

Mr Johan Van Overtveldt  
Minister of Finance  
Wetstraat 12  
1000 Brussels  
Mrs Sophie Wilmès  
Minister of Budget  
Bd du Jardin Botanique, 50 bte 156  
1000 Bruxelles

Brussels, 31 October 2017

Mr Valdis Dombrovskis  
*Vice-President of the European Commission*  
Mr Pierre Moscovici  
*Member of the European Commission*

Thank you for your letter dated 27 October 2017 in which you ask for additional information on Belgium's 2018 Draft Budgetary Plan, in particular on the recent corporate income tax reform and the structural effort envisaged in the DBP. You also have underlined a risk of significant deviation for 2017 and 2018 together.

We can reassure you on the robustness of the DBP as it puts forward a substantial consolidation effort coupled with additional structural reforms

Concerning the structural effort envisaged in the DBP, it was calibrated by taking into account the path of the structural balance at unchanged policy. According to the assessment of the Monitoring Committee of July 2017, Belgium's General Government structural balance would deteriorate by -0.46% of GDP in 2018 at unchanged policy, of which -0.31% was related to entity I (Central Government and Social Security) and -0.15% to entity II (State and Local Government). Based on this assessment, the different levels of government took additional measures in order to guarantee a structural improvement of 0.3% in 2018. This represents

a substantial effort of 0.73% of GDP in comparison to the path at unchanged policy. The major part of this effort, 0.61% of GDP, will be realised by entity I (Central Government and Social Security), the remaining 0.14% of GDP or EUR will be done by entity II.

The efforts undertaken are consistent with the policy mix implemented by the Belgian Government since 2015 and which is based on five axes:

- *Reform and reinforce the Belgian economy by implementing major structural reforms,*
- *Continue to support economic growth and the dynamics of the labour market,*
- *Continue the process of fiscal consolidation without creating negative effects on economic growth;*
- *Reaffirm the Central Government's commitment to reduce the General Government debt by managing actively the Belgian state's participation;*
- *Relaunch investment by developing a national pact for strategic investments.*

Therefore, the Belgian Central Government adopted a fiscal consolidation policy aiming at reducing possible negative effects on growth and focusing on measures that improve long-term fiscal positions.

Regarding structural reforms, since the beginning of its term, the Belgian Government enacted on a range of important structural reforms, including a pension reform and a "tax shift" with the objective of reducing the tax wedge on labour. In 2017, Belgium undertook a labour market reform, including a revision of the 1996 law on competitiveness, the adoption of the feasible and flexible work act and measures to promote employment for young people. These reforms have been welcomed by the European Commission and international organisations such as the IMF and the OECD.

In 2018, structural reform efforts and the timetable of reforms will continue. In addition to the full implementation of the tax shift, the pursuing of pension reforms and the development of a more flexible labour market, the Council of Ministers approved on 25 October 2017 the *Law for the economic recovery and the reinforcement of social cohesion*, including the *Law on the Corporate Tax Reform*.

The main objective of the corporate tax reform is to reduce in two steps the standard tax rate from 33% towards 29% in 2018 and 25% in 2020 and foresees a uniform reduced tax rate of 20% for SMEs on their first EUR 100,000 taxable profits. This reform will be budgetary neutral via a broadening of the corporate tax base through modification or abolishment of a number of tax exemptions and alignment of the corporate tax system with the BEPS and ATAD actions. The budgetary note of 13 October 2017 from the Ministry of Finance on the corporate tax reform sets out in detail the budgetary cost and the financing of the reform. This note is attached to this letter. The positive overall economic effects of the reform were not taken into account in the Draft Budgetary Plan. Albeit the government hopes to generate more economic activity through this substantial reform. Besides the lower nominal rate, the Belgium government focuses on some specific benefits, like stimulus for innovation expenses and investments.

The set of reforms will help to strengthen competitiveness and economic growth, support job creation, address the cost of ageing and raise the growth potential of the Belgian economy.

It is important to note that these reforms already have a positive impact on growth and employment in the short term. According to the detailed annual national accounts published in October by the National Account Institute (NAI), the Belgian economy's gross domestic product (GDP) rose by 1.5% in 2016 against 1.2% forecasted. After growth for 2017 was estimated at 1.2% in 2016, growth is now projected to reach 1.7% in 2017. The growth figure for 2018 also has been revised upwards from 1.6% to 1.7%. On the labour market, between Q4-2014 and Q2-2017, net job creation amounted to 147,600 units which is considerably higher than in the previous years. According to the most recent forecast of the Belgian Federal Planning Bureau, this trend will continue in 2017 and 2018. In 2018, the forecast expects the creation of more than 48,300 jobs. Supported by solid employment growth, unemployment has fallen to 7.4% in 2017 compared to 8.5% in 2015.

