EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 23 May 2017

Assessment of the 2017 stability programme for

Belgium

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION 3
2. MACROECONOMIC DEVELOPMENTS 4
3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS 5
3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017 5
3.2. MEDIUM-TERM STRATEGY AND TARGETS 6
3.3. MEASURES UNDERPINNING THE PROGRAMME 8
3.4. DEBT DEVELOPMENTS 8
3.5. RISK ASSESSMENT 10
4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT 12
    4.1. Compliance with the debt criterion 12
    4.2. Compliance with the required adjustment path towards the MTO 13
5. LONG-TERM SUSTAINABILITY 17
6. FISCAL FRAMEWORK 19
7. SUMMARY 20
8. ANNEX 21

1. INTRODUCTION

On 28 April 2017, Belgium submitted its 2017 stability programme (hereafter called stability programme), covering the period 2017-2020. The federal government approved the programme while the inter-governmental Consultative Committee[1], in which also community and regional governments are represented, took note of it (see Section 6).

Belgium is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its medium-term budgetary objective (MTO). As the debt ratio was 105.6% of GDP in 2013 (the year in which Belgium corrected its excessive deficit), exceeding the 60% of GDP reference value, Belgium was also subject to the transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period it needed to ensure sufficient progress towards compliance. As of 2017, after the transition period, Belgium should comply with the debt reduction benchmark.

On 22 May 2017, the Commission issued a report under Article 126(3) of the TFEU, as Belgium did not make sufficient progress towards compliance with the transitional debt rule in 2016. The report concluded, following an assessment of all the relevant factors, that the debt criterion should be considered as currently complied with. At the same time, additional fiscal measures are to be taken in 2017 to ensure broad compliance with the adjustment path towards the MTO in 2016 and 2017 together.

This document complements the Country Report published on 22 February 2017 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 2017 spring forecast. The following section presents the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview of 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 2017 spring forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of 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.

[1] The 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.

2. MACROECONOMIC DEVELOPMENTS

The Belgian economy grew by 1.2% in 2016. In contrast to previous years, domestic and external demand contributed evenly to growth. Moreover, the tax shift implemented by the Belgian government is expected to have benefitted employment, helping register the highest job creation in five years to bring down unemployment to 7.8% of the labour force.

The macroeconomic scenario behind the stability programme expects economic growth to reach 1.4% this year and 1.5% in 2018 and 2019, compared to 1.5% in 2017 and 1.7% in 2018 according to the Commission 2017 spring forecast. Domestic demand is set to exclusively drive growth, as external demand is expected to contribute 0.0 pp. in 2017 and -0.1 pp. in 2018 (while the Commission 2017 spring forecast projects a contribution of external demand of 0.3 pp. in 2017 and 0.2 pp. in 2018). The scenario also relies on a slowly closing output gap through 2018, as recalculated by the Commission based on the information in the programme following the commonly agreed methodology. This is in line with the scenario presented in the Commission forecast.

More specifically, according to the stability programme, consumption growth is expected to double from 0.7% in 2016 to 1.4% in 2017 (COM 1.4%) and to further increase to 1.5% thereafter (COM 1.4%). This acceleration is expected to stem only partially from household real disposable income growth, which is projected to be modest. Compared to previous years of strong wage restraint, nominal wages are expected to grow more rapidly in 2017 to recoup most of the rise in inflation. In particular, consumer prices are expected to increase by 2.2% (COM 2.3%[2]). Consequently, the expected growth of private consumption is to be driven by a fall in the households' savings' rate.

According to the stability programme, improved household expectations are behind their willingness to dip into savings to feed further consumption expenditures. These are a reflection of strong employment growth: 1.3% in 2016 and expected to follow suit with growth of 1.1% in 2017 (COM 0.9%) and 0.9% in 2018 (COM 0.9%). As a result, the unemployment rate is expected to fall to 7.6% in 2017 (COM 7.6%) and to 7.5% in 2017 (COM 7.4%).

The macroeconomic scenario expects firms to continue to support robust investment growth, which is expected to accelerate from 2.1% in 2016 to 2.8% in 2017 and 3.0% in 2018. Here a difference arises with respect to the Commission forecast, which projects investment growth of 2.1% in 2017 and 3.0% in 2018. This can be attributed to differences foreseen in the expected lag of firms' response to capacity constraints and the expected benefit of the tax shift implemented by the authorities. In this regard, so far there is limited evidence to back firms' willingness to accelerate investments in Belgium. Moreover, Belgium is already the euro area member state with the second highest investment rate, standing at 23% of GDP.

To conclude, the stability programme differs from the Commission forecast in two respects: (i) the growth rate of investment in 2017, underpinned by a different expectation on the time lag in which reforms are expected to lead to higher investment; and (ii) the extent to which external demand, a key driver for growth in 2016, is expected to continue to provide support in the short term. Overall, the macroeconomic assumptions underlying the Belgian stability

[2] The Commission forecasts the harmonized index of consumer prices (HICP), whilst the Stability Programme refers to the Belgian consumer price index, with limited differences arising between the two.

programme are assessed as plausible, both with regard to overall GDP growth and to its composition[3].

Table 1: Comparison of macroeconomic developments and forecasts

	2016	2017		2018		2019	2020
	COM	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.2	1.5	1.4	1.7	1.5	1.5	1.6
Private consumption (% change)	0.7	1.4	1.4	1.4	1.5	1.5	1.5
Gross fixed capital formation (% change)	2.1	2.1	2.8	3.0	3.0	2.0	2.7
Exports of goods and services (% change)	6.1	3.8	4.5	3.7	3.4	3.9	3.9
Imports of goods and services (% change)	5.3	3.6	4.6	3.6	3.6	3.9	4.1
Contributions to real GDP growth:							
- Final domestic demand	0.9	1.3	1.4	1.5	1.6	1.4	1.6
- Change in inventories	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.8	0.3	0.0	0.2	-0.1	0.1	0.0
Output gap[1]	-0.6	-0.4	-0.4	0.0	-0.1	0.0	0.2
Employment (% change)	1.3	0.9	1.1	0.9	0.9	0.7	1.0
Unemployment rate (%)	7.8	7.6	7.6	7.4	7.5	7.4	7.1
Labour productivity (% change)	-0.1	0.6	0.3	0.8	0.7	0.7	0.5
HICP inflation (%)[2]	1.8	2.3	2.2	1.5	1.6	1.7	1.6
GDP deflator (% change)	1.6	1.8	1.7	1.6	1.6	1.5	1.3
Comp. of employees (per head, % change)	0.1	2.0	1.9	1.7	1.8	2.3	1.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.3	1.7	0.9	1.8	1.3	1.6	1.5

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.

