



The 2017 European Semester: Country Report on Belgium

European Semester Winter Package Overview

- **27 Country Reports** (all MS except Greece)
- **Chapeau communication** (including MIP outcomes)
- **Fiscal Compact report on transposition** (with country annexes) and **Communication**
- **Stability and Growth Pact: report 126(3) on Italy**
- **Report and proposal for a fine relating to the manipulation of public finance statistics in Austria**

Economic and social context

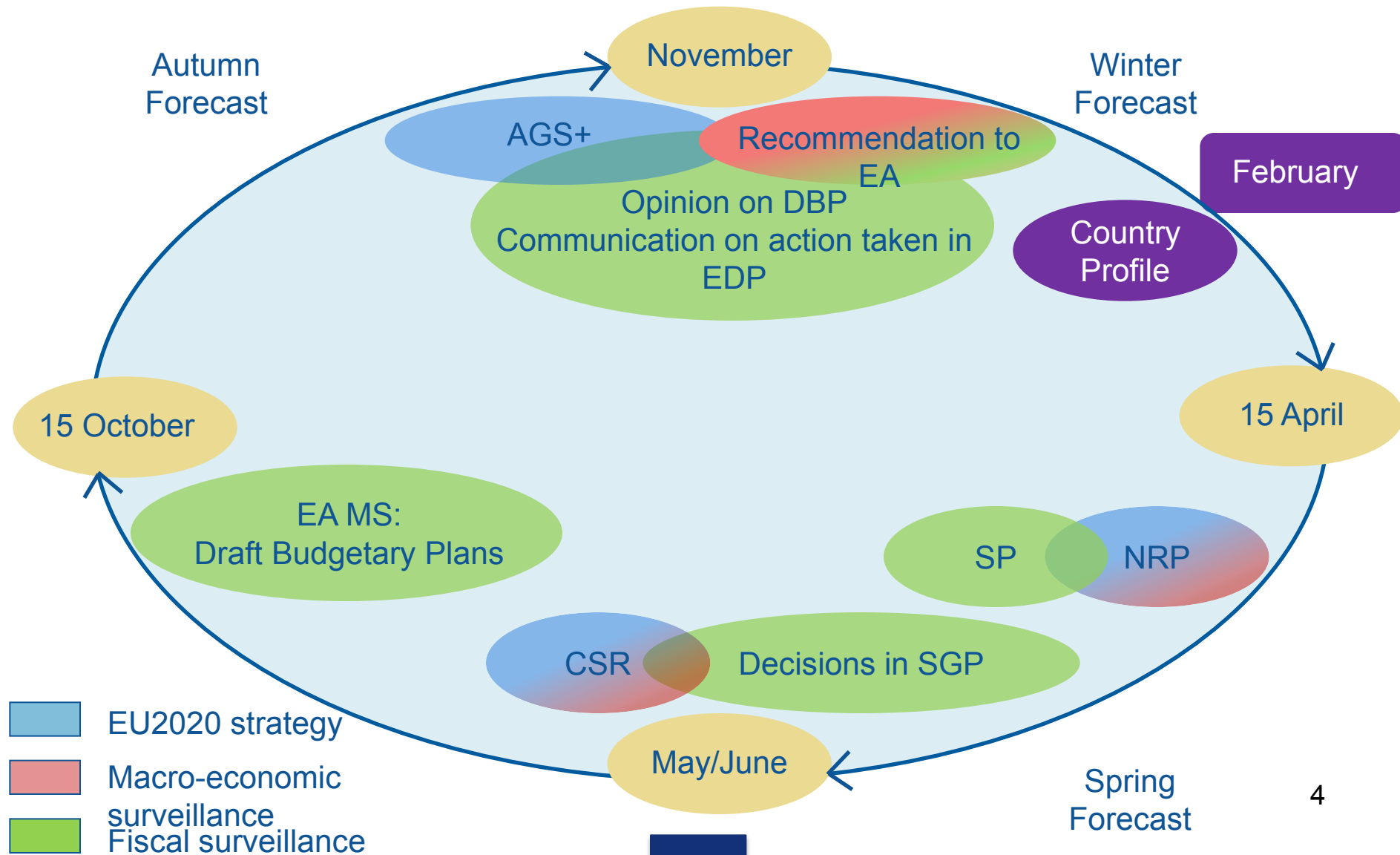
All EU Member States are set to grow in 2016, 2017 and 2018...

... but uncertainty is high

- **Political**
- **Economic**
- Potential disruptions to **trade**
- Faster **monetary** tightening in the United States
- High and rising **debt** in China

 Need to act on the three pillars highlighted in the Annual Growth Survey: **investment, structural reforms and responsible fiscal policies**

The Annual Coordination Cycle



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2. Progress with country-specific recommendations
3. Reform priorities
 - 3.1. Public Finances and Taxation
 - 3.2. Financial Sector
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 - 3.4. Competitiveness and investment

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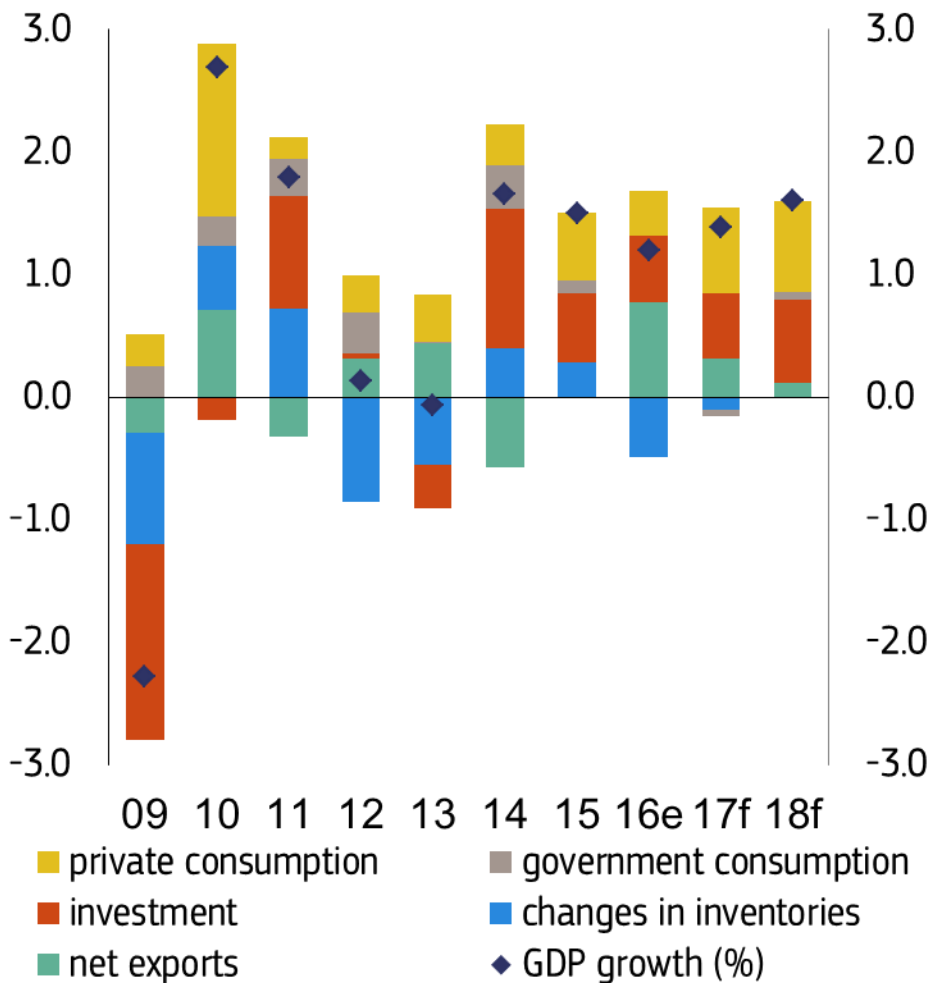
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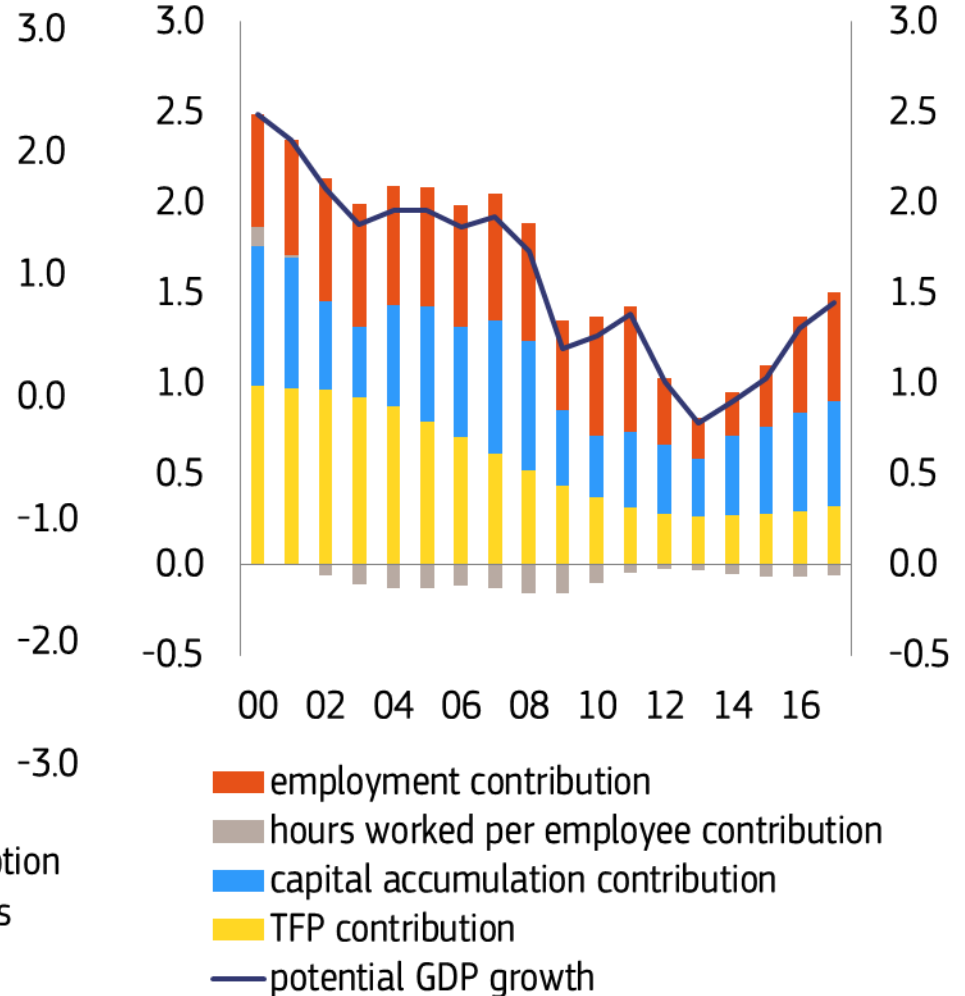
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Economic Situation and Outlook (1/2)

