COMMISSION OF THE EUROPEAN COMMUNITIES

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Recommendation for a

COUNCIL RECOMMENDATION TO BELGIUM

with a view to bringing an end to the situation of an excessive government deficit

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(7) thereof;

Having regard to the recommendation from the Commission;

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 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.

(4) The Council decided on [2 December 2009], in accordance with Article 104(6), that an excessive deficit exists in Belgium.

(5) In accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1] (which is part of the Stability and Growth Pact), the Council is required to make recommendations to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. The recommendation has to establish a deadline of six months at the most for effective action to be taken by the Member State concerned to correct the excessive deficit 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. In deciding whether special circumstances exist, “relevant factors” as clarified in Article 2(3) of Regulation (EC) No 1467/97 should be taken into account. Furthermore, in a recommendation to correct an excessive deficit the Council should

[1] OJ L 209, 2.8.1997, p. 6.

request the achievement of a minimum annual improvement in the structural balance, i.e. the cyclically-adjusted balance excluding one-off and other temporary measures, of at least 0.5% of GDP as a benchmark.

(6) Special circumstances, which are relevant for the greater flexibility in the application of the EDP introduced with the 2005 reform of the Stability and Growth Pact, are deemed to exist in the case of Belgium. 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). The existence of special circumstances authorises the Council to allow the correction of the excessive deficit in a medium-term framework.

(7) 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 those 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[2]. The September 2009 complement to the April 2009 update of the stability programme, covering the period 2008-2012, refers to the objective to return to below the 3% of GDP threshold in 2013.

(8) 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.

(9) Against this background, it is appropriate to consider the correction of the excessive deficit in a medium-term framework with a deadline for 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

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[2] 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.

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 budgetary adjustment of ¾% of GDP over the period 2010-2012, which should also contribute 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.

(10) 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.

(11) 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[3] on 'Long-term sustainability of public finances for a recovering economy' and endorsed by the ECOFIN Council[4] on 10 November 2009, Belgium should implement the necessary reforms of the social security system aimed at curbing age-related expenditure.

(12) 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.

(13) 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

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3 Available at: http://ec.europa.eu/economy_finance/publications/publication15996_en.pdf

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

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.

(14) In addition, in view of the importance of achieving its medium-term objective (MTO) to provide an adequate safety margin against cyclical downturns and to ensure convergence of the debt ratio towards a prudent level, also taking into account implicit liabilities related to ageing, Belgium should also ensure that budgetary consolidation towards the MTO is sustained after the excessive deficit will have been corrected.

HEREBY RECOMMENDS:

(1) Recognising that Belgium's budgetary position in 2009 resulted from measures amounting to ½% of GDP, which is an adequate response to the downturn in view of the limited fiscal room for manoeuvre and were broadly in line with the European Economic Recovery Plan principles, as well as the free play of automatic stabilisers, the Belgian authorities should put an end to the present excessive deficit situation by 2012.

(2) The Belgian authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. Specifically, to this end, the Belgian authorities should:

(a) Implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010, and strengthen the planned adjustment in 2011 and 2012;

(b) ensure an average annual structural budgetary adjustment of ¾% of GDP over the period 2010-2012, which should also contribute 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;

(c) 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.

(3) In addition, the Belgian authorities should seize any opportunity beyond the structural adjustment, to accelerate the reduction of the gross debt ratio back towards the reference value.

(4) The Council establishes the deadline of [2 June 2010] for the Belgian government to take effective action to implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010 and to outline the measures that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared to the economic outlook in the Commission services' autumn 2009 forecast.

The Belgian authorities should report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2009 and 2012.

Furthermore, the Council invites the Belgian authorities to implement reforms with a view to raising potential GDP growth. This includes reforms conducive to enhancing the quality of public finances, in particular the introduction of (i) enforceable, multi-annual expenditure ceilings and budgetary agreements among the different government tiers and (ii) effective mechanisms to ensure the respect of the fiscal targets, as well as reforms to increase the financial incentives to take up work, improve job mobility and improve competition in gas and electricity markets.

This recommendation is addressed to Belgium.

Done at Brussels,

For the Council
The President