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Recommendation for a

COUNCIL OPINION

on the updated stability programme of Belgium, 2009-2012

EXPLANATORY MEMORANDUM

1. General background

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. The 2005 reform of the Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run.

Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], which is part of the Stability and Growth Pact, stipulates that each Member State has to submit, to the Council and the Commission, a stability or convergence programme and annual updates thereof. Member States that have already adopted the single currency submit (updated) stability programmes and Member States that have not yet adopted it submit (updated) convergence programmes.

In accordance with the Regulation, the Council delivered an opinion on the first stability programme of Belgium on 15 March 1999 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the Regulation foresees that these are assessed by the Commission and examined by the Committee mentioned above and, following the same procedure as set out above, the updated programmes may be examined by the Council.

2. Background for the assessment of the updated programme

The Commission has examined the most recent update of the stability programme of Belgium, submitted on 29 January 2010, and has adopted a recommendation for a Council Opinion on it.

In order to set the scene against which the budgetary strategy in the updated stability programme is assessed, the following paragraphs summarise:

(1) the Commission Communication of 26 November 2008 ("A European Economic Recovery Plan");

(2) the conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy";

(3) the country's position under the corrective arm of the Stability and Growth Pact (excessive deficit procedure);

(4) the most recent assessment of the country's position under the preventive arm of the Stability and Growth Pact (summary of the Council Opinion on the previous update of the stability programme).

[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text are available at: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

2.1. The Commission Communication of 26 November 2008 ("A European Economic Recovery Plan")

In view of the unprecedented scale of the global crisis that hit financial markets and the world economy in 2008-2009, the European Commission called for a European Economic Recovery Plan (EERP)[2]. The plan proposed a co-ordinated counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the economy consisting of (i) an immediate budgetary impulse amounting to € 200 bn. (1.5% of EU GDP), made up of a budgetary expansion by Member States of € 170 bn. (around 1.2% of EU GDP) and EU funding in support of immediate actions of the order of € 30 bn. (around 0.3 % of EU GDP); and (ii) a number of priority actions grounded in the Lisbon Strategy and designed to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth. The plan called for the fiscal stimulus to be differentiated across Member States in accordance with their positions in terms of sustainability (or room for manoeuvre) of government finances and competitive positions. In particular, for Member States with significant external and internal imbalances, budgetary policy should essentially aim at correcting such imbalances. The plan was agreed by the European Council on 11 December 2008.

2.2. The conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy"

Following the halt of the sharp decline in economic activity and first signs of a recovery from the crisis, the stabilisation of financial markets and the improvement in confidence, the Council concluded on 20 October 2009 that, while in view of the fragility of the recovery it was not yet time to withdraw the support governments provided to the economy and the financial sector, preparing a coordinated strategy for exiting from the broad-based policies of stimulus was needed. Such a strategy should strike a balance between stabilisation and sustainability concerns, take into account the interaction between the different policy instruments, as well as the discussion at global level. Early design and communication of such a strategy would contribute to underpinning confidence in medium-term policies and anchor expectations. Beyond the withdrawal of the stimulus measures of the European Economic Recovery Plan, substantial fiscal consolidation was required in order to halt and eventually reverse the increase in debt and restore sound fiscal positions. Increasing the efficiency and effectiveness of public finances and the intensification of structural reform were desirable even in the short term as they would contribute to fostering potential output growth and debt reductions.

The Council agreed on the following principles of the fiscal exit strategy: (i) the strategy should be coordinated across countries in the framework of a consistent implementation of the Stability and Growth Pact; (ii) taking country-specific circumstances into account, timely withdrawal of fiscal stimulus was needed; provided that the Commission forecasts continued to indicate that the recovery was strengthening and becoming self-sustaining, fiscal consolidation in all EU Member States should start in 2011 at the latest; (iii) in view of the challenges, the pace of consolidation should be ambitious, in most countries going well beyond the benchmark of 0.5% of GDP per annum in structural terms; and (iv) important flanking policies to the fiscal exit would include strengthened national budgetary frameworks for underpinning the credibility of consolidation strategies and measures to support long-term

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[2] Communication from the Commission to the European Council of 26 November 2008.

fiscal sustainability; in addition, structural reform efforts should be strengthened to enhance productivity and to support long-term investment. The Council agreed that these elements should be reflected in the stability and convergence programmes, to be transmitted by Member States to the Commission by the end of January 2010.

