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**Assessment of the 2020 Stability Programme for  
Belgium**

*(Note prepared by DG ECFIN staff)*

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## EXECUTIVE SUMMARY

- On 6 April 2020, the Commission provided guidelines to the Economic and Financial Committee on how the format and content of the 2020 Stability and Convergence Programmes can be streamlined in light of the exceptional circumstances related to the Covid-19 pandemic. This assessment takes into account the severe constraints that Member States faced in providing the information usually required in their Programmes. The assessment focuses on the near term in light of the high uncertainty attached to the projections.
- The Belgian economy grew by 1.4% in 2019, driven by sustained domestic demand. As a result of the COVID-19 outbreak, the Commission 2020 spring forecast and the Stability Programme project a contraction of GDP of 7.2% and 8% in 2020, respectively. In 2021, both forecasts project a strong economic rebound of 6.7% and 8.6%, respectively, without however catching-up with the real GDP level of 2019.
- Belgium's general government headline deficit increased markedly from 0.8% of GDP in 2018 to 1.9% of GDP in 2019. In 2020, both the Commission 2020 spring forecast and the Stability Programme project a sharp increase in the headline deficit reaching 8.9% of GDP and 7.5% of GDP, respectively. In 2021, the Commission 2020 spring forecast expects a headline deficit of 4.2% of GDP.
- The Stability Programme lists a wide set of temporary deficit-increasing measures to fight the spread of the virus and to address the socio-economic consequences of the crisis, amounting to 2.3% of GDP. They include the total cost of the temporary unemployment scheme, replacement income for the self-employed, regional allowances to companies and the self-employed, as well as regional subsidies to affected sectors. This broadly coincides with the Commission's estimates, once the different treatment of the cost of automatic stabilisers stemming from pre-existing schemes is taken into account. The Programme also includes loan guarantees schemes amounting to 11.8% of GDP, assumed not to have a budgetary impact in 2020.
- Belgium's general government debt decreased from 99.8% of GDP in 2018 to 98.6% of GDP in 2019. Both the Commission 2020 forecast and the Stability Programme project a sharp increase in public debt to 113.8% of GDP and 115% in 2020, respectively. For 2021, the Commission 2020 forecast projects a decrease in debt level to 110% of GDP.
- The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic.

## 1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2020 Stability Programme of Belgium covering the period 2020-2021 (hereafter called the Programme), which was submitted on 30 April 2020<sup>1</sup>. The Stability Programme submitted by Belgium states that it also constitutes the national medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013. The note also assesses Belgium's compliance with the preventive arm of the Stability and Growth Pact in 2019. The federal government and the Concertation Committee<sup>2</sup> took note of the programme on 28 April 2020 and 29 April 2020, respectively.

Belgium is currently subject to the preventive arm of the Stability and Growth Pact (SGP). As the debt ratio was 98.6% of GDP in 2019, exceeding the 60% of GDP reference value, Belgium is also subject to the debt reduction benchmark.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit the activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

## 2. MACROECONOMIC DEVELOPMENTS

The Belgian economy grew by 1.4% in 2019, driven by sustained domestic demand. Employment continued to increase, while unemployment fell from 6.0% in 2018 to 5.4% in 2019. However, economic activity is forecast to contract deeply in 2020 due to the Covid-19 outbreak, which is expected to lead to a drop in aggregate demand and to severely disrupt supply chains, as containment measures were adopted to counter the spread of the pandemic. Belgium imposed a nationwide lockdown,

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<sup>1</sup> The Stability Programme contains only short-term budgetary projections, in line with the guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak, provided by the Commission services on 6 April 2020. However, the Programme does not provide all data required in the guidelines. In particular, for 2020 GDP components and composition of budgetary prospects are missing.

<sup>2</sup> The Concertation Committee (Comité de concertation/Overlegcomité) brings together all Belgian governments to reach a common position in the case of shared competences or to solve conflicts between governments.

including border controls, on 18 March 2020. In parallel, measures such as short-term unemployment and subsidies were expanded or adopted to preserve employment, support household purchasing power and alleviate liquidity pressure on businesses. A gradual de-containment policy was launched on 3<sup>rd</sup> May 2020.

