGS 2012 in Belgium. It identifies current policy challenges and examines the country's latest policy plans.

## *Overall assessment*

Overall, Belgium implemented the Council recommendations only partially. The implementation was to some extent hampered by the fact that the new federal government was not sworn in until 6 December 2011, 541 days after the elections of 13 June 2010. The coalition agreement included institutional reforms and a budget for 2012, which helped in taking forward the fiscal consolidation and a number of necessary structural reforms in the area of the labour market and pensions. The efforts undertaken so far are welcome, but they need to be complemented by further reforms.

The challenges which the country has to deal with remain broadly the same, although some of them have become more acute. First, it is important to ensure that public finances stay on track. In the short term, this means bringing the deficit below the level of 3 % of GDP by 2012 and this in a sustainable way, in line with the EDP and the Council's 2011 recommendation. In the longer run, ageing costs will need to be addressed and a structural decline in the deficit has to be achieved in order to bring the high public debt back onto a downward path. Underpinning the ongoing reform of old-age social security with measures that stimulate active ageing and longer working and linking the statutory retirement age to life expectancy would help to achieve this goal. Second, the Belgian financial system still faces considerable challenges. Restructuring of the Belgian banks is on-going, and moreover given the high level of guarantees, the risks of the banking and public sectors are interrelated. Third, the structural problems of the labour market persist, and more could be done to tackle them. Increasing the participation in lifelong learning and pursuing the reforms in vocational education and training are crucial to improving the effectiveness of active labour market policies, particularly for older workers and disadvantaged groups, such as people with a migrant background. Fourth, Belgium's competitiveness is deteriorating and companies have to contend with high labour costs (due to taxes and wage dynamics) and high energy prices, while productivity growth remains subdued. Apart from improved monitoring of energy prices, no steps have been taken to adjust the wage-setting mechanism or to improve the design of the tax system. The potential for shifting taxes towards forms of taxation that have a less distortive effect on growth has not been exploited. Finally, not enough progress has been made in fostering the efficient functioning of the internal market and further developing competition in the retail sector and network industries (energy, transport, telecom and postal services).

## 2. ECONOMIC DEVELOPMENTS AND CHALLENGES

### 1.1. 2.1. Recent economic developments and outlook

***Recent economic developments***

Following the strong recovery in 2010 and the first half of 2011, as a result of world trade picking up, the **Belgian economy slowed down considerably in the second part of 2011**. Quarterly GDP remained flat in the third and declined by 0.1 % in the fourth quarter, resulting in an average GDP growth of 2.0 % in 2011

The main factors contributing to this slowdown were the **general weakening of global activity and the ongoing sovereign debt crisis in the euro area**, which have depressed consumer and business confidence since the summer of 2011. In addition, following the collapse of Dexia in October 2011 and the additional amount of guarantees (EUR 27.2 bn or 7.4 % of GDP) committed by the Belgian government under the temporary agreement concluded with France and Luxembourg in December 2011, there are renewed concerns about the health of the banking sector and the impact on lending (conditions) to households and companies.

As a result of the rise in prices of energy and unprocessed food, inflation rose to 3.5 % in 2011 (from 2.3 % in 2010), which is higher than in the euro area on average (1.6 % and 2.7 % in 2010 and 2011 respectively).

**Employment creation picked up in 2010 and 2011** (by 0.8 % and 1.3 % respectively). As a result, the unemployment rate fell from 8.3 % in 2010 to 7.2 % in 2011, one of the largest improvements in the EU.

***Outlook***

The factors that led to the contraction of economic activity in the second half of 2011 are still in place at the beginning of 2012 (subdued growth in world trade, continuation of the sovereign debt crisis and a banking sector that remains fragile). **GDP is therefore projected to remain broadly flat in the first half of 2012**. A very modest (export-led) recovery is expected to start in the third quarter, and is likely to become more pronounced in the fourth quarter of the year.

The consumer confidence indicator peaked in May 2011, but has since fallen on the back of increasing concerns about the labour market and the economic situation in general. Hence, **private consumption is likely to remain anaemic in 2012** with no real growth, following its 0.7% rise in 2011. **Private investment is expected to slow down** considerably, with capacity utilisation having fallen back below its long-term average. Lower demand for mortgages in the first quarter of 2012 is expected to affect investment in construction. Finally, the consolidation measures included in the 2012 budget, and complemented by additional measures in January and March, are likely to have a limited but negative impact on growth this year. Exports were still booming during the first quarter of 2011, but they fell since then due to a slowdown of foreign markets. **Exports**

**are likely to start to grow again in the course of 2012**, but the unfavourable starting point will limit their increase in 2012 as a whole.

**Inflation is expected to slow down** somewhat in 2012 (from 3.5% to 2.9 %) and is likely to post a further decline in 2013 (to 1.8 %).

The outlook on the labour market has become less positive. As a consequence, the **unemployment rate is expected to gradually rise again** to about 8% in 2013.

***Procedural and governance issues***

**The Belgian Government submitted the 2012 Stability Programme and the national reform programme (NRP) on 30 April 2012 to the European Commission.** The two documents outline in an integrated manner the fiscal consolidation efforts on the one hand and key structural reforms and reforms underpinning macro-economic stabilisation on the other hand. The Stability Programme is in conformity with the Code of Conduct and the NRP follows well the guidance provided by the Commission. Belgium has ensured close coherence between the two programming documents. The NRP was approved by the federal government, while the regional NRPs annexed to the NRP were approved at an earlier stage by the respective regional governments. The Belgian government held consultations with social partners on Europe 2020 matters prior to the NRP adoption. In order to ensure that national 2020 targets will be reached, consistency between regional and national targets and coordination among regional actors are essential.

### 1.2. 2.2. Challenges

Overall, the main policy challenges for Belgium have not changed compared to the 2011 assessment exercise. **The state of its public finances remains the most important challenge.** Although the public deficit fell gradually again in the years after the crisis, public debt still remains high, generating risks in terms of sustainability of public finances, against the backdrop of a rapidly ageing population (age-related expenditure in Belgium is among the highest in the EU) and the high level of expenditure on social transfers. In addition, **there is scope for improving the Belgian fiscal framework**. In the institutional part of the coalition agreement reached at the end of 2011, the regions and communities were granted more responsibilities, which require more transparent rules on internal expenditure and effective medium-term fiscal planning to be extended to all levels of general government.

Although the soundness of the financial sector improved in the course of 2010 and at the start of 2011, **Belgian banks still face considerable challenges**. Restructuring of the Belgian banks is ongoing, and state aid granted in 2008/2009 as a response to the financial crisis has not yet been fully repaid. Moreover, given the high levels of guarantees, the risks of the banking and public sectors are interrelated.

Thirdly, the Belgian labour market suffers from a persistently **high share of long-term unemployed** in overall unemployment, **low employment participation of the elderly and of people with a migrant background** throughout the entire territory as well as from **high youth unemployment** in the Walloon Region, the Brussels Capital Region and certain urban areas in the Flemish Region.[1] Overall, the latter region performs better

[1] While youth unemployment stood at 15.6 % in the Flemish Region in 2010, the Walloon Region and Brussels-Capital registered levels of 30 % and 39.7 %. This is not to say, however, that youth unemployment is not an issue in the Flemish Region. More granular analysis by the Flemish Regional

than the two others in terms of both current absolute employment levels and employment rate growth over the last ten years. Nevertheless, the Flemish regional employment rate remains below par when compared to the best-performing regions of neighbouring countries.[2] A particularly vulnerable group on the Belgian labour market are **non-EU nationals**. Their employment rate is the lowest in the entire EU and they are far more likely to suffer from social exclusion than country nationals. Belgium would benefit from strengthening incentives to work by decreasing the tax wedge and the (para-)fiscal pressure on labour income. Activation measures for those unemployed are comparatively ineffective and eligibility requirements for unemployment benefits could be more actively enforced in order to provide more incentives for job search.

A fourth main challenge concerns Belgium's **competitiveness**. The current account is gradually deteriorating over time,[3] due to the deterioration in the trade balance for goods, which is not entirely offset by the healthy performance of the services balance. Among the factors driving this deterioration, the **loss of cost competitiveness** certainly plays a role. Given the existence of an automatic wage indexation system, the efforts of the government to limit real wage increases to no more than 0.3 % in the period 2011-2012 may not have prevented nominal wages from exceeding those in the neighbouring countries, as inflation could turn out to be higher than expected during wage bargaining and also higher than in the neighbouring countries. This is made all the more problematic by the fact that productivity growth is also weak, and that it is not only wages but also the costs of intermediary inputs (mainly energy) that are high.

Despite having a liberalised energy market since 2007, retail energy prices do not seem to be competitive. Generally speaking, other goods and services are also more expensive in Belgium than in other Member States, which is a reflection of relatively **weak competitive pressures** and some structural barriers, especially **in the retail sector and network industries** such as energy, transport, postal services and telecom. These higher prices put **upward pressure on (core) inflation**, which affects wages through the automatic indexation mechanism and raises the prices of industrial goods as a result.

Belgium's competitiveness could also be supported by **non-price factors,** such as the structural features of trade (e.g. product specialisation and geographical orientation of exports) and micro-based aspects of economic performance (such as brand, quality and after-sales-service) which are not fully covered by price-based measures. While Belgium has a high quality research system, the R&D intensity of the private sector has stagnated in recent years. A key challenge for Belgium is how to speed up the **transition towards a more knowledge-intensive economy** by fully exploiting the strengths of its research system. Moreover, despite the availability of highly qualified human capital, there appears to be a **mismatch between labour demand and supply** in some sectors. Shortages of skilled professionals, particularly in sciences and engineering, could become a major barrier in terms of further improving the innovation performance of the Belgian economy.

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Employment Service highlights youth unemployment levels of between 18 % and 24 % in specific (mainly) urban areas.

[2] While the employment rate (20-64) in 2010 was 62.2 % in the Walloon Region and 59.2 % in the Brussels Capital Region, it stood at 72.1 % in the Flemish Region, which is below the national employment rate in the Netherlands (76.8 %) and Germany (74.9 %) but higher than the one in France (69.1 %).

[3] While between 1995 and 2000 the current account generated surpluses of more than 5 % of GDP, this surplus gradually eroded and fell below 2 % of GDP in 2010 (Balance of Payments definition).

Regarding climate and energy, Belgium is on track to meet its target to increase the share of renewable energy in energy consumption, but **progress towards reaching the 15 % reduction target for greenhouse gases in the non-ETS[4] sectors is likely to be negligible**. Although emissions were down by 1 % until 2010 (compared to 2005 levels) they are expected to increase by 0.3 % by 2020 (compared to 2005) according to Belgium's latest projections, leading to a shortfall of the target by 15.3 percentage points.

**Box 1: Summary of the results of the in-depth review under the macroeconomic imbalances procedure**

The recent deterioration in Belgium's current account balance, mainly due to the deterioration of the goods balance – in contrast to improvements in the services balance, went hand in hand with important losses in market share and declining cost competitiveness. While it remains unclear whether this development is due to a sustained transition towards a more service-oriented economy, the fact that Belgian exports lost ground compared to other euro-area countries points to country-specific negative factors. Whereas the analysis acknowledges the high level of productivity in the country, it highlights that both cost and non-cost factors have hampered Belgian competitiveness. Cost competitiveness has been suffering from both developments of labour costs and the price of intermediate inputs, mainly energy. Labour costs have indeed increased faster than in its main trading partners (DE, FR and NL). In addition, the technological content (many low-to-medium technology goods) of Belgian export products makes Belgium more sensitive to competition from low-wage countries, while the geographical specialisation of exports (mainly euro area countries) implies a slower market growth.

On the internal side, the level of the non-consolidated private sector debt of non-financial corporations is high. However, specific factors, such as the high credit provision among companies of the same group, which is partly related to the previously advantageous tax regime of the coordination centres, contribute to lessen the concerns. Conversely, the households' indebtedness is relatively low and mostly related to mortgage debt, while the households' wealth as measured by their net financial assets is among the highest in the euro area.

The trend reversal of the public debt is a matter of concern. Given the high and increasing public debt level, and notwithstanding that the economy as a whole is in a net lending position, the Belgian public sector remains vulnerable to market pressure. The strong interplay between the Belgian sovereign and the banking sector poses a risk. The high levels of state guarantees granted to the financial sector and possible needs for bank recapitalisation could have an important impact on public debt. On the other hand, Belgian banks could be negatively impacted by their large holdings of domestic government bonds, which expose them to a significant sovereign debt.