Breakdown of GDP Growth

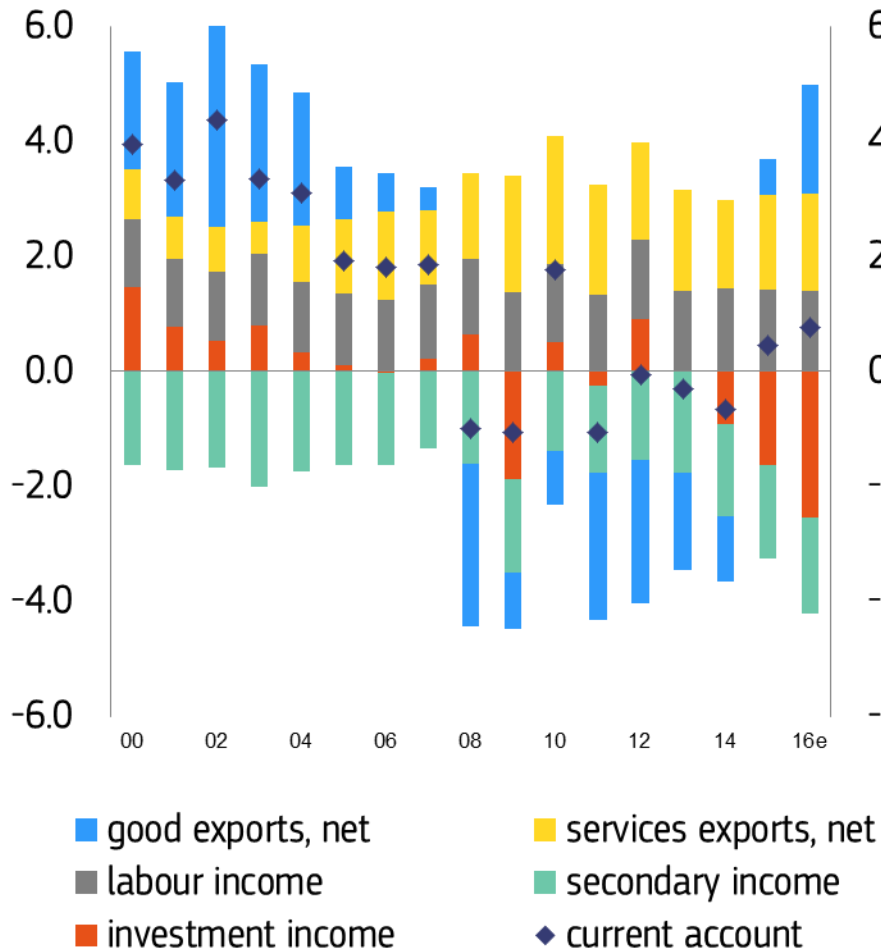


Breakdown of Potential Growth

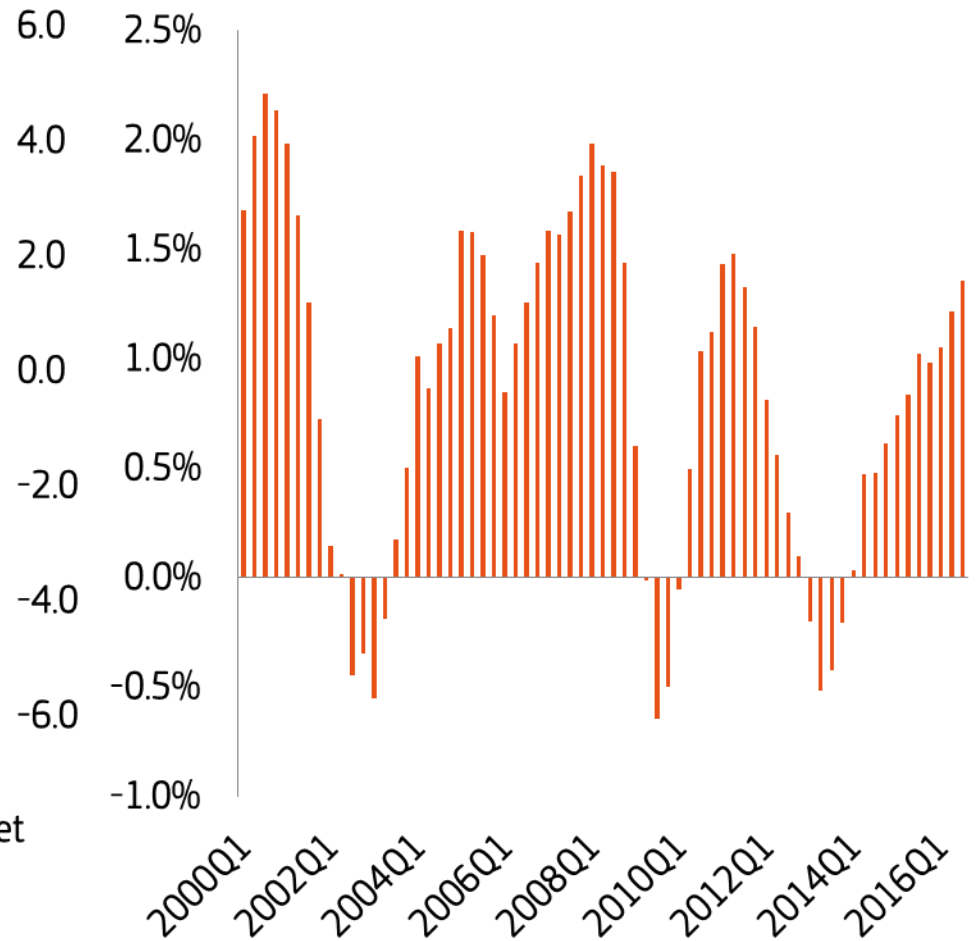


Economic Situation and Outlook (2/2)

Breakdown of Current Account Balance



Employment growth (y/y%-change)



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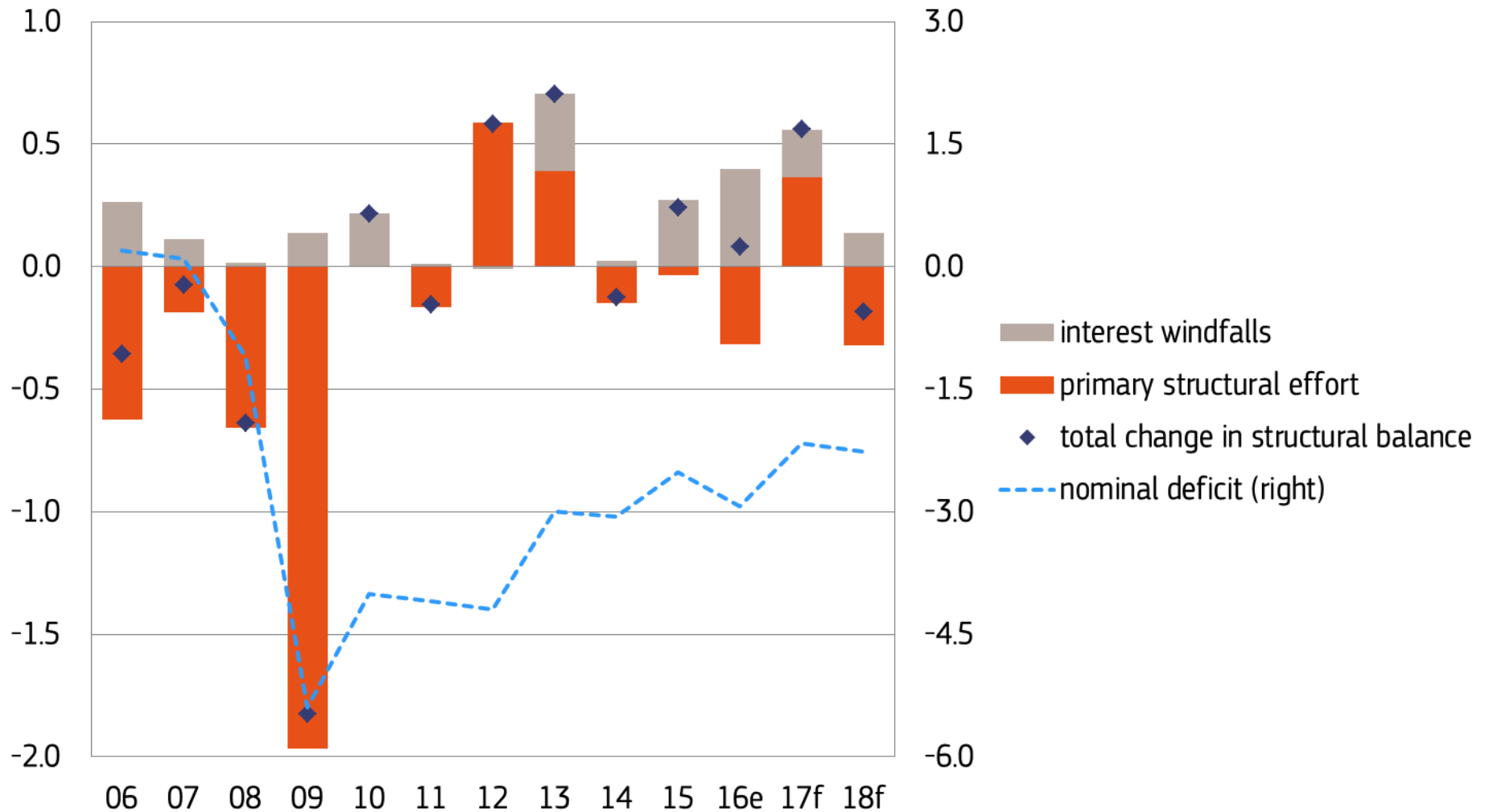
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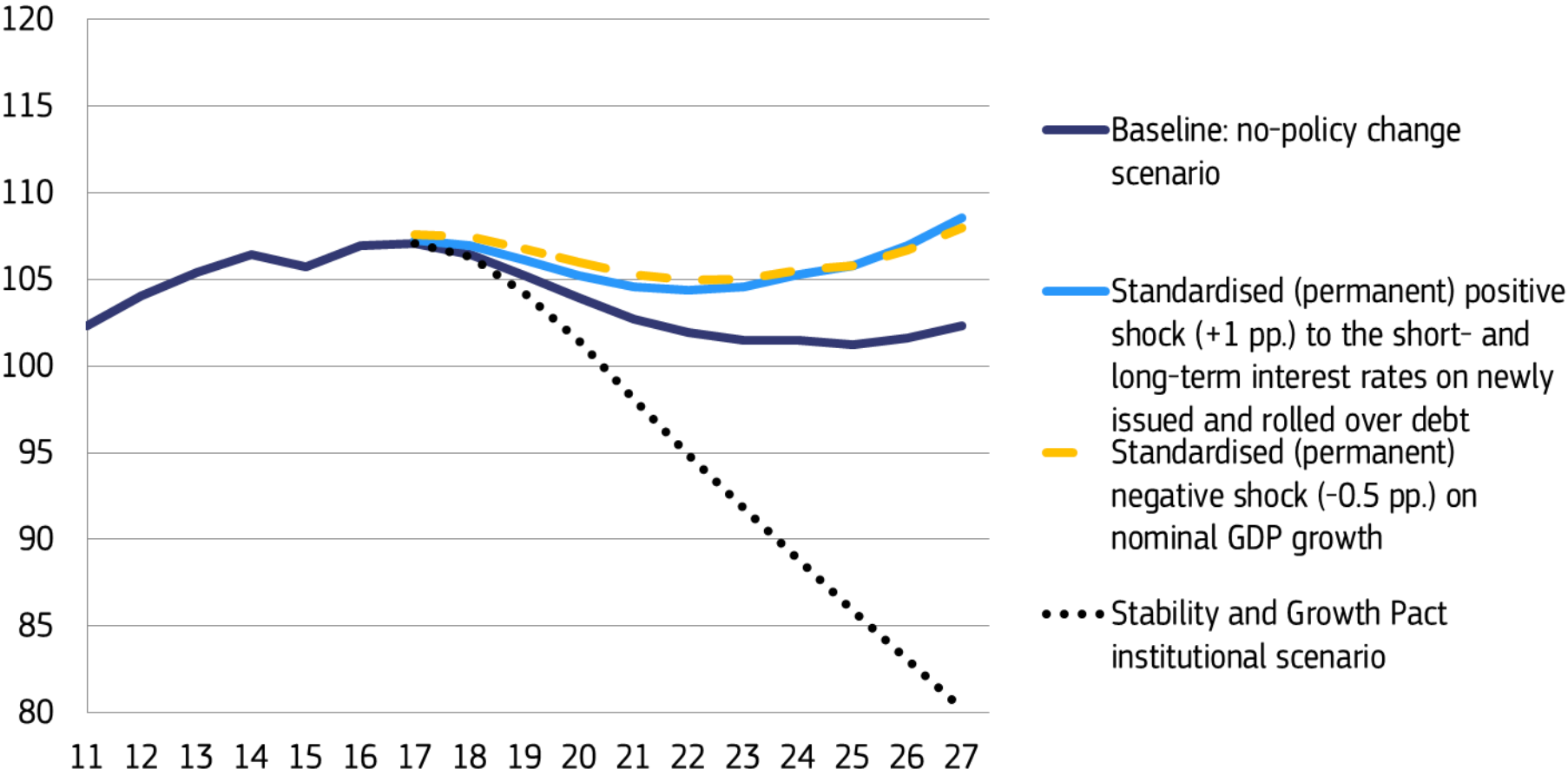
Budget consolidation efforts remain modest so far

Fiscal Deficit: headline and structural developments (% GDP)



Belgium faces high medium-term sustainability risks

Public debt: medium-term projection and scenarios (%GDP)



There is room for further improvement of the Belgian taxation system

- In the framework of the European Semester, **tax systems** are assessed in terms of **growth-friendliness, fairness, efficiency and distributive effects** (cf. Annual Growth Survey);
- In light hereof, the **on-going tax reform** in Belgium presents a step in the right direction towards a more growth friendly system;
- **Concerns remain, however, with regard to**
 - The overall **complexity** of the system, resulting in economic distortions, revenue losses and administrative burden and making it prone to aggressive tax planning;
 - The **budget-neutrality** of the on-going reforms;
 - The **environmental impact** of the taxation system;
 - **Unemployment and low wage traps** caused by specific design features of personal income taxation;
 - The **debt/equity bias** of the overall tax system.

