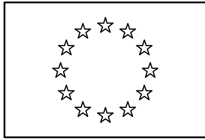

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 7.10.2009
SEC(2009) 1268 final

REPORT FROM THE COMMISSION

Belgium

Report prepared in accordance with Article 104(3) of the Treaty

1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn has brought about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

The Stability and Growth Pact requires the Commission to prepare a report such as the present one whenever an actual or planned deficit of a Member State exceeds the 3% of GDP reference value. This report, which represents the first step in the "excessive deficit procedure" (EDP), analyses the reasons for the breach of the reference value with due regard to the economic background and all other relevant factors. The amendments to the Stability and Growth Pact in 2005 aimed specifically at ensuring that in particular the economic and budgetary background was fully taken into account in all steps in the EDP. This means for instance that, if an "excessive deficit" is deemed to exist, adequate attention needs to be paid to the economic background and outlook when making recommendations on the pace of the correction. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

2. LEGAL BACKGROUND

This report, which assesses recent and current budgetary developments in Belgium and reviews the short and medium-term prospects in the light of overall economic conditions and policy action taken by the government, is prepared according to Article 104(3) of the Treaty.

Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a

[1] OJ L 209, 2.8.1997, p.6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm.

level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

According to the April 2009 update of the stability programme and data notified by the authorities in April 2009[2], the general government deficit in Belgium is planned to reach 3.4% of GDP in 2009, thus exceeding the 3% of GDP reference value, while general government gross debt would be 93% of GDP, well above the 60% of GDP reference value. Whereas the debt ratio continuously decreased between 1994 and 2007, the operations to stabilise the financial system that were taken in the last months of 2008 led to an increase in the debt ratio in 2008 and the ratio is planned to further increase in 2009 as a result of expected low nominal GDP growth and the further widening of the deficit.

Table 1: General government deficit and debt [a]

	2004	2005	2006	2007	2008	2009		2010
						COM	Apr 2009 notif.	COM
General government balance	-0.3	-2.7	0.3	-0.2	-1.2	-4.5	-3.4	-6.1
General government gross debt	94.3	92.2	87.9	84.0	89.6	95.7	93.0	100.9

Note:
[a] In percent of GDP.
Source: April 2009 EDP notification, Eurostat and Commission services' spring 2009 forecast (COM).

The planned figures for the 2009 deficit and gross debt provide *prima facie* evidence on the existence of an excessive deficit in Belgium in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore decided to initiate the excessive deficit procedure for Belgium with the adoption of this report. Section 2 of the report examines the deficit criterion and Section 3 the debt developments. Section 4 deals with public investment and other relevant factors. This document takes into account the Commission services' spring 2009 forecasts, released on 4 May, and their evaluation of subsequent developments.

3. DEFICIT CRITERION

In 2009, according to the April 2009 notification of the Belgian authorities the general government deficit is planned to reach 3.4% of GDP.

[2] According to Council Regulation (EC) No 479/2009 (previously (EC) No 3605/93), Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Belgium can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/BE_2009-04.pdf.

Although in excess of 3% of GDP, the planned deficit is close to the Treaty reference value. However, reflecting a more negative macroeconomic outlook, the Commission services' spring 2009 forecast already projected the deficit to reach 4.5% of GDP in 2009. The September 2009 complement to the April 2009 update of the stability programme projects a deficit of 5.9% of GDP for 2009, i.a. reflecting more recent information on corporate tax elasticities and additional one-off expenditure linked to two Court rulings[3]. The government deficit in 2009 will thus turn out much higher than the planned 3.4% of GDP and will not be close to the Treaty reference value.

The planned excess over the 3% of GDP reference value is exceptional. In particular, it results, among other things, from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. In the Commission services' spring 2009 forecast, GDP is projected to decrease by 3.5% in 2009 and by 0.2% in 2010. Thus GDP growth is expected to be negative, with potential growth being projected at 1% in both years. As a result, the output gap is foreseen to deteriorate sharply, from a positive figure of 1.9% in 2008 to a negative figure of 2.6% and 3.8% in 2009 and 2010, respectively, with a large negative impact on the budget balance. The extent of the excess over the 3% threshold partly also reflects the 1.2% deterioration of the structural balance between 2005 and 2008, in spite of particularly good macroeconomic circumstances in 2006 and 2007. The net estimated impact of the operations to stabilise the financial sector on the deficit is relatively small at 0.1% of GDP (see section 5.4).