The policy response to strengthen cost-competiveness could include measures to improve the functioning of the system of wage formation and to enhance competition in the network industries, particularly in energy markets. Possible measures to improve non-cost competitiveness include the promotion of investment in R&D and in the information and telecom area, ensuring efficient goods and services markets by strengthening

[4] In Belgium only 37.9 % of emissions come from sectors included in the EU Emission Trading Scheme (ETS). Of the more important non-ETS sectors road transport (21.5 %) and energy use (38.9 %) are the largest sources of GHG emissions in the country.

competition and revising regulatory barriers, enhancing the adjustment capacity of the labour market in order to improve labour reallocation and increase labour force utilisation. Finally, decisive implementation of measures to consolidate public finances is needed to put public debt on a steadily decreasing path again and to mitigate pressure in the sovereign debt market. This would also alleviate the risk for banks with large holding of domestic government bonds.

# 3. ASSESSMENT OF THE POLICY AGENDA

## 1.3. 3.1. Fiscal policy and taxation

***Budgetary developments and debt dynamics***

The general government deficit jumped from 1 % of GDP in 2008 to 5.6 % in 2009 as a result of the financial crisis and the recession. On 2 December 2009, the Council decided that an excessive deficit existed in Belgium and recommended to put an end to this situation by 2012. In 2010, the deficit dropped to 3.8 % of GDP thanks essentially to the recovery and to the consolidation measures foreseen in the budget but the decrease almost stopped in 2011 as the deficit only declined to 3.7 % of GDP. The **budgetary strategy outlined in the stability programme aims at bringing the deficit below 3 % of GDP in 2012 (2.8 %) and to achieve a balanced budget by 2015**. To that effect, the deficit of Entity I (Federal government and social security) would be reduced from 2.4 % of GDP in 2012 to 0.1 % in 2015, while Entity II (Regions, Communities and local authorities) would move from a deficit of 0.4 % of GDP to a surplus of 0.1 %. The medium-term budgetary objective (MTO), unchanged with respect to the previous updates of the programme, remains a structural surplus of 0.5 % of GDP and adequately reflects the requirements of the Stability and Growth Pact. The reduction in the deficit would allow putting the public debt ratio on a clearly declining path from 2013 onwards (see annex table IV).

The 2012 stability programme of Belgium is based on a **macroeconomic scenario** where, after stagnating in 2012, activity recovers somewhat in 2013 (+1.3 %) and more frankly in 2014 and 2015, though GDP growth is expected to remain below 2 % (+1.7 % and 1.8 %, respectively). For 2012 and 2013, these projections are very close to the spring 2012 forecast of the Commission services, which projects GDP growth at 0 % and +1.2 %, respectively. For 2014 and 2015, however, the growth projections in the programme are substantially higher than the Commission services' estimates of potential growth (1.1 % a year on average).

In order to meet the deadline set by the Council and to reduce the deficit to 2.8 % of GDP in 2012, **the newly constituted Belgian government included in the 2012 budget, drafted in December 2011, a series of consolidation measures** amounting, according to the budget and the stability programme, to about 3 % of GDP. This also included an additional spending freeze of about 0.35 % of GDP. The Commission services concluded that, based on the macroeconomic scenario prevailing at that moment (a growth projection at 0.9 % according to the Commission services' 2011 autumn forecast), on the consolidation measures in the budget and on the additional freeze, the deficit would situate at 2.9 % of GDP in 2012.

Since then, growth forecast has been substantially revised downwards to 0 % (Commission services spring 2012 forecast). **In March, the Belgian authorities carried out a budgetary monitoring exercise, which resulted in the adoption of new measures amounting to about 0.3 % of GDP.** Taking also into account some downward revisions in spending, the Commission services estimated that the deficit would be reduced ceteris paribus by about 0.4 percentage point of GDP.

| Box 2: Main budgetary measures | |
|---|---|
| **Revenues** | **Expenditure** |
| **2012** | |
| • Reform of the system of "notional interests": 0.4 % of GDP<br>• Increase in the taxation of dividends and interests: 0.2 % of GDP<br>• Fighting tax evasion: 0.2 % of GDP<br>• Abolition of bank secrecy: 0.1 % of GDP<br>• Increase in VAT on pay-TV and introduction of VAT on services of notaries and bailiffs: 0.06 % of GDP<br>• Taxation on houses freely put at the disposal of company bosses: 0.05 % of GDP<br>• Increase in excise duties on tobacco products: 0.05 % of GDP<br>• Reform of the taxation on capital gains inside companies: 0.05 % of GDP<br>• Non-tax revenues : 0.2 % of GDP | • Suppression of the subsidy for clean cars: -0.1 % of GDP<br>• Reduction in transfers to railways: -0.1 % of GDP<br>• Slower increase and additional savings in healthcare spending: -0.6 % of GDP |
| Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue/expenditure increases as a consequence of this measure. The degree of detail reflects the type of information made available in the stability or convergence programme and, where available, of a multiannual budget. | |

The **government layers of Entity II** (regions, communities and local authorities) have also taken measures in order to reduce their deficit, which are estimated in the programme at 0.3 % of GDP in 2011. These measures are supposed to allow them to come back to balance in 2013 and to record a small surplus (0.1 % of GDP) in 2014 and 2015.

In their spring 2012 forecast, the Commission services project the deficit at 3 % of GDP in 2012, based on a zero growth assumption and taking into account the disappointing tax revenues recorded in the first months of the year. Under an unchanged policy assumption, they also forecast that the **deficit will rise to about 3.3 % in 2013** as the favourable effects of the recovery will be offset by the autonomous rising trend in healthcare and pension spending as well as the fading away of the impact of the one-off measures foreseen for 2012, which are estimated at about ½ % of GDP. This implies that, in the view of the Commission services, Belgium will probably be able to meet the 2012 deadline for the correction of its excessive deficit but that additional consolidation measures will be necessary, especially in 2013, in order to make this correction durable.

**The consolidation path described in the programme implies a steep increase in revenues (expressed in percentage of GDP) in 2012 and a slower one afterwards:** all in all, revenues are planned to rise by 2.6 percentage points of GDP from 2011 to 2015, with more than two-thirds of this increase (1.9 percentage point of GDP) taking place in 2012. In parallel, after increasing by 0.9 percentage point of GDP in 2012, expenditure is projected to decrease by 2 percentage points of GDP from 2012 to 2015. In terms of nominal balance, the consolidation effort is slightly back-loaded, with the planned reduction in the headline deficit amounting to 0.9 percentage point of GDP in 2012, 0.7 in 2013, 1.0 in 2014 and 1.1 in 2015. The measures that will allow carrying out this consolidation have not yet been specified for the years after 2012.

**The objectives specified in the programme are close to those presented in the previous programme,** although the macroeconomic environment is substantially less favourable (in particular for 2012, with GDP growth revised from 2.3 % to 0.1 %), which implies that the effort required will be substantially more important. For 2001, the deficit objective, which was 3.6 % of GDP) has broadly been met (3.7 %). For 2012, the 2.8 % objective remains unchanged. For 2013 and 2014, the new objectives (2.15 % and 1.1 % of GDP, respectively) are slightly less ambitious than those in the previous programme (1.8 % and 0.8 %, respectively). For 2015, the objective is now a balanced budget instead of a 0.2 % of GDP surplus.

**Box 3. Excessive deficit procedure for Belgium**

On 2 December 2009, the Council decided that an excessive deficit existed in Belgium. The Council recommended that the Belgian authorities should put an end to the present excessive deficit situation by 2012. The Council also recommended that the deficit be brought below 3 % of GDP in a credible and sustainable manner in a medium-term framework. Specifically,the Belgian authorities were recommended to

a) implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010 and strengthen the plannend fiscal effor tin 2011 and 2012, and

b) ensure an average annual fiscal effort of ¾ % of GDP over the period 2010-2012.

An overview of the current state of excessive deficit procedures is available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm

In its recommendation addressed to Belgium, the Council recommended that the improvement in the structural deficit amount to ¾ % of GDP on average over the period (see box 3). The structural deficit [5] only declined by 0.5 percentage point of GDP in 2010 and even rose by 0.2 in 2011. However, **for the period 2012-2015, the consolidation path described in the programme is broadly in line with the recommendation.** For 2012, the improvement should amount to about 1.1 percentage point of GDP according to the programme and 0.7 according to the Commission services. For the period after 2012, the programme envisages an improvement in the structural deficit amounting to 0.9 percentage point of GDP in 2013, 0.7 in 2014 and 0.8 in 2015, which would imply an

[5] The structural balance being defined as the cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

annual average improvement by about 0.9 percentage point of GDP over the period 2012-2015. For 2013, the Commission services only foresee an improvement by 0.2 percentage point of GDP but this low figure is due to the "unchanged policy" assumption on which their forecast is based for that year.

According to the information in the programme, **the growth rate of government expenditure, net of discretionary revenue measures, over 2013 will not exceed a rate which is lower than the reference medium-term rate of potential GDP growth** (1.4 %) and which ensures an annual structural adjustment towards the MTO by 0.5 % of GDP (0.4 %). According to Commission services' forecast, the growth rate of government expenditure, net of discretionary revenue measures, over 2013 will exceed a rate which is lower than the reference medium-term rate of potential GDP growth (1.4 %) and which ensures an annual structural adjustment towards the MTO by 0.5 % of GDP (0.4 %). For 2014 and 2015 the real growth of government expenditure is planned to be lower than the lower reference rate.

As far as the public debt is concerned, the **programme projects the debt-to-GDP ratio to progressively decline from a maximum of 99.4 % this year to 92.3 % in 2015**. By contrast, due to the increase in the deficit forecast for 2013 and to the additional borrowing needed to finance the Belgian contribution to the EFSF, the ESM and the bilateral loans to Greece, the Commission services project the debt ratio (under the same "no-policy change" assumption) to increase slightly above 100 % in 2012 and to keep rising somewhat in 2013.

Belgium will be in transition period and plans would ensure sufficient progress towards compliance with the debt criterion. According to the Commission services' forecast, **progress towards compliance with the debt criterion will indeed be sufficient**.

Overall, the recommendation addressed to Belgium to eliminate its excessive deficit for 2012 is still achievable. However, **due to the lack of margin between the current deficit estimates and the 3 % of GDP threshold, it cannot be discarded that further measures need to be implemented for this year and permanent monitoring is thus warranted.** Moreover, additional consolidation measures will be necessary, in particular in 2013, to ensure that the excessive deficit is eliminated in a sustainable way.

***Long-term sustainability***

The **projected long-term change in age-related expenditure is clearly above the EU average.**[6] The initial relatively favourable budgetary position compounds the long-term costs. Based on simulations prepared by the Commission services, under a no-policy change assumption, debt would increase to 105.8 % of GDP by 2020. Considerable additional fiscal consolidation beyond the forecast horizon would be needed to make progress towards the reference value for government debt beyond the short-term. However, the full implementation of the programme would be enough to put debt on a downward path by 2020 though it would still be above the 60 % of GDP reference value. Belgium has little scope to increase its already high tax burden; thus focus should be put on decreasing public spending in order to diminish its sustainability gap. Ensuring

[6] It is especially the case for pensions (the projected expenditure growth is of 5.6 p.p. of GDP, compared to the EU27 average of 1.5 p.p.), but also for health and long-term care expenditure (3.1 p.p. vs EU27 average of 2.6 p.p.). The impact of the most recent reform is not included in these figures.

sufficient primary surpluses over the medium-term and further reforming the Belgian social security system, so as to curb the projected substantial increase in age-related expenditure, would improve the sustainability of public finances.

### *Fiscal frameworks*

Given Belgium's decentralised government structure, in which the communities and regions have a substantial measure of autonomy over their budgets, **coordination of fiscal policy between the different levels is crucial, and automatic procedures need to be put in place.** During the negotiations to form a new federal government following the elections of 13 June 2010, much of the debate was focused on the revision of the federal law that governs the financing of regions and communities (Special Finance Act). 75 % of the revenues of the regions and the communities, which manage about one fourth of general government spending, come from grants from the federal state. These grants are increased automatically every year to take account of inflation and GDP growth. Following the agreement of December 2011 on institutional reform, some changes will be made to the transfer system, so that the regions and communities obtain a bigger share of responsibilities and greater tax autonomy, and the transfer system will be revised. Nevertheless, although the revised system is an improvement compared to the previous one, the design of the system has not fundamentally changed, and it is not sufficient as an appropriate means of preventing spending slippages across government levels. In addition to a rules-based, multi-annual framework for general government, particularly with regard to expenditure, it would be helpful to have some kind of internal stability programme to secure and enforce more robust, automatic commitments from the regions and communities, as well as from the local level, in order to meet their allocated deficit targets.

