Belgium's stability programme

2023-2026

30 April 2023

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1. Foreword

Belgium's stability programme sets out the guiding principles and objectives for fiscal policy in the 2023-2026 period. It should be read together with the National Reform Programme. The two programmes constitute the national medium-term budget plan within the meaning of Regulation (EU) No 473/2013.

The document "Guidelines on the format and content of Stability and Convergence Programmes", dated 15 May 2017, was used as a guideline when creating the stability program. The additional fiscal policy guidelines for 2024 published by the EC on 8 March 2023 was also taken into account.

As provided in the Cooperation Agreement of 13 December 2013, in preparation for the 2023-2026 stability programme, the Section "Public sector borrowing requirement" of the High Council of Finance (HCF) published its opinion on 7 April 2023.

The trajectory of Entity I of the present stability programme was approved by the federal government on 28 April 2023.

The overall trajectory of the Stability Programme 2023-2026 was discussed in advance within the Consultative Committee as envisaged by the Cooperation Agreement of 13 December 2013.

On 28 April 2023, the Consultative Committee took note of the recommendations formulated by the High Council of Finance and the trajectories included in the 2023-2026 stability programme.

2. Introduction

Once the end of the corona crisis was in sight last year, Belgium, like the rest of the EU, was again faced with several new shocks affecting the economy and society.

Russia's invasion of Ukraine last year and the explosion in energy prices and rising inflation resulted in governments being once again faced with the need to take appropriate, special and temporary measures.

The starting point for preparing this stability programme is the 2023-2028 economic outlook of 23 February 2023. The economic environment is discussed in Chapter 3 of the stability programme. Belgian GDP growth initially held up well against the energy crisis in 2022 before slowing down significantly in the second half of the year but remaining slightly positive. As with the rest of the Eurozone, GDP growth is expected to pick up gradually over the course of this year, mainly thanks to cooling down of inflation. The growth of the Belgian economy is mainly driven by domestic demand. As for inflation, it will not be below 2% again until 2025. In terms of employment, there would be less pronounced employment growth compared to the past six years, but the employment rate will be climbing steadily to 73.5% by 2026.

Chapter 4 takes a closer look at the budgetary trajectory set out in the present stability programme. The recorded trajectory for the joint government results from merging of the trajectories of Entity I and Entity II. In line with the European Commission's guidance of 8 March 2023, this Stability Programme, is aimed at ensuring the medium-term fiscal sustainability through gradual consolidation, investment and reforms. Consequently, by the end of 2026, the general government nominal balance deficit could again be below 3 per cent of GDP. The federal government is also planning additional structural reforms that will further strengthen the health of public finances. Through fiscal reform, (i) the difference between working and not working will be increased, making work more attractive, and (ii) further increasing the employment rate. This tax reform will contribute to the financial sustainability of public finances. The pension reform planned under the RRF will also enhance the financial sustainability and fairness of the system, in line with country-specific recommendations. In all of this, it is also important, both in terms of a growth agenda and the need for transition to a carbon-free economy and society, that investments remain sufficiently dynamic. Belgium will therefore continue to invest the necessary resources to accelerate the transition to a carbon-free society and will continue to work on reforming European fiscal standards and economic governance at the European level to continue to strive to create sufficient room for reforms and supporting investments that contribute to sustainable growth.

Chapter 5 discusses the sustainability of public finances.

3. Economic situation and macroeconomic assumptions

The macroeconomic forecasts for 2022-2028 were prepared by the Federal Planning Bureau (FPB) on behalf of the National Accounts Institute (NAI) and published as part of the 2023-2028 economic forecasts on 23 February 2023. Note that those macroeconomic forecasts only take into account the measures whose modalities were known with sufficient precision on 8 February 2023. Thus, the federal government's energy bill reform measures announced on 6 February are included in the projections. The NBB has updated certain economic parameters for 2022 as part of its notifications to Eurostat. The tables below show only the FPB's estimates. The tables in the statistical annex do take this update into account.

3.1 The international economic environment

As regards the international environment, the financial assumptions only take into account the measures whose modalities were known on 25 January 2023.

Health situation

By 2022, the COVID-19 epidemic seemed to be coming to an end worldwide (except in China). Health restrictions were lifted en masse worldwide. Only China maintained its zero-covid policy until December 2022. However, the lifting of that policy triggered a new wave of infection in the country, which nonetheless seems to have subsided rapidly.

War in Ukraine

On 24 February 2022, Russia invaded Ukraine. Currently, this war is still raging on Ukrainian soil. This geopolitical situation disrupted the supply chains of certain products (aluminium, nickel, etc.) and led to an energy crisis in Europe. This consequently reinforced inflation and weighed on European growth in 2022 and the outlook for 2023. Let's also not forget that the war led to a flood of Ukrainian refugees across Europe.

Assumptions of the Federal Planning Bureau

The following table presents the assumptions regarding the international context on which the Federal Planning Bureau based its preparation of the 2023 economic budget and the 2023-2028 economic outlook published in February 2023.

Table 1: External environment: basic assumptions

	2022	2023	2024	2025	2026
Short-term interest rate (annual average)	0,3	3,2	2,9	2,8	2,6
Long-term interest rate (annual average)	1,8	2,8	2,7	2,8	2,9
USD/EUR exchange rate (annual average)	105,4	110,0	111,6	111,6	111,6
Nominal effective exchange rate	-0,9	1,6	0,8	0,0	0,0
GDP growth World excluding EU	3,4	3,3	3,4	3,5	3,5
GDP growth EUR	3,5	1,0	1,6	2,2	2,0
Growth of relevant foreign markets	7,9	3,4	3,6	3,5	3,4
World import volume excluding EU	4,1	2,6	3,5	3,8	3,8
Oil price (Brent, USD per barrel)	100,9	84,6	79,8	84,4	89,2

Source : Federal Planning Bureau

Economic growth

Economic activity in European Union recovered well after the corona crisis (+5.4% in 2021) and continued in 2022 (+3.5%) despite the tense geopolitical situation and inflationary pressures. This resilience can partly be explained by the fact that the energy crisis proved to be less severe than expected. The mild winter in 2022-2023, the fall in gas prices, the measures taken by government agencies to reduce energy bills and the well-functioning labour market are factors explaining the European Union's economic growth. For 2023, projections foresee slowing economic growth (+1.0%). After that, the recovery programmes will allow, among other things, a recovery in economic growth in 2024 and 2025 (1.6% and 2.2%). In the medium term, economic activity in the European Union will stabilise at 2.0%.

In the United States, the growth of economic activity slowed down in 2022 (+2.0%), held back by high inflation, the uncertainty of the international environment and the abrupt increase in interest rates. Note, however, that the US economy proved to be more resilient than expected in 2022. Low growth is again expected for 2023 and 2024 (+1.6% and 1.1%, according to the IMF).

After a very strong economic recovery in 2021 (+8.4% according to the IMF), China experienced a slowdown in economic growth in 2022 (+3.0%) following several lockdowns under its zero-covid policy and the crisis in the property market. The end of the zero-covid policy was announced in December 2022 and should ensure that China's economy bounces back in 2023 (+5.2%) and 2024 (+4.5%).

Note that these projections are part of a highly uncertain international environment. The developments of the war in Ukraine and the economic situation in China will prove to be decisive factors for the future economic outlook. Moreover, the speed of the fall in inflation will significantly impact the economic recovery.

Price development

In 2021, economic recovery and disruptions in supply chains put upward pressure on prices. Moreover, high energy demand led to an explosion in natural gas, electricity and oil prices. In early 2022, the war between Ukraine and Russia caused additional tensions in the energy market. That conflict significantly reduces the production of staple foods such as wheat. That pushes up the food prices in different parts of the world, such as Europe or the Middle East. Finally, China's extensive and repeated lockdowns have severely disrupted international supply chains, impacting prices. Consequently, inflation recorded in 2022 reached historically high levels around the world. However, the tightening of monetary policy, the fall in energy prices, the mild winter and the cyclical slowdown dampening demand will result in inflation gradually falling to lower levels from 2023 onwards.

Oil prices fell sharply in March/April 2020 (USD 41.8/barrel, Brent) before rising again. The average oil price was USD 100.9/barrel in 2022 for reasons mentioned above. During the period 2023-2026, oil prices are expected to fall to USD 79.8/barrel before rising again to USD 89.2/barrel.

As a result, inflation in the Eurozone reached 8.4% in 2022 (according to the European Commission's Winter Forecast 2023), the highest since the early 1990s. In 2023, inflation should fall to 5.6% thanks to the fall in energy prices and the tightening of the monetary policy. However, underlying inflation continues to rise, thus supporting inflation despite the fall in energy prices. Starting with 2024, Eurozone inflation will again approach the 2.0% target, i.e. 2.5%.

Financial markets

The high inflation we have known since in the second half of 2021 has prompted central banks to react to anchor inflation expectations at more reasonable levels. Since March 2022, the FED has raised its base rate to an interested rate between 4.75% and 5.0%. On 27 July 2022, the ECB in turn raised its base rate by 0.50 percentage points. That was the first increase in almost 11 years, marking the end of negative interest rates. Since then, the interest rates have continued to rise and reached 3.75% on 22 March 2023. Despite the cyclical slowdown, the FED and the ECB are expected to raise interest rates in the future, considering inflation remains high. Markets expect the peak in terms of interest rate hikes to be near.

Interest rate on 10-year government bonds climbed to 1.8% in 2022 after historically low rates in 2020 and 2021. For 2023, long-term interest rates will continue to rise to 2.8% and should remain around 2.9% until 2026. In contrast, short-term interest rates rise more moderately in 2022 (0.3%) and then sharply in 2023 (3.2%) before falling gradually to 2.6% in 2026.

The dollar lost a lot of ground against the euro in 2021 ($118.3/100 EUR). In 2022, the dollar appreciated on the back of a US central bank (Fed) monetary tightening ($105.4/100 EUR). Starting with 2023, exchange rates would stabilise (from $110.0/100 EUR to $111.6/100 EUR).

3.2 The estimates of macroeconomic parameters for Belgium

3.2.1 Estimates of the Planning Bureau of February 2023

The following table presents Belgium's main economic parameters for the period 2022-2026.

