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COMMISSION OPINION

of 21.11.2018

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 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 2019 submitted on 15 October 2018 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 19 October 2018 asking for further information and the reply by Belgium of 22 October 2018 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 Stability and Growth Pact (SGP). On 13 July 2018, the Council recommended Belgium to ensure that the nominal growth rate of net primary government expenditure does not exceed 1.8% in 2019, corresponding to an annual structural adjustment of 0.6% of GDP towards the medium-term budgetary objective (MTO) of a balanced budget in structural terms, and to use windfall gains to accelerate the reduction of the general government debt ratio[1]. As its public debt, at 103.4% of GDP in 2017, exceeds the 60% of GDP reference value of the Treaty, Belgium also needs to comply with the debt reduction benchmark.

5. According to the Commission 2018 autumn forecast, the Belgian economy is expected to grow by 1.5% in 2018 and 1.5% in 2019. Growth is forecast to be driven by domestic demand in 2019, as net exports are not expected to contribute to growth. According to the Draft Budgetary Plan, the economy is expected to grow at the same rate and with a broadly similar composition. The macroeconomic scenario underlying the Draft Budgetary Plan is plausible. 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 forecasts. Speficially, and as in the Draft Budgetary Plan for 2018, the macroeconomic forecast underlying the budget of the federal government is not the most recent forecast produced by the Federal Planning Bureau.

[1] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Belgium and delivering a Council opinion on the 2018 Stability Programme of Belgium, OJ C 320, 10.9.2018, p.1

6. For 2018, the Draft Budgetary Plan projects a headline deficit of 1.1% of GDP, which implies an improvement in the structural balance[2] of 0.1% compared to 2017. For 2019, the headline deficit is planned to decrease to 1.0% of GDP, which implies an improvement in the structural balance of 0.2% of GDP. The Commission 2018 autumn forecast projects headline deficits of 1.0% of GDP in 2018 and of 1.1% of GDP in 2019, broadly in line with the targets set out in the Draft Budgetary Plan. However, in structural terms the Commission does not project any adjustment in 2018 or 2019.

7. On the revenue side, the Draft Budgetary Plan presents measures with a net deficit-reducing impact of about 0.4% of GDP. They include new measures such as labour market reforms (the so-called "jobs deal"), measures aiming at tackling fiscal and social fraud, as well as re-estimates of some revenues (such as higher-than-expected corporate income tax payments). The Commission 2018 autumn forecast has included most of them, apart from some re-estimates and part of the measures announced to fight fiscal and social fraud. With respect to the Recommendation of 13 July 2018 addressed by the Council to Belgium to remove disincentives to work, Belgium is rolling out a multiannual tax reform to reduce the tax burden on labour. However, the Draft Budgetary Plan does not include new measures affecting the tax wedge on labour for average wage earners, which remain the highest in the Union. On the expenditure side, the Draft Budgetary Plan does not envisage new measures with a significant budgetary impact in 2019.

8. The Draft Budgetary Plan is accompanied by a formal request to avail of the flexibility available under the preventive arm pursuant to the "Commonly agreed position on Flexibility within the Stability and Growth Pact" endorsed by the ECOFIN Council in February 2016. Belgium requested a temporary deviation from the adjustment path towards the MTO as of 2018 in view of the implementation of major structural reforms with a positive impact on the long-term sustainability of public finances. The request for flexibility for structural reforms refers to a pension reform, a “tax shift”, a reform of corporate income taxation, a labour market reform as well as a reform of the public administration. Most of them have been legislated while for the last reform the DBP contains a credible timeline for adoption. As the request for the temporary deviation should be submitted in the year ahead of the application of the clause, the Commission assessed the fulfilment of the eligibility criteria for the structural reform clause as of 2019. The Commission 2018 autumn forecast indicates that Belgium will continue to respect the minimum benchmark in 2019 which provides a safety margin towards the 3% of GDP deficit threshold. On that basis, Belgium appears to qualify for the requested temporary deviation of 0.5% of GDP in 2019 for structural reforms. A final assessment of the request for flexibility will take place within the normal European Semester cycle in the context of the assessment of the 2019 Stability Programme.

9. In 2018, for Belgium to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs[3], should not exceed 1.6%, corresponding to an annual

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

[3] As part of the agreement on the EFC Opinion on "*Improving the predictability and transparency the SGP: a stronger focus on the expenditure benchmark in the preventive arm",* which was adopted by the EFC on 29 November 2016, the expenditure benchmark, that is the maximum allowable growth rate of expenditure net of discretionary revenue measures, is expressed in nominal terms as from 2018.

structural adjustment of 0.6% of GDP. The Draft Budgetary Plan indicates an expenditure benchmark gap of 0.6% of GDP in 2018 and of 0.5% of GDP over 2017 and 2018 taken together, pointing to a risk of a significant deviation. The Commission 2018 autumn forecast also shows a risk of significant deviation, as it points to an expenditure benchmark gap of 0.8% of GDP in 2018 and of 0.6% of GDP over 2017 and 2018 taken together. Uncertainties remain regarding the treatment of the increase in corporate income tax payments in 2018, which could affect the reading of both the structural balance and the expenditure benchmark.

In 2019, for Belgium to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 1.8%, corresponding to an annual structural adjustment of 0.6% of GDP. The Draft Budgetary Plan indicates an expenditure benchmark gap of 0.6% of GDP in 2019 and of 0.6% of GDP on average over 2018 and 2019 taken together, pointing to a risk of a significant deviation. Those conclusions are confirmed by the Commission 2018 autumn forecast which projects an expenditure benchmark gap of 0.9% of GDP in 2019 and of 0.9% of GDP on average over 2018 and 2019 taken together. If the flexibility requested under the structural reform clause were deducted from the requirement for 2019, the Commission forecast would still point to a risk of significant deviation over 2018-2019 taken together.

10. On 23 May 2018, the Commission issued a report under Article 126(3) TFEU, as Belgium did not comply with the debt reduction benchmark in 2017. The report could not fully conclude as to whether the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was complied with, as there was insufficient robust evidence to conclude on the existence of a significant deviation for Belgium in 2017 and over 2016 and 2017 together. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will reach 100.2% in 2019, above the Commission's projection of 99.8%. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission's 2018 autumn forecast, Belgium is not projected to comply with the debt reduction benchmark in 2018 and 2019, with a gap of 0.5% of GDP in each year.

11. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Belgium 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 2018 and 2019. Additionally, Belgium is not projected to comply with the debt reduction benchmark in 2018 and 2019. Therefore, the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP and to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio.

The Commission is also of the opinion that Belgium has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission