Belgian Stability Programme 2022-2025

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1. Preface

The Belgian Stability Programme sets out the guidelines and objectives for the budget policy over the period 2022-2025. It should be read in conjunction with the National Reform Programme. Both programmes constitute the medium-term national budgetary plan within the meaning of Regulation (EU) No 473/2013.

The document "Guidelines on the format and content of Stability and Convergence Programmes" of 15 May 2017 was used as a guide in drafting the stability programme.

As provided for in the cooperation agreement of 13 December 2013, the opinion of the Government Financing Requirements Section of the High Finance Council of April 2022 served as the basis for drafting the Stability Programme 2022-2025. This opinion contains both qualitative and quantitative recommendations.

The trajectory of Entity I of the stability programme was approved by the federal government on 22 April 2022.

The overall trajectory of the Stability Programme 2022-2025 was subject to prior consultations within the Consultative Committee as provided for in the Cooperation Agreement of 13 December 2013.

The Consultative Committee took note of the qualitative recommendations formulated by the High Finance Council and the indicative trajectories included in the Stability Programme 2022-2025. At the request of the federated entities, the trajectory of Entity II thus calculated is not further broken down and is purely indicative.

2. Introduction

The past two years were marked by the impact of the consequences of the corona crisis. In this context, the various levels of government took a wide range of measures to protect public health and support the economic and social fabric.

Once the end of this pandemic appeared to be in sight, and the various governments could refocus on other policies and necessary reforms, we were once again faced with a number of new shocks affecting the economy and society.

Russia's invasion of Ukraine on 24 February, the explosive spike in energy prices and rising inflation have led to a downward revision of economic forecasts and have prompted governments to take relevant, unprecedented and often one-off measures.

The starting point for drafting the Stability Programme was the Federal Planning Bureau's Economic Outlook, published on 24 February 2022. This was the same day the Russian invasion began. Consequently, the Outlook did not yet take this into account. For example, for 2022 economic growth of 3.0% was still assumed. During the course of March, the Federal Planning Bureau issued a technical variant and the National Bank of Belgium issued a revision of the macroeconomic outlook of the Belgian economy following the war in Ukraine. Growth was revised downward by around 0.5%. Chapter 3 provides a comprehensive overview of the macroeconomic assumptions, as well as the most recent expectations.

Although the estimates started from the economic outlook before the outbreak of the war, the impact of a 0.5% slowdown in growth on the general government financing balance was still taken into account for 2022. The impact on the financing balance is estimated at 0.28%. As a result, the general government deficit for 2022 would be -5.2% of GDP. Chapter 4 delves deeper into the general government balance and public debt. The budget trajectory for subsequent years is also explained in this section.

In addition to the continued management of the crisis in the short term, there also needs to be a focus on the medium term, to achieve sustainable and inclusive growth. On the one hand, investment needs to be stimulated. On the other hand, when the economic conditions permit, budget policy needs to focus on achieving prudent budget positions and ensuring the sustainability of the debt, as recommended by the European Commission in its Country-Specific Recommendations. Chapter 5 discusses the sustainability of public finances.

The Belgian Recovery and Resilience Plan was approved by the Ecofin Council on 13 July 2021, and is currently in full implementation. This plan will provide a powerful stimulus to our economy, create jobs and accelerate the transition to a low carbon and digital economy. In addition to the roll-out of RRF-funded investments, the various governments have taken additional initiatives. For example, the federal government has provided a number of additional investment incentives, most recently in the context of accelerating the energy transition, amounting to €2.5 billion.

The federal government decided in the coalition agreement that efforts also need to be made to increase the employment rate and tackle poverty, and a reorientation of spending will be necessary to improve social cohesion.

Overall, the quality of the public finances needs to be improved. Spending reviews can provide the impetus in this regard.

The initiatives taken by various governments in this context are explained in Chapter 6, which looks at the quality of the public finances.

3. Economic situation and macroeconomic assumptions

The macroeconomic outlook for 2021-2027, which served to prepare the report of the Monitoring Committee of 17 March 2022, was drafted by the Federal Planning Bureau (FPB) on behalf of the National Accounts Institute (NAI) and published in the context of the economic budget of 17 February 2022, and the Economic Outlook 2022-2027 of 24 February 2022. Note that these outlooks only take into account those measures whose modalities were known with sufficient accuracy on 11 February 2022. As such, the labour market reforms announced on 15 February and the measures included in the preliminary draft law containing various labour provisions (labour deal) were not yet taken into account. Moreover, the recent invasion of Ukraine by Russia was also not yet taken into account.

The war in Ukraine has obviously had an impact on the economic and budgetary outlook, both for the European and Belgian economies. Consequently, it was decided to present the data of the economic budget of February 2022 with only a brief commentary, as these are likely to no longer reflect reality. In addition, for the sake of completeness, the decision was made to also give a brief description of the first estimates that currently exist regarding the economic consequences of the war on the global economy (based on the interim report on the economic outlook of the OECD) and on the Belgian economy (based on the one hand on a technical estimate carried out by the Federal Planning Bureau and, on the other hand, on an interim revision published by the National Bank of Belgium).

3.1 The international economic environment

Corona situation

The Omicron variant has caused the largest wave of infection we have seen since the start of the corona crisis. However, this variant was less virulent, so the significant rise in infections did not translate into a corresponding increase in hospitalisations or mortality. The result was that less restrictive measures were needed during this wave. It seems as though the Omicron wave will soon dissipate and the impact of future waves will be limited.

Assumptions of the Federal Planning Bureau

The following table details the assumptions regarding the international context, which the Federal Planning Bureau relied on for the preparation of the 2022 economic budget and the economic outlook 2022-2027 published in February 2022.

Table 1: External environment: basic assumptions

	2021	2022	2023	2024	2025
Short-term interest rate (annual average)	-0,5	-0,3	0,5	0,7	0,9
Long-term interest rate (annual average)	0	0,9	1,0	1,3	1,6
USD/EUR exchange rate (annual average)	118,3	113,7	115,5	115,5	115,5
Nominal effective exchange rate	105,6	105,6	106,7	106,7	106,7
GDP growth World excluding EU	5,6	4,1	3,9	3,6	3,5
GDP growth EUR	5,1	4	2,6	1,9	1,7
Growth of relevant foreign markets	8,9	6,2	5,2	3,6	3,4
World import volume excluding EU	9	5,3	5,0	3,9	3,7
Oil price (Brent, USD per barrel)	70,7	83,2	76,6	78,7	80,8

Source : Federal Planning Bureau

Economic impact of the war in Ukraine according to the OECD Economic Outlook, Interim Report, 17 March 2022

This section is based on the OECD Economic Outlook, Interim Report, published on 17 March 2022. It should be emphasised that the Outlook needs to be approached with caution, given the highly uncertain nature of the current economic situation. Before the outbreak of the conflict, we were gradually entering the final phase of the pandemic, thanks to the global vaccination effort. Together with expansionary policy orientations and favourable financial conditions, this seemed to herald a global economic recovery for 2022 and 2023. The OECD estimates in December 2021 forecast a 4.5% rise in global GDP in 2022 and a 3.2% rise in 2023. Moreover, the economic recovery combined with disruptions to supply chains is creating inflationary pressure. But it is primarily energy prices that are responsible for the spike in inflation. Natural gas, electricity and oil prices all experienced explosive rises in 2021. The uptick in global economic activity has gone hand in hand with increased demand for energy. As a result, accelerated inflation, across the board, was observed in almost all OECD countries. The United States, Latin America and Europe have been particularly affected.

The war in Ukraine has created a negative supply shock for the global economy. This came at a time when we were still busy clearing bottlenecks that were still prevalent when the global economy recovered in the aftermath of the pandemic. The consequences of the war on the global economy are numerous and risk becoming worse if the conflict drags on. Ukraine and Russia admittedly only play a minor direct role in the global economy, accounting for 2% of global GDP and having limited trade and financial ties with other countries. But in commodity markets, they both play a crucial role as suppliers of various products. Combined, the two countries account for 30% of global grain exports, 20% of corn, mineral fertilizer and natural gas exports and 11% of oil exports. What is more, they also play a significant role in the export of metals, making them important to global supply chains. Russia is one of the main exporters of palladium and nickel, raw materials needed to produce batteries, cars and steel. Along with Ukraine, Russia exports a significant amount of rare gases needed for the production of semiconductors and titanium sponge for the aerospace industry. And finally, both countries have significant uranium reserves.

Consequently, the prices of the main commodities exported by Russia and Ukraine have risen sharply since the start of the war, even though production and export volumes have remained virtually unchanged. A scenario in which grain exports from Russia and Ukraine were completely halted would lead to significant shortages, especially for the Middle Eastern countries that procure more than 70% of their imported grain from Russia and Ukraine.

The financial sanctions against Russia have restricted access to foreign capital and have frozen the Bank of Russia's foreign exchange reserves in Western economies. According to the OECD report, this has caused a sharp depreciation of the rouble; the Bank of Russia's key interest rate rose by 10.5 percentage points as a result and now stands at 20%, and risk premiums on Russian government debt have risen sharply. Global financial markets have been impacted by the rise in risk premiums and the depreciation of the currency, given increased risk aversion and the latent uncertainty. Many multinationals have also suspended their operations in Russia.

The war will undoubtedly continue to weigh heavily on short-term global growth and is likely to add to inflationary pressures. However, the extent of this economic impact is highly uncertain and will primarily depend on the duration of the war and the actions taken by governments.

The OECD forecasts indicate that global growth will fall by more than one percentage point and global inflation will rise by almost 2.5 percentage points. These estimates are based on the assumption that the shocks to financial and commodity markets witnessed during the first two weeks of the conflict will be felt for at least another year, and assume a deep recession in Russia accompanied by a fall in output of more than 10%, with inflation rising by almost 15 percentage points.

The impact of the war varies depending on the country. European economies have been hit hardest, especially in the countries bordering Russia or Ukraine. This is due to the fact that gas prices have risen more sharply in Europe than in the rest of the world, and the fact that European countries maintained relatively close economic and energy ties with Russia prior to the conflict. According to the OECD, one of the main economic risks is that Russia completely shuts off energy exports to the EU. This would be a serious shock with dramatic consequences, given that alternative energy sources are scarce and gas reserves are limited. If European gas prices remain at the same high level as they were at the start of the war, inflation in Europe would rise by an additional 1 percentage point (across the Eurozone, it would increase inflation by 3.5 percentage points) and European growth would also crimp by more than 0.5 percentage points.

By mid-March, the war had prompted an influx of more than 3 million refugees, who primarily ended up in neighbouring countries (Poland, Romania, the Republic of Moldova, Hungary and the Slovak Republic). Taking in Ukrainian refugees will require additional expenditure on social support, housing support, food, medical assistance, child care and education. The cost of hosting the refugees will be at least 0.25% of the EU's GDP.

3.2 Estimates of macroeconomic parameters for Belgium

3.2.1 Estimates from the Federal Planning Bureau, February 2022

The following table presents the main economic parameters of Belgium for the period 2021-2025. This data served as the basis for the paper of the Monitoring Committee published on 17 March 2022.

Table 2: Macroeconomic outlook

Rate of change	2021	2021	2022	2023	2024	2025
	(in billion)					
1. Real GDP	446,6	6,1	3,0	1,9	1,5	1,3
2. Nominal GDP	505,7	10,7	6,5	3,2	2,9	2,6
	Components of real GDP					
3. Private consumption expenditure	241,7	6,3	5,9	1,9	1,8	1,4
4. Government consumption expenditure	120,5	4,2	1,3	0,6	1,1	1,4
5. Gross fixes capital formation	123,9	9,6	2,6	3,5	1,7	0,4
6. Changes in inventories and net acquisition of valuables		-0,9	-0,3	0,0	0,0	0,0
7. Export of goods and services	430,7	9,0	5,2	3,9	3,1	3,1
8. Import of goods and services	424,2	8,5	5,9	4,0	3,2	3,0
	Contribution to real GDP growth					
9. Final domestic demand (3+4+5)		5,7	3,5	2,0	1,6	1,2
10. Changes in inventories and net acquisition of valuables		-0,9	-0,3	0,0	0,0	0,0
11. External balance of goods and services		0,5	-0,5	-0,1	-0,1	0,1

Bron: Economic outlook 2022-2027, Federal Planning Bureau (24/02/2022)

The data in the table above does not take into account the impact of the war in Ukraine and therefore no longer provides a realistic picture of the Belgian economy. As such, we will only comment briefly on these figures.

Belgian GDP, which experienced a historic drop (-5.7%) during the corona crisis, recorded a remarkable recovery (+6.1%) in 2021. All components of GDP were then back on an upward trend, except for inventories. According to the projections of the Federal Planning Bureau, Belgium's annual GDP would increase by 3% in 2022 (mainly driven by private consumption) and then by 1.9% in 2023. Thereafter, growth would gradually fall from 1.5% in 2024 to 1.3% in 2025.

