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COMMISSION OPINION

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on the Draft Budgetary Plan of Belgium

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING BELGIUM

3. On the basis of the Draft Budgetary Plan for 2018 submitted on 17 October 2017 by Belgium, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The Commission sent a letter to Belgium on 27 October 2017 asking for further information and highlighted a number of preliminary observations related to the Draft Budgetary Plan. Belgium replied to the Commission's letter on 31 October 2017. This information has been taken into account in the Commission's assessment of budgetary developments and risks.
4. Belgium is subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO) of a balanced budget in structural terms. In 2017, it should achieve an annual fiscal adjustment of at least 0.6% of GDP. In 2018, it should pursue a substantial fiscal effort, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Belgium's public finances. According to the commonly agreed adjustment matrix under the SGP, that adjustment translates into a requirement of a nominal growth rate of net primary government expenditure which does not exceed 1.6% in 2018, corresponding to an annual structural adjustment of at least 0.6% of GDP. As its public debt exceeds the 60% of GDP reference value of the Treaty, Belgium also needs to comply with the debt reduction benchmark.
5. The macroeconomic projections provided in the Draft Budgetary Plan are assessed as plausible. Growth projections for 2017 and 2018 are stronger than those in the Stability Programme but broadly concur with the Commission 2017 autumn forecast. Also nominal growth rates are closely aligned. Both scenarios expect domestic demand to be the main growth driver in 2018. Rising purchasing power allows for a further strengthening of household consumption. Investment is supported by favourable conditions for companies and the investment cycle of local authorities.
6. Belgium does not fully comply with the requirement of Regulation (EU) No 473/2013 that the draft budget has to be based on independently produced macroeconomic projections. Specifically, the macroeconomic forecast underlying the budget of the federal authorities is not the most recent forecast produced by the Federal Planning Bureau.

7. The Draft Budgetary Plan plans a general government deficit of 1.5% of GDP in 2017, slightly better than the target of 1.6% of GDP in the latest Stability Programme. The planned improvement in the structural balance¹ in 2017 decreases from 1.0% of GDP in the Stability Programme to 0.6% of GDP in the Draft Budgetary Plan as a result of higher one-off factors and a lower cyclical correction. Falling interest payments account for 0.4 percentage points of the improvement. The Draft Budgetary Plan expects a larger debt reduction in 2017 than the latest Stability Programme, with the debt ratio falling to 104.1% of GDP. This reflects a stronger downward snowball effect (lower interest payments combined with higher nominal GDP growth) as well as smaller upward stock-flow adjustments given, inter alia, the Belgian State's partial sale in May 2017 of its share in BNP Paribas.

In 2018, a headline deficit of 1.1% of GDP is planned, representing a downward revision of 0.4 percentage points compared to the Stability Programme. This corresponds to a (recalculated) structural improvement of 0.3% of GDP, compared to a target of 0.6% in the Stability Programme. A further decline in interest payments contributes 0.2 percentage points to the structural improvement. According to the Draft Budgetary Plan, gross public debt would decrease to 102.7% of GDP in 2018. This does not include the impact of possible additional financial sector asset sales.

8. In its 2017 Stability Programme, Belgium indicated that the budgetary impact of the additional costs related to the security threat is significant and should be considered as an unusual event outside the control of the government, as defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97. Specifically, Belgium requested a temporary deviation from the adjustment path towards the medium-term budgetary objective of 0.01% of GDP in 2017 in relation to exceptional security measures. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the threat of terrorism is an exceptional event, its impact on the country's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the MTO. In its 2018 Draft Budgetary Plan, the government has revised the estimated costs slightly upwards to 0.04% of GDP. The Commission provisionally assessed Belgium to be eligible for an allowance of 0.04% of GDP in relation to costs considered by the Commission to have a clear and direct link to security. The Commission will make a final assessment, including on the eligible amounts, in spring 2018 on the basis of observed data as provided by the authorities.
9. The main revenue measures underpinning the Draft Budgetary Plan are a new tax on securities accounts, included in the Commission 2017 autumn forecast but at a lower yield; a series of additional targets from the fight against tax and social fraud, partly included in the Commission forecast given an apparent replication of targets and underpinning measures that are generally hard to monitor; and extra revenues from specialised real estate investment funds, not included in the Commission forecast as past objectives were not achieved. Other tax measures included in the Commission forecast relate to a broadening of the scope of the financial withholding tax, an increase in the stock exchange tax, higher excise duties on tobacco and sweetened drinks, and the closing of loopholes in the transparency tax.