Table 2: Macroeconomic Forecasts

% change in volume unless otherwise stated	2022	2023	2024	2025	2026
Households privat consumption	4,0	1,6	1,9	1,7	1,3
Government consumption expenditure	1,2	1,1	0,8	0,9	1,2
Gross fixed capital formation	-1,0	0,8	2,8	1,6	1,7
a. Business investments	-1,9	-0,1	2,3	2,1	2,1
b. Public investments	-1,4	10,6	7,4	-0,8	0,9
c. Residential investments	2,1	-1,5	1,7	1,4	1,2
Changes in inventories (contribution to GDP growth)	0,8	0,0	0,0	0,0	0,0
Final domestic demand	2,8	1,2	1,8	1,4	1,4
Exports of goods and services	4,9	2,3	2,5	3,3	3,4
Imports of goods and services	4,6	2,5	2,6	3,3	3,3
Net exports (contribution to GDP growth)	0,3	-0,3	-0,2	-0,2	-0,1
Gross domestic product	3,1	1,0	1,7	1,3	1,4
GDP deflator	6,5	3,4	2,3	1,9	1,7
National consumer price index	9,6	4,5	2,9	1,8	1,7
Health index	9,3	4,9	3,2	1,8	1,7
Real disposable income of individuals	-1,6	4,2	1,5	1,7	1,4
Savings ratio of individuals (in % disposable income)	12,2	14,4	13,9	13,9	13,8
Evolution of employment (in thousands)	100,4	38,1	42,7	30,7	38,1
Unemployment rate (Eurostat definition, in %)	5,6	5,7	5,5	5,4	5,4
Balance of current transactions with foreign countries (in % of GDP	-4,9	-3,9	-3,6	-3,7	-3,8
Euro-dollar exchange rate (number of dollars/100 euro)	105,4	110,0	111,6	111,6	111,6
Short-term interest rate (Euribor, 3 months) (%)	0,3	3,2	2,9	2,8	2,6
Long-term interest rate (OLO, 10 years) (%)	1,7	2,7	2,7	2,8	2,9

Source : Federal Planning Bureau

Belgian GDP experienced a remarkable economic recovery in 2021 (+6.1%) supported by all spending components. In 2022, the Belgian economy proved to be resilient in the face of the war in Ukraine and the energy crisis, recording a growth of 3.1%. Growth in 2022 was mainly supported by private consumption and exports. After this, the Federal Planning Bureau projects a slowdown in economic growth in 2023 (+1.0%) and subsequently a recovery in 2024 (+1.7%). By 2026, Belgian economic activity is expected to grow by 1.4%.

Spending components

Private consumption grew strongly in 2021 (+5.5%) after being constrained by the corona crisis. Growth was maintained in 2022 (+4.0%) despite the fact that the disposable income of individuals experienced a decline (-1.6%) due to high inflation. This result is explained by the fact that households have drawn on their savings in order to maintain their consumption levels. Indeed, the savings rate was still 17.0% in 2021 and has fallen to 12.2% in 2022. For 2023, the growth in private consumption is expected to slow down (+1.6%) despite significant increase in disposable income of individuals (+4.2%). The origin of this increase in disposable income lies in the delayed impact of indexation (e.g. salaries in the private sector) as well as in the measures taken to soften the energy bill and the substantial job creation. In the period 2024-2026, private consumption will grow more significantly (+1.9% in 2024) before hovering around 1.3%. A similar trend emerges in terms of disposable income, stabilising at around 1.4% in the medium term. In turn, the savings rate will stabilise just below 14.0% by 2026. Note that the savings rate is stabilising at a higher level than its historical level before the COVID-19 crisis (±12.0%).

After growing by 7.9% in 2021, real estate investments grew less strongly in 2022 (+2.1%) due to the gradual rise in interest rates tempered by the reconstruction works required after the July 2021 floods. By 2023, real estate investment is expected to decline (1.5%), mainly due to high interest rates. For the period 2024-2026, real estate investment is rising again, fluctuating around 1.3%. This development is explained by the normalisation of interest rates and the changes in households' disposable income.

Corporate investments experienced a noticeable increase in 2021 (+3.9%) before collapsing in 2022 (-1.9%) and in 2023 (-0.1%) due to the slumbering climate of uncertainty, rising labour costs and the pronounced rise in interest rates, which drove up financing costs. In the medium term, the outlook indicates a recovery in business investment, which is expected to grow by around 2.2% annually.

Public investments saw strong growth in 2021 (+5.2%). This increase is explained by the governments' various recovery plans and investments in National Defence. However, the rise in interest rates meant a contraction in public investment (-1.4%) in 2022. Significantly more investment is expected in 2023 and 2024, (10.6% and 7.4%, respectively), given the election cycle in 2024. In the period 2025-2026, public investment is expected to decline due to the end of recovery plans and because local governments will invest less after the 2024 elections.

Government consumption increased by 4.8% in 2021. This increase was largely due to expenditure related to COVID vaccination and the resumption of other non-COVID treatments. In 2022 and 2023, government consumption has grown more moderately (by 1.2% and 1.1%, respectively) as measures taken to reduce energy bills (e.g. heating bonus, heating oil voucher) and COVID-19-related expenditure (e.g. testing, purchase of vaccines) boosted government consumption. In 2024, public consumption will increase slightly as the temporary measures come to an end (+0.8%). In the medium term, government consumption should gradually recover and reach 1.2% growth rate.

The balance of payments, which remained positive in 2021 and 2022, should turn negative in 2023. Indeed, both exports and imports contracted sharply in 2020, growing strongly in 2021 and 2022. Exports were impacted by the economic situation of our commercial partners, who were severely affected by the pandemic, the war in Ukraine and the energy crisis. Note also that the automatic indexation of salaries undermines Belgian competitiveness in the short term. Imports are influenced by domestic demand and, more recently, notably by the surge in energy prices.

Price development

Table 3: Price development

% change	2022	2022	2023	2024	2025	2026
	(2015=100)					
1. GDP deflator	117,9	6,5	3,4	2,3	1,9	1,7
2. Private consumption deflator	118,8	8,6	3,9	2,6	1,8	1,7
3. HICP	120,3	9,6	4,5	2,9	1,8	1,7
4. Public consumption deflator	119,4	8,0	6,4	2,4	2,3	1,8
5. Investment deflator	121,2	10,0	4,1	2,0	1,8	1,8
6. Export price deflator (goods and services)	125,3	15,6	-0,5	0,7	2,0	1,9
7. Import price deflator (goods and services)	132,0	21,7	-1,3	0,3	1,9	1,9

Source : Federal Planning Bureau

The summer of 2021 started with a historic rise in inflation. Energy prices (e.g. natural gas, electricity, and oil) shot up first due to high demand after the post-COVID recovery and then because of limited supply due to Russia's invasion of Ukraine, causing tensions between Russia and the EU. Inflation, largely driven by energy prices, thus peaked at 12.3% in October 2022. Since then, energy prices for both natural gas and electricity have fallen again to lower levels associated with inflation. However, it is important to note that inflation has spread to other parts of the economy, such as food and services (via indexation of salaries). Consequently, underlying inflation continues to grow and has yet to peak. The outlook indicates that underlying inflation should peak in the first quarter of 2023 before gradually declining.

Belgian inflation, measured on the basis of the national consumer price index, reached a rate of 9.6% in 2022. In 2023 and 2024, inflation should decrease and reach 4.5% and 2.9%, respectively. In the medium term, inflation stabilises at 1.7%.

Labour market

Table 4: Developments in the labour market

% change in volume unless otherwise stated	2022		2022	2023	2024	2025	2026
	Level						
1. Employment, persons	5.089,5	a	2	0,7	0,8	0,6	0,7
2. Employment, hours worked	7.930,3	b	4,2	0,9	1,4	0,8	0,8
3. Unemployment rate (%)	5,6		5,6	5,7	5,5	5,4	5,4
4. Labour productivity, persons	90,8	c	1,1	0,3	0,9	0,7	0,6
5. Labour productivity, hours worked	58,3	d	-1	0,1	0,3	0,5	0,5
6. Compensation of employees	267,1	e	9,6	8,8	4,6	3,2	2,9
7. Compensation per employee	63,3	f	7,4	8	3,9	2,8	2,3

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

2. National accounts definition (million hours)

3. Harmonised definition, Eurostat; levels

4. Real GDP per person employed (thousand euro)

5. Real GDP per hour worked (euro)

6. billion EUR

7. thousand EUR per person per year

Source: Federal Planning Bureau

Domestic employment fell only slightly during the corona crisis in 2020, largely due to temporary unemployment measures. In early 2021, employment quickly reached its pre-crisis levels. Then, employment grew strongly in 2021 and 2022, with an increase of 90,800 jobs and 100,400 jobs respectively. In 2023, the labour market will bear the consequences of the current cyclical slowdown. Indeed, 38,100 new jobs are expected that year. In the medium term, employment will normalise with a stable increase of 30,000 to 40,000 persons annually.

The unemployment rate was 5.6% in 2022. Subsequently, the unemployment rate should gradually decline to reach 5.4% in 2026. However, please note that there will be a small rise in unemployment in 2023 (5.7%). This development is explained by the integration of Ukrainian refugees as job seekers and by the delayed impact of the cyclical slowdown.

4. General government balance and debt

4.1 Medium-term budgetary objectives

4.1.1 The opinion of the High Council of Finance

As provided in the Cooperation Agreement of 13 December 2013, in preparation for the 2023-2026 stability programme, the High Council of Finance (HCF), Section: “Public Sector Borrowing Requirements published its opinion on 7 April 2023. This opinion was prepared based on the medium-term outlook forecast of Federal Planning Bureau of 23 February 2023..

Because of the order of magnitude of the differences between this baseline scenario of the Federal Planning Bureau and the forecast of the Monitoring Committee (MoCo), an exceptional budget trajectory has also been developed starting from the Monitoring Committee's projections of 23 March 2023.

Before presenting the recommended budget trajectories, the HCF's opinion first discusses the European fiscal framework and its upcoming reforms.

