The European Semester in Belgium: A state of play

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The economic governance of the Economic and Monetary Union (EMU) was substantially reformed in recent years with the introduction of the European Semester, the adoption of the Six-pack and Two-pack, and the signature of the Treaty on Stability, Governance and Coordination (which includes the Fiscal Compact). This revamped framework was primarily intended to promote greater fiscal discipline, as well as a more proactive adoption of structural reforms to prevent and correct economic imbalances in the eurozone, via a set of recommendations - the so-called Country Specific Recommendations (CSRs).

Belgium is among the countries that have complied the least with these recommendations. In the period 2011–2012, during the first two cycles of the European Semester, Belgium only fully implemented 7% of the CSRs issued by the Council (European Parliament, 2014a). As many as 63% of the recommendations were not implemented in the sense that no relevant policy actions with substantial effects were taken. A more nuanced, synthetic indicator built by Deroose and Griese (2014) places Belgium in the higher range of the countries that have made ‘limited progress’ (i.e., some measures were announced, but these measures appear

After four rounds of the European Semester process of EU economic coordination, Belgium has done relatively little to comply with EU recommendations. This brief substantiates and confirms this claim after clarifying the meaning of these recommendations. While the challenges underlined by the European Commission still lie ahead, Belgium’s ownership of the recommendations for reforms has been low. Not only do coordination processes remain bureaucratic and technocratic, but many of the recommendations’ concerns – external competitiveness, social security reforms, market reforms – are not traditionally defended by the political left in Belgium. The controversy surrounding the recommendations for national structural reforms owes much to their supply-side orientation, which contrasts with the inability of the EU to pursue demand-side policies. But despite this disequilibrium, the recommendations highlight relevant issues that ought to be addressed, and indicate where scope for national debate exists.
insufficient and/or their adoption/implementation is at risk). This still compares somewhat negatively with the EU average, which is in the lower range of ‘some progress’ (some promising measures announced or adopted, but implementation not yet completed or guaranteed).

These appreciations lead us to reflect in more detail about the way Belgium has actually responded to the recommendations. Firstly, I will provide a synthetic reading of EU economic governance. While it can be skipped over, this part will provide a brief on the rationale for, legal basis of and main actors in EU economic governance. This will provide the reader with a concise view of the meaning of these recommendations, which are presented in one Council Decision but relate to different procedures and legal bases. I will highlight the difference between the budgetary recommendation and the recommendations relevant to broader economic objectives.

Secondly, I will explore in more detail the CSRs addressed to Belgium and summarize how Belgium answered them. In this way, the gap between the recommendations and the actual implementation over the period 2011–2013 will be revealed.

We will then have the opportunity, in a third step, to underline the challenges that Belgian authorities face in the years to come, in light of some key lessons that can be drawn from the 2011–2014 rounds of the European Semester.

1. A SYNTHETIC READING OF THE EUROPEAN SEMESTER

With the introduction of the European Semester cycle, the EU aimed to integrate and streamline different procedures into a single coherent coordination process. The main output at the end of the European Semester thus consists, for each Member State, of one single Council recommendation containing several CSRs. However, each CSR may relate to one or several specific EU policy objectives and underlying legal procedures.

Two pillars and three procedures

Despite some overlap, we can broadly distinguish between the two main policy pillars to which CSRs may belong: a fiscal policy pillar and an economic policy pillar. Table 1 synthetizes the coordination mechanisms that make up these two pillars (see next page).

The fiscal pillar is grounded in the coordination mechanism of the Stability and Growth Pact (SGP), as amended by the Six-pack and Two-pack. The fiscal policy CSR under the SGP is issued for each Member State and typically is the first of the CSRs. It can trigger further procedural steps under the preventive arm or the corrective arm of the SGP, which can ultimately lead to the imposition of sanctions on the (eurozone) Member States.

The ‘economic pillar’ concerns all other economic policies for which some form of coordination exists at EU level. The CSRs issued within this pillar relate to two coordination mechanisms. The first coordination mechanism relates to the procedure foreseen in the Europe 2020 strategy, introduced in 2010, which follows on from the Lisbon Strategy. The second is the Macroeconomic Imbalances Procedure.
Table 1: The policy pillars under which CSRs are issued

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<tr>
<th></th>
<th>Fiscal coordination pillar</th>
<th>Economic coordination pillar</th>
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<tr>
<td>(main) Coordination mechanism</td>
<td>Stability and Growth Pact (SGP)</td>
<td>Macroeconomic Imbalance Procedure (MIP)</td>
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<td>Core objective</td>
<td>Sustainability of fiscal policies</td>
<td>Sustainability of economic policies</td>
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<td></td>
<td>Prevention and correction of macroeconomic imbalances</td>
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<tr>
<td>Main Treaty basis</td>
<td>Art. 121 TFEU (multilateral surveillance – preventive arm)</td>
<td>Art. 121 (6) TFEU (multilateral surveillance)</td>
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<td></td>
<td>Art. 126 TFEU (excessive deficit procedure – corrective arm)</td>
<td></td>
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<td></td>
<td>Art. 136 (Euro Area: coordination and surveillance of their budgetary discipline)</td>
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<tr>
<td>Secondary legislation</td>
<td>EC 1466/97 and subsequent revisions (preventive arm)</td>
<td>EC 1176/2011 on the prevention and correction of macroeconomic imbalances</td>
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<td></td>
<td>EC 1467/97 and subsequent revisions (corrective arm)</td>
<td>EC 1174/2011 enforcement measures for euro area (MIP)</td>
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<td>EC 1173/2011 (enforcement measures for euro area)</td>
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<td></td>
<td>+ Two-pack: EC 472/2013 and EC 473/2013 (a.o. monitoring and assessing draft budgetary plans euro area)</td>
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<td>Relevant Council decision</td>
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<td>Annual Growth Survey (2014 Council Conclusions, including Joint Employment Report)</td>
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<tr>
<td>Sanction</td>
<td>Potential sanctions (in both preventive and corrective arms)</td>
<td>Potential sanctions in corrective arm, i.e., for countries presenting ‘excessive’ imbalances</td>
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Europe 2020 Strategy’s overall objective is ‘smart, sustainable and inclusive growth.’ It is the most overarching mechanism and consequently concerns all the CSRs. This coordination is grounded in Article 121 of the Treaty on the Functioning of Europe (TFEU), which stipulates that ‘Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council,’ and in Article 148 of the TFEU, which stipulates that ‘Member States and the Union shall . . . work towards developing a coordinated strategy for employment.’ In this respect and according to these treaty dispositions, the EU Council adopts, under recommendation of the Commission, broad economic guidelines and employment guidelines. These guidelines are in practice adopted for a period of three years – the most recent cover the period 2010–2014 – and are integrated to form what is now called the ‘integrated EU 2020 guidelines’ (Council, 2010).

