

## MACROBUDGETARY SERVICE

Brussels,  
03/11/2023

Dear Mr. Verwey,

In response to your letter dated 27 October 2023 and with reference Ares(2023)7343629 concerning the 2024 Draft Budgetary Plan and your request for clarifications, the following points should be emphasized.

The EU fiscal framework is currently in a transitional phase. In this context, the fiscal policy guidance for 2024 communicated by the Commission on 8 March 2023 states that: *“As the debate on reform of the economic governance framework is still ongoing, the current legal framework continues to apply”*. The current legal framework assesses compliance with the preventive arm on the basis of 2 indicators: the evolution of the structural balance and the respect of the expenditure benchmark.

- The required annual fiscal adjustment, on the basis of the so-called matrix of requirements, would be above 0.5% GDP. As mentioned in your letter, the DBP plans an improvement of the structural budget balance by 0.7% of GDP in 2024.
- The applicable reference rate in nominal terms for the expenditure benchmark would be 3.1% based on our calculations. The net expenditure growth rate in 2024 would be around 3.6%. The deviation in 2024, in % of GDP would amount to 0.28 % GDP which is below the “significance threshold” of 0.5 % of GDP.

We note that your letter refers now to an expenditure aggregate proposed in the context of the EGR, which is in our opinion still under negotiation among Member States.

In our understanding the applicable reference rate of 2% as mentioned in your letter, results from a simulation, on the basis of the 2022 Autumn Forecast and an adjustment period of 4 years, and which requires an improvement in the structural primary balance of 0,94% GDP or an improvement of 0,7% GDP of the structural budget balance according to the country specific recommendations.

The Commission's proposal regarding the EGR, seeks to encourage investments and reforms and an adjustment period of 7 years. Applying the adjustment period of 7 years to these simulations lowers the required improvement in the structural primary balance and results in a higher permitted expenditure growth, i.e. 3%.

Belgium responded to an important point raised in the fiscal guidance and also included as a qualitative recommendation in the CSR i.e. the preservation of nationally financed public investment. According to the DBP, gross fixed capital formation increases by more than 11% between 2023 and 2024 (from €17.1 billion to €19.1 billion), thus representing a share of 3.2% of GDP for 2024 compared to 3.0% in 2023. This increase comes mainly from

nationally financed investments which are impacted by defense expenditure. Investment expenditure fully matched by EU funds revenue rises from 0.13% GDP in 2023 to 0.15% GDP in 2024.

With regards to the drivers of nationally financed net primary expenditure in 2024, it should be noted that a large part of expenditure is affected by inflation, which is currently higher than the GDP deflator used to derive the expenditure norm. By comparison, depending on the metric used, inflation exceeds 4% while the GDP deflator used by the Commission to calculate the reference rate of expenditure growth amounts to 2,3%. According to the economic budget, published by the Federal Planning Bureau in September 2023, the GDP deflator would be around 2.7%. Based on own calculations taking into account the figures for potential growth and the GDP deflator from the September economic budget an expenditure norm of 2.4% is obtained.

Following automatic indexation, social expenditure increases by 2% in the month following the month in which the central index is exceeded. Wages in the public sector are raised by 2% a month later. Based on the parameters from the Federal Planning Bureau's September economic budget, this gives the following rates for 2024:

- National consumer price index: 4.1 %;
- Health index 4.3 %;
- Public sector wage and salary indexation: 4.0 %;
- Indexation of social benefits: 4,2%.

Without even taking into account volume effects, for 2024 it can already be said that more than 70% of total public spending in Belgium is linked to an increase of at least 4% due to inflation.

Moreover, health care expenditure is subject to a specific indexation mechanism. In addition to the real growth standard, which was in fact reduced from 2.5% to 2.0% for 2024, the indexation for fees and tariffs is based, among other things, on the evolution of the smoothed health index between June 2023 and June 2022, as a result of which the corresponding expenditure is indexed by a factor of 6.05% (around 1.2 billion euros in 2024, which means that the total inflation effect on health care expenditure is also around 4%).

The increase in total expenditure is however more than offset by an increase in revenue. The increase in revenue is attributable, on the one hand, to the growth of corporate income tax revenues. Based on currently available information (after the 3rd deadline for advance payment this year) realizations for 2023 until October would be even better than the estimates from the FPS Finance used for the actualization of the 2023 figures and the elaboration of the 2024 budget. On the other hand, the automatic indexation of wages and social benefits leads to a direct effect (increase) in receipts of personal income tax and social contributions. Indirect effects (a.o. consumption) also play a role (e.g. VAT, excise duties).

The increase of these revenues is not reflected in the expenditure aggregate currently used as a preliminary indicator by the European Commission, as it is correctly considered as “unchanged policy”. As a consequence, this creates a distortion as the effect of automatic indexation is taken into account on the expenditure side but not on the revenue side.

We remain at your disposal should you require additional clarifications.