[2] Stability Programme refers to NICP

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

Belgium's general government deficit widened from 2.5% of GDP in 2015 to 2.6% in 2016. The revenue-to-GDP and the expenditure-to-GDP ratios fell by 0.7 pp. and 0.5 pp. respectively. This outcome compares to a deficit of 3.0% of GDP expected in the 2017 Draft Budgetary Plan (DBP). The difference is due to the sub-federal level (regions, communities and local authorities) attaining a small surplus of 0.1% of GDP, 0.4 pp. better than targeted, as

[3] The stability programme does not include an estimate of the macroeconomic impact of reforms planned by the government. Instead, it only alludes to the impact of the reform agenda being pursued, particularly the tax shift.

a result of lower than expected expenditure growth. This compensated for the worse outcome at the federal level (including social security), which registered a deficit of 2.7% of GDP in 2016 compared to a target of 2.6% in the DBP. One-off factors represented 0.05 pp. of the general government deficit in 2016. The temporary spending increase due to the inflow of refugees and the security situation was responsible for 0.16 pp. of the total deficit.

In 2017 the stability programme plans the headline deficit to narrow by 1 pp. to 1.6% of GDP. This compares to a planned deficit reduction of 1.3 pps. in the DBP. The 0.4% of GDP better outcome in 2016 has thus not been fully transmitted to 2017. The bulk of the general government deficit would be at the level of the federal government; 1.5% out of a deficit of 1.6% of GDP. This implies an improvement of 1.2 pps. of GDP compared to 2016, identical to the draft budget. The 0.1% deficit at the sub-federal level represents a deterioration of 0.2 pp. of GDP in 2017 compared to 2016, against a target of a stable headline balance in the draft budget.

At the revenue side developments are broadly similar to that in the DBP with the revenue-to-GDP ratio projected to increase by 0.2 pp. of GDP in 2017. The expenditure-to-GDP ratio, however, would decline by 0.8 pp. according to the stability programme, as compared to 1.2 pps. in the DBP. This differential cannot be attributed to one specific expenditure component with compensation of employees, social payments and intermediate consumption each decreasing 0.1 pp. of GDP less than planned in the DBP. This is explained by higher inflation assumptions leading to a faster indexation of public sector wages and social benefits as well as higher provisions for temporary spending on refugees and security. The latter would account for 0.14 pp. of the 2017 deficit, while one-off factors explain 0.06 pp. according to the stability programme.

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 2019. However, the recalculated structural balance[4] points to a small remaining deficit of 0.3% of GDP in 2019 as a result of a smaller output gap than in the programme at face value. The MTO appears sufficiently stringent to ensure compliance in the medium and long term with the debt reduction benchmark under normal economic conditions.

The intermediary targets in the programme are formulated in terms of annual structural improvements. In 2017, the (recalculated) structural balance is planned to improve by 0.9% of GDP, compared to 1.4% in the DBP. This mainly reflects a smaller reduction in the headline balance (1.0% vs. 1.3% of GDP) due to a smaller decrease in primary expenditure, as mentioned in Section 3.1. The Commission forecast expects the structural balance to improve by 0.6% of GDP in 2017. The difference with the stability programme targets stems from a number of measures that have not been (fully) included in the Commission forecast because they are insufficiently specified or the Commission estimates a lower impact (see Section 3.3).

In 2018 and 2019 the (recalculated) structural balance is planned to improve by 0.6% and 0.4% of GDP respectively. So far, these targets are not supported by specified additional measures and the distribution of the planned adjustment between revenue and expenditure items is purely

[4] The structural balance as recalculated by the Commission according to the commonly agreed methodology on the basis of the information in the programme.

indicative. The Commission forecast currently projects a deterioration of the structural balance by 0.3% of GDP in 2018 at unchanged policy.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	Change: 2016-2020
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**50.7**	**50.8**	**50.9**	**50.2**	**50.6**	**50.5**	**50.5**	**-0.2**
of which:								
- Taxes on production and imports	13.1	13.2	13.2	13.3	13.3	13.4	13.4	0.2
- Current taxes on income, wealth, etc.	16.3	16.3	16.3	15.9	16.0	15.9	16.1	-0.2
- Social contributions	16.0	15.9	15.9	15.8	15.8	15.8	15.7	-0.3
- Other (residual)	5.4	5.3	5.5	5.2	5.4	5.4	5.4	0.0
Expenditure	**53.3**	**52.7**	**52.5**	**52.1**	**51.3**	**50.7**	**50.6**	**-2.7**
of which:								
- Primary expenditure	50.5	50.0	49.9	49.7	49.0	48.5	48.5	-2.0
of which:								
Compensation of employees	12.4	12.2	12.2	12.1	11.8	11.6	11.5	-0.9
Intermediate consumption	4.0	4.0	4.0	4.0	3.9	3.9	3.8	-0.1
Social payments	25.3	25.2	25.1	25.1	24.8	24.8	24.9	-0.4
Subsidies	3.3	3.3	3.3	3.2	3.2	3.2	3.1	-0.2
Gross fixed capital formation	2.3	2.4	2.3	2.5	2.5	2.3	2.5	0.2
Other (residual)	3.3	2.9	2.9	2.9	2.8	2.7	2.6	-0.6
- Interest expenditure	2.9	2.6	2.6	2.4	2.3	2.2	2.1	-0.8
General government balance (GGB)	**-2.6**	**-1.9**	**-1.6**	**-2.0**	**-0.7**	**-0.2**	**-0.1**	**2.5**
Primary balance	**0.2**	**0.7**	**1.0**	**0.5**	**1.6**	**2.0**	**2.0**	**1.8**
One-off and other temporary measures	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.1
GGB excl. one-offs	**-2.6**	**-1.9**	**-1.5**	**-2.0**	**-0.7**	**-0.2**	**-0.1**	**2.5**
Output gap[1]	-0.6	-0.4	-0.4	0.0	-0.1	0.0	0.2	0.8
Cyclically-adjusted balance[1]	-2.3	-1.7	-1.4	-1.9	-0.7	-0.2	-0.2	2.1
Structural balance[2]	**-2.2**	**-1.6**	**-1.3**	**-2.0**	**-0.7**	**-0.3**	**-0.2**	**2.0**
Structural primary balance[2]	0.7	1.0	1.3	0.4	1.6	1.9	1.9	1.2

