



EUROPEAN COMMISSION
Directorate-General
Economic and Financial Affairs

Brussels, 27 May 2015

**Assessment of the 2015 Stability Programme for
BELGIUM**

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION.....	3
2. MACROECONOMIC OUTLOOK.....	4
3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS.....	5
3.1. Deficit developments in 2014.....	5
3.2. Target for 2015 and medium-term strategy.....	6
3.3. Debt developments.....	9
3.4. Risk assessment.....	11
4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT.....	13
4.1. Compliance with the deficit criterion.....	13
4.2. Compliance with the debt criterion.....	13
4.3. Compliance with the MTO or the required adjustment path towards the MTO.....	15
5. LONG-TERM SUSTAINABILITY.....	17
6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES.....	19
6.1. Fiscal framework.....	19
6.2. Quality of public finances.....	19
7. CONCLUSIONS.....	21
ANNEX.....	22

1. INTRODUCTION

This document assesses Belgium's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 30 April 2015 and covers the period 2014-2018. The federal government approved the programme and the inter-governmental Consultative Committee¹, in which also community and regional governments are represented, took note of it.

Belgium is currently subject to the preventive arm of the the Stability and Growth Pact and should ensure sufficient progress towards its MTO. As the debt ratio was 104.4% of GDP in 2013 (the year in which Belgium corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Belgium is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark. In this period it should ensure sufficient progress towards compliance. After the transition period, as of 2017, Belgium is expected to comply with the debt reduction benchmark.

On 27 February 2015, the Commission issued a Report² under article 126(3) of the TFEU investigating the reasons for the *prima facie* lack of compliance with the debt reduction benchmark over the transition period. This includes the assessment of all relevant factors and notably: (i) the currently unfavourable economic conditions; (ii) the expectation that compliance with the required adjustment towards the MTO is broadly ensured; and (iii) ambitious growth-enhancing structural reforms expected to contribute to the reduction of the debt-to-GDP ratio in the medium/long term. The analysis presented by the 126(3) Report concluded that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as complied with at that time. In its report under article 126(3) the Commission also concluded that the excess in the government deficit over the reference value in 2014 was close to the reference value and temporary and could be qualified as exceptional within the meaning of the of the Stability and Growth Pact.

This document complements the Country Report published on 26 February 2015 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 2015 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 Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, 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 and the quality of public finances. Section 7 summarises the main conclusions.

¹ This body (the *Comité de concertation/Overlegcomité*), in which all Belgian governments are represented, was set up in 1980 in order to prevent conflicts of competences and solve conflicts of interests between different governments.

² See http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/126-03_commission/2015-02-27_be_126-3_en.pdf

2. MACROECONOMIC OUTLOOK

The macroeconomic scenario underlying the programme projects GDP to grow by 1.2% in 2015, following 1.0% in 2014.³ This compares to a growth assumption of 1.5% of GDP in the Draft Budgetary Plan (DBP) of October 2014. Both wage growth (+ 0.4%) and employment growth (+0.5%) remain very modest in 2015, hence the wage share in GDP declines. GDP growth is forecast to accelerate moderately in coming years and reach 1.7% in 2018. This gradual pick-up is driven by domestic demand, with the contribution from net trade projected to be broadly stable at around 0.3 pp. of GDP.⁴ In turn, the strengthening of domestic demand is mainly driven by fixed capital formation. The latter is projected to accelerate as of next year, though investment would not achieve the growth rates achieved prior to 2009. The same holds for private consumption with a growth rate within the range of 1.1-1.3% over the programme horizon. The output gap as recalculated by the Commission based on the information in the programme and the commonly agreed methodology would be gradually closed by 2018.⁵

The scenario includes the effects of several reforms already introduced by the authorities, such as the further tightening of early exit possibilities and prospective reductions of social security contributions. A quantitative impact assessment of these reforms has been included in Annex 5 of the 2015 National Reform Programme.

As compared to the Commission 2015 spring forecast, the difference in the GDP growth figure for 2015 is marginal: 1.2% in the programme as compared to 1.1% in the Commission projections with only minor differences in growth composition. Concerning 2016, both scenarios have GDP expanding by 1.5%. Though differences in composition are somewhat larger, these remain within a reasonable margin considering the inherent uncertainty underlying medium-term economic projections. The more dynamic development of private consumption in the programme for 2016 (1.1% vs. 0.9% in the Commission projections) is counterbalanced by lower investment growth (2.2% vs. 2.7%). This stronger private consumption corroborates with the more robust outlook for employment and real disposable income in the programme as compared to the Commission forecast. With regard to 2017-2018 the macroeconomic scenario of the programme projects a modest strengthening of the growth rate for most components, in line with what is projected for 2015-16. The macroeconomic assumptions underlying the programme are therefore found to be plausible, both regarding GDP growth as its composition.

³ Real GDP growth amounted to 1.1% in 2014 according to the most recent figures.

⁴ The external outlook in the programme is based on Consensus Economics and the CPB for 2015, and on the Commission's winter projections for 2016. Beyond that horizon the external outlook is based on an extension of the Commission's winter projections. Oil prices and the EUR/USD exchange rate for 2015-16 are based on future prices in early February 2015.

⁵ The recalculated output gaps are substantially less negative than output gaps presented in the programme itself, due to lower potential growth estimates compared to the programme. As a consequence, the recalculated structural deficit is larger than in the plans at face value. Because the difference between programme's output gap and the recalculated one widens in 2015 and 2016, the change in the recalculated structural balance is lower in these years than in the programme's trajectory at face value.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.0	1.0	1.1	1.2	1.5	1.5	1.6	1.7
Private consumption (% change)	1.0	0.9	1.2	1.3	0.9	1.1	1.1	1.3
Gross fixed capital formation (% change)	4.5	4.6	0.0	0.2	2.7	2.2	2.7	2.8
Exports of goods and services (% change)	3.3	3.7	3.9	3.7	5.7	4.1	4.1	4.1
Imports of goods and services (% change)	2.8	3.1	3.5	3.4	5.5	3.9	3.9	4.0
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	1.6	1.6	0.7	0.8	1.2	1.2	1.3	1.4
- Change in inventories	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.2
Output gap ¹	-1.3	-1.3	-1.1	-1.1	-0.7	-0.6	-0.3	0.0
Employment (% change)	0.3	0.3	0.4	0.5	0.7	0.8	0.9	0.8
Unemployment rate (%)	8.5	8.5	8.4	8.4	8.1	8.2	8.0	7.9
Labour productivity (% change)	0.7	0.7	0.6	0.6	0.8	0.7	0.8	0.8
HICP inflation (%)	0.5	0.3	0.3	0.2	1.3	1.2	1.2	1.3
GDP deflator (% change)	0.7	0.8	1.1	1.0	1.1	0.9	1.2	1.3
Comp. of employees (per head, %)	0.8	1.1	0.5	0.4	0.5	0.2	0.8	1.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.5	-0.5	2.1	0.5	2.1	0.6	1.0	1.3
Note:								
¹ In percent 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 2015 spring forecast (COM); Stability Programme (SP).								