Table 3: Price evolutions

Rate of change	2021	2022	2023	2024	2025
1. GDP deflator	4,3	3,3	1,3	1,4	1,3
2. Private consumption deflator	2,3	5,1	1,0	1,1	1,5
3. HICP	2,4	5,5	1,1	1,2	1,5
4. Public consumption deflator	2,2	4,6	2,5	1,4	1,0
5. Investment deflator	3,4	3,4	0,5	1,3	1,6
6. Export price deflator (goods and services)	8,1	8,3	-1,9	0,3	1,6
7. Import price deflator (goods and services)	8,9	10,1	-3,0	-0,1	1,7

Source : Federal Planning Bureau

At the start of 2022, Belgian inflation, measured by the national consumer price index, notched up a historically high level (5.5%). This quasi-exponential growth is due to higher energy prices. Both the wholesale price of natural gas and the price of CO2 emission allowances skyrocketed in 2021 (in ten years, these prices have increased tenfold and doubled, respectively). This sharp rise in inflation translated into an increase in the health index (up 2% in 2021 and up 5.4% in 2022), which exceeded the pivot index. One such exceedance occurred in February, and another should normally occur in October 2022. Together with the one of December 2021, these exceedances will cause social benefits and government wages to be increased by 2%, up to three times. The subsequent pivot index exceedances were expected to occur in April 2023, February 2025, March 2026, and October 2027.

Note that this does not take into account the Federal Planning Bureau's update of the inflation outlook, published in early April, which envisages exceedances in April 2022, November 2022 and April 2023.

Table 4: Evolution in the labour market

	2021	2021	2022	2023	2024	2025	2026	2027
	Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons	4894,3	1,7	1,2	0,8	0,8	0,7	0,7	0,7
2. Employment, hours worked	7060,9	7,5	4,0	1,2	0,8	0,7	0,7	0,7
3. Unemployment rate (%)	5,5	6,3	5,9	5,8	5,5	5,4	5,4	5,3
4. Unemployment rate (%)	8,4	8,4	8,0	7,8	7,5	7,4	7,4	7,2
5. Labour productivity, persons	86,0	4,4	1,8	1,1	0,8	0,6	0,6	0,6
6. Labour productivity, hours worked	59,6	-1,2	-0,9	0,7	0,7	0,5	0,6	0,6
7. Compensation of employees	230,2	5,1	8,3	4,6	2,6	2,6	2,9	2,9
8. Compensation per employee	56,7	3,5	7,1	3,9	1,9	2,0	2,3	2,3

1. Occupied population, domestic concept national accounts definition (thousands)

2. National accounts definition (million hours)

3. Harmonised definition, Eurostat; levels

4. Definition Federal Planning Bureau

5. Real GDP per person employed (thousand euro)

6. Real GDP per hour worked (euro)

7. billion EUR

8. thousand EUR per person per year

Source: Federal Planning Bureau

The labour market only experienced a slight deterioration during the corona crisis in 2020, mainly due to the temporary unemployment measures. By early 2021, the labour market was quickly back to pre-crisis levels. Thereafter, employment rose steadily throughout the year, before declining slightly at the end of 2021.

The unemployment rate (according to the administrative definition) should fall to 8.0% in 2022, returning to slightly under its pre-crisis level (8.9% in 2019). From 2023 to 2027, the unemployment rate is expected to gradually fall and should reach 7.2%.

3.2.2 Impact of the war in Ukraine on the Belgian economy

3.2.2.1 Estimates from the Federal Planning Bureau, March 2022

At the request of the government, the Federal Planning Bureau made an indicative technical estimate of the impact of the war in Ukraine on the Belgian economy.

Since the 2022 economic budget had only just been published, and given the uncertainty surrounding the impact of the geopolitical situation on the European economy, the decision was taken to make a re-estimate, once again parameterising certain international variables. As such, the growth of potential export markets for Belgium was revised downward and energy prices (oil, natural gas, electricity) were revised upward.

The following table shows the impact of these adjustments on the Belgian economy in 2022. The figures are purely indicative and should not be interpreted as updated forecasts for 2022.

Table 5: Impact on the Belgian economy (FPB technical estimate)

	Economic budget (February 2022)	Ukraine update (March 2022)	Variation
Real GDP	3,0	2,5	-0,5
Private consumption expenditure	5,9	5,4	-0,5
Government consumption expenditure	1,3	1,2	-0,1
Gross fixes capital formation	*2,6*	*2,0*	-0,6
Domestic demand	*3,5*	*3,0*	-0,6
Export of goods and services	5,2	4,1	-1,1
Import of goods and services	5,9	4,8	-1,1
GDP deflator	3,3	3,8	0,5
Consumer price index	5,5	7,3	1,8
Health index	5,4	7,0	1,6
Employment (variation, thousand)	57,3	54,3	-3,0
Real disposable income of individuals	1,2	-0,2	-1,4

Lower growth in potential export markets leads to a drop in exports. Companies are confronted with lower demand and will therefore produce less, leading to less investment and lower employment.

And the already high inflation rate will be further fuelled by the rise in energy prices. Thanks to the indexation of employees' wages and civil servants' salaries, the impact of inflation on people's real disposable income remains limited. But this mechanism has a delayed effect, making it impossible to fully offset the effect of sharp price increases on disposable income. Nevertheless, the fall in private consumption is slower than the decline in disposable income. Moreover, the indexation triggers an increase in wage costs and, consequently, a deterioration in the competitive position of Belgian companies.

In short, the various downward revisions to the expenditure components result in GDP growth that is 0.5% lower than originally envisaged in the economic budget in February 2022.

3.2.2.2 Estimates of the National Bank of Belgium, March 2022

The NBB revised its forecasts from the autumn to provide an economic assessment of the impact of the war on Belgium. Following the example of the Federal Planning Bureau, the NBB revised certain parameters.

Potential export markets are still experiencing growth of more than 3%, despite the downward revision due to the war. Due to the sharp increase in energy and certain commodity prices, gas and oil prices were significantly revised upward. The uncertainty due to the war, high inflation and expected monetary policy adjustments are pushing the various interest rates upward.

Table 6: Impact on the Belgian economy (NBB revision)

	Economic outlook (Autumn 2021)			Ukraine update (March 2022)		
	2022	2023	2024	2022	2023	2024
Real GDP	2,6	2,4	1,6	2,4	1,5	1,9
Domestic demand (without changes in inventories)	3,1	2,6	1,8	1,9	2,1	2,1
Net export of goods and services	0,1	-0,2	-0,2	0,5	-0,6	-0,1
Changes in inventories	-0,5	0,1	0,0	-0,1	0,0	0,0
GDP deflator	3,6	0,6	0,3	5,3	1,7	0,6
Consumer price index	4,9	1,2	1,2	7,4	2,2	1,1
Health index	4,4	1,3	1,3	6,9	2,7	1,6
Employment (variation, thousand)	44,0	40,7	38,7	59,8	16,3	43,6
Unemployment rate (Eurostat definition, in %)	6,1	5,9	5,7	6,0	6,2	6,1
Real disposable income of individuals	2,1	3,1	1,7	0,6	3,2	2,3

According to these interim projections, Belgian growth has been revised downward by 0.2 percentage points in 2022 and by 0.9 percentage points in 2023, to 2.4% and 1.5%, respectively. But the small downward adjustment for 2022 masks the fact that growth in the second half of the year was underestimated. Indeed, the realisations in December 2021 exceeded expectations and continued into 2022. For example, GDP growth in 2022 would be more like 3.3% rather than 2.6%, taking into account the improved growth projections made right before the war. As a result, the impact of the war on Belgian growth in 2022 is estimated to be a drop of almost 1 percentage point.

This downward revision of growth is attributable to the drop in the various growth components.

First, exports have been revised downward, given the lower demand for imports due to key trading partners who themselves have been negatively affected by the war. Moreover, the inflation combined with the indexation results in a loss of competitiveness in the short term.

Second, household consumption is affected by the rapid rise in prices, especially energy prices. Because the indexation has a delayed effect and because the sharp rise in fuel prices is not contained in the indexation, there is a certain loss of purchasing power on the part of households. Despite government measures to alleviate energy bills, this would only increase people's disposable income by 0.6% in 2022, leaving it 1.5 percentage points lower than the level projected in the second half of 2021. From 2023, the effects of the indexation will be felt: people's disposable income would rise by 3.2%, giving a new dynamic to household consumption.

Third, companies have put the brakes on investment due to the climate of uncertainty, lower demand at home and abroad, and skyrocketing energy costs.

Fourth, government consumption will rise due to the influx of Ukrainian refugees and their reception.

Initially, energy prices were still expected to fall in the spring of 2022, but they have actually skyrocketed on account of the war. The current outlook therefore points to inflation remaining high throughout 2022. The estimated inflation rate for 2022 therefore rises by 2.5 percentage points, to 7.4% in 2022. Only about 3% of this is attributable to underlying inflation, which is at an unusually high level for Belgium and is being driven by higher food prices and indexation pressure. Energy prices are expected to return to normal levels in 2023, bringing inflation to 2.2%.

Lower GDP growth has prompted a downward revision for labour demand for 2022 and 2023, but this should be higher again for 2024. Overall, the labour market will remain very dynamic. The unemployment rate will be around 6% over the period 2022-2024.

3.2.2.3 Comparison of estimates of the impact of the war in Ukraine

Table 7: Comparisons of estimates of the impact of the war in Ukraine

	Federal Planning Bureau		National Bank of Belgium
	Economic budget (February 2022)	Ukraine update (March 2022)	Ukraine update (March 2022)
Real GDP	3,0	2,5	2,4
Domestic demand	3,5	3,0	1,9
GDP deflator	3,3	3,8	5,3
Consumer price index	5,5	7,3	7,4
Health index	5,4	7,0	6,9
Employment (variation, thousand)	57,3	54,3	59,8
Real disposable income of individuals	1,2	-0,2	0,6

As shown in the table below, both the Federal Planning Bureau and the National Bank of Belgium estimate that Russia's invasion of Ukraine will slow GDP growth to about 2.5%, rather than the 3.0% initially projected. There is also a consensus that inflation will spike to around 7.4% in 2022, instead of the 5.5% initially forecast before the outbreak of the conflict.

4. Balance and debt of the general government

4.1 Budgetary objectives for the medium term

4.1.1 The opinion of the High Finance Council

On 9 April 2022, the "Government Financing Requirements" Section of the High Finance Council (HFC) issued its opinion on the budget trajectory for the preparation of the Stability Programme 2022-2025. This opinion was drafted based on the Federal Planning Bureau's medium-term outlook dated 24 February 2022. These were drawn up in a scenario of unchanged policy and only take into account those measures whose modalities were known with sufficient accuracy on 11 February 2022. Consequently, among other things, the measures from March to mitigate the effects of higher energy prices were not yet taken into account, nor were the economic and budgetary consequences of the outbreak of war in Ukraine on 24 February.

In addition to a normative budget trajectory, the Section also formulates a number of general qualitative recommendations that will improve the sustainability of the public finances and support sustainable economic growth.

As was the case in its opinion last year, the Section believes that spending policy should be strongly focused on so-called growth-enhancing expenditure, such as high-quality investments that strengthen the net asset position of governments. This requires a reorientation of expenditure. Spending reviews can provide the impetus in this regard. These reviews scrutinise the efficiency and effectiveness of policy decisions and spending, and can therefore help reduce the expenditure ratio and debt ratio and improve the sustainability of finances.

To achieve the necessary budget consolidation, the Section recommends that a transparent regulatory budget framework be established with a central role for a multi-year spending norm applicable to all branches of government. In this context, the Section has received support through the European Commission's Structural Reform Support Programme (SRSP) to develop a spending rule applicable to all branches of government in cooperation with the OECD, with a view to achieving a sound, transparent and efficient budget framework.

In addition, the Section believes it is necessary for closer attention to be paid to debt sustainability at every level of government. To this end, indicators relevant to each level of government need to be developed.

The Section also calls for a multi-year, structural, and engaged budget vision that transcends the terms of legislatures. It is recommended that all government entities draw up multi-year budgets in structural terms which, unlike the multi-year projections of the past, are not purely indicative and non-binding.

Better budget coordination between all entities is necessary in a federal country, in compliance with the cooperation agreement of 2013 and the Royal Decree of 2018 on the operations and role of the HFC and the Secretariat.

For the quantitative part, the HFC has worked out a budget trajectory based on a strict application of the existing European budget framework that will continue to apply regardless of whether or not the general escape clause is deactivated after 2022. The trajectory envisages an annual improvement in the structural balance of at least 0.6 percentage point of GDP from 2023.

