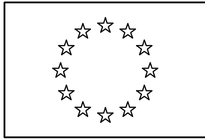
EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.11.2009
SEC(2009) 1547 final

Recommendation for a

COUNCIL DECISION

on the existence of an excessive deficit in Belgium

EXPLANATORY MEMORANDUM

1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future[1], although some of the costs of the government support could be recouped in the future.

The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation, and thereby ensuring long-term sustainability of public finances.

2. PREVIOUS STEPS IN THE EXCESSIVE DEFICIT PROCEDURE

Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[2], which is part of the Stability and Growth Pact.

According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is

---

[1] See the Eurostat decision of 15 July 2009 on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis, Eurostat News Release N° 103/2009.

[2] OJ L 209, 2.8.1997, p. 6. Account is also taken of the Opinion of the Economic and Financial Committee on the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at: http://ec.europa.eu/economy_finance/other_pages/other_pages12638_en.htm.

only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

On the basis of the data notified by the Belgian authorities in April 2009[3] and taking into account the Commission services' spring 2009 forecast, the Commission adopted a report under Article 104(3) for Belgium on 7 October 2009.

Subsequently, and in accordance with Article 104(4), the Economic and Financial Committee formulated an opinion on the Commission report on 27 October 2009.

3. THE EXISTENCE OF AN EXCESSIVE DEFICIT

According to data notified by the Belgian authorities in April 2009, the general government deficit in Belgium was planned to reach 3.4% of GDP in 2009, thus exceeding the 3% of GDP reference value. The Commission report under Article 104(3) considered that although the deficit planned in the notification was close to the 3% of GDP reference value, in the light of the Commission services' spring 2009 forecast and the September 2009 complement to the April 2009 update of the stability programme, the actual outcome of the deficit was not expected to be close to the reference value. The Commission also considered that the planned excess over the reference value could be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact, on the basis of the information available at the time of the report. The planned excess over the reference value could not be considered temporary.

According to more recent data notified by the Belgian authorities in October 2009, the general government deficit in Belgium is planned to reach 5.9% of GDP in 2009, which is indeed above and not close to the 3% of GDP reference value. Based on the Commission services' autumn 2009 forecast, the planned excess over the reference value still qualifies as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it results, among other things, from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. In the Commission services' autumn 2009 forecast, GDP is projected to decrease by 2.9% in 2009 and to expand by 0.6% in 2010. The deterioration of the headline balance partly reflects the set of recovery measures taken by Belgium in response to the economic crisis (budgetary impact of ½% of GDP in 2009) which are broadly in line with European Economic Recovery Plan. While the excess over the 3% of GDP reference value mainly reflects the severity of the economic downturn, it also results from the deterioration of the structural balance by over 1% of GDP between 2005 and 2008. Furthermore, also on the basis of the autumn 2009 forecast, the planned excess over the

[3] According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of the Belgium can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/procedure/edp_notification_tables

reference value cannot be considered temporary, since the deficit is expected to stabilise at 5.8% of GDP in 2010 and 2011, taking into account the already sufficiently specified consolidation measures. The deficit criterion in the Treaty is not fulfilled.

According to data notified by the Belgian authorities in October 2009, the general government gross debt is planned to stand at 97.6% of GDP in 2009. It started increasing in 2008, mainly as a result of operations to stabilise the financial sector, ending a long period of declining debt from 134% of GDP in 1993 to 84% of GDP in 2007. The Commission services' autumn 2009 forecast projects the debt ratio to increase to around 97% in 2009, 101% in 2010 and 104% in 2011. The debt ratio cannot be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. The debt criterion in the Treaty is not fulfilled.

In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its report "relevant factors". According to the Stability and Growth Pact, these can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the deficit satisfies the double condition of closeness and temporariness. In the case of Belgium, the double condition is not met. Considered on their own merit, the relevant factors in the current case on balance seem to present a mixed picture.

The opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty is consistent with the assessment in the Commission report under Article 104(3).