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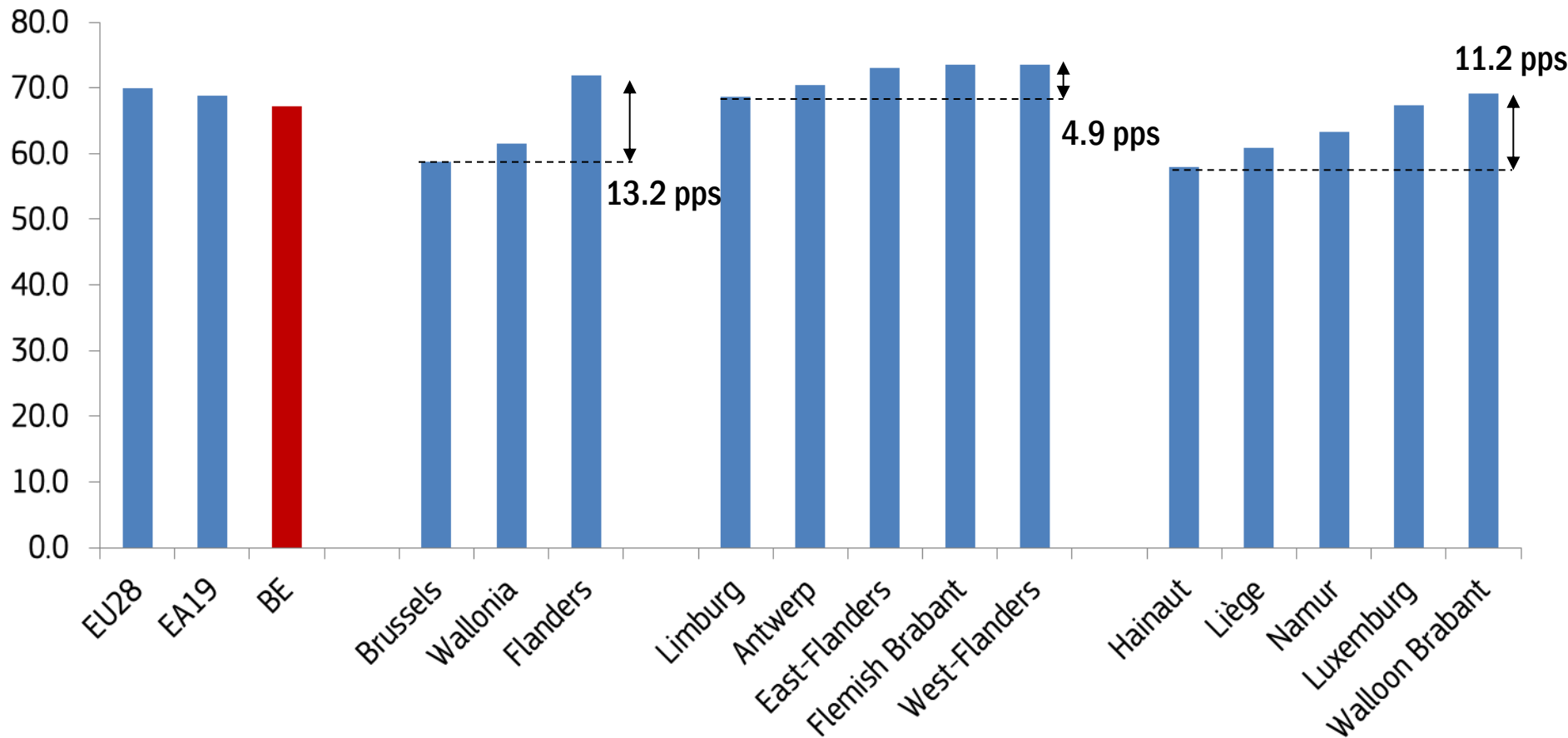
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Large performance differences persist... (1/3)

...between and within regions

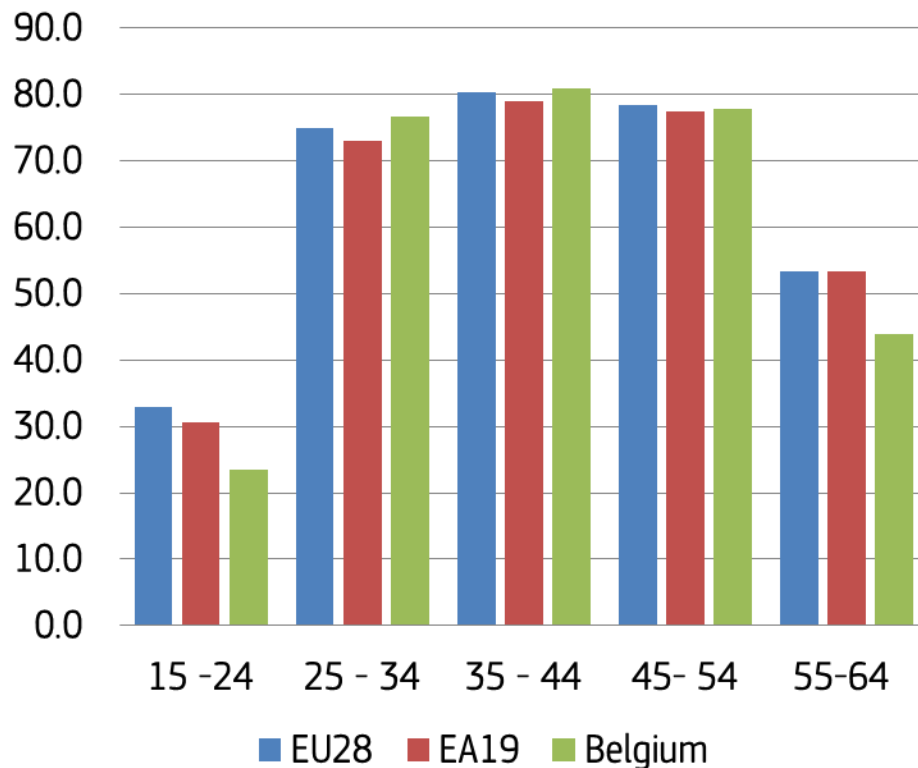
Employment rate (20-64 - 2015)



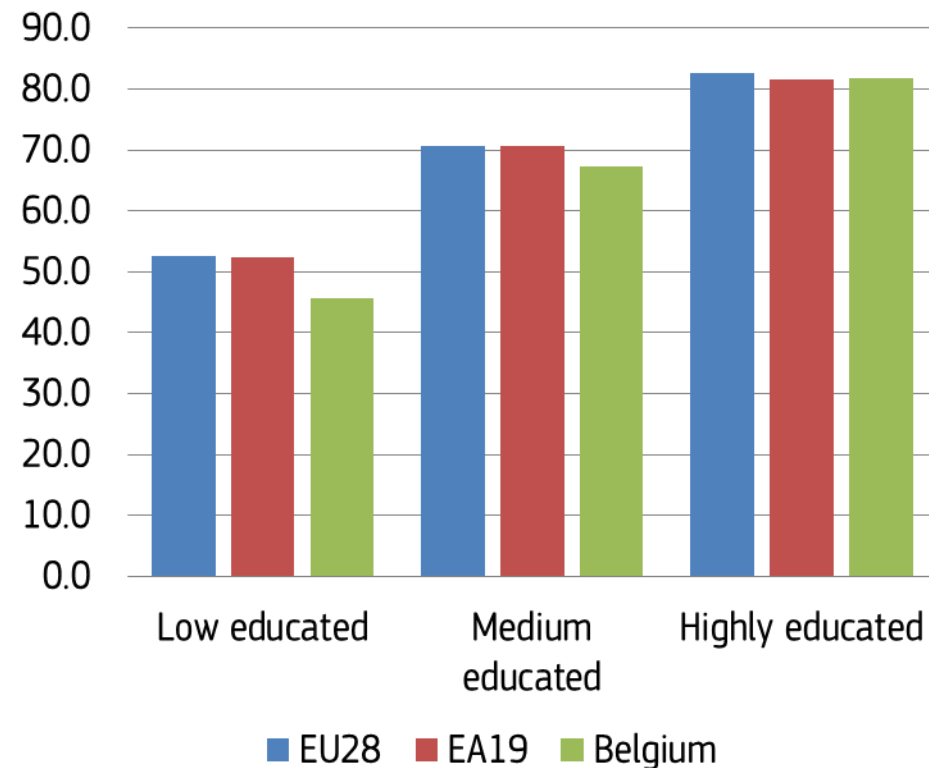
Large performance differences persist... (2/3)

...between age groups and qualification levels

Employment rate per age group (2015)



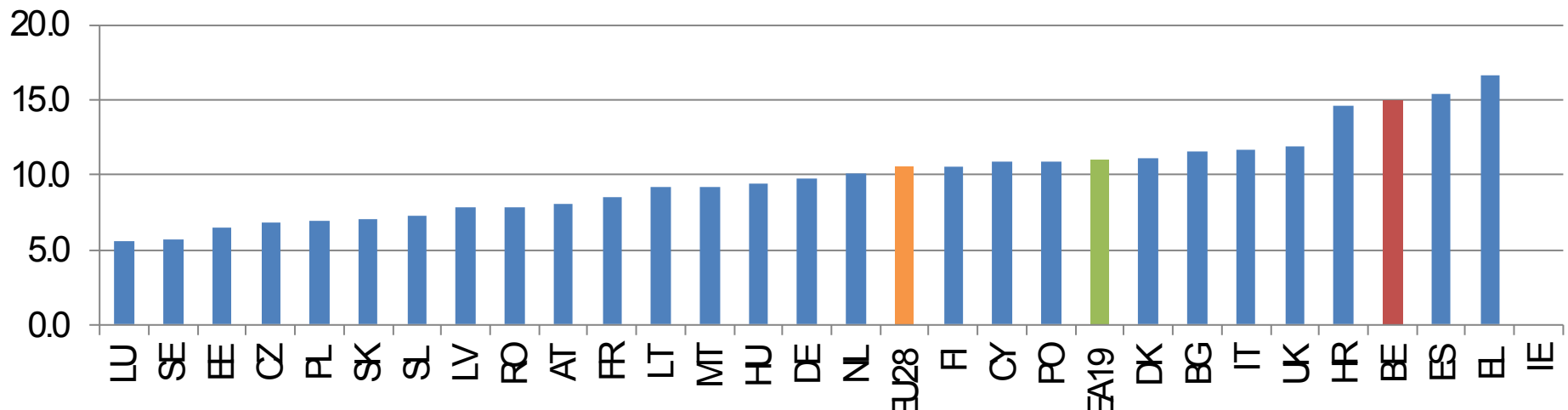
Employment rate per educational attainment level (2015)