Nevertheless, the Section underscores the uncertainty regarding economic growth. In this regard, it believes that it is advisable to safeguard spending as much as possible, in particular investments, that contribute to sustainable growth. In addition, to respond to the consequences of the Ukraine crisis, targeted and temporary measures can be taken within the framework of European rules.

As envisaged in the cooperation agreement of December 2013, this opinion of the "Government Financing Requirements" Section of the Higher Finance Council (HFC) formed the basis for the negotiations in the consultative committee

4.1.2 Objectives retained in the present stability programme

The medium-term trajectory in the present stability programme was based on the budget efforts incorporated into the federal coalition agreement of October 2020 and translated to the general government.

The federal government decided in the coalition agreement that a fixed budget effort of 0.2% GDP will be made each year over the period 2021-2024. There will also be an additional variable effort depending on the economic growth and recovery.

The measures for realising the annual fixed budget effort were decided during the drafting of the initial budget 2021 and the implementation of these measures is followed up in each budget round.

In accordance with the coalition agreement, the above-mentioned variable structural budget effort that the government intends to realise is also taken into account from 2022 on. The definitive variable component will be determined each year when the budget is drawn up, based on the most recent figures from the Federal Planning Bureau's economic budget. Pending the drafted budget, an annual additional variable effort of 0.2% GDP is taken into account for the submission of the stability program for Entity I.

For the submission of the stability programme, this assumption is taken into account for Entity I and this effort is applied to the figures after the 2022 budget review.

For Entity II, the predetermined allocation key from the HFC opinion of 73.5%-26.5% (Entity I - Entity II) is applied to the annual variable federal budget effort of 0.2%, resulting in an annual effort of 0.07% for Entity II. This effort is applied to the figures in a scenario of unchanged policy estimated by the Federal Planning Bureau.

The trajectory thus obtained (figures based on federal advances on regional surcharges) is indicative and will be adjusted in future years according to the budgetary efforts made by the entities in the context of tackling the pandemic and the post-covid measures, and the evolution of economic growth forecasts. At the Consultative Committee, the federated states took note of this indicative trajectory for Entity II, which was derived from the trajectory for Entity I.

Table 8: Distribution of the indicative trajectory between Entity I and Entity II

In % of GDP	2021	2022	2023	2024	2025
Entity I					
Net lending	-3,93	-3,83	-2,44	-2,51	-2,17
Structural balance	-3,31	-3,43	-2,30	-2,35	-2,09
Structural balance improvement		*-0,11*	*1,13*	*-0,05*	*0,25*
Entity II					
Net lending	-1,59	-1,29	-1,06	-0,90	-0,51
Structural balance	-0,98	-1,36	-1,05	-0,90	-0,48
Structural balance improvement		*-0,37*	*0,31*	*0,15*	*0,42*
Undivided		-0,13	-0,07	-0,03	-0,03
General government					
Net lending	-5,51	-5,25	-3,58	-3,44	-2,71
Structural balance	-4,30	-4,91	-3,42	-3,28	-2,60
Structural balance improvement		*-0,61*	*1,49*	*0,14*	*0,67*

The line 'undivided' includes the plastic contribution and certain costs in the context of the covid crisis, pending an agreement between the federal government and the communities and regions on the financing of these.

4.2 Budgetary perspectives for the medium term

4.2.1 Evolution of the nominal balance

Table 9 provides a summary of the nominal balances (based on the federal advances on the regional surcharges) associated with the indicative trajectory.

For 2021, the nominal balance included is that of the EDP notification of April 2022. 2021 closed with a nominal deficit of -5.5% of GDP.

In accordance with the budget trajectory described above, the nominal balance for 2022 is estimated at -5.2%.

The nominal balance for 2022 includes a number of one-off measures that are nevertheless not included as one-offs in the transition to the structural balance. These are measures relating to covid (1.0% of GDP), energy (0.5% of GDP), and the crisis in Ukraine (0.1% of GDP).

The fact that the impact of these measures will no longer exist, as well as the realisation of the variable effort, among other things, explain the improvement in the balance between 2022 and 2023.

Table 9: Budgetary forecasts for the general government

		2021	2021	2022	2023	2024	2025
		Level	*% of GDP*				
		Net lending					
1.	General government	-27.966	-5,5	-5,2	-3,6	-3,4	-2,7
1a.	Central government	-21.176	-4,2	-3,4	-2,5	-2,5	-2,2
1b.	State government	-8.470	-1,7	-1,3	-1,0	-0,8	-0,5
1c.	Local government	427	0,1	0,0	0,0	-0,1	0,0
1d.	Social security funds	1.254	0,2	-0,5	0,0	0,0	0,0
1e.	Undivided corrections general government	0	0,0	-0,1	-0,1	0,0	0,0
		General government					
2.	Total revenue	250.004	49,3	48,9	49,7	49,8	49,9
3.	Total expenditure	277.969	54,8	54,2	53,3	53,2	52,6
4.	Net lending/borrowing	-27.966	-5,5	-5,2	-3,6	-3,4	-2,7
5.	Interest expenditure	8.413	1,7	1,4	1,4	1,4	1,4
6.	Primary balance	-19.553	-3,9	-3,9	-2,2	-2,1	-1,3
7.	One-off and other temporary measures	-77	0,0	0,0	0,0	0,0	0,0
		Selected components of revenu					
8.	Taxes on production and imports	67.327	13,3	13,0	13,3	13,3	13,2
9.	Current taxes on income, wealth, etc	79.232	15,6	15,6	15,6	15,8	16,0
10.	Capital taxes	4.079	0,8	0,7	0,7	0,7	0,7
11.	Social contributions	76.364	15,1	15,0	15,4	15,3	15,4
12.	Property income	3.471	0,7	0,7	0,7	0,7	0,7
13.	Other	19.531	3,9	3,9	3,9	3,9	3,9
14.	Total revenue	250.004	49,3	48,9	49,7	49,8	49,9
p.m.	Tax burden	227.002	44,8	44,3	45,0	45,1	45,2
		Selected components of expenditure					
15.	Consumptive spending	83.500	16,5	16,4	16,2	16,0	15,8
15a.	Compensation of employees	62.327	12,3	12,3	12,3	12,1	11,9
15b.	Intermediate consumption	21.173	4,2	4,2	3,9	3,9	3,8
16.	Social payments	132.107	26,0	26,0	25,7	25,9	26,0
16a.	Social transfers in kind supplied via market producers	41.151	8,1	8,3	8,2	8,3	8,4
16b.	Social transfers other than in kind	90.956	17,9	17,7	17,5	17,7	17,6
	of which Unemployment benefits		1,1	1,1	1,1	1,0	1,0
17.	Interest expenditure	8.413	1,7	1,4	1,4	1,4	1,4
18.	Subsidies	21.342	4,2	3,8	3,8	3,7	3,7
19.	Gross fixed capital formation	13.540	2,7	3,0	3,1	3,2	2,9
20.	Capital transfers	5.449	1,1	1,2	1,0	0,9	0,9
21.	Other	13.618	2,7	2,3	2,1	2,0	2,0
22.	Total expenditure	277.969	54,8	54,2	53,3	53,2	52,6

4.2.2 Evolution of the structural balance

The evolution of the structural balance is derived from the above-mentioned nominal trajectory, taking into account the cyclical influences and the one-offs.

The exceptional measures in the fight against the corona pandemic that only have a temporary impact are not considered one-offs, in accordance with the European guidance in the context of the General Escape Clause. The measures in the context of increased energy prices as well as those relating to the war in Ukraine are not included as one-offs either. The impact of the one-time measures is therefore relatively limited for 2022 and the coming years.

Table 10: Composition of the structural balance of the general government

In % of GDP		2021	2022	2023	2024	2025
1.	Real GDP growth (%)	6,2	3,0	1,9	1,5	1,3
2.	Net lending of general government	-5,5	-5,2	-3,6	-3,4	-2,7
3.	Interest expenditure	1,7	1,4	1,4	1,4	1,4
4.	One-off and other temporary measures	0,0	0,0	-0,1	-0,1	0,0
	Of which:					
	One-off and other temporary measures on the revenue side	*0,2*	*0,0*	*-0,1*	*-0,1*	*0,0*
	One-off and other temporary measures on the expenditure sid	*-0,3*	*-0,1*	*0,0*	*0,0*	*0,0*
5.	Potential GDP growth	1,6	1,5	1,5	1,5	1,3
6.	Output gap	-2,0	-0,5	-0,1	-0,1	-0,2
7.	Cyclical budgetary component	-1,2	-0,3	-0,1	-0,1	-0,1
8.	Cyclically-adjusted balance (2-7)	-4,3	-5,0	-3,5	-3,4	-2,6
9.	Cyclically-adjusted primary balance (8+3)	-2,7	-3,6	-2,1	-2,0	-1,2
10.	Structural balance (8-4)	-4,3	-4,9	-3,4	-3,3	-2,6

4.2.3 Evolution of the debt ratio

Public debt (Maastricht definition) reached 108.2% of GDP at the end of 2021, down 4.6 percentage points of GDP compared to 2020.

For 2022, the debt ratio is estimated at 108.0% GDP. This is a fall of 0.2 percentage points of GDP compared to 2021. For the following years, the debt ratio should once again rise to 110.1% in 2025. The rise is mainly attributable to the estimated impact of exogenous factors. Exogenous factors include a number of technical aspects such as differences between ESA and cash concepts.

Table 11: Decisive factors for the debt ratio

In % of GDP	2021	2022	2023	2024	2025
1. Gross debt	108,2	108,0	108,8	109,7	110,1
2. Change in gross debt ratio	-4,6	-0,2	0,8	1,0	0,4
	Contribution to changes in gross debt ratio				
3. Primary balance	-3,9	-3,9	-2,2	-2,1	-1,3
4. Interest expenditures	1,7	1,4	1,4	1,4	1,4
5. Stock-flow adjustment	1,1	1,1	0,5	0,6	0,5
p.m. Endogenous factors	-5,7	-1,3	0,2	0,4	-0,1
p.m. Implicit interest level (in %)	1,5	1,3	1,2	1,3	1,3

Starting from the gross consolidated debt for 2021 of each entity, and taking into account the indicative standardised trajectory, the debt ratio for Entity I would rise from 86.7% in 2022 to 87.1% by 2025. For Entity II, the debt ratio would rise from 21.7% in 2022 to 23.2% by 2025.

4.3 Comparison with the 2020 stability programme and sensitivity analysis

4.3.1 Comparison with the 2021 stability programme

Table 12 compares the growth assumptions and budget targets of the current and previous stability programmes.

Table 12: Comparison with the previous stability programme

% of GDP	2021	2022	2023	2024	2025
Real GDP growth					
Previous update	4,1	3,5	1,7	1,5	
Current udpate	6,2	3,0	1,9	1,5	1,3
Difference	2,1	-0,5	0,2	0,0	
Nominal balance					
Previous update	-7,7	-4,5	-4,0	-3,7	
Current udpate	-5,5	-5,2	-3,6	-3,4	-2,7
Difference	2,2	-0,8	0,4	0,2	
Structural balance					
Previous update	-6,1	-4,2	-3,9	-3,7	
Current udpate	-4,3	-4,9	-3,4	-3,3	-2,6
Difference	1,8	-0,7	0,4	0,4	
Gross debt					
Previous update	116,3	116,0	116,7	117,4	
Current udpate	108,2	108,0	108,8	109,7	110,1
Difference	-8,1	-8,0	-8,0	-7,7	

4.3.2 Sensitivity analysis

Sensitivity analysis with regard to GDP growth.

Two alternative scenarios are examined with regard to GDP growth. The first scenario assumes an acceleration of economic growth by 0.5 percentage point per year over the period 2022-2025, or 2% cumulatively over the period under review. The second scenario assumes that GDP growth over the period 2022-2025 is 0.5 percentage points lower each year than in the baseline assumption. This analysis assumes a constant elasticity of public finances with respect to GDP as estimated by the European Commission, namely 0.615 for Belgium.

In the case of higher growth, the financing balance becomes positive more quickly. With growth which is 0.5 percentage point higher than the baseline scenario, the nominal financing balance would improve by 0.3% of GDP in 2022 and is estimated at -4.9% of GDP. In 2025, the impact on the nominal financing balance would already be 1.2 percentage points of GDP higher compared to the baseline scenario.

With lower-than-expected growth, the impact is also 0.3% of GDP annually, meaning that in 2022 the nominal financing balance would deteriorate to -5.5% of GDP. In 2025, the impact on the nominal financing balance would already be 1.2 percentage points of GDP lower compared to the baseline scenario. This deterioration in the balance is explained by revenue factors, such as a drop in tax revenues, on the one hand, and expenditure factors, in particular an increase in unemployment benefits, on the other.