The HCF opinion presents three possible scenarios to meet two objectives:

1) bringing down the general government borrowing deficit below the 3.0% GDP before the end of the period covered by the Stability Programme. The borrowing deficit should therefore be reduced sustainably to at least 2.9% of GDP by 2026.
2) countering backloading and starting with the required fiscal consolidation without further delay, no later than the 2024 budget.

The first scenario is based on the forecasts of the Federal Planning Bureau's February 2023. The second scenario is based on the forecasts of the Monitoring Committee's March 2023. The third scenario is also based on the forecasts of the Federal Planning Bureau of February 2023, opting for frontloading.

The recommendations are formulated in terms of the required additional structural expenditures compared to business as usual. In order to achieve the target for net lending set for 2026, the structural balance, taking into account the transitional adjustments, is determined accordingly. The cumulative structural improvement is thus derived for the period 2024-2026, starting from the structural balance expected in 2023 under unchanged policies. Taking into account the cumulative expected deterioration under business as usual, the additional structural expenditure required for the three years under consideration is determined, which is then expressed as an average additional structural expenditure per year.

4.1.2 Objectives retained in the present stability programme

In line with the European Commission's guidance of 8 March 2023, this Stability Programme, is aimed at ensuring the medium-term fiscal sustainability through gradual consolidation, investment and reforms. Consequently, by the end of 2026, the general government nominal balance deficit could again be below 3% of GDP. The federal government is also planning additional structural reforms that will further strengthen the health of public finances. Through fiscal reform, (i) the difference between working and not working will be increased, making work more attractive, and (ii) further increasing the employment rate. This tax reform will contribute to the financial sustainability of public finances. The pension reform planned under the RRF will also enhance the financial sustainability and fairness of the system, in line with country-specific recommendations. In all of this, it is also important, both in terms of a growth agenda and the need for transition to a carbon-free economy and society, that investments remain sufficiently dynamic. Belgium will therefore continue to invest the necessary resources to accelerate the transition to a carbon-free society and will continue to work on reforming European fiscal standards and economic governance at the European level to continue to strive to create sufficient room for reforms and supporting investments that contribute to sustainable growth.

The stability programme drawn up by adding to the own trajectory of Entity I, the own trajectories of the governments of Entity II , which could bring the nominal deficit of the general government below 3% of GDP in 2026.

Regarding Entity I, on the one hand, the coalition agreement is applied to provide for an annual fixed fiscal expenditure of 0.2% of GDP in the period 2021-2024. At the end of this period, the fixed expenditure thus rises to 0.8% of GDP.

In addition, the coalition agreement provides for an additional annual variable expenditure that depends on economic growth and recovery. After an additional variable expenditure of 0.3% was decided in preparing the initial 2022 budget, it was supplemented with a net additional variable expenditure of 0.2% for the years 2023 and 2024 when preparing 2023 budget. At the 2023 budget review, a total additional net expenditure of 0.1% in 2023 and 0.3% in 2024 was decided, respectively.

To reduce the nominal deficit of the general government as a whole to below the 3% of GDP reference value by 2026, the federal government has committed to an additional expenditure of 0.2% - 0.8% for Entity I- 0.8% of GDP in the period 2024-2026, respectively.

For 2024, the total expenditure amounts to around 0.7% of GDP for Entity I.

The trajectory for Entity II included in the stability programme results from the sum of the individual trajectories of all Communities and Regions, except for the Community Commissions for which the 2022 result from the provisional figures of the NAI was extended for the entire period. The target set out in the opinion of the Hight Council of Finance was used for the local government balance.

Table 5: Distribution of the trajectory between Entity I and Entity II

The line 'undistributed' includes the plastic contribution (for 2023-2026) and certain costs in the context of the covid crisis (2023 only), pending an agreement between the federal government and the communities and regions on their funding.

In % of GDP	2022	2023	2024	2025	2026
Entity I					
Net lending	-2,9	-3,5	-3,0	-2,5	-2,2
Structural balance	-3,2	-2,8	-2,7	-2,2	-2,1
Structural balance improvement		*0,5*	*0,0*	*0,5*	*0,2*
Entity II					
Net lending	-1,0	-1,5	-1,2	-0,9	-0,7
Structural balance	-0,8	-1,8	-1,1	-0,8	-0,6
Structural balance improvement		*-1,0*	*0,7*	*0,3*	*0,2*
Undivided	0,0	-0,1	0,0	0,0	0,0
General government					
Net lending	-3,9	-5,1	-4,2	-3,3	-2,9
Structural balance	-4,1	-4,6	-3,8	-3,0	-2,7
Structural balance improvement		*-0,5*	*0,8*	*0,8*	*0,3*

4.2 Medium-term budgetary outlook

4.2.1 Development of the nominal balance

Table 6 provides an overview of the nominal balances (based on federal advances on regional surcharges) in line with the trajectory.

Table 6: Development of the nominal balance

		2022 Level	2022	2023	2024 in % of gdp	2025	2026
			Net lending				
1.	General government	-21.345	-3,9	-5,1	-4,2	-3,3	-2,9
1a.	Central government	-14.303	-2,6	-3,4	-3,0	-2,5	-2,2
1b.	State government	-5.542	-1,0	-1,4	-1,1	-0,8	-0,6
1c.	Local government	-48	0,0	-0,1	-0,1	-0,1	-0,1
1d.	Social security funds	-1.453	-0,3	-0,1	0,0	0,0	0,0
1e.	Undivided corrections general government	0	0	-0,1	0,0	0,0	0,0

For 2022, the nominal balance included is that of the April 2023 EDP notification. The year 2022 ended with a nominal deficit of -3.9% of GDP, down from -5.5% of GDP in the previous year.

The improvement in the net lending stems from the strong economic recovery after the pandemic, which boosted the 2022 growth rate and entailed a net decrease in government support measures. Corona-related spending declined sharply after 2020. Whereas €19.4 billion of support measures were granted in the first year of the pandemic, they fell to €12.1 billion in 2021 and €2.7 billion in 2022. The decrease in 2022 was partly offset by aid, amounting to EUR 5.9 billion, granted in the context of rising energy prices, mainly for the benefit of households. Overall, the adverse impact of the temporary measures on the deficit narrowed from EUR 12.6 billion (2.5% GDP) in 2021 to EUR 8.7 billion (1.6% GDP) in 2022. In 2022, significant support measures in terms of budget concerned the cost of the standard and extended social rate, the cost of the basic electricity and gas package and reductions in VAT and excise duties.

Net lending is estimated at -5.1% of GDP in 2023.

Net lending for 2023 includes a number of one-off measures that are not included as one-offs when moving to the structural balance. These include measures related to covid (EUR 881 million), energy (EUR 3.6 billion) and the Ukraine crisis (EUR 860 million). Finally, there is a budgetary cost associated with flooding in 2021 amounting to EUR 402 million.

Table 2a, "General government budgetary targets broken down by subsector", in the statistical annex provides an overview of the distribution of expenditure across revenue and expenditure categories. This distribution is purely indicative.

4.2.2 Development of the structural balance

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

The exceptional measures in the fight against the corona pandemic with only a temporary impact are not considered one-offs, in accordance with European guidelines under the General Escape Clause. Measures in the context of increased energy prices as well as those in the wake of the war in Ukraine are also not included as one-offs. Therefore, the impact of the one-off measures is relatively limited for 2023 and future years.

Table 7: Composition of the general government structural balance

In % of gdp	2022	2023	2024	2025	2026
1. Real GDP growth (%)	3,2	1,0	1,7	1,3	1,4
2. Net lending of general government	-3,9	-5,1	-4,2	-3,3	-2,9
3. Interest expenditure	1,5	1,7	2,0	2,2	2,4
4. One-off and other temporary measures	0,2	-0,1	-0,2	0,0	0,0
Of which					
One-off and other temporary measures on the reven	*0,3*	*-0,1*	*-0,2*	*0,0*	*0,0*
One-off and other temporary measures on the exper	*-0,1*	*-0,1*	*0,0*	*0,0*	*0,0*
5. Potential GDP growth	1,7	1,6	1,5	1,4	1,3
6. Output gap	0,0	-0,6	-0,4	-0,4	-0,4
7. Cyclical budgetary component	0,0	-0,3	-0,2	-0,3	-0,3
8. Cyclically-adjusted balance (2-7)	-3,9	-4,7	-4,0	-3,1	-2,7
9. Cyclically-adjusted primary balance (8+3)	-2,4	-3,0	-2,0	-0,9	-0,3
10. Structural balance (8-4)	-4,1	-4,6	-3,8	-3,0	-2,7

4.2.3 Debt ratio development

Public debt (Maastricht definition) stood at 105.1% of GDP at the end of 2022. That is a decrease of 4.0 percentage point compared with 2021. The favourable development of the debt ratio in 2022 is entirely due to strong growth in nominal GDP.

For 2023, the debt ratio is estimated at 106.7% of GDP. By the end of the stability programme, the debt ratio would almost stabilise. The increase in debt is mainly due to exogenous factors. Exogenous factors include a number of technical aspects such as differences between ESR and greenhouse concepts. Endogenous factors still have a debt-increasing effect in 2023 followed by neutral or debt-reducing effects.

Table 8: Factors determining the debt ratio

In % of GDP	2022	2023	2024	2025	2026
1. Gross debt	105,1	106,7	107,1	107,6	107,8
2. Change in gross debt ratio	-4,0	1,5	0,4	0,5	0,2
	Contribution to changes in gross debt ratio				
3. Primary balance	-2,4	-3,3	-2,2	-1,2	-0,5
4. Interest expenditures	1,5	1,7	2,0	2,2	2,4
5. *Stock-flow adjustment*	1,4	0,9	0,4	0,5	0,4
p.m. Endogenous factors	-5,4	0,6	0,0	0,0	-0,2
p.m. Implicit interest level (in %)	1,4	1,6	1,8	2,0	2,2

4.3 Comparison with the 2022 stability programme and sensitivity analysis

4.3.1 Comparison with the 2022 stability programme

Table 9 compares the current growth assumptions and fiscal targets versus the previous stability programme.