On the spending side mainly social payments are affected. Measures will be taken to respect the growth norm in health care and to reduce the amount of wrongly granted

¹ Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

benefits. Both were included in the Commission 2017 autumn forecast. Savings from a new measure aimed at encouraging older employees to continue working are assumed to arise more gradually, while savings from the reintegration of long-term ill and disabled people were not included in the Commission forecast considering the poor track record and the fact that existing measures were already expected to generate additional savings in 2018.

10. The Commission 2017 autumn forecast projects a headline deficit of 1.4% of GDP in 2018, 0.3 percentage points higher than the Draft Budgetary Plan. The difference between both projections is situated at the revenue side and explained by the different assessment of budget measures. The Commission forecast projects a debt reduction comparable to that in the Draft Budgetary Plan. Certain downside risks are associated with the Draft Budgetary Plan. First, the Draft Budgetary Plan assumes that the announced corporate income tax reform will be fully neutral from a budgetary point of view. Second, if the temporary part of the strong increase in corporate tax revenues in 2017 were larger than estimated in the Draft Budgetary Plan, this would result in a lower structural adjustment in 2018. Third, the 2018 budget relies on a high amount of underspending of allocated credits. Finally, the headline deficit of sub-federal entities does not seem to correspond to those entities' target in structural terms.
11. On 22 May 2017, the Commission issued a report under Article 126(3) TFEU, as Belgium did not make sufficient progress towards compliance with the debt reduction benchmark in 2016. The report concluded that, after the assessment of all relevant factors, the debt criterion should be considered as complied with. At the same time, Belgium was asked to ensure broad compliance with the adjustment path towards the medium-term budgetary objective in 2016 and 2017 together.
12. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2017 autumn forecast, the debt reduction benchmark is not projected to be met in 2017 and 2018.
13. In 2017, Belgium is required to achieve an annual fiscal adjustment of at least 0.6% of GDP towards the medium-term budgetary objective. The Draft Budgetary Plan points to a risk of some deviation from that adjustment path in 2017 on the basis of the real growth rate of net primary government expenditure. The planned change in the (recalculated) structural balance is compliant. In 2016 and 2017 together, the expenditure aggregate points to a risk of significant deviation while the structural balance signals some deviation. The Commission 2017 autumn forecast shows similar deviations for both indicators in 2017 as well as in 2016-2017. After correcting expenditure growth for the impact of higher-than-anticipated inflation on public sector wages and social benefits in 2016 and 2017, the expenditure benchmark continues to signal a risk of significant deviation. Considering that the difference with the structural balance indicator is explained by the windfall from lower interest expenditure, the reading from the expenditure benchmark is confirmed. The overall assessment concludes a risk of significant deviation from the recommended structural adjustment path towards the medium-term budgetary objective in 2017, both on the basis of the Draft Budgetary Plan (gap of 0.4% of GDP) and the Commission 2017 autumn forecast (gap of 0.5% of GDP). That conclusion would not change if the budgetary impact of the exceptional security-related measures in 2017 were deducted from the requirement.