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.

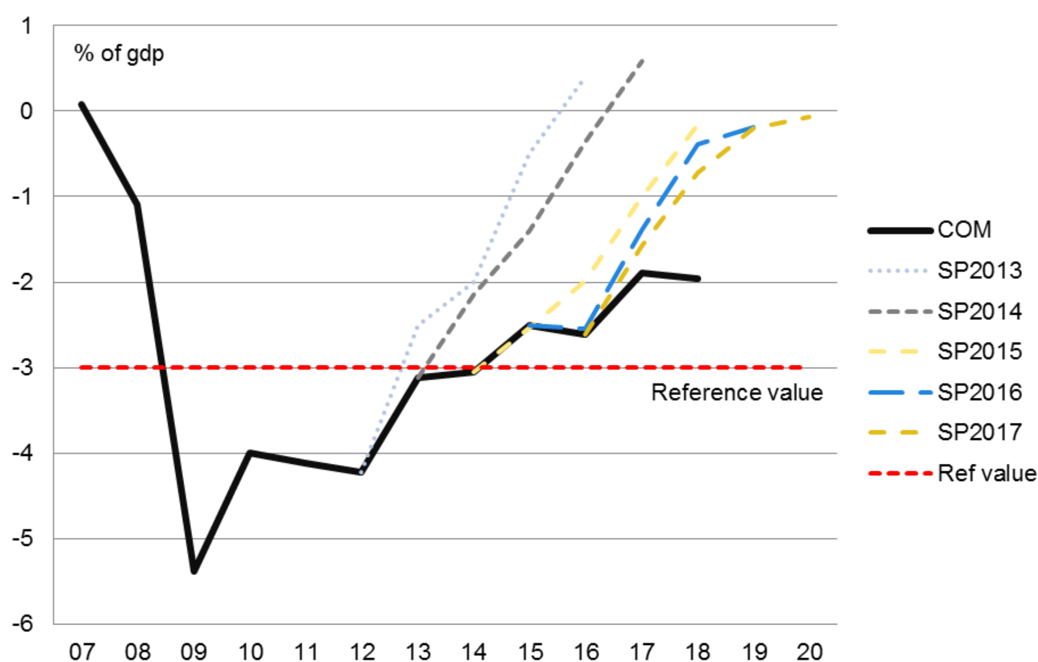
Source :

Stability Programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

The headline balance is planned to improve somewhat faster over the programme horizon than the structural balance as a result of gradually improving cyclical conditions. This is expected to result in a small remaining headline deficit in 2019-2020.

Planned improvements in the (recalculated) structural balance of 0.9%, 0.6% and 0.4% of GDP in 2017, 2018 and 2019 compare to improvements of 0.9%, 0.8% and 0.0% of GDP in the 2016 stability programme, when the aim was to reach the MTO in 2018. This target has now been delayed until 2019 given the lower than planned structural improvement in 2016. Targets for the headline balance have been repeatedly delayed over the course of successive programmes (see Figure 1).

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



Source: Commission 2017 spring forecast (COM), Stability Programme (SP)

3.3. MEASURES UNDERPINNING THE PROGRAMME

The stability programme does not list new measures as compared to the DBP. In its budget review of March 2017 the federal government confirmed its target of a structural improvement of 1.2% of GDP in 2016 and 2017 together. This budget review largely consisted of updated assessments of earlier announced measures and of underlying assumptions, with some additional spending measures announced as well.

The main measures in 2017 concern the limitation of the growth in health care spending, the only partial welfare adjustment of social benefits, a further increase in the financial withholding tax, higher indirect taxation on tobacco and diesel, a levy on company fuel cards, and the extension of the stock market transaction tax. At the regional level, there is an additional impact in 2017 from measures taken in 2016, notably a kilometre charging for trucks and higher indirect taxes on electricity. Announced measures that have not been included in full in the Commission 2017 spring forecast relate to the new system of tax regularisation, the activation of long-term sick people or anti-fraud measures.

The budgetary targets beyond 2017 are mostly not underpinned by measures. As a result of the delayed entry into force of a number of measures included in the 2017 draft budget these will produce an additional impact in 2018, though this generally concerns small amounts.

3.4. DEBT DEVELOPMENTS

General government gross debt increased by almost 20 pps. of GDP between 2007 and 2014, when it peaked at 106.7% of GDP. In 2015 it fell back to 106% thanks to a downward stock-flow adjustment linked to the repayment of support granted to a financial institution. Debt broadly stabilised in 2016 as a small primary surplus compensated for an upward stock-flow adjustment with the snowball effect (the interest-growth rate differential) about neutral.

