COMMISSION OPINION

of 16.11.2015

on the Draft Budgetary Plan of BELGIUM

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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 2016 submitted on 15 October 2015 by Belgium, 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 Pact and should achieve a fiscal adjustment of at least 0.6 % of GDP towards the medium-term budgetary objective in 2015 and in 2016 and to use windfall gains to put the general government debt ratio on an appropriate downward path. As the debt ratio was 105.1% of GDP in 2013 (the year in which Belgium corrected its excessive deficit), during the three years following the correction of the excessive deficit, Belgium is also subject to the transitional debt rule.

5. The macroeconomic scenario underlying Belgium's 2016 Draft Budgetary Plan assumes a continued moderate recovery. This is somewhat below the projections included in the 2015 Stability Programme. Following GDP growth of 1.3% in 2014, economic activity would expand by 1.2% in 2015 and by 1.3% in 2016, according to the scenario included in the Draft Budgetary Plan. This scenario is very close to the Commission forecast which projects economic growth of around 1.3% in both years. The Draft Budgetary Plan assumes an inflation rate of 1.2% in 2016, compared to 1.7% in the Commission forecast. This difference can be largely traced back to recently taken indirect tax measures, which are included in the Commission projections for inflation but were not included in the Draft Budgetary Plan. All in all, the macroeconomic scenario depicted in the Draft Budgetary Plan can be assessed as plausible.

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.
The Draft Budgetary Plan targets a deficit of 2.6% of GDP in 2015 and 2.1% of GDP in 2016, just above the deficit targets of the latest Stability Programme (2.5% and 2.0% respectively). In 2015, the revision mainly reflects a lower net positive contribution of one-offs to the budget balance. In 2016, the slight downward revision of the macro-economic assumptions and a more negative net contribution of one-offs are compensated by a higher planned structural effort compared to the Stability Programme.

Declining interest expenditure contributed around 0.7% of GDP to fiscal consolidation between 2012 and 2015 while the overall improvement in the structural balance reached only around 1% of GDP over the same period. Interest rate windfalls have been accompanied by a reduction in the planned structural primary effort over 2012-2016. According to the Draft Budgetary Plan, interest expenditure is expected to contribute another 0.1% of GDP to the structural improvement in 2016, against 0.2% in the Stability Programme.

The Draft Budgetary Plan indicates that the budgetary impact of the exceptional inflow of refugees is significant and that it should be considered as an unusual event outside the control of the government, as defined in article 5.1 and article 6.3 of Regulation (EC) No 1466/97. According to the Draft Budgetary Plan, this additional expenditure is estimated at around 0.03% and 0.10% of GDP in 2015 and 2016 respectively. In relation to this, Belgium requested a temporary deviation from the adjustment path towards the MTO. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 would in principle allow catering for this additional expenditures, in that the inflow of refugees is an exceptional event, its impact on Belgium’s public finances, if confirmed, is significant, and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the MTO. The Commission will make a final assessment, including on the eligible amounts, on the basis of observed data as provided by the Belgian authorities.

The Commission 2015 autumn forecast projects a slightly higher deficit for 2015 (2.7% of GDP), despite higher nominal GDP growth. It is not ensured that recently taken measures to avoid budgetary slippages will yield the impact expected by the authorities. In 2016, the Commission 2015 autumn forecast projects a much higher headline deficit than the Draft Budgetary Plan (2.6% of GDP vs. 2.1%). First of all, there is a base effect of 0.1% of GDP because of the different projected outcome in 2015. Secondly, there is a difference of around 0.3% of GDP on the expected impact of measures underpinning the 2016 budget, because either some of them have not been sufficiently specified to be taken into account in the Commission forecast, or because their estimated impact is expected to be lower than in the Draft Budgetary Plan. The government also counts on sizeable positive second round effects of the announced tax shift away from labour (0.1% of GDP), while in the Commission forecast this impact is already factored in in the macro-economic scenario. Lastly, there are also slightly different assumptions regarding interest expenditure and the indexation of government wages and social benefits.

Gross debt is planned to rise to over 107% of GDP by the end of 2015, slightly higher than foreseen in the Stability Programme due to an upward revision of the 2014 starting point. The Commission forecast expects a higher nominal GDP growth in 2015 as well as somewhat more downward stock-flow adjustments, resulting in a stabilization of the debt ratio. In 2016, plans would result in a small decline of the
debt-to-GDP-ratio. The higher deficit projection in the Commission forecast on the other hand would result in a small debt increase in 2016.