The macroeconomic scenario underlying the Stability Programme expects economic growth to fall to -8% in 2020 and rebound to 8.6% in 2021 (see Table 1). The scenario does not detail the main drivers of economic growth apart from private consumption, which is expected to fall by 5.7% in 2020 before rebounding by 7.1% in 2021. The Programme does not provide assumptions regarding labour market developments. Inflation is expected to increase slightly from 1.2% in 2019 to 1.3% in 2020 and 1.5% in 2021.

**Table 1: Comparison of macroeconomic developments and forecasts**

	2019		2020		2021		2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.4	1.4	-7.2	-8.0	6.7	8.6	n.a.	n.a.
Private consumption (% change)	1.1	1.1	-6.9	-5.7	6.5	7.1	n.a.	n.a.
Gross fixed capital formation (% change)	3.1	3.2	-15.3	n.a.	15.9	n.a.	n.a.	n.a.
Exports of goods and services (% change)	1.0	1.0	-10.6	n.a.	7.7	n.a.	n.a.	n.a.
Imports of goods and services (% change)	1.2	1.2	-10.2	n.a.	8.1	n.a.	n.a.	n.a.
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	1.7	1.5	-6.6	n.a.	6.9	n.a.	n.a.	n.a.
- Change in inventories	-0.2	-0.2	-0.3	n.a.	0.1	n.a.	n.a.	n.a.
- Net exports	-0.1	-0.1	-0.3	n.a.	-0.3	n.a.	n.a.	n.a.
Output gap <sup>1</sup>	0.9	0.9	-7.1	n.a.	-2.2	n.a.	n.a.	n.a.
Employment (% change)	1.5	n.a.	-1.0	n.a.	1.2	n.a.	n.a.	n.a.
Unemployment rate (%)	5.4	n.a.	7.0	n.a.	6.6	n.a.	n.a.	n.a.
Labour productivity (% change)	-0.2	n.a.	-6.2	n.a.	5.5	n.a.	n.a.	n.a.
HICP inflation (%)	1.2	1.2	0.2	1.3	1.3	1.5	n.a.	n.a.
GDP deflator (% change)	1.6	1.6	1.4	1.5	1.6	1.6	n.a.	n.a.
Comp. of employees (per head, % change)	1.7	n.a.	-1.4	n.a.	1.2	n.a.	n.a.	n.a.
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.6	n.a.	-0.1	n.a.	-0.2	n.a.	n.a.	n.a.

Note:

<sup>1</sup>In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Commission 2020 spring forecast (COM); Stability Programme (SP).

The Commission 2020 spring forecast is slightly less pessimistic than the Stability Programme scenario for 2020, but less favourable for 2021. According to the Commission spring forecast, economic growth is set to fall by 7.2% in 2020 before rebounding sharply by 6.7% in 2021. This is expected to be driven by a large drop in household consumption, which has been hindered by restrictive measures put in place to combat the pandemic and low confidence. A more significant slump in

investment due to supply chain disruptions and falling aggregate demand is also expected. Net trade's contribution to growth is forecast to remain negative amid a fall in trade volume. Despite widespread recourse to the short term unemployment scheme, the unemployment rate is expected to rise to 7.0% in 2020 and fall to 6.6% in 2021. Inflation is projected to drop from 1.2% in 2019 to 0.2% in 2020 due to falling energy price assumptions, and is expected to increase to 1.3% in 2021. Although some sectors are expected to show more resilience to the crisis (business and financial services), others are projected to suffer from a longer-lasting disruption of their business models (hotels, restaurants, tourism, arts and recreation).

Exceptionally, the macroeconomic forecast underlying the Stability Programme has been prepared jointly by the Federal Planning Bureau (FPB) (a well-established independently-minded institution formally attached to the government), and by the National Bank of Belgium (NBB), within the framework of the Economic Risk Management Group created by the Belgian Government.