The current integrated guidelines thus consist of six broad economic guidelines and four employment guidelines. These ten guidelines, adopted by the Council under the 2010 Belgian presidency, form the main policy guidance for the period discussed in this paper. They lay the foundations for the economic policy pillar CSRs. The overall direction they provide is shown in Table 2.

### Table 2: The Integrated Europe 2020 Guidelines

<table>
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<tr>
<th>Broad Economic Guidelines</th>
<th>Employment Guidelines</th>
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<tr>
<td>Guideline 1</td>
<td>Ensuring the quality and sustainability of public finances</td>
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<tr>
<td>Guideline 2</td>
<td>Addressing macroeconomic imbalances</td>
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<td>Guideline 3</td>
<td>Reducing imbalances in the euro area</td>
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<tr>
<td>Guideline 4</td>
<td>Optimizing support for R&amp;D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy</td>
</tr>
<tr>
<td>Guideline 5</td>
<td>Improving resource efficiency and reducing greenhouse gas emissions</td>
</tr>
<tr>
<td>Guideline 6</td>
<td>Improving the business and consumer environment and modernizing the industrial base</td>
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Under the Europe 2020 strategy, CSRs are issued under a non-binding soft-law governance. The mechanisms embedded in the 2020 strategy do not represent a paradigm shift in comparison with the Lisbon Agenda and the Open Method of Coordination (OMC) (Vilpišauskas, 2012). OMC processes set common EU goals while allowing Member States to develop their own policies to meet these targets. Non-compliance with the recommendations cannot lead to sanctions. Rather, effectiveness should result from mechanisms such as naming and shaming, diffusion through discourse, deliberation between actors, learning, sharing best practices and networking (Trubek and Trubek, 2007).

A second coordination mechanism, the Macroeconomic Imbalances Procedure (MIP) was introduced by the Six-pack in 2011. Besides
being linked to a stated objective under the Europe 2020 Strategy and the aforementioned guidelines, some CSRs may thus more specifically refer to policies relevant to the correction of macroeconomic imbalances. The recommendations issued under the MIP, while still being associated with the Europe 2020 Strategy, may carry an extra weight: the threat of sanctions. If the Commission estimates that a Member State faces ‘excessive’ economic imbalances, it may request the initiation of procedures under the corrective arm of MIP. And in last resort, these procedural steps may consist of the imposition of financial sanctions on a eurozone Member State failing to comply with the recommendations.

Coordination process and main actors

The European Semester integrates these three coordination processes into a yearly cycle of coordination (strictly speaking: a European Semester and a National Semester). I will here succinctly discuss the main actors in the process (the Commission and the Member States) and the main output of the procedures (the CSRs and the reports of Member States).

At EU level, the Commission proposes CSRs to the Council, which adopts them. The Council barely modifies the CSRs recommended by the Commission, whose influence is thus central. The Council – that is, EU Member States as a whole – in principle politically ‘endorses’ the CSRs drafted by the Commission. But in practice this endorsement cannot be equated with a commitment by each Member State to act in accordance. Instead, the council adoption of CSRs tends to signify to the Commission that it has taken due notice of/approves its recommendation. The result of this relative sideling of the Council is that a supposedly ‘multilateral’ coordination process tends to drift towards a ‘bilateral’ coordination process, with the Commission on one side and each individual Member State on the other.

In turn, at national level, Member States have to ‘reply’ to the CSR by producing a National Stability Programme (NSP) and a National Reform Plan (NRP). The former can be considered as the Member State’s response to the fiscal CSR (in the fiscal pillar) and the latter as the response to the recommendations for structural reforms (economic pillar).

The relationship between the Commission and Member States, however, differs in each of the two pillars. In the fiscal policy pillar, the Commission has been assigned the role of the watchdog and referee of fiscal discipline. It monitors the budgetary situation of Member States and must ensure fiscal discipline by making sure Member States comply with the SGP rules. In this respect, the Commission has been granted important powers by the Member States: its recommendations are more than recommendations strictu sensu – they are closer to injunctions. Their weight comes from the relative strictness of the rules, as well as the threat of sanctions.

In the larger economic fields of the second pillar, the CSRs do not carry such weight – owing to the legal bases we have briefly shown. Bertoncini (2013) usefully synthetized the relationships between the EU and its Member States in the coordination of economic and social policies by labelling them as a ‘hyper OECD regime’ in which ‘the EU can recommend structural reforms, not command.’ The EU would indeed resemble the OECD – in so far as relations are based on the joint analysis of the main economic and social challenges that countries are facing, and on the definition of common goals. These relations are likewise based on a combination of political incentives (recommendations, control and peer pressure) between members. But recommendations do not have any binding effect
on the domestic political choices of Member States. They only carry more weight than the OECD’s recommendations because EU relations are more procedural and involve more political pressure. In other words, recommendations in the economic (and social) fields are recommendations, *strictu sensu*.

2. How Belgium addressed the EU recommendations

Here we briefly discuss both the content of the recommendations and the response provided by the Belgian authorities. The 2014 CSRs are provided in Annex I. For a complete wording of all CSRs issued between 2011 and 2014, a useful study by the European Parliament Services presents their evolution for each key area of reform (European Parliament, 2014b).

