EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 5 June 2019

Assessment of the 2019 Stability Programme for

Belgium

(Note prepared by DG ECFIN staff)

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EXECUTIVE SUMMARY

Belgium is subject to the preventive arm of the Stability and Growth Pact (SGP). Since Belgium's public debt is above the 60% of GDP reference value of the Treaty, it also needs to comply with the debt reduction benchmark.

Economic activity in Belgium is set to slow down in 2019 and 2020 compared to 2018, with growth slightly below potential and driven by domestic demand. Tax revenues are expected to grow broadly in line with economic activity, although curtailed by some tax reduction measures. Private consumption should progressively regain momentum, supported by higher real households' disposable income. The growth in investment should slightly decelerate. According to the Commission forecast, GDP growth is set to decrease from 1.4% in 2018 to 1.2% in 2019 and in 2020. This is slightly more conservative than the scenario underlying the Stability Programme, which envisions growth to fall to 1.3% in 2019 and rebound to 1.4% in 2020.

The general government deficit declined to 0.7% of GDP in 2018. The Stability programme plans the deficit to reach 0.8 % of GDP in 2019 before falling to 0.2 % in 2020. The programme forecasts an improvement in the structural balance of 0.1% of GDP in 2019 and of 0.6% of GDP in 2020. On 18 December 2018 the Belgian Prime Minister tendered his resignation. Since then, a caretaker government has adopted budgets prepared under a no-policy change assumption. As a result, the government did not enjoy full budgetary powers according to the national constitutional rules and/or conventions at the time of submitting the Stability Programme. In its absence, the Stability Programme presents a budgetary trajectory that is not backed by adopted or sufficiently detailed measures to achieve the medium term budgetary objective (MTO) of a balanced budget in structural terms in 2021. It also assumes that flexibility is granted to Belgium under the structural reform clause, temporarily reducing the required adjustment towards the MTO by 0.5% of GDP in 2019. In contrast, the 2019 Commission Spring forecast expects the deficit to increase to 1.3% of GDP in 2019 and 1.5% of GDP in 2020 under a no-policy change scenario. This would lead to a stable structural balance in 2019 of -1.4% of GDP, and to a deterioration to -1.8% of GDP in 2020.

The difference between the Stability programme and the Commission forecast stems from the fact that the Commission forecast only takes into account the impact of adopted or sufficiently specified fiscal measures. It also includes a more conservative assessment of the one-off nature of the recent corporate income tax revenue increase. Finally, the Stability programme also largely reflects fiscal targets not underpinned by sufficiently detailed measures. Risks to the fiscal outlook therefore mainly stem from the direction taken by the upcoming federal and federated governments' fiscal policies, which might potentially pursue different targets than those detailed in the programme.

Notified data do not provide sufficiently robust evidence to conclude on the existence of a significant deviation from the recommended adjustment path towards the MTO in 2018. Based on the Commission forecast, and taking into account that flexibility has been granted to Belgium under the structural reform clause, Belgium is at risk of a significant deviation from the adjustment path towards the MTO in 2018 and 2019 taken together and in 2020. In both 2019 and 2020, compliance with the debt reduction benchmark is not expected to be achieved.

In view of the non-compliance with the debt reduction benchmark in 2018, the Commission issued a report under Article 126(3) of the TFEU in order to assess whether an excessive deficit exists in Belgium. The report could not fully conclude, following an assessment of all the relevant factors, if the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as complied or not with.

1. INTRODUCTION

On 26 April 2019, Belgium submitted its 2019 Stability Programme (hereafter called Stability Programme), covering the period 2019-2022. As national and regional elections took place on 26 May 2019, the overall trajectory included in the Programme is not underpinned by sufficiently detailed measures. Therefore, the Consultative Committee, in which the federal government as well as community and regional governments are represented (see Section 6), only took note of the Stability Programme trajectory.

Belgium is currently subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO. As the debt ratio was 102% of GDP in 2018, exceeding the 60% of GDP reference value, Belgium is also subject to the debt reduction benchmark.

On 5 June 2019, the Commission issued a report under Article 126(3) of the TFEU, as Belgium did not comply with the debt reduction benchmark in 2018. Overall, the report could not fully conclude, following an assessment of all the relevant factors, if the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is or is not complied with.

This document complements the Country Report published on 27 February 2019 and updates it with the information included in the Stability Programme

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2019 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including based on the Commission forecast. Section 5 provides an overview on long-term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The Belgian economy grew by 1.4% in 2018, as positive net exports offset a slow-down in domestic demand. Employment continued to increase steadily, spurred notably by the decrease in labour taxation, while unemployment fell from 6.9% in 2017 to 5.9% in 2018.

The macroeconomic scenario underlying the Stability Programme expects economic growth to reach 1.3% in 2019 and 1.4% in 2020, a more favourable scenario than the Commission 2019 Spring forecast but less favourable than the scenario presented in the 2019 Draft Budgetary Plan (Table 1). In 2021, the programme projects GDP to grow by 1.4%. Growth is exclusively driven by domestic demand, as the contribution of external demand to growth is expected to be negative from 2019 to 2021. More specifically, according to the Stability Programme, consumption growth is expected to increase from 0.8% in 2018 to 1.6% in 2019 and 1.5% in 2020 (COM 1.1% and 1.3% respectively). It is expected to be driven by rising purchasing power, engendered by strong employment growth (1.2% in 2018, 0.9% in 2019 (COM 0.8%) and 1.0% in 2020 (COM 0.7%)) new cuts in personal income tax (PIT), and rising capital income. Moreover, nominal wages are expected to grow more rapidly in 2019, notably through indexation mechanisms and the implementation of a new collective agreement. The unemployment rate is expected to fall to 5.5% in 2019 (COM 5.6%) and to 5.3% in 2020 (COM 5.3%).

Inflation accelerated in Belgium to 2.2% in 2017 and 2.3% in 2018. The relatively low GDP deflator until 2015 had an important impact on the evolution of the debt-to-GDP ratio in past years and increased the structural adjustment required to assure that the debt ratio stayed on a firm downward path as required by the forward-looking debt benchmark (1.1% of GDP in 2018). Growth in consumer prices is expected to decelerate in 2019 to 1.6% and 1.4% in 2020 (COM 1.8% and 1.6% respectively). By contrast, the GDP deflator is expected to accelerate from 1.2% in 2018 to 1.7% in 2019 and 1.6% in 2020 (COM 1.5% in 2019 and 1.6% in 2020).

Table 1: Comparison of macroeconomic developments and forecasts

	2018		2019		2020		2021	2022
	COM	**SP**	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**
Real GDP (% change)	1.4	1.4	1.2	1.3	1.2	1.4	1.4	1.2
Private consumption (% change)	0.6	0.8	1.1	1.6	1.3	1.5	1.4	1.3
Gross fixed capital formation (% change)	2.0	2.1	1.7	2.3	1.7	2.4	2.7	1.2
Exports of goods and services (% change)	3.5	3.5	3.0	2.7	3.1	2.9	3.5	3.3
Imports of goods and services (% change)	2.7	2.7	2.9	2.9	3.3	3.2	3.7	3.3
Contributions to real GDP growth:								
- Final domestic demand	1.0	0.7	1.1	1.5	1.4	1.6	1.7	1.2
- Change in inventories	-0.3	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0
- Net exports	0.7	-0.7	0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Output gap[1]	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Employment (% change)	1.2	1.2	0.8	0.9	0.7	1.0	0.8	0.6
Unemployment rate (%)	6.0	5.9	5.6	5.5	5.3	5.3	5.3	5.2
Labour productivity (% change)	0.2	0.2	0.4	0.4	0.5	0.4	0.6	0.6
HICP inflation (%)	2.3	1.9	1.8	1.6	1.6	1.4	1.6	1.8
GDP deflator (% change)	1.2	1.2	1.5	1.7	1.6	1.6	1.6	1.7
Comp. of employees (per head, % change)	2.0	2.0	2.5	2.2	2.0	2.0	2.4	2.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.3	-0.1	0.2	-0.1	0.0	0.0	0.0	0.0

Note:

[1]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 2019 spring forecast (COM); Stability Programme (SP).