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

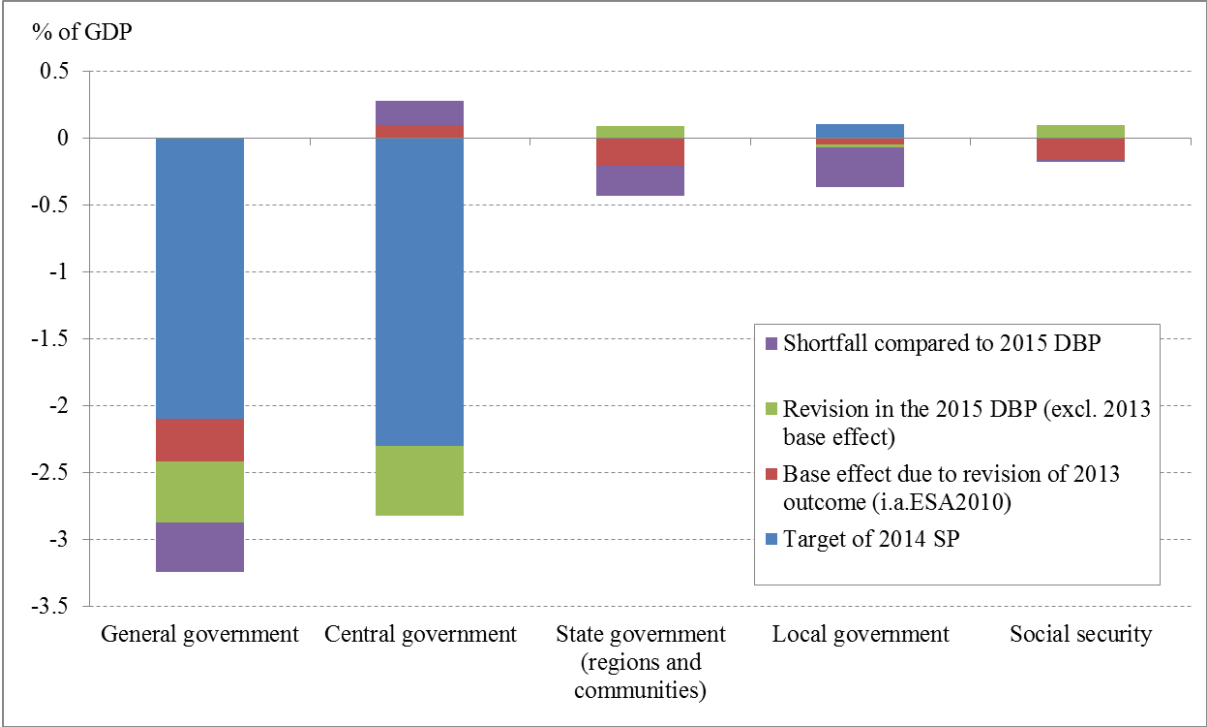
3.1. Deficit developments in 2014

The general government deficit reached 3.2% of GDP in 2014. This is substantially higher than the target of 2.1% of GDP of last year's Stability Programme and also above the projected outcome of 2.9% of GDP included in the 2015 DBP. The latter took already into account a negative impact of 0.3% of GDP due to statistical revisions (including the changeover to ESA 2010 accounting rules) as well as a downward revision in the growth outlook since the submission of the 2014 programme. Compared to the 2014 estimates included in the 2015 DBP, revenue was somewhat lower while investment expenditure turned out higher than expected.

There was a substantial slippage at the level of regions and communities (-0.2% of GDP) and local authorities (-0.3% of GDP) compared to the outcome estimated in the 2015 DBP, partly offset by a somewhat better result at federal level (+0.2% of GDP). However, it should be noted in this respect that the federal government had already substantially revised upwards the expected deficit (+0.4% of GDP) of its 2014 budget in the 2015 DBP.

The structural balance is estimated to have deteriorated by 0.1% of GDP in 2014. One-offs and temporary measures, such as a tax regularisation and a temporary regime for the taxation of liquidation capital gains, improved the headline balance by 0.3% of GDP. The 2014 budget outcome was impacted by substantial revenue shortfalls (0.3% of GDP) compared to standard elasticities. Some of these shortfalls could have been foreseeable however, as they notably relate to reduced dividends and guarantee fees from the financial sector.

Figure 1: Breakdown of the difference between the target of the 2014 Stability Programme and the 2014 deficit outcome (% of GDP)



Source: Commission calculation

3.2. Target for 2015 and medium-term strategy

The target for 2015

The Stability Programme targets an improvement of the (recalculated) structural balance⁶ by 0.6% of GDP in 2015. This is broadly in line with the target of the 2015 DBP and the indicative target of the 2014 Stability Programme. According to the programme, the targeted structural improvement would lead to a headline deficit of 2.5% of GDP, compared to 2.1% of GDP in the 2015 DBP. This revision is mainly due to the worse-than-previously expected outcome in 2014 (-0.3% of GDP). In addition, the economic cycle is estimated to improve less than in the DBP. These downward revisions are partly offset by a larger positive impact of one-off measures on the headline balance.

According to the Commission 2015 spring forecast, the headline deficit is expected to be slightly higher than in the programme, at 2.6% of GDP, despite somewhat higher nominal GDP growth. The structural improvement reaches 0.5% of GDP according to the Commission

⁶ Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

forecast. Besides the different headline deficit (see section 3.4), there is a somewhat different assessment of the one-off qualification of some measures. According to the programme, one-offs improve the headline balance by 0.3% of GDP, against 0.4% of GDP according to the Commission 2015 spring forecast. In fact, some measures taken at the recent budget control, such as a non-recurrent increase in the budget for security (0.05% of GDP), are labelled as one-off in the Stability Programme, while they do not meet the criteria used by the Commission for one-offs.⁷ Lower interest expenditure is expected to contribute to 0.3pp. of the improvement according to both the Stability Programme as well as the Commission forecast.

The headline deficit of the federal government (central state and social security) is planned to reach 1.9% of GDP in 2015, down from 2.6% in 2014. Regions and communities (state government) are expected to see an increase in their deficit from 0.3% of GDP in 2014 to 0.4% of GDP in 2015. In this respect, it should be noted that regions and communities also contribute implicitly to the consolidation through a mechanism of reduced grants from the federal government in 2015 and 2016.⁸ Lastly, local authorities are expected to reduce their deficit from a 0.3% deficit in 2014 to 0.1% in 2015.

The medium-term strategy

In 2016, the headline deficit is planned to decrease to 2.0% of GDP. The Commission 2015 spring forecast, at unchanged policy, projects a deficit of 2.4% of GDP. The planned improvement of the (recalculated) structural balance reaches 0.6% of GDP next year, while the Commission projections show an improvement of 0.2% at unchanged policy. The purpose of the programme is to reach a balanced budget in structural terms by 2018 (at face value), the end of the programme period, compared to 2016 in last year's programme. This balanced budget in structural terms corresponds to a small headline deficit according to the authorities. However, the recalculated structural balance, which takes the headline balances of the programme as a starting point, remains slightly in deficit in 2018.