2.3. The excessive deficit procedure for Belgium

On 2 December 2009, the Council adopted a decision stating that Belgium had an excessive deficit in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU). At the same time, the Council addressed a recommendation under Article 126(7) TFEU specifying that the excessive deficit had to be corrected by 2012.

In particular, Belgium was recommended to implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010, and strengthen the planned fiscal effort in 2011 and 2012. Belgium was recommended to ensure an average annual fiscal effort 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. Belgium was also recommended to 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. Belgium also had to strengthen monitoring mechanisms to ensure that fiscal targets are respected. In addition, the Belgian authorities were recommended to seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. The Council established 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 in some detail the strategy 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. Finally, 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 prepared between 2009 and 2012.

2.4. The assessment in the Council Opinion on the previous update

In its opinion of 7 July 2009, the Council summarised its assessment of the previous update of the stability programme, covering the period 2008-2013, as follows. The Council considers “that public finances in Belgium, starting from a relatively unfavourable position in view of the high government debt ratio, will be affected by the economic downturn. The fiscal stance in 2009 is appropriately expansionary, in line with the EERP. It notably reflects the fiscal stimulus whose size had to be limited given the high debt level. The government balance will exceed the 3% of GDP deficit reference value in 2009. At the same time, the government gross debt-to-GDP ratio, which started to rise again in 2008 as a result of the measures to stabilise the financial system, is expected to continue its upward movement. This comes after an impressive decline, from 134 % in 1993 to 84 % in 2007. The consolidation path in the updated programme aims at gradually reducing the headline deficits and thereby ensuring the long-term sustainability of public finances. The absence of crucial information in the programme, such as the expenditure and revenue ratios, has severely hampered the possibility to assess the credibility of the deficit and debt targets in the programme. The absence of underpinning of these targets suggests that they are not backed by a well-founded medium-term budgetary strategy in the meaning of the Stability and Growth Pact. The path is clearly subject to considerable downside risk over the entire programme period, stemming from the favourable macroeconomic assumptions and the lack of underlying measures. Moreover, also in the light of the debt dynamics and the long-term sustainability of public finances, it lacks ambition regarding the decisive correction of the deficit as the economic situation improves." In view of this assessment, the Council invited Belgium to "(i) submit, by 20 September at the latest, a complement of the programme including a well founded medium-term budgetary strategy and improve compliance with the data requirements of the code of conduct especially regarding compulsory data; (ii) implement the stimulus measures in line with the EERP as planned while avoiding a further deterioration of the structural balance in 2009 and resume fiscal consolidation as from 2010 when the economy is expected to improve and speed up the structural consolidation effort in 2011; (iii) improve the quality of public finances by adopting a more stringent budgetary framework, encompassing binding, multi-annual expenditure ceilings and budgetary agreements among the different government tiers, including the establishment of enforcement mechanisms to ensure the respect of the fiscal targets; (iv) in addition to the budgetary consolidation efforts, undertake structural reforms of the social security system, the labour market and product markets to enhance potential growth, increase the employment rate and reduce the budgetary impact of ageing, in order to improve the long-term sustainability of public finances."