Table 9: Comparison with the previous stability programme

% gdp	2022	2023	2024	2025	2026
Real GDP growth					
Previous update	3,0	1,9	1,5	1,3	
Current udpate	3,2	1,0	1,7	1,3	1,4
Difference	0,2	-0,9	0,2	0,0	
Nominal balance					
Previous update	-5,2	-3,6	-3,4	-2,7	
Current udpate	-3,9	-5,1	-4,2	-3,3	-2,9
Difference	1,4	-1,5	-0,8	-0,6	
Structural balance					
Previous update	-4,9	-3,4	-3,3	-2,6	
Current udpate	-4,1	-4,6	-3,8	-3,0	-2,7
Difference	0,9	-1,2	-0,6	-0,4	
Gross debt					
Previous update	108,0	108,8	109,7	110,1	
Current udpate	105,1	106,7	107,1	107,6	107,8
Difference	-2,8	-2,1	-2,6	-2,5	

4.3.2 Sensitivity analysis

a. Sensitivity analysis related to GDP growth

Regarding GDP growth, two alternative scenarios are examined. The first scenario assumes an acceleration of economic growth by 0.5 percentage points annually over the period 2023-2026 or 2% cumulatively over the period under consideration. The second scenario assumes that GDP growth in the period 2023-2026 will be 0.5 percentage points lower annually than in the base assumption. This analysis assumes a constant elasticity of public finances to GDP as estimated by the European Commission, namely 0.615 for Belgium.

In case of higher growth, the financing balance becomes positive faster. With a growth rate 0.5 percentage points higher than the reference scenario, the nominal fiscal balance would improve by 0.3% of GDP in 2023 and estimated at -4.8% of GDP. In 2026, the impact on the nominal financing balance would already be 1.2 percentage points of GDP higher than the reference scenario.

With lower-than-expected growth, the impact is also 0.3% GDP annually, meaning that in 2023 the nominal fiscal balance would deteriorate to -5.4% GDP. In 2026, the impact on the nominal financing balance would already be 1.2 percentage points of GDP worse compared to the reference scenario. This deterioration in the balance is explained by revenue factors, such as a fall in tax revenue, on the one hand, and expenditure factors, in particular, a rise in unemployment benefits, on the other.

Table 10: Impact of other growth assumptions on the financing balance

In % of GDP	2022	2023	2024	2025	2026
Stability programme					
Real GDP growth	3,2	1,0	1,7	1,3	1,4
Net lending	-3,9	-5,1	-4,2	-3,3	-2,9
Positive deviation 0,5 pp/year					
Real GDP growth		1,5	2,2	1,8	1,9
Net lending		-4,8	-3,6	-2,4	-1,7
Negative deviation 0,5 pp/year					
Real GDP growth		0,5	1,2	0,8	0,9
Net lending		-5,4	-4,8	-4,3	-4,2

b. Sensitivity analysis related to interest rates

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

A rise in market interest rates in the markets affects public finances through various channels. First, because of ongoing refinancing needs, there is a direct impact on the interest expense, which negatively impacts the balance. In addition, interest rate hikes can also have an adverse impact on economic activity, mainly caused by the direct impact of interest rates on consumption and investment.

The table below shows the results of a simulation of a 100-basis-point linear rise in the yield curve from March 2023.

A linear increase in the yield curve by 100 basis points would lead to a direct increase in interest charges of EUR 0.5 billion in 2023 (0.1% of GDP), rising to EUR 2.8 billion (0.4% of GDP) in 2026.

However, this impact on the receivables balance only concerns the direct impact of an increase in interest rates. The indirect impact of such an increase on the economy is taken into account in this sensitivity analysis.

Table 11: Impact of an increase in interest rates

Impact of 100 basis points rise in yield cruve (*)	2023	2024	2025	2026
Impact on interest charges long-term debt	0,2	0,8	1,5	2,1
Impact on interest charges short-term debt	0,3	0,6	0,7	0,8
Total impact on interest charges (in million EUR)	0,5	1,5	2,1	2,8
Total impact on interest charges (as % of GDP)	0,1	0,2	0,3	0,4

4.4 Key aspects of fiscal policy by entity and measures to promote the quality of public finances

4.4.1 Entity I

Based on tables published by the NAI on 12 April 2023 as part of the excessive deficit procedure, Entity I closed the year 2022 with a nominal deficit of 2.9% (based on federal advances on regional surcharges). This is well above what was budgeted due to both higher than estimated revenues and lower expenditures.

General fiscal policy

After the past two fiscal years were marked by the impact of a pandemic as well as an economic crisis, the fiscal year 2022 was to be a pivotal moment for our country. The opposite proved to be the case. Our country and, by extension, the European Union faced an energy crisis as well as a security crisis as a result of the war in Ukraine.

Against this background, in autumn 2022, the federal government drew up a budget for 2023 as well as 2024.

The budget targets multiple crisis measures:

- securing energy supplies for Belgians;
- alleviating household energy bills;
- supporting the competitiveness of SMEs and enterprises;
- combined with a schedule of structural reforms.

Given the uncertainty associated with the corona crisis a dynamic fiscal policy was chosen at the start of the government in 2020. It opted for a fixed expenditure of 0.2% of GDP per year for the period 2021-2024. At the end of this period, the fixed expenditure thus rises to 0.8% of GDP. The necessary measures to realise this expenditure were decided in 2020 and are now reviewed at each budget exercise.

In addition, the coalition agreement provides for an additional annual variable expenditure that depends on economic growth and recovery. After an additional variable expenditure of 0.3% was decided in preparing the initial 2022 budget, it was supplemented with a net additional variable expenditure of 0.2%

for the years 2023 and 2024 when preparing 2023 budget. At the 2023 budget review, a total additional net expenditure of 0.1% in 2023 and 0.3% in 2024 was decided, respectively.

The Monitoring Committee's report of 23 March 2023 were used as basis for preparing the 2023 budget review. These estimates were based on the macroeconomic parameters of the economic budget and the Federal Planning Bureau's economic forecast of 16 and 23 February 2023, respectively.

The following table provides a brief schematic overview of the measures taken at the 2023 budget review with an ESA impact in 2023 and 2024.

Table 12: Government decisions for Entity I

in millions of euros unless stated other	2023	2024
Balance before measures	-20.538	-20.983
Balance before measures (% GDP)	*-3,6*	*-3,5*
Total effort	**636**	**1.766**
in % GDP	*0,10%*	*0,30%*
Expenditures	143	782
Revenues	364	779
Miscellaneous	129	205
Additional government decisions	268	56
Compensations	268	42
Adjustments	**-62**	**-14**
Total effort after adjustments	**574**	**1.738**
Balance after measures	-19.964	-19.244
Balance after measures (% GDP)	*-3,5*	*-3,2*

Thus, the fiscal balance for Entity I is estimated at a deficit of €20.0 billion or 3.5% of GDP in 2023.

With a view to reducing the headline deficit to below the 3% of GDP reference value by 2026 (at the Joint Government level), the federal government has committed to an additional expenditure of 0.2% - 0.8% - 0.8% of GDP in the period 2024-2026, respectively.

Taking this into account, the nominal financing balance for the years 2024, 2025 and 2026 can be estimated at -3.0%, -2.5% and -2.2% of GDP for Entity I.

The federal government is also planning additional structural reforms that will further strengthen the health of public finances. Through fiscal reform, (i) the difference between working and not working will be increased, making work more attractive, and (ii) further increasing the employment rate. This tax reform will contribute to the financial sustainability of public finances. The pension reform planned under the RRF will also enhance the financial sustainability and fairness of the system, in line with country-specific recommendations. In all of this, it is also important, both in terms of a growth agenda and the need for transition to a carbon-free economy and society, that investments remain sufficiently dynamic. Belgium will therefore continue to invest the necessary resources to accelerate the transition to a carbon-free society and will continue to work on reforming European fiscal standards and economic governance at the European level to continue to strive to create sufficient room for reforms and supporting investments that contribute to sustainable growth.

Crisis management

In recent years, fiscal policy has been under pressure from successive crises.

Support measures in response to the corona crisis

In line with the general escape clause as well as the country-specific recommendations made by the Council to Belgium in 2020, the federal government took budgetary measures in 2020 and 2021 to strengthen the capacity of the health system, contain the pandemic and provide support to the individuals and sectors particularly affected. The discretionary fiscal measures taken in 2020 and 2021 were largely temporary.

Federal support measures totalled €14.6 billion in 2020 before being gradually phased out.

Table 13: Covid support measures in EUR billion

2020	2021	2022	2023	2024	2025
14.6	9.7	2.8	0.7	0.3	0.1

Support measures in response to the energy crisis

The Russian invasion of Ukraine has led to a sharp rise in energy prices across Europe, including Belgium. In order to support the financial capacity of households, the Belgian federal government has adopted a package of measures in successive decisions: a social rate for almost 20% of the population and an exceptional preventive reinforcement of the social fund, a one-off cheque of EUR 300 per house heated with heating oil/propane/butane and a reform of excise duties on natural gas and electricity. In addition, during the period November 2022-March 2023, the federal government will grant a basic gas (EUR 135/month) and electricity (EUR 61/month) package, and a premium (EUR 250) for families heating mainly their household with pellets was created. The VAT rate for gas and electricity was temporarily reduced to 6%, and excise duty rates were lowered. These measures ran until 31 March 2023. A phase-out was planned for the extended social tariff until the end of June.

As of 1 April, VAT on electricity and natural gas for non-business contracts was permanently reduced to 6%. In addition, excise duties will be adjusted. This creates a mechanism whereby the federal charges on the bill remains stable and do not rise when prices rise. Moreover, excise duties on basic energy consumption will automatically decrease in case of large price increases. This allows for intervention where needed and when needed.

Through a temporary tax on excess profits of electricity producers, a solidarity contribution from the oil sector and a one-off contribution from gas network operator fluxys, part of the cost of the measures which amounted to EUR 5.1 billion in 2022 and EUR 3.2 billion in 2023 respectively, was compensated.