### **3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS**

#### **3.1. DEFICIT DEVELOPMENTS AND MEDIUM-TERM STRATEGY AND TARGETS <sup>3</sup>**

Belgium's general government deficit increased from 0.8% of GDP in 2018 to 1.9% of GDP in 2019. While the expenditure-to-GDP ratio remained constant, the revenue-to-GDP decreased by 1.1 percentage points. This decline was driven mostly by a lower collection of taxes on income and wealth due to the reform incentivising advanced payments of corporate income tax (CIT) that created a temporary increase in tax collection in 2017 and 2018, as well as a broader CIT reform and the so-called 'tax shift'. This translates into an expansionary fiscal stance with a deterioration in the structural balance of 0.6% of GDP. The headline deficit outcome in 2019 was substantially higher than the 0.8% of GDP and 1.7% of GDP expected in the 2019 Stability Programme and the 2020 no-policy change 2020 Draft Budgetary Plan, respectively. Compared to the 2019 Stability Programme, which was not backed by adopted or sufficiently detailed measures, the revenue ratio turned out lower, while the expenditure ratio was higher. Regarding the 2020 Draft Budgetary Plan, the main difference with the outturn data stems from more optimistic assumptions concerning both revenue and expenditure, notably on direct taxes and social payments.

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<sup>3</sup> In light of the activation of the general escape clause, the measures taken in response to the coronavirus outbreak in 2020 are not treated as one-off and are thus not excluded from the estimation of the structural budget balance.

**Table 2: General government budgetary position**

(% of GDP)	2019	2020		2021		2022	2023	Change: 2019-2023
	COM	COM	SP	COM	SP	SP	SP	SP
<b>Revenue</b>	<b>50.3</b>	<b>50.7</b>	<b>n.a.</b>	<b>49.9</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<i>of which:</i>								
- Taxes on production and imports	13.6	13.1	n.a.	13.3	n.a.	n.a.	n.a.	n.a.
- Current taxes on income, wealth, etc.	15.7	15.8	n.a.	15.8	n.a.	n.a.	n.a.	n.a.
- Social contributions	15.5	16.1	n.a.	15.2	n.a.	n.a.	n.a.	n.a.
- Other (residual)	5.5	5.8	n.a.	5.6	n.a.	n.a.	n.a.	n.a.
<b>Expenditure</b>	<b>52.2</b>	<b>59.6</b>	<b>n.a.</b>	<b>54.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<i>of which:</i>								
- Primary expenditure	50.2	57.5	n.a.	52.3	n.a.	n.a.	n.a.	n.a.
<i>of which:</i>								
Compensation of employees+Intermediate consumption	16.4	18.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Compensation of employees	12.3	13.3	n.a.	12.4	n.a.	n.a.	n.a.	n.a.
Intermediate consumption	4.1	4.7	n.a.	4.3	n.a.	n.a.	n.a.	n.a.
Social payments	24.8	29.4	n.a.	26.6	n.a.	n.a.	n.a.	n.a.
Subsidies	3.7	4.5	n.a.	4.1	n.a.	n.a.	n.a.	n.a.
Gross fixed capital formation	2.6	2.4	n.a.	2.3	n.a.	n.a.	n.a.	n.a.
Other (residual)	2.7	3.3	n.a.	2.5	n.a.	n.a.	n.a.	n.a.
- Interest expenditure	2.0	2.0	n.a.	1.9	n.a.	n.a.	n.a.	n.a.
<b>General government balance (GGB)</b>	<b>-1.9</b>	<b>-8.9</b>	<b>-7.5</b>	<b>-4.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Primary balance</b>	<b>0.1</b>	<b>-6.8</b>	<b>n.a.</b>	<b>-2.4</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
One-off and other temporary measures	0.2	0.2	n.a.	0.0	0.0	0.0	0.0	-0.2
<b>GGB excl. one-offs</b>	<b>-2.1</b>	<b>-9.0</b>	<b>n.a.</b>	<b>-4.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Output gap <sup>1</sup>	0.9	-7.1	n.a.	-2.2	n.a.	n.a.	n.a.	n.a.
Cyclically-adjusted balance <sup>1</sup>	-2.4	-4.5	n.a.	-2.9	n.a.	n.a.	n.a.	n.a.
<b>Structural balance<sup>2</sup></b>	<b>-2.6</b>	<b>-4.7</b>	<b>n.a.</b>	<b>-2.9</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Structural primary balance <sup>2</sup>	-0.6	-2.7	n.a.	-1.0	n.a.	n.a.	n.a.	n.a.
<b>Gross debt ratio</b>	<b>98.6</b>	<b>113.8</b>	<b>115.0</b>	<b>110.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>

**Notes:**

<sup>1</sup>Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

<sup>2</sup>Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

**Source :**

Stability Programme (SP); Commission 2020 spring forecasts (COM); Commission calculations.