The programme implies a debt reduction as of 2017, with debt falling back to 99.1% of GDP in 2020. This development reflects the planned return to substantial primary surpluses, the downward impact of which would be enhanced by the snowball effect, given the interplay of higher nominal GDP growth and lower interest expenditure in terms of GDP. Stock-flow adjustments are projected to have a debt-increasing impact over the programme horizon.

Also the Commission 2017 spring forecast expects debt to fall in 2017-2018, though at a slower pace than the programme. The stronger decline in the programme is mostly due to a higher planned primary surplus, which is however not yet fully supported by measures and thus not reflected in the Commission's projections at unchanged policy.

Neither the Commission 2017 spring forecast, nor the stability programme could include the impact of the sale of part of the Belgian state's participation in BNP Paribas on 3 May 2017. This divestment would reduce the debt level by around 0.5 pp. of GDP, provided that proceeds are fully used for debt reduction. The programme (p. 13) states that *"parallèlement aux mesures visant à réduire le déficit structurel, toutes les options doivent être envisagées pour rencontrer le critère de la dette comme notamment une modification du portefeuille de participation de l'Etat Belge ou encore une adaptation de la gestion de la dette."* Following the BNP Paribas transaction, the Belgian state's participations in the financial sector include a share of 7.8% in BNP Paribas, 100% of Belfius, 100% of insurer Ethias (including stakes of regional and local authorities) and 50% of Dexia bank, which is in resolution.

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**105.0**	**105.9**	**105.6**	**105.2**	**105.1**	**103.4**	**101.3**	**99.1**
Change in the ratio	1.2	-0.1	-0.2	-0.7	-0.6	-1.8	-2.1	-2.2
Contributions[2] :								
1. Primary balance	**0.0**	**-0.2**	**-0.7**	**-1.0**	**-0.5**	**-1.6**	**-2.0**	**-2.0**
2. "Snow-ball" effect	**1.0**	**0.0**	**-0.8**	**-0.7**	**-1.0**	**-0.9**	**-0.8**	**-0.7**
Of which:								
Interest expenditure	3.4	2.9	2.6	2.6	2.4	2.3	2.2	2.1
Growth effect	-1.0	-1.3	-1.6	-1.4	-1.7	-1.5	-1.5	-1.6
Inflation effect	-1.4	-1.6	-1.9	-1.8	-1.7	-1.7	-1.5	-1.3
3. Stock-flow adjustment	**0.2**	**0.2**	**1.3**	**1.0**	**0.9**	**0.7**	**0.7**	**0.6**

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.

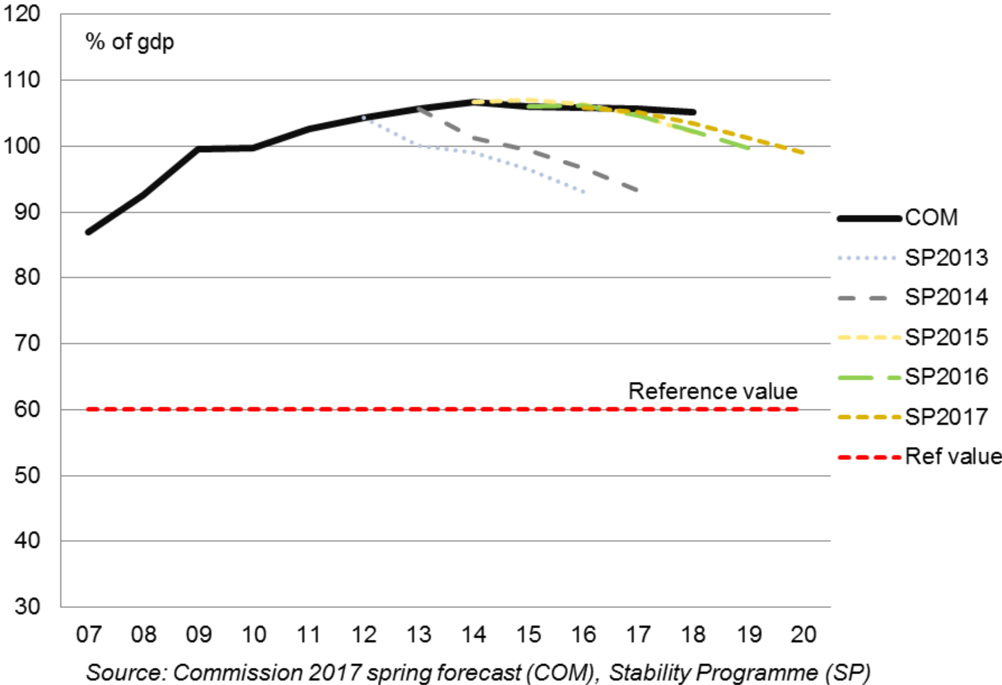
Source :

Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

The debt trajectory has been systematically revised upwards or delayed in successive programmes (see Figure 2). This was due to a higher starting point given the inclusion of more units in the general government sector and because of higher-than-planned deficits and lower-than-projected nominal GDP growth. In contrast, the 2016 debt target has been slighlty overachieved compared to last year's programme – which expected debt to increase by 0.2 pp. of GDP – given lower stock-flow adjustments and a slightly higher primary surplus. The debt

trajectory in the 2017 stability programme is higher than that of last year's programme, mainly because of notably larger stock-flow adjustments due to regional loans.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2017 spring forecast (COM), Stability Programme (SP)

3.5. RISK ASSESSMENT

Regarding the 2017 budgetary target, not all consolidation measures have been sufficiently specified yet to be taken into account in the Commission 2017 spring forecast or, in some cases, the expected impact is assessed to be lower; e.g. regarding tax regularisation, the activation of long-term sick people or anti-fraud measures. This explains the higher deficit projection for 2017 in the Commission forecast in spite of a somewhat higher economic growth assumption. The possible reoccurrence of revenue shortfalls for financial income taxation poses a risk to the 2017 target, as do the potential budgetary consequences of the pending resolutions of the Arco Group and the Holding Communal. A general risk to the targets stems from inflation with public wages and social benefits automatically adjusted for inflation in Belgium. Higher than anticipated inflation would thus entail negative consequences for underlying budgetary trends.