Table 13: Impact of other growth assumptions on the financing balance

In % of GDP	2021	2022	2023	2024	2025
stability programme					
Real GDP growth	6,2	3,0	1,9	1,5	1,3
Net lending	-5,5	-5,2	-3,6	-3,4	-2,7
Positive deviation 0,5 pp/year					
Real GDP growth		3,5	2,4	2,0	1,8
Net lending		-4,9	-3,0	-2,5	-1,5
Negative deviation 0,5 pp/year					
Real GDP growth		2,5	1,4	1,0	0,8
Net lending		-5,6	-4,2	-4,4	-3,9

b. Sensitivity analysis with regard to interest rates

In the current economic environment and given the sensitivity of public finances to interest rate fluctuations, a sensitivity analysis with regard to interest rates is also carried out.

A rise in interest rates in the markets affects public finances through various channels. First, due to permanent refinancing needs, there is a direct impact on interest costs, which negatively impacts the balance. In addition, rises in interest rates can also have an adverse impact on economic activity, especially through the direct effect of interest rates on consumption and investment.

The table below shows the results of a simulation of a linear rise in the interest rate curve of 100 basis points from March 2022.

A linear rise in the interest rate curve of 100 basis points would trigger an immediate increase in interest costs for Entity I of €0.4 billion in 2022 (0.1% of GDP), rising to €1.9 billion (0.3% of GDP) in 2025. Since the vast majority of the debt is managed by Entity I, these figures give a good indication of the cost of a rise in interest rates.

However, this impact on the financing balance only concerns the direct effect of a rise in interest rates. The indirect impact of such a rise on the economy is not included in this sensitivity analysis.

Table 14: Impact of a rise in interest rates for Entity I

Impact of 100 basis points rise in yield cruve (*)	2022	2023	2024	2025
Impact on interest charges long-term debt	155	620	1.052	1.473
Impact on interest charges short-term debt	248	381	390	427
Total impact on interest charges (in million EUR)	403	1.002	1.442	1.900
Total impact on interest charges (as % of GDP)	0,1	0,2	0,3	0,3

4.4 Outline of budget policy by entity

4.4.1 Entity I

Based on the tables published by the NAI on 20 April 2022 in the context of the excessive deficit procedure, Entity I ended 2021 with a nominal deficit of 3.9% (based on federal advances on regional surcharges).

The 2022 budget review has been finalised at a time when we are facing several major shocks that are decisive for our economy and society.

First, there is the aftermath of the corona pandemic. Since the drafting of the initial budget, the government has still had to take, prolong or expand various support measures to cope with a fourth and fifth wave.

On 24 February, Russia invaded Ukraine. Besides the human suffering caused by this conflict, it is also having an impact on the European and Belgian economies. All forecasts have been revised downward. A first technical estimate by the Federal Planning Bureau assumes a 0.5% slowdown in growth compared to estimates from the economic budget in February that reflected the situation before the war broke out. The National Bank of Belgium has also updated its outlook and expects a sharp slowdown in the economy.

We are also facing a situation of unprecedented increases in energy prices. To protect the public in this regard, the government has already approved various energy packages that will be processed either through an adjustment sheet or through this budget review.

And as a corollary to all these crises, inflation is rising to unprecedented levels. In March, inflation spiked as high as 8.31%. This is the highest level since March 1983.

This exceptional economic context obliged the government to take special, one-off measures which, while putting pressure on public finances, were necessary to safeguard the public and businesses as best they could.

For the drafting of the 2022 budget review, the estimates from the report of the Monitoring Committee of 17 March 2022 were used as the starting point. These estimates were based on the macroeconomic parameters of the economic budget and economic outlook of the Federal Planning Bureau dated 17 and 24 February 2022, respectively. Consequently, they did not yet take into account the economic and budgetary consequences of Russia's invasion of Ukraine. Conversely, on the expenditure side, the inflation outlook was already taken into account at the beginning of March, whereby the pivot index would be exceeded in July this year. The energy package announced on 14 March was also still included in the estimates

The following table provides a brief schematic overview of the measures taken with an ESA impact in 2022.

Table 15: Governmental decisions for Entity I

Government decisions (vis-a-vis report Monitoring committee)	2022 In ESA In million EUR
Monitoring committee (starting point budget review 2022)	-16 287
Correction due to the report of the Federal Planning Bureau (growth slowdown)	-1 009
Defence	- 450
Ukraine	- 805
Covid	- 931
Inflation	- 495
Technical corrections	- 488
Others	- 209
Result after conclave (in million EUR)	**-20 674**
Result after conclave (in % of GDP)	**-3,8**

The financing balance for Entity I is therefore projected to be in deficit by 2022, at €20.7 billion or -3.8% of GDP.

For the following years, the standardised financing balance is estimated at -2.4% in 2023, -2.5% in 2025 and -2.2% in 2025, respectively.

4.4.2 Entity II

Flanders

The current financing deficit is estimated at €2.8 billion in 2021. Compared to the 2021 budget adjustment, this result implies a positive deviation of €2.5 billion. This deviation is mainly attributable to a better-than-budgeted result for regional taxes (+€521 million), unbudgeted receipts from the federal government in the context of co-financing the covid-19 vaccination programme (+€213 million), and the fact that the projected recovery and corona funds were not fully utilised in 2021 (+€719 million and +€371 million, respectively).

The financing deficit in the Flemish budget is estimated at €3.3 billion in 2022 and is heading toward a deficit of €900 million in 2026 (see table). These deficits include the construction costs related to the Oosterweel link and the 'Vlaamse Veerkracht' (Flemish Resilience) recovery plan.

(in billion EUR)	IB 2022	2023	2024	2025	2026
Net lending	-3,3	-2,5	-1,7	-1,3	-0,9
Estimated GRP	297,6	307,5	317,6	327,2	337,2
Net lending as % of estimated GRP	-1,10	-0,80	-0,55	-0,40	-0,26

The Flemish Government has resolutely opted to restore the public finances to health and to boost structural growth. It is taking its responsibility and making difficult but necessary choices.

With €900 million worth of savings measures by 2024, the Flemish Government is delivering on its promise to halve the budget deficit by 2024. This 50% reduction is with respect to the budget balance after the coalition agreement is implemented. A budget exercise of this magnitude is unprecedented for the Flemish Government, and even more so in the middle of a legislature. Part of the savings measures were taken from the Flemish Spending Review (Vlaamse Brede Heroverweging), which is also part of the national Recovery and Resilience Plan (RRP).

However, the reported figures predate the conflict in Ukraine. Given the volatility of economic growth and inflation, below we show the extent to which the surcharges, the allocated portion of VAT and personal income tax, and the specific allocations respond to a change in economic growth and inflation in budget year 2022. This assumes that a change in GDP has an impact on income generation and, consequently, on the surcharges. Each change examined has a size of 0.1 percentage point (10 basis points). The additional revenue at the cruising speed of a 10 basis point increase in GDP and CPI is €32.9 million and €35.6 million, respectively.

The Flemish Government has launched the initiative 'Flanders helps Ukraine' and therefore bundles all challenges for our region on one platform for all local governments. A task force of the Flemish government ensures coordination and follow-up across all Flemish policy areas.

The corona crisis is also an occasion to prepare and implement reforms. The Department of Finance and Budget is working on a Flemish spending standard. The spending standard should ensure the sustainability of public finances in all circumstances, provide policy stability, and curb ad hoc adjustments. Working with a spending standard also implies that the starting point is medium-term targets in a multi-year perspective.

The spending standard will be reported at the aggregate level from the 2022-2027 multi-year estimate. This will allow us to build up experience in setting standards and to gain a better understanding of the spending dynamics of the Flemish budget in relation to growth in revenues. The standard setting is drawn up at the start of every legislature. Determining the standardised structurally permissible government expenditure is only done when the budget is drawn up.

The Flemish government also identified a number of themes for a spending review at the end of 2021: e.g. higher education, sustainable water use and the organisation of the water landscape, housing policy instruments, and Flemish policy in the context of productivity. For the implementation of the spending reviews, a plan of action is developed for each theme. The spending reviews must be started by the end of 2022 at the latest. The aim of the spending reviews is to make it possible to incorporate the results at the latest when the next government is formed. The six-monthly reporting in the context of the RRF includes an explanation of the progress of the initiated spending reviews.

Walloon Region

Like all entities, the Walloon Region was subjected to the COVID-19 pandemic in 2020 and 2021. In addition, in July 2021, the Walloon Region was struck by the worst natural disaster in its history. The floods had a devastating impact on the lives of tens of thousands of Walloons, as well as on a significant amount of public service infrastructure.

These factors obviously have serious implications for Wallonia's financial situation.

Indeed, the provisional 2021 accounts appear to show an ESA financing balance (HFC draft) of €-3.296 billion. This balance is primarily accounted for by the impact of COVID-19-related expenditure, which was estimated at €1.612 billion for 2021. Moreover, the impact of the floods on the Walloon public finances is still estimated at €2.5 to 3 billion for the years 2021 to 2025 at the current stage.

With regard to 2022, a budget adjustment is planned for the month of May. This will take place in a context that is once again highly volatile due to the evolution of inflation, the energy price crisis and the crisis in Ukraine. These elements will need to be taken into consideration on top of the floods and COVID-19.

Regarding the budgetary objectives for the coming years, the Walloon government has decided to integrate the conclusions of the report of the "Commission Externe de la Dette" in its future decisions. To ensure the sustainability of the Region's public finances, this report recommended that:

- a structural and cumulative annual effort is made of at least €150 million, to be re-evaluated annually, to stabilise and reduce its debt-to-revenue ratio;
- the debt dynamics are continually monitored;
- integrated treasury management and direct and indirect debt are emphasised.

These successive structural efforts would be sufficient to reverse the trajectory in the medium term without necessarily sacrificing the recovery that will be needed in the coming years, and Wallonia's long-term investment capacity.

Furthermore, the Walloon Region fully subscribes to the rationale of the Recovery and Resilience Plan put in place at the European level. In the context of its regional policy declaration or as part of the Walloon Recovery Plan, the Region has affirmed its commitment to a three-pronged transition: ecological, social and economic.

This three-pronged ambition of the Region, already central to the 2019-2024 coalition agreement, fully endorses the objectives of the European Recovery and Resilience Plan, as the main selection criteria of projects proposed for European funding contribute to the plans for the ecological and digital transition, and because they have a sustainable impact on investments for economic growth, job creation, economic and social resilience, and offer a sensible balance between costs and return on investment.

Wallonia also receives technical support from the OECD under the structural reforms envisaged in the European Recovery and Resilience Plan to support socio-economic reforms through meticulous analysis of the quality and efficiency of spending. Wallonia is also approaching the end of a global analysis cycle of its budget (Zero Based Budgeting exercise lasting 2 years), from which the first conclusions can be drawn up in the second semester of 2022.

Brussels-Capital Region

The Covid support measures taken by the Brussels government in recent months and years have had an impact on the Region's financial situation. In addition, the roll-out of the reform of road tax and the introduction of SmartMove have also been delayed. Finally, we are confronted with the challenge of rising energy and commodity prices and the absorption of refugees from the war in Ukraine.

Despite the above-mentioned developments, the Brussels Government's objective is still to return to a balanced budget in 2024, not taking into account a number of strategic growth-enhancing and sustainable investments. To this end, the emphasis is on multi-annual rationalisation drives focusing on greater efficiency and effectiveness in public spending, including via spending reviews.

To foster sustainable inclusive growth, the Brussels-Capital Region will continue to invest in mobility, social housing, employment policy and the implementation of the Climate Plan.

In assessing the budget objective, the Government of the Brussels-Capital Region does not take into account any strategic, sustainable investment expenditure which has a significant economic impact. The strategic investments were clearly demarcated, and a specific multi-annual trajectory was agreed (an average of around €430 million per year for the remaining years of this legislature), which is closely monitored. Most of this budget is set aside for the extension of the metro network, heavy electrical equipment for the metro to guarantee the safety and performance of the network, the extension of the tram network, the electrification of the bus fleet, and the necessary comprehensive renovation of the tunnels.

French-speaking Community

Following a historic deficit of €1.5 billion in 2020 due to the covid crisis, the 2021 budget of the Wallonia-Brussels Federation closed with a deficit of €882 million. For 2022, the initial budget approved in December 2021 showed an expected deficit of €983 million.

This budget was drafted in a context where there was still considerable uncertainty regarding the resolution of the corona crisis and its impact on the sectors under the Federation's jurisdiction. The Government also wanted to respond to the long-term impact of the covid crisis on the competences of the Federation, which primarily impact young people.