Potential growth estimates for Belgium are rather moderate, at 1.3% on average over 2016-2019. The slowdown compared to the pre-2009 situation is broad-based. It reflects the continuation of a long-term trend of declining gains in total factor productivity (which is estimated to have stabilised at a low level in recent years), a decline in the contribution of labour to potential growth (due to a slower growth of the working age population) and somewhat lower capital accumulation. The output gap, as recalculated by the Commission based on the information in the programme following the commonly agreed methodology, is estimated to have closed in 2017 from a trough of -1.6% in 2013. The (recalculated) output gap is expected to remain stable at 0.2% of potential growth from 2019 to 2022. The (recalculated) output gap is slightly higher than the output gap presented in the Programme at face value, by 0.1 percentage point of potential GDP.

To conclude, the stability programme's macroeconomic scenario is broadly in line with the Commission forecast, although growth is expected to pick-up in 2020 according to the Stability Programme. Overall, the macroeconomic assumptions underlying the Belgian Stability Programme are assessed as plausible in 2019 and favourable thereafter, both with regard to overall GDP growth and to its composition.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2018 and 2019

This section presents the budgetary developments in the previous and current year as presented by the Stability programme and compared to the 2019 Draft Budgetary Plan.

Belgium's general government deficit narrowed slightly from 0.8% of GDP in 2017 to 0.7% of GDP in 2018. The revenue-to-GDP and expenditure-to-GDP ratios both increased, by 0.4 percentage points and by 0.3 percentage points respectively. This outcome compares to a deficit of 1.1% of GDP expected in the 2019 Draft Budgetary Plan (DBP). Amid good economic conditions, strong job growth and a low interest environment, the better-than-expected headline balance is mostly due to an exceptional one-off increase in corporate income tax revenue (CIT), mainly caused by higher-than-anticipated advance payments. This exceptional level of CIT revenue is partly considered as a one-off.

The structural balance, according to the 2019 Commission spring forecast, remained stable in 2018 at –1.4% of GDP (see Table 2). The structural primary balance, which excludes interest rate movements and therefore better reflects discretionary fiscal policy, deteriorated by 0.2 percentage points of GDP in 2018 and fell to 0.9% of GDP.

In 2019, the Stability Programme plans the headline deficit to increase slightly to 0.8% of GDP, which would result in a slightly expansionary fiscal stance. The 2019 headline balance planned by the programme is close to the deficit of 0.7% of GDP expected in the 2019 Draft Budgetary Plan (DBP). The general government deficit would mostly stem from the federal level (0.7% of GDP). At the federal level, this would imply a deterioration of the headline balance by 0.5 percentage points of GDP compared to 2018, whereas the expected deficit at the sub-federal level would represent an improvement of 0.4% of GDP in 2019 compared to 2018. This evolution of the deficit of the respective levels of government is explained by the one-off settlement in 2018 of tax revenues between the federal government and the regions (of around 0.2% of GDP) (which is neutral for general government) as well as by the investment cycle at local government level. The programme assumes Belgium will be granted flexibility under the structural reform clause of the SGP and will therefore benefit from a temporary deviation from the required adjustment path towards the MTO.

According to the Stability Programme, the revenue-to-GDP ratio and the expenditure-to-GDP ratio are projected to decrease by 0.6 and 0.5 percentage points of GDP respectively in 2019. On the revenue side, developments are broadly similar to those presented in the Draft Budgetary Plan (DBP) for 2019 with revenue decreasing to 51.1% of GDP compared to 51% of GDP in the DBP, albeit from a higher base than what was expected in the DBP as revenue in 2018 surpassed expectations by 0.4% of GDP. Public expenditure would decline by 0.5% of GDP according to the Stability Programme, as compared to 0.3% of GDP in the DBP.

Primary expenditure is expected to decline by 0.3% of GDP compared to a decrease of 0.2% of GDP in the DBP, as higher primary expenditure was recorded in 2018 than was planned in the DBP (0.1% of GDP). Interest expenditure is also expected to decline by 0.2% of GDP compared to 0.1% of GDP in the DBP, mainly due to higher interest expenditure recorded in 2018 than planned in the DBP. However, some changes can be noted in the various components of revenue and expenditure. Current taxes on income and wealth are expected to decrease by 0.5% of GDP more than planned in the DBP, reflecting the unexpected and one-off nature of the increase in corporate income tax revenue in 2018. Compensation of employees is expected to decrease more than in the DBP, which is partly explained by lower inflation assumptions leading to a slower indexation of public sector wages. Public investment is expected to remain stable in 2019, compared to a 0.1% of GDP decrease in the DBP.

3.2. Medium-term strategy and targets

The Stability Programme is built around the ambition of reaching the MTO of a balanced budget in structural terms in 2021 and the MTO reflects the objectives of the Pact. However, this is a year later than planned in last year's Stability Programme and contrasts with the observed improvement in the headline balance in 2017 and 2018, as notified in April 2019, compared to the projections in the 2018 Stability Programme. Moreover, the (recalculated) structural balance points to a small remaining deficit of 0.1% of GDP in 2021 because of a larger positive output gap than in the Programme at face value. The intermediary targets in the Programme are formulated in terms of annual structural improvements. The overall and intermediary budgetary targets detailed in the Programme are not underpinned by sufficiently detailed measures. In addition, the Programme’s targets reflect the assumption that Belgium is granted flexibility for 2019 under the structural reform clause.

In 2019, the (recalculated) structural balance is planned to improve by 0.1% of GDP, whereas the Commission forecast expects the structural balance to remain stable. The difference with the Stability Programme target stems from a number of measures that have not been included in the Commission forecast because they are insufficiently specified (see Section 3.3) or because the Commission considers their impact as temporary, most of which relates to the temporary increase of advance payments in the corporate income tax (see Section 3.5).

In 2020 and 2021, the (recalculated) structural balance is planned to improve by 0.6% and 0.2% of GDP respectively. This adjustment would rely mostly on a reduction in expenditure (-0.6 percentage points of GDP), while revenue would increase by 0.2 percentage points of GDP. So far, these targets reflect projections under a no-policy change scenario and are not supported by specified additional measures, while the distribution of the planned adjustment between revenue and expenditure items and between levels of government is not underpinned by sufficiently detailed measures. The Commission forecast currently projects a deterioration of the structural balance by 0.3% of GDP in 2020 at unchanged policy, as already specified tax cuts are not fully offset by revenue-increasing or expenditure-decreasing measures. The Commission forecast includes some one-off revenue measures in 2020, amounting to 0.1 percentage point of GDP, which are not reflected in the Programme. The envisaged consolidation is not sufficiently supported by measures (see section 3.3), which poses some risks (see section 3.4).

The headline balance is planned to improve somewhat slower over the programme horizon than the structural balance because of gradually deteriorating cyclical conditions. According to the Programme, this is expected to result in a balanced budget in nominal terms in 2021.

The programme assumes that Belgium will be granted a temporary deviation from the adjustment path towards the MTO in 2019 under the structural reform clause of the SGP.

Therefore, the fiscal targets appear more ambitious from 2020, despite the fact that, so far, some of the structural reforms such as the 'tax shift' and the reform of the corporate income tax are expected to have a substantially negative fiscal impact that year.

Planned changes in the (recalculated) structural balance of 0.1%, 0.6% and 0.2% of GDP in 2019, 2020 and 2021 compare to improvements of 0.2%, 0.6% and 0.1% of GDP in the 2018 Stability Programme for the same years, when the aim was to reach the MTO in 2020. This target has now been delayed until 2021. Targets for the headline balance have been repeatedly delayed over the course of successive programmes (see figure 1).