Table 2: Macroeconomic and budgetary developments [a]

	2004	2005	2006	2007	2008	2009		2010	
						COM	Sept 2009 SP	COM	Sept 2009 SP
Real GDP (% change)	3.0	1.8	3.0	2.8	1.1	-3.5	-3.1	-0.2	0.4
Potential GDP (% change)	1.6	1.7	1.8	1.9	1.7	1.0	1.1	1.0	1.1
Output gap (% of potential GDP)	0.3	0.5	1.6	2.5	1.9	-2.6	-2.5	-3.8	-3.2
General government balance	-0.3	-2.7	0.3	-0.2	-1.2	-4.5	-5.9	-6.1	-6.0
Primary balance	4.4	1.5	4.2	3.6	2.5	-0.6	-2.0	-2.1	-1.9
One-off and other temporary measures	0.9	-1.9	0.9	-0.1	0.0	0.1	0.0	0.0	0.0
Government gross fixed capital formation	1.6	1.8	1.6	1.6	1.6	1.8	1.8	1.8	1.7
Cyclically-adjusted balance	-0.4	-2.9	-0.5	-1.6	-2.2	-3.1	-4.6	-4.0	-4.3
Cyclically-adjusted primary balance	4.3	1.2	3.4	2.3	1.5	0.8	-0.7	0.0	-0.2
Structural balance [bc]	-1.4	-1.0	-1.5	-1.5	-2.2	-3.2	-4.6	-4.0	-4.3
Structural primary balance	3.3	3.2	2.5	2.3	1.5	0.7	-0.7	0.0	-0.2

Notes:

[a] In percent of GDP unless specified otherwise.

[b] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source: Eurostat, Commission services' spring 2009 forecast and September 2009 complement to the April 2009 update of the stability programme.

[3] These required Belgium to stop tax discrimination between unemployed cohabiting and married persons and to redress the incorrect implementation of the European parent-subsidiary Directive (i.e. Council Directive 1990/435/EEC of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States). Both are recorded as capital transfers and amount to 0.4% of GDP in total.

The planned excess over the 3% of GDP reference value is <u>not temporary</u> in the sense of the Treaty and the Stability and Growth Pact. According to the Commission services' spring 2009 forecast, the general government deficit is expected to reach 6.1% in 2010, based on a no policy change assumption. This assumption takes into account that, according to the government plans, only part of the measures of extraordinary nature linked to the crisis will be rolled back in 2010. The projected deterioration in 2010 notably stems from the fact that growth is still weak and from a number of previously decided deficit-increasing measures (0.1% of GDP). As mentioned, these projections do not take into account more recent information pointing to a worse-than-projected deficit in 2009. On unchanged policies the deficit is therefore expected to remain well above the 3% of GDP reference value in 2010.

In sum, although the planned deficit is close to the 3% of GDP reference value, more recent information indicates that the government deficit in 2009 will turn out much higher and therefore not be close to the Treaty reference value. The planned excess is exceptional, but it is not temporary in the sense of the Treaty and the Stability and Growth Pact. This analysis suggests that the deficit criterion in the Treaty is not fulfilled.

4. DEBT CRITERION

In 2009, general government gross debt is planned to reach 93% of GDP, well above the 60% of GDP Treaty reference value. Between 1993 and 2007, the debt-to-GDP ratio had declined from a record high of 134.2% to 84%. The driving factors behind this downward trend were (1) the relatively high primary surpluses which gradually increased from 3.4% of GDP in 1993 to 6.9% of GDP in 2001 before gradually declining to 3.6% in 2007 and (2) the improvement of the "snowball" effect, which stood at a high 7% of GDP in 1993 (i.e. debt increasing) as a result of the high level of public debt and was reversed into a negative (i.e. debt decreasing) effect (-0.5% in 2007). The main reason for this was the fall in interest payments from 10.8% of GDP in 1993 to 3.8% of GDP in 2007, due to the declining implicit interest rate on the debt as well as the decrease of the debt stock. Stock-flow adjustments accounted for a minor share of the debt reduction.