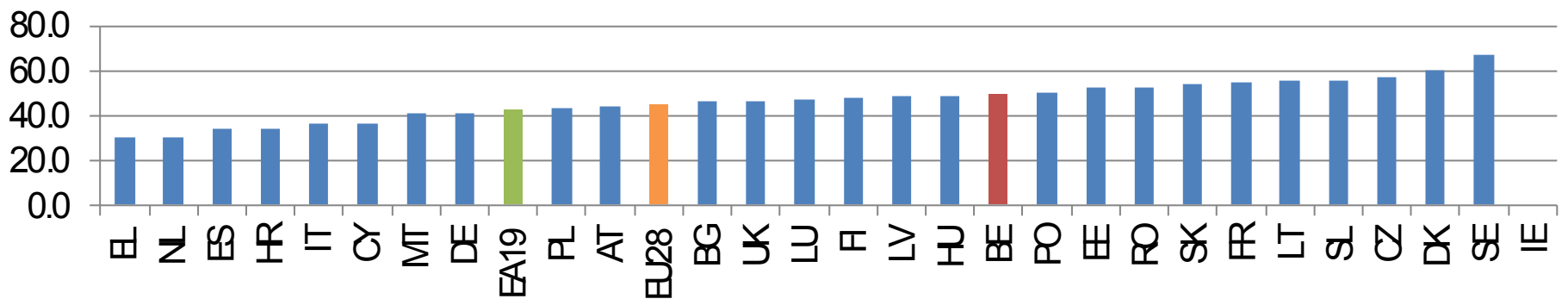
Large performance differences persist... (3/3)

...at the level of individual households

Share of population (aged 0-59) in very low work intensity households

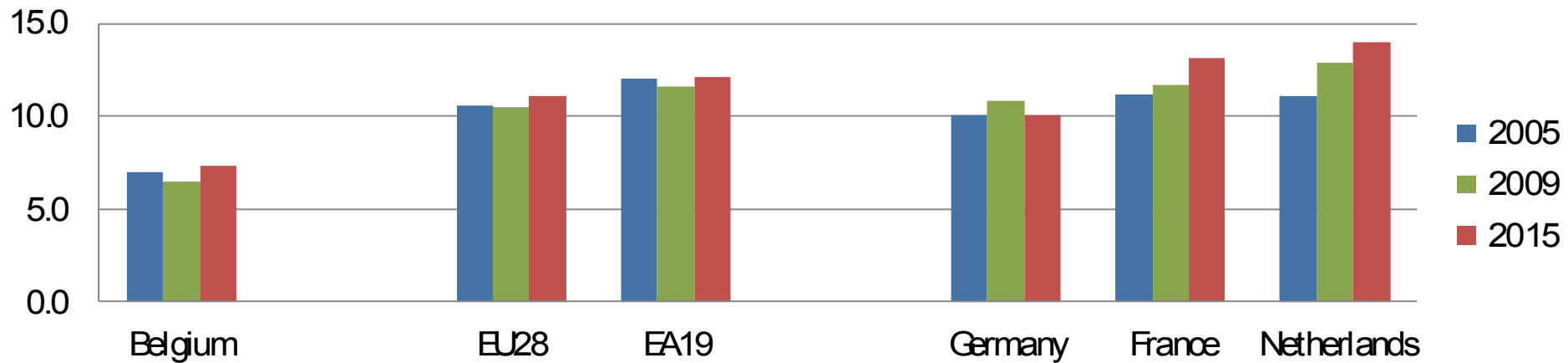


Share of population (aged 0-59) in very high work intensity households

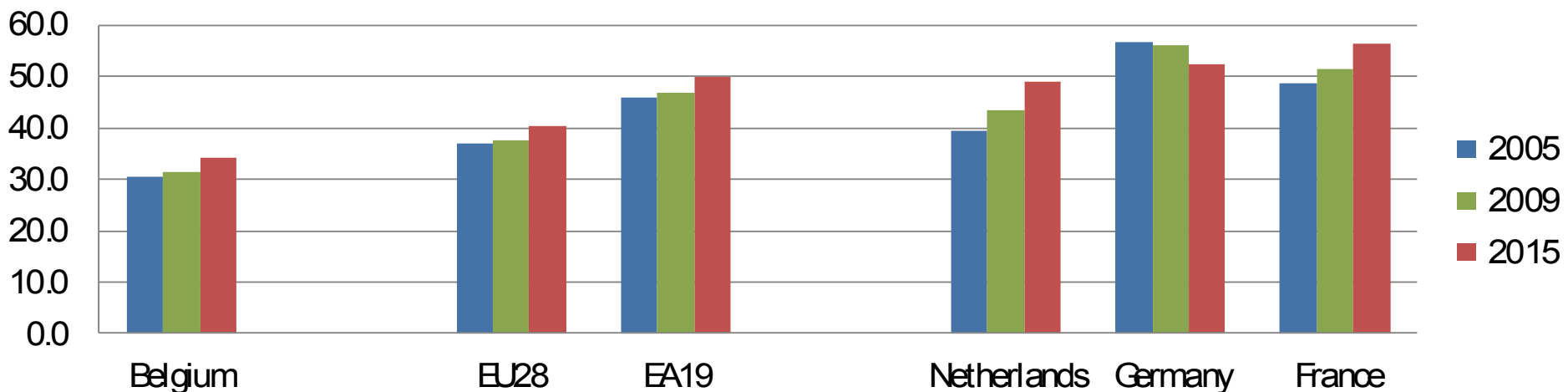


Segmentation by contract type is becoming somewhat more prevalent

Temporary contracts (% of total employment; 20-64)

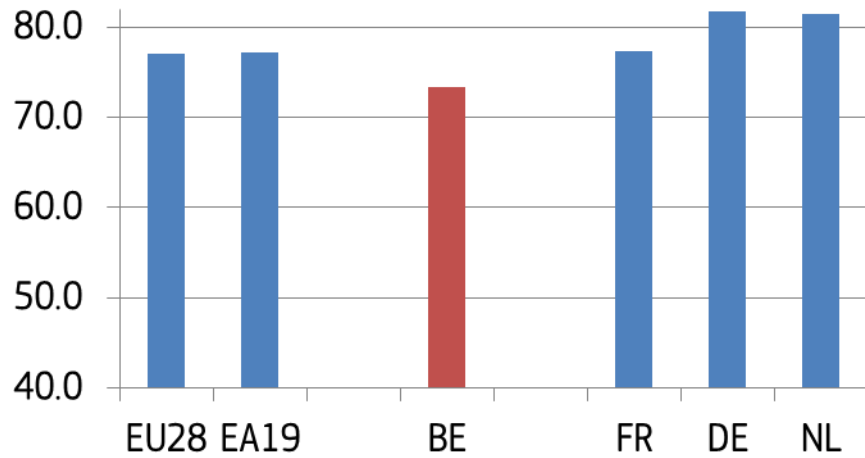


Temporary contracts (% of total employment; 15-24)

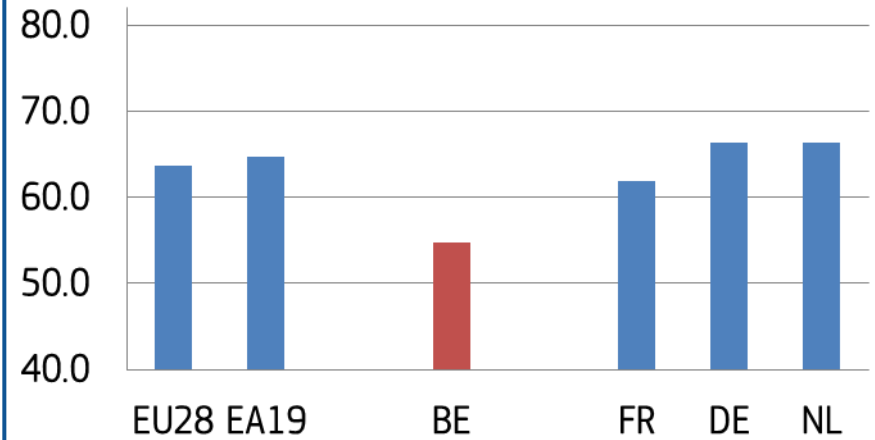


Activity rates are below average

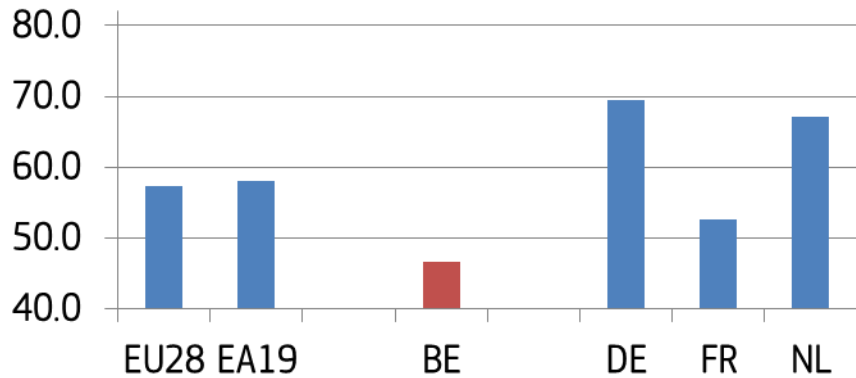
Activity rate (20 - 64)



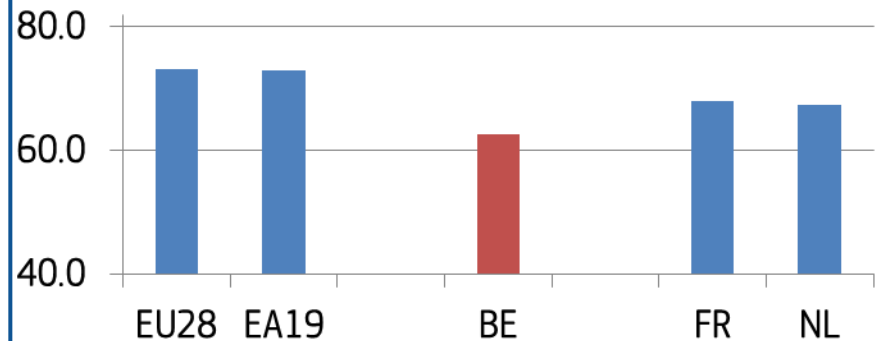
Activity rate low skilled (20 -64)



Activity rate elderly (55 - 64)

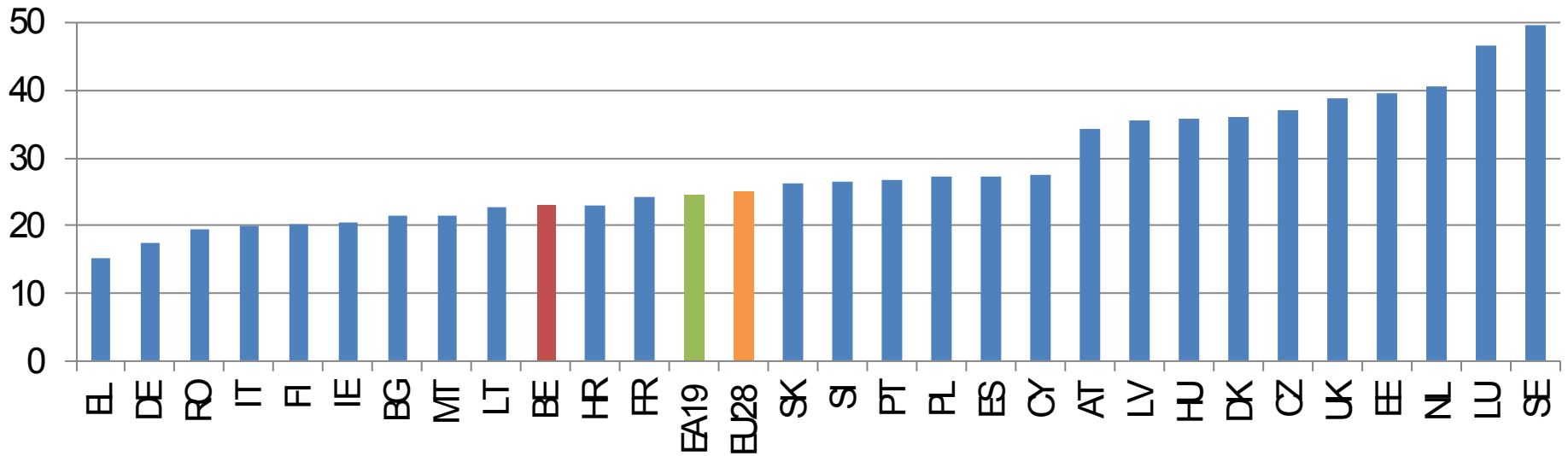


Activity rate non-EU born residents (20-64)