The Stability Programme expects an increase in the headline deficit to 7.5% of GDP in 2020 (see Table 2). This unprecedented increase is driven mainly by the sharp deterioration in macroeconomic conditions, impacting negatively the revenue side and putting upward pressure on expenditure, notably through the interplay of automatic stabilisers. According to the Belgian authorities, the additional expenditure related to the crisis would amount to 2.3% of GDP in 2020. In line with the exceptional guidelines for a streamlined submission in light of the COVID-19 outbreak, the 2020 streamlined Stability Programme does not provide an overview of the underlying medium-term strategy, as the medium-term fiscal outlook remains subject to high uncertainty.

In comparison, the Commission 2020 spring forecast projects a higher deficit in 2020, reaching 8.9% of GDP. Specifically, while the measures adopted to counter the COVID-19 pandemic amount to 1.2% of GDP, automatic stabilisers are planned to contribute 5 percentage points of GDP to the planned deficit. While the Commission forecast is slightly less pessimistic than the Programme's macroeconomic scenario for 2020, and the estimates of additional expenditure related to the crisis are similar (see Section 3.2), the Programme does not provide sufficient information to compare the two projections in more detail. For 2021, the Commission 2020 spring forecast expects the deficit to decrease to 4.2% of GDP on a no-policy change basis. The forecasts are subject to a large degree of uncertainty.

### 3.2. MEASURES UNDERPINNING THE PROGRAMME

In the context of the COVID-19 outbreak, the Stability Programme lists measures to fight the spread of the virus and to address its socio-economic consequences (see Table 3). According to the Programme, the total amount of COVID-19 measures corresponds to 2.3% of GDP, which includes the cost of the increase in the number of beneficiaries of the temporary unemployment scheme and replacement income. This broadly coincides with the Commission's estimates, once the different treatment of the cost of automatic stabilisers is taken into account. The measures are of a temporary nature.

At the federal level, the existing temporary unemployment allowance has been increased from 65% to 70% of the average monthly earnings<sup>4</sup>. An additional top-up of EUR 5.63 per day has been added. According to the Programme, the total additional cost of the extension of the scheme is EUR 0.6 billion (0.1% of GDP). While the Commission forecast aligns with this estimate, the Programme also includes the volume effect related to the increased number of temporary unemployed as a COVID-19 measure. Taking this into account, the total cost of the scheme rises to EUR 4.2 billion (1% of GDP). The 2020 Commission forecast does not include this pre-existing scheme as a measure, but as a part of automatic stabilisers. Moreover, access to the replacement income scheme was made easier for self-employed whose activity is interrupted due to COVID-19, which is estimated by the Programme to cost EUR 1.1 billion (0.2% of GDP). A federal provision of EUR 1 billion (0.2 % of GDP) to cover additional crisis-related costs (healthcare, repatriation of Belgian citizens, etc.) has been adopted.

**Table 3: Discretionary measures adopted/announced in response to COVID-19 outbreak**

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)	
				2020	2021
1.	Federal: Temporary unemployment scheme	D.62	Adopted	1.0	
2.	Federal: Replacement income	D.62	Adopted	0.2	

<sup>4</sup> The average monthly earning is capped at EUR 2.754,76 per month.