Belgium reconfirms its medium-term objective (MTO) of a 0.75% of GDP surplus in structural terms, which is not planned to be reached within the programme period. The MTO is in line with the minimum value and, hence, it reflects the objectives of the Pact. In its Stability Programme, Belgium refers to a possible downward revision of its MTO in the coming years following the implementation of announced pension reforms. Once legislated, Belgium could ask for an ad-hoc update of its ageing projections, entailing a peer-review by the Ageing Working Group and a formal endorsement by the Economic Policy Committee. If endorsed, these updated projections would entail an ad-hoc revision of sustainability indicators possibly leading to the revision of the minimum medium-term objective for Belgium.

The planned adjustment in the programme towards the structurally balanced budget is gradual over the programme period. The trajectory presents structural targets requiring further measures. The split of the effort between revenue and expenditure items is purely indicative. The annual effort is broadly similar to the indicative targets of the 2014 programme.

⁷ Notably based on the guiding principle that as a rule no deficit-increasing measures should be excluded from the calculation of the fiscal effort (see: Public Finance Report, 2006, p. 101).

⁸ Following the 2013 reform of the Special Finance Law, transfers to regions and communities have been decreased by a lump sum of EUR 250 mn (0.06% of GDP) in 2014, by EUR 1.25 bn (0.3% of GDP) in 2015 and by EUR 2.5 bn (0.6% of GDP) from 2016 onwards.

However, the starting position is worse due to the impact of the methodological changes mentioned above, as well as the lack of effort in 2014. As a consequence, the balanced budget is reached two years later than foreseen in last year's programme. Besides the targeted structural adjustment, also the gradual economic acceleration contributes to the improvement of the headline balance over the programme period.

Measures underpinning the programme

The programme only contains measures taken at the recent budget control exercise at federal and regional level, which are overall limited in size. The more sizeable budgetary measures for the 2015-2018 period agreed in the context of the coalition negotiations at different levels of government are not presented in the programme. Expenditure measures agreed at that time include linear cuts in staff, operating costs and investment of the central state (0.2% of GDP by 2018), cuts in development cooperation and defence expenditure (0.1% of GDP) and a reduction of subsidies to the national railway company (0.1% of GDP). In the social security sector, the real growth ceiling of health expenditure has been revised downwards (0.6% of GDP by 2018) and access conditions for some social benefits have been tightened (0.4% of GDP). Regions and communities also implemented a series of expenditure cuts (0.3% of GDP) in their 2015 budgets. Main tax measures include an advanced taxation of pension savings (0.1% of GDP as of 2015), increases in excise duties (0.2% of GDP by 2018), a new tax regime for capital gains from company liquidations (0.1% of GDP by 2018) and measures against fiscal fraud (0.1% of GDP by 2018). In addition, reductions in social security contributions announced by the previous government for 2015 and 2017 will be combined in 2016 (-0.2% of GDP). Personal income tax reductions for workers are gradually increased in 2015 and 2016 (-0.2% of GDP by 2016).

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	Change: 2014-2018
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	51.1	50.7	50.6	50.2	50.4	50.4	50.5	-0.6
<i>of which:</i>								
- Taxes on production and imports	12.9	12.8	12.8	12.9	12.8	12.8	12.8	0.0
- Current taxes on income, wealth, etc.	16.8	16.8	16.7	16.7	16.8	16.9	17.0	0.2
- Social contributions	16.5	16.4	16.4	16.1	16.1	16.1	16.1	-0.4
- Other (residual)	4.9	4.7	4.8	4.5	4.6	4.6	4.6	-0.4
Expenditure	54.3	53.3	53.1	52.6	52.3	51.4	50.6	-3.7
<i>of which:</i>								
- Primary expenditure	51.3	50.5	50.3	50.0	49.8	49.1	48.5	-2.8
<i>of which:</i>								
Compensation of employees	12.5	12.2	12.2	11.9	11.9	11.7	11.5	-1.0
Intermediate consumption	4.0	3.8	3.8	3.7	3.8	3.7	3.7	-0.3
Social payments	25.3	25.4	25.4	25.3	25.1	24.9	24.7	-0.6
Subsidies	2.9	2.9	2.9	2.9	2.9	2.9	2.9	0.0
Gross fixed capital formation	2.3	2.3	2.3	2.3	2.3	2.3	2.3	0.0
Other (residual)	4.3	4.0	3.8	3.9	3.8	3.6	3.5	-0.8
- Interest expenditure	3.1	2.8	2.8	2.7	2.5	2.3	2.1	-0.9
General government balance (GGB)	-3.2	-2.6	-2.5	-2.4	-2.0	-1.0	-0.2	3.1
Primary balance	-0.2	0.2	0.2	0.3	0.5	1.3	2.0	2.1
One-off and other temporary	0.3	0.4	0.3	0.1	0.0	0.1	0.1	-0.2
GGB excl. one-offs	-3.6	-3.0	-2.8	-2.5	-2.0	-1.1	-0.2	3.3
Output gap ¹	-1.3	-1.1	-1.1	-0.7	-0.6	-0.3	0.0	1.4
Cyclically-adjusted balance ¹	-2.5	-1.9	-1.9	-2.0	-1.6	-0.8	-0.2	2.3
Structural balance (SB)²	-2.8	-2.3	-2.2	-2.1	-1.6	-0.9	-0.3	2.5
Structural primary balance ²	0.3	0.5	0.6	0.5	0.9	1.4	1.9	1.6
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 2015 spring forecasts (COM); Commission calculations.								

3.3. Debt developments

Gross public debt increased strongly in 2014, due to a intensely upward snowball effect in a context of low inflation and modest real growth. Also stock-flow adjustment had an overall upward impact on the debt level, among others due to capital contributions to the ESM and EFSF disbursements (0.2% of GDP), a financial operation with the gas and electricity network operator Eandis (0.2% of GDP) which will be reversed in 2015, and the difference between accrued and cash based revenues (0.2% of GDP).

Gross debt is planned to peak at almost 107% of GDP in 2015 before gradually declining to around 102% of GDP at the end of the programme horizon. As of 2017, nominal growth is expected to exceed interest expenditure and hence the snowball effect would have a

downward impact on the debt ratio. According to the Commission 2015 spring forecast, public debt will remain stable in 2015, due to more optimistic assumptions on the stock-flow adjustments. Contrary to the evolution planned in the programme, the gross debt is forecast to hardly decline in 2016, notably due to the higher headline deficit in the Commission's projections.

Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018
			COM	SP	COM	SP	SP	SP
Gross debt ratio¹	101.8	106.5	106.5	106.9	106.4	106.3	104.6	102.0
Change in the ratio	2.4	2.1	0.0	0.5	-0.1	-0.6	-1.7	-2.6
<i>Contributions²:</i>								
1. Primary balance	0.7	0.2	-0.2	-0.2	-0.3	-0.5	-1.3	-2.0
2. "Snow-ball" effect	1.3	1.3	0.5	0.6	0.1	0.0	-0.3	-0.8
<i>Of which:</i>								
Interest expenditure	3.4	3.1	2.8	2.8	2.7	2.5	2.3	2.1
Growth effect	-0.4	-1.1	-1.1	-1.2	-1.5	-1.5	-1.7	-1.7
Inflation effect	-1.8	-0.7	-1.2	-1.0	-1.1	-1.0	-0.9	-1.2
3. Stock-flow adjustment	0.5	0.6	-0.3	0.1	0.1	-0.1	-0.1	0.2
<i>Of which:</i>								
Cash/accruals diff.								
Acc. financial assets								
<i>Privatisation</i>								
Val. effect & residual								

Notes:

¹ End of period.