In 2008, the debt ratio increased to 89.6% of GDP, due to an important stock flow adjustment (6.8% of GDP) and, to a lesser extent, a renewed positive "snowball" effect (1.3% of GDP). The stock-flow adjustment was mainly due to the operations to stabilise the financial system, which had an impact on debt of 6.4% of GDP in 2008 (see section 5.4). The positive "snowball" effect was recorded as the debt-increasing impact of the interest payments was no longer fully offset by real economic growth and inflation (as measured by the GDP deflator), which were significantly lower in 2008 than in previous years. These positive effects (i.e. debt increasing) of the stock flow adjustment and snowball effect were only partly offset by a (further declined) primary surplus of 2.5% of GDP.

The planned further increase in the debt ratio in 2009, to 93%, mainly reflects the impact of the macroeconomic situation, with particularly low GDP growth and a further worsening of the primary balance. According to the September 2009 complement to the April 2009 update of the stability programme the debt ratio is projected to increase to 97.5% in 2009, reflecting mainly lower GDP growth and the larger deficit. Taken together, financial sector support measures in 2009 (see section 5.4) are expected to have a small positive impact on public debt.

In 2010, according to the September 2009 complement to the April 2009 update of the stability programme, the debt ratio is projected to increase to 101.9% as a result of a continued albeit smaller positive snowball effect and a further deterioration of the primary balance. The Commission services' spring 2009 forecast projects debt to increase to around 101% in 2010 (after 96% in 2009).

The current deficit levels and estimates of medium-term growth are not compatible with a debt ratio converging to a level below 60% of GDP. Therefore, the debt ratio cannot be considered as "sufficiently diminishing and approaching the reference value at a satisfactory pace" in the sense of the Treaty and the Stability and Growth Pact, suggesting that the debt criterion stipulated in Article 104(3) of the Treaty is not fulfilled.

Table 3: Debt dynamics [a]

	2004	2005	2006	2007	2008	2009		2010	
						COM	Sept 2009 SP	COM	Sept 2009 SP
Government gross debt ratio	94.3	92.2	87.9	84.0	89.6	95.7	97.5	100.9	101.9
Change in debt ratio [b] (1 = 2+3+4)	-4.3	-2.1	-4.3	-3.9	5.6	6.2	7.8	5.2	4.5
Contributions:									
• Primary balance (2)	-4.4	-1.5	-4.2	-3.6	-2.5	0.6	2.0	2.1	1.9
• "Snowball" effect (3)	*-0.4*	*0.3*	*-0.7*	*-0.5*	*1.3*	*5.1*	*5.9*	*3.1*	*2.4*
of which:									
Interest expenditure	*4.7*	*4.2*	*3.9*	*3.8*	*3.7*	*3.9*	*3.9*	*4.0*	*4.1*
Real GDP growth	*-2.8*	*-1.7*	*-2.6*	*-2.3*	*-1.0*	*3.1*	*2.8*	*0.2*	*-0.4*
Inflation (GDP deflator)	*-2.2*	*-2.2*	*-2.0*	*-2.0*	*-1.4*	*-2.0*	*-0.8*	*-1.2*	*-1.3*
• Stock-flow adjustment (4)	0.5	-0.9	0.7	0.2	6.8	0.5	0.0	0.0	0.1

Notes:
[a] In percent of GDP.
[b] The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - y_t}{1 + y_t} \right) + \frac{SF_t}{Y_t}$$

where *t* is a time subscript; *D, PD, Y* and *SF* are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and *i* and *y* represent the average cost of debt and nominal GDP growth. The term in parentheses represents the "snow-ball" effect, measuring the combined effect of interest expenditure and economic growth on the debt ratio.
Source: *Eurostat, Commission services' spring 2009 forecast and September 2009 complement to the April 2009 update of the stability programme.*

5. RELEVANT FACTORS

Article 104(3) of the Treaty provides that the Commission report "shall also take into account whether the government deficit exceeds government investment expenditure and take into account other relevant factors including the medium-term economic and budgetary position of the Member State". These factors are further clarified in Article 2(3) of Council Regulation (EC) No 1467/97, which also specifies that "any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council" need to be given due consideration.

In view of the above provisions, the following four subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position (including public

investment); (3) other factors put forward by the Member State; and (4) other factors considered relevant by the Commission.