### *Tax systems*

The tax-to-GDP ratio in Belgium is among the highest in the EU. The Belgian tax system is characterised by a relatively high share of direct taxes, reflecting a broad reliance on personal and corporate income taxes. By contrast, the share of indirect taxes and environmental taxes is among the lowest in the EU. Low average growth compared to neighbouring countries combined with increasing wage costs call for a structural reform of the tax system, which **currently relies on growth-distorting taxation, particularly labour taxes.**

**Box 4: Overview of changes in the tax system in Belgium**

- Increase in the tax allowance for low and middle–income earners and a lowering of social security contributions for the first three employees hired by medium-sized enterprises from 2013 onwards.
- Cut in personal income tax expenditures, particularly deductions for energy-efficient investments.
- Plan to abolish the deductibility of mortgage payments, which would be replaced by regional tax measures from 2014 onwards. As the regions have not yet decided which measures to take, the impact of abolishing this tax expenditure is still unclear.
- Increase in capital taxation by raising the withholding tax on interest and dividends, by introducing a solidarity levy on movable income and by introducing a stock exchange transaction tax on short-term investments.
- Increase in corporate taxes, as the notional interest deduction is capped at 3 % of equity until 2014.

- Reduction in the subsidies granted through tax deductions for company cars.
- Reform of the car registration tax at regional level. The reformed car tax in the Flemish Region is based entirely on the CO2 emissions and on the air quality standard to which the car conforms. As of 1 January 2012, the Walloon Region strengthened its CO2-based Ecobonus/-malus scheme for registering a car which is applied on top of the federal car taxation scheme.
- The Flemish Region made minor changes to the landfill and incineration tax, and there are plans to split the wastewater tax into a regulatory component and a financing component.

In general, the **tax measures included in the budgetary agreement (see box 4) tend to be growth-friendly**, as it is consumption taxes rather than labour taxes that are increased and there are plans to improve the efficiency of tax collection. The VAT base was broadened by including notary services and by abolishing the reduced rate for digital television services. In addition, excise duties on tobacco have been increased. The government has also decided to step up the fight against tax fraud and social fraud by extending the powers of the fraud authorities and by strengthening cooperation between them. However, the new measures are unlikely to alleviate the tax burden on labour or to reduce the competitive disadvantage in wage costs. The potential to increase VAT revenues further and to base property taxation on current market value remains largely unused. With respect to increasing consumption taxes, it should be noted that the standard VAT rate in Belgium is comparable to the rate in neighbouring countries, and that further increases might hamper domestic consumption and exacerbate the regressive nature of the Belgian tax system, resulting in undesirable social consequences. It would be preferable, therefore, to increase VAT efficiency by eliminating reduced rates and exemptions, rather than to increase the standard rate.

In addition, there is still **considerable potential for greening the taxation system**. Fuels are not taxed consistently according to their energy content and although the amended company car taxation system reduces tax revenue losses, it provides no incentive for drivers to cut back on the private use of their car. A carbon tax for emissions from both the housing and transport sectors would support the move towards green growth and a less emission-intensive economy, as well as helping to tackle the congestion problem. In addition, a rise in the relatively low fuel taxes and the reduction of tax exemptions for company cars and commuting would be valuable in terms of halting the increase in emissions from the road transport sector, and eventually reducing such emissions, in light of the lack of progress on this target.

### 1.4. 3.2. Financial sector

#### *Financial stability*

**The financial situation of Belgian banks remains fragile**. The average solvency ratio increased in 2010, as banks returned to profitability, but deteriorated again in 2011, mainly due to impairments on investments abroad. The ratio of non-performing loans to total gross loans has remained stable since 2009 (at 2.9 %), but has not yet fallen back to its lower pre-crisis levels (1.2 % in 2007). Moreover, although the exposure of Belgian banks has been significantly reduced since 2008, they remain vulnerable due to high exposure to euro area countries directly affected by the sovereign debt crisis and to Central and Eastern European countries. According to the results of the July 2011 European Banking Authority's stress test, no Belgian institution was below the required 5 % core Tier 1 capital (banks were above 10 % core Tier 1). Following the October 2011 European Council conclusions, in the context of the temporary bank recapitalisation exercise coordinated by the European Banking Authority, only Dexia fell short of complying with a higher minimum core Tier 1 capital ratio of 9 % of risk-weighted assets after accounting for sovereign debt holdings at market prices.

The **Belgian authorities have played an active part in the process of restructuring Dexia** after the Dexia holding collapsed in October 2011 despite the improved supervisory framework. In particular, they bought the Belgian subsidiary (renamed 'Belfius' in March 2012) of the group, in addition to providing state guarantees[7] to the Dexia holding. The streamlining of the group is not complete, and further restructuring is required. KBC has been following its restructuring plan, involving several divestments and reductions of the balance sheet. The bank repaid EUR 500 million (as well as an interest fee of EUR 75 million) to the federal government at the beginning of January 2012, and a sum of EUR 6.5 billion has to be repaid by the end of 2013.

The coalition agreement of December 2011 introduced some measures that were intended to lead to **stricter supervision on banks, better management and stronger capital buffers**. In order to further improve bank supervision (following the introduction of the 'Twin Peaks model'[8] in April 2011), the new federal government decided to strengthen the powers of Parliament to monitor the Financial Services and Markets Authority (FSMA). The FSMA would be transformed into a stronger and independent regulator serving the interests of the consumers of financial products. Bank management benefited from the introduction of a 'bank will', which describes the procedures to be followed in the event of a crisis. It has also been decided that banks which have received state aid may not pay out any bonuses until the state aid has been repaid. In line with the 2011 recommendation, the government also agreed that the restructuring of banks should be continued and finalised in order to ensure better risk management and greater solvency of the banks.

***Funding of the economy***

**Despite tighter funding (reflected in the increased demand for Eurosystem loans[9]), the overall loans to the non-Monetary Financial Institutions (non-MFIs) continued to rise, albeit at lower rates than before the crisis.** While lending to the household sector remained broadly stable, loans to the corporate sector slowed down, although Belgian small and medium enterprises still have better access to public financial support than do similar firms in other EU countries.[10] In line with the 2012 AGS priority to restore lending to the real economy, a number of initiatives have been taken to improve access to funding for small and medium enterprises, such as the establishment of 'Concileo' as a permanent mediation platform in the Walloon Region and the appointment of a 'credit mediator' (at central and regional levels) to assist companies that are experiencing financial difficulties or to help enterprises obtain bank funding. The

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[7] This initial agreement on guarantees of EUR 90 bn, of which Belgium has a share of 60.5 % or EUR 54.4 bn (about 15 % of GDP), was modified in December to half of the amount, i.e. EUR 45 bn, of which EUR 27.2 bn (7.4 % of GDP) would be attributed to Belgium.

[8] 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.

[9] Belgian banks increased their borrowing from the ECB to EUR 45 billion (4.9 % of liabilities) by end-November 2011.

[10] As regards access to private capital, the share of unsuccessful loan applications is much lower in Belgium than in other EU countries (only 5 %, as compared to the EU average of 23 %). The Belgian share of early-stage venture capital investments is almost three times the EU average.

federal government launched a second ‘Starters Fund’, providing a loan of EUR 300 million of additional resources to enable the Participation Fund to finance starters.

### 1.5. 3.3. Labour market, education and social policy

The sluggish performance of the Belgian labour market is the result of the interplay of a number of features highlighted in the 2011 Council recommendations, such as a low effective retirement age due to relatively lenient eligibility conditions for early retirement (age and career length) and widespread early exit systems (CSR 2), the perverse effects of the current wage-setting mechanisms, including the wage indexation system (CSR 4), a high tax and social security burden on wages (CSR 5) and disincentives to taking up work as a result of an insufficiently regressive unemployment benefit system (CSR 5), together with fairly ineffectual active labour market policies (CSR 5). **Progress in tackling these various issues has been patchy.** Belgium initiated a reform of its social security systems in respect of old-age and unemployment benefits. However, no headway has been made in shifting the tax burden away from labour or in reforming the existing wage bargaining system (see section 4.4).

More specifically, in response to the 2011 recommendation, the new federal government reached agreement in December 2011 on a long-awaited **reform of the Belgian old-age social security system** designed to boost labour market participation by older workers[11] and to curb age-related expenditure (as ageing costs in Belgium are significantly higher than in the EU on average). The main aim of the reform is to extend working lives by tightening the eligibility requirements for early retirement (age, minimum career) and by gradually rolling back early exit or ‘preretirement’ systems. In addition, both the public and private pension schemes will be made less generous by respectively extending the basis for calculation from the last 5 years of working life to the last 10 years, and by reducing pension rights accrued during periods of inactivity. Lastly, a number of special retirement schemes are being phased out. The reform is an important step in the efforts that are being made to curb age-related expenditure and promote active ageing. While the transition periods for phasing in the new rules are relatively short, the impact of the measures taken will depend crucially on the consistency of their implementation, the monitoring arrangements that are put in place and the extent to which potential abuse of possible loopholes (for instance, within the sickness and disability schemes) is tackled. Additional measures that control expenditure increases in the health system and that link the statutory retirement age with increases in life expectancy would contribute further to the long-term sustainability of public finances.

In addition to the measures to tighten the eligibility requirements for early retirement and to roll back early exit systems, the government agreed on a number of **new initiatives to support active ageing**: (i) as of April 2012, social security charges on the employers' contributions to preretirement schemes have increased in order to discourage the abuse of early exit systems during restructuring; (ii) unless the social partners come up with a collective bargaining agreement serving the same purpose, as of July 2012, employers of medium-sized and large companies would be required by law to develop an annual active ageing strategy, outlining the measures they intend to take in order to maintain and/or increase employment opportunities for workers over the age of 45; (iii) in the case of

[11] According to Eurostat the effective retirement age in Belgium stood at 61.6 years in Belgium in 2007, while the OECD — using a 5-year average — reports a figure of 59 years in 2009. Despite differences depending on the source and type of data, the gap with the statutory age of 65 years is high.

collective redundancies, employers would be required to spread the dismissals proportionally over the various age categories employed in the company.

In response to the 2011 recommendation, Belgium has made good progress in reforming its unemployment benefit system but **efforts to lower the tax burden on wages are limited.** A new tax credit for those on the lowest wages has been introduced but given the small amounts involved (max EUR 120/year) it is insufficient to remedy the serious unemployment traps at the bottom of the pay scale. Efforts to reduce the tax wedge and the (para-)fiscal pressure on labour income, which rank among the highest in the EU, would strengthen incentives to work. To preserve fiscal sustainability, reductions in labour taxes could be offset by increases in more growth-friendly taxes, such as recurrent taxes on immovable property, and environmental and consumption taxes.

On the other hand, the 2011 coalition agreement contains a fairly detailed proposal for a **reform of the unemployment system**, which would increase the rate of reduction of unemployment benefits over time, without having them fade out entirely (see Box 5). Like the reform of the old-age social security system, the intended measures with regard to the unemployment benefit scheme are in line with the thrust of the Council recommendations, in the sense that they provide stronger incentives to take up work. Additionally, more active enforcement of compliance with eligibility requirements of unemployment benefits would provide more incentives for job search. Apart from the increased degressivity of the unemployment benefits adopted by the government, incentives to look for jobs could be further enhanced by ensuring that unemployment assistance benefits are designed in such a way to make work pay for all socio-economic groups, and accompanied by appropriate activation policies.

**Box 5 — Reform of the unemployment benefit system**

The reform consists of two major parts dealing with (1) the tide-over allowance (*'allocation d'attente'*) granted to young unemployed who have not yet contributed or have not contributed sufficiently to the unemployment social security system and (2) the regular unemployment benefit scheme.

(1) The legislative proposals with regard to the **reform of the tide-over allowance** were adopted by Parliament at the end of December 2011 and entered into force on 1 January 2012. They tighten the eligibility conditions for this particular type of unemployment benefit in several ways: (i) the ‘waiting period’ before an allowance is granted will be extended to 12 months (instead of 9) for all new applicants and transformed into a ‘vocational development phase’ during which significant steps should be taken to find employment, (ii) a periodical evaluation of the efforts will be introduced and will only be allowed after a positive evaluation the extension of the unemployment benefit scheme has been received, and (iii) as a rule, the duration of the benefit period will be limited to a maximum of 3 years, although there will be some exceptions.

(2) The legislative proposals for **the reform of the regular unemployment allowance** are currently being drafted. Under the terms of the coalition agreement, the new system would gradually reduce the unemployment allowance by more than in the current system and would apply to all beneficiaries, regardless of the composition of their household. After a given period (depending on the number of years in employment, but not more than four years) the beneficiary would revert to a flat-rate payment. This reform is due to be adopted by Parliament in the coming months.

