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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2019 National Reform Programme of Belgium and delivering a Council opinion
on the 2019 Stability Programme of Belgium**

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 21 November 2018, the Commission adopted the Annual Growth Survey, marking the start of the 2019 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 21 March 2019. On 21 November 2018, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Belgium as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was endorsed by the European Council on 21 March 2019. On 9 April 2019, the Council adopted the recommendation on the economic policy of the euro area ('Recommendation for the euro area').
- (2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Belgium should ensure

¹ OJ L 209, 2.8.1997, p. 1.

the full and timely implementation of the recommendation for the euro area, as reflected in recommendations (1) to (3) below.

- (3) The 2019 country report for Belgium² was published on 27 February 2019. It assessed Belgium's progress in addressing the country-specific recommendations adopted by the Council on 13 July 2018, the follow-up given to the recommendations adopted in previous years and Belgium's progress towards its national Europe 2020 targets.
- (4) On 26 April 2019, Belgium submitted its 2019 National Reform Programme and its 2019 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council³, where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance⁴.
- (6) Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2019 Stability Programme, the government plans a gradual improvement of the headline balance from a deficit of 0.7% of GDP in 2018 to 0.0% of GDP in 2022. Based on the recalculated structural balance⁵, the medium-term budgetary objective, set at a balanced budgetary position in structural terms, is not planned to be achieved over the period covered by the 2019 Stability Programme. After having peaked at almost 107% of GDP in 2014 and decreasing to 102% of GDP in 2018, the general government debt-to-GDP ratio is expected to decline to 94% by 2022 according to the 2019 Stability Programme. The macroeconomic scenario underpinning those budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2020 onwards have not been specified, which contributes to the projected deterioration of the structural balance in 2020 under unchanged policies according to the Commission 2019 spring forecast.
- (7) On 5 June 2019, the Commission issued a report prepared in accordance with Article 126(3) of the TFEU due to Belgium's non-compliance with the debt rule in 2018. The report concluded, following an assessment of all the relevant factors, that the current analysis is not fully conclusive as to whether the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is or is not complied with.
- (8) In its 2019 Stability Programme, Belgium confirms the request of its 2019 Draft Budgetary Plan to avail itself of the flexibility under the preventive arm pursuant to the "Commonly agreed position on Flexibility within the Stability and Growth Pact"

² SWD(2019) 1000 final.

³ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

⁴ COM(2014) 494 final.

⁵ Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

endorsed by the ECOFIN Council in February 2016. Belgium requested a temporary deviation of 0.5% of GDP from the adjustment path towards the medium-term budgetary objective in view of the implementation of major structural reforms with a positive impact on the long-term sustainability of public finances. The structural reforms refer to a pension reform, a “tax shift”, a reform of corporate income taxation, a labour market reform as well as a reform of the public administration. The Commission 2019 spring forecast confirms that Belgium respects the minimum benchmark in 2019, providing a safety margin towards the 3% of GDP deficit threshold. All the measures have now been fully legislated, with the exception of the reform of the public administration. Given their nature, and particular the tax shift and its corporate income tax reform, there are still uncertainties surrounding their short-term impact, particularly given its non-budgetary neutral nature, which has worsened the budgetary position. Nevertheless, they have enhanced the economy's growth potential, lowered the unemployment rate and reduced the risks of macroeconomic imbalances, thereby having a positive impact on debt sustainability in the medium to long term. On this basis, Belgium can currently be assessed as qualifying for the requested temporary deviation of 0.5% of GDP in 2019, provided that it adequately implements the agreed reforms, which will be monitored under the European Semester.

- (9) On 13 July 2018, the Council recommended Belgium to ensure that the nominal growth rate of net primary government expenditure () does not exceed 1.8% in 2019, corresponding to an annual structural adjustment of 0.6% of GDP. As Belgium qualifies for the requested temporary deviation of 0.5% of GDP under the structural reform clause, the required structural adjustment for 2019 can be reduced to 0.1% of GDP, corresponding to a nominal growth rate of net primary expenditure that does not exceed 2.8% in 2019. Based on the Commission 2019 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective over 2018 and 2019 taken together.
- (10) In 2020, in view of Belgium's general government debt ratio above 60% of GDP and projected output gap of 0.1%, the nominal growth rate of net primary government expenditure should not exceed 1.6%, in line with the structural adjustment of 0.6% of GDP stemming from the commonly agreed adjustment matrix of requirements under the Stability and Growth Pact. Based on the Commission 2019 spring forecast under unchanged policies, there is a risk of a significant deviation from that requirement in 2020. Belgium is *prima facie* not forecast to comply with the debt rule in 2019 and 2020. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be important. The medium- and long-term sustainability of Belgium's public finances continues to be at risk due to the combination of a high debt-to-GDP ratio and the projected rise in ageing costs, in particular those linked to pensions and long-term care. A set of pension reforms was legislated in 2015, leading to an increase of the statutory retirement age from 65 to 66 years as from 2025 and to 67 as from 2030. Moreover, age and seniority requirements to benefit from early retirement were also made stricter. Nevertheless public expenditure on pensions would still increase by 2.9 percentage points of GDP by 2070, mostly during the next two decades. Furthermore, early retirement conditions for several large groups of civil servants remain more favourable than the standard conditions. Public spending on long-term care is projected to increase by 1.7 percentage points of GDP by 2070, an above average increase starting from what is already one of the highest levels in the EU. The