5.1. Medium-term economic position

Cyclical conditions and potential growth. After having recorded above-potential growth rates over the period 2004-2007, with real GDP growth averaging 2.6% compared to an average potential growth of 1.8%, the Belgian economy slowed down in 2008, posting a growth rate of 1.1%, and is projected to experience a period of negative growth until 2010. The Commission services' spring 2009 forecast projects GDP growth at -3.5% and -0.2% in 2009 and 2010, respectively. At the end of the second quarter of 2009, the carryover for growth in 2009 stood at -3.2%, broadly confirming such a development. As a consequence of the negative projected real GDP growth in both 2009 and 2010, the output gap would sharply deteriorate from +1.9% in 2008 to -3.8% in 2010. According to the latest estimates, potential growth is projected to weaken from 1.7% in 2008 and to around 1% in 2009 and 2010, reflecting i.a. slower capital accumulation following the significant drop in investment during the crisis.

Recent structural reforms. In line with the priorities put forward in the Belgian national reform programme (including the latest 2008 implementation report) and in the context of the Lisbon strategy for growth and jobs, the government has in the past few years implemented a number of structural reforms which should have a positive impact on the potential growth of the economy and, therefore, on public finances. Several measures were taken to improve labour market performance. Besides measures to improve geographical mobility, to promote labour market entry and to step up activation (through better guidance, training and counselling and stricter controls), the government has reduced labour taxes through a wide range of measures taken since 2001. The total gross budgetary impact amounts to around -2¼% of GDP. However, those measures did not lead to a strong increase of the employment rate and the effectiveness of some measures seems rather small compared to their important budgetary cost. Also a number of measures to increase the effective retirement age have been taken in the Generation Pact of 2005, but these do not seem to be sufficiently effective as the positive budgetary impact is limited and age-related spending in Belgium is still projected to increase significantly more than the EU average. Considerable efforts to raise public investment in R&D do not yet seem to have resulted in an increase of the public R&D expenditure-to-GDP ratio.

5.2. Medium-term budgetary position

Structural deficit and fiscal consolidation in good times. From 2000 to 2007, the headline balance fluctuated around zero (with the exception of 2005, due to the takeover of the national railway's debt of 2.4% of GDP). Since 2000 this reflects a sharp decrease in interest expenditure in combination with a continuous reduction of the primary surplus from 6.6% of GDP in 2000 to 3.6% of GDP in 2007. This allowed for a further impressive reduction of the debt-to-GDP ratio, which was on a firm downward path since 1994. In 2008, the headline deficit increased to 1.2% of GDP as the further decline of the primary surplus to 2.5% of GDP was no longer accompanied by a similar reduction in interest expenditure. In structural terms, after some efforts to consolidate public finances in 2005, resulting in an improvement of the structural deficit (cyclically-adjusted deficit net of one-offs)[4] from 1.4% of GDP in 2004 to

[4] Estimated by the Commission services, applying the common methodology on estimating output gaps.

1% in 2005, the fiscal stance eased again as from 2006, while economic times were good, notably in 2006 and 2007. As a result, the structural deficit increased to 2.2% of GDP in 2008 (a 1.2% of GDP deterioration compared to 2005) in spite of the 0.5% of GDP reduction in interest expenditure, overall favourable cyclical conditions and the government's repeated commitment to improve its structural balance as a means to prepare for the impact of ageing. Good economic times were thus not exploited to make sufficient progress with fiscal consolidation. In this context, the MTO, which is a 0.5% of GDP surplus in structural terms, has not been achieved in recent years.

Looking forward, the Commission services' spring 2009 forecast projects the structural balance to continue its deterioration in 2009 and 2010. The deficit would increase by around 1 percentage point of GDP in 2009 in line with the impact of the recovery package (further discussed in section 5.4) and a number of other expansionary measures, such as higher social benefits and personal income tax cuts. In 2010, the structural deficit is projected to rise by 0.8 percentage point of GDP, reflecting previously decided measures as well as an expected weak development of consumption and employment. The structural deficit would thus amount to 3.2% and 4% of GDP respectively.