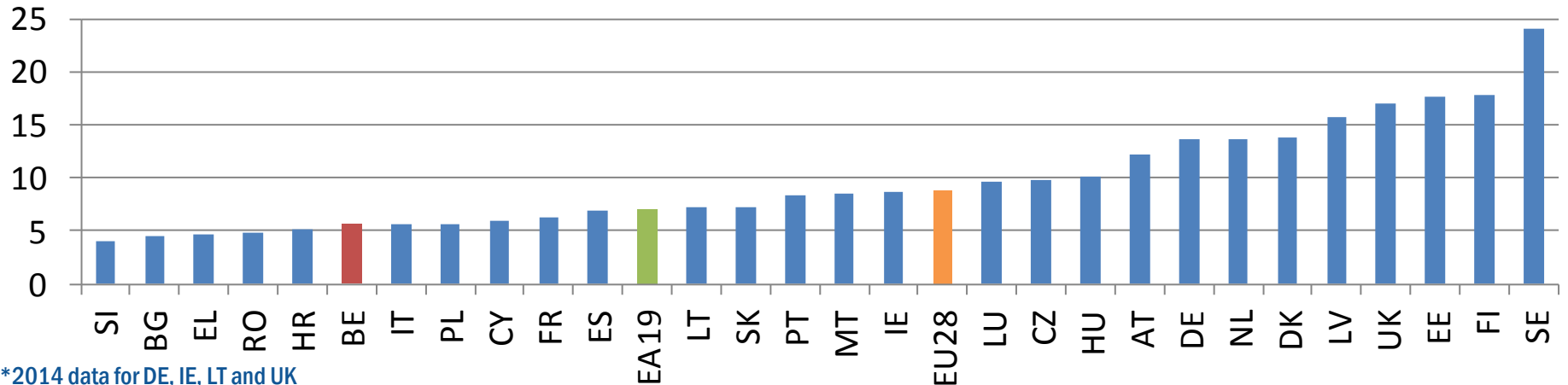


Transition rates into employment are below par

Transitions from unemployment to employment (2015*)



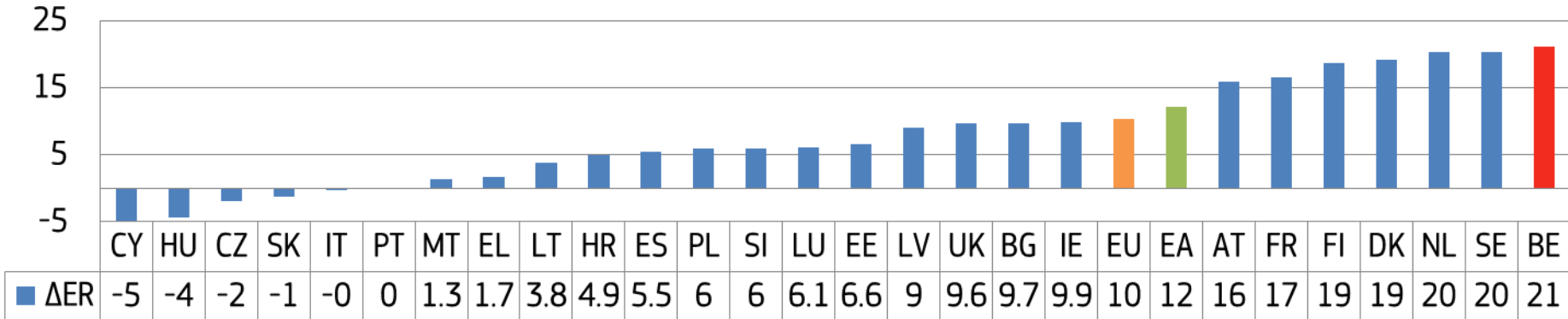
Transitions from inactivity to employment (2015*)



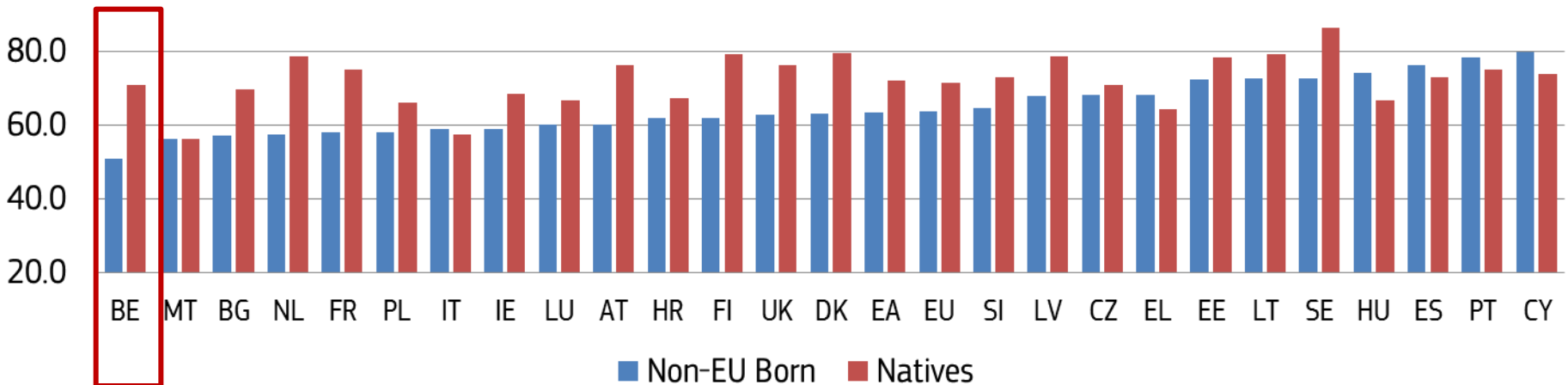
*2014 data for DE, IE, LT and UK

People with a migrant background perform particularly badly on the labour market

Differences in employment rates
Natives vs. non-EU born (2015, pps)



Activity rates female citizens (2015, 20-64)



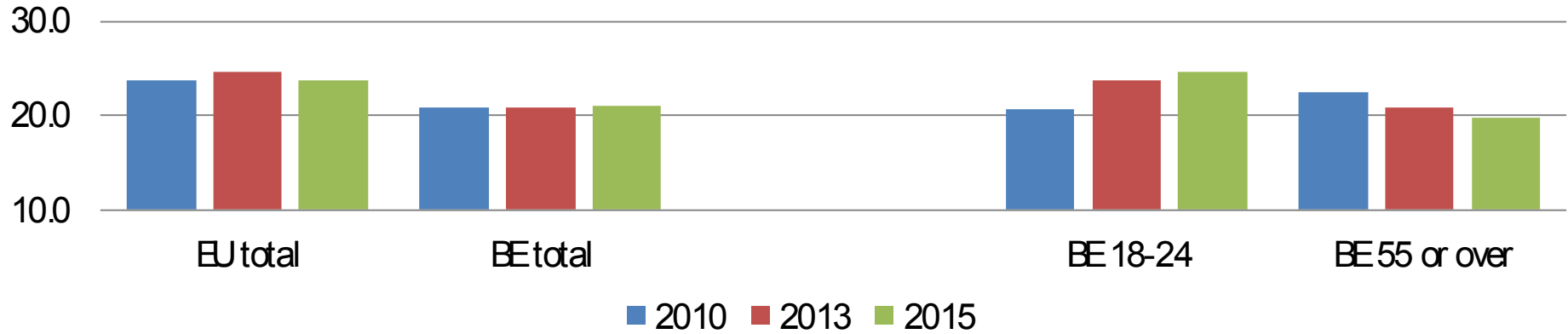
*No data available for DE and RO

Labour market reforms are on-going

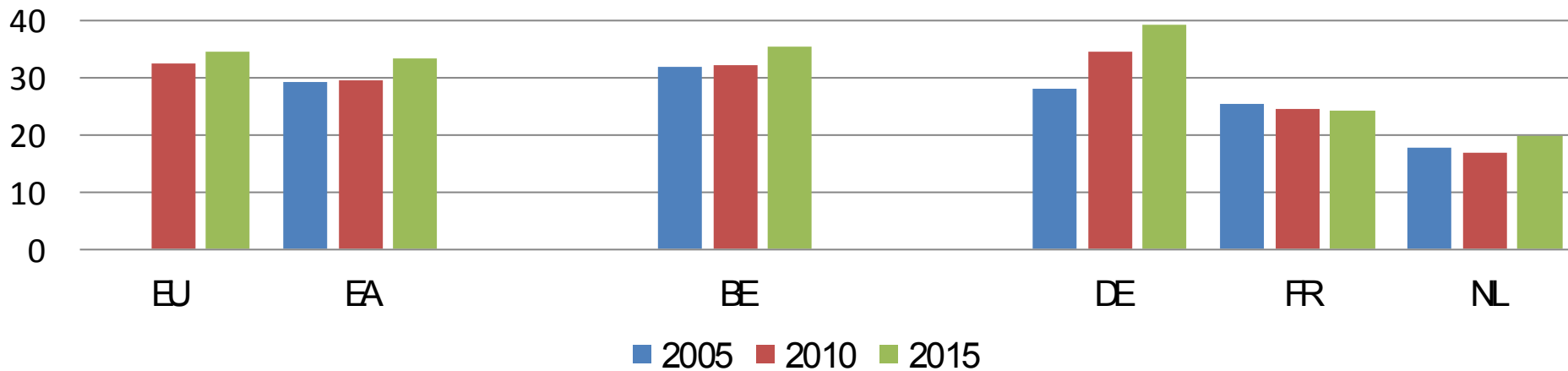
- The on-going **tax reform** contributes to lower labour costs and increased take home pay;
- **Wage moderation** efforts have contributed to job creation;
- Earlier reforms of the **unemployment benefit system** are now fully phased in;
- The reforms of **old-age social security** are lifting career length requirements and age ceilings for early exit from the labour market and/or retirement;
- At regional level, existing **employment incentive schemes** for specific target groups are being streamlined.
- Measures to increase **working time** flexibility and to promote **in-company training** are under discussion.

Poverty and social exclusion risks are shifting

People at risk of poverty or social exclusion (% of total population, 2010 - 2015)



Low skilled at risk of poverty or social exclusion (18 years or over, 2005 - 2015)



Education reforms are ongoing

- Relatively **good average performance** of the Belgian education system, but with wide performance gaps between schools and communities;
- **Nurturing excellence** is essential in order to counter the declining share of top performers.
- Large **impact of socioeconomic status on education inequality with poorer performance**; Equity challenges are compounded by increasing child poverty, diversity in language cultures and family structure. Fast projected growth of school population, in particular amongst pupils with disadvantaged background, in particular with a migrant background.
- **Shortage in education infrastructure and well qualified and supported teachers** are a growing concern
- **Major school reforms** have been launched.
- **Policy responses go beyond education**, and also require employment, social, anti-discrimination and migration policies.