organisational fragmentation of long-term care, with competences currently spread across different administrative levels, challenges some dimensions of spending efficiency, hence the net impact of the recent transfer of responsibilities is not yet clear. Strengthening governance would help to achieve the intended efficiency gains. There might be room to optimise the care-mix to increase the cost-efficiency of the long-term care system.

- (11) The composition and efficiency of public spending can be improved in order to create space for more public investment. In spite of a recent decrease, total expenditure as a share of GDP in Belgium remains among the highest in the euro area. The high level of public expenditure suggests that there is scope for a more spending-based fiscal adjustment. Given the high level of public expenditure, the outcomes of certain policies and the quality of certain public services raises questions of cost efficiency. Spending reviews and policy evaluations can help Belgium prioritise and improve the efficiency of public expenditure. Furthermore, spending reviews could be used to assess the efficiency of the indirect public support for business Research and Development, which is one of the highest in the European Union, as a percentage of GDP and continued to increase last year. Federal and regional authorities have recently expressed interest in integrating spending review in their budgetary mechanism.
- (12) Budget coordination between entities is currently not sufficiently flexible to create room for public investment in large-scale projects. Effective budget coordination is essential in a federal Member State like Belgium, where a large part of the spending power has been devolved to sub-national governments. There is still no formal agreement on annual targets at all levels of government, in spite of the cooperation agreement signed in 2013, complicating budget coordination. In contrast with the practice of previous Stability Programmes, when the Concertation Committee ‘took note’ of the fiscal trajectory, all levels of government approved the overall fiscal trajectory presented in the 2018 Stability Programme and supported the achievement of the fiscal targets by 2020 for all government levels. Although this approval added credibility to the overall trajectory, there was no formal agreement on the annual fiscal targets at each level of government. A lack of agreement on the targets at each level of government may undermine the viability of the overall trajectory towards the medium-term objective. In addition, this prevents the Public sector borrowing requirements section of the High Council of Finance from effectively monitoring compliance with these targets. The 2019 Stability Programme contained only indicative overall and intermediary budgetary targets as elections took place at federal level and at the level of the Regions and Communities on 26 May 2019.
- (13) Recent economic growth has resulted in jobs growth and employment is at the highest level in the past ten years. Nevertheless, transitions from inactivity or unemployment to employment remain low and Belgium is not on track to achieving its Europe 2020 employment target of 73.2%. Strong regional disparities in the labour market persist. Youth unemployment is well above the Union’s average in Brussels. Labour market participation is low for the low-skilled, people with a migrant background, older workers and people with disabilities, suggesting that both structural and group-specific factors hinder their integration in the labour market, while existing activation measures are not equally effective for all population groups. The employment rate of older workers (55-64 years) remains below the EU average and the gap with the Union average continues to increase for those over 60 years. People with a migrant background, in particular women, continue to experience higher unemployment, lower activity rates, higher in-work poverty and over-qualification. While some measures

have been taken to support the integration of newly arrivals and to tackle discrimination, a coordinated approach to address the challenges faced by people with migrant background is still lacking. To address low labour market participation, measures have been taken as part of the 'Jobs Deal' reform, but their impact remains to be assessed.

- (14) Important financial disincentives to take up employment remain. Although the tax shift reduced the labour tax wedge, it remains on average high at all wage earners, except for the very low wage earners (fifty percent of the average wage). Belgium remains the only Member State in which unemployment benefits are not limited in time, though they gradually fall. There are financial disincentives for beneficiaries of sickness and disability schemes and second earners to take up full-time employment. In particular, single parents (and to a lesser extent couples with children) face limited financial incentives to take up (full-time) employment due to a combination of costs and withdrawal of benefits. Moreover, coordination problems may arise due to the split of responsibilities for the social protection between the federal, regional and local levels. The social security system does not cover all people in employment and some lack social protection coverage.