Table 2: Composition of the budgetary adjustment

(% of GDP)	2018	2019		2020		2021	2022	Change: 2018-2022
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**51.7**	**51.0**	**51.1**	**51.0**	**51.3**	**51.3**	**51.3**	**-0.4**
of which:								
- Taxes on production and imports	13.2	13.2	13.2	13.2	13.2	13.2	13.1	-0.1
- Current taxes on income, wealth, etc.	17.1	16.3	16.4	16.2	16.5	16.5	16.6	-0.5
- Social contributions	15.8	15.9	15.9	15.9	16.0	16.1	16.2	0.4
- Other (residual)	5.6	5.6	5.6	5.7	5.6	5.5	5.4	-0.2
Expenditure	**52.4**	**52.3**	**51.9**	**52.5**	**51.4**	**51.3**	**51.3**	**-1.1**
of which:								
- Primary expenditure	50.1	50.2	49.8	50.5	49.5	49.5	49.5	-0.6
of which:								
Compensation of employees+Intermediate	16.3	16.3	16.1	16.3	15.8	15.6	15.6	-0.7
Compensation of employees	12.3	12.3	12.0	12.3	11.8	11.6	11.7	-0.6
Intermediate consumption	4.1	4.0	4.1	4.1	4.0	4.0	4.0	-0.1
Social payments	25.2	25.2	25.2	25.5	25.2	25.2	25.3	0.1
Subsidies	3.3	3.4	3.3	3.4	3.3	3.3	3.3	0.0
Gross fixed capital formation	2.4	2.4	2.4	2.5	2.4	2.5	2.4	0.0
Other (residual)	2.9	2.8	2.8	2.8	2.8	2.9	2.9	0.0
- Interest expenditure	2.3	2.1	2.1	2.0	1.9	1.8	1.8	-0.5
General government balance (GGB)	**-0.7**	**-1.3**	**-0.8**	**-1.5**	**-0.2**	**0.1**	**0.0**	**0.7**
Primary balance	**1.6**	**0.8**	**1.3**	**0.5**	**1.8**	**1.9**	**1.8**	**0.2**
One-off and other temporary	0.6	0.0	0.0	0.1	0.0	0.0	0.0	-0.6
GGB excl. one-offs	**-1.2**	**-1.3**	**-0.8**	**-1.7**	**-0.2**	**0.1**	**0.0**	**1.2**
Output gap[1]	0.2	0.2	0.2	0.1	0.2	0.2	0.2	-0.1
Cyclically-adjusted balance[1]	-0.8	-1.4	-0.9	-1.6	-0.3	-0.1	-0.1	0.7
Structural balance[2]	**-1.4**	**-1.4**	**-0.9**	**-1.8**	**-0.3**	**-0.1**	**-0.1**	**1.3**
Structural primary balance[2]	0.9	0.7	1.2	0.3	1.9	1.7	1.7	**0.8**

Notes:

[1]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.

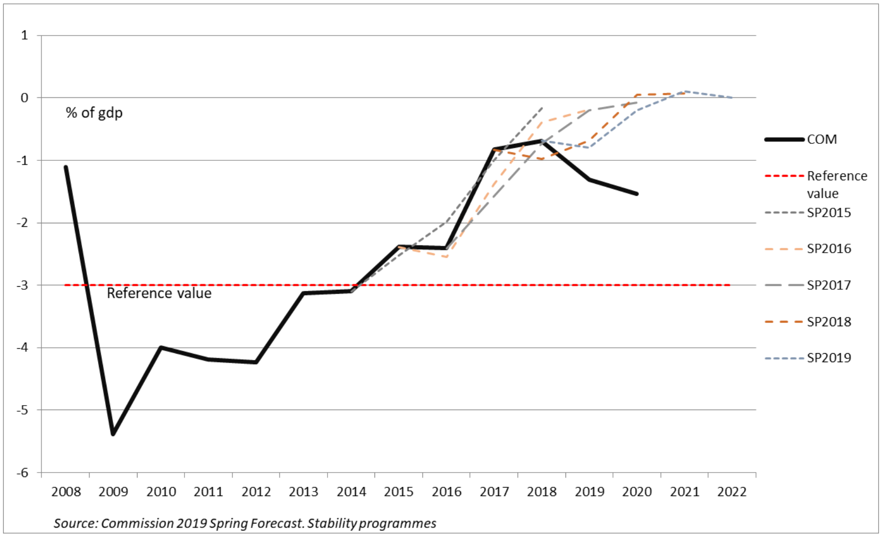
[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme (SP); Commission 2019 spring forecasts (COM); Commission calculations.

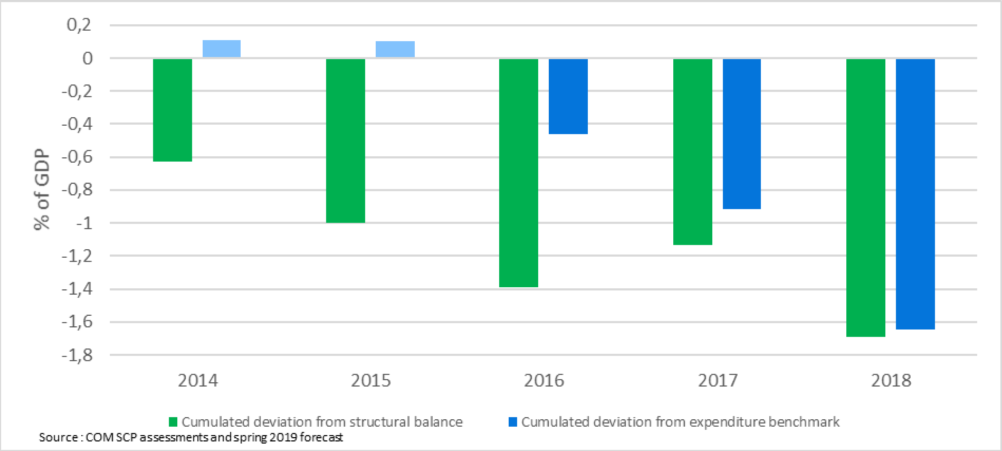
Since the correction of the excessive deficit in 2014, Belgium has been subject to the preventive arm of the SGP and has been recommended an annual structural adjustment of 0.6% of GDP towards the MTO, after taking into account the flexibility granted concerning exceptional costs linked to security issues and with the inflow of refugees.

Figure 1: Government balance projections in successive programmes (% of GDP)



In 2015 and 2016, Belgium's structural adjustments fell short of the targets laid down in the Country Specific Recommendations: pointing to a deviation of 0.4% of GDP in both years. In 2017, the change in the structural balance by 0.8% of GDP exceeded the recommendation by around 0.3% of GDP thereby reducing the cumulative deviation to 1.1% of GDP (see figure 2). However, the outturn of the structural balance for 2018 has again fallen short of the recommended adjustment by around 0.6% of GDP (see also section 4.2) and increased the cumulative deviation since 2014 to around 1.8% of GDP.

Figure 2: Cumulative deviations of the preceding five years from the upper limit for net growth of government expenditure and from structural effort requirements (in % of GDP)



Instead, concerning expenditure benchmark requirements, in 2014 Belgium overachieved compliance by 0.1% of GDP compared to the Country Specific Recommendation. Following a stable compliance in 2015, from 2016 onwards Belgium no longer met expenditure benchmark requirements. In particular, it pointed to a significant deviation from the recommended effort by 0.6% in 2016 and to some deviation (by 0.5% of GDP) in 2017. The expenditure growth rate points to a further deviation by 0.7% of GDP in 2018.

Overall, over 5 years, the structural balance has recorded some deviation from the required structural adjustment that cumulatively reached 1.7% of GDP in 2018. The improvement concerning the expenditure benchmark target in 2014 has been superseded by the cumulative deviations from 2015 to 2018, reaching a cumulative deviation of 1.6% of GDP by 2018 (see figure 2). In particular, the expenditure benchmark has represented a more stringent pillar for Belgium in this latter period 2015-2018, mostly because of the exclusion of interest expenditure.

3.3. Measures underpinning the programme

The Stability Programme budgetary targets are not underpinned by any significant new measure. This largely explains the difference between the programme's targets and the Commission Spring forecast. However, some measures adopted in previous years are expected to have an incremental budgetary impact during the programme horizon. These solely concern the revenue side.

The main revenue-increasing measure concerns the increase in corporate income tax revenue stemming from the substantial rise in advance payments in 2017 and 2018, further shifting tax collection from ex-post tax settlement to advance tax payments. This measure is considered a one-off in both the Stability Programme and the Commission Spring forecast. However, the Commission forecast factors in a larger one-off share of CIT revenue in 2018 compared to the Stability Programme. In contrast with the DBP, and consistently with the Commission Spring forecast, the programme does not expect significant one-off CIT revenue in 2019.

Main budgetary measures included in the Programme

Revenue	**Expenditure**
2018	
• Change in CIT collection towards advance payments (one-off) (0.2% of GDP) • Tax shift measures (-0.5% of GDP) • Fight against social and fiscal fraud (0.1% of GDP)	
2019	
• Jobs Deal package (0.1% of GDP) • Tax shift measures (-0.4% of GDP)	
2020	
• Tax shift measures (-0.2% of GDP)	

Note: The table refers to the main measures included in the 2019 Stability Programme that have an incremental budgetary impact over the programme period. The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases because of this measure.