Finally, Belgium spends a comparatively high average amount per person on **active labour market policies**[12], but the **effectiveness of these policies is hampered by a number of factors**, such as limited coordination of institutional actors contributing to low interregional labour mobility and fragmented policy implementation (particularly the different levels at which activation, benefits and sanctions are managed, leading to long time-lags in keeping track of job seekers and fragmented implementation of policy), insufficient follow-up of older job seekers, significant unemployment and inactivity traps and distorted incentives to continue working past the age of 55. The latter two issues are dealt with in part by the initiation of reforms of the unemployment and old-age social security systems described above. However, despite the commitment expressed in the 2011 NRP, the plans to raise the age ceiling below which compliance with eligibility requirements for unemployment benefits are actively verified by the National Employment Service have not been implemented. As a result, compliance with the requirement to actively seek employment is not being actively followed up by the federal authorities who provide benefits for job seekers over the age of 50. However, according to the coalition agreement and the national reform programme, this age ceiling will be raised in two stages to 55 (in 2013) and 58 (by 2016). Legislative proposals on this matter are still in the pipeline.[13]

Lastly, despite the persistent high tension and the numerous shortages on the labour market, Belgium is one of the few EU countries where the level of **participation in lifelong learning** fell significantly over the last decade. There are clear differences between the policies that are put in place at regional level to deal with the problem of professions where there are shortages and skills mismatches (see Box 6).

**Box 6 — Progress in the area of lifelong learning and education**

As a response to the high tensions and shortages on the labour market and in order to combat youth unemployment, all communities/regions have developed measures to identify and anticipate skills gaps. Closer cooperation between the labour market and education, as well as measures to reform vocational education and training are considered to be priorities in the current education and training policies.

The Flemish Community has developed an integrated policy to deal with shortage professions, simultaneously pursuing reform of the schooling system to re-evaluate technical and vocational education and enhanced cooperation between training centres and sector organisations in order to develop a lifelong learning offer attuned to the needs of the labour market. At the same time, the Flemish regional employment service is pursuing a proactive policy of career reorientation, encouraging job seekers with qualifications that are less in demand to explore new horizons in future-oriented sectors. Although similar efforts are undertaken in the French Community, their targets are less ambitious and they are less integrated. Moreover, the current horizon of the reform is 2014 and it is not complemented by an evidence-based strategy to tackle early school leaving, despite the fact that early school leaving rates are higher than the national average and

[12] In Belgium, the various policies regrouped under this denominator are a matter of shared competence between the different levels of government. The federal government is responsible for both structural and targeted social security reductions and for the follow-up and penalisation of the unemployed. The regions, for their part, are responsible for placement of jobseekers via the regional employment offices whereas the communities are competent in matters related to education, vocational training and lifelong learning.

[13] It should be noted, however, that the Flemish Region has already invested heavily in the effectiveness of activation policies by allocating significant financial and human resources to personalised job placement services and by extending the coverage of activation policies among the elderly to job seekers below the age of 55. This age ceiling will be increased to the age of 58 as of June 2012. For now, the regional employment services in the Walloon Region and the Brussels Capital Region ensure coverage only up to the age of 50.

especially worrying in Brussels (18.4 % in 2010 compared to a national average of 11.9 % and an EU average of 14.1 %). Young people with a migrant background are twice more at risk to become early school leavers (21.9 vs. 10.7 %).

Belgium has held its ground relatively well in the **fight against poverty and social exclusion**. Despite the financial and economic crisis, both the 'at-risk-of-poverty-or-social-exclusion'-rate and the 'relative-income-poverty'-rate have remained more or less stable for the past three years at levels below the corresponding EU-27 averages. Nevertheless, in the case of pensioners Belgium is performing worse, with 21 % of those over the age of 65 being at risk of poverty (i.e. having an income of less than 60 % of the median) in 2010, compared to the EU average of 15.9 %.

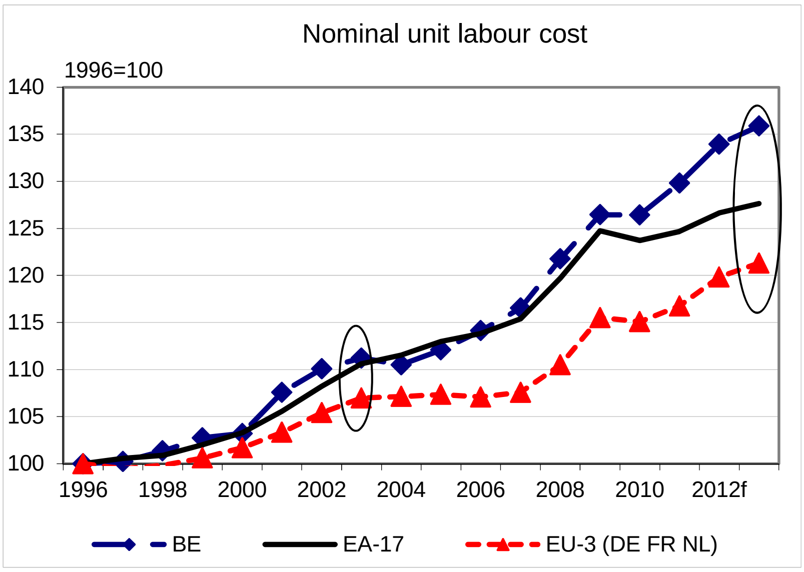
In 2011, Belgium was not issued a specific recommendation related to the fight against poverty and social exclusion, although the recommendation alluded to the **need to target active labour market policies at vulnerable groups**. Among these, migrants occupy a prominent place. While the average EU at-risk-of-poverty rate of non-EU nationals stands at 41.8 %, Belgium compares unfavourably with a rate of 63.4 %, the highest rate in the EU. Non-country nationals from within the EU perform better, with a rate of 25.5 % against 28.8 % on average in the EU. The low educational attainment and the precarious labour market situation of migrants seem to be the main drivers behind these worrisome figures. At 39.6 %, the employment rate of non-EU nationals in Belgium is by far the lowest in the EU and the differential with the overall employment rate remained high over the past years. Moreover, non-nationals who do participate full-time in the labour market often have precarious, temporary jobs and are more often overqualified compared to Belgians. Migrants are also far more exposed to the risk of relative income poverty than are native Belgians, and a disproportionally large share number of these lives in households with very low work intensity, exposing them far more than the native Belgian population to the risk of intergenerational transmission of poverty and social exclusion. A comprehensive strategy is required to integrate these groups in the labour market.

### 1.6. 3.4. Growth and competitiveness structural measures

*Cost Competitiveness*

Belgian (cost and non-cost) **competitiveness has been deteriorating in recent years**. The current account has worsened and Belgium is facing losses in its export market share.

**Figure 1: Evolution nominal unit labour cost in Belgium, its neighbouring countries and the euro area**




*Source: Ameco*

**Unit labour costs have tended to increase more rapidly in Belgium** than in the neighbouring countries, especially since 2005 (see Figure 1). The government's decision to limit real wage growth to 0.3 % over the period 2011-2012 (the so-called 'wage norm') could not prevent nominal wages from rising more than in the neighbouring countries, as inflation in Belgium was higher than expected at the start of the wage negotiations and above that of the neighbouring countries. In this respect, promoting the use of "all-in clauses", allowing the temporary suspension of indexation in periods where inflation is above the wage increase allowed by the wage norm, would be useful.

Higher wages are not a problem as long as they go hand-in-hand with quality products and higher productivity. However, Belgium is mainly specialised in low to medium technology goods, for which competition on prices is more relevant than competition on quality. Secondly, productivity growth has been lower than in Belgium's main trading partners and the euro area. The 2011 assessment of the national reform programme suggested a reform of the wage-setting mechanism — including wage indexation — as one of the ways to improve competitiveness (CSR 4). However, **there has been no progress with regard to reforming the system of wage bargaining and wage indexation.**

Instead of reforming the wage-setting mechanism, the current government is aiming to tackle what it considers to be the real cause of Belgium's deteriorating cost competitiveness, namely the **inflationary pressure resulting from surges in the prices of energy and commodities**. Compared to the euro area average, Belgium has a very high pass-through from crude oil prices to headline inflation. Competitiveness of the Belgian economy could also be improved by strengthening (i) competition and supervision of the energy sector (making prices more competitive) and (ii) energy/resource efficiency.

(i) In order to monitor prices closely, the **Price Observatory was granted extra powers** by the caretaker government in March 2011 to conduct surveys in sectors where competition appears to be harmed, and to investigate price trends. The government has frozen energy retail prices from April 2012 onwards until the end of the year. The government has also announced a number of structural measures to be implemented in the coming months,[14] although the majority of those do not focus on fostering competition, but rather on directly reducing the end consumer's final energy bill.[15] **While measures to control inflationary pressures by limiting energy price increases are welcome, price controls cannot be the preferred tool in a liberalised energy market.** Price controls are likely to impact adversely on investment in the Belgian energy sector, where insufficient investment in the generation sector is an issue, due to the ageing of many power plants. Such measures may also affect different players in the sector unequally. To enhance competition in a structural way and ensure more competitive energy prices, it is important to improve the cost efficiency of the distribution network[16] and to lower barriers to entry (especially in the wholesale market[17]). In this respect, the efforts to **enhance the interconnection capacity and to integrate the physical electricity grid**, and the electricity markets of Belgium and its neighbouring countries, need to be continued. This would also help to balance the expected shortfall in domestic production by 2015.

There is room to improve the coordination between the competition authority and the sectoral regulators as a way of improving the enforcement of **competition rules in the energy market**. The Belgian authorities have announced substantial reforms, and a new structure for the Belgian competition authority is due to be created. However, it remains unclear whether the new authority would receive sufficient guarantees in terms of independence and adequate resources.

(ii) **Higher energy efficiency** would not only improve Belgium's environmental performance in terms of emissions and energy savings; it would also have an impact on energy consumption and costs (mainly in the transport and household sector), with positive spillovers as regards competitiveness. Belgium has developed a series of measures on energy efficiency, covering most sectors. The focus is on the refurbishment of existing buildings in particular. Ongoing actions to tackle residential and tertiary buildings, as well as the extensive renovation of public buildings through promotional programmes, are expected to contribute towards improved energy efficiency.

***Non-cost competitiveness***

Apart from keeping wages and (energy) costs under control, there are **also non-cost factors (R&D, education, business environment) that could improve competitiveness.**

**R&D** intensity stagnated in the period 2000-2010, rising only from 1.97 % to 1.99 % of GDP. While public R&D expenditure increased in this period (from 0.55 % to 0.67 % of GDP), private expenditure on R&D declined (from 1.42 % to 1.32 % of GDP) due to changes in the economic structure which has become more service-oriented. The

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[14] In particular, the federal government decided to oblige GDF Suez to divest part of its production capacity (of amortised nuclear plants) and sell it on the market. Other initiatives such as on-line price comparability tools for electricity and gas (provided by the regulators of the three regions) can also increase transparency of energy prices for customers.

[15] They refer to the elimination of switching fees, support for renewable energy, suspension during 9 months of the transfer of money to the Kyoto fund, encouraging regions to work on reducing distribution tariffs, revision of the social tariff system and freezing of distribution tariffs until 2014.

[16] Distribution costs account for almost 40 % of end-user energy prices in Belgium.

[17] The wholesale electricity market is dominated by the incumbent energy company, Electrabel (GDF/Suez), with a market share close to 80 %.

dominance of the service sector in Belgium would justify specific measures to improve the knowledge intensity of the service sector over time. The federal government is allowing a 75 % payroll tax exemption for researchers, and all regions and communities have developed strategic innovation approaches covering major aspects of a successful innovation strategy.[18]

Nevertheless, there is a case for the national and regional **research and innovation policy** mixes to integrate more systematically demand-side policy tools, such as innovative public procurement. Moreover, appropriate mechanisms need to be put in place to ensure that there is overall coherence among the various research and innovation policies undertaken at federal, community and regional levels and that opportunities for synergies are fully exploited. It is also very important to attract more young talent into science and engineering studies in order to avoid a skills shortage which may deter future private R&D investments.

In order to further **improve the business environment**, the new federal government pledged to retain some fiscally advantageous treatment of SMEs, to reduce the administrative burden ('one-stop-shop' principle and improved electronic communication with the government institutions), to improve the social status of self-employed people, and to increase R&D efforts. As regards the implementation of the Services Directive in Belgium, some restrictions in the services sector still remain, in particular in the areas of tourism, real estate services, driving schools, vocational training and the regulated professions. Although the Belgian point of single contact is well established and the provision of information is generally good, there is room for improvement in terms of user-friendliness, enhanced online completion of procedures, better integration between the central portal and the nine decentralised contact points and higher awareness of the contact point among business users**.**

***Competition in postal services, transport and telecom***

EU Directives have gradually opened up the postal market to competition, enabling new operators and innovative services to appear, thereby promoting competition in terms of quality and price of postal services. In Belgium, however**, the amended postal legislation raises serious concerns,** particularly the provision concerning justifiable licensing conditions. Moreover, the incumbent postal operator continues to be overcompensated for public service missions, in particular for press distribution.