- (15) The decline in educational performance and the existence of significant disparities in the education system remain a concern. The percentage of young people not mastering basic skills can be improved in particular in the French Community where the share is above the OECD average. The gap in educational outcomes due to socio-economic and migration background is high. Teachers need more support to deal with diversity and there remains a need to adapt teachers' continuous professional development. Reforms to improve educational outcomes and to tackle disparities need to be stepped up to boost knowledge-intensive, sustainable and inclusive growth and social inclusiveness. The implementation of the 'Pact for Excellence', the French Community's flagship school reform to improve basic skills, efficiency, governance and tackle inequalities, is progressing. Decrees on the organization of work of teachers, on the common core school curriculum, on the status of school directors and the reinforcement of the knowledge of French for newcomer pupils have been adopted and will be applicable as from September 2020. The Flemish Community is implementing some reforms in secondary education as of 2019/2020, but early tracking of pupils remains a concern. The impact of these reforms and measures will also depend on their effective implementation and monitoring. The federal Parliament has also lowered the age of compulsory education from six to five years. Given the already high spending levels on education, reforms will need to be implemented with a stronger focus on increasing the efficiency and effectiveness of the system, and its capacity to deliver future-oriented and labour market relevant competences.

- (16) Skills mismatches and low job mobility hamper job and productivity growth. Despite several regional and federal measures taken to address skills shortages and increase activation, including as part of the Jobs Deal, labour shortages are observed in several sectors, in particular in information and communication technologies, construction and health. The growth of the construction sector is held back by lack of skills and labour shortages. There are important needs in terms of re-skilling and upskilling the labour force in some sectors. Adult participation in education and training and job mobility are also low. Poor linguistic skills are an important issue, in particular in Brussels, where around 50% of job offers require the knowledge of both French and Dutch, according to the National Reform Programme. Tertiary education attainment is high, but there are too few graduates in science, technology, engineering and mathematics

(STEM). In 2016, Belgium ranked 26th in the EU for tertiary graduates in STEM education with a low rate of new entrants to related tertiary education fields, in particular for women. The overall implementation of the “STEM Action Plan 2012-2020” in Flanders shows progress, but the number of STEM secondary graduates in technical and vocational paths has stagnated since 2010. The French Community has no STEM policy strategy and still needs to implement its recently adopted “Strategy for Digital Education” plan for schools. Shortages of professionals with an entrepreneurship knowledge in science, technology, engineering and mathematics holds back the development of start-ups. The overall level of digital skills is good, but not improving. The National Reform Programme highlights the agreement between Flanders and Wallonia to improve inter-regional labour mobility.

- (17) Research and development is concentrated in a few industries and there is insufficient diffusion of innovation to the rest of the economy, ultimately weighting on productivity growth. Public research appears to be below the Union average in the Regions and Communities other than Flanders. In terms of Research, Development and Innovation, there are also regional and sub-regional disparities. The National Pact for Strategic Investment identifies the reinforcement of digitisation as a promising avenue to boost productivity and the innovation capacity of Belgium. Doing so requires investments in digital infrastructure, including taking effective steps for the successful roll out of 5G, and human capital and entrepreneurial spirit as well as an accelerated take-up of digital technology, in particular by those firms that have been lagging behind so far.
- (18) The quality of road infrastructure is deteriorating after years of low public investment. At the same time, the maintenance of a large and dense network does not seem cost-effective for the regions and local authorities. Roads in Belgium are among the most congested in the Union. The rail infrastructure is dense and of good quality, but completing and upgrading it remains a challenge and there is congestion especially around Brussels and in access to the ports of Antwerp and Zeebrugge. Significant investments are planned in suburban rail infrastructure and signalling, but are being held back notably by budgetary allocation rules across regions. Additionally, distortive incentives and barriers to competition and investment in domestic passenger railway services and intercity coach services constrain the supply and demand of alternative collective and low-carbon transport services. The increasing congestion is partly explained by the continuous increase of passenger cars, incentivised by toll-free roads, the company car deduction and low environmental taxation. High transaction taxes on immovable property and the company car scheme adversely affect mobility. The quality of rail services has decreased and the supply of urban and urban-rural public transport has room for improvement, notably in Wallonia, where access to employment is a major constraint to job seekers. According to the National Reform Programme, important investments and reforms are underway in all regions, while at federal level, and in cooperation with the Regions, the completion of the network of suburban railways around Brussels is progressing. Belgium adopted the law to open domestic railway services, but the share of passenger transport provided under public service obligations with a directly awarded contract remains very high in Belgium. Private bus operators are not allowed to operate intercity coach services. Taxi regulations vary among local authorities. Although regions have developed their own mobility plans, complex coordination prevents a consistent vision for mobility within Belgium, and possibly with border cities and regions. The Rail Regulator has room to develop the scope of its regulating activities.