In response to the first invitation by the Council included in its above-mentioned opinion, the Belgian authorities submitted a complement to the April 2009 update of the stability programme. In its opinion of 2 December 2009, the Council summarised its assessment of the complement, covering the period 2008-2012, as follows. The Council considers "that the expansionary fiscal stance in 2009 is in line with the EERP. Combined with the functioning of the automatic stabilisers, supportive discretionary measures will drive the headline deficit to almost 6% of GDP. The government gross debt-to-GDP ratio, which rose in 2008 as a result of the measures to stabilise the financial system, will continue its upward movement to 104% in 2012. This comes after an impressive decline, from 134% in 1993 to 84% in 2007, based on the achievement of balanced budgets. The consolidation path in the complement aims at gradually reducing the headline deficit to 4.4% in 2012 after which it would further decline to 2.8% of GDP in 2013 and a balanced budget in 2015. The path is overall subject to downside risk as of 2011, stemming from the fact that the underlying measures are not sufficiently specified and the somewhat favourable macroeconomic assumptions. In the light of the debt dynamics and the long-term sustainability of public finances, the planned consolidation should be considerably strengthened from 2011 onwards in order to decisively bring the deficit below the 3% of GDP reference value." In view of this assessment and in addition to the invitations issued in the Council opinion of 7 July 2009 to improve the quality and long-term sustainability of public finances, the Council invited Belgium to "achieve the amount of consolidation measures in 2010 as planned in the draft 2010 budget and considerably strengthen the adjustment effort as from 2011 through specified structural measures, in order to decisively bring the deficit below the 3% of GDP reference value".

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[3], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On [22 April 2010] the Council examined the updated stability programme of Belgium, which covers the period 2009 to 2012.

(2) The collapse of world trade together with decreasing confidence, wealth effects and tighter credit conditions led to a sharp contraction of the Belgian economy around the turn of 2008. While the downturn was very sharp, it was followed by a relatively strong rebound in the second half of 2009, which was partly the result of temporary factors, including the (domestic and foreign) stimulus packages and a positive contribution from inventories. Continued headwinds stemming from the restructuring of financial institutions and a further rise in unemployment together with low capacity utilisation are expected to slow down growth again in the first half of 2010. While due to the high degree of openness of the Belgian economy the recovery could benefit considerably from the rebound of world trade, the extent of this impulse may be limited as a result of Belgium's loss of cost competiveness in recent years. The downturn has had a significant adverse impact on public finances. The general government deficit deteriorated from 1.2% of GDP in 2008 to 5.9% of GDP in 2009. Moreover, while the government debt-to-GDP ratio declined between 2000 and 2007 on the back of overall cautious fiscal policies, the ratio started to increase again in 2008 as a result of the interventions in the financial sector (to 97.9% in 2009). The Council decided on 2 December 2009 that an excessive deficit existed in Belgium and issued a recommendation to correct the deficit by 2012 through an average annual fiscal effort of ¾% of GDP. The strong deterioration of public finances in combination with the above-average budgetary impact of population ageing and significant contingent liabilities following the operations to stabilise the financial

[3] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

system translate into a need for continued budgetary consolidation and structural reforms to ensure the long-term sustainability of public finances.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, growth in potential output will resume from a lower starting point. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability and increasing structural unemployment. Moreover, the impact of the economic crisis will coincide with the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of structural reforms with the aim of supporting potential growth. In particular, for Belgium it is important to undertake reforms that improve competition, in particular in network industries, and that increase labour supply, including reforms of the labour market (i.a. the wage formation system and the incentives to take up work) and the pension system.

(4) The macroeconomic scenario underlying the programme envisages that, after a contraction of 3.1% in 2009, real GDP will grow by 1.1% in 2010 and accelerate to 1.7% in 2011 and further to 2.2% in 2012. According to the Commission services' autumn 2009 forecast, annual GDP growth is expected to turn slightly positive in 2010 (0.6%) and to increase to 1½% in 2011. However, these projections appear on the low side in view of more recent information, including the better-than-expected outcome for the second half of 2009. The projected composition of growth seems to slightly overstate the contribution of domestic demand to growth in 2010, but appears realistic thereafter. Therefore, assessed against currently available information[4], the growth assumptions of the programme are broadly plausible, while the composition of growth is favourable in 2010. The programme's projections for inflation appear realistic. On the other hand, wage growth assumptions appear to be on the high side as lower labour cost growth in other euro area countries should exercise some downward pressure on Belgian wages in a context of high unemployment. In addition, the projected increase in labour cost per employee exceeds considerably the projected productivity growth.