3.	Federal: general provision for crisis-related expenditure	P.2	Adopted		0.2	
4.	Federal: Deferrals of fiscal and para-fiscal revenue	D.62	Credibly planned		-	
5.	Flanders: Allowance to closed businesses	D.3	Adopted		0.2	
6.	Flanders: Premium to businesses with reduced turnover	D.3	Adopted		0.2	
7.	Wallonia: Allowance to closed businesses	D.3	Adopted		<b>0.1</b>	
8.	Wallonia: Complementary package	D.3	Credibly planned		<b>0.1</b>	
9.	Other measures (smaller than 0.1% of GDP)	Different	Adopted /credibly planned		<b>0.3</b>	
				<b>Total</b>	<b>2.3</b>	

Source: Stability Programme

On the revenue side, various deferrals of federal taxes have been introduced. These include both deferred submissions of tax declarations and the delayed payment of taxes (applicable to VAT, personal and corporate income taxes, but also social contributions). These deferrals are assumed not to have a budgetary impact in 2020.

Finally, the federal government convened EUR 50 billion (11.3% of GDP) of loan guarantees for new bridge loans to support financially viable businesses and self-employed, which constitute an implicit liability for the Belgian budget (see Table 4).

Measures taken at the regional level amount together to 0.9% of GDP. In particular, Flanders, the Walloon Region and the Brussels Capital Region all set up one-time allowances for companies and the self-employed who had been forced to close due to security measures or a turnover reduction. Several regional taxes have also been postponed or exempted. Regions also introduced support schemes to the most affected sectors. Finally, regions also provided support to vulnerable households and invested in health equipment and health care.

Overall, the measures taken by Belgium are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak<sup>5</sup>. They appear to constitute a timely, temporary and targeted response to cushion the shock induced by COVID-19. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

Concerning other non-COVID-19 measures, the Stability Programme does not include major new measures<sup>6</sup>. In absence of a federal government with full budgetary

<sup>5</sup> [https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020\\_en.pdf](https://ec.europa.eu/info/sites/info/files/communication-coordinated-economic-response-covid19-march-2020_en.pdf)

<sup>6</sup> Some new regional measures, updates of already enacted measures and an impact of a relatively large transaction concerning a legal decision in favour of the state is included.

powers, the Parliament granted special powers to the Federal Government concerning only the domains related to the crisis. The total amount of discretionary revenue measures non-related to the COVID-19 crisis presented in the Stability Programme (revenue-decreasing impact of 0.4% of GDP) broadly coincide with the measures included in the 2020 Commission spring forecast. Finally, the one-offs included in the Programme concern the CIT reform undertaken in past years and are broadly in line with the 2020 Commission forecast.

**Table 4: Guarantees adopted/announced in response to COVID-19 outbreak**

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)	
	Federal guarantee scheme	Credibly planned		<b>11.3</b>
	Flanders: guarantee scheme	Adopted		0.4
	Wallonia: guarantee scheme	Adopted		0.1
	Brussels: guarantee scheme	Adopted		0.0
			<b>Total</b>	<b>11.8</b>

Source: Stability Programme

### 3.3. DEBT DEVELOPMENTS

Public debt peaked at 107.0% of GDP in 2014 and fell gradually to 98.6% of GDP in 2019, supported by favourable growth developments. The Stability Programme projects a sharp increase in public debt to 115.0% in 2020 (see Table 5), without detailing the main drivers of this development. The 2020 Commission forecast projects a slightly lower increase in public debt in 2020, to 113.8%, driven mostly by a debt-increasing snow-ball effect stemming from lower economic growth and a large primary deficit. While the Programme does not include a projection for 2021, the Commission forecast expects a debt decrease to 110.0% of GDP that year on a no-policy-change basis, driven by improving macroeconomic conditions.

**Table 5: Debt developments**

(% of GDP)	Average 2014-2018	2019	2020		2021		2022	2023
			COM	SP	COM	SP	SP	SP
<b>Gross debt ratio<sup>1</sup></b>	<b>103.7</b>	<b>98.6</b>	<b>113.8</b>	<b>115.0</b>	<b>110.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Change in the ratio	-1.1	-1.2	15.2	16.4	-3.8	n.a.	n.a.	n.a.
<i>Contributions<sup>2</sup>:</i>								
<b>1. Primary balance</b>	<b>-0.8</b>	<b>-0.1</b>	<b>6.8</b>	<b>n.a.</b>	<b>2.4</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>2. "Snow-ball" effect</b>	<b>-0.6</b>	<b>-0.9</b>	<b>8.0</b>	<b>n.a.</b>	<b>-6.8</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<i>Of which:</i>								
Interest expenditure	2.6	2.0	2.0	n.a.	1.9	n.a.	n.a.	n.a.
Growth effect	-1.7	-1.3	7.5	n.a.	-7.0	n.a.	n.a.	n.a.
Inflation effect	-1.5	-1.6	-1.5	n.a.	-1.6	n.a.	n.a.	n.a.
<b>3. Stock-flow adjustment</b>	<b>0.3</b>	<b>-0.2</b>	<b>0.2</b>	<b>n.a.</b>	<b>0.7</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<i>Of which:</i>								
Cash/accruals diff.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Acc. financial assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Privatisation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Val. effect & residual	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