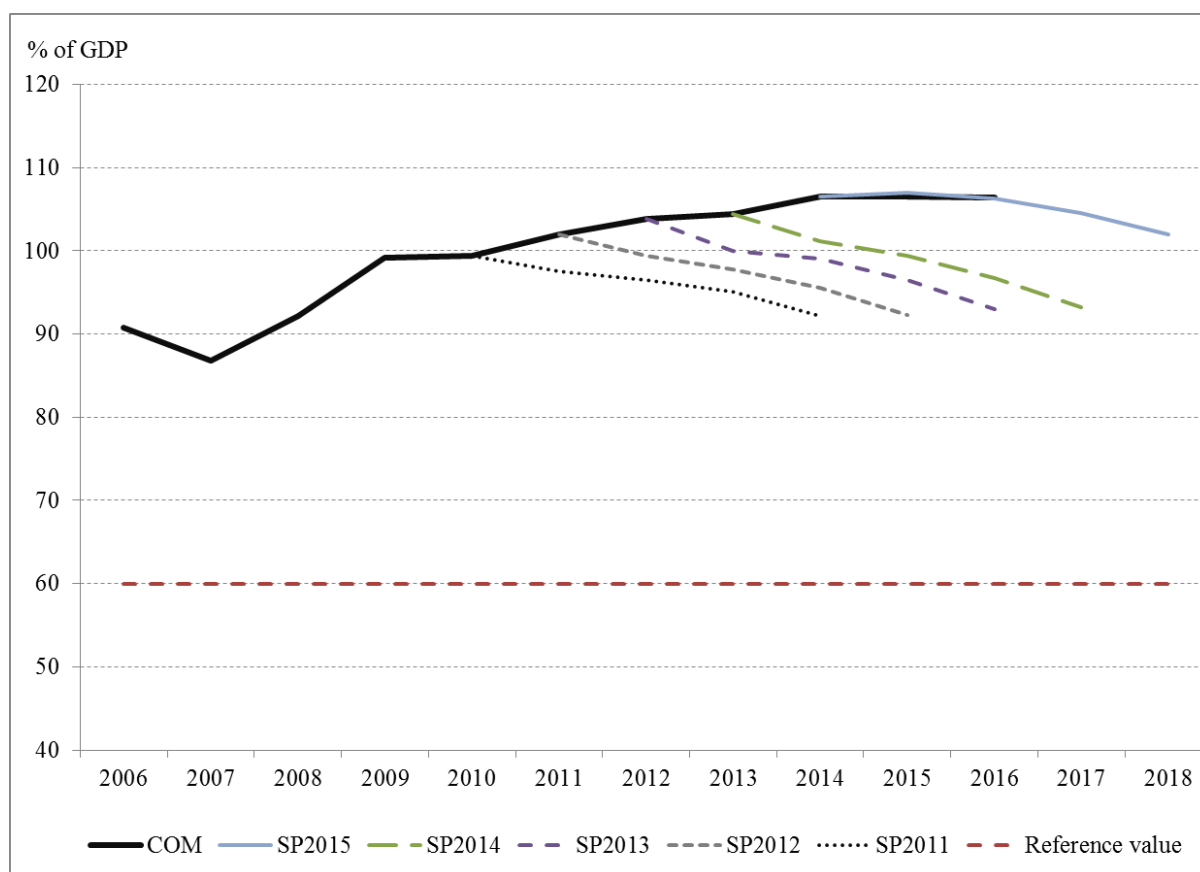
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and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

Source:

Commission 2015 spring forecast (COM); Stability Programme (SP), Commission calculations.

Debt projections are substantially above those set in previous programmes (see figure 1). Data revisions and methodological changes (e.g. a widening of the scope of the government sector) had a large upward impact on the debt ratio, with 2013 debt revised from 101.5% of GDP according to the 2014 Stability Programme to 104.4% of GDP in the April 2015 EDP notification. In addition, also the higher headline deficit in 2014 and subsequent years as well as the strong downward revision of nominal GDP growth over the programme period contribute to the higher debt profile in the current programme.

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



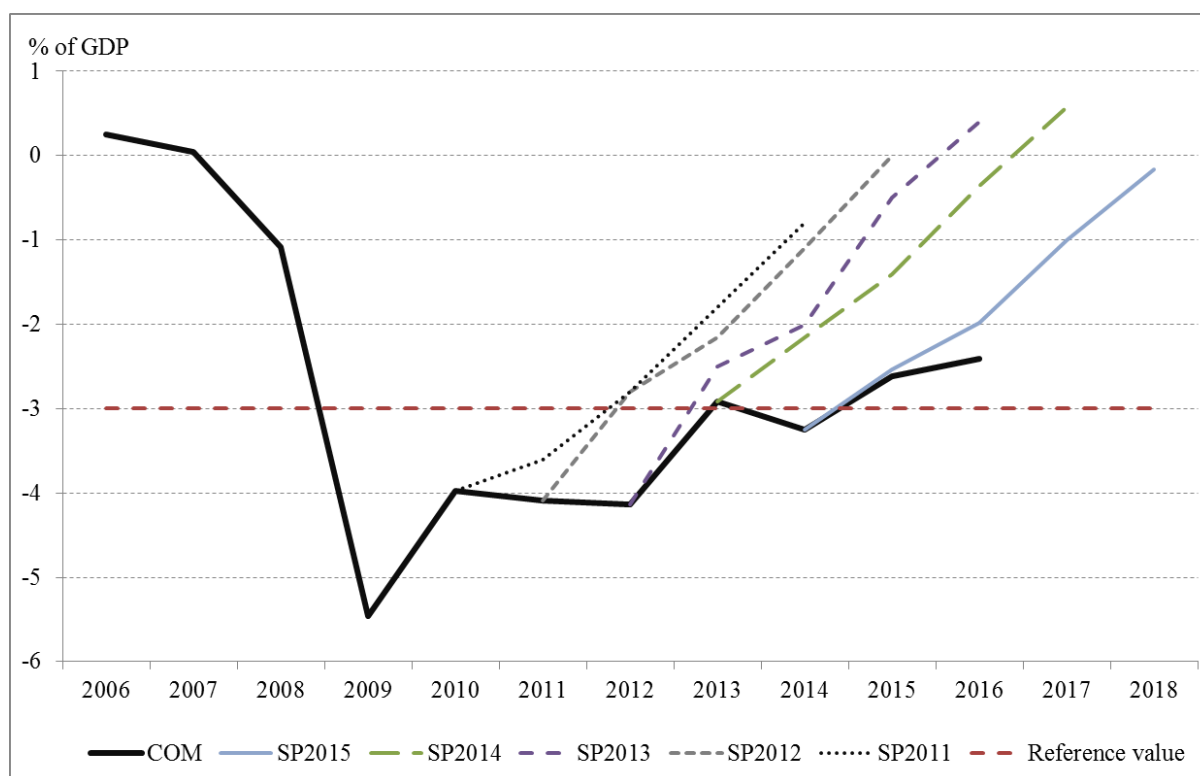
Source: Commission 2015 spring forecast, Stability Programmes

3.4. Risk assessment

The return to a balanced budget has regularly been postponed in recent programmes (see Figure 3). This is due to repeatedly having missed the targeted structural improvement as well as the regular downward revision of the economic growth outlook. In 2014, also statistical changes hampered the achievement of headline targets.