**In the field of transport, a more competition-driven policy should be pursued** to enhance further the functioning of the internal market for transport. In rail, the existing holding structure of NMBS/SNCB, covering both service provider and infrastructure manager, is complex and non-transparent. Moreover, unlike other Member States, Belgium has not yet opened up its domestic rail passenger market to competition. Progress has been made on regulatory services for railway transport and for airport operations, although there is scope for further strengthening their independence. Modernisation of port labour legislation would also make it possible to enhance the efficient functioning of the internal market for transport in Belgium.

[18] In the Walloon Region the focus has been on supporting a limited number of competitiveness poles (a cluster approach). In the Flemish Region, the willingness to address through innovation some specific societal challenges is a main driver of research & innovation policy. In the Brussels Capital Region, the preparation of a new research & innovation strategy has started in 2011; it will include a 'smart specialisation' approach.

**Despite the liberalisation of the telecom sector, the market is still dominated by the incumbent firm,** although in the Flemish Region a second player is providing fierce competition. In conjunction with the failure of network sector regulators to introduce a level playing field to allow new entry and expansion of competitors, this situation leads to higher prices than in other countries. Despite the major penetration of broadband, Belgium has one of the lower take-up rates of mobile internet. As the dissemination of mobile internet crucially depends on the availability of radio spectrum, the fact of making spectrum[19] available for wireless broadband will help reduce the digital divide, introduce greater choice in broadband, and enable innovation in other sectors.

Finally, Belgium lacks an **independent state aid coordinator** that vets domestic state aid; and a central state aid register, which would enable better monitoring of public expenditure and speed up progress in state aid investigations.

***Competition and regulation in the retail sector***

As far as regulation is concerned, according to the OECD Product Market Regulation (2008) indicator the **retail sector in Belgium is more highly regulated** than in other euro area countries[20]; only Luxembourg has a more stringent regime. Despite Belgium's poor ranking, it should be acknowledged that improvements have been made in recent years, under the new law on 'market practices and consumer protection' and the 'Ikea law' (2004).[21] Nevertheless, Belgium still has some operational restrictions, especially in terms of specific (zoning) regulation of large outlets and the regulation of shop opening hours. A recent report by the National Bank of Belgium[22] indicates that the retail sector would benefit from simplifying and streamlining existing laws, as already the existence of these laws (even if they are not very restrictive) can influence the way market players' perceive obstacles that are likely to limit competition.

As for competition, the Belgian **retail market** is less concentrated overall, and profit margins are lower than in the euro area on average, which indicates a high level of competition. Nevertheless, in terms of prices, **Belgium turns out to be one of the most expensive countries, with a price level that is more than 10 % above the euro area average.** These price levels are not only determined by competition and regulation, but also by the structural aspects of the country (such as relative income levels and VAT rates). In the specific case of supermarkets, similar products are between 7.5 % and 10 % more expensive in Belgium on average than in the neighbouring countries.[23] A number of factors contribute to the explanation of these higher prices, including structural features of supermarkets, in particular higher wage bills due to a high share of older workers and strong trade unions (compared to the Netherlands for example), barriers to entry, some aspects of labour market regulations and some contractual practices in the retail sector.

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[19] In particular, the 800MHz band, which is a very suitable frequency band for wireless broadband, is still allocated to broadcasting. More cooperation is needed between the Federal government and the communities to allocate the 800 MHz band to wireless broadband services.

[20] Source: OECD Economic Policy Reforms – Going for Growth 2012.

[21] In particular, regarding less stringent zoning laws for new outlets, allowing tied sales (with the exception of financial services), loosening the ban on sales below costs and reducing the black-out period and limiting this to the clothing market.

[22] Cornille, D., Langohr, J. (2011), 'The distributive trade sector and its impact on euro area prices', NBB Economic Review, December 2011, pp. 35-52.

[23] FPS Economy (2012), 'Niveau de prix dans les supermarchés'. Available at: http://economie.fgov.be/fr/binaries/etude_niveaux_prix_supermarches_tcm326-163021.pdf.

*Climate and energy*

**Road transport offers considerable potential for lowering non-ETS greenhouse gas emissions**. Moreover, congestion (concentrated in bottlenecks around Brussels and Antwerp and on some trunk roads) is also placing a particularly heavy burden on the Belgian economy and environment.[24] Road pricing or congestion charges could reduce negative transport externalities. In addition to a greener taxation system, a more efficient public transport service and an increased coordination between the different levels of power could contribute to a solution. The buildings sector also has a significant potential for emission reduction and will require additional measures if it is to meet the reduction targets.

In 2011, **Belgium has not adopted sufficient measures or policy initiatives to address this situation.** This may be due in part to the fact that there was a caretaker government in place at the federal level, and the fact that this was the year in which the Flemish Region was developing its mitigation plan towards 2020. The coalition agreement of December 2011 identifies a number of new climate-related policy initiatives that are to be implemented in 2012 and 2013. To ensure that investments are made in renewable energy in the building sector, a ‘climate accountability system’ is planned.[25] A second source of investments in renewable energy will be in the form of contributions from the nuclear power sector.

### 1.7. 3.5. Modernisation of public administration

The administrative burden fell from 2.55 % of GDP to 1.43 % between 2000 and 2010.[26] However, **inefficient government bureaucracy** is still listed as one of the three major problems in terms of doing business in Belgium.[27] Belgium’s overall performance as regards responsive administration is in line with the EU average, although in terms of the time and cost to transfer property, its performance is worse.[28] The procedures for starting up a business seem less complex in Belgium than in the EU: it takes only four days to start up a new business compared to two weeks in the EU on average, and the cost of enforcing contracts is also lower (16.6 % of the claim compared to the EU average of 20.84 %). The country also performs fairly well on indicators linked to paying taxes. On the policy front, the procedures for e-invoicing have been simplified at federal level, and property registration has been tightened up for entrepreneurs by the introduction of time limits and implementation of the ‘e-notariat’ system. Belgium has also recently adopted a package to modernise its public procurement legislation. On the other hand, a considerable amount of time and effort is still spent on obtaining permits, which is partly due to the increase in environmental legislation. Initiatives are being taken at the federal and regional levels to simplify and streamline investment procedures, and to enhance the performance of the authorities.

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[24] The estimates of the cost of congestion in Belgium range from 0.05 % of GDP to 2 % of GDP, which are among the highest in Europe.

[25] This system will set multi-annual targets for the regions and will allocate bonuses to regions that exceed targets (that are in turn expected to be invested in emission reduction measures).

[26] Sixth edition of the survey on administrative burdens, commissioned by the Agency for administrative simplification.

[27] Third factor behind ‘restrictive labour regulations’ and ‘tax rates’ (World Economic Forum Global Competitiveness Report 2011-2012).

[28] World Bank, Doing Business 2012, Belgium.

As regards **directives relating to the internal market**, the increase in the backlog in terms of transposition in Belgium has been one of the highest,[29] and more than half of the total number of directives outstanding for Belgium (18 out of 30) are in the areas of the environment, financial services and transport.

[29] According to the official results presented in 'Making the Single Market deliver — Annual governance check-up 2011' (cut-off date: 10 November 2011) and in the 'Internal Market Scoreboard', No 23/2011 (cut-off date: 10 May 2011) respectively.

## 4. OVERVIEW TABLE

| 2011 commitments | Summary assessment |
|---|---|
| **Country-specific recommendations (CSRs)** | |
| CSR 1: Take advantage of the ongoing economic recovery to accelerate the correction of the excessive deficit. To this end, take the necessary specified measures — mainly on the expenditure side — by the time of the 2012 budget to achieve an average annual fiscal effort in line with the recommendations under the EDP, thus bringing the high public debt ratio on a declining path. This should bring the government deficit well below the 3 % of the GDP reference value by 2012 at the latest. Ensure progress towards the medium-term objective by at least 0.5 % of GDP annually. | **At the moment Belgium has only partially implemented the recommendation.** In December 2009, the Council recommended that Belgium should bring the deficit down below 3 % of GDP. According to the Commission services' 2012 spring forecast, the general government deficit is expected to come out at about 3 % of GDP in 2012, the official objective being 2.8 %. However, the current estimate of the 2012 deficit is practically at the 3 % threshold, and this only thanks to sizeable one-off measures. Moreover, under an "unchanged policy" assumption the deficit is expected to rise again to 3.3 % of GDP in 2013. Therefore permanent monitoring of public finances will be required and additional consolidation measures may be needed in 2012 and especially 2013 to make the correction of the excessive deficit durable. |
| CSR 2: Take steps to improve the long-term sustainability of public finances. In line with the framework of the three-pronged EU strategy, the focus should be put on curbing age-related expenditure, notably by preventing early exit from the labour market in order to markedly increase the effective retirement age. Measures such as linking the statutory retirement age to life expectancy could be considered. | **So far, Belgium has partially implemented the recommendation.** Although it does not constitute a radical overhaul of the existing system, the recent reform of Belgian old-age social security (i.e. pensions and 'preretirement' schemes) is expected to contribute to the long-term sustainability of public finances as (i) age and career requirements for early retirement will be tightened, (ii) 'pre-retirement schemes' within the unemployment benefit system will become less accessible, (iii) public sector pensions will be calculated on a less advantageous basis, and (iv) periods of inactivity will accrue less pension rights in the private sector. Nevertheless, it is too soon to tell whether this reform is actually ambitious enough to safeguard sustainability in the long term. Its impact will depend crucially on the way of implementation, the monitoring arrangements that are put in place and the extent to which potential abuse of possible loopholes (for instance, within the sickness and disability schemes) is tackled. Also, in order to encourage active ageing and longer working lives, these measures in the area of pension reform would have to be accompanied by labour market reforms that stimulate higher employment rates among older workers by providing better access to lifelong learning, making job search requirements obligatory for older workers, adapting workplaces to a more diverse workforce, tackling the abuse of early exit programmes by companies undergoing restructuring and developing employment opportunities for all older workers. Although the federal government has already tabled several initiatives in this regard, not all have been |

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| | implemented and the magnitude of the challenge requires sustained efforts in coming years. |
| CSR 3: Address the structural weaknesses in the financial sector, in particular by finalising restructuring of the banks in need of an adequately funded and viable business model. | **Belgium has partially implemented the recommendation.** The supervisory framework for the financial sector has been reformed, in line with what was decided at European level (all supervisory activities have been the responsibility of the National Bank of Belgium since 1 April 2011). Moreover, the new government introduced measures to ensure stricter supervision of banks (request for an action plan in the event of a crisis, and a ban on paying out bonuses for banks that receive state aid). Despite the initiatives taken by the government for enhanced supervision of the banking sector, Belgium needs to continue to make efforts to further restore confidence in the banking sector. Nationalisation of Dexia Belgium and the guarantees provided by the government should ensure that the collapse of Dexia does not have an impact on the real economy, while avoiding distortion of competition. |
| CSR 4: Take steps to reform, in consultation with the social partners and in accordance with national practice, the system of wage bargaining and wage indexation, to ensure that wage growth better reflects developments in labour productivity and competitiveness. | **Belgium has not implemented the recommendation.** The new federal government has no plans to reform the mechanism of wage bargaining or automatic wage indexation. A strategy to boost the Belgian economy and to improve competitiveness has been announced. |
| CSR 5: Improve participation in the labour market by reducing the high tax and social security burden for the low-paid in a budgetary neutral way and by introducing a system in which the level of unemployment benefits decreases gradually with the duration of unemployment. Take steps to shift the tax burden from labour to consumption, and to make the tax system more environmentally friendly. Improve the effectiveness of active labour policies by targeting measures at older workers and vulnerable groups. | **Belgium has partially implemented the recommendation.** The coalition agreement of the new federal government contains a number of measures in the various fields concerned, including reform of the unemployment system, improved activation policies for older workers and regionalisation of the social security reductions to target the less favoured groups in the various regional labour markets more effectively. Most of the proposed measures are outlined in considerable detail, and provide for comparatively short transition periods. Implementation is either already under way (as in the case of unemployment reform) or due to take place in the near future (as in the case of the extension of job search requirements to elderly workers).<br><br>No real progress has been made as far as rebalancing of the tax burden away from labour to consumption or to environmental taxes is concerned, but fiscal consolidation measures spared labour income. |
| CSR 6: Introduce measures to boost competition in the retail sector, by lowering barriers to entry and reducing operational restrictions; and introduce measures to strengthen competition in the electricity and gas markets by further improving the effectiveness of the sectoral regulatory and competition authorities. | **Belgium has partially implemented the recommendation.** In March 2011, the caretaker 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 trends. The new government announced extra measures in December 2011, designed especially to enhance surveillance of the energy sector with the |