(5) The programme estimates the general government deficit in 2009 at 5.9% of GDP. The significant deterioration from a deficit of 1.2% of GDP in 2008 reflects to a large extent the impact of the crisis on government finances, but was also brought about by stimulus measures amounting to 0.5% of GDP which the government adopted in line with the European Economic Recovery Plan (EERP). The deterioration mainly reflects a rise in the expenditure-to-GDP ratio. According to the programme, fiscal policy is planned to become restrictive in 2010 and 2011 and more significantly so in 2012, with a view to correcting the excessive deficit by 2012 and returning to a sustainable public finance position. This is broadly in line with the exit strategy advocated by the Council, taking also into account the high public debt-to-GDP ratio and the above-average budgetary impact of ageing.

(6) The programme targets a general government deficit of 4.8% of GDP in 2010 which is in line with the Council recommendation under Article 126(7) of 2 December 2009. The federal budget for 2010 projected a deficit of 5.6% of GDP. The

[4] The assessment notably takes into account the Commission services' autumn 2009 forecast, but also other information that has become available since then.

downward revision of the budgetary target for 2010 reflects the more favourable macro-economic prospects in the update (lowering the deficit by about 0.3% of GDP) as well as the fact that the federal budget does not take into account the planned consolidation measures worth 0.5% of GDP of other government tiers. According to the update, the revenue ratio increases from 47.7% of GDP in 2009 to 49.1% in 2010, whereas the expenditure ratio rises from 53.7% to 53.9% of GDP. The structural deficit in the programme (i.e. the cyclically adjusted balance net of one-off and other temporary measures, recalculated by Commission services on the basis of the information in the programme according to the commonly agreed methodology) shows an improvement from 3.8% of GDP in 2009 to 3.4% of GDP in 2010. Taking into account that the programme classified some of the temporary stimulus measures in 2009 (0.2% of GDP) as one-offs, the overall adjustment would amount to ½% of GDP. The improvement of the structural balance in 2010 reflects consolidation measures amounting to around 1% of GDP. These measures include an increase in personal income taxes in Flanders, an increase in excise duties, higher corporate taxes, non-fiscal revenues stemming from the banking sector and the producers of nuclear energy, and savings on intermediate consumption and the wage bill. This is partly offset by an expansionary expenditure growth trend as a result of previously taken measures and the budgetary impact of population ageing (around ½% of GDP). The role of one-off measures is very limited (below 0.1% of GDP).

(7) The main goal of the medium-term budgetary strategy is to correct the excessive deficit by 2012, in line with the Council recommendation under Article 126(7) of 2 December 2009 and to achieve a balanced budget by 2015, both in nominal and structural terms. To this end, the programme targets an improvement of the headline deficit from 5.9% of GDP in 2009 to 4.8% in 2010, 4.1% in 2011 and 3% in 2012. The primary balance shows a slightly stronger improvement as interest expenditure is planned to rise by 0.2% of GDP over the programme period. The structural deficit (recalculated on the basis of information in the programme), improves from 3.8% of GDP in 2009 to 3.4% of GDP in 2010, 2.9% of GDP in 2011 and 2.2% of GDP in 2012. After the adjustment amounting to ½% of GDP in 2010, the programme plans an adjustment of ½% and ¾% of GDP in 2011 and 2012 respectively, thus amounting on average to over ½% of GDP per year over the programme period. This is somewhat below the ¾% of GDP average fiscal effort recommended under Article 126(7), because the path is based on better macroeconomic assumptions. The adjustment appears to be somewhat back-loaded and is based to a larger extent on revenue increases than on expenditure restraint. The adjustment is built on a strong reduction of the deficit of the federal government and smaller reductions of the deficits of the social security system and the Regions and Communities. The government does not plan one-off measures. The measures backing the target for 2011 are partly unspecified and no measures have been specified for 2012. The programme confirms the commitment to the medium-term objective (MTO), which is a ½% of GDP budgetary surplus in structural terms. In view of the new methodology[5] and given the most recent projections and debt level, the MTO reflects