- (19) There are substantial investment needs to support the energy transition. Renovation of the old building stock, which predates the introduction of energy norms, will help to meet the 2020 and 2030 emission reduction targets. The roll-out of alternative fuel is rather low. There is a need for major investment in power generation, as well as interconnection capacity, smart grids storage and energy efficiency.
- (20) In spite of government efforts, the regulatory and administrative burden on firms remains heavy and weighs on entrepreneurship. Taxation has been alleviated for start-ups and small companies, but remains complex for financial investments. Belgium has reformed its company law code, reducing the number of legal forms for companies, facilitating legal electronic communication, reducing minimum capital requirements and, according to the National reform Programme, reforming the insolvency law to include notably liberal professions. However, in spite these efforts, there are long delays for building permits, costly property registration and lengthy judicial proceedings. Administrative justice is experiencing challenges due to a lack of resources and lengthy proceedings, causing important delays, in particular for building permits, but also for procurement procedures. Moreover, coordination in climate, energy, digital and transport policy is complex and not always effective. Cooperation between customs authorities and market surveillance authorities is sub-optimal increasing the risk that non-compliant goods enter the EU through the Belgian borders. Impact assessment could be better integrated in the policy-making process. The quality of digital public services for businesses is low. The lack of digitalisation of the justice system remains a serious challenge, notably for data collection. Completing the digitalisation of justice is an important condition for further improvements of the quality of the justice system, such as updating business processes and better management of human and financial resources at courts.
- (21) Barriers to competition and investment in several business services hamper growth and productivity. Entry rates of new service providers are significantly below the EU-average, while profit rates are above the EU-average. The Commission restrictiveness indicator shows that the Belgian regulatory framework for accountants, tax advisors, architects and real estate agents is considerably more restrictive than the EU average. A recently adopted law has introduced stricter requirements for patent agents. The Federal Planning Bureau estimates that an ambitious reduction of the regulatory burden in legal, accounting and architectural services would increase labour productivity. The regulated fees of notaries for real estate transactions are significant, adding to the high registration taxes. Regions have unevenly reformed the crafts and trade professions. The retail sector still faces operational restrictions that hinder its productivity and discourage investment. The supermarket sector displays a sub-optimal level of competition, mainly due to high concentration and low entry and exit dynamics. According to the Retail Restrictiveness Indicator, Belgium is the sixth most restrictive Member State as regards the operational environment for retailers. The National Reform Programme highlights recent Brussels reforms to facilitate retail establishment. The telecoms market is characterised by a high level of concentration (further accentuated by recent takeovers) and weak competition. This is also illustrated by relatively high prices for fixed services compared to peer countries. In fixed networks, the retail market is characterised by geographically defined duopolies of the incumbent and cable network operators. This may create obstacles to the provision of fixed-mobile convergent bundled services by some operators. The National Reform Programme highlights that the reform of economic law to improve compliance of competition law and the functioning of the Belgian Competition Authority by making procedures more efficient and reduce the risk of further disputes before the Cour des

Marchés/Marktenhof has been adopted. The Belgian Competition Authority has limited resources compared to the resources of Competition Authorities of other Member States.

- (22) The programming of EU funds for the period 2021-2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the country report⁶. This would allow Belgium to make the best use of those funds in respect of the identified sectors, taking into account regional disparities.
- (23) In the context of the 2019 European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy and published it in the 2019 country report. It has also assessed the 2019 Stability Programme and the 2019 National Reform Programme and the follow-up given to the recommendations addressed to Belgium in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Belgium, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (24) In the light of this assessment, the Council has examined the 2019 Stability Programme and its opinion⁷ is reflected in particular in recommendation (1) below.

HEREBY RECOMMENDS that Belgium take action in 2019 and 2020 to:

1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.6% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Continue reforms to ensure the fiscal sustainability of the long-term care and pension systems, including by limiting early exit possibilities from the labour market. Improve the composition and efficiency of public spending, notably through spending reviews, and the coordination of fiscal policies by all levels of government to create room for public investment.
2. Remove disincentives to work and strengthen the effectiveness of active labour market policies, in particular for the low skilled, older workers and people with a migrant background. Improve the performance and inclusiveness of the education and training systems and address skills mismatches.
3. Focus investment-related economic policy on sustainable transport, including upgrading rail infrastructure, the low carbon and energy transition and research and innovation, in particular in digitalisation, taking into account regional disparities. Tackle the growing mobility challenges, by reinforcing incentives and removing barriers to increase the supply and demand of collective and low emission transport.
4. Reduce the regulatory and administrative burden to incentivise entrepreneurship and remove barriers to competition in services, particularly telecommunication, retail and professional services.

⁶ SWD(2019) 1000 final.

⁷ Under Article 5(2) of Council Regulation (EC) No 1466/97.

Done at Brussels,

*For the Council
The President*