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| | minimum objective of keeping inflation under control: (i) extra powers for the Price Observatory to conduct investigations in the energy sector; (ii) stricter control over energy companies, such as GDF Suez (possibility of temporarily introducing a maximum price for electricity and gas in order to keep the price in line with the average price in the neighbouring countries, and the obligation on GDF Suez to divest part of its production capacity); (iii) strengthening the independence and monitoring responsibilities of the CREG; and (iv) a simplified procedure for consumers to change their energy supplier.<br><br>Instead of taking steps to control inflationary pressures by keeping energy prices in check, it would be more effective to implement structural remedies so as to create a competitive market in the energy sector. No substantive measures are being taken to improve competition in the retail sector. |
| **Euro Plus Pact (national commitments and progress)** | |
| The federal government has committed to take measures that would reduce the deficit to 3.6 % of GDP in 2011 and below 3 % of GDP in 2012. | Due to (1) a number of isolated factors, mainly related to Dexia and the capital transfers from the regions to the 'holding communal' (one of Dexia's main shareholders) and (2) lower-than-projected revenues as a result of the deterioration in the macroeconomic outlook since July, the 2011 deficit stood at 3.7 % of GDP, which is above the government's target of 3.6 %.<br><br>The 2012 budget contained measures designed bring the deficit back down to 2.8 % of GDP in 2012 according to the government. After having assessed the measures in the budget deal, the Commission arrived at a reduced figure for the deficit of 3¼ % of GDP. After taking into account the commitment of the federal government to freeze an extra EUR 1.3 bn (0.34 % of GDP), the deficit would be lowered to 2.9 % of GDP in 2012, thereby reaching the EDP target and bringing the excessive deficit to an end in time before the Council deadline is reached. In the first budgetary control exercise of the year, carried out in March, the government took additional measures in order to offset the impact of the downward revision in growth (about zero at the moment as against +0.8 % in the budget). The spring 2012 forecast of the Commission services project the deficit at about 3 % of GDP in 2012. Constant monitoring will thus be needed in order to make sure that further slippages of the deficit are avoided in the course of 2012. |
| Real wage increases in 2011-2012 are to be kept to no more than 0.3 % (excluding the automatic wage indexation). This would mean that the rise in unit labour costs (ULC) would be kept below the euro area average. | Given the higher-than-expected rate of inflation for 2011 (which was also above the average of the three neighbouring countries), the measures taken to limit real wage growth to a maximum of 0.3 % over the next two years are unlikely to keep unit labour costs in check, because automatic wage indexation will lead to higher nominal wage increases compared to those of the |

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| | neighbouring countries and the euro area average. |
| Belgium will take steps to increase the actual retirement age, which is well below the statutory retirement age of 65. | In December 2011 the government initiated a reform of the old-age social security system (i.e. pension and "‘preretirement schemes"’) with a view to increase the effective retirement age by 2 years on average by (i) tightening age and career requirements for early retirement, (ii) , making "‘preretirement schemes"’ within the unemployment benefit system less accessible, (iii) calculating public sector pensions on a less advantageous basis and (iv) decreasing the pension rights accrued during periods of inactivity. Although the federal government has already tabled several supporting measures to stimulate active ageing, not all have been implemented and the magnitude of the challenge requires sustained efforts in coming years. |
| In order to tackle the high inflation in Belgium, steps have been taken to keep energy prices under control. In March 2011, the caretaker government announced a decision to give the Price Observatory extra powers to conduct surveys in sectors where competition appears to be harmed, and to investigate price trends. | Instead of taking steps to control inflationary pressures by keeping energy prices in check, it would be more effective to implement structural remedies so as to create a competitive market in the energy sector. No substantive measures are being taken to improve competition in the retail sector. |
| The supervisory framework for the financial sector has been reformed, in line with what was decided at European level. From 1 April 2011 onwards, all supervisory activities will be the responsibility of the National Bank of Belgium, which is tasked with micro-macro-prudential oversight. | Despite the initiatives implemented by the government to enhance supervision of the banking sector, it was impossible to prevent the collapse of Dexia bank in October 2011, and there is a need for a further improvement in banking sector supervision. |
| **Europe 2020 (national targets and progress)** | |
| Employment rate target: 73.2 % or more | The employment rate stood at 67.1 % in 2009 and 67.3 % in 2011. Further efforts and reforms will be needed to reach to the target of 73.2 %. |
| R&D target: 3.0 % of GDP | Gross domestic expenditure on R&D (in % of GDP) stood at 2.03 % in 2009 and 1.99 % 2010. This suggests that there has been no progress towards achieving the target of 3 %. |
| Greenhouse gas (GHG) emissions target: -15 % (compared to 2005 emissions; ETS emissions are not covered by this national target | Change in non-ETS GHG emissions between 2005 and 2010: -1 % (this data corresponds to the current ETS scope). Projections based on existing measures point to an increase of 0.3 % by 2020, indicating that insufficient progress has been made. |
| Renewable energy target 13 % | Renewable energy as a percentage of gross final energy consumption stood at 4.6 % in 2009. Belgium has already achieved its 2011/2012 interim target for renewable energy. |
| Energy efficiency — reduction in primary energy consumption by 2020 (in Mtoe)<br><br>9.80 Mtoe | The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology for expressing the 2020 energy consumption impact of these objectives in the same format was not agreed until recently, the Commission is not yet able to present its assessment. |

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| Early school leavers: 9.5 % or less | Early school leaving (i.e. the share of the population aged 18-24 with lower secondary education at best and not in further education or training) stood at 11.1 % in 2009 and 11.9 % in 2010. This shows a slight deterioration, indicating that there has been no progress towards the target. The early school leaving rate of migrants is with substantially higher than the rate for native Belgians. |
| Tertiary education attainment: 47 % or more | Tertiary educational attainment stood at 42 % in 2009 and 44.4 % in 2010. Progress has therefore been made towards achieving the target. |
| Reduction of population at risk of poverty or social exclusion: 380 000 (in number of persons) | The number of people at risk of poverty or social exclusion (in 1 000 persons) stood at 2 145 in 2009 and 2 235 in 2010. Hence, the progress made in 2009 (a reduction of 49 compared to 2008) was undone in 2010. |

ANNEX

# Table I. Macroeconomic indicators

| | 1995-1999 | 2000-2004 | 2005-2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| **Core indicators** | | | | | | | | |
| GDP growth rate | 2.6 | 2.0 | 2.1 | -2.8 | 2.3 | 1.9 | 0.0 | 1.2 |
| Output gap [1] | -0.2 | 0.6 | 1.5 | -2.3 | -1.2 | -0.4 | -1.4 | -1.3 |
| HICP (annual % change) | 1.3 | 2.0 | 2.8 | 0.0 | 2.3 | 3.5 | 2.9 | 1.8 |
| Domestic demand (annual % change) [2] | 2.2 | 1.5 | 2.5 | -2.4 | 1.2 | 1.9 | 0.2 | 1.1 |
| Unemployment rate (% of labour force) [3] | 9.2 | 7.5 | 7.8 | 7.9 | 8.3 | 7.2 | 7.6 | 7.9 |
| Gross fixed capital formation (% of GDP) | 20.4 | 20.0 | 21.4 | 20.9 | 20.2 | 20.8 | 21.0 | 21.1 |
| Gross national saving (% of GDP) | 25.5 | 25.5 | 25.7 | 20.5 | 23.3 | 23.5 | 22.9 | 23.0 |
| **General government (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **-2.5** | **0.0** | **-0.8** | **-5.6** | **-3.8** | **-3.7** | **-3.0** | **-3.3** |
| **Gross debt** | **122.1** | **102.0** | **88.3** | **95.8** | **96.0** | **98.0** | **100.5** | **100.8** |
| **Net financial assets** | **-110.2** | **-91.8** | **-76.4** | **-79.7** | **-80.2** | **-81.5** | **n.a** | **n.a** |
| Total revenue | 48.7 | 49.6 | 48.8 | 48.1 | 48.9 | 49.4 | 50.9 | 50.4 |
| Total expenditure | 51.2 | 49.6 | 49.5 | 53.7 | 52.7 | 53.2 | 53.9 | 53.7 |
| *of which: Interest* | 7.8 | 5.7 | 4.0 | 3.6 | 3.4 | 3.3 | 3.3 | 3.3 |
| **Corporations (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **1.3** | **-0.1** | **1.0** | **0.9** | **3.8** | **1.9** | **0.8** | **1.3** |
| **Net financial assets, non-financial corporations** | **-88.5** | **-103.3** | **-111.5** | **-108.0** | **-115.8** | **-100.5** | **n.a** | **n.a** |
| **Net financial assets, financial corporations** | **-5.2** | **-5.4** | **-5.1** | **4.4** | **6.6** | **6.6** | **n.a** | **n.a** |
| Gross capital formation | 12.7 | 13.4 | 14.5 | 11.7 | 12.3 | 13.4 | 13.5 | 13.8 |
| Gross operating surplus | 20.5 | 20.8 | 23.2 | 22.0 | 23.3 | 23.4 | 22.9 | 23.3 |
| **Households and NPISH (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **5.7** | **5.0** | **2.8** | **5.3** | **3.5** | **4.1** | **4.0** | **4.0** |
| **Net financial assets** | **240.6** | **244.4** | **217.3** | **209.1** | **207.2** | **197.9** | **n.a** | **n.a** |
| Gross wages and salaries | 38.9 | 39.4 | 38.5 | 39.7 | 38.9 | 39.1 | 39.6 | 39.2 |
| Net property income | 12.0 | 10.2 | 8.7 | 8.8 | 8.6 | 8.9 | 8.9 | 9.0 |
| Current transfers received | 22.1 | 21.6 | 21.1 | 23.1 | 22.8 | 22.8 | 23.3 | 23.4 |
| Gross saving | 12.1 | 10.7 | 9.8 | 11.9 | 10.2 | 10.5 | 10.3 | 10.3 |
| **Rest of the world (% of GDP)** | | | | | | | | |
| **Net lending (+) or net borrowing (-)** | **4.5** | **4.8** | **2.7** | **0.3** | **3.1** | **2.1** | **1.7** | **1.8** |
| **Net financial assets** | **-34.4** | **-41.8** | **-22.8** | **-22.5** | **-13.8** | **-17.9** | **n.a** | **n.a** |
| Net exports of goods and services | 3.8 | 4.5 | 3.1 | 2.7 | 2.7 | 1.7 | 1.2 | 1.3 |
| Net primary income from the rest of the world | 1.8 | 1.6 | 1.0 | -0.6 | 1.8 | 1.8 | 1.7 | 1.7 |
| Net capital transactions | 0.0 | -0.1 | -0.2 | -0.4 | -0.1 | -0.2 | 0.2 | 0.2 |
| Tradable sector | 42.5 | 41.0 | 39.6 | 37.2 | 37.3 | 37.7 | n.a | n.a |
| Non-tradable sector | 47.1 | 48.4 | 49.6 | 52.2 | 51.9 | 51.7 | n.a | n.a |
| *of which: Building and construction sector* | 4.7 | 4.6 | 4.9 | 5.2 | 5.1 | 5.1 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 109.2 | 104.4 | 109.9 | 114.3 | 112.1 | 114.1 | 113.9 | 114.1 |
| Terms of trade in goods and services (index, 2000=100) | 102.8 | 100.5 | 98.8 | 100.2 | 98.7 | 97.5 | 97.0 | 97.1 |
| Market performance of exports (index, 2000=100) | 105.8 | 98.7 | 92.1 | 91.9 | 91.5 | 92.0 | 91.5 | 91.7 |

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for 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 spring 2012 forecast*

## Table II. Comparison of macroeconomic developments and forecasts

| | 2011 | | 2012 | | 2013 | | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| | COM | SP | COM | SP | COM | SP | SP | SP |
| Real GDP (% change) | 1.9 | 1.9 | 0.0 | 0.1 | 1.2 | 1.3 | 1.7 | 1.8 |
| Private consumption (% change) | 0.7 | 0.8 | 0.1 | -0.2 | 1.2 | 0.2 | 1.0 | 1.3 |
| Gross fixed capital formation (% change) | 5.1 | 5.0 | 0.7 | 0.4 | 1.6 | 1.2 | 1.5 | 2.1 |
| Exports of goods and services (% change) | 4.8 | 5.0 | 0.8 | 0.4 | 4.2 | 2.4 | 3.5 | 4.0 |
| Imports of goods and services (% change) | 4.9 | 5.0 | 1.1 | 0.5 | 4.1 | 2.0 | 3.0 | 3.7 |
| *Contributions to real GDP growth:* | | | | | | | | |
| - Final domestic demand | 1.6 | 1.6 | 0.3 | 0.1 | 1.1 | 0.9 | 1.2 | 1.5 |
| - Change in inventories | 0.2 | 0.3 | -0.1 | 0.0 | 0.0 | 0.1 | 0.0 | -0.1 |
| - Net exports | 0.0 | 0.1 | -0.2 | 0.0 | 0.1 | 0.4 | 0.5 | 0.4 |
| Output gap[1] | -0.4 | -0.6 | -1.4 | -1.6 | -1.3 | -1.4 | -0.9 | -0.3 |
| Employment (% change) | 1.3 | 1.2 | 0.0 | 0.2 | 0.4 | 0.3 | 0.7 | 1.0 |
| Unemployment rate (%) | 7.2 | 7.2 | 7.6 | 7.5 | 7.9 | 7.8 | 7.8 | 7.5 |
| Labour productivity (% change) | 0.5 | 0.6 | -0.1 | -0.1 | 0.9 | 1.0 | 1.0 | 0.8 |
| HICP inflation (%) | 3.5 | 3.5 | 2.9 | 3.0 | 1.8 | 1.9 | 1.8 | 1.8 |
| GDP deflator (% change) | 2.2 | 2.3 | 2.1 | 2.2 | 2.2 | 2.2 | 1.9 | 1.8 |
| Comp. of employees (per head, % change) | 3.3 | 3.4 | 3.1 | 3.3 | 2.3 | 3.4 | 2.8 | 2.3 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 2.1 | 2.0 | 1.7 | 1.5 | 1.8 | 2.2 | 2.6 | 2.6 |

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission.