Public investment. After important investment projects in the 1970s, which contributed to the build-up of the very high public debt, public investment has been very low in Belgium for more than 20 years, hovering around 1¾% of GDP in the period between 1990 and 2008, compared to around 2½% of GDP in the euro area. As a result of the consolidation of public finances since 1993, the government deficit was gradually reduced and general government gross fixed investment became greater than the headline deficit as from 1998 and remained so up to 2008 (with the exception of 2005). Public investment has also been higher than the structural deficit between 1998 and 2007 (with the exception of 2005). According to the Commission services' spring 2009 forecast, public investment should slightly rise in 2009 to 1.8% of GDP, i.a. due to the recovery package, which includes an investment component, mainly in infrastructure, of around 0.1% of GDP[5], and the absence of further sales of real estate by the government, which are recorded as negative investment. Nevertheless, the investment ratio would remain well below the general government deficit ratio both in 2009 and in 2010.

Quality of public finances. Between 2000 and 2007, the decrease in interest expenditure, by some 2.8% of GDP, was offset by a rising primary expenditure ratio (by 2% of GDP) and lower revenue (by 1% of GDP). The increase in the headline deficit in 2008 to 1.2% of GDP mainly reflected a strong increase in primary expenditure. According to the Commission services' spring 2009 forecast, government expenditure is expected to increase further by 4½% of GDP in 2009 and 2010 mainly due to automatic stabilisers and a lower GDP.

The general government expenditure-to-GDP ratio in Belgium is markedly above that of the euro area average: over the period 2000-2007, expenditure was on average 2½% of GDP higher. Initially, this difference was fully explained by Belgium's higher interest expenditure while primary expenditure in Belgium was lower than in the euro area. As from 2002, however, primary expenditure in Belgium became higher than in the euro area and the gap has gradually widened further since, in particular reflecting the more rapid rise in general public services and social protection expenditure in Belgium (while public investment remained low as explained above).

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[5] This does only include investment expenditure with an impact on the general government balance.

In view of Belgium's decentralised government structure, which includes substantial autonomy of communities and the regions over their budgets, coordination of fiscal policy between the different levels is crucial. A key element of the coordination mechanism is the annual advice to the government of the High Finance Council on the budgetary policy to be adopted. This advice forms the basis of a series of budgetary conventions, which take the form of political agreements between governments at federal and regional level, setting the medium-term budgetary targets for the different levels of government and acting as internal stability programmes. However, mechanisms to ensure that the different government tiers comply with the targets do not appear to be sufficiently effective, nor are there binding expenditure rules for all levels of government.

Long-term sustainability of public finances. In its opinion of 7 July 2009 on the April 2009 update of the stability programme, the Council assessed the long-term sustainability of Belgium's public finances. In particular, the Council was of the opinion that the long-term budgetary impact of ageing is above the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. This i.a. reflects that Belgium did not yet introduce sufficient reforms of the pension system in order to increase the retirement age and to reduce its cost. Moreover, the current level of gross debt in terms of GDP is well above the Treaty reference value. Reforms of the labour market and the social security system, would increase potential growth and, together with high primary surpluses, contribute to reducing the risks to the sustainability of public finances, which are currently at a medium level[6]. The Council also concluded that the risks from financial sector stabilisation schemes (e.g. recapitalisation, guarantees) put in place by Belgium could have a potential negative impact on the long-term sustainability of public finances, primarily via their impact on government debt, although some of the cost of the government support could be recouped in the future. The Council invited the authorities, in addition to the budgetary consolidation efforts (when the economy is expected to improve), to undertake structural reforms of the social security system, the labour market and product markets to enhance potential growth, increase the employment rate and reduce the budgetary impact of ageing, in order to improve the long-term sustainability of public finances.

5.3. Other factors put forward by the Member State

In a letter of 21 August 2009, the authorities of Belgium listed some relevant factors in accordance with Article 2(3) of Council Regulation (EC) No 1467/97. The analysis presented above and below already covers most of the items put forward by the authorities. In addition, the authorities indicated that Belgium has the intention to prepare a multi-year budget with concrete measures for 2010-2011 and that steps would be taken to reduce the structural deficit. Moreover, the authorities submitted the complement of information to the April 2009 update of the stability programme on 21 September, in line with the request of the Council. Finally, the authorities plan to provide additional information on the federal budget for 2010 when it will become available in October.