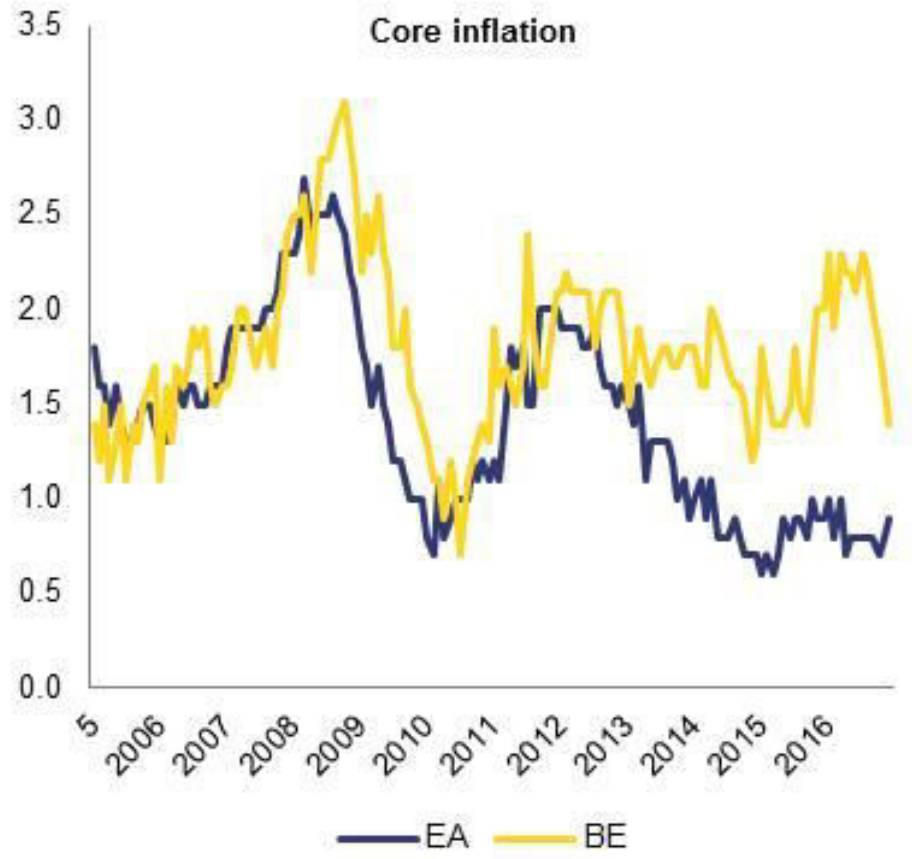
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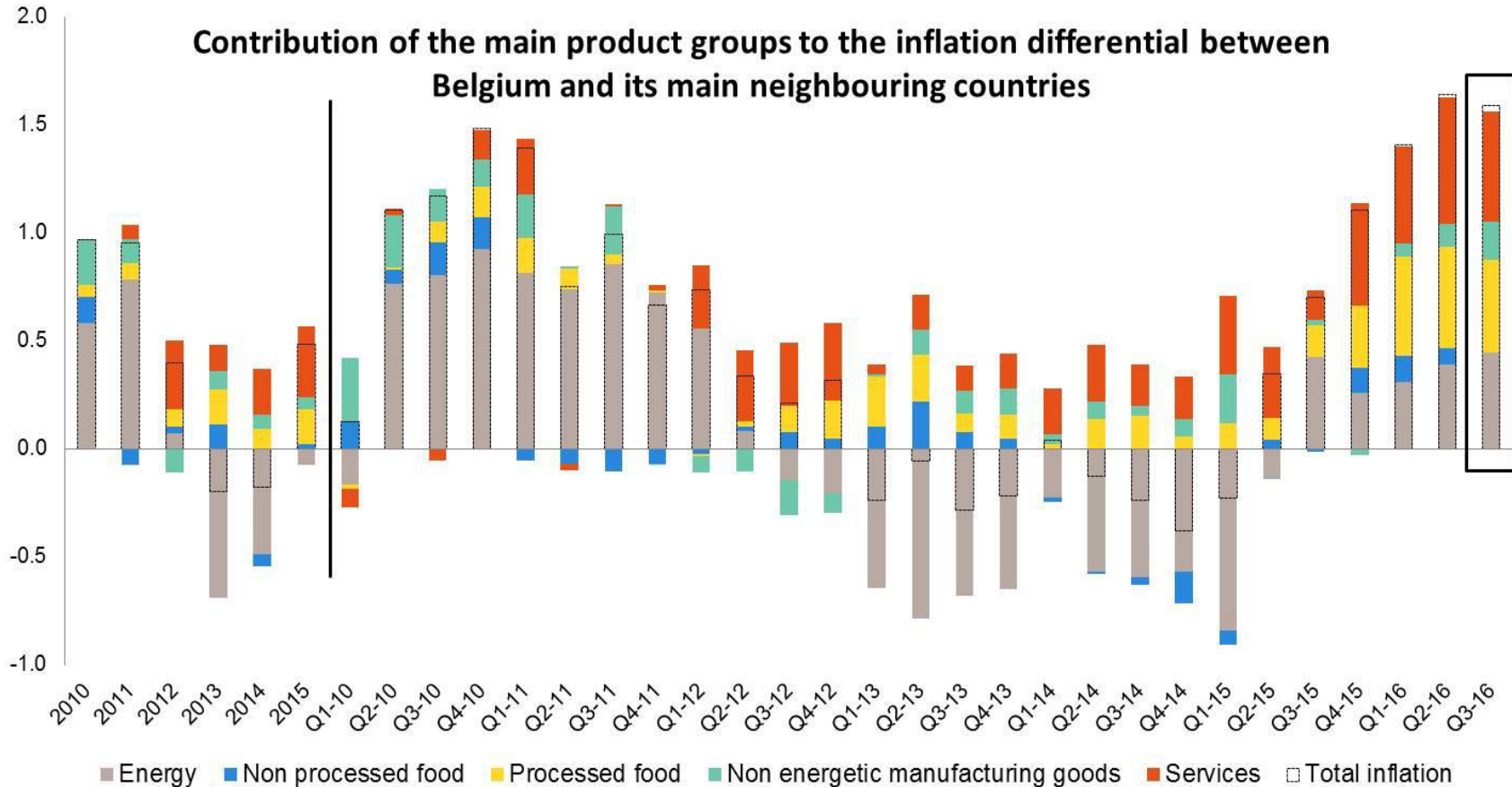
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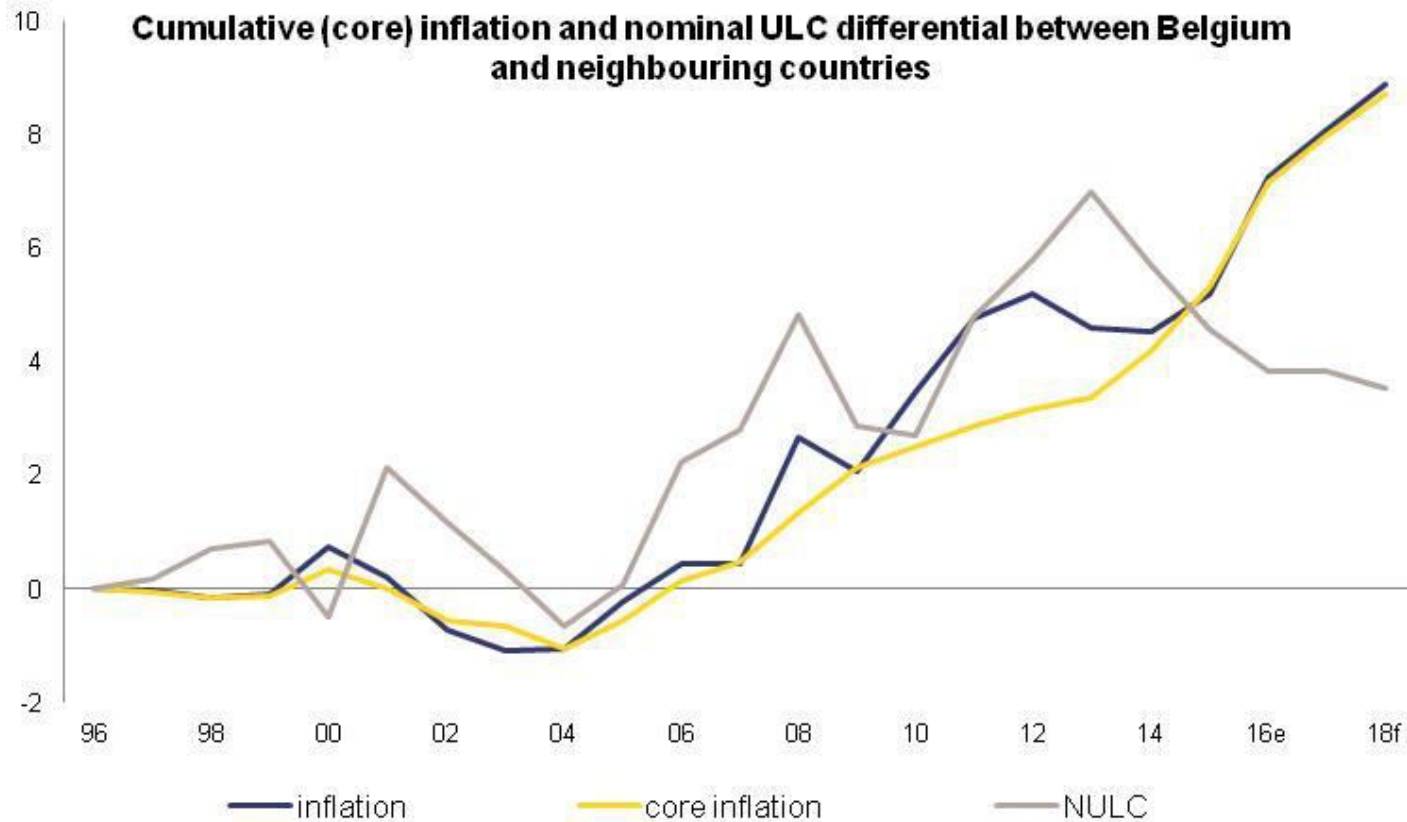
Inflation gap



Steady inflation primarily reflects services

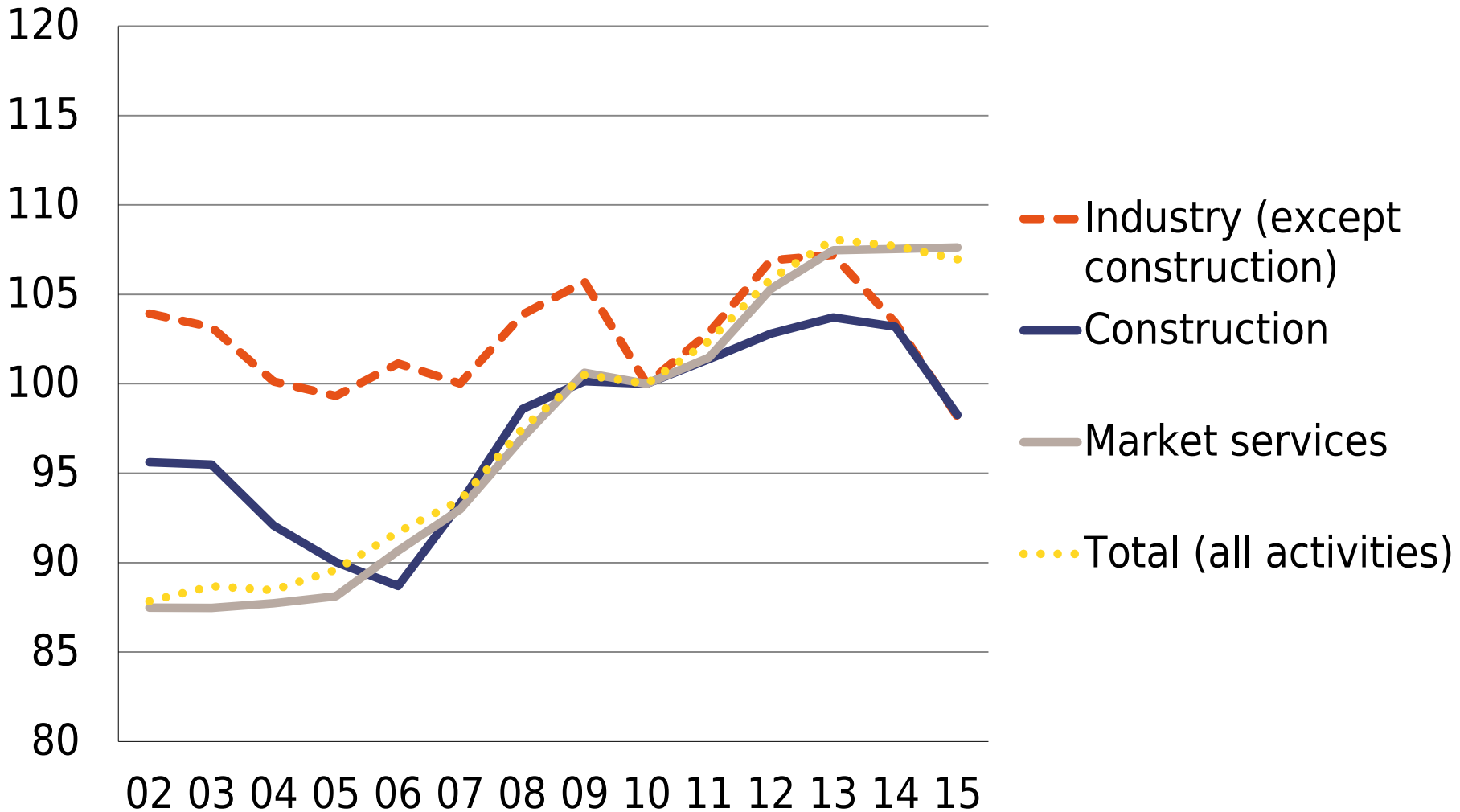


Inflation gap risks to undermine recent gains in cost competitiveness, a risk which is partly addressed by the reform of the Law of 1996