*Source :*

*Commission' spring 2012 forecasts (COM); Stability programme (SP).*

## Table III. Composition of the budgetary adjustment

| (% of GDP) | 2011 | 2012 | | 2013 | | 2014 | 2015 | Change: 2011-2015 |
|---|---|---|---|---|---|---|---|---|
| | COM | COM | SP | COM | SP | SP | SP | SP |
| **Revenue** | **49.4** | **50.9** | **51.3** | **50.4** | **51.3** | **51.6** | **52.0** | **2.6** |
| *of which:* | | | | | | | | |
| - Taxes on production and imports | 12.6 | 12.9 | 13.1 | 12.9 | 13.0 | 13.1 | 13.2 | 0.6 |
| - Current taxes on income, wealth, etc. | 15.9 | 16.5 | 16.7 | 16.4 | 16.9 | 17.0 | 17.1 | 1.2 |
| - Social contributions | 16.7 | 16.9 | 17.0 | 16.8 | 17.1 | 17.1 | 17.1 | 0.4 |
| - Other (residual) | 4.2 | 4.6 | 4.5 | 4.3 | 4.3 | 4.4 | 4.6 | 0.4 |
| **Expenditure** | **53.2** | **53.9** | **54.0** | **53.7** | **53.5** | **52.7** | **52.0** | **-1.2** |
| *of which:* | | | | | | | | |
| - Primary expenditure | 49.8 | 50.5 | 50.5 | 50.4 | 50.0 | 49.3 | 48.6 | -1.2 |
| *of which:* | | | | | | | | |
| Compensation of employees and intermediate consumption | 16.3 | 16.3 | 16.5 | 16.1 | 16.1 | 15.8 | 15.4 | -0.9 |
| Social payments | 25.2 | 25.8 | 25.8 | 26.0 | 25.9 | 25.8 | 25.7 | 0.5 |
| Subsidies | 2.6 | 2.6 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 | -0.1 |
| Gross fixed capital formation | 1.7 | 1.8 | 1.8 | 1.6 | 1.6 | 1.5 | 1.5 | -0.2 |
| Other (residual) | 4.1 | 3.9 | 3.8 | 4.0 | 3.7 | 3.6 | 3.5 | -0.6 |
| - Interest expenditure | 3.3 | 3.3 | 3.5 | 3.3 | 3.5 | 3.4 | 3.4 | 0.1 |
| **General government balance (GGB)** | **-3.7** | **-3.0** | **-2.8** | **-3.3** | **-2.2** | **-1.1** | **0.0** | **3.7** |
| **Primary balance** | **-0.4** | **0.4** | **0.7** | **0.0** | **1.3** | **2.3** | **3.4** | **3.8** |
| One-off and other temporary measures | -0.1 | 0.5 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| **GGB excl. one-offs** | **-3.6** | **-3.4** | **-3.1** | **-3.3** | **-2.2** | **-1.1** | **0.0** | **3.6** |
| Output gap[2] | -0.4 | -1.4 | -1.6 | -1.3 | -1.4 | -0.9 | -0.3 | 0.1 |
| Cyclically-adjusted balance[2] | -3.5 | -2.2 | -2.0 | -2.6 | -1.4 | -0.6 | 0.1 | 3.6 |
| **Structural balance[3]** | **-3.4** | **-2.7** | **-2.3** | **-2.6** | **-1.4** | **-0.6** | **0.1** | **3.5** |
| *Change in structural balance* | | *0.7* | *1.1* | *0.1* | *0.9* | *0.7* | *0.8* | |
| Structural primary balance[3] | -0.1 | 0.7 | 1.2 | 0.7 | 2.1 | 2.8 | 3.5 | 3.6 |
| *Change in structural primary balance* | | *0.7* | *1.3* | *0.0* | *0.9* | *0.6* | *0.8* | |
| **Expenditure benchmark** | | | | | | | | |
| Public expenditure growth[4] (real) | | -2.38 | 1.45 | 1.93 | -2.60 | -3.08 | -3.50 | - |
| Reference rate[5,6] | | 1.40 | 1.40 | 1.40 | 1.40 | *1.40* | *1.40* | - |
| Lower reference rate[5,7] | | 0.40 | 0.40 | 0.40 | 0.40 | *0.40* | *0.40* | - |
| Deviation in % GDP against applicable reference rate | | -1.38 | 0.52 | 0.76 | -1.49 | *-1.71* | *-1.89* | - |
| Two-year average deviation in % GDP against applicable reference rate | | n.a. | n.a. | -0.31 | -0.48 | *-1.60* | *-1.80* | - |

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.

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following which the country has reached its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

*Source* :

*Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.*

## Table IV. Debt dynamics

| (% of GDP) | Average 2006-10 | 2011 | 2012 | | 2013 | | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| | | | COM | SP | COM | SP | SP | SP |
| **Gross debt ratio**[1] | **90.6** | **98.0** | **100.5** | **99.4** | **100.8** | **97.8** | **95.5** | **92.3** |
| Change in the ratio | 0.8 | 2.0 | 2.5 | 1.4 | 0.3 | -1.6 | -2.3 | -3.2 |
| *Contributions* [2] *:* | | | | | | | | |
| **1. Primary balance** | **-1.7** | **0.4** | **-0.4** | **-0.7** | **0.0** | **-1.3** | **-2.3** | **-3.4** |
| **2. Snow-ball effect** | **1.0** | **-0.5** | **1.3** | **1.4** | **0.0** | **0.1** | **0.0** | **0.1** |
| *Of which:* | | | | | | | | |
| Interest expenditure | 3.7 | 3.3 | 3.3 | 3.5 | 3.3 | 3.4 | 3.4 | 3.4 |
| Growth effect | -1.0 | -1.7 | 0.0 | -0.1 | -1.2 | -1.2 | -1.6 | -1.7 |
| Inflation effect | -1.7 | -2.0 | -2.0 | -2.0 | -2.1 | -2.1 | -1.8 | -1.6 |
| **3. Stock-flow adjustment** | **1.5** | **2.1** | **1.5** | **0.7** | **0.4** | **-0.3** | **0.0** | **0.1** |
| *Of which:* | | | | | | | | |
| Cash/accruals diff. | | | | | | | | |
| Accum. financial assets | | | | | | | | |
| *Privatisation* | | | | | | | | |
| Val. & residual effects | | | | | | | | |
| | | 2011 | 2012 | | 2013 | | 2014 | 2015 |
| | | | COM/SP[3] | SP[4] | COM/SP[3] | SP[4] | SP | SP |
| **Gap to the debt benchmark**[5,6] | - | - | - | - | - | - | - | - |
| **Structural adjustment**[7] | - | - | - | - | 0.9 | 0.9 | 0.7 | 0.8 |
| *To be compared to:* | | | | | | | | |
| Required adjustment[8] | - | - | - | - | 0.3 | 0.3 | 0.0 | 0.0 |

Notes:

[1]End of period.

[2]The snowball 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, the accumulation of financial assets and valuation and other residual effects.

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

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

[5]Not relevant during EDP that were ongoing in November 2011 and in the three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

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

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections are achieved.

*Source :*

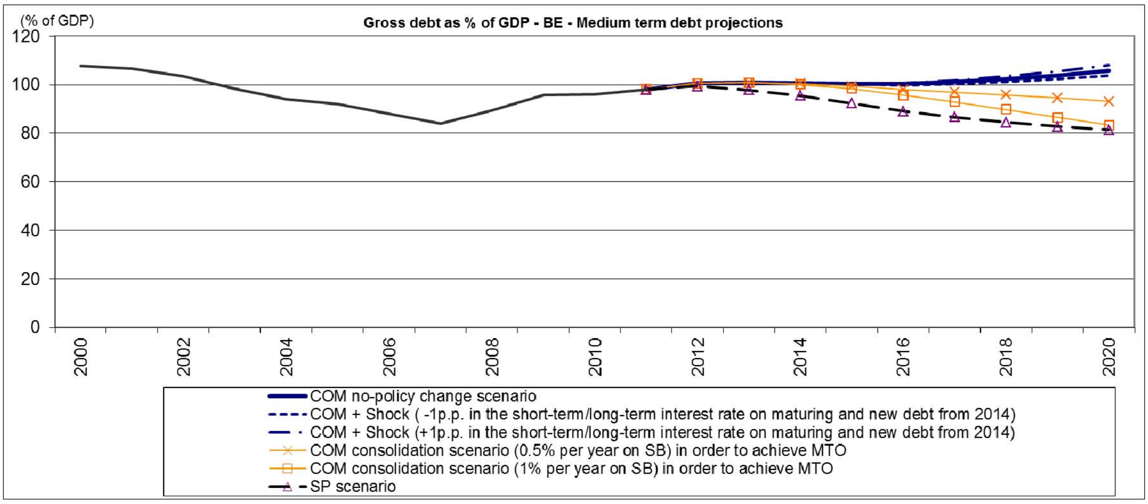
*Stability programme (SP); Commission spring 2012 forecasts (COM); Commission calculations.*

## Table V. Sustainability indicators

| | BE | | EU27 | |
|---|---|---|---|---|
| | No-policy change scenario | Stability programme scenario | No-policy change scenario | SCPs scenario |
| S2 | 7.5 | 4.8 | 2.9 | 0.7 |
| *of which:* | | | | |
| Initial budgetary position (IBP) | 0.5 | -1.9 | 0.7 | -1.6 |
| Long-term change in the primary balance (LTC) | 7.0 | 6.7 | 2.3 | 2.4 |
| of which: | | | | |
| pensions | 4.4 | 4.1 | 1.1 | 1.2 |
| health care and long term care | 2.2 | 2.1 | 1.5 | 1.5 |
| others | 0.4 | 0.4 | -0.3 | -0.3 |
| S1 (required adjustment)* | 6.2 | 2.1 | 2.2 | -0.1 |
| Debt, % of GDP (2011) | 98.0 | | 82.8 | |
| Age-related expenditure, % of GDP (2011) | 28.1 | | 25.8 | |

***Source***: Commission 2012 stability programme.
*Note*: the 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Figure. Medium-term debt projection



# Table VI. Taxation

| | 2001 | 2005 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| **Total tax revenues** (incl. actual compulsory social contributions, % of GDP) | 45.1 | 44.8 | 43.9 | 44.2 | 43.4 | 43.9 |
| **Breakdown by economic function** (% of GDP)[1] | | | | | | |
| Consumption | 10.9 | 11.1 | 10.9 | 10.7 | 10.6 | 10.9 |
| of which: | | | | | | |
| - VAT | 6.9 | 7.0 | 7.1 | 7.0 | 6.9 | 7.1 |
| - excise duties on tobacco and alcohol | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| - energy | 1.4 | 1.5 | 1.3 | 1.2 | 1.3 | 1.3 |
| - other (residual) | 1.9 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 |
| Labour employed | 22.6 | 21.9 | 21.2 | 21.7 | 22.0 | 21.9 |
| Labour non-employed | 2.1 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 |
| Capital and business income | 6.1 | 6.2 | 6.2 | 6.2 | 5.2 | 5.4 |
| Stocks of capital/wealth | 3.3 | 3.7 | 3.6 | 3.7 | 3.6 | 3.7 |
| *p.m.* Environmental taxes[2] | 2.3 | 2.3 | 2.1 | 2.0 | 2.0 | 2.1 |
| **VAT efficiency**[3] | | | | | | |
| Actual VAT revenues as % of theoretical revenues at standard rate | 47.8 | 50.0 | 51.3 | 48.7 | 46.9 | 48.4 |