[5] The country-specific MTOs should take into account three components: i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure.

the objectives of the Pact; however, the programme does not envisage achieving it within the programme period.

(8) The budgetary outcomes could turn out somewhat worse than projected in the programme. In 2010, this could stem from the possible overestimation of corporate taxes. Furthermore, the measures underlying the budgetary path are partly unspecified for 2011 and that no measures have been specified for 2012. In addition, the slightly favourable macroeconomic scenario, with relatively high wage growth projections, may lead to worse than expected budgetary outcomes. Moreover, the government offered sizeable guarantees to the banking sector which might drive up future deficits and debt to the extent that they are called, although some of the cost of government support to the financial sector could also be recouped in the future. Finally, the achievement of the targets and the correction of the excessive deficit by 2012 may not be fully secured as the path is to some extent back-loaded and the target of 3% of GDP in 2012 leaves no margin, in particular given that the Belgian authorities have a mixed track record in respecting the fiscal targets.

(9) Government gross debt is estimated at 97.9% of GDP in 2009, up from 89.8% in the year before. This increase is explained by the strong increase in the deficit and the negative GDP growth. The government gross debt ratio thus was well above the Treaty reference value in 2009, and according to the programme it is on an increasing trend until 2011 (reaching 101.4% of GDP). It would fall slightly to 100.6% of GDP in 2012. The further increase is mainly driven by continued high government deficits. In view of the negative risks to the budgetary targets, the evolution of the debt ratio could be less favourable than projected in the programme, especially as from 2011. Risks related to the possible need for further support to the financial sector appear limited at the current juncture.

(10) The long-term budgetary impact of ageing is clearly higher than the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2009 as estimated in the programme compounds the budgetary impact of population ageing on the sustainability gap. Ensuring primary surpluses over the medium term and undertaking reforms of the labour market and the social security system, in particular a further pension reform aimed at curbing the projected substantial increase in pension expenditure, would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report[6] as medium. Medium-term debt projections that assume GDP growth rates to only gradually recover to the values projected before the crisis and tax ratios to return to pre-crisis levels show that the budgetary strategy envisaged in the programme, taken at face value, would not be enough to stabilise the debt-to-GDP ratio by 2020 and consolidation should thus continue after the programme period.

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6 In the Council conclusions from 10 November 2009 on sustainability of public finances "the Council calls on Member States to focus attention to sustainability-oriented strategies in their upcoming stability and convergence programmes" and further "invites the Commission, together with the Economic Policy Committee and the Economic and Financial Committee, to further develop methodologies for assessing the long-term sustainability of public finances in time for the next Sustainability report", which is foreseen in 2012.

(11) The fiscal framework in Belgium benefits from the existence of independent fiscal institutions. However, numerical fiscal rules and medium-term budgetary frameworks appear to be weak, which has contributed to frequent slippages in the past. The programme announces a number of improvements, including the conclusion of multi-annual budgetary agreements among all governments, some steps towards multi-annual budgeting at the federal level, frequent and stringent budget control exercises and the plan to improve the reporting system of local governments. Nevertheless, more could be done to improve the fiscal framework. In particular, there do not exist multi-annual, enforceable expenditure ceilings.