11. Consolidation measures envisaged in the Draft Budgetary Plan focus on expenditure restraint (-0.6% of GDP), with the biggest contribution coming from curbing rising expenditure on health care and social benefits (-0.2% of GDP). However, not all of the measures are currently fully specified. Also some announced savings in administrative expenditure are not known in detail yet. The federal government coupled the preparation of the 2016 budget with a multi-annual plan to shift taxes away from labour (amounting to 0.5% of GDP in 2016). Employers' social security contributions will be gradually reduced, as well as personal income tax. Specific tax decreases are foreseen for self-employed and high-tech industries. Around half of these tax reductions will be financed by an increase in excise duties and a return to the 21% rate for VAT on electricity. In addition, some financial taxes will be increased such as the withholding tax on dividends and interest income, the taxation of real estate funds and a newly introduced tax on capital gains on shares. The 'transparency' tax on offshore financial constructions introduced in 2015 is expected to raise additional revenues as well, while the Belgian authorities also hope to generate new revenues through a more efficient tax collection, by tackling fiscal fraud more effectively, and through the introduction of a permanent tax regularisation scheme. However, the impact of several of these financing measures is currently uncertain.

12. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional debt rule. Based on the Commission 2015 autumn forecast, the projected change in the structural balance (0.4% of GDP in both 2015 and 2016) is below the requirement (1.1% and 1.9% of GDP respectively), which is significantly more demanding than the effort recommended to Belgium by the Council.

13. On 27 February 2015, the Commission issued a report under Article 126(3) of the TFEU, as Belgium was not expected to make sufficient progress towards compliance with the debt rule in 2014-2015 and the deficit reference value of 3% of GDP was breached in 2014. The analysis concluded that the debt criterion should be considered as complied with at that time and that the excess of the deficit over the reference value was close to that value, temporary, and exceptional. This analysis is still broadly valid.

14. In 2015, Belgium plans a (recalculated) structural adjustment of 0.6% of GDP, in line with the required adjustment towards the MTO. However, this would result in an average deviation of 0.3% of GDP over 2014-2015 taken together, pointing to a significant deviation over this period. On the other hand, according to the information provided in the Draft Budgetary Plan, the growth rate of government expenditure, net of discretionary revenue measures, in 2014 and 2015 will not exceed the applicable expenditure benchmark rate. This warrants an overall assessment. In both 2014 and 2015, the structural balance is negatively impacted by a sizeable revenue shortfall. The expenditure benchmark is thus the better indicator of the underlying budgetary position. This points to compliance of the Draft Budgetary Plan with the adjustment path towards the MTO in 2015. On the basis of the Commission 2015 autumn forecast, the structural balance is projected to improve by 0.4% of GDP in 2015, pointing to a risk of some deviation from the required adjustment in 2015 and a risk of significant deviation over 2014 and 2015 together (average gap of -0.4% of GDP), especially due to the large gap in 2014. The
expenditure benchmark points to a risk of some deviation in 2015 (gap of -0.3% of GDP) as well as over 2014 and 2015 taken together (average gap of -0.2% of GDP). As explained above, the expenditure benchmark is the better indicator of the underlying budgetary position over 2014-2015. Hence, on the basis of the forecast, the overall assessment points to a risk of some deviation from the adjustment path towards the MTO in 2015. This conclusion would not change in case the budgetary impact of the exceptional inflow of refugees was excluded from the assessment.

In 2016, Belgium targets a (recalculated) structural adjustment of 0.8% of GDP. According to the information provided in the Draft Budgetary Plan, the growth rate of government expenditure, net of discretionary revenue measures, in 2016 will not exceed the applicable expenditure benchmark rate (0.0% in real terms). Plans are thus compliant with the required adjustment path towards the MTO in 2016. In contrast, on the basis of the Commission 2015 autumn forecast, the projected structural improvement of 0.4% of GDP falls 0.2% of GDP short of the required adjustment of 0.6% of GDP, pointing to a risk of some deviation. The expenditure benchmark points to a risk of significant deviation (gap of -0.7% of GDP). This calls for an overall assessment. As the expenditure benchmark is negatively impacted by the development of one-off revenues and expenditure, in 2016, the structural balance appears to be a better indicator of the fiscal effort at the current juncture. Therefore, the overall assessment points to a risk of some deviation from the adjustment path towards the MTO in 2016. This conclusion would not change in case the budgetary impact of the exceptional inflow of refugees was excluded from the assessment.

The Draft Budgetary Plan contains a plan to reduce the tax burden on labour. These measures go in the direction recommended by the Council in July 2015 to shift taxes away from labour to less growth distortive tax bases and to improve the functioning of the labour market by reducing financial disincentives to work. Belgium also adopted several measures in the area of pensions in order to improve the sustainability of its public finances as recommended by the Council. The law to increase the statutory retirement age from 65 year now to 67 year by 2030 has recently been adopted. The Draft Budgetary Plan does not contain specific measures to improve the budgetary coordination of fiscal targets among the different levels of government as recommended by the Council.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Belgium, which is currently under the preventive arm and subject to the transitional debt rule, is broadly compliant with the provisions of the Stability and Growth Pact. In particular, according to the Commission 2015 autumn forecast, there is a risk of some deviation from the required adjustment towards the MTO. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2016 budget will be compliant with the SGP.

The Commission is also of the opinion that Belgium has made some progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance (including the pension system, the fiscal framework and the tax system) and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.
Done at Brussels, 16.11.2015

For the Commission
Pierre MOSCOVICI
Member of the Commission

CERTIFIED COPY
For the Secretary-General,

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Director of the Registry
EUROPEAN COMMISSION