The 2015 deficit target of this programme is to a large extent underpinned by measures. However, there are still some risks surrounding the achievement of the target. The authorities count on an improvement by 0.2% of GDP of the balance of local government in 2015, which might be too optimistic in view of recent outcomes, all the more because local government's balance tends to deteriorate over their term due to their (electoral) investment cycle. This partly explains the somewhat more pessimistic view of the Commission 2015 spring forecast. In addition, in their recent budget review, the authorities count on a positive budgetary impact of tax reductions, the creation of so-called starter jobs, and increased labour market flexibility, while these second round effects are at least in the short term uncertain.

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



Source: Commission 2015 spring forecast, Stability Programmes

Budgetary measures decided in the coalition agreements of recently formed federal and regional governments will have an additional impact in the coming years. However, measures announced so far are currently not expected to ensure the achievement of the fiscal targets of the programme beyond 2015 as shown by the Commission projection for 2016.

In the programme, it is foreseen that both the so-called entity I (central government and social security) and entity II (regions, communities and local authorities) achieve a balanced budget in structural terms by 2018. However, the trajectory is not underpinned by a binding distribution of the efforts among the different sub-entities, which affects the credibility of the programme. Trajectories of individual regions and communities are partly indicative and formulated in nominal terms, compared to a structural approach for the programme as a whole. The internal distribution of deficit targets is hampered by uncertainties surrounding the budgetary impact of recent changes in the financing of regions and communities.

According to the assumptions of the programme, interest rates are expected to remain very low in the coming years (long term interest rates at 1.2% in 2018, compared to 1.9% in 2014 and 0.8% in 2015). This contributes to an improvement of 1.0% of GDP of the government balance over the programme horizon. Higher than expected interest rates could considerably increase the amount of additional measures to be taken in order to reach the targets of the programme, especially for the federal government. According to the sensitivity analysis included in the programme, each percentage point increase in interest rates compared to the assumptions would result in an additional expenditure of 0.33% of GDP by 2018.

Risks to the debt projections are naturally linked to the risks in deficit developments. Given that deficit targets are set in structural terms, the headline deficit, which is relevant for debt developments, will ultimately depend on actual growth outcomes. Contingent liabilities of the federal government, mainly linked to outstanding guarantees granted to the financial sector

(excl. deposits guarantee scheme), decreased from 12.6% of GDP at the end of 2013 to 10.3% at the end of 2014.

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

Box 1. Council recommendations addressed to BELGIUM

On 8 July 2014, 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 reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5 % of GDP based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure the required adjustment of 0.6 % of GDP towards the medium-term objective, which would also ensure compliance with the debt rule. Thereafter, until the medium-term objective is achieved, pursue the planned annual structural adjustment towards the medium-term objective, in line with the requirement of an annual structural adjustment of at least 0.5 % of GDP, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ensure a balanced contribution by all levels of government to the fulfilment of fiscal rules including the structural budget balance rule, through a binding instrument with an explicit breakdown of targets within a medium-term planning perspective.

4.1. Compliance with the deficit criterion

The 2014 deficit came out at 3.2% of GDP, exceeding the 3% of GDP reference value. Therefore, the Commission prepared a report under article 126(3) of the Treaty in February 2015, which concluded that the excess over the reference value was limited and temporary and could be qualified as exceptional within the meaning of the Stability and Growth Pact.⁹ According to the plans of the Belgian authorities, the deficit will remain below the 3% of GDP reference value over the programme period. This is also confirmed by the Commission 2015 spring forecast for 2015 and 2016.

4.2. Compliance with the debt criterion

Following the abrogation of the Excessive Deficit Procedure (EDP), Belgium benefits from a three-year transition period to comply with the debt reduction benchmark, starting in 2014. According to the Commission's assessment based on notified data, Belgium did not make sufficient progress towards compliance with the debt criterion in 2014, as measured by the Minimum Linear Structural Adjustment (MLSA). The required MLSA amounted to 0.7% of GDP while the actual adjustment was slightly negative (-0.1% of GDP).

According to both the national plans and the Commission 2015 spring forecast, Belgium will not make sufficient progress towards compliance with the debt criterion in 2015 either, and the debt benchmark is not expected to be met at the end of the transition period, in 2016.¹⁰ The required MLSA over 2015-2016 reaches 1.2% of GDP on the basis of the plans, while the planned adjustment amounts to 0.6% of GDP. Also the effort projected by the Commission

⁹ See: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/belgium_en.htm

¹⁰ Given that the programme horizon is limited to 2018, the forward looking debt reduction benchmark – which would cover the years 2017-2019 - cannot be calculated beyond 2016. At face value, the debt-to-GDP is planned to decrease by 1.7 pps. in 2017 and 2.6 pps. in 2018.

2015 spring forecast falls short of the required MLSA in 2015 (0.5% of GDP vs. required 1.1% of GDP) and 2016 (0.2% of GDP vs. required 1.8% of GDP), the latter on a no-policy change basis. This assessment would not change when taking into account the impact of financial solidarity operations (the required MLSA would amount to 0.7%, 1.0% and 1.8% of GDP in 2014, 2015 and 2016, respectively).

Table 4: Compliance with the debt criterion

	2014	2015		2016	
		SP	COM	SP	COM
Gap to the debt benchmark ^{1,2}	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment ³	-0.1	0.6	0.5	0.6	0.2
<i>To be compared to:</i>					
Required adjustment ⁴	0.7	1.2	1.1	1.8	1.8

Notes:
¹ Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.
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 (SP) budgetary projections for the previous years are achieved.

Source:
Commission 2015 spring forecast (COM); Stability Programme (SP), Commission calculations.

On 27 February 2015, the Commission prepared a report under article 126(3) of the Treaty in February 2015, based on the estimated 2014 outcome and the Commission 2015 winter forecast for 2015, which concluded that after the assessment of all the relevant factors and notably (i) the currently unfavourable economic conditions which make the respect of the debt rule particularly demanding; (ii) the expectation that compliance with the required adjustment towards the MTO is broadly ensured; and (iii) the expected implementation of ambitious growth-enhancing structural reforms in line with the authorities' commitment, which is expected to contribute to debt reduction in the medium/long term suggests that, the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as complied with at that time.¹¹

¹¹ See: http://ec.europa.eu/economy_finance/economic_governance/sfp/deficit/countries/belgium_en.htm

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

Based on outturn data and the Commission 2015 spring forecast, the structural balance is estimated to have deteriorated by 0.1% of GDP in 2014, hence falling significantly short of the required adjustment of 0.5% of GDP. This points to a significant deviation (gap of 0.6% of GDP). The real growth rate of (adjusted) government expenditure, net of discretionary revenue measures, in 2014 exceeded the applicable expenditure benchmark rate of 0.2%. However, the gap of 0.2% of GDP on the structural balance remains below the threshold of significance, hence pointing to some deviation. The structural effort is negatively impacted by a sizable revenue shortfall in 2014 (0.3% of GDP), among others due to a loss in revenues from the financial sector, such as dividends or guarantee fees. On the other hand, the contribution of deficit-reducing one-offs is far less in 2014 compared to 2013. This affects the expenditure benchmark negatively, through the netting out of discretionary revenue measures. Following an overall assessment, the ex-post assessment suggests that there was some deviation from the adjustment path towards the MTO in 2014.

