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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING BELGIUM

3. On the basis of the Draft Budgetary Plan for 2015 submitted by Belgium on 15 October 2014 and updated on 22 October 2014, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Belgium is subject to the preventive arm of the Stability and Growth Pact and should ensure sufficient progress towards its MTO. As the debt-to-GDP ratio was 104.5% in 2013 (the year in which Belgium corrected its excessive deficit), exceeding the 60% reference value, during the three years following the correction of the excessive deficit, Belgium is subject to the transitional arrangements as regards compliance with the debt rule. In this period it should ensure sufficient progress towards compliance with the debt reduction benchmark. On 8 July 2014 the Council recommended that Belgium should reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the required adjustment towards the medium term objective. It was further recommended to ensure the required adjustment of 0.6% of GDP towards the medium-term objective in 2015, which at that time was projected to also ensure compliance with the debt rule.

5. The macroeconomic scenario underlying Belgium's 2015 Draft Budgetary Plan (GDP growth of 1.5%) assumes a less dynamic recovery than the latest Stability Programme (1.8%). Despite this downward revision, the difference between the 2015 macroeconomic scenario underlying the Draft Budgetary Plan and the Commission 2014 autumn forecast (0.9%) is substantial and affects the robustness of targets set in the Draft Budgetary Plan. This difference can to a large extent be explained by the different timing of both exercises relative to the 2015 Draft Budgetary Plan, with the Commission forecast reflecting measures outlined in the Draft Budgetary Plan with an impact on government and household consumption. This highlights the potential value added of fully incorporating second-round effects whilst drafting the budget.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been produced by the Federal Planning Bureau, under the responsibility of the National Accounts Institute. Both are long-standing institutions established by law. The Federal Planning Bureau works under

the joint authority of the Prime Minister and the Minister of Economic Affairs while the National Accounts Institute is placed under the authority of the Minister of Economic Affairs.

7. While the Stability Programme planned a deficit reduction to 2.1% of GDP in 2014, the Draft Budgetary Plan projects a deficit of 2.9% of GDP. This is explained by statistical revisions, impacting the 2013 deficit by 0.3 pp. of GDP, and a downward revision of the growth outlook for 2014. Lastly, also the improvement of the (recalculated) structural balance is revised downwards by 0.2 pp., to 0.3% of GDP. The Draft Budgetary Plan targets a headline deficit of 2.1% of GDP in 2015, compared to a 1.4% of GDP deficit target in the 2014 Stability Programme. This upward revision is explained by the worse-than-previously expected economic outlook and by recent statistical revisions. The (recalculated) structural improvement of the Draft Budgetary Plan for 2015 is similar to the effort planned in the latest Stability Programme (0.7% of GDP).

8. The Commission 2014 autumn forecast expects a slightly higher deficit outcome in 2014, due to the worse macro-economic projections compared to the Draft Budgetary Plan. In 2015, the Commission projects a headline deficit of 2.8% of GDP, substantially above the target of the Draft Budgetary Plan. First of all, this is due to the more subdued GDP growth underlying the Commission forecast, which explains almost 0.4 pp. of GDP of the projected gap. Secondly, there is also a different assessment of the impact of new measures (impact of 0.2 pp. of GDP), as only the measures that were public and sufficiently specified at the time of the cut-off of the Commission forecast were taken into account. In particular, it is unclear at this stage how the budgeted impact of some of the new measures specified in the Draft Budgetary Plan will be attained.

9. In contrast to the latest Stability Programme, the Draft Budgetary Plan expects a further rise in the debt ratio in 2014, on the back of a higher deficit and lower nominal growth, and a rather modest decrease in 2015. In contrast, the Commission forecast projects a further increase in 2015, to over 107% of GDP. Besides the differences in deficit projections, also the lower projected nominal GDP growth in the Commission forecast explains the different evolution.

10. Consolidation measures envisaged in the Draft Budgetary Plan focus on expenditure restraint, with an overall impact of 1.4% of GDP at face value. They include linear cuts in central government expenditure. In the social security, the growth norm of health expenditure has been revised downwards and access conditions for some social benefits have been tightened. Also regions and communities have announced a series of expenditure cuts. On the revenue side, envisaged measures are broadly neutral, at least when taking into account lower tax revenues due to a suspension of the wage indexation mechanism and a planned transformation of welfare adjustments of social benefits into a tax credit. Tax increases include some indirect tax hikes and an advanced taxation of pension savings. In addition, a reduction in social security contributions announced by the previous government for 2015 has been postponed to 2016 while the Draft Budgetary Plan envisages an increase in personal income tax reductions in order to compensate workers' purchasing power for the negative impact of the suspension of wage indexation.

11. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements for the debt reduction benchmark. However, based on the Commission 2014 autumn forecast, the projected change in

the structural balance (0.1% and 0.4% of GDP in 2014 and 2015, respectively) is below the requirement calculated on the basis of the Commission 2014 autumn forecast (0.8 and 1.1% of GDP respectively).

12. For 2014, the change of the (recalculated) structural balance in the Draft Budgetary Plan is insufficient to meet the required adjustment of 0.5% of GDP under the preventive arm of the Stability and Growth Pact, but the deviation is not judged significant (gap of 0.2% of GDP). The deviation projected in the Commission forecast is 0.2% of GDP larger; but still not significant. The planned growth rate of government expenditure, net of discretionary revenue measures, in 2014 is expected to contribute to the required annual structural adjustment towards the MTO. This assessment is confirmed by the Commission forecast for 2014. The occurrence of sizeable revenue shortfalls in 2014, which is observed in both the Draft Budgetary Plan as well as the Commission projection, heavily affects the structural balance in 2014. On the other hand, the reference growth rate underlying the expenditure benchmark may allow for too dynamic expenditure developments in view of the current lower estimates of the potential growth rate. Based on an overall assessment, there is a risk of some deviation from the adjustment path towards the MTO in 2014.

In 2015, the planned change of the (recalculated) structural balance in the Draft Budgetary Plan is appropriate. However, according to the Commission forecast, the structural improvement points to some deviation from the required effort that currently amounts to 0.6% of GDP (gap of 0.2% of GDP). Also the expenditure benchmark points to some deviation in 2015, both on the basis of the plans in the (recalculated) Draft Budgetary Plan and the Commission 2014 autumn forecast. An overall assessment, based on the Commission forecast, points to a risk of some deviation from the required adjustment path towards the MTO over 2014-2015.

13. The Draft Budgetary Plan contains a plan to reduce the tax wedge. In particular, Belgium plans to increase the fixed professional cost deduction in personal income taxation as of 2015 (0.15% of GDP). On the other hand, a reduction of employers' social contributions by 0.1% of GDP, announced in the 2013 'Competitiveness Pact', will be postponed by one year, i.e. from 2015 to 2016, while at the same time the reduction announced for 2017 will be brought forward by one year. The overall tax shift away from labour announced in the Draft Budgetary Plan remains thus very limited in size. Some budgetary measures reducing the cost of the unemployment benefit system may also have an impact on financial disincentives to work underlined in the Council recommendations addressed to Belgium on 8 July 2014. The Draft Budgetary Plan also foresees a temporary suspension of wage and social benefit indexation, with some compensation foreseen for the lowest incomes. While a positive effect on the country's competitiveness position could be expected, it should nevertheless be highlighted that the Council recommended Belgium to reform the full wage-setting system in a structural way. Finally, initiated reforms of the pre-retirement and early retirement schemes are planned to be stepped up in order to reduce the gap between the effective and statutory retirement age.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Belgium, which is currently under the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule, is at risk of non-compliance with the provisions of the Stability and Growth Pact. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2015 budget will be compliant with the Stability and Growth Pact.

The Commission is also of the opinion that Belgium has made some progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester and invites the authorities to make further progress.

The Commission will examine in early March 2015 its position vis-à-vis Belgium's obligations under the Stability and Growth Pact in light of the finalisation of the budget law and of the expected specification of the structural reform programme announced by the authorities.

Done at Brussels, 28.11.2014

For the Commission
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Member of the Commission