Table 14: Energy measures

	2022	2023
Additional expenditures	**5,080**	**3,228**
SOCTAR BIM (phasing out June 2023)	1,073	334
VAT 6% (gas and electricity) (until Q1 2023)	1,603	612
Heating premium 100 EUR	480	0
Heating oil voucher	190	138
Reduced excise duties (petrol, diesel, gas & electricity)	849	155
Basic gas & electricity package	845	1,533
Refinancing social fuel oil fund	27	
SNCB compensation	13	
Energy commission		250
Premium scheme for eligible households for social rate but heating via a collective heating system		115
Extension of 4 support measures for companies until Q1/2023		92
Additional income	**697**	**1,294**
Excess profit tax in the energy sector	408	692
Oil sector solidarity contribution	289	302
Fluxys' contribution		300
Net impact	**4,383**	**1,934**

Reception of refugees from Ukraine

Like other EU member states, Belgium faced an influx of Ukrainian refugees on the wake of the outbreak of war in Ukraine. To get an idea of the number of refugees received from Ukraine, the cumulative number of temporary protection certificates is an indicator. Looking at the cumulative number of temporary protection certificates issued since 10 March 2022, the number of Ukrainian refugees accommodated as of 20 April 2023 was 68,487. The budgetary impact arising from hosting Ukrainian refugees following the war in Ukraine is estimated at EUR 230 million in 2022. For 2023, the impact is estimated at EUR 462 million. The reception is funded through a provision included in the budget.

Investments

In addition to continuing to manage the crisis in the short term, we must also focus on the medium term to achieve sustainable and inclusive growth, create more jobs and strengthen our competitiveness. To this end, reforms need to be implemented and investment boosted.

On 30 June 2022, the European Commission updated the calculation of the maximum financial contribution member states will receive from the Recovery and Resilience Facility based on the final 2021 GDP data. Ultimately, Belgium will be able to count on €4,524.6 million in European subsidies. This implies a 23.64% reduction compared to the initial envelope for Belgium. Given the internal allocation key used the envelope for federal projects was reduced from €1.25 billion to €0.85 billion. Despite the reduced envelope, it was decided to implement all federal projects from the original plan.

The implementation of RRF projects is in full swing at the federal level. The final elements of the first payment application are currently being finalised. Beyond the milestones included in the first payment request, progress has already been made on a significant proportion of federal projects.

In addition to the roll-out of RRF-funded investments, the federal government has decided on providing additional investment incentives in several steps totalling €1.6 billion.

Supporting public investment goes beyond just increasing budgets. Work is also being done to strengthen governance. The establishment of the Public Investment Study Commission, decided last year, is now in the implementation phase, with resources from TSI being used to support the start-up.

Spending reviews

With the Council of Ministers' decision of 18/12/2020, spending reviews were introduced into the budget process at the federal level. After a number of pilot projects were executed in 2021, it was decided to structurally embed spending reviews in the budget process. It is important that spending reviews do not become no-obligation study assignments. Therefore, a follow-up notification is issued for each completed spending review as part of the budget preparation process.

In the general explanatory notes to the budget, starting with FY2022, a report on spending reviews completed in the current year, the actions associated with them and a schedule for spending reviews to be conducted was included. This obligation to report on implemented and planned spending reviews was included in the law of 22 May 2003, organising the budget and accounting of the federal state by the programme law of the end of 2022. This also created a legal basis for spending reviews.

During 2022, the following spending reviews were completed and validated:

- The nuclear passive (Belgoprocess, IRE, SCK);
- BELSPO and FEDWAN.

The final reports of the working groups of the spending reviews "nuclear passive" and "Belspo" were validated by the Monitoring Committee and handed over to the state budget secretary in September 2022. These can be consulted on the FPS BOSA website.

As was the case for 2021 pilot projects, a follow-up notification was issued for each completed spending review during the budget conclave.

The new spending reviews for the 2023 financial year that were confirmed by the budgetary conclave are:

- asylum and migration;
- cybersecurity;
- court costs.

In addition, the review originally planned for 2022 on the possible cooperation of income tax collection institutions needs to be further finalised.

The October 2022 Budget 2023-2024 notifications also set out the themes for the spending reviews to be conducted in the 2024 fiscal year.

Two fairly extensive themes were retained, namely:

- an overview of grants:
    - consistency with other funding, effectiveness;
    - monitoring and control mechanisms;
    - Options for harmonisation of methodology and best practices;
- the efficiency of federal research and development support.

In order to systematise the approach to spending reviews and disseminate the methodology more widely, a methodological manual will be developed based on the experience gained, which can also serve as a basis for training courses. As part of the Belgian Recovery and Resilience Plan (PHR), there will also be a formal evaluation of the integration of spending reviews into the budget process by the end of 2024, based on projects implemented in 2022 and 2023.

4.4.2 Entity II

Flanders

General fiscal policy

The provisional net deficit was estimated at EUR 2.4 billion in 2022. Compared to the second fiscal adjustment in 2022, that result implies a positive deviation of EUR 1.5 billion. This deviation is mainly due to the EUR 500 million higher revenue than budgeted (including the PFOS settlement with 3M) and lower execution on the expenditure side vs. EUR 687 million at Flemish legal entities. Regional tax revenues are EUR 343 million lower. The decrease is mainly due to lower revenues of EUR 303 million from the sales right. There is also the observation that the projected corona and Ukraine funds were not fully utilised in 2022: 362 and EUR 88 million. The Flemish Resilience recovery plan contributed a net amount of EUR 348 million to the improved result.

The borrowing deficit in the Flemish budget is estimated at EUR 2.9 billion in 2023 and is moving towards a deficit of EUR 400 million in 2027 (see table). These deficits include construction costs related to the main works of the Oosterweel link and the Flemish Resilience recovery plan.

Table 15: Flanders budget trajectory

(EUR billion)

	IB 2023	2024	2025	2026	2027
Accounts receivable balance	-2.9	-1.9	-1.8	-1.3	-0.4
Estimated Belgium GDP[1]	576.4	599.8	618.9	637.8	657.2
Financing balance expressed in % of estimated GDP	-0.50	-0.32	-0.29	-0.20	-0.06

Crisis management

Support measures in response to the energy crisis

The Flemish government opts for a sustainable Flemish fiscal policy. This means making efforts aimed at guiding Flemish citizens and healthy businesses through the energy crisis in the best possible way. It will be a shared effort in which we need everyone. We make targeted use of resources because that remains the best guarantee of future prosperity.

Table 16 Energy measures

Description (EUR millions)	2022	2023
Job bonus: give all rights-holders 100 additional euros in November 2022	73,0	
Growth package: €100 bonus for children with a social allowance	38,5	38,5
Keep cost price equal for Flemish public service obligations		148,0
Strengthen minimum supply of natural gas and expand to electric heating customers		43,3
Widen target group eligible for energy scan	0,7	2,5
Increase income limits of target group 3		1,5
Counsel families with payment problems with heating maintenance and sustainable heating		5,0
Strengthen core funding for Energy Houses	2,0	8,0
Strengthen OCMWs (Social Welfare Services) in view of advice/aid energy crisis	2,0	8,5
Strengthening CAWs (General WelfareServices) concerning advice/help with the energy crisis and referral to Energy Houses and OCMWs	1,0	4,0
Additional information campaign to inform hard-to-reach target groups	0,5	0,5
Motivated payment deferral for repayment of social loans	3,0	3,0
Application of temporary EU state aid framework		250,0
Local governments: energy cost compensation		75,0
Other entities (education, welfare, culture, VRT...): energy cost compensation		200,0
De Lijn: compensation for operating loss		20,0
Interest-free loans to OCMWs under the Emergency Purchase Fund		1,8
Roof insulation premium for do-it-yourselfers		2,4
Co-financing (with local authorities) of neighbourhood contracts in favour of renovation		5,0
Establishment of ESCO (Energy Savings Company) at Het Facilitair Bedrijf for investments in Flemish government buildings		40,0
Assisting families with PV (Photovoltaic Panels) installation		10,4
Strengthening call for green heat, residual heat and heat networks		10,0
Additional investment in asbestos removal combined with insulation or PV		15,0
Accelerating the decay of public lighting along highways		15,0
Business support for PV and/or energy saving investments		20,0
Scrapping the Flemish energy tax (households)		30,0
Total	**120,7**	**957,4**

Reception of refugees from Ukraine

The Flemish government has launched the 'Flanders helps Ukraine' initiative, thus bundling all the challenges facing our region on a single platform for all local governments. A Flemish government task force is responsible for coordinating and monitoring all Flemish policy areas.

Investments

In Flanders, the Flemish Resilience recovery plan was launched. The recovery plan is divided into seven spearheads, 35 clusters and 181 projects. Projects 1 to 158 and 181 will be funded from an envelope of EUR 4.3 billion of one-off recovery funds (of which up to EUR 1.722 billion will be FHV). The latest progress report in December 2022 showed that the implementation of the plan was largely on track despite the many covid waves and the Ukraine crisis.

Quality of public finances

The Department of Finance and Budget continues to work on a Flemish spending standard. The spending standard should ensure the sustainability of public finances in all circumstances, ensure policy stability and curb ad hoc adjustments. Working with a spending standard also implies starting from medium-term targets in a multi-year perspective.

From the multi-year estimate 2022-2027, the spending standard will be reported at an aggregate level. This allows for building up experience in standardisation and a better understanding of the spending dynamics of the Flemish budget concerning revenue growth.

The Flemish Broad Review (VBH) exercise was conducted in 2021-2022 and led to a better understanding and policy alternatives for several measures. The results of the CBH can be consulted on the Department of Finance and Budget website. One result of the programme was a list of possible topics for spending reviews. The Flemish government decided on eight spending reviews for the years 2022-2024.

Meanwhile, the "Flemish Broad Review" and spending reviews were integrated into Flemish public finance regulations. The regulations provide for a coordinating and centralising role for the Department of Finance and Budget.

The government can use the results of the MAH for possible saving measures in the coming fiscal years. The labour market reform and the more targeted use of the target group policy is an example where the impact was mapped and included in the multi-annual estimate, pages 48-49.

The Flemish administration is also continuing to work on themes set at the end of 2021 for a spending review: including higher education, sustainable water use and the organisation of the water landscape, housing policy instruments, the Flemish productivity policy. A plan of action will be developed for each theme for implementation of the spending reviews. The purpose of the spending reviews is to allow the results to be taken into account in the next government formation. The progress of the initiated expenditure reviews is explained in the six-monthly reporting under the European Recovery and Resilience Facility (FHV).