In 2018, Belgium is required to limit the nominal growth rate of net primary government expenditure to 1.6%, corresponding to a structural adjustment of at least 0.6% of GDP. According to the Draft Budgetary Plan the expenditure aggregate exceeds the benchmark rate in 2018, with a deviation at the limit of significance (gap of 0.5% of GDP). The (recalculated) structural balance points to some deviation from the requirements (gap of 0.3% of GDP). For 2017 and 2018 together, the Draft Budgetary Plan signals a risk of significant deviation for the expenditure aggregate (average gap of 0.4% of GDP) while the structural balance indicates a risk of some deviation (average gap of 0.1% of GDP). The difference between both indicators stems primarily from interest payments so that an overall assessment confirms the reading of the expenditure benchmark and concludes that the Draft Budgetary Plan includes a risk of significant deviation in 2017 and 2018 taken together.

The Commission 2017 autumn forecast projects a significant deviation from the expenditure benchmark in 2018 (gap of 0.8% of GDP), which is confirmed by the adjustment in the structural balance (gap of 0.7% of GDP). Also for 2017 and 2018 together both indicators point to a risk of significant deviation. After correcting the expenditure benchmark for the impact of higher-than-anticipated inflation in 2017, it continues to signal a risk of significant deviation. Once more, interest payments explain the difference with the structural balance indicator. Therefore, the overall assessment on the basis of the Commission 2017 autumn forecast confirms the reading of the expenditure benchmark, namely a risk of significant deviation from the recommended structural adjustment path towards the medium-term budgetary objective in 2018 as well as in 2017 and 2018 taken together.

14. The country-specific recommendations adopted by the Council on 11 July 2017² mentioned that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances. The Commission has carried out a qualitative assessment of the strength of the recovery in Belgium while giving due consideration to its sustainability challenges. Belgium does not face short-term sustainability challenges although in the medium term the overall risks to fiscal sustainability are assessed as high. The recovery in Belgium does not appear fragile. In particular, there is little indication of economic slack with respect to either labour or capital, the economy is around potential, core inflation averaged 1.6% so far in 2017, there are no indications that the crisis caused a hysteresis effect on the labour market, the unemployment rate never showed the sharp increase seen elsewhere in the euro area, the investment-to-GDP ratio has been markedly stable since 2007, and access to credit has generally not been a constraint for Belgian companies. As a result, no additional elements in that regard need to be taken into account in the overall assessment.
15. In 2018, the distribution of the consolidation effort between revenues and expenditure is similar to the composition of the fiscal effort in 2011-2017. The contribution to the change in the structural balance from declining interest expenditure is around the same as the average contribution in 2011-2017. The slight increase in government investment in 2018 can be related to the local investment cycle. The Draft Budgetary Plan does not include notable new measures that affect the tax wedge on labour. However, Belgium is rolling out a multiannual tax reform

² OJ C 261/01, 11.7.2017.

with the aim of reducing the tax burden on labour. Reductions representing 0.5% of GDP are scheduled in 2018, carrying a net budgetary cost of 0.2% of GDP.

With regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017, the Draft Budgetary Plan reports a reform of corporate income taxation. The authorities aim for a budgetary-neutral shift by at the same time lowering statutory rates and broadening the tax base. The Draft Budgetary Plan provides no new information regarding other fiscal-structural aspects of the 2017 country-specific recommendations, in particular the call to agree on an enforceable distribution of fiscal targets among government levels and to ensure independent fiscal monitoring.

16. Overall, and after considering the need to balance the two objectives of strengthening the ongoing recovery and ensuring fiscal sustainability, the Commission is of the opinion that the Draft Budgetary Plan of Belgium, which is currently under the preventive arm and subject to the debt reduction benchmark, is at risk of non-compliance with the provisions of the SGP. In particular, the Commission projects a risk of significant deviation from the required adjustment towards the MTO for both 2017 and 2018. Therefore, the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP and to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio. Compliance with the preventive arm requirements is a key relevant factor when assessing compliance with the debt criterion.

The Commission is also of the opinion that Belgium has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017 in the context of the 2017 European Semester and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Reports and in the context of the country-specific recommendations to be proposed by the Commission in May 2018.

Done at Brussels, 22.11.2017

*For the Commission
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Member of the Commission*