[6] Since the submission of the stability programme, risks to the long-term sustainability may have changed in view of the worsened economic and budgetary situation. The new assessment will be published in the upcoming report on the long-term sustainability of public finances in the European Union.

5.4. Other factors considered relevant by the Commission

As a response to the economic crisis, the Belgian government has established a package of recovery measures, which was broadly in line with the EERP. The recovery package of the federal government, presented on 11 December, is expected to have a budgetary impact of around ½% of GDP in both 2009 and 2010. It aims at providing (liquidity) support to corporations, ensuring the purchasing power of households, support employment and stimulate housing investment. The regional packages focus on ensuring the access to financing of corporations, in particular SMEs and start-ups, and on public investment. The permanent measures included in the programme, in particular the reduction of the tax wedge on labour, were not accompanied by consolidating measures to ensure full reversibility. The measures of the recovery package come on top of previously decided measures that increase households' purchasing power with a budgetary impact of around ½% of GDP from 2009. These discretionary measures have to be added to the impact of the automatic stabilisers, which can be estimated at around 2½% of GDP in 2009 and ¾% of GDP in 2010.

To stabilise the financial system, the Belgian government took measures that can be divided into four categories. First, it provided capital injections to four major financial institutions, amounting to around 6% of GDP. These injections caused the important rise in the debt-to-GDP ratio in 2008. Second, the government provided guarantees for future losses which banks may potentially incur on their portfolios of risky assets (around 10% of GDP). Third, the government set up a scheme to guarantee, upon demand and under certain conditions, banks' wholesale and interbank debt. To date, one bank has applied and received a guarantee for a maximum amount of EUR 90.75 billion (26% of GDP), of which about half is currently used. Those guarantees will not have a negative impact on public finances unless they are called. The guarantees are provided in exchange for a fee. Finally, the Belgian government offered a guarantee for all private bank deposits up to EUR 100 000 and extended it to certain insurance products, also in exchange for a fee. The government's total fee income from these operations is projected to amount to 0.2% of GDP in 2009.

In its opinion on the Belgian stability programme of 6 April 2009, the Council's considered that the fiscal stance in 2009 was appropriately expansionary, in line with the EERP and notably reflected the fiscal stimulus whose size had to be limited given the high debt level. Given the absence of crucial information in the programme, the Council concluded that the budgetary strategy that aimed at gradually reducing the headline deficits was not backed by a well-founded medium-term budgetary strategy in the meaning of the Stability and Growth Pact and lacked ambition regarding the decisive correction of the deficit when the economic situation improves. In view of the above assessment, the Council invited Belgium to (i) submit, by 20 September at the latest, a complement of the programme including a well founded medium-term budgetary strategy; (ii) implement the stimulus measures in line with the EERP as planned while avoiding a further deterioration of the structural balance in 2009 and resume fiscal consolidation as from 2010 when the economy is expected to improve and speed up the structural consolidation effort in 2011; (iii) improve the quality of public finances by adopting a more stringent budgetary framework; (iv) in addition to the budgetary consolidation efforts, undertake structural reforms to enhance potential growth, increase the employment rate and reduce the budgetary impact of ageing, in order to improve the long-term sustainability of public finances. On 21 September, Belgium submitted a complement to the April 2009 update of the stability programme.

6. CONCLUSIONS

The general government deficit in Belgium is planned to reach 3.4% of GDP in 2009. In the light of the Commission services' spring 2009 forecast and more recent information, including in the September 2009 complement to the April 2009 update of the stability programme, the deficit would however come out significantly higher (-5.9%) and is not expected to be close to the 3% of GDP reference value. The planned excess over the reference value can be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. However, it cannot be considered temporary. This suggests that the deficit criterion in the Treaty is not fulfilled.

General government gross debt is planned to amount to 93% of GDP in 2009. The debt ratio cannot be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. This suggests that the debt criterion in the Treaty is not fulfilled.

In line with the Treaty, this report has also examined “relevant factors”, which, according to the Stability and Growth Pact, can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the double condition - that the deficit remains close to the reference value and that its excess over the reference value is temporary - is fully met. Considered on their own merit, the relevant factors in the current case on balance seem to present a mixed picture.

The existence of a severe economic downturn, with public finance implications, increases the need to undertake enhanced surveillance under the EDP.