The measures related to the so-called 'tax shift', i.e. cuts in labour and personal income taxation offset by a range of deficit-reducing measures, have a combined gross revenue-decreasing impact of 1.1% of GDP from 2018 to 2020. Although they were adopted before the programme, the assessment of their budgetary impact has been updated and is in line with the Commission Spring forecast assessment. No additional deficit-reducing measures have been presented to offset the budgetary impact of the tax shift measures, which are therefore not considered as budget-neutral, as initially presented

The remaining reform with a significant budgetary impact is the so-called “Jobs Deal” package of measures, comprising 28 labour market measures expected to deliver an overall budgetary gain of 0.1 % of GDP in 2019 stemming from additional income taxation and higher social contributions. The reform was presented in the 2019 DBP with a sufficient level of detail to be included in the Commission's autumn forecast. It was adopted in 2019 and therefore is factored in the Commission Spring forecast.

A package of measures tackling tax and social fraud, for an estimated budgetary impact of about 0.1% of GDP, had an incremental impact in 2018 and is expected to have a smaller impact in 2019. The Commission forecast includes a lower amount from these measures as they failed to meet expected targets in the past and are in general hard to monitor.

3.4. Debt developments

Following a substantial increase since 2007, among others in order to provide support to financial sector institutions, Belgium’s general government gross debt peaked at 107% of GDP in 2014. It fell back to 103.1% of GDP in 2017 thanks to a growing primary surplus, a downward snowball effect (lower interest expenditures than nominal GDP growth) and overall downward stock-flow adjustments, notably thanks to the sale of participations in financial institutions. Debt fell further to 102% of GDP in 2018 thanks to a higher primary balance and a downward snowball effect, which were partly offset by upward stock-flow adjustments.

The Programme implies a further debt reduction as of 2019, with a debt ratio of 100.6% at the end of 2019 and 98.5% at the end of 2020. Debt would further fall back to 94% of GDP in 2022. This development reflects the planned increase in primary surpluses, the downward impact of which would be enhanced by the snowball effect, driven by a further decrease in interest expenditures while nominal GDP growth remains robust. Stock-flow adjustments are projected to have a debt-increasing impact over the programme horizon.

The 2019 Commission Spring forecast projects a slower debt reduction to 101.3% of GDP in 2019 and to 100.7% in 2020 at unchanged policy. The annual downward impact of 1.3% of GDP on average rendered by primary surpluses and the snowball effect is projected to be partially offset by upward stock-flow adjustments in 2018-2019. These projections do not account for the impact of potential financial sector asset sales.

Several times over the past, the debt trajectory has been revised upwards or delayed in successive programmes (see figure 3). This was due to a higher starting point given the broadening statistical definition of the general government sector and because of higher-than-planned deficits and lower-than-projected nominal GDP growth. In contrast, the 2016 and 2017 debt targets have been overachieved compared to the 2016 and 2017 programmes, given lower or negative stock-flow adjustments, higher-than-planned primary surpluses as well as somewhat higher than expected nominal GDP growth. The debt trajectory in the 2019 Stability Programme is slightly less ambitious than that of the 2018 Stability Programme.

Table 3: Debt developments

(% of GDP)	Average 2013-2017	2018	2019		2020		2021	2022
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**105.8**	**102.0**	**101.3**	**100.6**	**100.7**	**98.5**	**96.2**	**94.0**
Change in the ratio	-0.2	-1.4	-0.7	-1.4	-0.5	-2.1	-2.3	-2.2
Contributions[2] *:*								
1. Primary balance	**-0.6**	**-1.6**	**-0.8**	**-1.3**	**-0.4950**	**-1.8**	**-1.9**	**-1.8**
2. "Snow-ball" effect	**0.4**	**-0.4**	**-0.6**	**-0.9**	**-0.7**	**-0.9**	**-1.0**	**-0.9**
Of which:								
Interest expenditure	3.0	2.3	2.1	2.1	2.0	1.9	1.8	1.8
Growth effect	-1.3	-1.4	-1.2	-1.3	-1.2	-1.4	-1.3	-1.1
Inflation effect	-1.3	-1.2	-1.5	-1.8	-1.6	-1.5	-1.5	-1.6
3. Stock-flow adjustment	**0.1**	**0.5**	**0.7**	**0.9**	**0.7**	**0.6**	**0.7**	**0.5**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

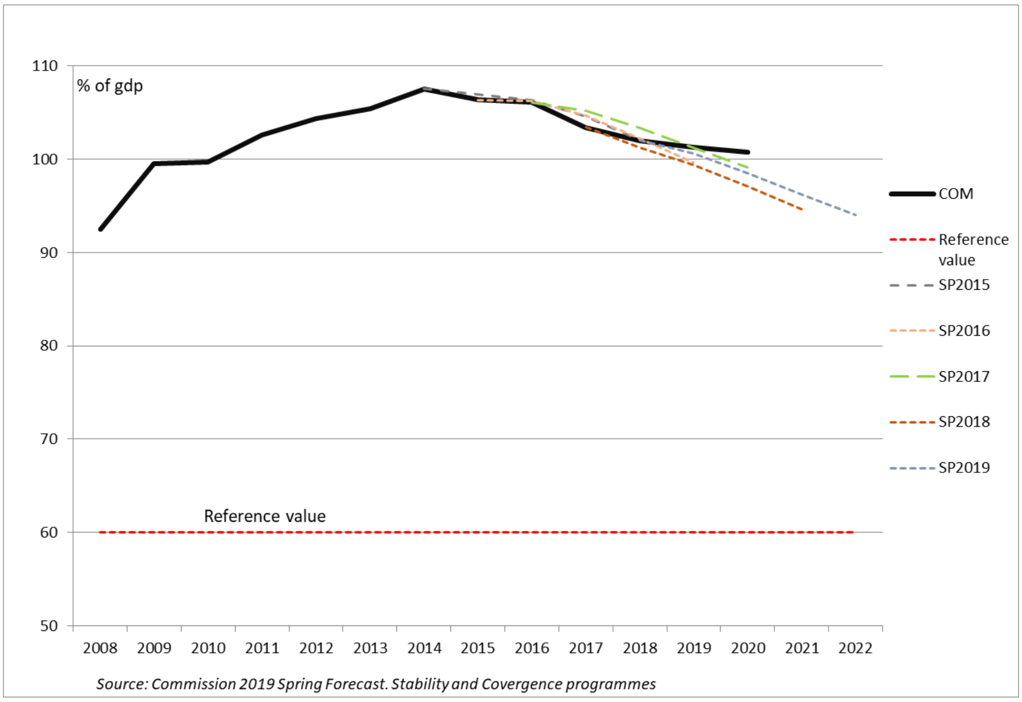
[1] End of period.

[2] 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 2019 spring forecast (COM); Stability Programme (SP), Comission calculations.

Figure 3: Government debt projections in successive programmes (% of GDP)



3.5. Risk assessment

With respect to 2018, a downside risk relates to the one-off nature of some tax collection. In particular, Belgium introduced a number of incentives for advance corporate income tax (CIT) payments, leading to an increase in CIT payments (slightly 0.3% of GDP more than in 2017, where a substantial increase had already been registered). This measure thus introduces -at least in part- a permanent change in the timing of recurrent revenue[1], by shifting tax collection from *ex-post* tax settlement to advance tax payments, and therefore it creates an exceptional and temporary peak in tax revenue in 2017 and 2018. The extent to which this increase will turn out to be temporary remains uncertain, as ex-post tax settlements can be paid up to two years after the end of a given fiscal year. Therefore, this creates a downside risk should the assumption comprised in the Stability Programme about the structural nature of part of the increase in CIT payments in 2017 and 2018 turn out to be too optimistic. The Commission's baseline scenario is slightly more conservative than that of the Stability Programme, therefore anticipating a stronger decrease in CIT revenue towards its long term trend in 2019 (see also section 4.2).

A general risk to the targets stems from inflation expectations, with public wages and social benefits automatically adjusted for inflation in Belgium. Higher-than-anticipated inflation affecting the GDP deflator, as in 2016 and 2017, could thus entail negative consequences for underlying budgetary trends.