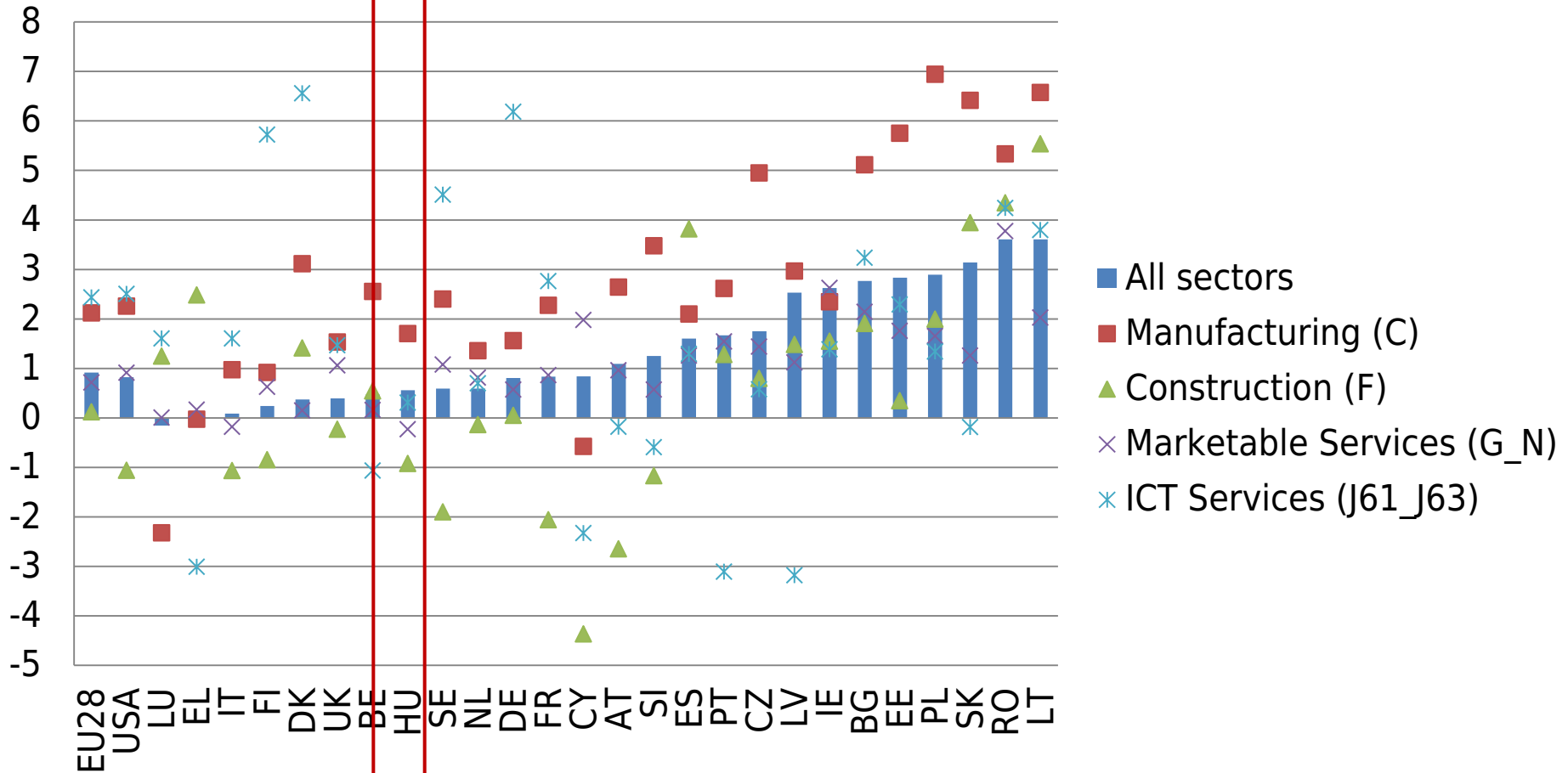
While overall ULC trends have reversed, the cost-competitiveness of market services remains an issue

Unit labour costs per sector (2010 = 100)



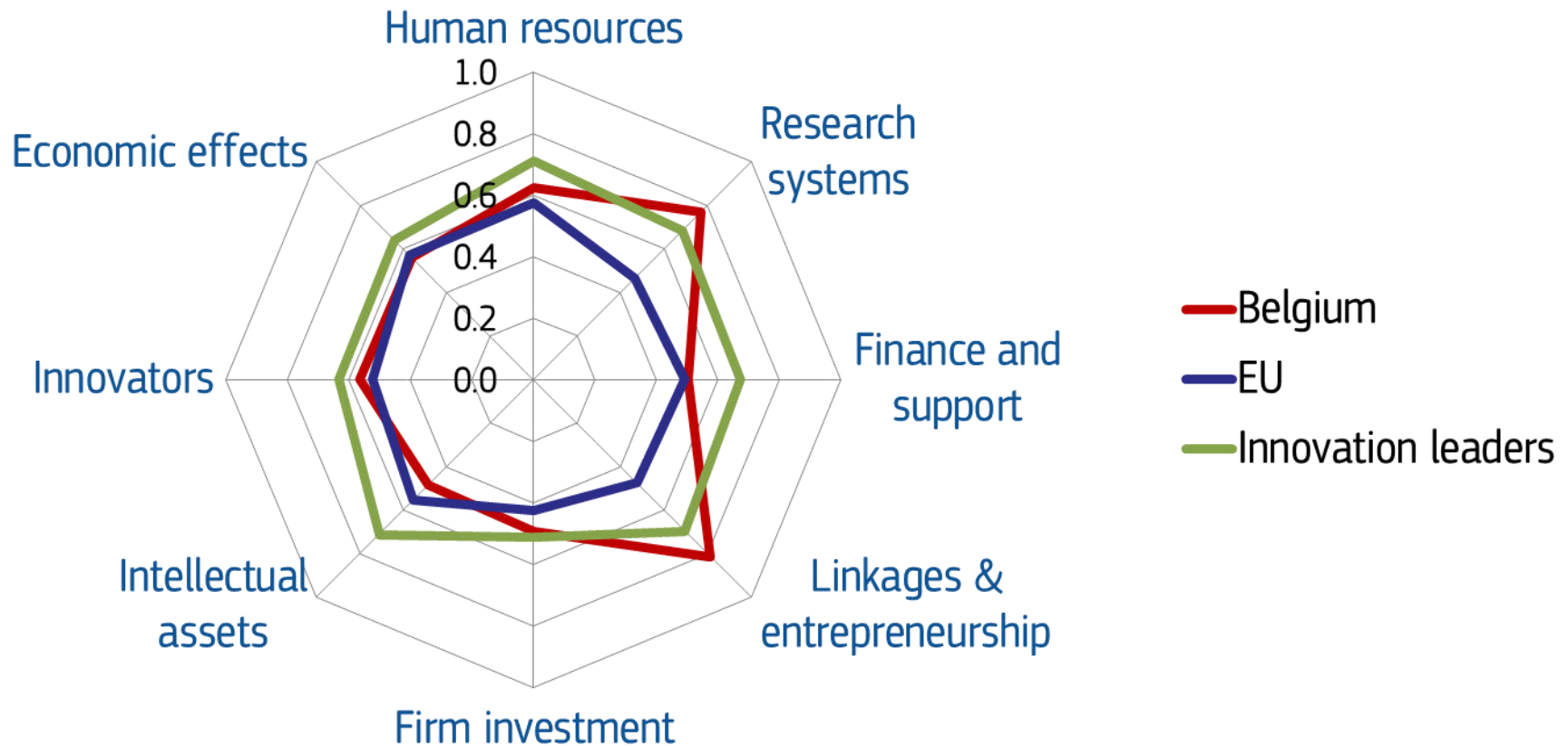
The recent productivity slowdown points to a number of challenges

Labour productivity (avg. annual %-change 2005-2014)

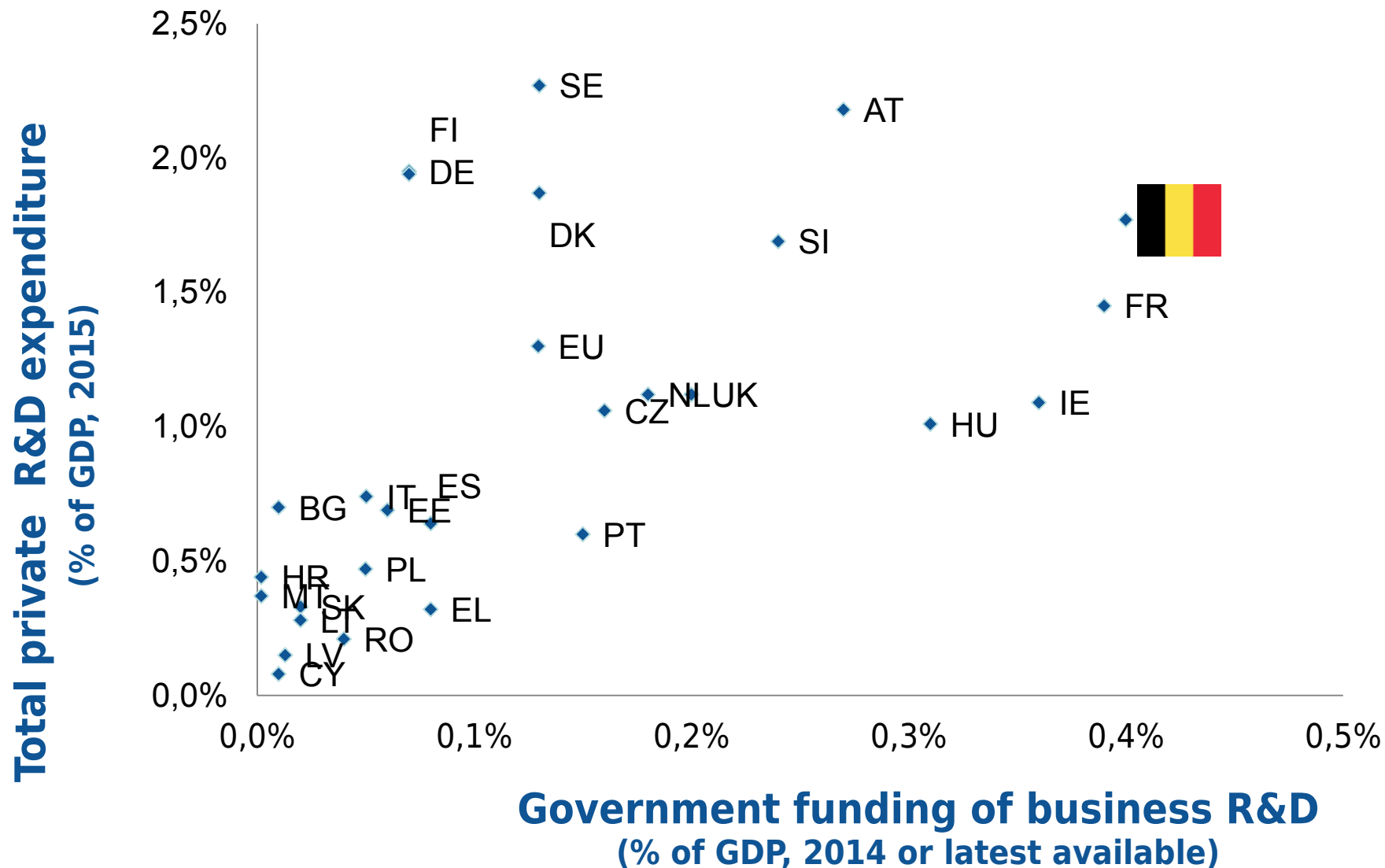


Innovation output performance is mixed

European Innovation Scoreboard – Distance to EU innovation leaders and to EU average