Walloon Region

General fiscal policy

Wallonia's stability programme is an opportunity to take stock of objectives to ensure the region's sustainability and financial stability.

The Region has set out a sustainability trajectory whereby it commits to structural and incremental savings averaging €150 million a year over the period 2022-2024. It is essential to continue the efforts to reduce the public deficit while ensuring quality services to the population. This requires strict budgetary management and optimising the organisation of public services by introducing the spending review manual.

This trajectory is established in addition to the Walloon Recovery Plan with social, economic and environmental ambition.

Wallonia must also work on an ambitious ecological transition to reduce its carbon footprint and protect the environment. This, in particular, involves promoting alternative modes of transport and renewable energy sources and developing a circular economy.

Finally, Wallonia must continue to invest in skills by promoting access to training and employment for all. This will make it possible to strengthen social cohesion and ensure a sustainable future for future generations.

Wallonia ensures consistency between its policies and European objectives in all its policy areas through its actions.

Wallonia is committed to an ambitious and coherent vision to ensure the region's long-term prosperity and sustainability. This implies bold political choices and strategic investments in key sectors of the economy and society.

Support measures in response to the energy crisis

Of the total EUR 423 million of energy measures, the most important are:

- Premiums for companies for a maximum amount of EUR 175 million. These are measures to help companies in financial difficulties for a certain period of time;
- A one-off premium for local authorities amounting to EUR 50 million;
- A review of energy premiums for EUR 43.75 million;
- EUR 28 million in additional energy costs for the region.

These are one-off effects as a function of the energy price situation.

Table 17 Energy measures

Description (EUR millions)	2022	2023
Specific expenditure for the operation of the regional crisis centre		2
Supporting business competitiveness - carbon leakage		10
Energy bonuses for companies		175
Amure		4
Energy bonuses		44
Ecopack and Renopack		19
Food aid		6
Forem (professional training) and management premium		13
APE (aid for professional employment) scheme		57
Extraordinary grant for municipalities		44
Exceptional grant for the ocmw		6
Provision for energy costs		28
Water sector grant		8
Waste sector grant		8
Total	0	423

<u>Investments</u>

The Walloon recovery plan, the amount of which was set at €1.413 billion in the initial 2023 budget, aims to strengthen the region's economic attractiveness by supporting businesses and key sectors. To this end, incentives are provided to encourage investment and innovation, as well as the development of new international markets.

Brussels-Capital Region

<u>General fiscal policy</u>

Recent economic developments have been marked by several challenges, notably the economic recovery from the corona pandemic, the Russian invasion of Ukraine and the ensuing energy crisis and inflation. These challenges have highlighted the importance of social cohesion and resilience. Support measures for vulnerable households and businesses and the reception of Ukrainian refugees affect the Region's public finances.

In this context, fiscal policy aims to achieve a balanced budget and increasing growth potential sustainably and inclusively while providing the necessary budgetary margin for public investment in mobility, social housing, employment policy and implementing the climate plan.

<u>Crisis measures</u>

Recent economic developments have been marked by several challenges, notably the economic recovery from the corona pandemic, the Russian invasion of Ukraine and the ensuing energy crisis and inflation. These challenges have highlighted the importance of social cohesion and resilience. For 2023, EUR 200 million of non-structural support measures are envisaged for rising energy prices for vulnerable households and businesses with high energy dependence. EUR 50 million was released for the reception of Ukrainian refugees.

If allowed by economic conditions the crisis measures will be phased out by 2024. In any case, the aim is always to utilise the support measures as targeted as possible and not structurally embedded.

Support measures in response to the energy crisis

Table 18 Energy measures

Description (EUR millions)	2022	2023
Revenues		
Estimate of revenues for the benefit of the regional budget based on the share of extraordinary profits from electricity sales. The final amount will be determined considering extraordinary income, excluding federal tax on excess profits.		4,0
Expenditures		
External energy measures		
0100 Provision for energy support measures		27,5
3132 Regulated operating grants of compensatory premium type to private enterprises and private associations		106,2
3132 Regulated consultancy-type operating grants to private companies and private associations		3,5
5112 Regulated investment grants to cover energy costs of private companies and private associations		8,2
1211 Operating grants related to grants awarded under the energy crisis		1,4
7422 Investment expenditure related to IT developments within the GOB (joint development): projects entrusted to the private sector		0,2
4321 General allocation to municipalities - additional regional measures for municipalities		15,0
4513 Operating subsidy for the OCMW (COCOM - Coordinating Committee))		20,0
Renovation/refurbishment		-
1211 Operating costs related to communication and expertise costs for premium management		0,8
4160 Operating subsidies to Homegrade.brussels for actions and studies related to rational use of energy, the energy objective		1,0
5111 Investment subsidies to public enterprises to promote rational use of energy		1,0
6321 Investment grants for municipalities to promote rational use of energy		0,3
6352 OCMW investment grants to promote rational use of energy		0,3
5310 Investment grants to individuals to promote rational use of energy		6,3
5112 Investment subsidies to private companies to promote rational use of energy		1,0
6524 Investment grants for schools in the French Community to encourage rational use of energy		0,2
6141 Investment grants to consolidated regional public services to promote rational use of energy		0,3
6525 Investment grants to schools of the Flemish Community to promote rational use of energy		0,2
Brussels Environment/BIM (Brussels Institute for Environmental Management) renewal		2,9
Brussels Environment/BIM (Brussels Institute for Environmental Management) renewal		3,7
Total	0	204,0

Investments

BCR's fiscal policy aims to achieve a balanced budget while preserving the necessary budgetary margin for public investment in mobility, social housing, employment policy and the implementation of the climate plan.

A project was launched with the aim of improving public investment management to ensure that the BCR's public investment contributes to these objectives in the most targeted way. This will ensure a possible prioritisation of public investments based on certain criteria, including their impact on climate, environment, social sustainability and economic growth.

The Government of the Brussels-Capital Region does not take into account some strategic sustainable investment expenditures with a significant economic impact when evaluating the budget target. The strategic investments were clearly delineated, and a concrete multi-year trajectory was agreed upon (around EUR 430 million per year on average for the remaining years of this legislature), which will be closely monitored. As of 2025, strategic investments are planned to be gradually included within the budget target.

Quality of public finances

Maintaining public investment while striving to reduce the debt balance means seeking reductions in current spending. To this end, efforts are made for a multi-year rationalisation process focusing on greater efficiency and effectiveness in public spending. On the one hand, these trajectories consist of an evaluation of existing policies (spending reviews), but on the other hand, they also aim for a more efficient government by reorganising the regional public administration itself.

The government has developed a strategy to structurally embed spending reviews in the budget process. Two spending reviews will be conducted each year. The projects will start in October each year and must be completed by June of the following year so that the results can be included in budgetary discussions.

Two pilot projects for spending reviews have been completed in the Brussels Capital Region, Mobility and Housing. Two projects are currently ongoing, focusing on child benefit and investment in Innovation, Research and Development.

Finally, it is still the intention to enshrine the principle of spending reviews in regulations. This trajectory is provided within the project reform of the region's organic financial and budgetary framework.

Introducing these reviews will increase the efficiency of public spending and ensure that administrations and institutions will be able to conduct policy evaluations in the future. In this context, a new project has been launched with the European Commission to support the development of a methodology, and additional training and awareness-raising for top officials will also be provided.

French Community

General fiscal policy

In November 2022, the government of Federation Wallonia-Brussels (FWB) announced the main measures of its draft 2023 budget.

The initial 2023 budget of the Federation Wallonia-Brussels (FWB) results in a consolidated ESA balance of EUR -976 million. That balance represents relative stability compared to previous years' budgets, which were -€1,001 million and -€960 million in 2021 and 2022, respectively.

However, the accounts for these years show better results than forecast in the budget, being EUR -860 million in 2021 and EUR -883 million in 2022 (provisional cut-off).

At the end of the first quadrimester of 2023, the Government audited the execution of the budgets, which resulted in an estimated improvement in the FWB's consolidated ESA balance by about EUR 110 million, reaching a balance of EUR -864 million.

Following this audit, the Government decided to conduct a budgetary adjustment by the end of 2023.

As part of the budget review, estimates of the evolution of the FWB's consolidated ESA balance for the years 2024 to 2026 were also updated. Overall, the multi-year outlook under no-policy-change, is improving compared to the outlook from the 2023 fiscal plan, mainly thanks to an increase in the economic growth outlook and a falling number of months of wage indexation. However, the ESA balance is expected to deteriorate over the period 2024-2026 and will reach a consolidated ESA balance (on a business-as-usual basis) of EUR -1,445 million by 2026.

In addition to the increase in interest charges due to rising interest rates, this outlook is mainly explained by a mechanical decline in FWB's revenues in application of the Special Finance Act and an increase in expenditure due to significant investments in school infrastructure and the continuation of school system reform (Pacte pour un enseignement d'excellence).

More precisely, this means that the revenues of the Wallonia-Brussels Federation come almost entirely (97%) from allocations from the federal government in application of the Special Finance Act, indexed to inflation and part of GDP growth. During the no-policy-change outlook for the period 2024-2026, these revenue estimates are based on a limited GDP growth outlook, despite a slight improvement from 2023 and falling inflation. Moreover, the estimate of this development in revenues also takes into account the rising cost of the "accountability pensions" charged to the FWB, which will grow until 2028 and is deducted from the federal government's allocations in application of the Special Finance Act. Revenues are also expected to increase less because of the decrease in FWB's share of total FWB and Flemish Community pupils, which determines the distribution of FWB's main allocation.

On the expenditure side, the increase in FWB's primary expenditure is driven by implementing key policies in response to societal challenges. Those measures include increased investment in renovating school buildings, implementing the initial teacher training reform, strengthening the provision and accessibility of facilities for young children and cultural facilities, refinancing higher education and scientific research, and continuing the Pacte pour un Enseignement d'Excellence (Pact for an Excellent Education).