<sup>1</sup>End of period.

<sup>2</sup>The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Commission 2020 spring forecast (COM); Stability Programme (SP), Commission calculations.

### 3.4. RISK ASSESSMENT

The macroeconomic and fiscal outlook are affected by high uncertainty due to the outbreak of the COVID-19 pandemic. The pandemic could become more severe and last longer than assumed, requiring more stringent and longer lasting containment measures. This would result in worse economic and fiscal outcomes. It could also require further fiscal policy measures. That would result in worse fiscal outcomes but help to mitigate the economic impact. An additional risk stems from the considerable size of public guarantees issued in response to the crisis.

Moreover, the uncertain timing of a federal government with full budgetary powers taking office is another key risk to the deficit developments. The current federal government has been granted special powers until end-of June 2020, extendable to October to fight the pandemic and its economic consequences.

## 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

### 4.1. Compliance with the deficit criterion

According to the Stability Programme, Belgium's general government deficit is expected to reach 7.5% of GDP in 2020, thereby exceeding the Treaty reference value of 3% of GDP. This provides prima facie evidence of the existence of an

excessive deficit in Belgium for the purposes of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU, which analyses Belgium's compliance with the deficit criterion of the Treaty. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

#### **4.2. Compliance with the debt criterion.**

Belgium is subject to the debt reduction benchmark since 2017. Belgium's general government gross debt stood at 98.6% of GDP at the end of 2019, above the 60% of GDP Treaty reference value. According to the notified data, Belgium did not comply with the debt reduction benchmark in 2019, as the gap to the benchmark is 0.7% of GDP. This provides evidence that there appears to be prima facie a risk of the existence of an excessive deficit in Belgium in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU analysing whether or not Belgium is compliant with the debt criterion of the Treaty. Overall, the analysis suggests that the debt criterion is not complied with.

The debt reduction benchmark is expected not to be met in 2020 and 2021. Belgium's debt-to-GDP ratio is set to remain above the benchmark by 5.7% of GDP and 1.8% of GDP in 2020 and 2021, respectively, according to the Commission 2020 Spring forecast (see Table 6). The Stability Programme does not provide sufficient data to allow an assessment of compliance with the debt reduction benchmark.

#### **4.3. Compliance with the MTO or the required adjustment path towards the MTO in 2019<sup>7</sup>**

##### **Assessment of requests for deviating from SGP requirements**

For 2019, Belgium was granted a temporary deviation of 0.5% of GDP from the required adjustment path towards the MTO to take account of major structural reforms with a positive impact on the long-term sustainability of public finances. In particular, Belgium was granted a temporary deviation for reforms of the pension system, the tax system and the labour market. While the Stability Programme does not report on the implementation of these structural reforms, their implementation in 2019 followed the announced plans.

##### **Adjustment towards the MTO**

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<sup>7</sup> The possible retroactive impact on output gap estimates as a result of the recession induced by the COVID-19 outbreak and the possibility of abnormal responses of government revenues to major swings in economic activity underline that compared to the structural balance the expenditure benchmark is likely to provide a more reliable and predictable indicator in times of severe economic downturn.

Belgium is subject to the preventive arm of the SGP and has to ensure compliance with the required adjustment towards the MTO set as a structural budget balance of 0.0% of GDP.