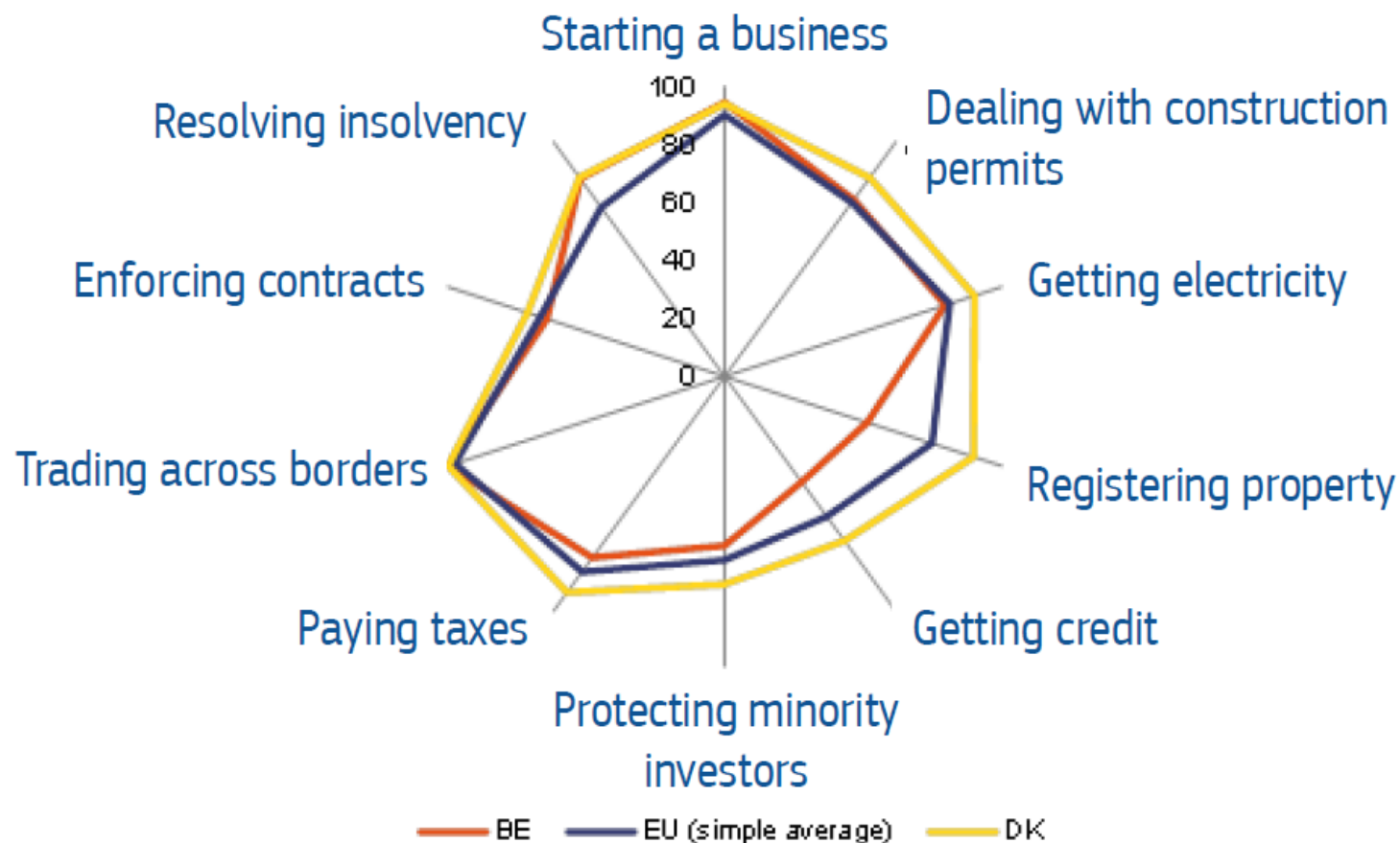


There is room to improve the efficiency and coherence of public support for research and innovation



Despite some progress on entrepreneurship, the business environment has barely improved

Ease of doing business (distance to frontier), 2017



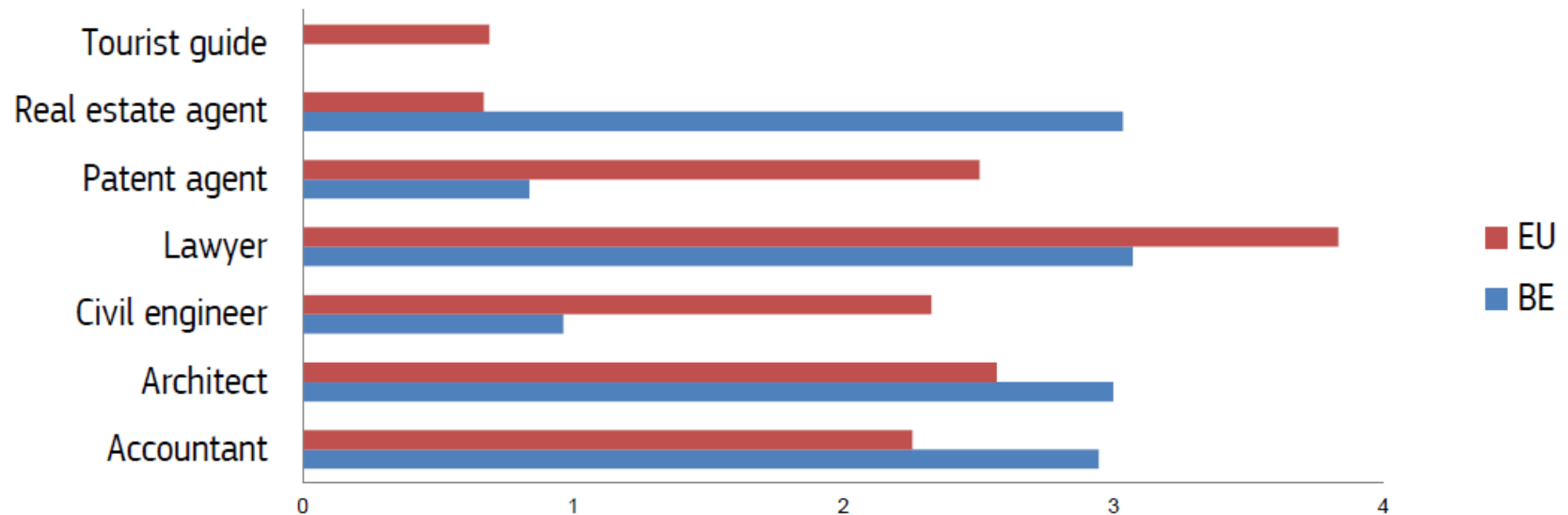
Note: A score of 0 indicates the lowest performance among all countries in the sample, whereas 100 indicates the frontier of best practice.

Source: World Bank, Doing Business Report 2017.

There are still unwarranted restrictions and rigidities in services markets

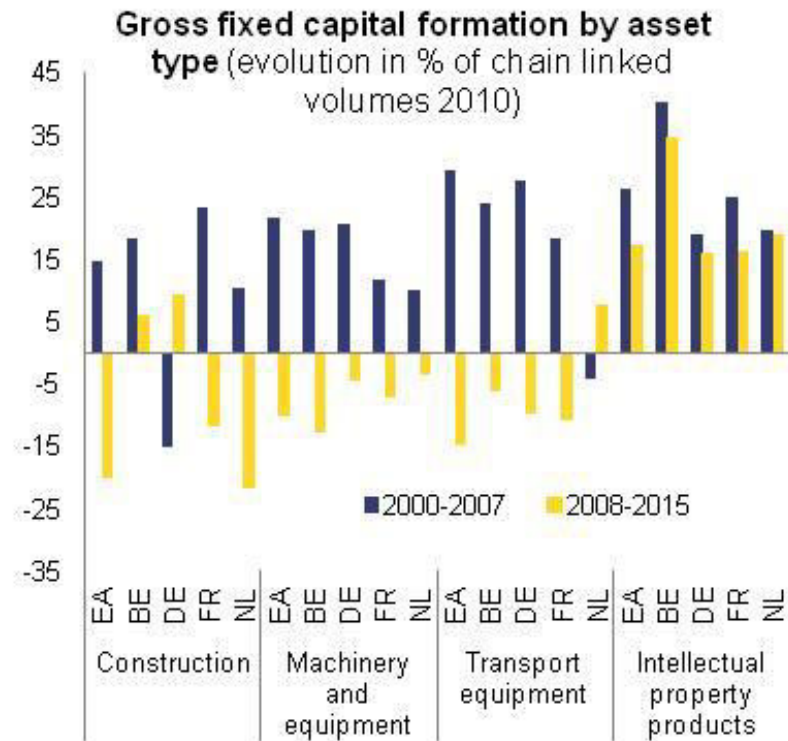
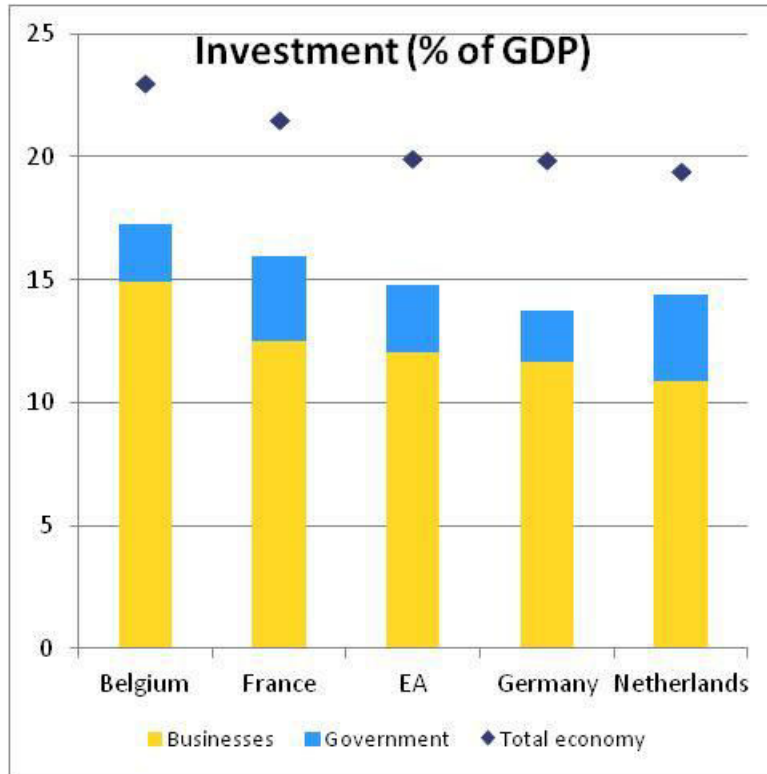
- Establishment restrictions in **retail** may impact market structure and dynamics. High mark-ups point to suboptimal competition.
- Differences in regulating **collaborative economy** between regions may hamper its development
- Significant regulatory barriers in some **professional services** are hampering competition (see below)

Restrictiveness indicator, 2016, Belgium and the EU



Note: Values range from 0 (less restrictive) to 6 (more restrictive). For civil engineer, restriction refers to the protection of job title.
Source: European Commission services

Investment



Transport

Road

- Main challenges concern **road congestion** (highest in EU), the **lack of maintenance and better use of existing infrastructure and missing links**.
- Limited progress on the **Company car system**
- Despite some positive developments (road pricing for lorries, car-free and low-emission zones, Intelligent Transport Systems) there is still need for a **comprehensive approach** to tackle congestion (e.g. extension of road pricing to passenger cars, shifts between transport modes).

Rail

- At the railway level train **punctuality**, lack of **market access**, **infrastructure bottlenecks** and the delays in the construction of the **RER** around Brussels are problematic

Energy & environment

- **In the power sector**, recent price peaks and delays in new investments put **pressure on medium term system adequacy**.
- **There is urgent need for a stable legal framework** that promotes investments in line with climate objectives and the Energy Union priorities
- **Progress towards 2020 targets**
 - Primary and final energy consumption still above indicative 2020 target
 - Interim renewable targets reached but additional efforts needed, including improving network flexibility (inter-connections, smart grids)
 - Climate change: remaining gap of 5pp to 2020 target;
- **Substantial progress on promoting the circular economy**