A. Fiscal consolidation

On the fiscal side, Belgium was placed in the corrective arm of the SGP by the end of 2009, when its nominal deficit reached 5.9% of GDP. The deficit had to be brought back under the 3% of GDP ceiling by 2012, and Belgium was expected to pursue a yearly correction of its structural deficit by at least 0.75% of GDP. This proved to be particularly challenging, because following the June 2010 federal elections, the new government only took office in December 2011, after 541 days of negotiations over the sixth reform of the Belgian state. During this period, the care-taking government had no mandate to undertake significant reforms. As a result, Belgium was set to significantly miss the deadline, with a deficit forecast at -4.6% of GDP for 2012.

*Belated efforts that proved insufficient in a zero growth context*

However, once a federal government was in office by the end of 2011, fiscal consolidation measures were taken in several stages in 2012 (General Budget and following corrections) to address the budgetary slippage. The approach to fiscal consolidation came to be known as the ‘cheese rasp’ (‘râpe à fromage’/’Kaasschaaf’): a multiplication of small budgetary measures to reduce spending and increase tax revenues. This technique implied that no major structural reforms would be undertaken. Instead, many measures were considered as ‘one shots’, which would allow Belgium to reduce its nominal deficit, but to reduce only to a lesser extent its structural deficit.

This minimalist approach runs against the philosophy of the (revised) SGP rules, in which the correction of the structural deficit has become the central – future-oriented – measure of the fiscal effort. Meeting the structural criteria allows in turn for more flexibility in correcting the nominal deficit. The reasons for this counter-intuitive approach can be traced back to the governmental programme. The resolution of institutional issues – a legitimate concern in the ever-evolving Belgian Federation – was prioritized over addressing socio-economic ones. The main objective of the government coalition was thus to negotiate the sixth reform of the state, not to find a consensus on major socio-economic reforms. Moreover, the coalition was broad – bringing together six political parties that did not necessarily share the same socio-economic views on potential reforms.

The cumulative total impact of budgetary measures (excluding one-off measures) was estimated at 2.0% of GDP over 2010–2012, with most of the fiscal effort concentrated in 2012 (1.5% of GDP), as the government started implementing measures (Commission, 2013a) (see Annex II for an overview of the main budgetary measures during the period 2010–2013). The largest revenue-increasing impact came from the lowering – in several stages – of the reference rate for the notional interest deduction in corporate taxation (allowance for
corporate equity), accounting for 0.4% of GDP. Other measures with more sizeable impacts included the increase in the financial income tax in 2012 (0.2% of GDP), contributions by financial institutions (0.2% of GDP) and several increases of taxes on products (0.3% of GDP).

On the expenditure side, the net impact of measures was close to zero (Commission, 2013a). The main deficit-reducing measures consisted in reducing the wage bill and functioning costs of public administration (0.4% of GDP), in curbing the rising trend in health expenditure (0.2% of GDP) and in reforms in social security (0.1% of GDP). These measures were broadly offset by expenditure-increasing measures such as welfare adaptations of social benefits (0.3% of GDP), the expansion of wage subsidy schemes (0.4% of GDP), and an increasing recourse to clean car subsidies (up to 2011).

This, however, proved insufficient to reach the 3% target in 2012. Not only was growth reduced to nil, but the government intervention to rescue Dexia (0.8% of GDP) resulted in a deficit of -3.9% of GDP (subsequently revised to -4.1% of GDP). Moreover, the annual fiscal effort over the 2010–2012 period, calculated as the evolution of the structural balance, was estimated at 0.3% of GDP – significantly below the 0.75% of GDP recommended. As a result, in May 2013, the Council, acting upon recommendation by the Commission, decided that Belgium had not taken significant action to correct its excessive deficit. The Council required Belgium to correct the deficit to -2.8% of GDP, which allowed the Council to decide to end the Excessive Deficit Procedure in 2014.

**Successive budgetary path revisions**

In the meantime, Belgium modified several times its medium-term objective (MTO) – the main fiscal target under the preventive arm of the SGP, expressed in structural terms. A first explicit mention can be traced back to the 2011 Stability Programme, which mentions a structural budget balance target of 0.2% of GDP in 2015. In its 2013 Stability Programme, Belgium revised this objective and committed itself instead to reaching a balanced budget in structural terms by 2015, before reaching its MTO of a surplus of 0.75% of GDP in structural terms in 2016. In 2014, Belgium’s fiscal council (High Council of Finance) recommended that the MTO be pushed back to 2017. The government presented this adjustment path in a draft 2014 Stability Programme, deferring confirmation of this MTO to the next, fully mandated, government. The new government does not intend to confirm the MTO. The draft budget transmitted to the Commission in October 2014 indicates Belgium’s intention of postponing from 2016 to 2018. It is therefore likely that the MTO will be set in 2019.

**B. Structural reforms**

The recommendations for structural reforms drafted by the Commission have evolved over time, but have repeatedly concerned the same key areas: the long-term sustainability of finances, the (cost) competitiveness of the economy, the labour market(s), the tax system, product/services/network industries markets and greenhouse gas emissions targets. In this section, we will refer to the wording and structure provided in the latest CSRs (2014). For the recommendations’ evolution, the EGOV study (2014a) provides a useful overview. The summary is based on the analysis of action undertaken that...
was provided in Commission Staff Working Documents (Commission, 2013b; Commission 2014) assessing the implementation of the 2012 CSRs and 2013 CSRs by the Belgian authorities.

According to the Commission’s definition, ‘limited progress’ means that ‘The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk,’ and ‘some progress’ means that ‘the Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.’