The budgetary targets beyond 2017 are mostly not underpinned by measures. According to the Commission 2017 spring forecast, reaching the MTO in 2019 as planned would require a structural improvement of 1.6% of GDP in 2018-2019. At the same time, the Commission forecast expects the structural balance to deteriorate by 0.3 pp. of GDP at unchanged policy in 2018, the last year of the Commission projections, while according to the High Council of Finance the implied deterioration in 2019 represents 0.4% of GDP[5]. These deteriorations result from the ongoing tax reform with planned reductions in personal income taxation and

[5] High Council of Finance (2017), Avis 'Trajectoire budgétaire en préparation du Programme de Stabilité 2017-2020'. Based on data provided by the Federal Planning Bureau. In 2020-2021 an additional deterioration of 0.3% of GDP is expected given the projected increase in pension and health care spending.

social security contributions not offset by increases for other revenue sources. Reaching the MTO in 2019 implies thus substantial additional measures and a strict execution of the budget, also in view of implementation risks towards the end of the current legislative period in 2019.

Between 2007 and 2016 interest expenditure fell by approximately 1.1 pps. of GDP. This had a positive bearing of the same size on the structural balance. The programme banks on a further decline in interest expenditure by 0.8 pp. of GDP between 2016 and 2020. The sensitivity analysis in the 2017 stability programme highlights how a linear increase of the yield curve by 100bp would imply 0.1% of GDP higher costs in 2017, rising to 0.4% of GDP in 2020[6], though relative to the baseline of falling interest payments. This underscores the risks inherent to a consolidation strategy that leans significantly on windfall gains stemming from lower interest expenditure.

In keeping with the practice of the last few programmes, sub-federal entities have only taken note of the multiannual trajectory laid down in the 2017 stability programme (see Section 6). This absence of a clear distribution of the general government target between the different governments affects the credibility of the overall trajectory. Indeed, the 2017 programme does not include trajectories for the individual entities. It puts forward a deficit of 0.1% of GDP for all regions and communities together in 2017, stable compared to 2016 (local authorities were in surplus in 2016 and would return to balance as of 2017, catering for the impact of the local investment cycle)[7]. However, the sum of the individual targets communicated in the DBP and more recent announcements implies a deficit of 0.2% of GDP in 2017 considering that regions and communities do not plan to offset a number of spending increases. In Annex V of the programme, Flanders (Antwerp ring road), the Walloon Region (TEN-T, mobility), Brussels (metro, tunnels) and the French-speaking Community (educational reform) list a number of projects which bear a (rising) budgetary impact over the programme horizon. Already in the 2017 DBP the impact of some of these projects was announced to 'fall outside of the fiscal target'. There is also a lasting issue on the apportionment of hospital investment between the federal and sub-federal levels which might further widen the gap between individual targets and the general government target. Moreover, in the preface to the stability programme it is said that the outcome of an intended dialogue with the Commission regarding "the budgetary treatment of strategic investments" will be decisive for compliance with the trajectory included in the programme, highlighting the indicative nature of the overall target set in the programme.

[6] Stability Programme Belgium 2017-2020, p. 18.

[7] The Stability Programme makes abstraction of the rectification in 2018 for regional personal income taxation under the new financing law. Since 2015 advances have been made from the federal to the regional level on the basis of preliminary estimates. In 2018 a rectification is made on the basis of final parameters. This will have a one-off negative impact on the balance of the regions with a positive one-off impact at the federal level so that the general government balance is not affected.

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

Box 1. Council recommendations addressed to Belgium

On 12 July 2016, 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 achieve an annual fiscal adjustment of at least 0.6% of GDP towards the medium-term budgetary objective in 2016 and in 2017, and to use windfall gains to accelerate the reduction of the general government debt ratio.

4.1. Compliance with the debt criterion

Following the abrogation of the excessive deficit procedure in June 2014, Belgium was subject to a three-year transition period to comply with the debt reduction benchmark as its debt-to-GDP ratio is above the 60% reference value. This transition period started in 2014 and ended in 2016. According to the notified data Belgium did not comply with the debt reduction benchmark in 2016. This provides evidence of a *prima facie* 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 to analyse whether Belgium is compliant with the debt criterion of the Treaty once relevant factors are taken into account.

Table 4. Compliance with the debt criterion

	2016	2017		2018	
		SP	COM	SP	COM
Gross debt ratio	**106**	**105.2**	**105.6**	**103.4**	**105.1**
Gap to the debt benchmark [1,2]	n.r.	0.8	2.7	0.1	2.1
Structural adjustment [3]	0.1	1.0	0.6	0.6	-0.3
To be compared to:					
Required adjustment [4]	2.2	n.r.	n.r	n.r	n.r

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 period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

This report was adopted on 22 May 2017 and included an assessment of all the relevant factors, notably (i) the previously unfavourable but improving macroeconomic conditions, which makes them less of a factor to explain Belgium's large gaps as regards compliance with the

debt reduction benchmark; (ii) the fact that, based on the Commission forecast, the deviations from the required adjustment towards the MTO point to a risk of some deviation in 2016 and 2017 individually, but to a significant deviation in 2016 and 2017 together, which can still be corrected in 2017; and (iii) the implementation of growth-enhancing structural reforms in recent years, several of which are considered substantial and projected to help improve debt sustainability. On the basis of this assessment, the report came to the conclusion that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with. At the same time, additional fiscal measures are to be taken in 2017 to ensure broad compliance with the adjustment path towards the MTO in 2016 and 2017 together.