The Commission, having taken into account its report under Article 104(3) and the opinion of the Economic and Financial Committee under Article 104(4), is of the opinion that an excessive deficit exists in Belgium. This opinion, adopted by the Commission on 11 November 2009, is herewith addressed to the Council according to Article 104(5). The Commission recommends that the Council shall decide accordingly, in conformity with Article 104(6). In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to Belgium with a view to bringing the situation of an excessive deficit to an end according to Article 104(7).

4. RECOMMENDATIONS TO END THE EXCESSIVE DEFICIT SITUATION

According to Article 3(4) of Council Regulation (EC) No 1467/97, the Council recommendation under Article 104(7) has to establish a deadline of six months at most for effective action to be taken by the Member State concerned as well as a deadline for the correction of the excessive deficit, which "should be completed in the year following its identification unless there are special circumstances". Article 2(6) of the Regulation implies that the "relevant factors" considered in the Commission report under Article 104(3) of the Treaty have to be taken into account in deciding whether special circumstances exist. Article 3(4) of the Regulation specifies that the Council has to recommend that the Member State achieves a "minimum annual improvement of at least 0.5% of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation".

In the case of Belgium, special circumstances are considered to exist. In particular, the global financial crisis affected the Belgian economy significantly, mainly as a result of the collapse of world trade and the impact of the problems in the financial sector on domestic demand through confidence and wealth effects as well as a tightening of lending conditions. Starting in the last quarter of 2008, Belgium recorded three quarters of negative q-o-q GDP growth.

According to the Commission services' 2009 autumn forecast, economic activity is expected to contract by 2.9% in 2009 and growth is foreseen to remain subdued in 2010. The crisis impacted the 2009 deficit through the functioning of the automatic stabilisers (around 3% of GDP) and expansionary measures (1% of GDP), including in the stimulus measures taken by the Belgium authorities in line with the EERP (½% of GDP).

In response to the economic crisis, Belgium has adopted a set of recovery measures, with a budgetary impact of ½% of GDP both in 2009 and 2010 which included wage subsidies as well as financing and payment facilities for firms, increases in social benefits, a reduction of the VAT rate for residential construction and an acceleration of public investment. In view of the limited fiscal room for manoeuvre, the stimulus package appears to be an adequate response to the downturn. Most of the measures are broadly in line with the EERP. However, part of the stimulus is of a permanent nature (0.1% of GDP in 2009 and 0.3% of GDP in 2010). The September 2009 complement to the April 2009 update of the stability programme refers to a return below the 3% of GDP threshold in 2013[4]. The headline balance would stabilise at around 6% of GDP in 2010 before it would gradually improve to 4.4% of GDP in 2012. The Commission services' autumn 2009 forecast projects the government deficit to deteriorate by almost 5 percentage points in 2009, to 5.9% of GDP. Taking into account the fiscal measures that have so far been sufficiently specified, the deficit would stabilise at 5.8% of GDP in 2010 and 2011. This assumption takes into account that the budgetary impact of the stimulus measures adopted at the end of 2008 in response to the EERP remains at ½% of GDP in 2010, reflecting that the package includes permanent measures, and that the amount of sufficiently specified consolidation measures is ¾% of GDP for 2010 and ¼% of GDP for 2011 at the current stage[5].

Considering the special circumstances and the EERP framework, an average annual structural budgetary adjustment is recommended. The required adjustment should take into account the fiscal room for manoeuvre which is assessed on the basis of all factors relevant for achieving the fiscal policy objectives, starting with the level of the general government deficit and gross debt as well as other indicators, such as the current account position, the level of contingent liabilities of the financial sector, interest payments, risk premia and the expected change in age-related expenditure in the medium term. In calculating the average annual adjustment, the 2011 deficit in the Commission services' autumn 2009 forecast is taken as the starting point. The total structural adjustment needed to reach the nominal deficit target of 3% by the deadline is then calculated by assuming a gradual closure of the output gap by 2015.