Regarding 2019, the Stability Programme plans a substantial drop in compensation of employees, from 12.3% of GDP in 2018 to 12.0% of GDP in 2019. This target appears ambitious, particularly since it does not appear to be underpinned by sufficiently detailed measures by precise measures. In contrast, the Commission spring forecast projects a stabilisation of compensation of employees in 2019 at 12.3% of GDP. This particular point contributes substantially to the difference between the evolution of primary expenditure for 2019 in the Stability programme and the Commission spring forecast.

On a more general level, the ability of Belgian authorities to take additional deficit-reducing measures in 2019 is likely to be curtailed by the fact that the current federal government is a caretaker government running a provisional budget based on the prolonged application of the 2018 federal budget. In addition, based on previous experience, several months might be necessary to form new federal and regional governments following the May 2019 elections.

More broadly, and as explained above, the budgetary targets beyond 2019 are mostly not underpinned by sufficiently detailed measures. According to the Commission 2019 spring forecast, reaching the MTO in 2021 as planned would require a structural improvement of 1.4% of GDP in 2020-2021. At the same time, the Commission forecasts the structural balance to deteriorate by 0.3 pp. of GDP at unchanged policy in 2020, the last year of the Commission projections. According to the High Council of Finance, Belgium's independent fiscal institution, the structural balance would further deteriorate by 0.4 percentage points of GDP in 2021 at unchanged policy and improve by 0.1 percentage point of GDP in 2022. The projected deteriorations up to 2021 would mainly result from the ongoing tax reform with planned reductions in personal income tax and social security contributions not offset by increases for other revenue sources or expenditure cuts. Reaching the MTO in 2021 implies thus substantial additional measures.

[1] Report on Public Finances in EMU 2015, p. 58

Between 2008 and 2018, interest expenditure fell by approximately 1.7 percentage points of GDP. This had a positive bearing of the same size on the structural balance. The programme projects a further decline in interest expenditure by 0.5 percentage points of GDP between 2018 and 2022. The sensitivity analysis in the 2019 Stability Programme highlights how a linear increase of the yield curve by 100 basis points would imply 0.1% of GDP higher costs in 2020, rising to 0.3% of GDP in 2022[2], though relative to the baseline of falling interest payments. This underscores a risk inherent to a consolidation strategy that partly leans on windfall gains stemming from lower interest expenditures.

In contrast with the last Programme, the Concertation Committee did not approve but merely "took note" of the overall fiscal trajectory presented in the Stability Programme and the achievement of the fiscal target by 2021 by all government levels (see Section 6). Although this constitutes a step back compared to the formal approval of the fiscal trajectory expressed in 2018, this is explained by the organisation of national and regional elections in May 2019. The viability of the country's overall trajectory towards its medium-term objective as laid down in the Stability Programme will therefore depend on the fiscal policy choices of the upcoming federal and regional governments. Systematic coordination between federated entities, before the adoption of the Draft Budgetary Plan and Stability Programme, could ensure consistency between the two documents.

Finally, in their Stability Programme, the Belgian authorities announce their intention to continue, in the coming months, their work on the flexibility clause for investment, in consultation with the European Commission. It is announced that the results in terms of flexibility will be taken into account during future budget exercises of each of the Belgian entities.

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

Box 1. Council Recommendations addressed to Belgium

On 13 July 2018, the Council addressed recommendations to Belgium in the context of the European Semester. In particular, in the area of public finances the Council recommended to 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, and to use windfall gains to accelerate the reduction of the general government debt ratio.

4.1. Compliance with the debt criterion

Belgium is subject to the debt reduction benchmark since 2017. According to the notified data, the government debt to GDP ratio breached the reference value of 60% in 2018. 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.

This report was adopted on 05 June 2019 and includes an assessment of all the relevant factors, notably: (i) the macroeconomic conditions, which despite recent growth slowdown remain favourable and are not a major mitigating factor to explain Belgium's gaps to comply

[2] Stability Programme Belgium 2019-2022, p. 22.

with the debt reduction benchmark; (ii) the implementation of growth-enhancing structural reforms in the past years, several of which are considered substantial and projected to help improve debt sustainability, even if they have a temporary non-neutral budgetary impact; (iii) the fact that there is no sufficiently robust evidence to conclude on the existence of a significant deviation from Belgium's adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together.

Table 4. Compliance with the debt criterion

	2018	2019		2020	
		SP	COM	SP	COM
Gross debt ratio	**102**	**100.6**	**101.3**	**98.5**	**100.7**
Gap to the debt benchmark [1,2]	1.1	-0.2	1.7	-0.6	1.9
Structural adjustment [3]	0.0	0.1	0.0	0.6	-0.3
To be compared to:					
Required adjustment [4]					

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] 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.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] 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

Source :
Commission 2019 spring forecast (COM); Stability Programme (SP), Comission calculations.

Based on this assessment, the report could not fully conclude, following an assessment of all the relevant factors, if Belgium did or did not comply with the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997.

In 2019 and 2020, Belgium is not expected to comply with the debt reduction benchmark as its debt-to-GDP ratio is set to remain above the backward-looking debt reduction benchmark by 1.7% of GDP in 2019 and above the forward-looking debt reduction benchmark by 1.9% of GDP in 2020, according to the Commission 2019 Spring forecast (see table 4). Based on the scenario included in the 2019 Stability Programme, compliance with the debt criterion would be ensured as of 2019, with an overachievement of the forward-looking debt reduction benchmark by 0.2% of GDP in 2019 and by 0.6% of GDP in 2020. Part of the difference with the Commission forecast is due to a deficit reduction that is 0.5% higher in 2019 and 1.3% higher in 2020 than in the Commission forecast. In addition, the calculation of the forward-looking debt benchmark on the basis of the Commission forecast is based on some technical assumptions beyond the forecast horizon, such as a stable structural balance, while the calculation on the basis of the Programme is based on a fully-fledged scenario up to 2022, beyond the Commission Spring forecast. Broadly speaking, the technical assumptions followed by the Commission beyond its forecast horizon are more conservative than those of the Stability Programme, resulting in a slower debt reduction.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

Assessment of requests for deviating from SGP requirements

In its Draft Budgetary Plan for 2019, Belgium requested a temporary deviation of 0.5% of GDP from the required structural adjustment path towards the MTO in 2019, in view of major structural reforms with a positive impact on the long-term sustainability of public finances (the so-called "structural reform clause") pursuant to the "Commonly agreed position on Flexibility within the Stability and Growth Pact" endorsed by the ECOFIN Council in February 2016.

In order to be eligible for the flexibility available under the structural reform clause, a Member State must respect the Treaty's deficit reference value of 3% of GDP and should preserve an appropriate safety margin with respect to the deficit reference value if the requested deviation was to be granted. Moreover, the structural balance in the year preceding the temporary deviation should be within a maximum distance of 1.5% of GDP from the MTO. Based on the Commission 2019 Spring forecast, the general government deficit of Belgium is projected to be at 1.3% of GDP in 2019, while the structural balance reached 1.4% of GDP in 2018 and is forecast to remain at 1.4% of GDP in 2019, which is equal to the minimum benchmark that ensures an appropriate safety margin with respect to the deficit reference value. Finally, in 2019 Belgium's structural balance is also estimated to remain within a maximum distance of 1.5% of GDP from the MTO, which is fixed at 0% of GDP.

The Commission has out an assessment of the potential impact on public finance sustainability of the structural reforms put forward by the authorities as detailed below. Regarding process and credibility of the presented reforms, the Belgian authorities have provided a summary of the contents, state of implementation and latest impact assessment of the structural reforms. The measures are deemed credible as their content is specified either in existing legislation and in draft laws, all publicly available, or detailed in the Programme. Moreover, either they are in force or the timeline for their adoption and implementation is specified in the Programme.

The presented reforms concern the pension system, the tax system and the labour market. They are deemed important to address the macroeconomic imbalances and structural weaknesses of the Belgian economy as they aim at restoring the economy's competitiveness, improving fiscal sustainability and creating growth and jobs. They have been the subject of country-specific recommendations since 2012 and of further analysis in the respective Country Reports on Belgium. The Commission has assessed the impact of the reforms, based on the information provided by the Belgian authorities, including in the Stability Programme and National Reform Programme.