**Long-term sustainability of finance owing to population ageing (some progress)**

This recommendation envisages the reforms that are the most crucial to ensuring the medium- and long-term sustainability of public finances in the context of an ageing population: the pension system and the health-care system. Budgetary cost for social security for the elderly is bound to increase substantially if no policy changes are made (between 2010 and 2020, 5.1 percentage points (pp) of GDP in public pension spending, compared with an average of 1.4pp in the EU, and 2.7pp of GDP in long-term care spending, compared with 1.4pp in the EU as a whole). The underlying issue for Belgium is thus to adapt its social security system to prevent unsustainable debt developments.

In pension reforms, the Commission particularly concentrated on the low level of employment for older workers (aged 55–64), which stood at 41.7% in 2013, while the EU average is above 50%. It therefore suggests that Belgium (i) steps up efforts to reduce the gap between the effective and statutory retirement age, (ii) brings forward the reduction of early-exit possibilities, (iii) promotes active ageing, and (iv) aligns the official retirement age to changes in life expectancy. How Belgium ought to address the growing cost of its health-care system is not specified. It is instead put in generic terms of ‘improving the cost-effectiveness of public spending on long-term care.’ By focusing on the employment rate, the Commission’s recommendation is also a reminder of Belgium’s commitment under the 2020 Strategy to reach its target of employment for 73.2% of the population aged 20–64 by 2020.

Overall, the Commission judged that Belgium had made some progress with reforming its social security system for the elderly, but that much more would be needed given the magnitude of the challenge. Belgium did make limited progress (along the lines of suggestions i, ii and iii) in taking measures conducive to increasing the share of seniors working, by aligning the pension bonus with the new early retirement age, ensuring fair treatment of mixed careers and strengthening the reactivation incentives of the survivor’s pension. Rules on earnings after retirement have been relaxed, and dismissals through pre-retirement schemes have been made more expensive. In addition, a pension report (The F. Vandenbroucke Report) was ordered and the sixth reform of the state transferred some responsibilities in long-term care to the federated entities. But whether this will lead to significant reforms is a political decision left to the future.

**Cost competitiveness and wage setting (limited progress)**

The CSR on the wage-setting mechanism is certainly the one that attracted the most political, media and public attention. The political sensitivity of the topic and arguments with Belgian stakeholders led the Commission to gradually bring nuance to its recommendation. The CSR has thus evolved over the years from being overly prescriptive – with the 2012 CSR stating how the wage-setting mechanism ought to be reformed – to a now much broader recommendation on competitiveness. Its core element remains ‘reform [of] the wage-setting
system, including wage indexation,’ but nuances and complementary routes for restoring competitiveness were added.

First, facing the criticism that cost competitiveness is not limited to wage developments, the Commission incorporated additional ways to restore cost competitiveness into the 2014 CSR: (i) strengthening competition in the retail sectors; (ii) removing excessive restrictions in services, including professional services; and (iii) addressing the risk of further increases in energy distribution costs. These recommendations for increasing competition via product and services market reforms previously constituted a CSR in themselves. Limiting price increases via the competition channel may additionally prevent further inflation via the automatic indexation mechanism.

Moreover, the 2014 CSR adds more general elements of competitiveness that are not strictly related to ‘cost’ competitiveness, but competitiveness in general: (iv) promoting innovation through streamlined incentive schemes and reduced administrative barriers; and (v) pursuing coordinated education and training policies addressing the pervasive skills mismatches and regional disparities in early school leaving.

What came to be known as the ‘wage indexation CSR’ was issued under the MIP framework. The rationale of the CSR is intrinsically linked to the functioning of the EMU and the need to prevent unsustainable macroeconomic development. With limited fiscal space and no national monetary policy, flexibility in wage development is essential in the eventuality of an economic shock – and its absence may ultimately prove socially costly – as amply illustrated by the internal devaluation in several eurozone countries following the crisis. Therefore Belgium ought to be in line with the productivity and wage developments of its main trading partners. This was the raison d’être of the 1996 competitiveness law, which established a preventive wage norm based on the expected evolution of the labour costs in three reference countries – namely France, Germany and the Netherlands (basically setting a ceiling on the possible wage increases above the automatic indexation). Because there was a sizable wage slippage, the Commission merely underlined the need to ensure the law remained effective. The Commission thus does not suggest suppressing the automatic indexation altogether, but reforming it. The national political debate is about how to best compensate for inflation, while allowing for the flexibility necessary for the Belgian economy to adjust to potential shocks.

Overall, the Commission services estimate that Belgium made limited progress, because the Belgian federal government did not progress in reforming the wage setting system and the 1996 law on competitiveness. But it nonetheless took limited measures to curb rising wage costs. In consultation with the social partners, the government decided that the gap of wage costs accumulated since 1996 in comparison with neighbouring countries would be corrected over a period of six years. The wage norm for 2013–2014 has been set at 0%, so that real wages will not increase beyond automatic indexation and scale increases. The health index calculation formula was also revised in order to increase downward pressure on measured inflation, and thereby to contribute to wage moderation.

**Shifting taxes from labour (limited progress)**

Shifting taxes away from labour towards more growth friendly bases (on consumption, environmental and property bases), as well as simplifying the tax system and increasing its efficiency, are recurrent recommendations made by the Commission to many Member States. And Belgium is a particularly good case in point. Not only is the implicit tax rate on labour one of the
highest in the EU, at 42.8% in 2012, but the Belgian tax system also combines relatively high nominal tax rates with a generally complex system including many tax expenditures. The Commission was particularly keen on this reform because consumption taxes made up only 23.7% of total tax revenue, the lowest percentage in the EU, and because revenue from energy taxation is the second lowest in the EU.

Limited progress was made in the taxation field. In general, rather than shift taxes, the federal government has implemented successive rounds of labour cost reductions, the majority of which are targeted at specific groups, types of companies or sectors. The Commission judged that no progress had been made to increase VAT efficiency, except for the abolition of the VAT exemption for lawyers’ services. On environmental taxation, the Commission severely criticized the reduction from 21% to 6% of the VAT rate for electricity, saying that it went against the objectives of both simplifying the tax system and moving towards a less growth-distorting tax base.