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

## Table VII. Financial market indicators

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Total assets of the banking sector (% of GDP) | 387.9 | 368.7 | 340.0 | 320.2 | 324.2 |
| Share of assets of the five largest banks (% of total assets) | 83.4 | 80.8 | 77.1 | 74.9 | … |
| Foreign ownership of banking system (% of total assets) | 24.8 | 26.8 | 60.7 | … | … |
| Financial soundness indicators: | | | | | |
| - non-performing loans (% of total loans)[1)] | 1.2 | 1.7 | 3.1 | 2.8 | ... |
| - capital adequacy ratio (%) [1), 2)] | 11.3 | 16.4 | 17.3 | 19.3 | ... |
| - return on equity (%) [1), 3)] | 13.3 | -35.7 | -2.5 | 10.6 | ... |
| Bank loans to the private sector (year-on-year % change) | 18.5 | -0.2 | -5.1 | -2.4 | -1.8 |
| Lending for house purchase (year-on-year % change) | 5.8 | -23.8 | -8.1 | 6.6 | -1.1 |
| Loan to deposit ratio | 74.5 | 70.5 | 65.2 | 62.4 | 60.1 |
| CB liquidity as % of liabilities | 4.6 | 7.9 | 3.9 | 0.8 | 4.9 |
| Banks' exposure to countries receiving official financial assistance (% of GDP)[4)] | 28.0 | 26.8 | 16.6 | 14.1 | 10.5 |
| Private debt (% of GDP) | 99.7 | 96.1 | 94.5 | 89.0 | 84.4 |
| Gross external debt (% of GDP)[5)] | | | | | |
| - Public | 52.7 | 62.3 | 60.5 | 59.7 | 53.6 |
| - Private | 45.3 | 95.7 | 87.7 | 90.2 | 90.4 |
| Long term interest rates spread versus Bund (basis points)* | 11.2 | 43.3 | 67.9 | 71.9 | 162.5 |
| Credit default swap spreads for sovereign securities (5-year)* | … | 45.1 | 66.1 | 95.2 | 173.3 |

Notes:

1) Latest data December 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 2011Q3.

* Measured in basis points.

*Source*:

*Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).*

## Table VIII. Labour market and social indicators

| Labour market indicators | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| Employment rate (% of population aged 20-64) | 66.5 | 67.7 | 68.0 | 67.1 | 67.6 | 67.3 |
| Employment growth (% change from previous year) | 0.7 | 2.7 | 1.5 | -0.6 | 1.5 | 0.5 |
| Employment rate of women (% of female population aged 20-64) | 58.8 | 60.3 | 61.3 | 61.0 | 61.6 | 61.5 |
| Employment rate of men (% of male population aged 20-64) | 74.0 | 75.0 | 74.7 | 73.2 | 73.5 | 73.0 |
| Employment rate of older workers (% of population aged 55-64) | 32.0 | 34.4 | 34.5 | 35.3 | 37.3 | 38.7 |
| Part-time employment (% of total employment) | 22.3 | 22.3 | 22.8 | 23.6 | 24.3 | 25.3 |
| Part-time employment of women (% of women employment) | 41.3 | 40.8 | 41.1 | 41.6 | 42.5 | 43.7 |
| Part-time employment of men (% of men employment) | 7.4 | 7.6 | 8.0 | 8.7 | 9.1 | 10.0 |
| Fixed term employment (% of employees with a fixed term contract) | 8.7 | 8.6 | 8.3 | 8.2 | 8.1 | 9.0 |
| Unemployment rate[1] (% of labour force) | 8.3 | 7.5 | 7.0 | 7.9 | 8.3 | 7.2 |
| Long-term unemployment[2] (% of labour force) | 4.2 | 3.8 | 3.3 | 3.5 | 4.1 | 3.5 |
| Youth unemployment rate (% of youth labour force aged 15-24) | 20.5 | 18.8 | 18.0 | 21.9 | 22.4 | 18.7 |
| Youth NEET[3] rate (% of population aged 15-24) | 11.2 | 11.2 | 10.1 | 11.1 | 10.9 | : |
| Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training) | 12.6 | 12.1 | 12.0 | 11.1 | 11.9 | : |
| Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education) | 41.9 | 41.3 | 42.3 | 42.5 | 43.8 | : |
| Labour productivity per person employed (annual % change ) | 1.6 | 1.2 | -0.8 | -2.7 | 1.4 | 0.5 |
| Hours worked per person employed (annual % change) | 0.1 | -0.4 | 0.4 | -1.3 | 0.4 | 0.4 |
| Labour productivity per hour worked (annual % change; constant prices) | 1.4 | 1.7 | -1.3 | -1.3 | 1.0 | 0.1 |
| Compensation per employee (annual % change; constant prices) | 1.1 | 1.0 | 1.4 | -0.1 | -0.4 | 1.0 |
| Nominal unit labour cost growth (annual % change) | 1.8 | 2.1 | 4.5 | 3.9 | 0.0 | 2.7 |
| Real unit labour cost growth (annual % change) | -0.5 | -0.2 | 2.3 | 2.6 | -1.8 | 0.5 |

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 (EU Labour Force Survey and European National Accounts)

## Table VIII. Labour market and social indicators (continued)

| Expenditure on social protection benefits (% of GDP) | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Sickness/Health care | 7.54 | 7.26 | 7.29 | 7.53 | 8.17 |
| Invalidity | 1.91 | 1.84 | 1.79 | 1.88 | 2.05 |
| Old age and survivors | 8.44 | 8.49 | 8.19 | 8.68 | 9.45 |
| Family/Children | 2.04 | 2.02 | 2.07 | 2.06 | 2.23 |
| Unemployment | 3.45 | 3.41 | 3.27 | 3.31 | 3.83 |
| Housing and Social exclusion n.e.c. | 0.07 | 0.13 | 0.14 | 0.23 | 0.23 |
| **Total** | 27.3 | 27.1 | 26.8 | 28.1 | 30.4 |
| of which: Means tested benefits | 1.04 | 1.10 | 1.15 | 1.36 | 1.43 |
| **Social inclusion indicators** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Risk-of-poverty or exclusion[1] (% of total population) | 21.5 | 21.6 | 20.8 | 20.2 | 20.8 |
| Risk-of-poverty or exclusion of children (% of people aged 0-17) | 21.4 | 21.6 | 21.3 | 20.5 | 23.2 |
| Risk-of-poverty or exclusion of elderly (% of people aged 65+) | 25.2 | 25.0 | 22.9 | 23.1 | 21.0 |
| At-risk-of-poverty rate[2] (% of total population) | 14.7 | 15.2 | 14.7 | 14.6 | 14.6 |
| Value of relative poverty threshold (single household per year) - in PPS | 9707 | 9787 | 10046 | 10494 | 10398 |
| Severe material deprivation[3] (% of total population) | 6.4 | 5.7 | 5.6 | 5.2 | 5.9 |
| Share of people living in low work intensity households[4] (% of people aged 0-59 not student) | 14.3 | 13.8 | 11.7 | 12.3 | 12.6 |
| In-work at-risk-of poverty rate (% of persons employed) | 4.2 | 4.4 | 4.8 | 4.6 | 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 households 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 on social protection benefits ESSPROS; for social inclusion EU-SILC.

## Table IX. Product market performance and policy indicators

| Performance indicators | 2002-2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| Labour productivity[1] total economy (annual growth in %) | 1.3 | 1.2 | -0.8 | -2.7 | 1.5 | 1.5 |
| Labour productivity[1] in manufacturing (annual growth in %) | 2.8 | 4.4 | -0.7 | n.a. | n.a. | n.a. |
| Labour productivity[1] in electricity, gas, water (annual growth in %) | 1.6 | -2.0 | -2.7 | -3.9 | n.a. | n.a. |
| Labour productivity[1] in the construction sector (annual growth in %) | 2.9 | -1.3 | -2.8 | -2.6 | 0.1 | n.a. |
| Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector) | 3.1 | 3.1 | 2.7 | n.a. | n.a. | n.a. |
| **Policy indicators** | **2002-2006** | **2007** | **2008** | **2009** | **2010** | **2011** |
| Enforcing contracts[3] (days) | n.a. | 505 | 505 | 505 | 505 | 505 |
| Time to start a business[3] (days) | n.a. | 4 | 4 | 4 | 4 | 4 |
| R&D expenditure (% of GDP) | 1.9 | 1.9 | 2.0 | 2.0 | 2.0 | n.a. |
| Tertiary educational attainment (% of 30-34 years old population) | 38.7 | 41.5 | 42.9 | 42.0 | 44.4 | n.a. |
| Total public expenditure on education (% of GDP) | 6.0 | 6.0 | 6.5 | n.a. | n.a. | n.a. |
| | **2005** | **2006** | **2008** | **2009** | **2010** | **2011** |
| Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated) | n.a. | n.a. | 1.4 | n.a. | n.a. | n.a. |
| Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated) | n.a. | n.a. | 3.7 | n.a. | n.a. | n.a. |
| Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated) | 2.0 | 1.9 | 1.8* | n.a. | n.a. | n.a. |

Notes:

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

[2]Patent data refer to applications 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, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate ETCR.

*figure for 2007.

*Source*:

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

## Table X. indicators on Green growth

| Belgium | | 2001-2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| **Green Growth performance** | | | | | | | |
| ***Macroeconomic*** | | | | | | | |
| Energy intensity | kgoe / € | 0.22 | 0.21 | 0.20 | 0.20 | 0.21 | 0.21 |
| Carbon intensity | kg / € | 0.55 | 0.49 | 0.46 | 0.46 | 0.44 | n.a. |
| Resource intensity (reciprocal of resource productivity) | kg / € | 0.70 | 0.66 | 0.64 | 0.64 | 0.63 | n.a. |
| Waste intensity | kg / € | n.a. | 0.21 | 0.19 | 0.17 | n.a. | n.a. |
| Energy balance of trade | % GDP | -3.0% | -4.6% | -3.7% | -5.4% | -3.3% | -3.9% |
| Energy weight in HICP | % | 10 | 10 | 10 | 11 | 11 | 11 |
| Difference between change energy price and inflation | % | 1.24 | 6.8 | -2.2 | 21.7 | -12.9 | 4.7 |
| Environmental taxes over labour taxes | ratio | 9.4% | 9.3% | 9.1% | 8.3% | 8.5% | n.a. |
| Environmental taxes over total taxes | ratio | 5.1% | 4.8% | 4.7% | 4.4% | 4.7% | n.a. |
| ***Sectoral*** | | | | | | | |
| Industry energy intensity | kgoe / € | 0.26 | 0.23 | 0.22 | 0.22 | 0.19 | n.a. |
| Share of energy-intensive industries in the economy | % GDP | 11.3 | 11.0 | 10.8 | 10.1 | 9.6 | n.a. |
| Electricity prices for medium-sized industrial users | € / kWh | 0.07 | 0.08 | 0.09 | 0.10 | 0.10 | 0.09 |
| Public R&D for energy | % GDP | n.a. | 0.01% | 0.01% | 0.01% | 0.01% | n.a. |
| Public R&D for the environment | % GDP | n.a. | 0.01% | 0.02% | 0.01% | 0.02% | n.a. |
| Recycling rate of municipal waste | ratio | 83.9% | 88.0% | 88.8% | 91.2% | 93.7% | n.a. |
| Share of GHG emissions covered by ETS | % | n.a. | 39.8% | 39.7% | 41.0% | 37.1% | n.a. |
| Transport energy intensity | kgoe / € | 0.49 | 0.40 | 0.38 | 0.44 | 0.46 | n.a. |
| Transport carbon intensity | kg / € | 1.28 | 1.08 | 1.03 | 1.07 | 1.11 | n.a. |
| Change in the ratio of passenger transport and GDP | % | -0.3% | -1.5% | 0.7% | -1.2% | n.a. | n.a. |
| **Security of energy supply** | | | | | | | |
| Energy import dependency | % | 79.5% | 79.8% | 77.1% | 79.9% | 74.2% | n.a. |
| Diversification of oil import sources | HHI | n.a. | 0.23 | 0.27 | 0.22 | 0.20 | n.a. |
| Diversification of energy mix | HHI | 0.28 | 0.28 | 0.28 | 0.29 | 0.30 | n.a. |
| Share of renewable energy in energy mix | % | 1.5% | 2.3% | 2.7% | 3.1% | 3.9% | n.a. |

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)

Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents