COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels,
SEC(2009) 1546

COMMISSION OPINION

on the existence of an excessive deficit in Belgium

Application of Article 104(5) of the Treaty establishing the European Community

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

1. 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.

2. 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.

LEGAL BACKGROUND

3. 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.

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[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.

4. 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 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).

5. 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".

6. 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[4].

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

8. 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. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 104(3) and (ii) the opinion of the Economic and Financial Committee on this report. On the basis of these elements, the Commission has established a number of considerations for Belgium.

CONSIDERATIONS CONCERNING BELGIUM

9. 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

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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 notifications of Belgium can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/procedure/edp_notification_tables.

4 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.

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.

10. 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 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.

11. 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.

12. 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.

13. 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).

CONCLUSION

14. The monitoring of the budgetary situation in Belgium and, in particular, the examination of the compliance with the criteria laid down in Article 104(2) has led the Commission to prepare a report in accordance with Article 104(3) of the Treaty. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Belgium.