In particular, with regards to the pension reform, legislation was adopted in 2015 (Law of 10 August 2015), whose main effect is to raise the statutory retirement age from 65 up to 66 by 2025 and to 67 by 2030; second, to further raise the minimum age for qualifying for early retirement to 63 by 2018 and the number of required career years to 42 by 2019; and third, to increase the minimum age for survivor’s pension. The civil servant pension scheme underwent an additional reform as of 2016: the years of studies taken into account in the above-mentioned career condition for early retirement will be progressively phased out as from 2015 (by steps of 4 to 6 months/year). As a result, according to the Commission's 2018 Ageing Report, the cost of ageing in the long run is expected to increase at a slower pace, as the annual growth in cost of ageing is expected to be lower than the current 4–5% per year; public pension expenditures are projected to rise by 2.9% of GDP between 2016 and 2070 (from 12.1% of GDP to 15% of GDP), compared to 3.3% before the 2015 reforms. The reforms are also expected to contribute to an increase in the effective exit age from the labour market.

The tax reform measures taken since 2015 aim to raise employment, strengthen purchasing power, and boost competitiveness. The reform reduces taxes on labour, including personal income taxation and employers' social security contributions, in several steps between 2016 and 2020. In parallel, indirect taxes have been increased to partially compensate for the labour tax cuts. Overall, estimates by the Federal Planning Bureau and the National Bank of Belgium suggest the net creation of at least 52,000 jobs by 2021.[3] Additional positive effects are expected from tax reductions targeting SMEs and self-employed. Overall, this tax shift is expected to increase GDP by 1 percentage point by 2020. However, it is not expected to be budgetary neutral. In particular, the negative impact on the primary balance is expected to accumulate to almost 0.9 percentage points by the end of 2020.

Belgium also adopted, in 2017, a reform of its corporate income tax. The previous setup was characterised by a high statutory rate of 34%, with numerous exemptions and deductions. The reform establishes lower statutory rates and fewer exemptions. The statutory tax rate has been reduced to 29.6% in 2018 and should fall to 25% in 2020 (for SMEs: 20% on the first 100.000 EUR as from 2018). According to the authorities, the reform involves a budgetary cost of 0.3% of GDP in 2018, rising to 0.9% of GDP in 2020 and to 1.2% of GDP at cruising speed. To counter this deterioration, the government has broadened in parallel the tax base. Additional measures are expected to have an impact by 2020, including those transposing the Anti-Tax Avoidance Directive.

In 2017, Belgium launched a series of labour market reforms, including wage moderation policies. These included setting lower margins for real wage growth between 2011 and 2016; second by adopting a temporary suspension of wage indexation clauses in both the private and government sectors and a revision of the 1996 Law on employment and competitiveness, introducing amendments to the private sector wage negotiation framework, including strengthening the government's ability to take measures in the event of excessive wage growth. Overall, this reform is expected to address the wage gap that has arisen in relation to Belgium's main trading partners, improving the competitiveness of the Belgian economy. The government also adopted a law to improve flexibility in the workplace, in particular in terms of working time arrangements. Taken together, these measures are expected to support job creation and reduce unemployment.

The Commission analysis shares the conclusion that the structural reforms are major and set to have a positive impact on the sustainability of public finances if implemented fully and in a timely manner.

Overall, the above-mentioned conditions for a Member State to be allowed a temporary deviation from the adjustment path towards the MTO under the structural reform clause in 2019 appear to be satisfied. On this basis, the Commission proposes to grant Belgium a temporary deviation of 0.5% of GDP from the required adjustment path towards the MTO in 2019, subject to Belgium adequately implementing the agreed reforms, which will be monitored under the European Semester.

Adjustment towards the MTO

[3] https://www.nbb.be/doc/ts/publications/other/ds1707320nl.pdf
https://www.plan.be/publications/publication-1504-fr-effets+macro+economiques+et+budgetaires+des+mesures+de+tax+shift+du+gouvernement+federal

Belgium is subject to the preventive arm of the SGP and has to ensure compliance with the required adjustment towards the MTO.

On 11 July 2017, the Council recommended Belgium to pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Belgium's public finances. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translated into a requirement of a nominal growth rate of net primary government expenditure which would not exceed 1.6 % in 2018. It would correspond to a structural adjustment of at least 0.6 % of GDP. At the same time, the Council stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes would need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances. Following the Commission's assessment of the strength of the recovery in Belgium while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Belgium's 2018 Draft Budgetary Plan, the Council on 13 July 2018 noted that no additional elements in that regard needed to be taken into account.

Based on the 2018 outturn data and the Commission 2019 spring forecast, the growth of primary government expenditure, net of discretionary revenue measures and one-offs, exceeded the expenditure benchmark[4] of 1.6% by 0.7% of GDP in 2018, pointing to a significant deviation. The structural balance is estimated to have stabilised in 2018, thus pointing to a significant deviation in 2018 by 0.6% of GDP from the recommended structural adjustment of 0.6% of GDP towards the MTO. This calls for an overall assessment. The difference in size of the deviation of both indicators is driven mainly by declining interest spending, positively impacting the reading of the fiscal effort as measured by the change in the structural balance. As a result, the overall assessment confirms the risk of a significant deviation as read by both pillars.

Over 2017 and 2018 together, the average deviations were smaller than in 2018 due to the deviation that was observed in 2017, when Belgium was recommended to pursue an annual structural adjustment towards the MTO of at least 0.58% of GDP correcting for unusual events. Indeed, over those two years, the deviation based on the expenditure benchmark amounted to 0.6% of GDP, pointing to a significant deviation due to the gap being higher than an average deviation of 0.25% of GDP over two years. In turn, the structural balance points to a deviation of 0.1% of GDP, pointing to some deviation.

This calls for an overall assessment, in which the following factors are to be considered:

First, the change in the structural balance was *inter alia* positively impacted by lower interest expenditure, contributing to 0.3 percentage points of GDP of the change over the two years. That windfall improves the reading of the fiscal effort based on the structural balance but does not affect compliance with the expenditure benchmark, which is therefore considered to reflect more appropriately the underlying fiscal effort.

[4] Net 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.

Second, as discussed above and stated in the Commission assessment of Belgium's 2018 Stability Programme, uncertainties remain regarding the treatment of the strong increase in corporate income tax payments in 2017 and 2018, resulting from a shift in timing in tax collection. The Commission already expressed a reservation in its May 2018 article 126(3) report regarding the nature of the observed increase in corporate income taxes. In line with the methodology used in its 2018 spring forecast, the Commission estimated a baseline trend of corporate income tax revenue and considered any tax collection in excess of the trend as a one-off, temporary revenue, which would eventually be offset by lower tax settlement revenue in the following years. In particular, in the 2019 spring forecast the Commission has considered a structural increase in tax collection starting from 2018 of 0.2% of GDP, while the remaining 0.5% of GDP increase in revenue is considered as a one-off which will be eventually offset by lower tax settlement revenue in the following years, considered in 2017 and 2018. In contrast, the 2019 Stability Programme, consider a higher share of the CIT revenue increase as structural. Given the uncertainty surrounding these figures, the Commission acknowledges that both upside and downside risks should not be discarded, and that a stable estimate of the permanent impact will only be measurable after several years, while the outturn corporate income tax data for 2019 will provide the first clear indication of the magnitude of the impact.

Based on the outturn data and the Commission 2019 spring forecast, and in line with last year’s analysis, such a relevant factor for the overall assessment, given both the magnitude of the extra revenues as well as the high level of uncertainty as regards the extent of their temporary nature, results in a difficulty to conclude on the significance of the deviation from the adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together.

In 2019, assuming a 0.5 percentage points allowance from the required structural effort under the preventive arm is granted, Belgium is required to pursue an annual structural adjustment towards the MTO translating into a nominal growth rate of net primary government expenditure that does not exceed 2.8%, which would correspond to a structural adjustment of at least 0.1% of GDP. According to the information provided in the Stability Programme, the growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, is expected to remain below the applicable expenditure benchmark, pointing to compliance. The (recalculated) structural balance is planned to improve by 0.1% of GDP, pointing to compliance.

Over 2018 and 2019 together, the average deviation from the expenditure benchmark calculated based on the Programme amounts to 0.2% of GDP, signalling a risk of some deviation. The change in the structural balance over two years falls short of the requirements according to the authorities' plans, by 0.3% of GDP, pointing to a risk of significant deviation. This calls for an overall assessment. As the expenditure benchmark does not show the windfall gain stemming from declining interest expenditure, it is seen as correctly signalling the fiscal effort undertaken. Therefore, the Stability Programme plans some deviation from the recommended structural adjustment towards the MTO over 2018 and 2019 taken together.