Moreover, given the energy crisis and the difficulties faced by sectors under the FWB's competence in coping with rising energy prices, the FWB government decided to release an envelope of €150 million spread over 2022 and 2023 to support those sectors. On the one hand, the support comes through the direct granting to the sectors of allowances tailored to the identified effects of rising energy prices and, on the other, through targeted cash flow advances for temporary support of players experiencing cash flow problems.

At the end of the first quadrimester of 2023, the Government audited the execution of the budgets, which resulted in an estimated improvement in the FWB's consolidated ESA balance by about EUR 110 million, reaching a balance of EUR -864 million. Targeted needs will thus be funded by reallocating budgets initially allocated to other policies.

This dynamic is supported by implementing a spending review strategy that has been gradually rolled out since 2020, for which the FWB has drawn on the expertise of the OECD with the technical and financial support of the European Commission (TSI). Following this support and the OECD recommendations, the government defined a new organisational framework for that spending review policy and strengthened the government by introducing a cell of six people to coordinate spending review projects. The aim is to structurally strengthen the efficiency of existing policies within the FWB.

Support measures in response to the energy crisis

The FWB government has provided a one-off envelope of EUR 150 million spread over the 2022 and 2023 budgets. This envelope, amounting to about a third per initiative, is divided between one-off lump-sum measures, repayable advances and an unallocated provision.

Table 19 Energy measures

Description (EUR millions)	2022	2023
Packages based on identified energy needs for the youth care sector	5,5	
Packages based on the identified energy needs of the child sector (ONE)	10,0	
Packages based on the identified energy needs of the cultural sector	5,8	
Packages based on the identified energy needs of educational institutions (excluding higher education)	21,6	
Packages based on identified energy needs for higher education	15,5	
Advances in case of cash flow problems related to the energy crisis (conditionally convertible into subsidies) for all sectors	6,64	45
Provision (pending decisions based on specific needs)		40
Total	65	85

Investments

As part of the Recovery and Resilience Plan, the Wallonia-Brussels Federation government has selected nine investment projects and two reform projects for a maximum amount of EUR 378 million under its PHV around several major axes: (i) the energy transition of buildings through the renovation of infrastructures (EUR 309 million), (ii) the digitisation of the culture and media sectors (EUR 8 million), (iii) the digital strategy within education aiming to accelerate and increase digital skills in higher education and the Social Promotion course and also within the Birth and Child Welfare Service (ONE) (EUR 40 million), (iv) the development of knowledge and skills (EUR 21 million).

In addition, several reforms were also introduced, approving a 10-year strategic renovation plan for school infrastructures for a total budget of EUR 1 billion. On the research front, support is being developed for internationalising French-speaking players in Belgian research. In the youth sector, the government is continuing its ambitious policy, seeking to improve accessibility to early childhood services while strengthening the number of available places.

Parallel to the PHV, the Wallonia-Brussels Federation is accelerating the development of knowledge and innovation relating to the ecological transition through an ad hoc platform using complementary funds related to the REPower.EU Plan (€24 million).

Quality of public finances

Since September 2020, the Wallonia-Brussels Federation has taken advantage of OECD support, funded by the European Commission under the Technical Assistance Programme (TSI), whereby the federation receives help to develop its spending review policy. In June 2022, the OECD prepared its report and published its recommendations. The results were also presented and debated in Parliament.

Following this report, the government adopted its spending review strategy in September 2022, especially regarding their modalities for selecting, implementing and applying results. The Direction Générale du Budget et des Finances was set up with a new cell of six to play a coordinating leadership role in projects.

The modalities of governance involve all government departments seeking to strengthen the efficiency of expenditure, under government control, with a view to an annual analysis of existing expenditure. Moreover, this spending review strategy will soon be integrated into a decree to formalise it.

Simultaneously with this work, a pilot spending review exercise was also conducted in 2022, for which the first results were integrated into the 2023 budget. This exercise was continued in 2023 based on new projects, the first results of which are expected in the budget preparation work for r 2024.

German-speaking Community

General fiscal policy

The German-speaking Community's fiscal policy is framed both in Belgium's fiscal policy, whose main objective is to reduce deficits and in the context of European obligations arising from the six-pack and two-pack programmes.

As a reminder, the German-speaking Community achieved ESA equilibrium in 2018, 2019 and 2020. Before the corona crisis, therefore, the German-speaking Community had a balanced budget.

Until 2020, the German-speaking Community never used the technique of investment neutralisation.

Due to the crises mentioned above, the German-speaking Community is experiencing budget deficits for the first time in a long time:

in 2022, the deficit is -€12.4 million. Moreover, for the first time in its history, the German-speaking Community is using the technique of neutralising investments for an amount of €68.3 million. The ESA result is thus EUR -80.7 million in 2022.

In 2023, the deficit is EUR -73.8 million. Moreover, the German-speaking Community neutralises investments amounting to €198.8 million. The ESA result is thus EUR -272.7 million in 2023. However, the year 2023 is marked by numerous one-shots and exceptional expenditure for technical reasons of budgetary accounting. For example, the German-speaking Community will fully repay all its PPPs by 2023.

The German-speaking Community's goal is to achieve a balanced budget as of 2025 by neutralising investments and to achieve a balanced budget according to ESA standards (without neutralising investments) starting with 2029. Multi-year planning confirms that these targets are sustainable despite the various crises we are experiencing.

Crisis management

As a result of the various global crises, the German-speaking Community records the following exceptional expenditure:

1) COVID-19: EUR 5.7 million in 2022 and EUR 2.1 million in 2023;
2) Rise in energy costs: EUR 3.8 million in 2022 and EUR 31.7 million in 2023;
3) Reception of Ukrainian refugees: EUR 4 million in 2022 and EUR 4 million in 2023;
4) Sharp rise in inflation: several consecutive increases in 2022 and 2023 in subsidies to the non-profit sector, by 6.25% in total, and in subsidies to the elderly care sector, by 14.5%, leading to additional costs of EUR 17 million over the period 2022-2026.

Higher inflation, resulting wage indexations and high energy costs weigh heavily on the German-speaking Community's budget, both in terms of current administrative and education expenditure and in terms of operating allocations and subsidies.

To mitigate the effects of the inflation and energy crisis, the Government of the German-speaking Community is granting a one-off subsidy to association infrastructures during the 2023 financial year for a maximum amount of €10,000 for the additional electricity and gas costs caused by the crisis. Eligible are non-profit associations that manage infrastructure used by associations and who own the infrastructure in question or hold a long lease, building lease or rental contract with a term of at least three years on the date of application.

Investments

Furthermore, in 2020, as a result of the COVID-19 crisis, the government decided to take a counter-cyclical approach and set up an investment programme totalling EUR 720 million spread over 15 years. Its main themes are healthcare, climate protection and digitisation. This will make a decisive contribution to the revival of the regional economy.

For this reason, the government has decided to neutralise much of its infrastructure investment until 2028, as other Belgian entities have been doing for some time.

As part of its recovery and investment plan, the Government of the German-speaking Community is planning reform projects in various fields amounting to €720 million to launch a multi-sectoral reconstruction process as a result of the various crises it has had to face.

5. Sustainability of public finances

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

5.1 Structural pension reforms

Like many other European countries, Belgium is facing an ageing population and the associated challenges. The country has gradually introduced several structural reforms to address this. These measures aim to absorb the costs of demographic ageing and ensure the long-term sustainability of Belgium's public finances.

The following measures may be cited, among others: the "Generation Pact" of 2005; the Royal Decree of 6 December 2009 that gradually aligned the statutory 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 stipulated that the statutory retirement age will be gradually raised from 65 to 66 by 2025 and to 67 by 2030. Age and seniority requirements for access to early retirement have been tightened. The minimum age was raised from 62.5 years to 63 years in 2018. The minimum career length was increased from 41 years to 42 years in 2019. The minimum age of entitlement to a survivor's pension will be raised to 50 in 2025 and 55 in 2030.

In implementing the coalition agreement and as included in the RRF, pension reform is being prepared within the government.

The long-term budgetary impact of ageing

The Law of 5 September 2001, guaranteeing a continuous reduction of public debt and creating an Ageing Fund, established the Study Committee on Ageing (SCvV). That committee is charged with preparing an annual report, which examines the budgetary and social impact of ageing. In particular, this report estimates the financial impact of the various statutory pension schemes, the social security schemes for employees and the self-employed and the income guarantee scheme. In this chapter, we rely on the July 2022 SCvV report.

In its analysis, the Study Committee uses a reference scenario for ageing where the short- and medium-term macroeconomic assumptions are based on the Federal Planning Bureau's "Economic Outlook 2022-2027" (June 2022). In the short these prospects are of course strongly marked by the international context (energy crisis and war in Ukraine). In the reference scenario, the SCvV assumes a gradual recovery of productivity growth in the long term, reaching 1.5% annually from 2045 onwards. On the one hand, we note that annual average labour productivity growth is barely 1.2% over the entire projection period between 2020 and 2070, and on the other hand, that this assumed long-term productivity growth is identical to the Ageing Working Group's assumption. The long-term structural unemployment rate is set at 7%.

The demographic assumptions the report relies on come from the 'Population Outlook 2021 2070 - Update Ukraine' published by the Federal Planning Bureau and Statbel (General Directorate of Statistics) in June 2022. National population projections are based on three assumptions: fertility, life expectancy and international migrations. The cyclical fertility rate (or the average number of children per woman) was 1.54 in 2020. This indicator will gradually rise to 1.58 in 2027, reaching 1.72 by 2070. Between 2020 and 2070, life expectancy at birth will increase by 9.8 years for men (from 78.5 years in 2020 to 88.3 years in 2070) and by 6.8 years for women (from 83 years in 2020 to 89.8 years in 2070).