Returning to the subject of the path of structural balance, the forecast for 2017 puts forward a substantial consolidation effort in comparison to 2014. The structural deficit decreased from -2.7% of GDP in 2014 to -1.1% of GDP in 2017 and the General Government deficit from -3.1% of GDP in 2014 to -1.5% of GDP in 2017. In 2018, the structural deficit should fall to -0.8% of GDP and the General

Government deficit to -1.1% of GDP. Therefore, over the period 2017-2018, the improvement of the structural balance amounts to 1% of GDP.

After years of rapid growth, the expenditure-to-GDP ratio decreased by 2.7% between 2014 and 2017 (from 55.2% of GDP to 52.5% of GDP). In addition, the revenue-to-GDP ratio fell by 1.1% during the same period (from 52.1% of GDP to 51% of GDP). The reduction in the expenditure ratio and revenue ratio will continue further in 2018.

Concerning the growth rate of primary expenditure, the efforts of the different governments have led to an important decrease of primary expenditure (from 51.9% of GDP in 2014 to an expected 49.5% of GDP in 2018). This evolution illustrates that reducing the growth in primary expenditure is a key element of the fiscal consolidation policy. In real terms, primary expenditure has increased yearly at an average rate of 0.3% over the 2014-2018 period, which is considerably lower than potential growth. The estimated increase of primary expenditure in 2018 (in nominal terms 2.2%) is explained partly by investment, especially at local level. Without this additional expenditure for investment, the expected increase of primary expenditure would have been 1.9%.

After a stabilization of the debt ratio in 2015, at 106% of GDP, the public debt fell back to 105.7% in 2016. We expect debt to fall in 2017 and 2018. In 2017, the debt ratio is estimated to decrease to 104.1% of GDP due to the sale of part of the federal government's stake in BNP Paribas. In 2018, the debt ratio is set to continue falling to 102.7% of GDP without taking into account strategic asset management.

Furthermore it is important to mention that an update of the Entity I figures for 2017 is currently prepared and will be available next week. Next to that it is also important to note that the figure on General Government balance for 2017, published in the Draft Budgetary Plan (-1.5% GDP) is a rather prudent estimation and will probably be more positive:

- *The underlying figure for the local authorities is based on the April ICN (Institute for National Accounts) figures, while the October figures are more positive (+ EUR 187 million);*
- *The evolution of Central Government primary expenditure after 9 months is in line with the expectations;*
- *The current estimation of social security revenue and expenditure shows that the anticipated balance will be attained;*

- *The evolution of tax revenues after 9 months on a ESA basis is better than foreseen;*
- *The GNI contribution to the European Union will be EUR 300 million lower than the figure foreseen in the 2018 budget;*

Moreover, it should be noted that both the Central Government as well as the Regions and Communities have invested heavily in monitoring their budget execution. Concerning Entity I, the Finance and Budget Commission of the employee and self-employed sections of Social Security monitors on a monthly basis the social security budget operations. Next to that and also on a monthly basis the Treasury Committee monitors the tax revenues and primary expenditure of the Central Government. At regular intervals, the Central Government monitoring committee or the Directorate General Budget and Policy Evaluation collects these data in a report.

On public debt management, the participation of the Belgian State in banks will be further analysed and a more dynamic management of these assets will be adopted. In this respect, strategic, economic and social criteria will be taken into account.

On investment, a Strategic Committee, in charge of the implementation of the National Pact for Strategic Investments, was created in March 2017. The Committee was tasked with formulating recommendations that will form the cornerstone of the Pact. In September 2017, after some preparatory work, the Strategic Committee wrote a first report outlining the framework that will form the basis of the Pact's investments. Since October 2017, the Strategic Committee has entered its operational phase focusing on formulating concrete recommendations on investments and measures to boost the impact of those investments. This phase involves consultation with various social, economic and political partners. All entities in the country have been invited to list their strategic investment projects, in the light of the elements included in the Strategic Committee's first report. On this basis, an Extraordinary Thematic Concertation Committee will be organized in December 2017. The aim is to fully implement all elements of the Investment Pact by mid-2018.

With the 2018 Draft Budgetary Plan, the Belgian Government reaffirms its commitment to continue growth-friendly fiscal consolidation.

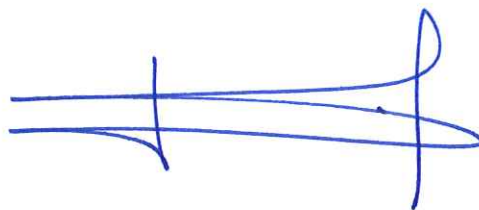
The Belgian Government and its services stand ready to provide any further information the European Commission may require.

Sincerely,

A handwritten signature in black ink, appearing to read 'Johan Van Overtveldt', written in a cursive style.

Johan VAN OVERTVELDT

Minister of Finance

A handwritten signature in blue ink, appearing to read 'Sophie Wilmès', written in a cursive style.

Sophie WILMÈS

Minister of Budget