For these reasons, the exceptional financing intended to help the sectors cope with the crisis has been kept in place. Moreover, it was decided to take new measures that would benefit French-speaking young people as a whole. These measures were merged and coordinated with specific measures from the Policy Statement of the French-speaking Community. This resulted in a "Plan 0-25," which targets accelerated refinancing of higher education, among other things.

These measures come on top of others such as childcare reform, the continuation of the sectoral agreements as well as the Pacte pour un Enseignement d'Excellence (Pact for Excellent Education) which will be further implemented in 2022. Following repeated postponements due to the corona crisis, new projects will start in 2022, including a reform of the school calendar. This adaptation of the school calendar will affect other sectors under the jurisdiction of the Wallonia-Brussels Federation, and these sectors will therefore also be able to benefit from the budgetary measures that make this adaptation possible.

Finally, the context of 2022 and subsequent years will also be dominated by the continued fight against climate change. At its level, the Wallonia-Brussels Federation is responsible for a real estate portfolio of office buildings, cultural centres and schools, accounting for more than 3 million square meters, often in dilapidated conditions and therefore energy-intensive given that too little investment was made in recent years. For this reason, but also because high-quality school infrastructure is conducive to learning and the well-being of young people, it was decided to draw up a major multi-year investment plan for school buildings amounting to €1 billion, to supplement the renovations of school buildings already approved in the context of the European Recovery and Resilience Plan (RRF). Funding has also been set aside for administrative and cultural infrastructure. Nonetheless, these decisions have not resulted in additional funding requirements in 2022.

During the discussions on the initial budget, the government also decided to change its budget calendar from previous years. Indeed, a budget adjustment in the spring demands significant resources, limiting the contribution to other policy measures. As such, the Federation has endeavoured to structurally work towards a policy of spending reviews. It is assisted in this task by the OECD in the context of the technical support instrument provided by the European Commission. In the second half of 2022, this new policy will be developed, and work will also commence on a pilot project on spending reviews that will be completed by the end of 2022. Incidentally, this is a milestone to be achieved in the context of the RRF.

However, the postponement of the budget adjustment to the third quarter of 2022 is going hand in hand with the implementation of a budget review before the end of April. In a scenario of unchanged policy, this review will update the revenues and expenditure of the initial 2022 budget to take into account the evolution of inflation, GDP growth and other demographic parameters based on the calculation of the Federation's revenues.

This budget review points to a slight improvement in the budget balance of €130 million in a scenario of unchanged policy, but this should be viewed with some caution, taking into account the significant uncertainty currently surrounding GDP growth in 2022. This growth is still estimated at 3%, as when the initial budget was drawn up, but the war in Ukraine could cause a slowdown, which would reduce the Federation's revenues.

The situation will therefore be re-evaluated in September 2022 when the 2022 budget adjustment and the initial budget for 2023 are worked out.

German-speaking Community

The budget policy of the German-speaking Community falls under both the budget policy of Belgium, the main objective of which is to reduce deficits, and the European commitments arising from the Six-Pack and Two-Pack programmes.

Budget 2022 and coming years

The German-speaking Community is still struggling with a lack of revenues due to the COVID-19 pandemic and the resulting deterioration of the economic parameters during the course of 2020. Moreover, additional expenditure was recorded in 2021 on account of the pandemic. Part of this takes place on a recurring basis, to the amount of €3 million.

In addition, the German-speaking Community was seriously affected by the catastrophic floods of July 2021.

In the context of the COVID-19 pandemic, the humanitarian crisis in Ukraine, and the uncertain impact on the economy and the huge increase in prices, it is impossible for the German-speaking Community to achieve a balanced budget according to ESA standards in this legislature.

Furthermore, the government has decided to act counter-cyclically and set up an investment programme for a total amount of €720 million, spread over 10 years.

The main themes of this programme are the care sector, educational institutions, climate protection and digitisation. This will make a decisive contribution to reviving the regional economy.

As such, the government has decided to neutralise a large part of its investments in infrastructure, as has been the case within other entities for some time.

The deficit in 2022 will therefore amount to €19 million, plus €104 million of neutralisation, totalling €123 million. In 2022, the deficit will amount to €68 million, plus the neutralisation of €101 million, making a total of €169 million.

The German-speaking Community will of course compensate some of its expenses with funds from the European Union's recovery and resilience facility, even though the sum promised at the time may be much smaller. The German-speaking Community will seek additional European support for the flood disaster and additional expenses from taking in refugees.

5. Sustainability of public finances

Among other things, the sustainability of public finances depends on the implicit liabilities relating to the ageing of the population and on the government's contingent liabilities. Both aspects are discussed below.

5.1 Structural pension reforms

Like many other European countries, Belgium is confronted with an ageing population and all the associated challenges. To address this, the country has gradually introduced various structural reforms. These measures are aimed at absorbing the costs of demographic ageing and ensuring the long-term sustainability of Belgian public finances.

Among others, the following measures can be cited: the "Generation Pact" of 2005; the Royal Decree of 6 December 2009 that gradually aligned the legal retirement age of women with that of men (65 years); the law of 28 December 2011 that gradually raised the retirement age from 60 to 62 years in 2016, and raised the minimum career length from 35 to 40 years in 2015. Finally, the law of 10 August 2015 laid down a gradual increase in the statutory retirement age from 65 to 66 by 2025 and to 67 by 2030. The age and seniority requirements for access to early retirement have been made more stringent. The minimum age was raised from 62.5 to 63 in 2018. The minimum career length was increased from 41 years to 42 years in 2019. The minimum age to be entitled to a survivor's pension will be raised to 50 by 2025 and 55 by 2030.

The long-term budgetary impact of an ageing population

The law of 5 September 2001 guaranteeing a continuous reduction of the public debt and creating a 'Zilverfonds' (Ageing Fund), established the Study Committee on Ageing (SCvV in Dutch). This committee is tasked with drafting an annual report that examines the budgetary and social impact of an ageing population. In particular, this report provides an estimate of the financial impact in terms of the various statutory pension systems, the social security systems for employees and the self-employed, and the guaranteed income system. In this chapter, we draw on the SCvV's report from July 2021.

In its analysis, the Study Committee uses a reference scenario for ageing whereby the short-term and medium-term macroeconomic assumptions are based on the Federal Planning Bureau's "Economic Outlook 2021-2026" (June 2021). In the short term, the outlook is of course strongly affected by the corona crisis. In the reference scenario, the SCvV assumes a gradual recovery in productivity growth over the long term, reaching 1.5% annually from 2045. On the one hand, we observe that the annual average growth rate of labour productivity is barely 1.2% over the entire projection period of 2020 to 2070, and on the other hand, this assumed long-term productivity growth rate is identical to the assumptions of the Ageing Working Group. The long-term structural unemployment rate is set at 7%.

For its demographic assumptions, the Study Committee on Ageing relies on the "Population Projections 2020-2070" published by the Federal Planning Bureau (FPB) and Statbel. National population projections rely on three types of assumptions: fertility, life expectancy, and international migration. The cyclical fertility rate (or average number of children per woman) was 1.59 in 2019. The reference projection assumes that the pandemic (increased uncertainty, difficulties in the labour market, etc.) and certain measures taken to counter it (restriction of social contact) had a negative impact on fertility, which drops to 1.54 for 2021. This indicator will then gradually rise to 1.6 in 2027 to reach 1.72 in 2038, the long-term level set as an assumption. Between 2020 and 2070, life expectancy at birth increases by 9.6 years for men (from 79.6 years in 2019 to 88.3 years in 2070) and by 6.5 years for women (from 84 years in 2019 to 89.8 years in 2070). The migration balance (i.e., immigration minus emigration) is positive over the entire period 2020-2070. Immigration goes from 174,600 persons in 2019 to 152,100 persons in 2070, and emigration from 119,600 persons to 130,300 persons. That means net migration evolves from 55,000 people in 2019 to nearly 22,000 people in 2070.

Table 16: Demographic assumptions from 2019.

	2019	2050	2070
Fertility rate	1,59	1,72	1,73
Life expectancy at birth: male	79,6	85,5	88,3
Life expectancy at birth: female	84,0	87,8	89,8
Migration balance (in thousands)	55,0	20,6	21,8

Source: Annual report, Study Group on Ageing, July 2021

According to the reference scenario in the 2021 report of the Study Committee on Ageing from July 2021, the budgetary costs of ageing, defined as the increase in total social spending between two years expressed in percentage points of GDP, would be 5.2% of GDP between 2019 and 2070. This is a 0.9 percentage point increase over the SCvV results from July 2020. Only slightly more than 20% of this difference can be attributed to the medium-term period 2019-2026 (0.2 percentage points).

It should be stated that the SCvV report of July 2021 takes into account certain consequences of the corona crisis. Indeed, the budgetary cost of ageing takes into account the impact of the corona crisis on demographics and on certain macroeconomic variables (GDP, unemployment, etc.), as well as the temporary support and recovery measures (e.g., the Recovery and Resilience Plan) that will affect economic growth in the medium term. Instead, it limits itself to what can be quantified based on the indicators or results usually presented in the annual report and cannot get a handle on all the economic and social consequences of the corona crisis.

Between 2019 and 2070, social spending as a whole would increase from 24.6% to 29.8% of GDP. This expenditure would reach its peak, 30.1% of GDP, by 2050.

This rise in long-term social spending (+5.2 percentage points of GDP between 2019 and 2070) is accounted for by an increase in pension spending (+3.4 percentage points of GDP) and health spending (+2.7 percentage points of GDP), partially offset by a decrease in other benefits (unemployment, child benefits, etc.) (-0.9 percentage points of GDP).

The table below details the budgetary cost of ageing according to the reference scenario of the SCvV.

Table 17: the budgetary cost of ageing under the SCvV reference scenario (in % of GDP)

Components of the budgetary costs of ageing	2019	2022	2026	2050	2070	2019-2050	2050-2070	2019-2070
Pensions	10,5	11,4	12,3	13,9	14,0	3,4	0,0	3,4
Employees scheme	5,9	6,6	7,2	8,4	8,1	2,5	-0,3	2,2
Self-employed scheme	0,8	0,9	1,1	1,3	1,4	0,5	0,1	0,6
Public sector[a]	3,8	3,9	4,0	4,1	4,4	0,4	0,3	0,6
Health care[b]	7,8	8,4	8,7	10,3	10,5	2,5	0,2	2,7
Incapacity for work	2,0	2,3	2,5	2,1	2,0	0,1	-0,1	0,0
Unemployment[c]	1,3	1,3	1,2	1,0	0,9	-0,3	-0,1	-0,4
Child benefits	1,5	1,5	1,4	1,2	1,0	-0,3	-0,2	-0,5
Other social expenditures[d]	1,5	1,7	1,7	1,6	1,4	0,1	-0,1	0,0
Total	**24,6**	**26,5**	**27,8**	**30,1**	**29,8**	**5,5**	**-0,3**	**5,2**
p.m. Wages of the teaching staff[e]	4,0	4,2	4,2	4,1	4,0	0,1	-0,1	0,0

Source: Annual report, Study Group on Ageing, July 2021

a. Including pensions of state-owned enterprises (the results in this report do not take into account the increase in the age and career conditions for early retirement, nor the increase in the statutory retirement age in those schemes) and IGO.
b. Public expenditure on health care (acute and long-term).
c. Including unemployment with company allowance, time credit and career break.
d. Mainly the expenditure for accidents at work, occupational diseases, subsistence funds (only the part relevant to social security according to ESA2010 principles), disability allowances and integration allowance.
e. According to the SGoA definition, the wages of teaching staff are not part of the total budgetary cost of ageing. On the contrary, education spending is included in the budgetary cost of ageing according to the concepts of the Ageing Working Group.

In its 2021 report, the SCvV developed three alternative macro-economic scenarios to assess their impact on the estimate of ageing costs. These alternative hypotheses pertain to labour productivity growth (which determines the evolution of the average wage) and the long-term structural unemployment rate. These hypotheses are first tested separately and then combined.

In the long term, GDP growth depends on labour productivity growth and employment. These two factors are essential for estimating the cost of demographic ageing, since social spending is expressed as a percentage of GDP and the calculation of various social benefits is based on wages.

In the first alternative scenario, annual labour productivity growth is assumed to be significantly lower than in the reference scenario. It amounts, ceteris paribus, to 1% from 2032 instead of 1.5% from 2045. In this case, the average annual growth rate of productivity is 0.3 percentage points lower over the entire projection period. With unchanged employment, this lower productivity growth in Scenario S1 leads to GDP that is 1.4% lower in 2040 and 14.5% lower in 2070 than the GDP in the reference scenario. The budgetary costs of ageing over the period 2019-2070 increases by 2.3 percentage points of GDP to 7.5% of GDP. The increase is particularly strong in the areas of expenditure on pensions and health care.