(12) Belgium is confronted with a high overall tax burden in combination with a high level of government spending. The government has taken several measures to reform the tax system, including important tax reductions on labour and to a lesser extent for enterprises. In spite of those measures, the labour market continues to include, also as a result of its interactions with the system of unemployment benefits, significant inactivity, unemployment and low wage traps. In a context of strict budgetary consolidation, further labour tax cuts will have to be fully compensated. On the expenditure side, primary expenditure growth has outpaced nominal GDP growth in the period 2000-2009. The planned reform of the pension system is a welcome step that could lead to a significant positive impact on the budget and potential growth.

(13) Overall, in 2010 the budgetary strategy set out in the programme is consistent with the Council recommendations under Article 126(7). From 2011 on, taking into account the risks, the budgetary strategy may not be fully consistent with the Council recommendation under Article 126(7). In particular, the measures underpinning the target for 2011 are only partly specified and there are no measures specified for 2012. The somewhat optimistic macroeconomic scenario combined with the somewhat smaller-than-recommended annual fiscal effort, constitutes an additional risk for the outer years. The strategy taking into account the risks may not be sufficient to bring the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace. Therefore, the strategy needs to be backed up by fully specified measures as from 2011 and additional measures need to be considered to ensure the achievement of the targets if risks materialise. This would also help in view of Belgium’s high public debt-to-GDP ratio, above-average budgetary cost of ageing, and the government’s considerable contingent liabilities in view of guarantees provided to the financial sector.

(14) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has limited gaps in the required data and some gaps in the optional data.[7] In its recommendations under Article 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Belgium to report on progress made in the implementation of the Council’s recommendations in a separate chapter in the updates of the stability programmes. Belgium complied with this recommendation through a complement to the programme.

The overall conclusion is that, following the expansion in 2009 in line with the EERP, the budgetary stance turns restrictive in 2010 and 2011 and more significantly so in 2012. At face

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7 In particular, the data on the sectoral balances are not provided.

value, this should lead to a correction of the excessive deficit by 2012, in line with the recommendation of 2 December 2009 under Article 126(7) of the TFEU. The government gross debt-to-GDP ratio, which rose in 2008 as a result of the measures to stabilise the financial system, will continue its upward movement up to 2011 and start declining again in 2012. This would bring the debt back on a downward path. However, the budgetary path is subject to some downside risks. In 2010, potentially optimistic tax estimates may lead to a somewhat higher deficit and may call for additional measures to be taken in the context of the foreseen budget control exercises. As from 2011, the main risk relates to the fact that the measures underpinning the target for 2011 are only partly specified and there are no measures specified for 2012. In addition, the slightly favourable macroeconomic assumptions combined with an average annual fiscal effort that is somewhat below the ¾% of GDP recommended by the Council, pose further downward risks to the targets. The Belgian government however committed in the programme to take the necessary exceptional measures if economic growth is insufficient to achieve the 3% of GDP deficit target in 2012, which may indeed be needed. The adjustment could also benefit from a stronger focus on expenditure restraint. Finally, while the programme announces a number of improvements to the fiscal framework, more needs to be done to support the consolidation effort, in particular as regards the introduction of enforceable, multi-annual expenditure ceilings.

In view of the above assessment and also in the light of the recommendation under Article 126 TFEU of 2 December 2009, Belgium is invited to:

(i) ensure that the 2010 deficit target of the programme is met; specify the measures underlying the budgetary targets from 2011 onwards; and stand ready to strengthen the fiscal effort in case risks related to the fact that the programme scenario is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise; seize any further opportunities to accelerate the reduction of the gross debt ratio towards the 60% of GDP reference value

(ii) ensure high primary surpluses over the medium term and undertake structural reforms in order to improve the long-term sustainability of public finances

(iii) improve the quality of public finances by adopting a more stringent budgetary framework, encompassing the creation of enforceable, multi-annual expenditure ceilings.