Against this background, it is appropriate to consider the correction of the excessive deficit in a medium-term framework with a deadline for the correction of 2012. In particular, in view of the high level of debt, interest payment and the contingent liabilities following the operations to stabilise the financial sector, a credible and sustainable adjustment path would require the Belgian authorities to implement deficit-reducing measures in 2010 as planned in the draft 2010 budget, and strengthen the planned adjustment in 2011 and 2012. In order to bring the deficit below the reference value by 2012, Belgium should ensure an average annual structural adjustment of ¾% of GDP over the period 2010-2012, which should also contribute

[4] The September 2009 complement was submitted following an invitation in the Council Opinion of 7 July 2009 on the April 2009 update of the stability programme, and can be found at: http://ec.europa.eu/economy_finance/publications/publication15657_en.pdf

[5] The government currently specifies consolidation measures of around ¾% of GDP, compared to the planned ½% of GDP in the September 2009 complement to the April 2009 update of the stability programme.

to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus. Moreover, the Belgian authorities should specify the measures that are necessary to achieve the correction of the excessive deficit by 2012, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

According to data notified by the Belgian authorities in October 2009, the general government gross debt is planned to stand at 97.6% of GDP in 2009. It started increasing in 2008, mainly as a result of operations to stabilise the financial sector, ending a long period of declining debt from 134% of GDP in 1993 to 84% in 2007. The Commission services' autumn 2009 forecast projects the debt ratio to increase to around 97% in 2009, 101% in 2010 and 104% in 2011. Therefore, the Belgian authorities should seize any opportunity beyond the structural budgetary adjustment, to accelerate the reduction of the gross debt ratio back towards the reference value.

As regards the long-term sustainability of public finances, the budgetary impact of ageing is above the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades; this i.a. reflects that Belgium did not yet introduce sufficient reforms of the pension system in order to contain its cost, including by increasing the effective retirement age. Moreover, the budgetary position has worsened in 2009, although the negative impact of the initial budgetary position remains smaller than the EU average. Finally, the current level of gross debt in terms of GDP is well above the Treaty reference value. To reduce the risk to the long-term sustainability of public finances as defined by the Commission Communication[6] on 'Long-term sustainability of public finances for a recovering economy' and endorsed by the ECOFIN Council[7] on 10 November 2009, Belgium should implement the necessary reforms of the social security system aimed at curbing age-related expenditure.

In general, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy. In particular, Belgium is invited to strengthen the effectiveness of its medium-term budgetary framework through the establishment of enforceable multi-annual budgetary agreements among the different government tiers and expenditure ceilings, and through the introduction of effective mechanisms to ensure the respect of the fiscal targets. In addition, Belgium is invited to increase the financial incentives to take up work, improve job mobility and improve competition in gas and electricity markets.

Enhanced surveillance under the EDP, which seems necessary also in view of the deadline for the correction of the excessive deficit, will require regular and timely monitoring of the progress made in the implementation of the fiscal consolidation strategy to ensure the correction of the excessive deficit. In this context, a separate chapter in the updates of the Belgian stability programme which will be prepared between 2009 and 2012 could usefully be devoted to this issue.

---

[6] Available at: http://ec.europa.eu/economy_finance/publications/publication15996_en.pdf

[7] Available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/111025.pdf

Comparison of key macroeconomic and budgetary projections

		2007	2008	2009	2010	2011	2012
Real GDP (% change)	COM Autumn 2009	2.9	1.0	-2.9	0.6	1.5	n.a.
	SP Sep 2009	**2.8**	**1.1**	**-3.1**	**0.4**	**1.9**	**2.4**
Output gap[1] (% of potential GDP)	COM Autumn 2009[2]	2.4	1.7	-2.3	-2.8	-2.4	n.a.
	SP Sep 2009[3]	**2.6**	**2.0**	**-2.3**	**-2.9**	**-2.3**	**-1.5**
General government balance (% of GDP)	COM Autumn 2009	-0.2	-1.2	-5.9	-5.8	-5.8	n.a.
	SP Sep 2009	**n.a.**	**-1.2**	**-5.9**	**-6.0**	**-5.5**	**-4.4**
Primary balance (% of GDP)	COM Autumn 2009	3.6	2.6	-2.0	-1.8	-1.7	n.a.
	SP Sep 2009	**n.a.**	**2.5**	**-2.0**	**-1.9**	**-1.2**	**-0.1**
Cyclically-adjusted balance[1] (% of GDP)	COM Autumn 2009	-1.5	-2.1	-4.6	-4.3	-4.5	n.a.
	SP Sep 2009	**-1.6**	**-2.3**	**-4.7**	**-4.4**	**-4.2**	**-3.6**
Structural balance[4] (% of GDP)	COM Autumn 2009	-1.4	-2.2	-4.2	-4.4	-4.5	n.a.
	SP Sep 2009	**-1.5**	**-2.3**	**-4.7**	**-4.4**	**-4.2**	**-3.6**
Government gross debt (% of GDP)	COM Autumn 2009	84.2	89.8	97.2	101.2	104.0	n.a.
	SP Sep 2009	**n.a.**	**89.7**	**97.5**	**101.9**	**103.9**	**104.3**