Overall, the Commission services concluded that ‘rather than reforming its relatively growth-distorting tax system, Belgium has made only piecemeal changes, adding to the complexity of the system.’

**Labour market (some progress)**

To complement the taxation shift away from labour, the Commission has essentially focused on the need to increase the participation rate in the labour market. It therefore suggests a focus on: (i) reducing financial disincentives to work, (ii) increasing labour market access for disadvantaged groups such as the young and people with a migrant background, (iii) improving professional and inter-regional mobility and (iv) addressing skills shortages and mismatches as well as early school leaving.

Belgium registered some progress regarding the reduction of disincentives to work (i), by reforming the unemployment benefit system to accelerate the gradual decrease of the unemployment allowance, while the work bonus for senior workers was increased. Moreover, a cooperation agreement between the regions and the federal government provides for enhanced activation, conditionality, quicker follow-up and sanctions. The Commission services, however, point out that unemployment traps in Belgium remain both sizeable and pervasive.

The Commission services also regret that the Belgian federated entities have not developed a coherent strategy to address the issues affecting second- and third-generation migrants (ii). They also point to the lack of coherence between education and employment policies, given the specific needs of the migrant population – especially in the French-speaking community.

Regional employment services have continued to invest in bilateral and multilateral cooperation in order to promote inter-regional mobility (iii), but the Commission services note that there is room for more ambitious target setting and financial investment.

Finally, labour market, education and public training institutions in the three regions/communities have intensified cooperation to make initial vocational training more relevant to market needs and to cope with the increasing need for continuous vocational training as well as adult training (iv). The Commission services, however, point out that a more fundamental reflection on the fit between the educational system and the labour market is required, as well as on the effective results of adult training in terms of skills acquired. They also deplore the complexity and potential dead-weight losses caused by the interaction between the traineeship support schemes developed at the federal level and those developed by the regions.
**Greenhouse gas emissions (Limited progress)**

The recommendation enjoined Belgium to meet its target to reduce its greenhouse gas emissions in the non-Emissions Trading System (ETS) sectors by 15% between 2005 and 2020. The Commission also repeatedly asked Belgium to ensure a clear division of tasks between the regions in achieving this objective.

Progress in meeting this recommendation has been limited. The three regions have adopted plans (Décret Climat for Wallonia, Brussels’ Code of Air, Climate and Energy legislation (COBRACE) and the Flemish Climate Policy Plan 2013–2020 for Flanders), but full implementation with concrete measures has not yet been achieved. A clear division of efforts remains elusive.

**LESSONS SO FAR AND CHALLENGES**

As we saw, Belgium did relatively little to comply with the recommendations. There is an essential and obvious first explanation: the rather long negotiations (541 days) over the formation of a government following the May 2010 elections prevented Belgium from enacting ambitious structural reforms. Its care-taking federal government only managed to act on the fiscal front to comply with short-term fiscal targets, while lacking the political mandate to introduce ambitious structural reforms.

Key challenges lie ahead both in terms of fiscal consolidation and structural reforms. I will highlight these challenges, reflecting on the lessons that can be drawn after several rounds of the European Semester process.

**A. Fiscal consolidation**

As we have seen, Belgium’s essential achievement on the budgetary front was to reduce its deficit below the 3% ceiling and exit the Excessive Deficit Procedure in 2014. Belgium will now need to abide by the rules set out in the preventive arm of the SGP. This means correcting its structural deficit by at least 0.5% of GDP per year (the 2014 CSR advised Belgium to correct it by 0.75% of GDP). The challenge will be twofold.

**A shift towards structural fiscal consolidation**

First, structural corrections need to be favoured over mere nominal ones. This will require a shift in approach, because thus far, the focus has essentially been set on reaching nominal fiscal targets. This also means that the emphasis should shift from short-term considerations to longer-term ones. Budgetary reforms will need to become more structural, i.e., intended to have a lasting impact.

One welcome development is the greater reliance placed on structural targets by Belgian institutions dealing with budgetary matters, such as the High Council of Finance and the Federal Planning Bureau. Nevertheless, while the reference to the structural deficit for budgetary rules and budgetary planning is sensible, the figure remains difficult to estimate. A recent disagreement that took place between the Federal Planning Bureau and the Commission on the estimation of the output gap (which is central in measuring the structural deficit) illustrates this point (Lebrun, 2014). Such a discrepancy in the most central fiscal target of the SGP may lead to various issues. In the first place, budgetary planning may differ, as the High Council of Finance chose in 2014 to rely on Belgian figures rather than on figures produced by the Commission in order to advise the Belgian authorities on the establishment of its National Stability Programme. Secondly, discrepancies may ultimately lead to difference in the evaluation of the fiscal effort made by the Belgian authorities, and hence also of their compliance with the SGP.
Reaching a consensus in the Belgian Federation

The second challenge is quite obviously the size of the necessary adjustment required before Belgium can reach its MTO. This will represent a major political challenge in the years to come. Both the growth context and the political stance within the Belgian Federation will determine whether fiscal targets will be reached, and compliance with the SGP rules ensured.

This challenge is exacerbated by the complex institutional framework in the Belgian Federation. As the EU authorities have repeatedly stressed in their fiscal recommendation (CSR 1, see Annex I), Belgium still lacks a binding instrument with an explicit breakdown of fiscal targets for all its entities (federal, regional/community level).

The federal level and the regions adopted a cooperation agreement in December 2013 in order to strengthen Belgium’s fiscal coordination framework (Belgium, 2013). In this framework, the High Council of Finance (HCF), the Belgian fiscal council, has been granted a greater role in the budgetary process. The HCF advises the Belgian authorities on a fiscal path that complies with the SGP and the ensuing EU fiscal recommendations. It therefore proposes a breakdown of objectives in structural and nominal terms for each entity of the federation.