Also in 2017 and 2018, Belgium is forecast not to comply with the debt reduction benchmark as its debt-to-GDP ratio is expected to remain 2.7 pps. and 2.1 pps. of GDP above the debt benchmark according to the Commission 2017 spring forecast. On the basis of the stability programme the gap would be 0.8 pp. of GDP in 2017 and just 0.1 pp. in 2018, with the programme planning compliance with the debt criterion as of 2019. The 2016 stability programme planned compliance with the debt criterion as of 2017. The difference with the Commission forecast is due to a deficit reduction that is 0.3 pp. higher in 2017 and 1 pp. higher in 2018 given that the Commission forecast is based on a no-policy change assumption whereas the stability programme reflects the planned effort. This difference highlights the importance of deficit reduction for compliance with the debt criterion.

4.2. Compliance with the required adjustment path towards the MTO

Eligibility to the 'unusual events' provision

The stability programme indicates that the budgetary impact of the exceptional inflow of refugees and security-related measures has been significant, and provides adequate evidence of the scope and nature of those additional budgetary costs in 2016. On the basis of the information provided in the stability programme, the eligible additional expenditure linked to the exceptional inflow of refugees and security measures amounted to 0.08% and 0.05% of GDP, respectively, in 2016.

The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 allow that additional expenditure to be catered for, in that the inflow of refugees as well as the severity of the terrorist threat are exceptional events, their impact on Belgium's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the MTO. The amounts reported in the stability programme appear plausible. The required structural improvement in 2016 has consequently been reduced from 0.6% of GDP to 0.47% of GDP.

On the basis of the information provided by the Belgian authorities, the exceptional and additional security-related expenditure is currently estimated at 0.01% of GDP in 2017. A final assessment, including on the eligible amounts, will be made in spring 2018 on the basis of observed data as provided by the Belgian authorities for 2017.

2016

Based on outturn data and the Commission 2017 spring forecast, the growth of primary government expenditure, net of discretionary revenue measures and one-offs, exceeded the expenditure benchmark – corrected for the impact of unusual events – by 0.6% of GDP in 2016, pointing to a significant deviation. The structural balance is estimated to have improved by 0.1% of GDP in 2016, 0.4% of GDP below the recommended effort of 0.47% of GDP,

suggesting some deviation. The expenditure aggregate was negatively impacted by higher than expected inflation in 2016. Whereas the reference growth rate for the expenditure benchmark is based on a deflator of 1%, the actual GDP deflator as used for the calculation of the structural balance amounted to 1.6%, closer to the long-term average. The impact on expenditure growth from higher than anticipated inflation transpires in the fact that the automatic indexation of social benefits and public sector wages occurred four months earlier than expected in the Commission 2015 autumn forecast which was preopared at the time of the draft budget for 2016. The impact is estimated at around 0.2% of GDP. Correcting for this brings the deviation for the expenditure benchmark at 0.4% of GDP, with both pillars providing the same signal and leading to a conclusion of some deviation from the recommended adjustment path towards the MTO in 2016.

In 2015-2016 together both pillars suggest a significant deviation took place. However, when correcting the expenditure benchmark for the above-mentioned higher than anticipated inflation in 2016 and the structural balance for revenue shortfalls in 2015 compared to standard elasticities – due to low wage and price growth – (discussed in the spring 2016 assessment), both pillars point to some deviation in 2015-2016.

2017

According to the programme, the expenditure aggregate will exceed the applicable expenditure benchmark rate by 0.2% of GDP in 2017, pointing to some deviation. The (recalculated) structural balance is planned to improve by 0.9% of GDP, above the required adjustment. The difference between both pillars mainly reflects the decline in interest expenditure by 0.3% of GDP in the programme, which improves the structural balance but not the expenditure benchmark. In 2016-2017 together the deviation for the expenditure benchmark calculated on the basis of the programme amounts to -0.4% of GDP, signalling a risk of significant deviation. The change in the structural balance over two years meets the requirements according to the authorities' plans. When correcting the expenditure benchmark for higher than anticipated inflation in 2016, the gap narrows to -0.3% of GDP, which is still above the threshold. 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, confirming thus the risk of a significant deviation in 2016 and 2017 together.

According to the Commission forecast, the growth rate of the expenditure aggregate is projected to exceed the expenditure benchmark by 0.4% of GDP in 2017, pointing to a risk of some deviation. At 0.6% of GDP the improvement in the structural balance is in line with the recommended structural adjustment. In 2016 and 2017 together, however, the expenditure benchmark points to a risk of significant deviation, with an average deviation of -0.5% of GDP. The average deviation for the structural balance over the same period amounts to -0.2% of GDP according to the Commission 2017 spring forecast, indicating a risk of some deviation. When correcting for the impact of unforeseen inflation in 2016 discussed supra, the deviation for the expenditure benchmark in 2016-2017 narrows to -0.4% of GDP, still above the threshold for significant deviation. The remaining difference with the average gap for the structural balance reflects the impact of the decline in interest expenditure in both 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. As a result, the overall assessment points to a risk of a significant deviation from the recommended adjustment path towards the MTO over 2016 and 2017 taken together but the projected deviation can still be corrected in 2017.

2018

On the basis of the plans in the programme nominal expenditure growth would not exceed the applicable benchmark of 1.6% in 2018 and the (recalculated) structural balance would improve by 0.6% of GDP, in line with the required adjustment. Over 2017-2018 together, both indicators also point to compliance. Hence, taken at face value the planned adjustment path towards the MTO seems appropriate.

On the basis of the Commission 2017 spring forecast both the expenditure benchmark and the structural balance show a deviation of -0.9% of GDP in 2018, indicating a risk of significant deviation at unchanged policy in the absence of measures to underpin the fiscal effort in 2018. The same conclusion would be reached for 2017 and 2018 together.