Table: Comparison of key macro economic and budgetary projections

		2008	2009	2010	2011	2012
Real GDP (% change)	**SP Jan 2010**	**1.0**	**-3.1**	**1.1**	**1.7**	**2.2**
	COM Nov 2009	1.0	-2.9	0.6	1.5	n.a.
	SP Sep 2009	*1.1*	*-3.1*	*0.4*	*1.9*	*2.4*
HICP inflation (%)	**SP Jan 2010**	**4.5**	**0.0**	**1.5**	**1.7**	**1.8**
	COM Nov 2009	4.5	0.0	1.3	1.5	n.a.
	SP Sep 2009	*4.5*	*0.0*	*1.5*	*1.6*	*1.6*
Output gap[1] (% of potential GDP)	**SP Jan 2010**	**1.8**	**-2.4**	**-2.5**	**-2.2**	**-1.4**
	COM Nov 2009[2]	1.7	-2.3	-2.8	-2.4	n.a.
	SP Sep 2009	*2.0*	*-2.3*	*-2.9*	*-2.3*	*-1.5*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Jan 2010**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
	COM Nov 2009	-0.2	0.1	0.4	0.3	n.a.
	SP Sep 2009	*-1.6*	*-1.9*	*-2.1*	*-2.3*	*n.a.*
General government revenue (% of GDP)	**SP Jan 2010**	**48.8**	**47.7**	**49.1**	**49.5**	**49.8**
	COM Nov 2009	48.8	47.7	48.0	48.2	n.a.
	SP Sep 2009	*48.7*	*47.9*	*48.1*	*48.5*	*49.2*
General government expenditure (% of GDP)	**SP Jan 2010**	**50.0**	**53.7**	**53.9**	**53.6**	**52.8**
	COM Nov 2009	50.0	53.6	53.8	54.0	n.a.
	SP Sep 2009	*49.9*	*53.8*	*54.1*	*53.9*	*53.6*
General government balance (% of GDP)	**SP Jan 2010**	**-1.2**	**-5.9**	**-4.8**	**-4.1**	**-3.0**
	COM Nov 2009	-1.2	-5.9	-5.8	-5.8	n.a.
	SP Sep 2009	*-1.2*	*-5.9*	*-6.0*	*-5.5*	*-4.4*
Primary balance (% of GDP)	**SP Jan 2010**	**2.6**	**-2.3**	**-1.10**	**-0.4**	**0.8**
	COM Nov 2009	2.6	-2.0	-1.8	-1.7	n.a.
	SP Sep 2009	*2.5*	*-2.0*	*-1.9*	*-1.2*	*-0.1*
Cyclically-adjusted balance[1] (% of GDP)	**SP Jan 2010**	**-2.2**	**-4.6**	**-3.4**	**-2.9**	**-2.2**
	COM Nov 2009	-2.1	-4.6	-4.3	-4.5	n.a.
	SP Sep 2009	*-2.3*	*-4.7*	*-4.4*	*-4.2*	*-3.6*
Structural balance[3] (% of GDP)	**SP Jan 2010**	**-2.2**	**-3.8**	**-3.4**	**-2.9**	**-2.2**
	COM Nov 2009	-2.2	-4.2	-4.4	-4.5	n.a.
	SP Sep 2009	*-2.3*	*-4.7*	*-4.4*	*-4.2*	*-3.6*
Government gross debt (% of GDP)	**SP Jan 2010**	**89.8**	**97.9**	**100.6**	**101.4**	**100.6**
	COM Nov 2009	89.8	97.2	101.2	104.0	n.a.
	SP Sep 2009	*89.7*	*97.5*	*101.9*	*103.9*	*104.3*

Notes:

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

[2] Based on estimated potential growth of 1.7%, 1.1%, 1.0% and 1.2% respectively in the period 2008-2011.

[3] Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.8% of GDP deficit increasing in 2009 according to the most recent programme; and 0.1% of GDP deficit-reducing in 2008 and 2010 and 0.5% of GDP deficit increasing in 2009 in the Commission services' November 2009 forecast.

Source:

Stability programme (SP); Commission services’ autumn 2009 forecasts (COM); Commission services’ calculations