However, the different entities must find a yearly consensus regarding both the global (Belgian) budgetary path (particularly by fixing the MTO), and the exact breakdown of fiscal targets between themselves (Article 4 of the cooperation agreement). Formally, this consensual decision is taken by the Concertation Committee, the highest political body bringing together ministers from the different entities of the Belgian Federation. Following the decision by the Concertation Committee, the HCF monitors compliance of this multilevel commitment.

Crucially, if a consensus on meeting the EU requirements cannot be found, this may result in the overall fiscal position of Belgium not complying with the SGP rules. The Belgian fiscal path is the sum of the budgetary plans of its entities, which are constitutionally placed on equal footing in the federation – the regions are not sub-federal entities, but equal-to-federal-level entities.

Arguably, following the 24 May elections and the formations of the federal and regional/community governments, the asymmetry between a right-wing coalition at the federal level and left-wing coalitions in the Brussels Region, the Walloon Region and the French Community government makes more likely the scenario in which no budgetary consensus can be found.

Recent developments, however, suggest that all entities may jointly agree to delay the MTO to 2019, i.e., two years later than the HCF suggested. If so, Belgium will be close to infringing the preventive arm of the SGP, which would require Belgium to argue that significant reforms would be undertaken over the period.

B. Structural reforms

As for other countries, the Belgian reply to the EU recommendations on structural reforms is little more than a bureaucratic exercise. The NRP is a compilation of measures taken and of the authorities’ good intentions. The focus is set on the past, rather than on the future. Crucially, the NRP does not equate to a commitment to reform. Overall, the ‘ownership’ of the recommendations that is repeatedly sought by EU institutions has been weak in Belgium. As we discussed earlier, weak Belgian ownership is largely due to the dominance of institutional issues over economic ones in the political debates of recent years. But political positions within the
ruling coalitions may explain why the country was not keen to reform.

A left vs right divide

First, the reception of the EU’s recommendations varied among political parties in Belgium, depending on their position on the political spectrum. On the left, parties tended to reject the content of the recommendations. The Commission was generally depicted as a liberal-conservative body which lacked legitimacy. Several events illustrate this political stance. On one occasion, Paul Magnette of the French-speaking Parti Socialiste (PS), then a minister in the federal government, asked: ‘But who is Olli Rhen?’ With this highly publicized question, he intended to denounce the Commission as an ‘ultra-liberal bastion’ that lacked democratic legitimacy. Belgian socialist Members of the European Parliament (MEPs) from the PS and Socialistische Partij Anders (sp.a) were the only Belgian MEPs – and the only MEPs from the EU Progressive Alliance of Socialists and Democrats group – to have voted against both the Six-pack and the Two-pack in the European Parliament. The PS and sp.a proposed that a ‘socialist Six-pack’ would become an alternative to the ‘liberal Six-pack’. Élio Di Rupo, then prime minister of the ruling federal coalition, also claimed that employment would not be created ‘with the Six-pack, the Two-pack, or the anti-social reforms imposed to Member States.’

On the other hand, the right has used the EU recommendations as an argument for authority. This was made clear in the Informateur note of 25 June 20143 that would form the ruling agreement basis for assembling a centre-right coalition for the federal government. The 2014 CSRs were listed as a starting point and summary of the reforms that the future government would have to undertake. Further developing this line of thinking, the new centre-right government, which brought together Liberals (Mouvement Réformateur and Vlaamse Liberalen en Democraten), Flemish Christian-Democrats (Christen Democratisch en Vlaams) and Flemish Nationalists (Nieuw Vlaamse Alliantie), reached a governmental agreement that intends to significantly address several of the EU recommendations.

The nature of the EU policy recommendations offers one possible explanation for the split they have created between left and right on the political spectrum. Several key recommendations are linked to supply-side reforms that are in essence liberal – in particular on labour market reforms (CSR4) and product and services market reforms (CSR 5). Concern for external competitiveness (CSR 5) is also traditionally shared by right-wing political parties. On the other hand, traditional themes of the left, such as preserving internal consumption, do not figure in the CSRs. Moreover, the Commission CSR on the wage indexation system systematically sides with the arguments of employer organizations rather than with worker organizations. In doing so, the Commission inevitably (further) destabilizes the inner-workings of the Belgian ‘social model’, as the CSRs are preoccupied with the capacity of the market economy to deliver prosperity, and not with equity considerations.

Structural reforms – necessary but insufficient?

Part of the dissatisfaction of the left can also be linked to the policies that the EMU governance cannot produce: a macroeconomic policy mix that would also include demand-side policies and more unorthodox use of monetary policy. The constraints are inherent to the institutional architecture of the EMU. Demand-side policies contradict the SGP to the extent that its built-in flexibility may not be sufficient in a prolonged crisis. Besides, the use of ‘unorthodox’ monetary policy is constrained by Treaty provisions. And a fundamentally different policy mix would require
instruments of economic coordination that are simply not available in the current institutional setup of the EMU. In the absence of elements of fiscal federalism in the EMU – a larger EU/eurozone budget (fiscal capacity) and a federal debt (eurobonds), any economic adjustment process must necessarily and exclusively rest at national level.

In the current institutional setup, structural reforms are advocated precisely because – according to standard economic theory – in the absence of a possible adjustment in exchange rates (because of the irreversibility of the euro and the common monetary policy), and in the absence of fiscal space (due to SGP rules, and more fundamentally because of the high public indebtedness level), any adjustment process must necessarily be a market-based one. Supply-side reforms aim not only to raise potential GDP, but to allow for flexible market-based adjustment. Labour market and product and services market reforms have a preventive, forward-looking role – they must prevent macroeconomic imbalances from building up and increase potential growth. And they also have a corrective role – they allow for the smooth adjustment of the economy to any shock. For several ‘peripheral’ eurozone countries, it was made abundantly clear that labour, product and services markets were too inefficient and rigid to allow for a smooth adjustment after a shock. If one is to adhere fully to this rationale, which underscores the recommendations issued under the MIP, there is no alternative to structural reforms. The one sided-approach of the recommended economic policies has thus logically alienated part of Belgian opinion. The result is a decreasing sense of ownership of the recommended reforms.

