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SPRING 2018 REFORM BAROMETER – BELGIUM

European Semester - Overall assessment of 2017 cycle

	To what extent do you agree with these statements:		Detailed comments
1.	The National Reform Programme submitted by your Government (April 2017) is appropriate.	To a large extent	New and stricter Competitiveness Law, National Plan for Strategic Investment, abolishment of establishment laws in Flanders. Since then also a corporate tax reform has been put in place.
2.	The Commission's country specific recommendations for your country are appropriate.	To a large extent	
3.	The Commission assessment of reform implementation the year before is appropriate.	To a large extent	Judgment of structural reform progress is correct. The fiscal balance however has improved dramatically since the assessment: a deficit of 2,2% of GDP was expected for 2017. It looks like we will end up below 1% of GDP.
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	To a large extent	

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Assessment of Country Specific recommendations 2017 in detail

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR **1**	Pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Belgium's public finances. Use windfall gains, such as proceeds from asset sales, to accelerate the reduction of the general government debt ratio. Agree on an enforceable distribution of fiscal targets among government levels and ensure independent fiscal monitoring. Remove distortive tax expenditures. Improve the composition of public spending in order to create room for infrastructure investment, including on transport infrastructure.	Important	Satisfactory	The fiscal position improved dramatically in Belgium in 2017 as negative effects from terrorist attacks subsided, the economic returns of competitiveness measures fully materialized, the interest rate burden further diminished and social spending remained well under control. It seems that the budget deficit in 2017 will only be -0,7 to -0,8% of GDP (at the worst), compared to -2,2% of GDP expected by the Commission. Even though the 2018 budget is only tabling on a further structural improvement of 0,3%, this might well be enough to reach nominal budget balance in 2018. The structural balance however could still be slightly negative, but this depends on variable estimations of the output gap. Some windfall gains (privatisation of Belfius Bank) will also be used for debt reduction. Progress has been made in making the corporate tax system more efficient: basic tariff has been lowered on 1/1/2018 from 33,99% to 29,58% and to 20% (on the first €100.000 in profits) for SME's and important tax expenditures have been drastically reduced. On 1/1/2020 basis tax rate for all businesses will be further reduced to 25%. All in all this seems a position where Belgium should be able to invest in some crucial infrastructure programs (roads, railways, energy) without putting the fiscal position at risk.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR **2**	Ensure that the most disadvantaged groups, including people with a migrant background, have equal opportunities to participate in quality education, vocational training, and the labour market.	Helpful (but not a priority)	Mixed	A lot of effort has been put into ensuring equal opportunities in those domains (and rightly so). A good new measure for example is to oblige schooling from the age of 3 in Flanders. This should reduce differences in language skills (French and Dutch) at later ages and should lead to more equal opportunities. However, certain measures have been taken that are rooted in a fundamental distrust in employers (like mystery calls and mystery job interviews) and could have adverse consequences. A very large majority of employers right now need all potential skills in the labour market and have no interest at all in discriminating.
CSR **3**	Foster investment in knowledge-based capital, in particular with measures to increase digital technologies adoption, and innovation diffusion. Increase competition in professional services markets and retail, and enhance market mechanisms in network industries.	Important	Satisfactory	A lot of measures have been taken to foster digital entrepreneurship (fiscal support for investment in start-ups and scale-ups, wage cost reductions for first hiring's, ...). There is a clear rise in early stage entrepreneurial activity. Competition in retail has increased rapidly in the face of the rapid take-up of e-commerce by Belgian consumers. More and more competition is taking place among telecom providers and electricity producers. However, the costs of electricity and water 'distribution', are spiralling upward rapidly in a context of high investment needs and local monopolies.

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Reform Progress in your Member State in 2017

How would you assess reform progress in 2017, for the following broad areas:

Taxation and Public Finances	Excellent
Business environment (regulation/access to markets)	Satisfactory
Labour market	Satisfactory
Innovation and skills	Satisfactory
Access to finance and Financial stability	Satisfactory

Is there any example of an economic reform, specific to your country that BusinessEurope could highlight in its 2018 Reform Barometer?

1) Corporate tax reform reducing basic corporate tax rate from 33,99% to 29,58% in 2018 and to 25% in 2020 (for SME's: 20% on the first €100.000 in profits as from 1/1/2018).
2) Fiscal position has improved quite dramatically in 2017 (from an expected deficit of -2,2% of GDP to a deficit of less than 1% of GDP).
3) Tax breaks for investments in start-ups and scale-ups is giving a boost to entrepreneurial activity.
4) Abolishment of establishment laws in Flanders.
5) labour market: reintroduction of a trial period of 6 months with shorter firing notice + introduction of a fiscally very attractive profit participation scheme to ensure better link between wage cost and productivity.

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Reform priorities for 2018

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 1	Labour market mismatch and labour mobility	Supplementary action is needed to resolve increasing labour market shortages. This involves 1) a strong improvement of the match between the skills needed in the labour market and what education and training schemes deliver 2) stricter control and activation of the unemployed and the large number of people on permanent sick leave, and 3) further reducing the possibilities for early departure. A limitation in time of unemployment benefits (even to 3 or 4 years) also seems long overdue. Increased labour time flexibility might also help and/or more selective immigration.	yes
Priority 2	Public investment	Although the importance of reducing the debt ratio, the government has to create fiscal room for investment. Net investment has on average been close to 0 for the past 20 years. There is an urgent need for infrastructure upgrades with a focus on infrastructure with a high short-term return (I.e. mobility-, digital- and energy infrastructure).	yes

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 3	Pension and health care reforms	More needs to be done for the sustainability of our pension system. There are still too many possibilities for early departure (sectorial exception regimes, early retirement in case of restructuring of companies). Periods of actual work have to result in a better pension than non-working periods. More justice between pension systems: a further harmonization between pension system for workers and pension system for civil servants is needed.	yes
Priority 4	Sector specific regulation (telecom, energy)	A well calculated energy pact is needed that ensures affordable prices, supply security and achievement of climate goals. It's hard to see how this can be reconciled with nuclear phasing out by 2025.	yes
Priority 5	Public sector efficiency	A structural plan for improving government efficiency and reducing admin burden is much needed.	no