In 2015, the planned change in the (recalculated) structural balance is in line with the required adjustment of 0.6% of GDP.¹² According to the information provided in the programme, the (real) growth rate of government expenditure, net of discretionary revenue measures, will not exceed the applicable expenditure benchmark of 0.0%. According to the Commission 2015 spring forecast, the projected structural effort in 2015 is just below the requirement of 0.6% of GDP (gap of 0.1% of GDP). On the other hand, the expenditure benchmark is expected to be met. Also in 2015, the structural balance is negatively impacted by a sizable revenue shortfall (0.3% of GDP), notably due to a low growth of labour tax revenues, as a consequence of very low wage growth which results in a decreasing wage share in GDP. Meanwhile these unfavourable revenue developments do not affect the expenditure benchmark.

The average change in the (recalculated) structural balance of the programme over 2014 and 2015 taken together is just above the threshold of significance (gap of 0.3%) while on average the expenditure benchmark is respected. Also, according to the Commission forecast, the average deviation from the structural balance pillar over 2014 and 2015 taken together is above the threshold of significance (gap of 0.4%), pointing to a risk of significant deviation, while there is some deviation on average on the expenditure benchmark pillar (gap of 0.1% of GDP). As mentioned above, the structural balance is negatively impacted by sizeable revenue shortfalls in both years. Based on the Commission's forecast and following an overall assessment, some deviation from the adjustment path towards the MTO is to be expected over 2014 and 2015 taken together, especially due to the gap in 2014.

In 2016, the change in the (recalculated) structural balance of the programme is in line with the required adjustment of 0.6% of GDP,¹³ both over one year as well as over 2015-2016 taken together. According to the information provided in the programme, also the (real) growth rate of government expenditure, net of discretionary revenue measures will remain below the applicable expenditure benchmark of 0.0% in 2016 and in 2015 and 2016 taken together. Hence, the planned adjustment path towards the MTO seems to be appropriate and compliant with the requirement of the preventive arm of the Pact in 2015 and 2016.

¹² The programme targets an adjustment of 0.75%, but the recalculation of the structural adjustment based on the evolution of the headline balance of the programme results in an improvement of 0.6% of GDP.

¹³ The programme targets an adjustment of 0.75%, but the recalculation of the structural adjustment based on the evolution of the headline balance of the programme results in an improvement of 0.6% of GDP.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2014	2015		2016	
Initial position¹					
Medium-term objective (MTO)	0.8	0.8		0.8	
Structural balance ² (COM)	-2.8	-2.3		-2.1	
Structural balance based on freezing (COM)	-2.3	-2.3		-	
Position vis-a-vis the MTO³	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	2014	2015		2016	
	COM	SP	COM	SP	COM
Structural balance pillar					
Required adjustment ⁴	0.5	0.6		0.6	
Required adjustment corrected ⁵	0.5	0.6		0.6	
Change in structural balance ⁶	-0.1	0.6	0.5	0.6	0.2
<i>One-year deviation from the required adjustment⁷</i>	-0.6	0.0	-0.1	0.0	-0.4
<i>Two-year average deviation from the required adjustment⁷</i>	In EDP	-0.3	-0.4	0.0	-0.3
Expenditure benchmark pillar					
Applicable reference rate ⁸	0.2	0.0		0.0	
<i>One-year deviation⁹</i>	-0.2	0.6	0.0	0.0	-0.6
<i>Two-year average deviation⁹</i>	In EDP	0.2	-0.1	0.3	-0.3
Conclusion					
Conclusion over one year	Overall assessment	Compliance	Overall assessment	Compliance	Overall assessment
Conclusion over two years	In EDP	Overall assessment	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 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 28.).					
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 required adjustment corrected.					
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 not at its MTO.					
⁹ 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.					
<i>Source:</i>					
<i>Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.</i>					

On the other hand, at unchanged policy, the Commission 2015 spring forecast points to a risk of significant deviation from the adjustment path towards the MTO in 2016, because the gap on both the expenditure benchmark as well as the structural balance is exceeding the threshold of significance. This reflects the fact that in the absence of a budget for 2016, the achievement

of 2016 targets is not yet ensured. Hence, at unchanged policy, a significant deviation from the adjustment path is expected in 2016.

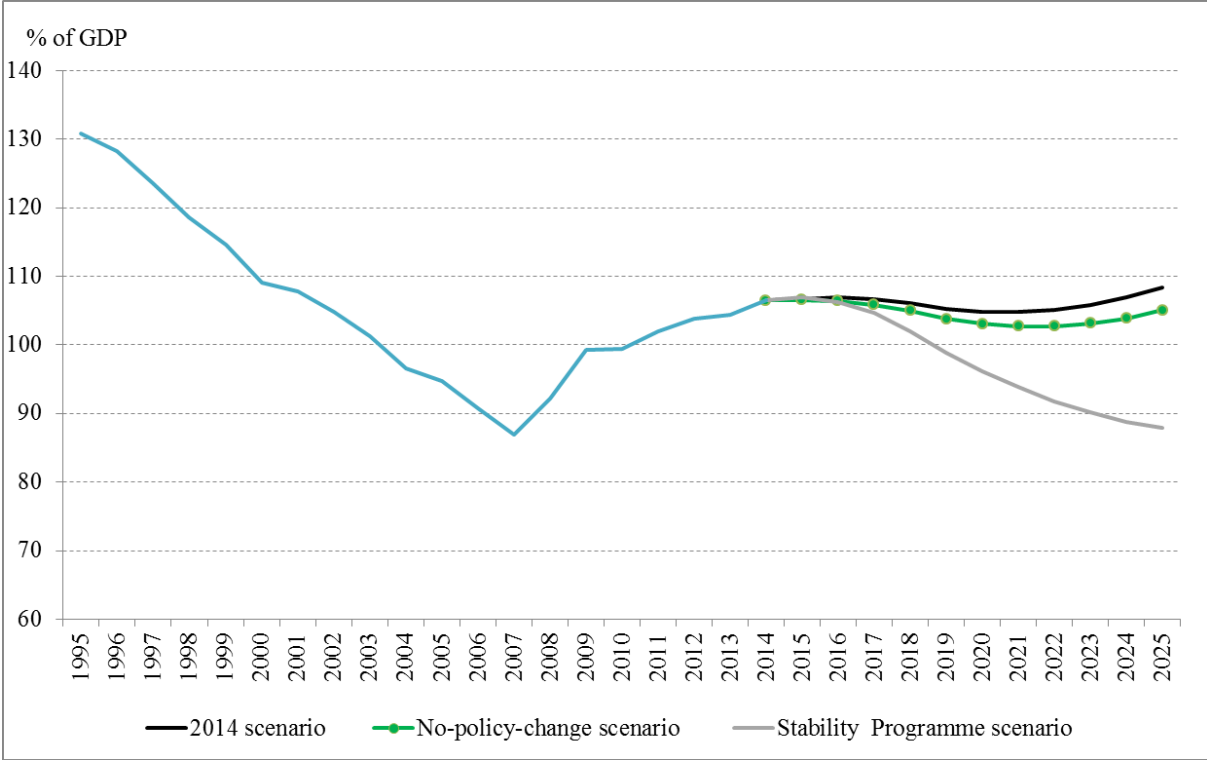
5. LONG-TERM SUSTAINABILITY¹⁴

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report¹⁵ published on 12 May. It therefore updates the assessment made in the Country Reports¹⁶ published on 26 February.