One could not reproach EU institutions for failing to advocate for some fiscal sovereignty to be transferred to the EU/EMU/eurozone level. The Commission’s Blueprint for a deep and genuine EMU (Blueprint), as well as Herman van Rompuy’s Roadmap towards a genuine EMU promoted the idea of ‘fiscal union’. Notable suggestions included backing contractual arrangements between the EU authorities and Member States with financial support, a shock absorption mechanism supported by a fiscal capacity at the EMU level, etc. But these elements were opposed by many Member States, and therefore set aside by the European Council. Lacking these specific instruments, the EU has no other option than to advocate to undertake structural reforms at national level. These reforms are clearly necessary but – and this is where the debate concentrates – not necessarily sufficient.

Moreover, the sense of a lack of control, and the resulting limited national ownership is only further reinforced by the overall technocratic dimension of EU economic governance. The coordination process is indeed dominated by bodies that are essentially executive: the Commission and the Council, and more precisely their financial arm, the Directorate General for Economic and Financial Affairs and the ECOFIN Council. And despite the fact that the European Parliament was a co-legislator on the main regulations that reformed the economic governance (the Six-pack and Two-pack), its role in the European Semester is limited to an ‘economic dialogue’ that does not involve any decision-making powers. The technocratic flavour of the whole process certainly adds to the feeling that the EU recommendations are both illegitimate and biased.

**CONCLUSION**

In this paper, we first summarized how the processes of EU economic governance led to the issuance of CSRs addressed to each Member State by the EU. We stressed in particular that budgetary recommendations are of a different nature to the recommendations for structural reforms. The former carry more weight than the latter, which are non-binding recommendations.
We then reviewed the measures that Belgium undertook in the fields in which the EU recommended action: fiscal policy, long-term sustainability of finances, (cost) competitiveness of the economy, labour market(s), tax system, product/services/network industries markets and greenhouse gas emissions targets.

On the budgetary side, Belgium’s main achievement was to bring its fiscal deficit below 3% by 2014 and exit the Excessive Deficit Procedure. But challenges still lie ahead. To abide by the SGP’s preventive arm, a minimal correction of 0.5% of GDP of the structural balance will be necessary. The country will therefore need to start focusing more on the long-term horizon that structural corrections imply. The size of the effort will nonetheless probably push Belgian authorities to further delay the MTO to 2019, which will border on an infringement of the rules of the preventive arm of the SGP. An additional issue results from the complexity of the Belgian Federation. The overall fiscal path of Belgium rests on a consensus that must necessarily be found between all at the governing level – as the federated entities are constitutionally on a par with the federal level. When no consensus is found between its entities, Belgium can be at risk of deviating from its budgetary path, and possibly of infringing EU budgetary rules.

Regarding other economic policy recommendations, Belgium made relatively limited progress in enacting structural reforms. An important cause of this inaction was the long negotiation process that led to the sixth institutional reform of the state. It not only took 541 days, but also resulted in the coming into play of a government that was not set up to focus on much else. Nevertheless, the Belgian case illustrates several known insights concerning the workings of EU economic governance. The first is that the CSRs do not necessarily result in reforms being enacted at national level. And when measures are enacted, the causal link between the recommendations and the reforms undertaken can seem rather tenuous. The European Semester still resembles a bureaucratic exercise with little capacity to induce structural reforms at national level. If a country undertakes structural reform, this mostly stems from the willingness and capacity of that country to do so, rather than from any (non-binding) EU recommendation.

This lack of ownership of the recommendations also largely results from the varying response of national policymakers across the national political spectrum. On the right, EU recommendations were welcomed and used as an argument of authority. However, on the left, reception was generally negative. As argued in this paper, opposition to the CSR content can be traced back to the classical themes defended by the left: labour rather than capital, internal consumption rather than external competitiveness, and demand-side policies rather than supply-side policies. In this context, the lack of supra-national competences for demand-side policies – via the deepening of the EMU – crucially leaves the left with very limited policy instruments at national level. Moreover, the technocratic way in which the recommendations are produced at EU level, and the sense of a lack of political alternatives does not favour participation in a constructive national debate.

Nevertheless, the EU recommendations still leave ample room for national-level political debate. How can the social security system be adapted to the ageing population? How can the labour market participation be increased – especially for the young, the elderly and people with a migrant background? How can the wage indexation system be maintained without undermining Belgian competitiveness? How should an overly complex tax system be adapted without weighting too heavily on labour? What is the best way to reduce greenhouse gas emissions?
Rather than prescribing solutions, the Commission mostly stresses the need to answer these questions. It is the sole responsibility of Belgian policymakers to debate these questions and come up with solutions to issues that will continue to dominate the national political agenda in the years to come.

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### ANNEX I: THE 2014 COUNTRY SPECIFIC RECOMMENDATIONS FOR BELGIUM

| CSR 1 | Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5% of GDP based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the SGP requirements. In 2015, significantly strengthen the budgetary strategy to ensure the required adjustment of 0.6% of GDP towards the medium-term objective, which would also ensure compliance with the debt rule. Thereafter, until the medium-term objective is achieved, pursue the planned annual structural adjustment towards the medium-term objective, in line with the requirement of an annual structural adjustment of at least 0.5% of GDP, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ensure a balanced contribution by all levels of government to the fulfilment of fiscal rules including the structural budget balance rule, through a binding instrument with an explicit breakdown of targets within a medium-term planning perspective. |
| CSR 2 | Improve the balance and fairness of the overall tax system and prepare a comprehensive tax reform that will allow shifting taxes away from labour towards more growth friendly bases, simplifying the tax system, closing loopholes, increasing VAT efficiency, broadening tax bases, reducing tax expenditures and phasing out environmentally harmful subsidies. |
| CSR 3 | Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the statutory retirement age and career length requirements to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care. |
| CSR 4 | (also issued under the MIP framework) Increase labour market participation, notably by reducing financial disincentives to work, increasing labour market access for disadvantaged groups such as the young and people with a migrant background, improving professional mobility and addressing skills shortages and mismatches as well as early school leaving. Across the country, strengthen partnerships of public authorities, public employment services and education institutions to provide early and tailor-made support to the young. |
| CSR 5 | (also issued under the MIP) Restore competitiveness by continuing the reform of the wage-setting system, including wage indexation, in consultation with the social partners and in accordance with national practice, to ensure that wage evolutions reflect productivity developments at sectorial and/or company levels as well as economic circumstances and to provide for effective automatic corrections when needed; by strengthening competition in the retail sectors, removing excessive restrictions in services, including professional services and addressing the risk of further increases of energy distribution costs; by promoting innovation through streamlined incentive schemes and reduced administrative barriers; and by pursuing coordinated education and training policies addressing the pervasive skills mismatches and regional disparities in early school leaving. |
CSR 6