Based on the 2019 outturn data and the Commission 2020 spring forecast, the growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, exceeded the applicable expenditure benchmark<sup>8</sup> of 2.8% in 2019, leading to a deviation of 0.7% of GDP in the underlying fiscal position, thus pointing to a significant deviation (see Table 7). The structural balance deteriorated by 0.6 percentage points of GDP in 2019, thus also pointing to a significant deviation by 0.7% of GDP from the recommended structural adjustment of 0.1% of GDP towards the MTO, taking into account the structural reforms clause<sup>9</sup>. Over 2018 and 2019 together, both indicators also point to a significant deviation with gaps of 0.6% regarding the expenditure benchmark of GDP and 0.7% of GDP regarding the structural balance, respectively.

Therefore, based on the outturn data and the Commission 2020 spring forecast, the ex-post assessment suggests a significant deviation from the adjustment path towards the MTO in 2019 and over 2018 and 2019 taken together.

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<sup>8</sup> Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

<sup>9</sup> Outturn data for the headline deficit in 2019 was higher by 0.2 percentage points of GDP than in the Commission 2019 autumn forecast, when the structural deterioration was projected to be 0.3% of GDP. The higher estimated structural deterioration in the Commission 2020 Spring forecast also stems from higher revenue one-offs and the downward revision of potential growth brought about by the severe economic downturn provoked by the COVID-19 outbreak.

**Table 6: Compliance with the requirements under the preventive arm**

	(% of GDP)	2019	2020	2021
<b>Background budgetary indicators<sup>1</sup></b>				
(1)	Medium-term objective (MTO)	0.0	0.0	0.0
(2)	Structural balance <sup>2</sup> (COM)	-2.6	-4.7	-2.9
<b>Setting the required adjustment to the MTO</b>				
(3)	Structural balance based on freezing (COM)	-1.4		
(4) = (1) - (3)	Position vis-a-vis the MTO <sup>3</sup>	Not at MTO		
(5)	Required adjustment <sup>4</sup>	0.6		
(6)	Required adjustment corrected <sup>5</sup>	0.1		
(8)	Corresponding expenditure benchmark <sup>6</sup>	2.8		
<b>Compliance with the required adjustment to the MTO</b>				
		COM	COM	SP
		COM	SP	COM
		COM	SP	COM
<b>Structural balance pillar</b>				
(8) = Δ (2)	Change in structural balance <sup>7</sup>	-0.6		
(9) = (8) - (6)	One-year deviation from the required adjustment <sup>8</sup>	-0.7		
	Two-year average deviation from the required adjustment <sup>8</sup>	-0.6		
<b>Expenditure benchmark pillar</b>				
(10)	Net public expenditure annual growth corrected for one-offs <sup>9</sup>	4.3		
(11) = (10) - (8)	One-year deviation adjusted for one-offs <sup>10</sup>	-0.7		
	Two-year deviation adjusted for one-offs <sup>10</sup>	-0.7		
<b>Compliance with the debt criterion</b>				
<b>Transition period</b>				
	Required structural adjustment (MLSA) <sup>11</sup>	-	-	-
	Structural adjustment <sup>12</sup>	-	-	-
<b>After transition period</b>				
	Gap to the debt benchmark <sup>13,14</sup>	0.7	5.7	n.a

**Legend**

'Compliance' - the recommended structural adjustment or a higher adjustment is being observed.

'Some deviation' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'Significant deviation' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).



**Notes**

<sup>1</sup> The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

<sup>2</sup> Structural balance = cyclically-adjusted government balance excluding one-off measures.

<sup>3</sup> Based on the relevant structural balance at year t-1.

<sup>4</sup> Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

<sup>5</sup> Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

<sup>6</sup> Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

<sup>7</sup> Change in the structural balance compared to year t-1. Ex post assessment (for 20XX-1) is carried out on the basis of Commission 20XX spring forecast.

<sup>8</sup> The difference of the change in the structural balance and the corrected required adjustment.

<sup>9</sup> Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

<sup>10</sup> Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

<sup>11</sup> Defines the remaining annual structural adjustment over the transition period which ensures that - if followed - Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

<sup>12</sup> Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

<sup>13</sup> Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

<sup>14</sup> Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

**Source:**

Stability Programme (SP); Commission 2020 spring forecast (COM); Commission calculations.