The second alternative scenario assumes a long-term structural unemployment rate of 7.7% in 2026, rising to 8% in 2027, rather than falling to 7% from 2029 as in the reference scenario. Between 2020 and 2040, employment in Scenario S2 rises less rapidly than in the reference projection, and the GDP level is 1.1% lower in 2040. After 2040, growth in employment evolves at the same rate as in the reference scenario, as does GDP. The budgetary costs of ageing over the period 2019-2070 increases by 0.5 percentage points of GDP to 5.7% of GDP.

When both alternative scenarios are combined (lower productivity growth and higher unemployment rate than in the reference scenario), the GDP level in 2040 is 2.4% and in 2070 15.4% lower than in the reference scenario, and the budgetary costs of ageing increases by 2.7 percentage points of GDP to 8% of GDP between 2019 and 2070.

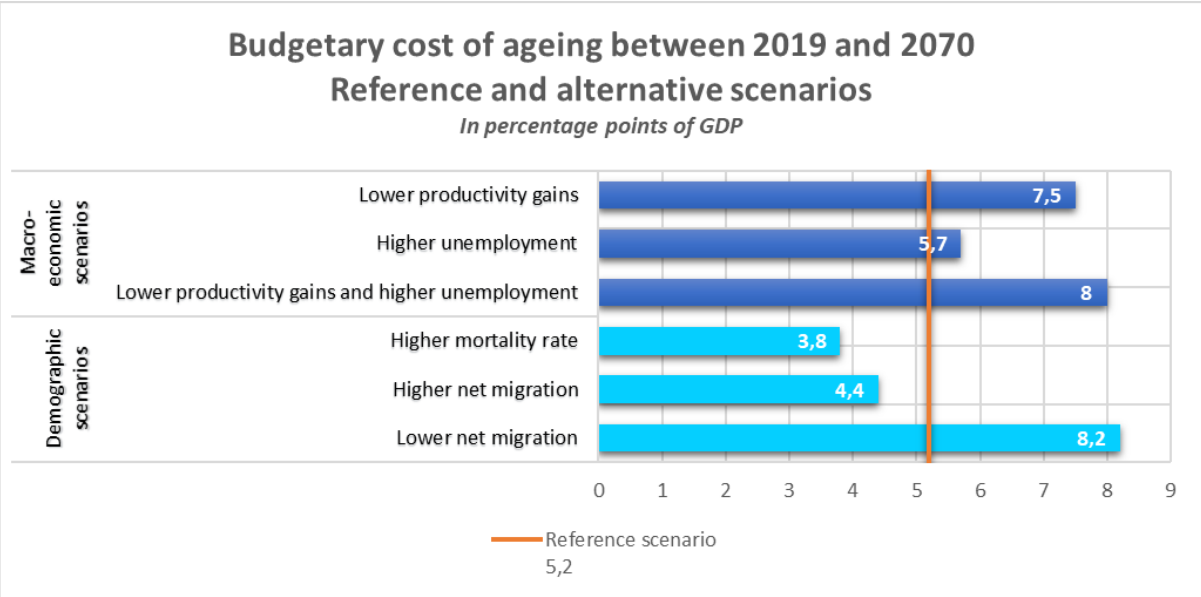
In its 2021 report, the SCvV also developed three alternative demographic scenarios to assess their impact on the estimate of ageing costs. These alternative hypotheses pertain to the mortality rate (which has an impact on the dependency ratio of senior citizens) and the two following lower and higher migration balances, compared to the reference scenario.

In the first alternative demographic scenario, a higher mortality rate reduces the cost of ageing by 1.4 percentage points of GDP to reach 3.8% of GDP between 2019 and 2070. This is explained by lower expenditure on pensions and long-term care.

In the second scenario, a higher migration balance leads to a reduction of 0.8 percentage points of GDP in the budgetary costs of ageing, to reach 4.4% of GDP between 2019 and 2070. In this scenario, the increase in social spending due to a larger number of welfare recipients is more than offset by higher GDP, which reduces the weight of all social spending as a percentage of GDP.

Finally, in the last scenario with a lower migration balance, we see the opposite effect with social spending lower but a smaller GDP increasing the weight as a percentage of GDP of this expenditure. The budgetary costs of ageing are therefore 8.2% of GDP between 2019 and 2070, 3 percentage points higher than in the reference scenario.

Chart: Budgetary cost of ageing between 2019 and 2070, reference scenario and alternative scenarios (in % points of GDP)



Policy strategy

To respond to the challenge of demographic ageing, the Belgian government has developed an overarching strategy, of which budget policy is only one part. This strategy is focused on three fundamental strands:

- Budgetary strand: the coalition agreement of 30 September 2020 provides for an annual fixed budget effort of 0.2% of GDP from 2021 to 2024, with an additional variable effort from 2022 that will depend on growth and the economic recovery. In the context of the drafting of the budget for each of these years, the government will decide on the level of the variable effort for the year in question. For 2022, the structural variable effort is 0.3% of GDP.

- Economic strand: economic growth is stimulated by reductions in taxes on labour and the structural reforms of the labour market and pensions. Thanks to this reinforced growth, social spending is reduced and the base for financing it is expanded.

- Social strand: the government intends to modernise social security in cooperation with the social partners, to ensure the sustainability of social security and make it more effective.

These three main strands reinforce each other. Progress made in one strand helps achieve the objectives of the other strands.

In addition, the government is pursuing a recovery policy which consists of increasing the employment rate, increasing purchasing power and ensuring more investment, in order to reduce the budgetary impact of population ageing, by growing the financing base.

5.2 Contingent liabilities

5.2.1 Entity I

Among other factors, the sustainability of the public finances is determined not only by the evolution of the government's fixed liabilities, but also by the evolution of its contingent liabilities. These contingent liabilities are not part of the public debt but are merely a potential debt. When guarantees are invoked, they result in capital transfers and therefore have an unfavourable impact on the financing balance, and consequently on public debt. To date, the federal government has never had to make a payment in the context of a guarantee agreement concluded during the financial crisis with a financial institution. The request for advances in the second guarantee scheme in the context of the corona crisis was estimated at €808.16 thousand in March 2022.

In March 2020, the federal government and the financial sector entered into an agreement to provide families and businesses with adequate financing during the corona crisis. The Law of 27 March 2020 and the Royal Decree of 14 April 2020 introduced a state guarantee scheme for new loans of up to 1 year, which meet certain conditions (Guarantee I). The scheme initially expired on 30 September 2020 and was extended to 31 December 2020 by the Royal Decree of 16 September 2020. The maximum amount of loans guaranteed by the federal state is €50 billion. The deadline for making a claim on the guarantee is 30 June 2023. A total amount of €5.92 billion was granted under this scheme and the outstanding amount of guaranteed loans is currently (28 February 2022) €88.77 million.

When this guarantee scheme was drafted in March 2020, it was still assumed that the corona crisis would be relatively short-lived. The law of 20 July 2020 introduced a supplementary state guarantee scheme. This second scheme (Guarantee II) pertains to certain new loans granted to SMEs with a required maturity between 1 and 3 years, which was extended to 5 years by the Royal Decree of 24 December 2020. The scheme, which was due to expire on 31 December 2020, was extended twice by royal decree, until 30 June and 31 December 2021, respectively. The maximum guarantee amount of this supplementary scheme is 20% of the envelope of the first guarantee scheme. This means that loans with a combined principal amount of up to €10 billion can benefit from the state guarantee. The deadline for making a claim on the state guarantee, originally set at 30 June 2025, has since 27 June 2021 been 18 months after the last maturity date of the loan. At the end of 2021, a total amount of €671.23 million was granted under this scheme and the outstanding amount of loans guaranteed by the State is currently (28 February 2022) €444.12 million.

In the context of the financial crisis, since 2008 guarantees have been granted by the federal government on the interbank loans of Dexia on the one hand and on structured risk assets of certain financial institutions on the other. Since the autumn of 2014, only Dexia still benefits from the state guarantee because the outstanding amounts of the guarantees in favour of KBC and Ageas had become €0 billion.

Until 31 December 2021, only the guarantee scheme from 2013 in favour of Dexia ran for a maximum amount of €85 billion, in which Belgium has a 51.41% share (almost €43.7 billion). The guaranteed commitments had to be issued by 31 December 2021 and have a maximum term of 10 years. At the end of 2021, Belgium's exposure to Dexia was €24.73 billion, compared to €28.50 billion at the end of 2020.

While this guarantee scheme in favour of Dexia expired on 31 December 2021, an extension was introduced by the law of 27 June 2021 and the Royal Decree of 11 July 2021. the commitments covered by the scheme from 2021 may be entered into from 1 January 2022, to no later than 31 December 2031, and may have a term of no more than 10 years. The maximum guarantee amount is reduced to €75 billion (of which €72 billion for bond issues and €3 billion for interbank overdrafts). The share of the Luxembourg government in the guarantee is divided between the Belgian and French governments. Belgium's share of the guarantee therefore increases to 53%. However, the reduction in the maximum amount of the guarantee has the effect of reducing Belgium's maximum exposure to Dexia by €3.95 billion to €39.75 billion.

As of 31 March 2022, the total outstanding amount of the State guarantee in favour of Dexia was €23.16 billion (including €19.78 billion for the scheme from 2013 and €3.38 billion for the scheme from 2021). This is €1.6 billion less than the amount at the end of 2021. Dexia's financial condition is monitored on a regular basis. As things stand, on the basis of the prospective risk analysis carried out by the General Administration of the Treasury, there is currently no short or medium-term risk that the State guarantee in favour of Dexia, the residual bank which is currently being wound up in an orderly fashion, will have to be called.

Apart from the guarantees granted in the context of the financial crisis and the corona crisis, there was an overall downward trend in the debts of institutions or companies whose debt service is guaranteed by the federal state. At the end of 2021, that debt guaranteed by the State, including the limited historical debts for the school buildings of the French Community and the Flemish Community dating from before 1988 (third State reform), amounted to €2.72 billion.

As such, the total debt guaranteed by the federal state (excluding corona measures) amounted to €27.45 billion or 5.43% of GDP at the end of 2021. This is a decrease of almost 13% compared to the end of 2020 (€31.48 billion), largely due to the decrease in Dexia's guaranteed debt. It is striking that this amount does not include the amounts guaranteed by the deposit protection managed by the Financial Services Guarantee Fund and the protection of financial instruments managed by the Protection Fund, a role performed by the General Administration of the Treasury.

As compensation for granting the guarantees (service fee) in the context of the financial crisis, €16.59 million was received from financial institutions on the basis of established duties by the federal government in 2020 and €13.57 million in 2021. For this year, these non-tax revenues would amount to €12.00 million, according to the most recent estimate. Since 2015, guarantees only remain in place in favour of Dexia, which awards only a very limited amount of compensation for this. The compensation of the schemes relating to the corona crisis amounted to €0 million in 2020 and €20.30 million in 2021 and should amount to €4.80 million in 2022.

For the sake of completeness, it should also be noted that, as a member state of the euro area and in connection with the European sovereign debt crisis, Belgium also guarantees the financial instruments issued by the EFSF in proportion to its share in the capital of the ECB (adjusted with the exclusion of the countries to which loans were granted, currently 3.73%) to 160% of the total. As a reminder, the EFSF was set up in June 2010 as a temporary mechanism to provide financial support to Ireland, Portugal and Greece. These guarantees granted to the EFSF are not included in the contingent liabilities, because the loans granted by the EFSF are directly included in the consolidated gross government debt by Eurostat. At the end of 2019, Belgium guaranteed €13.55 billion (debt principal and interest multiplied by an over-guarantee factor of 160%). This amount fell to €13.24 billion in 2020 and €12.85 billion, or 2.54% of GDP, by the end of 2021. The part of the loans granted by the EFSF already included in the Belgian public debt amounted to €6.53 billion, or 1.29% of GDP in 2021. In 2019, Portugal made a first early repayment, reducing the impact of the EFSF on Belgian debt by €74 million. Finally, note that in the event that the loans issued by the EFSF are not repaid, the EFSF will make every effort to minimise the impact on member states.

The role of the EFSF was taken over in October 2012 by the permanent European Stability Mechanism (ESM), which has a substantially different organisation to the EFSF. The subscribed capital by the members, namely the 19 euro member states, is €704.80 billion. The Belgian share in this is €24.32 billion (3.45%). The fully paid-up capital amounts to €80.55 billion, of which the Belgian share is €2.78 billion, or 0.55% of GDP in 2021. Eurostat considers that the impact on members' public debt is limited to their capital contributions, to the extent that they do not benefit from ESM financial support transactions. The remaining callable capital is considered a contingent liability. The total outstanding amount of loans granted by the ESM to Spain, Greece and Cyprus is currently €89.85 billion but this only impacts the public finances of the beneficiary Member States.