Ensure that the 2020 targets for reducing greenhouse gas emissions from non-ETS activities are met, in particular as regards buildings and transport. Make sure that the contribution of transport is aligned with the objective of reducing road congestion. Agree on a clear distribution of efforts and burdens between the federal and regional entities.

Source: (Council, 2014)

ANNEX II: MAIN BUDGETARY MEASURES (2010–2014)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
</tr>
<tr>
<td>• Increase in excise duties on diesel: 0.1% of GDP</td>
<td>• Savings on staff expenditure and functioning costs: -0.1% of GDP</td>
</tr>
<tr>
<td>• Levy on the nuclear rent: 0.1% of GDP</td>
<td>• Welfare adaptations of social benefits: +0.1% of GDP</td>
</tr>
<tr>
<td>• Increase in Corporate Income Tax</td>
<td>• Expansion of wage subsidy schemes: +0.2% of GDP</td>
</tr>
<tr>
<td>(Modification of the reference rate for notional interest deduction and</td>
<td></td>
</tr>
<tr>
<td>other changes in deductions): 0.1% of GDP</td>
<td></td>
</tr>
<tr>
<td>• Abolishment of the Personal Income Tax</td>
<td></td>
</tr>
<tr>
<td>reduction in the Flemish Region (0.1% of GDP)</td>
<td></td>
</tr>
<tr>
<td>• Reduced VAT rate on restaurant bills: -0.1% of GDP</td>
<td></td>
</tr>
<tr>
<td><strong>2011</strong></td>
<td></td>
</tr>
<tr>
<td>• Lifting of bank secrecy, regularization and court settlements: 0.1%</td>
<td>• Reduction in primary expenditure (other than social benefits):</td>
</tr>
<tr>
<td>of GDP</td>
<td>-0.15% of GDP</td>
</tr>
<tr>
<td>• Increase in the fee for the deposit protection fund: 0.1% of GDP</td>
<td>• Reduction in health-care expenditure: -0.1% of GDP</td>
</tr>
<tr>
<td></td>
<td>• Welfare adaptations of social benefits: +0.1% of GDP</td>
</tr>
<tr>
<td></td>
<td>• Expansion of wage subsidy schemes: +0.1% of GDP</td>
</tr>
<tr>
<td><strong>2012</strong></td>
<td></td>
</tr>
<tr>
<td>• Reform of the system of notional interest deductibility: 0.3% of GDP</td>
<td>• Expenditure savings in health care: -0.1% of GDP</td>
</tr>
<tr>
<td>• Increase in the taxation of dividends and interests: 0.2% of GDP</td>
<td>• Suppression of the subsidy for clean cars: -0.1% of GDP</td>
</tr>
<tr>
<td>• Increase in the levy on nuclear rent: 0.1% of GDP</td>
<td>• Reduction in administrative expenditure: -0.1% of GDP</td>
</tr>
<tr>
<td>• Measures against tax fraud: 0.1% of GDP</td>
<td>• Expenditure saving measures in social security (e.g., reform of</td>
</tr>
<tr>
<td></td>
<td>the unemployment benefit system): -0.1% of GDP</td>
</tr>
</tbody>
</table>
**2013**

- Welfare adaptations of social benefits: +0.1% of GDP
- Increase in the financial income withholding tax: 0.1% of GDP
- Change in the reference rate of the notional interest deduction in corporate income taxation: 0.1% of GDP
- Increase in several indirect taxes (0.1% of GDP): excise duties on tobacco and alcohol, tax on premiums of life insurance contracts
- Fiscal amnesty and anti-fraud measures: 0.2% of GDP
- Sale of telecom licences and emission permits: 0.1% of GDP
- Reduction in social security contributions: -0.1% of GDP
- Reduction in central government expenditure (-0.2% of GDP): inter alia on development cooperation, diplomacy, defence, functioning costs, and transfers to the national railway company
- Reduction in healthcare expenditure: -0.1% of GDP
- Other social security measures: -0.1% of GDP

**2014**

- Decrease in the VAT rate on electricity
- Increase in excise duties
- Efficiency gains in the public administration
- Only partial replacement of retiring civil servants
- Capping (real) growth of health-care expenditure at 3%

A positive sign implies that revenue/expenditure increases as a consequence of this measure.

For 2010–2012: Annual budgetary impacts expressed as a percentage of GDP are estimated by the Commission services (Commission, 2013a)

For 2013: The budgetary impact for 2013 in the table is the impact reported in the 2013 programme by the Belgian authorities (Commission, 2013b)

For 2014: As reported in the 2014 (draft) Programme. No budgetary impact available (Commission, 2014a)
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ENDNOTES

1 See article ‘Mais qui est Olli Rhen?’, published in Le Monde, 27/02/2012.

2 Discours d’Elio Di Rupo au congrès du PSE à Rome, see http://www.ps.be/Pagetype1/Actus/News/L-Europe-doit-changer-de-cap-!.%28discours-d-Elio-Di.aspx.