Notes:

[1] Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.

[2] Based on estimated potential growth of 1.9%, 1.7%, 1.1%, 1.0% and 1.2% respectively in the period 2007-2011.

[3] Based on estimated potential growth of 1.9%, 1.7%, 1.1%, 1.1%, 1.3% and 1.5% respectively in the period 2007-2012.

[4] Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0 all over the period according to the most recent programme. According to the Commission services' autumn 2009 forecast, there are deficit reducing one-offs for 0.1% of GDP both in 2008 and 2010 and deficit increasing one-offs for 0.5% of GDP in 2009.

Source:

September 2009 complement to the April 2009 update of the stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations.

Recommendation for a

COUNCIL DECISION

on the existence of an excessive deficit in Belgium

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by Belgium,

Whereas:

(1) According to Article 104 of the Treaty Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) The excessive deficit procedure (EDP) under Article 104, as clarified by Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[8] (which is part of the Stability and Growth Pact), provides for a decision on the existence of an excessive deficit. The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the EDP. Council Regulation (EC) No 479/2009[9] lays down detailed rules and definitions for the application of the provision of the said Protocol.

(4) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run. It aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

(5) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. Having taken into account its report in accordance with Article 104(3) and having regard to the opinion of the Economic and Financial Committee in

[8] OJ L 209, 2.8.1997, p. 6.
[9] OJ L 145, 10.6.2009, p. 1-9.

accordance with Article 104(4), the Commission concluded that an excessive deficit exists in Belgium. The Commission therefore addressed such an opinion to the Council in respect of Belgium on 11 November 2009[10].

(6) Article 104(6) of the Treaty states that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists. In the case of Belgium, this overall assessment leads to the following conclusions.

(7) According to data notified by the Belgian authorities in October 2009, the general government deficit in Belgium is planned to reach 5.9% of GDP in 2009, thus exceeding and not close to the 3% of GDP reference value. The planned excess over the reference value can be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it results, among other things, from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. In the Commission services' autumn 2009 forecast, GDP is projected to decrease by 2.9% in 2009 and to expand by 0.6% in 2010. Furthermore, also on the basis of the autumn 2009 forecast, the planned excess over the reference value cannot be considered temporary, since the deficit is expected to stabilise at 5.8% of GDP in 2010 and 2011, taking into account the already sufficiently specified consolidation measures. The deficit criterion in the Treaty is not fulfilled.

(8) General government gross debt has been continuously declining from 134% of GDP in 1993 to 84% of GDP in 2007. In 2008, the operations to stabilise the financial sector led to an increase in the debt-to-GDP ratio to almost 90%. Hence, the ratio remained well above the 60% reference value. According to data notified by the Belgian authorities in October 2009, the general government gross debt is planned to stand at 97.6% of GDP in 2009. The Commission services' autumn 2009 forecast projects the debt ratio to increase to around 97% in 2009, 101 % in 2010 and 104% in 2011. The debt ratio cannot be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. The debt criterion in the Treaty is not fulfilled.

(9) According to Article 2(4) of Council Regulation (EC) No 1467/97, "relevant factors" can only be taken into account in the steps leading to the Council decision on the existence of an excessive deficit in accordance with Article 104(6) if the double condition - that the deficit remains close to the reference value and that its excess over the reference value is temporary - is fully met. In the case of Belgium, this double condition is not met. Therefore, relevant factors are not taken into account in the steps leading to this decision,

10 All EDP-related documents for Belgium can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in Belgium.

Article 2

This decision is addressed to Belgium.

Done at Brussels,

For the Council
The President