Table 18: Contingent liabilities (only the Federal Government, situation as of 1/1/2022) in % of GDP

	List of measures	Date of adoption	Maximum amount contingent liabilities (% GDP) (1)	Estimated impact (% GDP) (2)
In response to Covid-19	Guarantee scheme loans for viable non-financial companies, SMEs, self-employed people and non-profit organisations - Guarantee I	27/03/2020	9,9%	0,0%
	Guarantee scheme loans for SMEs - Guarantee II	20/07/2020	2,0%	0,1%
	Subtotal		11,9%	0,1%
Other	Guarantees to public companies	/	0,5%	0,5%
	Guarantees to financial sector	19/12/2012	8,6%	4,9%
	Guarantees - various	/	0,0%	0,0%
	Subtotal		9,2%	5,4%
	Total		**21,0%**	**5,5%**

(1) GDP 2021 at current prices (FPB, February 2022)
(2) Estimated withdrawal at 1 January 2022

5.2.2 Entity II

Flemish Community

Most of the guaranteed debts by Flanders are maturing debts.

The list of guaranteed debts by the Flemish Region is diverse, but can be divided into three broad categories: 1) guarantees to (local) governments, 2) guarantees secured by assets and 3) economic guarantees. The risk for the Flemish government from the first group is very limited. Indeed, these were granted to local governments or to agencies more or less autonomous from the Flemish government. This category is subsidised from the Flemish government. In addition, the Flemish government usually has a supervisory function through government commissioners or the Agentschap Binnenlands Bestuur (Internal Administration Agency). The second category is covered by underlying assets. In many cases, the Flemish government has sufficient securities to recover a substantial part of the requisitioned amounts. In many cases, this security is a mortgage. The risk of this being used is very limited. A third category relates to guarantees granted to companies to strengthen the economy and innovation. This category is the most risky. However, the guarantee percentage here is almost never the full 100% of the loan. Moreover, pari passu agreements are often drawn up with the banks or the guarantee can only be called upon after all (personal) securities have been invoked.

The total outstanding amount as of 31 December 2021 of the debt guaranteed by the Flemish Region was €12.32 billion which is a very slight increase compared to 2020 (€12.30 billion). The increase in guaranteed debt is due in part to the corona crisis. A further decrease in the guaranteed debt is expected in the coming years.

During the course of 2015, the Flemish Government decided to provide financing itself for a number of key actors in the social housing sector (VMSW [Vlaamse Maatschappij voor Sociaal Wonen] and the VWF [Vlaams Woningfonds]) where they previously took out secured loans from banks or insurance companies themselves. In addition, the VIPA developed a new fixed subsidy system for both residential care centres and hospitals whereby the granting of new guarantees is no longer allowed. As a result, the guaranteed debt of these 3 actors that are in the asset-backed category is falling, where it was previously rising sharply. The guarantees to (local) governments experienced a slight increase. In the sector of economic guarantees, the guarantees increased as a result of the corona crisis.

Table 19: Contingent liabilities

	List of measures	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19				
	In the context of the temporary easing of the European state aid rules as a result of the Corona crisis, Gigarant (guarantee scheme above € 1.5 million) will be able to put in the market a modified COVID-19 guarantee, which offers greater flexibility. Gigarant's guarantee capacity will therefore be increased from the current € 1.5 billion to € 3 billion.	adopted	1.500	195
	Subtotal		1.500	195
Others	De Watergroep	adopted	147	147
	Universities (social sector)	adopted	2	2
	UZ Gent	adopted	39	39
	Kerkfabriek Sint-Baafs	adopted	25	25
	Sociale Huisvesting	adopted	912	912
	EVA VMSW (Vlaamse Maatschappij voor Sociaal W	adopted	3.520	3.520
	Vlaams Woningfonds CVBA	adopted	2.068	2.068
	IVA AGION (Agentschap voor Infrastructuur in het	adopted	390	390
	IVA VIPA (Vlaams Infrastructuurfonds voor Persoo	adopted	1.772	1.772
	Lantis (Beheersmaatschappij Antwerpen Mobiel N\	adopted	256	256
	Project Brabo 1 NV	adopted	110	110
	Scholen van Morgen	adopted	1.444	1.444
	Deurganckdoksluis	adopted	161	161
	PMV/z-Waarborgen	adopted	869	869
	Gigarant NV - reguliere waarborgen	adopted	1.500	376
	VLIF (Vlaams Landbouwinvesteringsfonds)	adopted	9	9
	VIB (Vlaams Instituut voor Biotechnologie)	adopted	1	1
	IMEC	adopted	15	15
	Jansen Pharmaceutica NV	adopted	9	9
	Subtotal		13.248	12.125
	Total		**14.748**	**12.319**

French-speaking Community

The guaranteed loans of the French-speaking Community amounted to €794 million at the end of 2021, an increase of €31 million compared to the end of 2020. This is primarily due to the increase in the guaranteed loan granted to RTBF in the context of the Mediasquare project.

No specific risk was identified with respect to these contingent liabilities.

Table 20: Outstanding amount of debts and rate of call on the regional guarantee

	List of measures	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19				
	Subtotal			
Others	Palace	2013	9,0	6,5
	RTBF	2021	40,0	40,0
	Bois St Jean	2008	25,1	15,6
	Fonds de garantie des bâtiments scolaires	5/02/1990	1230,0	731,0
	Centre sportif et culturel des Fourons asbl	30/03/2018	0,7	0,6
	Subtotal		1304,7	793,7
	Total		**1304,7**	**793,7**

Walloon Region

The main institutions with Walloon guarantees are the Société Wallonne du Crédit Social (€2,630 million), the Société Wallonne du Logement (€1,298 million), the Fond du Logement de Wallonie (€1,144 million) and the Société Wallonne du Logement (€1,216 million).

Alternative finance, through the programs of the Centre Régional d'Aide aux Communes (CRAC) and the Société Wallonne pour la gestion du Financement Alternatif (SOWAFINAL), accounts for a total of €485 million in guarantees.

Public investment companies also grant guarantees, which of course was the case during the corona period. These guarantees are granted according to transparent rules and through special programmes. These guarantees are in lieu of or in addition to shareholdings.

The Walloon Region also granted guarantees in the context of the construction of a hospital (CHC Mont Legia) worth €120 million.

Supervision of the Region's guarantees is entrusted to the Financial Information Unit. The terms of the loans granted by the various institutions are checked and validated by the Debt and Financing Unit of the Walloon Region.

By strengthening its governance, Wallonia has the necessary tools to ensure the best financing conditions for all institutions.

Table 21: Outstanding amount of debts and rate of call on the regional guarantee

	List of measures	In million EUR
Specific guarantees	CENTRE HOSPITALIER CHRETIEN	120,30
	FLW	1144,07
	CRP LES MARRONNIERS	3,51
	Le Circuit de Spa-Francorchamps SA de dro	15,40
	SOFICO	612,07
	SOWAER SA (OS) (2)	187,24
	OTW (ex. SRWT)	299,99
	SWCS	2630,31
	SWDE	0,11
	Société Wallonne du Logement (SWL)	1216,74
	Grand Hôpital de Charleroi (1)	
	AIR BELGIUM	1,50
	ALIA2	0,50
	ARLEX	0,88
	ASL AIRLINES BELGIUM	2,00
	BELGA FILMS	2,17
	BELREF	1,76
	BIA GROUP	2,50
	CHALLENGE Handling (LACHS)	2,22
	CHAUSSURES MANIET	4,22
	CORETEC ENGINEERING	0,50
	CORETEC MAINTENANCE	0,13
	DECUBE	0,20
	DELTA Group	0,80
	DYNAMIC EVENTS	1,00
	E & S Holding	0,50
	EDITOR BELGIUM	0,15
	EHP	0,25
	EMS	0,13
	EMZ - WERKE MANDERFELD	0,25
	ENZYBEL	1,00
	EXKI	1,48
	FCC MSI	0,10
	FRANKI	1,50
	GINION GROUP	1,50
	G-TEC	1,24
	HAINAUT CARAVANING	0,50
	HOTEL NIVELLES SUD	0,65
	I-CARE	0,75
	ICARUS	2,25
	IDEM PAPERS	0,50
	JOHN COCKERILL	5,00
	JOSKIN	2,50

	List of measures	In million EUR
Specific guarantees	KARRAS	0,76
	LA CHOCOLATERIE GALLER	1,30
	LAMPIRIS	0,88
	LAVERGNE Belgique	1,50
	LES ENTREPOTS DE LA FAMM	0,25
	LOUYET GROUPE	1,50
	MACLOT (groupe DECUBE)	0,13
	MANEXCO (GROUPE MANIET)	0,48
	MARICHAL KETIN	3,00
	MATRENT (filiale BIA GROUP)	0,18
	MAXI TOYS INTERNATIONAL (HOLDING)	1,50
	MEDI MARKET GROUP	1,48
	MISOHAMA	3,57
	MITHRA	5,00
	MONNAIE (groupe DECUBE)	0,48
	MYDIBEL	7,50
	NOVACEC SERVICES	0,50
	ODOO	0,18
	Ph EMOND Bmw	0,50
	PROVA	0,65
	PROXISTORE	0,25
	PROXY SERVICES	0,27
	RENAULT MOTORS	1,25
	RENOWINDOW	4,41
	ROM AG	3,92
	ROYEN	0,23
	SALM INVEST	0,83
	SCAM	3,00
	SIG	0,40
	TAYLOR DATA MAILING	0,55
	TELEPHERIQUE DE LA CITADELLE DE NA	0,63
	TIGER STORES BELGIUM 2	0,25
	TPF	1,40
	TRENDY FOODS BELGIUM	1,50
	UHODA Group	1,50
	VANDEPUTTE	5,00
	VEVIBA	0,50
	WAMOS BENELUX	0,98
	XPRESS Biologics	0,88
	ZIRCOR	0,50
	PROGRESCOM	0,15
	JDC INNOVATION	0,02
	Rue du web	0,00
	DEME	1,20

	List of measures	In million EUR
Specific guarantees	OILCO	1,18
	NLMK Sales Europe	155,00
	BBK	0,26
	BELGA FILMS	0,68
	BODYMAT (ALLMAT)	2,20
	Hamon	3,85
	VALFRAIS	0,68
	Libramont Cooperalia	
	Fountain	
	CRAC - parts opérateurs Logement	44,72
	CRAC - parts opérateurs Logement	4,19
	CRAC - parts opérateurs Batiments	32,75
	SOWAFINAL - parts opérateurs	1,62
	SOWAFINAL - parts opérateurs	2,09
	SOWAFINAL - parts opérateurs	3,74
	CRAC LT - ancien régime	135,98
	CRAC LT - nouveau système	49,24
	CRAC LT - nouveau système Belgacom	8,49
	CRAC LT - sans intervention régionale	202,29
	Total	6980,23

Brussels-Capital Region

The outstanding amount of guaranteed debt as of 31/12/2021 of the Brussels Capital Region was €3.2 billion.

The annual rate of call on the guarantee was 0.1429% for 2021. This rate was 0.0099% for 2020.

Four entities represented more than 90% of the debt guaranteed by the Region as of 31/12/2021: the Fonds Régional Bruxellois de Refinancement des Trésoreries Communales (FRBRTC), the Fonds du Logement de la Région de Bruxelles-Capitale, Vivaqua and the Société Bruxelloise de Gestion de l'Eau (SBGE). Due to the allocation mechanisms and the presence of underlying assets that cover the guaranteed debts, the risk of calls on the regional guarantee is very low for these entities (financial assets, mortgages, revenues, etc.).

It is important to note that, following the consolidation in 2014 and 2015 of various companies of the Brussels Capital Region in the public administration sector (S1312), a large part of the contingent liabilities of the Region pertain to debts consolidated in the ESA: 73% of the guaranteed debts as of 31/12/2021 are therefore already included in the gross consolidated debt in the National Accounts.

The outstanding amounts of the guaranteed debt of the Brussels Capital Region is €3,167,979,621.32 as of 1/4/22.

The maximum expected evolution of the outstanding amount of the regional guarantees is €3,550,979,621.32 on 31/12/22.