These assessments are based on the matrix of preventive arm requirements agreed with the Council, which takes into account (i) the cyclical position of the economy, as assessed on the basis of output gap estimates using the commonly agreed methodology as well as the projected real GDP growth rate, and (ii) debt sustainability considerations. Given the current cyclical conditions and the uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of Belgium's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of appreciation in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	0.8	0.0		0.0	
Structural balance[2] (COM)	-2.2	-1.6		-2.0	
Structural balance based on freezing (COM)	-2.2	-1.6		-	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.6	0.6		0.6	
Required adjustment corrected[5]	0.5	0.6		0.6	
Change in structural balance[6]	0.1	1.0	0.6	0.6	-0.3
One-year deviation from the required adjustment[7]	-0.4	0.4	0.0	0.0	-0.9
Two-year average deviation from the required adjustment[7]	-0.4	0.0	-0.2	0.2	-0.5
Expenditure benchmark pillar					
Applicable reference rate[8]	0.2	0.0		1.6	
One-year deviation adjusted for one-offs[9]	-0.6	-0.2	-0.4	0.4	-0.9
Two-year deviation adjusted for one-offs[9]	-0.3	-0.4	-0.5	0.1	-0.6
PER MEMORIAM: One-year deviation[10]	-0.7	-0.2	-0.3	0.5	-0.8
PER MEMORIAM: Two-year average deviation[10]	-0.3	0.1	-0.5	0.2	-0.6
Conclusion					
Conclusion over one year	Overall assessment	Overall assessment	Overall assessment	Compliance	Significant deviation
Conclusion over two years	Significant deviation	Compliance	Overall assessment	Compliance	Significant deviation

Notes

[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 (pp.) 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.).

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

[6] Change in the structural balance compared to year t-1.

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

[8] 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.

[9] 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.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law 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 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

Short-term fiscal sustainability risks appear to be contained according to the S0 indicator, which captures the short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on the Commission 2017 spring forecast and a no-policy-change scenario beyond the forecast horizon, government debt is expected to decrease from 105.9% of GDP in 2016 to 99% in 2027, thus remaining well above the 60% of GDP Treaty threshold. The full implementation of the stability programme would put debt on a stronger downward path although, at 84.9% of GDP, debt would remain above the 60% of GDP reference value in 2027.

The medium-term fiscal sustainability risk indicator S1 is at 3.8 pps. of GDP, primarily related to the high level of government debt (contributing 3.5 pps. of GDP). This indicates high sustainability risks in the medium term. The full implementation of the stability programme would put the S1 indicator at 2.4 pps. of GDP, lowering medium-term risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to prevent the debt-to-GDP ratio from entering an ever-increasing path) is at 2.7 pps. of GDP. In the long term, Belgium therefore appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs (contributing 2.2 pps. of GDP due to expenditure increases for long-term care and pensions). Full implementation of the programme would put the S2 indicator at 1.3 pps. of GDP, lowering long-term risks.

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 in 2030. These reforms have reduced the projected rise in public pension spending, which are nevertheless expected to increase by as much as 1 pp. of GDP by 2060. By the end of its term in 2019, the government intends to lay the groundwork for the introduction of a credit-based public pension system as of 2030. Once fully implemented such a system would allow for automatic adjustment mechanisms in response to demographic or economic developments.

Table 6: Sustainability indicators

Time horizon			No-policy-change scenario		Stability Programme scenario	
Short term			**LOW risk**			
S0 indicator [1]			0.3			
	Fiscal subindex		0.3	LOW risk		
	Financial & competitiveness subindex		0.2	LOW risk		
Medium term			**HIGH risk**			
DSA [2]			HIGH risk			
S1 indicator [3]			3.8	HIGH risk	2.4	MEDIUM risk
of which						
	Initial budgetary position		-0.1		-1.8	
	Debt requirement		3.5		3.6	
	Costs of ageing		0.4		0.6	
	of which					
		Pensions	0.4		0.5	
		Health care	0.0		0.0	
		Long-term care	0.1		0.1	
		Other	-0.1		0.0	
Long term			**MEDIUM risk**		**LOW risk**	
S2 indicator [4]			2.7		1.3	
of which						
	Initial budgetary position		0.6		-0.9	
	Costs of ageing		2.2		2.2	
	of which					
		Pensions	1.0		1.0	
		Health care	0.2		0.2	
		Long-term care	1.1		1.1	
		Other	-0.1		0.0	

Source: European Commission; 2017 Stability Programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2017 spring forecast covering 2017-2018. The 'Stability 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 2015 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-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 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for no-policy-change scenario and from last available year for the SP 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 2015 and Debt Sustainability Monitor 2016.

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 2016 stability programme planned a structural improvement of 0.6% of GDP at face value in 2016, while the realized improvement reached 0.3% of GDP according to the authorities. Therefore, based on the information provided in the programme, the past fiscal performance appears not to fully comply with the requirements of national numerical fiscal rules.

The 2013 Cooperation Agreement also entails a consultation of the federal and the different regional and community governments on the individual budgetary targets in the so-called Consultative Committee[8]. On 1 April 2017 the Public Borrowing Section of the High Council of Finance published its advice on the budgetary trajectory for the period 2017-2020 and the distribution of the fiscal effort across federated entities[9]. However, subsequent consultations have not resulted in an agreement between the governments on the distribution of the general government target. This has been the case in 2014, 2015 and 2016 – every year since the principle of such agreed distribution was introduced in the Cooperation Agreement. The 2017 stability programme mentions that the Consultative Committee only took note of the stability programme, which plans convergence towards the MTO. Consequently, the Public Borrowing Section of the High Council of Finance, which is also tasked with monitoring compliance with the agreed distribution of targets, is unable to fulfil its monitoring mandate. This means that it can also not activate the correction mechanism laid down in the Cooperation Agreement in the event of significant deviation from the agreed targets. Finally, the stability programme contains no details on the government plan to adopt provisions safeguarding the independence of the Public Borrowing Section of the High Council of Finance.

As discussed in Section 3.5, the absence of a clear distribution among the different sub-entities of the efforts underpinning the overall targets affects the credibility of the programme and puts its implementation at risk. Following the 2016 stability programme, working groups were set up to sort out two elements which have prevented an internal agreement in the past. These working groups needed to analyse how to alter the trajectories in function of exceptional 'strategic' investments and to discuss the issue of hospital investments that emerged following the most recent state reform. Neither of them appears to have been successful so far, contributing to the failure to come to an agreement on the trajectory in the 2017 programme.