Government debt stood at 106.5% of GDP in 2014. It is expected to be stable over 2015 and 2016, remaining well above the 60% of GDP Treaty threshold. However, the full implementation of the programme would put debt on a clearly decreasing path by 2025, although remaining above the 60% of GDP reference value in 2025 (see figure 4).

Belgium appears to face high fiscal sustainability risks in the medium term. The medium-term sustainability gap, is at 4.7 % of GDP, primarily related to the high level of government debt (106.4% of GDP in 2016), and the projected ageing costs (contributing with 1.3 pps. of GDP) until 2030), indicating high risks.

Figure 4: Gross debt projections (% of GDP)



Source: Commission 2015 spring forecast; Stability Programme; Commission calculations

¹⁴ This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability Programme.

¹⁵ See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

¹⁶ See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

In the long-term, Belgium appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs (contributing with 3.9 pps. of GDP) over the very long run, in particular pensions and long term care. The long-term sustainability gap, which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 4.3 % of GDP. Risks would be lower in the event of the structural primary balance reverting to higher values observed in the past, such as the average for the period 2005-2014.

The focus should therefore be on reducing government debt and further containing age-related expenditure growth appears necessary to contribute to the sustainability of public finances in the medium/long term.

Table 6: Sustainability indicators

	Belgium			European Union		
	2014 scenario	No-policy-change scenario	Stability Programme scenario	2014 scenario	No-policy-change scenario	Stability/Convergence Programme scenario
S2*	4.6	4.3	2.9	1.4	1.7	0.4
<i>of which:</i>						
Initial budgetary position (IBP)	0.7	0.4	-0.8	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	3.9	3.9	3.8	1.0	1.1	1.1
<i>of which:</i>						
pensions	2.6	2.4	2.2	0.0	0.1	0.1
healthcare	0.0	0.1	0.2	0.8	0.7	0.6
long-term care	1.3	1.2	1.2	0.7	0.7	0.6
others	0.0	0.2	0.2	-0.4	-0.3	-0.2
S1**	4.8	4.7	2.9	1.4	1.8	0.5
<i>of which:</i>						
Initial budgetary position (IBP)	0.7	0.1	-2.0	-0.4	-0.3	-1.6
Debt requirement (DR)	2.9	3.3	3.6	1.7	1.9	1.8
Long-term cost of ageing (CoA)	1.2	1.3	1.3	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.11	:	:	:	:	:
<i>Fiscal subindex</i>	0.20	:	:	:	:	:
<i>Financial-competitiveness subindex</i>	0.07	:	:	:	:	:
Debt as % of GDP (2014)	106.5			88.6		
Age-related expenditure as % of GDP (2014)	27.7			25.6		
Source: Commission, 2015 Stability Programme						
Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. 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.						
* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.						
** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.						
*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indices, thresholds are respectively at 0.35 and 0.45.						

The projected ageing costs pose a challenge in Belgium. Especially, the contribution from pension and long-term care expenditure is particularly high. The focus should therefore be on linking the retirement age to changes in life expectancy, supporting labour conditions conducive to active ageing as well as improving the cost-effectiveness of public spending on long-term care, including through better benefit targeting.

The federal government has agreed on a major pension reform aimed at reducing the gap between the effective and statutory retirement ages as well as increasing the statutory retirement age. The early retirement age is to be raised further after 2016, to 63 years by 2019 with a minimum career length requirement of 42 years. Over the longer term, an increase in the statutory retirement age is planned: from 65 to 66 in 2025 and to 67 in 2030. Moreover, the gradual introduction of a credit-based pension system is planned, with adjustment mechanisms that respond to demographic or economic developments such as an increase in life expectancy or changes in the economic dependency ratio. A successful consolidation strategy offsetting the budgetary impact of an ageing population and safeguarding the long-term sustainability of public finances depends on the swift implementation of this pension reform. Considering that there are still few incentives to support the employability of older workers, these pension reforms would need to be accompanied by employment-support measures and labour-market reforms conducive to active ageing.

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

6.1. Fiscal framework

In the 2014 Country Specific Recommendations, Belgium was recommended to ensure a *'balanced contribution by all levels of government to the fulfilment of fiscal rules (...), through a binding instrument with an explicit breakdown of targets within a medium-term planning perspective'*. Belgium is considered to have made limited progress in the implementation of this recommendation.¹⁷ Although a Cooperation Agreement concluded at the end of 2013 between the different governments introduced structural coordination arrangements, this did so far not lead to the conclusion of a binding distribution of fiscal targets. As highlighted in the risk assessment, the absence of a clear distribution of the efforts among the different sub-entities underpinning the overall targets, affects the credibility of the 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. The national medium-term fiscal plan or national reform programme does not include indications on the expected economic returns on non-defence public investment projects as required by art. 4.1 of the above mentioned regulation.

The macro-economic forecast underlying the Stability Programme has been prepared by the Federal Planning Bureau. This is a long-standing institution established by law, and working under the joint authority of the Prime Minister and the Minister of Economic Affairs.

6.2. Quality of public finances

In its Stability Programme, the Belgian authorities present a number of structural reforms that support a durable consolidation of public finances, related to the access to early retirement

¹⁷ See 2015 Country Report on Belgium: http://ec.europa.eu/economy_finance/eu/countries/belgium_en.htm

and pensions, the labour market, the tax system and efficiency of government spending. Measures stimulating the employment of older workers and reforms of the pension system are discussed in section 5.

On the revenue side, measures have been adopted to reduce the tax burden on labour, both for employers (2016) as well as for employees (2015-2016). As already outlined in Belgium's 2015 draft budgetary plan, these measures are financed by the increase of some other taxes (excise duties, non-indexation of tax expenditures, stock exchange tax, CIT for *intercommunales* and lower CIT deductions for the banking sector), the introduction of new taxes (such as a so-called *transparency tax*) and the fight against tax fraud and social fraud. In the March 2015 budget control, specific labour tax reductions have been agreed for hotels, restaurants and bars. While these measures mitigate somewhat the high overall tax burden on labour, they do not constitute a comprehensive redesign of the tax system, which would allow shifting taxes away from labour towards more growth friendly bases, simplifying the tax system, closing loopholes, increasing VAT efficiency, broadening tax bases, reducing tax expenditures and phasing out environmentally harmful subsidies. In this respect, the Belgian authorities committed in their 2015 National Reform Programme to 'amplify this shift within the constraints of the budgetary path it has set', but no details on the content of such a further tax shift have been communicated.