Table 22: Contingent liabilities

	List of measures	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19				
	Subtotal			
Others	Bruxelles – énergie / Brussel Energie	NA	576.413,7	576.413,7
	Eco-prêts / Eco-leningen	NA	6.306.176,3	6.306.176,3
	Fonds de garantie / Waarborgfonds	NA	35.566.073,3	35.566.073,3
	Fonds du logement	NA	1.360.841.516,7	1.150.841.516,7
	FRBRTC / BGHFGT	NA	1.229.185.824,8	1.079.185.824,8
	Vivaqua	NA	349.596.551,7	349.596.551,7
	Port de Bruxelles / Haven van Brussel	NA	15.725.393,9	15.725.393,9
	SBGE / BMWB + Aquiris	NA	427.997.890,6	407.997.890,6
	SFAR (filiale SRIB)	NA	30.292.669,0	30.292.669,0
	SLRB / BGHM	NA	43.000.777,0	43.000.777,0
	Sociétés de crédit social : actifs et passifs / Sociaal krediet maatschappijen : Activa en pass	NA	48.837.482,9	45.837.482,9
	STIB / MIVB	NA	2.000.000,0	2.000.000,0
	WIELS	NA	1.052.851,5	1.052.851,5
	Subtotal		3.550.979.621,3	3.167.979.621,3
	Total		**3.550.979.621,3**	**3.167.979.621,3**

6. Quality of public finances

In the past two years, the various governments have worked hard to neutralise the negative effects of the corona crisis. From a macroeconomic perspective, the crisis policy is a success story. The economic damage and loss of jobs was ultimately very limited. The massive use of public funds also paved the way for a rapid recovery of the Belgian economy. As was the case in other European countries, the corona crisis created momentum for a sharp increase in public investment.

Implementing recent recommendations, the various governments have introduced additional investment plans on top of the funds authorised in the context of the RRF and have launched spending reviews or similar approaches to improve the efficiency of public spending.

Both elements are briefly addressed below.

More room for public investment

The Belgian Recovery and Resilience Plan was approved by the Ecofin Council on 13 July 2021, and is currently in full implementation. In addition to the roll-out of RRF-funded investments, the various governments have taken additional initiatives.

At the federal government level, funds from the RRF (€1.3 billion) were further supplemented through three decisions. In the 2021 budget review, additional investments of €0.3 billion were decided on, in addition to the RRF. When the initial 2022 budget was drawn up, a recovery and transition plan was approved with a total investment envelope of €1 billion. Additional investments of €0.3 billion were decided on in the context of the energy package approved in March. This brings the total additional investment envelope for Entity I to €2.9 billion.

In Flanders, the government launched the Flemish recovery plan 'Vlaamse Veerkracht' (Flemish Resilience) in late September 2020. With an amount of €4.3 billion (of which €2.25 billion in the context of the RRF), this plan is based on seven pillars: (i) managing the corona crisis and absorbing the consequences of Brexit, (ii) strengthening the Flemish care and welfare system, (iii) investing in people and talents, (iv) investing in infrastructure, (v) making the economy and society more sustainable, (vi) digitally transforming Flanders, and (vii) making the government more efficient.

At the end of October 2021, the Walloon government approved its recovery plan, with a budget of €7.644 billion between now and 2024 (€6.164 billion excluding RRF). It is structured around six strands: (i) focusing on Walloon youth and talents, (ii) ensuring environmentally sustainable development, (iii) promoting economic development, (iv) supporting well-being, solidarity and social inclusion, (v) ensuring innovative and participatory governance, and (vi) supporting the reconstruction and resilience of affected areas.

The Government of the Wallonia-Brussels Federation has selected nine investment projects and two reform projects for a maximum amount of €495 million in the context of its RRP around four pillars: (i) the energy transition of buildings through infrastructure renovation, (ii) the digitisation of the culture and media sector, (iii) the digital strategy in education with the aim of accelerating and intensifying the digital skills of teachers and students, (iv) the development of knowledge and innovations related to the ecological transition through an ad hoc platform. In addition, various reforms have been implemented, including a 10-year strategic plan for the renovation of school infrastructure which was approved for a total budget of €1 billion. In the area of research, support was provided for the international expansion of the actors of (French-speaking) Belgian research.

In Brussels, in July 2020, the government proposed its recovery and redevelopment plan based on a comprehensive diagnosis of the socio-economic, territorial and environmental situation in the Brussels Capital Region during and after the corona crisis. With an amount of almost €500 million for urgent support measures, this plan is based on three pillars: (i) socio-economic transition and work, (ii) well-being and health policies, and (iii) territorial development and environment.

In the context of its recovery and investment plan, the Government of the German-speaking Community is planning reform projects in various fields amounting to €720 million, in order to bring about a multi-sectoral reconstruction process as a result of the various crises with which it has been confronted.

The Federal Council of Ministers of 25/03/2022, in addition to a number of measures to treat public investment more favourably in the existing budgetary framework and also to communicate transparently about the government's investment effort, decided to establish a High Council for Public Investment. This Council should strengthen the analytical capacity on and coordination of public investment.

Spending reviews

Following the Country-Specific Recommendations of the European Commission to improve the composition and efficiency of public spending, to create margins to increase public investment, initiatives have been taken by the various sub-entities to improve the quality of public finances. This includes the implementation of spending reviews or similar budgetary approaches.

The following is an overview of the initiatives taken by the various sub-entities.

Entity I

The coalition agreement of the current government provides for the introduction of spending reviews (free translation): "Via means such as a rationalisation of regulations (overlapping and dormant regulations), a correct application of the regulatory impact analysis and an analysis of expenditures (spending reviews and zero based budgeting), these goals will be pursued."

The Council of Ministers of 18 December 2020 approved the approach for introducing spending reviews at the federal level. The paper presented to the Council of Ministers built on the preparatory work done with the OECD in the framework of the European Structural Reform Support Programme. Among other things, it was planned to start with around three pilot projects in the first phase.

On 12 February 2021, the Council of Ministers approved the subjects and mission statements of the following three pilot projects:

- exemptions on withholding tax on professional income;
- impact of generalised teleworking on the organisation and building management of the federal government;
- efficient health care.

The pilot projects were implemented and an initial evaluation was carried out as part of the preparations for drafting the 2022 budget. This evaluation was positive, even though certain areas for improvement were identified.

Every spending review is the subject of a specific notification by the Council of Ministers with a clear definition of the follow-up implemented. The Federal Council of Ministers of 10 November 2021, decided to follow up on the measures concerning the exemption from the payment of withholding tax and the imposition of uniform reporting systems, as well as to study master plans and the possibility of centralising services. With a view to the following spending review cycle in 2022, the Council of Ministers also decided to launch another round of spending reviews on the following themes:

- the nuclear liabilities (Belgoprocess, IRE, SCK);
- developing options to more efficiently organise the framing expenditures of federal scientific institutions by exploring, among other things, centralisation of spending at BELSPO;
- options for more far-reaching cooperation for income tax collection institutions.

In preparation for the next cycle of spending reviews in 2023, preparatory studies will be conducted to assess the availability of data for the following topics: asylum and migration, the effectiveness of federal support for R&D, justice (court costs in criminal cases).

Entity II

Brussels-Capital Region

In order to prepare for the structural embedding of spending reviews in the Brussels Capital Region and to familiarise the administration with this tool, two pilot projects in social housing and in mobility were launched and completed by the end of 2021, with technical assistance from the European Commission. The competent ministers are currently assessing the results. A discussion within the government will follow, so that the results can be taken into account in the next budget preparation.

At the same time, a comprehensive PEFA (Public Expenditure and Financial Accountability) analysis of the strengths and weaknesses of public financial management was conducted, as the benefit of spending reviews is only maximised when embedded in a mature budget system with valuable budget preparation, a strategic medium-term focus, and a sufficiently strong link between budget, policy, and results.

Based on the experience of the spending review pilot projects, as well as the results of the PEFA gap analysis, recommendations have been formulated - also with technical assistance from the European Commission - regarding the structural embedding of the tool in the budget process. Based on this, the government will have to make a decision this year on how spending reviews will be embedded in the budget process, including a concrete calendar of topics for the remaining years of this legislature and a broader strategy.

To ensure that in the future the administration will be able to carry out such complex policy evaluations independently, a new project with the European Commission will be launched in the coming months. The project aims to support the administration in developing a methodology and will also provide additional training and awareness-raising among top officials. Indeed, this is a structural reform whose success depends not only on the commitment of the Minister of Finance and their administration, but on the commitment of the government as a whole and all the administrations whose policies will be scrutinised at some point.

Two new projects will be launched later in the year. The aim is that these will be completed by June 2023 so that the results can be included in the budget preparation for 2024.

Finally, the aim is to embed the principle of spending reviews in regulations by the end of 2023.

French-speaking Community

Since September 2020, the French-speaking Community has received support from the OECD for the implementation of its spending review policy. This support is funded by the European Commission in the context of the Technical Support Instrument (TSI) programme.

The aim of the OECD mission is to produce a report with recommendations for the structural implementation of a spending review policy and to support its implementation.

This mission started with a series of meetings between the OECD and ministerial cabinets, government departments, the Inspectorate of Finance, etc., so that the OECD could get a general idea of the existing budgetary procedures. A parliamentary debate was also organised, based on a presentation by the OECD.

The OECD report is expected in the 2nd quarter of 2022.

In parallel with this work, a pilot project for the evaluation of spending based on draft analyses decided by the government is underway, which should provide initial results that will be integrated in the preparation of the 2023 budget. In order to free up resources to make spending reviews at the start of the year, the government has decided to change its budget calendar from previous years and postpone the budget adjustment until the last quarter of 2022.

Moreover, this pilot exercise is a milestone to be achieved in the third quarter of 2022 by the French-speaking Community in the context of the RRF.

Walloon Region

The Walloon Region started a 360 degree review of its budget, the so-called Zero Base Budgeting, in October 2020. This project aims to review the expenditure and revenues of the Walloon Region according to the methodology validated by the government in May 2020.

The expenditure review is done both at the level of the activity (each entity is analysed based on its operating and investment expenditure) and at the level of its intervention expenditure (i.e. decrees, decisions, grants, etc.). The latter often corresponds to the term spending reviews in the European sense.

This ZBB exercise was carried out on the basis of a public contract that ran from October 2020 to March 2022, divided into 4 equal waves to cover the entire perimeter of the Region. The conclusions of this exercise are currently being assessed at the government level.

In addition to this ZBB exercise, the Walloon Region is currently benefiting from technical support from the European Commission (through the OECD) to help structurally embed the spending review into the budgetary process of reviewing the Walloon Region's spending.

These two exercises should enable the Walloon Region to respond positively to the milestones in the spending review reforms that are part of the National Recovery and Resilience Plan for Belgium as a whole.

Flanders

The corona crisis is also an occasion to prepare and implement reforms. The Department of Finance and Budget is working on a Flemish spending standard. The spending standard should ensure the sustainability of public finances in all circumstances, provide policy stability, and curb ad hoc adjustments. Working with a spending standard also implies that the starting point is medium-term targets in a multi-year perspective.

The spending standard will be reported at the aggregate level from the 2022-2027 multi-year estimate. This will allow us to build up experience in setting standards and to gain a better understanding of the spending dynamics of the Flemish budget in relation to growth in revenues. The standard setting is drawn up at the start of every legislature. Determining the standardised structurally permissible government expenditure is only done when the budget is drawn up.

The Flemish government also identified a number of themes for a spending review at the end of 2021: e.g. higher education, sustainable water use and the organisation of the water landscape, housing policy instruments, and Flemish policy in the context of productivity. For the implementation of the spending reviews, a plan of action is developed for each theme. The spending reviews must be started by the end of 2022 at the latest. The aim of the spending reviews is to make it possible to incorporate the results at the latest when the next government is formed. The six-monthly reporting in the context of the RRF includes an explanation of the progress of the initiated spending reviews.

ANNEXES

Annex 1: Sectoral balance sheets

In % of GDP	2021	2022	2023	2024	2025
1. Net lending vis-a-vis the rest of the world	1,0	0,9	0,6	0,6	0,5
2. Net lending of the private sector	6,5	6,2	4,2	4,0	3,2
3. Net lending of general government	-5,5	-5,2	-3,6	-3,4	-2,7
4. Statistical discrepancy					

Annex 2: Estimates in a scenario of unchanged policies

	2021 *Level*	2021 *% of GDP*	2022	2023	2024	2025
1. Total revenue at unchanged policies	250.004	49,3	48,9	49,5	49,4	49,4
2. Total expenditure at unchanged policies	277.969	54,8	54,2	53,4	53,4	52,9

Annex 3: Amounts to be excluded from the expenditure benchmark

	2021 *Level (million EUR)*	2021 *% of GDP*	2022	2023	2024	2025
1. Expenditure on EU programmes fully matched by EU funds revenu		0,1	0,2	0,1	0,1	0,1
2. Cyclical unemployment benefit expenditure	456	0,1	0,0	0,0	0,0	0,0
3. Effect of discretionary revenue measures	1.262	0,2	0,1	0,4	0,4	0,7
4. Revenues increased mandated by law						