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 V of the stability programme 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 formally attached to the government that positions itself as an independent institution. As stipulated in the Law of

[8] The 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.

[9] See footnote 5 and http://www.conseilsuperieurdesfinances.be/fr/publication/avis-trajectoire-budgetaire-en-preparation-du-programma-de-stabilite-2017-2020

21 December 1994 that constituted the FPB in its current form, supervision of the institution lies with the Prime Minister and the Minister of Economic Affairs, while guidance on its proceedings originates from the federal government with also the Belgian Parliament and the Central Economic Council or the National Labour Council able to seek an evaluation by the FPB of the federal government's economic, social and environmental policies[10].

7. SUMMARY

According to the outturn data, Belgium did not make sufficient progress towards compliance with the debt criterion in 2016. *Prima facie* there appears thus 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. This report, adopted on 22 May 2017, concluded that, after the assessment of all the relevant factors, the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with. At the same time, additional fiscal measures are to be taken in 2017 to ensure broad compliance with the adjustment path towards the MTO in 2016 and 2017 together. In 2017 and 2018, Belgium is forecast not to comply with the debt reduction benchmark at unchanged policy.

In 2016, primary government expenditure exceeded the applicable expenditure benchmark rate by 0.6% of GDP. The structural balance improved by 0.1% of GDP, which is below the required adjustment towards the MTO. Following an overall assessment, this points to some deviation from the recommended adjustment path towards the MTO in 2016.

Belgium plans an improvement of the structural balance of 1% of GDP in 2017 and 0.6% in 2018. It plans to reach the MTO in 2019. The planned progress towards the MTO appears appropriate when taken at face value. However, according to the Commission 2017 spring forecast, there is a risk of significant deviation from the adjustment path towards the MTO in 2017, on the basis of the average deviation in 2016-2017, and in 2018 at unchanged policy.

[10] 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. ANNEX

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	2.1	2.5	0.5	1.7	1.5	1.2	1.5	1.7
Output gap [1]	0.5	1.5	-0.8	-0.9	-0.5	-0.6	-0.4	0.0
HICP (annual % change)	1.9	2.6	1.9	0.5	0.6	1.8	2.3	1.5
Domestic demand (annual % change) [2]	1.3	2.7	0.3	2.3	1.5	0.5	1.3	1.5
Unemployment rate (% of labour force) [3]	7.5	7.9	7.9	8.5	8.5	7.8	7.6	7.4
Gross fixed capital formation (% of GDP)	21.7	22.6	22.4	22.9	23.0	23.0	23.0	23.3
Gross national saving (% of GDP)	27.0	27.4	24.2	23.0	23.4	23.6	23.9	24.5
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.4**	**-0.7**	**-4.2**	**-3.1**	**-2.5**	**-2.6**	**-1.9**	**-2.0**
Gross debt	**107.3**	**92.3**	**102.4**	**106.7**	**106.0**	**105.9**	**105.6**	**105.1**
Net financial assets	**-100.3**	**-82.2**	**-86.0**	**-100.1**	**-97.7**	**n.a**	**n.a**	**n.a**
Total revenue	49.3	48.8	50.6	52.0	51.4	50.7	50.8	50.2
Total expenditure	49.7	49.5	54.7	55.1	53.9	53.3	52.7	52.1
of which: Interest	6.3	4.2	3.6	3.3	3.0	2.9	2.6	2.4
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**0.6**	**1.3**	**3.2**	**2.0**	**2.3**	**3.5**	**3.7**	**3.8**
Net financial assets; non-financial corporations	**-66.6**	**-90.7**	**-74.6**	**-98.5**	**-108.1**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-1.7**	**-11.5**	**-4.6**	**5.6**	**4.6**	**n.a**	**n.a**	**n.a**
Gross capital formation	14.3	15.7	14.3	15.0	15.1	14.2	14.2	14.4
Gross operating surplus	21.7	24.7	24.7	24.9	25.7	26.4	26.7	27.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.7**	**2.6**	**2.4**	**0.7**	**0.4**	**0.6**	**-0.1**	**0.0**
Net financial assets	**234.4**	**223.1**	**222.9**	**242.1**	**246.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	38.4	37.5	38.1	38.1	37.6	37.4	37.2	37.0
Net property income	10.6	9.0	8.3	7.0	6.5	6.2	6.0	5.8
Current transfers received	21.1	20.8	22.6	22.9	22.7	22.7	22.7	22.5
Gross saving	10.4	9.3	8.7	7.1	6.8	7.1	6.4	6.6
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**4.8**	**3.2**	**1.5**	**-0.4**	**0.2**	**1.3**	**1.7**	**1.8**
Net financial assets	**-64.9**	**-37.6**	**-55.8**	**-47.4**	**-43.5**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	4.1	3.3	1.3	0.9	1.7	3.1	3.3	3.5
Net primary income from the rest of the world	2.0	1.5	1.7	0.5	0.0	-0.2	-0.2	-0.1
Net capital transactions	-0.1	-0.2	0.1	-0.2	0.0	0.1	0.2	0.1
Tradable sector	41.8	41.0	37.9	36.7	36.9	n.a	n.a	n.a
Non tradable sector	47.7	48.4	51.6	52.8	52.6	n.a	n.a	n.a
of which: Building and construction sector	4.5	4.7	5.1	4.9	4.9	n.a	n.a	n.a
Real effective exchange rate (index, 2000=100)	95.0	99.2	102.2	104.0	99.5	99.4	99.1	98.2
Terms of trade goods and services (index, 2000=100)	103.6	101.0	99.5	99.1	100.1	101.0	101.0	101.0
Market performance of exports (index, 2000=100)	104.4	99.6	101.3	102.5	101.0	103.7	103.5	102.9

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

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

Source :

AMECO data, Commission 2017 spring forecast