In order to increase work incentives, access or levels of unemployment benefits have been reduced for partial unemployed, young unemployed, and temporary unemployed. Possibilities to benefit from the systems of time credit or career break are reduced. On the labour demand side, it has been decided to re-focus the resources to stimulate the employment of vulnerable groups more on young workers, in order to create so-called starter jobs. Lastly, measures have been taken to promote the activation of disabled people. Together with the reforms of pension and pre-retirement systems, these activation measures should curb the rapid increase in social security spending witnessed in recent years. This being said, there is also a need to invest in the employability of specific groups, in order to avoid a shift towards systems of social assistance.

The Stability Programme refers further to the objective of closing the wage gap with respect to the three main trading partners. In this context, the automatic indexation of wages has temporarily been suspended, social security contributions will be reduced (cf. above) and the maximum allowed margin for wage negotiations will be limited to 0% in 2015 and 0.8% in 2016. Lastly, the government plans a revision of the Law of 1996 which fixes the wage norm, i.e. the ceiling for real wage increases. Actual wage evolutions in the 3 reference countries will be taken into account to allow the margin for wage increases, and an automatic correction mechanism will be applied in case of slippages. The suspension of indexation mechanisms also applies to public sector wages and social benefits, which has a substantial positive impact on the government balance. On the other hand, the limited wage increases in the private sector have initially a negative impact on tax revenues, while in the medium to long term an increased competitiveness of the Belgian economy would contribute to a successful consolidation strategy.

7. CONCLUSIONS

Belgium's structural balance deteriorated by 0.1% of GDP in 2014, which points to a significant deviation from the required adjustment of 0.5% of GDP. The growth rate of government expenditure, net of discretionary revenue measures, exceeded by 0.2% of GDP the applicable expenditure benchmark rate but the gap remains below the threshold of significance of ½% of GDP. Overall, the ex-post assessment suggests that there was some deviation from the adjustment path towards the MTO in 2014.

The April notification and Stability Programme confirm the estimated 2014 outcome of a deficit of 3.2% of GDP. The Commission prepared a report under article 126(3) of the Treaty in February 2015, in which it concluded that the excess over the reference value was limited and temporary and could be qualified as exceptional within the meaning of the of the Stability and Growth Pact. The structural improvement in 2014 and 2015 falls short of the Minimum Linear Structural Adjustment to ensure sufficient progress towards compliance with the debt criterion. In its report, which was based on the estimated 2014 outcome, the Commission concluded that after the assessment of all the relevant factors the debt criterion should be considered as currently complied with. The relevant factors underlying this conclusion are still valid.

Belgium plans an improvement of the (recalculated) structural balance of 0.6% of GDP in 2015 and 2016 and a further adjustment of 0.7% of GDP in 2017 and 0.6% in 2018. While the programme targets a balanced budget in structural terms by 2018, the recalculated structural balance still shows a small deficit (0.3% of GDP). The planned progress towards the MTO appears appropriate. However, according to the Commission 2015 spring forecast, there is a risk of some deviation over 2014-2015 taken together, in particular because of the large shortfall in 2014, and, at unchanged policy, a risk of significant deviation in 2016.

Like in 2014, the structural adjustment planned by Belgium in 2015 and 2016 falls short of what would be required to ensure sufficient progress towards compliance with the debt criterion.

ANNEX

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	2.8	2.1	1.1	0.1	0.3	1.0	1.1	1.5
Output gap ¹	0.8	0.6	0.5	-1.1	-1.5	-1.3	-1.1	-0.7
HICP (annual % change)	1.7	2.0	2.4	2.6	1.2	0.5	0.3	1.3
Domestic demand (annual % change) ²	2.2	1.7	1.3	-0.2	-0.7	0.6	0.7	1.2
Unemployment rate (% of labour force) ³	8.1	8.2	7.6	7.6	8.4	8.5	8.4	8.1
Gross fixed capital formation (% of GDP)	22.3	21.5	23.2	23.0	22.3	22.9	22.6	22.8
Gross national saving (% of GDP)	27.1	26.9	25.6	24.1	21.2	22.3	23.8	24.3
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-0.8	-0.8	-2.9	-4.1	-2.9	-3.2	-2.6	-2.4
Gross debt	114.7	97.6	95.9	103.8	104.4	106.5	106.5	106.4
Net financial assets	-100.8	-83.2	-75.2	-79.8	-81.1	n.a	n.a	n.a
Total revenue	48.9	48.4	48.3	50.7	51.5	51.1	50.7	50.2
Total expenditure	49.7	49.2	51.2	54.8	54.5	54.3	53.3	52.6
<i>of which: Interest</i>	6.9	4.7	3.6	3.4	3.1	3.1	2.8	2.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	0.1	1.5	0.9	3.5	-0.3	1.7	2.7	3.0
Net financial assets; non-financial corporations	-94.0	-103.7	-88.2	-90.3	-90.8	n.a	n.a	n.a
Net financial assets; financial corporations	-8.4	-5.6	4.3	3.0	0.3	n.a	n.a	n.a
Gross capital formation	14.7	14.7	15.4	14.9	14.4	13.7	13.5	13.8
Gross operating surplus	21.4	23.4	24.6	24.1	23.9	24.1	24.7	25.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	4.9	3.8	3.4	1.9	1.7	1.9	1.9	1.4
Net financial assets	257.1	220.5	201.1	213.2	220.0	n.a	n.a	n.a
Gross wages and salaries	38.1	37.9	37.8	38.1	38.1	37.9	37.3	36.8
Net property income	11.5	9.2	8.8	7.6	7.2	7.3	7.1	6.9
Current transfers received	21.1	21.0	21.4	22.3	22.8	22.8	22.9	22.7
Gross saving	10.9	9.8	10.1	8.4	8.0	8.2	8.3	7.9
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	4.2	4.4	1.4	1.3	-1.5	0.5	2.1	2.1
Net financial assets	-51.8	-26.3	-39.1	-41.6	-44.9	n.a	n.a	n.a
Net exports of goods and services	3.3	4.6	1.8	0.5	1.3	2.1	2.9	3.1
Net primary income from the rest of the world	2.3	1.3	1.1	1.8	-1.0	0.1	1.0	1.1
Net capital transactions	0.0	-0.1	-0.2	0.7	-0.1	0.0	0.0	-0.1
Tradable sector	42.4	41.7	39.3	37.6	37.2	37.0	n.a	n.a
Non tradable sector	47.1	47.8	50.2	51.9	52.3	52.5	n.a	n.a
<i>of which: Building and construction sector</i>	4.5	4.5	5.0	5.1	5.0	5.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.8	96.2	101.2	101.7	104.7	104.2	99.0	97.4
Terms of trade goods and services (index, 2000=100)	103.2	101.9	100.0	98.7	98.8	99.4	99.8	99.7
Market performance of exports (index, 2000=100)	107.2	102.6	99.8	103.5	104.5	104.2	103.7	103.8
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 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.								
<i>Source:</i>								
Commission 2015 spring forecast								