In 2019, based on the Commission 2019 spring forecast, the growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark of 2.8%. This would lead to a deviation of 0.4% of GDP in the underlying fiscal position, pointing to a risk of some deviation in 2019. The stabilisation of the structural balance in 2019 points to a risk of some deviation from the recommended structural adjustment of 0.1% of GDP towards the MTO as well, with a gap of 0.1% of GDP. The difference of 0.3% of GDP between both pillars reflects revenue windfalls underlying the forecast (0.2% of GDP), as well as a decline in interest expenditure (0.1% of GDP) which impacts the structural balance positively compared to the expenditure benchmark. These elements are partly offset by a slightly higher GDP deflator used for the structural balance indicator compared to the one underlying the expenditure benchmark.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2018	2019		2020	
Background budgetary indicators[1]					
Medium-term objective (MTO)	0.0	0.0		0.0	
Structural balance[2] (COM)	-1.4	-1.4		-1.8	
Setting the required adjustment to the MTO					
Structural balance based on freezing (COM)	-1.3	-1.4		-	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
Required adjustment[4]	0.6	0.6		0.6	
Required adjustment corrected[5]	0.6	0.1		0.6	
Corresponding expenditure benchmark[6]	1.6	2.8		1.6	
Compliance with the required adjustment to the MTO					
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Change in structural balance[7]	0.0	0.1	0.0	0.6	-0.3
One-year deviation from the required adjustment[8]	-0.6	0.0	-0.1	0.0	-0.9
Two-year average deviation from the required adjustment[8]	-0.1	-0.3	-0.3	0.0	-0.5
Expenditure benchmark pillar					
Net public expenditure annual growth corrected for one-offs[9]	3.1	1.9	3.6	1.9	4.2
One-year deviation adjusted for one-offs[10]	-0.7	0.4	-0.4	-0.1	-1.3
Two-year deviation adjusted for one-offs[10]	-0.6	-0.2	-0.6	0.1	-0.8
Finding of the overall assessment	**Not sufficient ground***	**Significant deviation**		**Significant deviation**	

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

* - There is currently not sufficient ground to conclude on the existence of an observed significant deviation in Belgium in 2018.

[1] 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.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] 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.). In case of a SDP, the requirement corresponds to the Council recommendation when available, otherwise it refers to the Commission recommendation to the Council.

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] 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.

[7] 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.

[8] The difference of the change in the structural balance and the corrected required adjustment.

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

[10] 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.

Source:
Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.

Over 2018 and 2019 together, according to the Commission 2019 spring forecast, the expenditure benchmark points to a risk of significant deviation with an average deviation of 0.6% of GDP. The average deviation for the structural balance over the same period amounts to 0.3% of GDP, indicating also a risk of significant deviation. Thus, the overall assessment confirms the risk of significant deviation over 2018 and 2019 taken together.

In 2020, Belgium is required to pursue an annual structural adjustment towards the MTO translating into a nominal growth rate of net primary government expenditure which does not exceed 1.6% which would correspond to a structural adjustment of 0.6% of GDP. According to the information provided in the Stability Programme, the planned growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark by 0.1% of GDP, pointing to some deviation. The (recalculated) structural balance is expected to improve by 0.6% of GDP in the Stability Programme, planning compliance with the recommended structural adjustment towards the MTO of 0.6% of GDP. Over 2019-2020 together, based on the information in the Stability Programme, both the expenditure benchmark and the planned change in the structural balance point towards compliance with the requirements of the preventive arm.

In turn, based on the Commission 2019 spring forecast, the growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark of 1.6% in 2020, leading to a deviation of 1.3% of GDP in the underlying fiscal position pointing to a risk of a significant deviation. The structural balance is expected to deteriorate by 0.3 percentage points of GDP in 2020, thus also pointing to a risk of a significant deviation by 0.9% of GDP from the recommended minimum structural adjustment of 0.6% of GDP towards the MTO.

Following an overall assessment a significant deviation from the adjustment path towards the MTO is currently expected in 2019 and 2020 putting at risk the compliance with the requirements of the preventive arm of the Pact.

5. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

Belgium does not appear to face fiscal sustainability risks in the short run.[5]

Based on the Commission 2019 Spring forecast and a no-fiscal policy change scenario beyond the forecast horizon, government debt, projected at 101.3% of GDP in 2019, is expected to increase and peak at 103.4% of GDP in 2029, thus remaining well above the 60% of GDP Treaty threshold. Sensitivity analysis shows similar risks.[6] Overall, this highlights high risks for Belgium from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a decreasing path by 2029, although remaining above the 60% of GDP reference value in 2029.

The medium-term fiscal sustainability risk indicator S1[7] is at 4.7 percentage points of GDP, primarily related to the high level of government debt and the projected ageing costs, which contribute 3.1 and 1.1 percentage points of GDP respectively, thus indicating high sustainability risks in the medium term. The full implementation of the Stability Programme

[5] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 6 for a definition of the indicator.

[6] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Fiscal Sustainability Report 2018 for more details).

[7] See the note to Table 6 for a definition of the indicator.

would put the S1 indicator at 2.7 percentage points of GDP, leading to similar medium-term risk. Based on the debt sustainability analysis and the S1 indicator, overall medium-term fiscal sustainability risks are, therefore, high. Fully implementing the fiscal plans in the Stability Programme would decrease those risks.

Table 6: Debt sustainability analysis and sustainability indicators

Time horizon			Commission Scenario		Stability Programme Scenario	
Short-term			**LOW risk**			
S0 indicator [1]			0.2			
Fiscal subindex			0.2	LOW risk		
Financial & competitiveness subindex			0.2	LOW risk		
Medium-term			**HIGH risk**			
DSA [2]			HIGH risk			
S1 indicator [3]			4.7	HIGH risk	2.7	HIGH risk
of which	Initial Budgetary Position		0.4		-1.3	
	Debt Requirement		3.1		3.1	
	Cost of Ageing		1.1		0.9	
	of which	Pensions	0.8		0.6	
		Health care	0.1		0.1	
		Long-term care	0.2		0.2	
		Other	0.1		0.1	
Long-term			**HIGH risk**			
DSA [2]			HIGH risk			
S2 indicator [4]			4.3	MEDIUM risk	2.6	MEDIUM risk
of which	Initial Budgetary Position		0.8		-0.6	
	Cost of Ageing		3.5		3.2	
	of which	Pensions	1.8		1.5	
		Health care	0.3		0.3	
		Long-term care	1.3		1.3	
		Other	0.1		0.1	

Source: Commission services; 2019 stability programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2019 forecast until 2020. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2033. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2021 for Commission scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2018.

The long-term fiscal sustainability risk indicator S2 is at 4.3 percentage points of GDP. In the long term, Belgium therefore appears to face medium fiscal sustainability risks, due to the projected ageing costs, contributing 3.5 percentage points of GDP, primarily related to pensions and long-term care expenditure. Full implementation of the programme would put the S2 indicator at 2.6 percentage points of GDP, leading to a similar long-term risk.[8] The debt sustainability analysis discussed above points to high risks so that, overall, long-term fiscal sustainability risks are assessed as high for Belgium.

Belgium has been reforming its public pension system in recent years. Standard eligibility requirements for both early and pre-retirement have been tightened and the legal retirement age will rise from 65 to 67 by 2030. These reforms have reduced the projected rise in public pension spending, which are nevertheless expected to increase by around 2.9 percentage points of GDP between 2016 and 2070.[9]

6. FISCAL FRAMEWORK

The Cooperation Agreement of 13 December 2013 between federal, regional and community governments includes a structural budget balance rule for the general government. Pursuant to the Agreement, this rule is considered fulfilled if the structural balance is at its MTO or if the adjustment path towards the MTO as defined in the Stability Programme is respected. The 2018 Stability Programme planned a structural improvement of 0.2% of GDP at face value in 2018, while the structural balance actually stabilised. Therefore, based on the information provided in the programme, the past fiscal performance appears to comply only partially with the requirements of national numerical fiscal rules.

According to the 2013 Cooperation Agreement, upon advice of the Public Borrowing Section of the High Council of Finance, the individual budgetary targets of the federal and the different regional and community governments should be discussed and approved by the so-called Concertation Committee[10]. On 28 March 2019, the Public Borrowing Section of the High Council of Finance published its advice on the budgetary trajectory for the period 2019-2022 and the distribution of the fiscal effort across federated entities[11].

Differently from 2018, when an agreement was reached between all levels of government regarding the achievement of the MTO by 2020, this year the Concertation Committee only took note of the overall trajectory of the Stability Programme towards achieving the MTO by 2021. The main reason for this was reported to be the scheduling of national and regional elections in May 2019. In addition, and as done in the past, there was also no formal commitment on the annual fiscal targets among the different sub-entities within each entity. This undermines the viability of Belgium's overall trajectory towards its MTO. Furthermore, it hinders the monitoring by the Public Borrowing Section of the High Council of Finance and the activation of the correction mechanism laid down in the Cooperation Agreement in the event of significant deviation from the agreed targets. Belgium considers its Stability Programme, together with its National Reform Programme, as its national medium-term fiscal plan in the sense of the Two-Pack Regulation 473/2013. Annex 4 of the Stability Programme

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[8] The projected costs of ageing that are used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the projections of the 2018 Ageing Report.

[9] 2018 Ageing Report.

[10] 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.

[11] www.hogeraadvanfinancien.be/sites/default/files/public/publications/hrf_fin_advies_2019_03.pdf (NL) or www.conseilsuperieurdesfinances.be/sites/default/files/public/publications/csf_fin_avis_2019_03.pdf (FR).

includes indications of the expected economic returns of non-defence public investment projects as required by Article 4.1 of the above-mentioned regulation.

The macroeconomic forecast underlying the Stability Programme has been prepared by the Federal Planning Bureau (FPB). The FPB is a well-established institution positioning itself as independent, however formally attached to the government. As stipulated in the Law of 21 December 1994, which constitutes the FPB in its current form, the Prime Minister and the Minister of Economic Affairs supervise the institution, while the federal government provides guidance on the FPB's proceedings. The Belgian Parliament and the Central Economic Council or the National Labour Council have the right to seek an evaluation by the FPB of the federal government's economic, social and environmental policies[12].

7. SUMMARY

In 2018, net primary expenditure growth exceeded the applicable expenditure benchmark rate by 0.7% of GDP. The structural balance remained stable, which is below the required adjustment towards the MTO. In 2017-2018 together, the expenditure benchmark pillar suggests a significant deviation from the requirement with an average gap of 0.6% of GDP. On the other hand, over 2017 and 2018 together, the structural balance pillar points to some deviation of 0.1% of GDP from the requirement. Following an overall assessment, which takes into account large uncertainties related to key factors of fiscal performance in 2017 and 2018, and in line with last year's analysis, there is no sufficient evidence to conclude that Belgium is non-compliant with the required adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together.

Belgium plans to contain primary expenditure growth below the expenditure benchmark in 2019 and slightly above it in 2020. It also plans an improvement of the structural balance of 0.1% of GDP in 2019 and of 0.6% of GDP in 2020. However, this plan is not underpinned by sufficiently detailed measures. Belgium committed to reach the MTO in 2021, while the recalculated structural balance still points to a structural deficit of 0.1% of GDP in 2021. This path implies an average over performance of 0.2 pp. over 2019-2020.

However, according to the Commission 2019 spring forecast, there is a risk of significant deviation both in 2019 and in 2020, following an overall assessment.

According to the outturn data, Belgium did not comply with the debt reduction benchmark in 2018. *Prima facie,* there thus appears to be a risk of the existence of an excessive deficit 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 Belgium is compliant with the debt criterion of the Treaty. The report could not fully conclude, following an assessment of all the relevant factors, if the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as complied or not with.

[12] Loi du 21 décembre 1994 portant des dispositions sociales et diverses, TITRE VIII – Réforme de l'appareil statistique et de prévision économique du gouvernement fédéral, CHAPITRE IV - Le Bureau fédéral du Plan, Art. 124-131.

8. ANNEXES

Table I. Macroeconomic indicators

	2001-2005	2006-2010	2011-2015	2016	2017	2018	2019	2020
Core indicators								
GDP growth rate	1.8	1.4	1.0	1.5	1.7	1.4	1.2	1.2
Output gap [1]	0.0	0.7	-0.6	-0.1	0.3	0.2	0.2	0.1
HICP (annual % change)	2.0	2.2	1.7	1.8	2.2	2.3	1.8	1.6
Domestic demand (annual % change) [2]	1.4	1.5	1.1	2.1	1.1	0.7	1.1	1.4
Unemployment rate (% of labour force) [3]	7.8	7.8	8.0	7.8	7.1	6.0	5.6	5.3
Gross fixed capital formation (% of GDP)	21.4	22.8	22.7	23.3	23.5	23.8	24.0	24.1
Gross national saving (% of GDP)	26.8	26.4	23.6	23.7	25.5	25.5	25.5	25.4
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.9**	**-2.0**	**-3.4**	**-2.4**	**-0.8**	**-0.7**	**-1.3**	**-1.5**
Gross debt	**100.9**	**94.0**	**105.3**	**106.1**	**103.4**	**102.0**	**101.3**	**100.7**
Net financial assets	**-95.0**	**-79.2**	**-91.8**	**-93.9**	**-88.6**	**-87.7**	**n.a**	**n.a**
Total revenue	49.1	48.9	51.6	50.7	51.3	51.7	51.0	51.0
Total expenditure	50.0	50.9	55.0	53.1	52.1	52.4	52.3	52.5
of which: Interest	5.4	3.9	3.4	2.8	2.5	2.3	2.1	2.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**1.5**	**1.6**	**2.6**	**2.1**	**1.6**	**0.5**	**0.7**	**0.8**
Net financial assets; non-financial corporations	**-77.1**	**-82.5**	**-94.3**	**-103.4**	**-102.1**	**-101.8**	**n.a**	**n.a**
Net financial assets; financial corporations	**-11.9**	**-5.2**	**3.2**	**-0.6**	**-2.5**	**-1.5**	**n.a**	**n.a**
Gross capital formation	14.4	15.0	15.0	16.0	16.5	17.0	17.1	17.1
Gross operating surplus	22.8	24.7	24.9	26.5	26.6	26.2	26.1	26.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.0**	**3.0**	**1.3**	**0.1**	**0.2**	**0.5**	**0.9**	**0.8**
Net financial assets	**226.1**	**218.0**	**233.0**	**248.6**	**241.5**	**228.2**	**n.a**	**n.a**
Gross wages and salaries	38.2	37.7	38.1	37.4	37.4	37.8	37.9	38.0
Net property income	9.8	9.1	7.3	6.3	6.3	6.2	6.2	6.1
Current transfers received	21.3	21.3	22.7	22.8	22.5	22.7	22.7	22.9
Gross saving	9.8	9.8	7.5	6.5	6.6	6.9	7.3	7.3
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**4.6**	**2.5**	**0.4**	**-0.3**	**1.0**	**0.3**	**0.2**	**0.0**
Net financial assets	**-41.2**	**-49.6**	**-48.2**	**-48.7**	**-46.4**	**-35.4**	**n.a**	**n.a**
Net exports of goods and services	4.5	2.4	0.9	1.3	1.2	0.5	0.5	0.3
Net primary income from the rest of the world	1.6	1.7	1.1	0.1	1.2	1.4	1.4	1.5
Net capital transactions	-0.1	-0.2	0.1	0.1	0.1	0.0	0.0	0.0
Tradable sector	41.8	39.7	37.3	36.7	36.7	36.6	n.a	n.a
Non tradable sector	47.8	49.7	52.3	52.6	52.5	52.5	n.a	n.a
of which: Building and construction sector	4.4	5.0	5.0	4.7	4.7	4.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	96.5	100.8	102.3	99.5	101.3	102.6	101.8	101.4
Terms of trade goods and services (index, 2000=100)	102.9	100.5	99.1	100.6	99.7	98.2	98.0	98.0
Market performance of exports (index, 2000=100)	103.1	98.8	100.6	102.4	102.8	103.8	104.2	104.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2010 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :
AMECO data, Commission 2019 spring forecast

Mandatory variables not included in the Stability Programme

Not included mandatory variables are the following:

- Changes in inventories and net acquisition of valuables in 2018 (% of GDP)
- Contribution to 2018 real GDP growth of final domestic demand, changes in inventories and net acquisition of valuables, and external balance of goods and services.

The mandatory variables not included in the Stability Programme do not impede the Commission's ability to assess the Stability Programme on the basis of the Programme's assumptions.