The migration balance (meaning immigration minus emigration) is positive over the entire 2020-2070 period. Immigrations go from 144,200 people in 2020 to 153,300 people in 2070, and emigrations from 112,400 people to 130,100 people. This means net migration will develop from 42,000 people in 2020 to almost 23,000 in 2070. Regarding the migration balance (meaning immigration minus emigration), specific assumptions were made regarding the influx of Ukrainian refugees. According to projections by the Federal Planning Bureau (FPB) and Statbel, 83 000 refugees are expected to arrive from Ukraine by 2022. Consequently, Belgium's demographic growth rate for the year 2022 was revised upwards. Moreover, given the temporary protection status of these migrants which grants them a residence permit limited in time (1 year, renewable twice for 6 months), this scenario takes into account the fact that 80% of these migrants will leave Belgium in the period 2023-2024. Thus, long-term demographic growth is not affected. The migration balance (meaning immigration minus emigration) is positive over the entire 2020-2070 period. Immigrations go from 144,200 people in 2020 to 153,300 people in 2070, and emigrations from 112,400 people to 130,100 people. This means net migration will develop from 42,000 people in 2020 to almost 23,000 in 2070.

Table 20: Demographic assumptions from 2020 onwards

	2020	2050	2070
Fertility rate	1,54	1,71	1,72
Life expectancy at birth: men	78,5	85,5	88,3
Life expectancy at birth: women	83,0	87,8	89,8
Migration balance (in thousands)	41,8	23,6	23,2

Source: annual report of the Study Committee on ageing, July 2022

According to the reference scenario included in the 2022 report of the Study Committee on Ageing of July 2022, the fiscal cost of ageing, defined as the increase in total social spending between two years expressed as percentage points of GDP, would be 5.0% of GDP between 2019 and 2070. This is a 0.2 percentage point decline from the July 2021 SCvV results. That difference is the result of two opposite effects:

- A downward revision to the medium-term fiscal cost of ageing (2019-2027) due to the overestimate, in the report published in 2021, of the effects of the corona crisis in 2021 on both social spending and GDP;

- An upward revision to the long-term fiscal cost of ageing (2027-2070) due to an increase in spending on pensions and long-term care as a result of a larger number of older persons in the current budgetary exercise.

Between 2019 and 2070, all social spending would increase from 24.5% to 29.5% of GDP. This spending would reach its highest level by 2050, 29.7% of GDP.

This increase in long-term increase social spending (+5.0 percentage points of GDP between 2019 and 2070) is explained by an increase in pension spending (+3.1 percentage points of GDP) and health spending (+2.8 percentage points of GDP), partially offset by a fall in other benefits (unemployment, child benefits, etc.) (-1.0 percentage points of GDP).

The table below provides a detailed overview of the budgetary costs of ageing under the SCvV's reference scenario.

Table 21: The fiscal cost of ageing under the SCvV reference scenario (as % of GDP)

Components of the budgetary cost of ageing	2019	2022	2027	2050	2070	2019-2050	2050-2070	2019-2070
Pensions	10,5	10,9	11,9	13,5	13,6	1,7	0,1	3,1
Employees' scheme	5,9	6,3	7,0	8,3	8,0	1,3	-0,3	2,1
Self-employment scheme	0,8	0,9	1,0	1,3	1,4	0,4	0,1	0,6
Government sector[a]	3,8	3,7	3,8	3,9	4,2	0,0	0,3	0,4
Healthcare[b]	7,8	8,1	8,8	10,5	10,6	1,7	0,1	2,8
Occupational disability	2,0	2,1	2,3	2,1	2,0	-0,3	-0,1	0,0
Unemployment[c]	1,3	1,2	1,0	0,9	0,8	-0,1	-0,1	-0,5
Child support	1,4	1,4	1,3	1,1	1,0	-0,2	-0,1	-0,5
Other social spending[d]	1,5	1,9	1,7	1,6	1,5	-0,1	-0,1	0,0
Total	**24,5**	**25,6**	**27,1**	**29,7**	**29,5**	**2,6**	**-0,2**	**5,0**
p.m. Teaching staff wages[e]	3,9	3,9	3,8	3,7	3,7	-0,1	0,0	-0,2

a. Includes the pensions of the state-owned enterprises at government expense (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 the IGO (guaranteed income >65)

b. Public expenditure on (acute and long-term) healthcare.

c. Includes unemployment with company supplement, time credit and career break.

d. Especially expenditure on accidents at work, occupational diseases, Subsistence Security Funds (only the part relevant to social security according to ESA2010 principles), allowances to persons with disabilities and a living wage.

e. According to the SCvV definition, teaching staff salaries are not part of the total budgetary cost of ageing. In contrast, education spending is factored into the budgetary cost of ageing according to the concepts of the Ageing Working Group.

Source: annual report of the Study Committee on ageing, July 2022

In its 2022 report, the SCvV developed three alternative macroeconomic scenarios to assess their impact on estimating ageing costs. These alternative hypotheses relate to labour productivity growth (which determines the development of the average wage) and the long-term structural unemployment rate. These hypotheses are first tested separately and then combined.

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

In the first alternative scenario, annual labour productivity growth is assumed to be sensitively lower than in the reference scenario. It is ceteris paribus 1% from 2033 instead of 1.5% from 2045. In this case, the average annual productivity growth rate is 0.3 percentage points lower over the entire projection period. With unchanged levels of employment, this lower productivity growth in scenario S1 leads to a GDP that is 4.0% lower than the reference scenario GDP in 2050 and 13.1% lower in 2070. The fiscal cost of ageing over 2019-2070 will increase by 2.3 percentage points of GDP to 7.3% of GDP. The increase is particularly strong in pension and healthcare spending.

The second alternative scenario assumes a long-term structural unemployment rate of 7.4% in 2027 to rise to 8.0% in 2028 instead of falling to 7.0% as of 2029, as in the reference scenario. Between 2020 and 2050, employment growth in scenario S2 is slower than in the reference projection, and GDP is 1.1% lower in 2050. After 2050, employment growth develops at the same rate as in the reference scenario, as does GDP. The fiscal cost of ageing over 2019-2070 increases by 0.4 percentage points of GDP to 5.4% of GDP.

When both alternative scenarios are combined (lower productivity growth and higher unemployment rate than in the reference scenario), the GDP level is 6.0% lower in 2050 and 14.9% lower in 2070 compared to the reference scenario, and the fiscal cost of ageing increases by 2.7 percentage points of GDP to 7.7% of GDP between 2019 and 2070.

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

Policy strategy

To meet the challenge of demographic ageing, the Belgian government has developed a global strategy of which fiscal policy is only one part. This strategy focuses on three fundamental components:

- Budgetary component: in addition to the expenditures already made, the federal government has decided, as part of this stability programme, to commit to an additional expenditure of 0.2% of GDP for 2024 and 0.8% of GDP each time for the years 2025 - 2026

- Economic component: economic growth is boosted by labour tax cuts and structural reforms in the labour market and pensions. Such enhanced growth reduces social spending and expands the base to finance it;

- Social component: the government intends to modernise social security in cooperation with the social partners to ensure its sustainability and increase its effectiveness.

These three lines of force reinforce each other. Progress made in one component contributes to achieving the objectives of the other components.

Moreover, the government is pursuing a recovery policy of increasing the employment rate, boosting purchasing power and ensuring more investment in order to reduce the fiscal impact of population ageing by increasing the funding base.

5.2 Contingent liabilities

Table 22: General government contingent liabilities

	List of measures	Date of adoption	Maximum amount of contingent liabilities (% GDP)	Estimated impact (% GDP)
In response to Covid-19	**Entity I**			
	Loan guarantee scheme for viable non-financial businesses, SMEs, self-employed and non-profit organisations - Guarantee I	27 March 2020	9,1%	0,0%
	Loan guarantee scheme for SMEs - Guarantee II	20 July 2020	1,8%	0,0%
	Flanders			
	Gigarant - Under the temporary relaxation of European state aid rules due to the Covid-19 crisis, Gigarant (Guarantee Scheme above €1.5 million) will be able to market a modified COVID-19 guarantee, which offers more flexibility. For this purpose, Gigarant's guarantee capacity will be increased from the current €1.5 billion to €3 billion.		0,3%	0,0%
	Subtotal		11,2%	0,1%
In response to the energy crisis	**Entity I**			
	Guarantee scheme for certain credits for natural gas and electricity suppliers and intermediaries with liquidity needs	26 October 2022	0,0%	0,0%
	Subtotal		0,0%	0,0%
Other	**Entity I**			
	Guarantees to state-owned companies	/	0,4%	0,4%
	Guarantees to the financial sector	19/12/2012 11/07/2021	8,0%	3,5%
	Various guarantees	/	0,0%	0,0%
	Entity II			
	Flanders			
	Guarantees to local authorities		0,0%	0,0%
	Guarantees backed by assets		1,8%	1,8%
	Economic safeguards		0,2%	0,2%
	Wallonia-Brussels Federation			
	Palace	2013	0,0%	
	RTBF	2021	0,0%	
	Guarantee fund for school buildings		0,1%	
	Sports and cultural centre of the Fourons asbl		0,0%	
	Brussels-Capital Region			
	Autonomous governance institutions		0,2%	0,2%
	Credit institutions		0,3%	0,3%
	Miscellaneous (BGHGT - Brussels regional refinancing fund))		0,2%	0,2%
	Walloon region			
	Guarantees to state-owned companies		0,9%	
	Guarantees to the financial sector		0,0%	
	Various guarantees		0,4%	
	Subtotal		12,6%	6,7%
	Total		**23,8%**	**6,8%**

5.2.1 Entity I

The sustainability of public finances is not only determined, among other factors, by the development of the government's firm liabilities but also by that of contingent liabilities. These contingent liabilities are not part of the public debt but only potential debt. When guarantees (explicit contingent liabilities) are invoked, they lead to capital transfers and thus adversely affect the financing balance and, consequently, public debt. So far, the Federal Government has never had to make payments under a guarantee agreement concluded during the financial crisis with a financial institution or during the corona crisis. A provision of EUR 22 million was made in the latter case.

In October 2022, the Federal Government established a state guarantee mechanism for certain credits extended by banks or insurance companies to suppliers and natural gas and electricity intermediaries to meet liquidity needs during the energy crisis. That scheme was introduced by the Royal Decree of 26 October 2022, in view of the 1965 Gas Act, the 1999 Electricity Act and the European Commission Communication on a Temporary Crisis Framework for State Aid Measures to Support the Economy following the Russian Aggression against Ukraine (2022/C 131 I/01, amended by 2022/C 280/01). The guaranteed loans must be concluded by 31 March 2023 and have a maturity of up to 2 years. So far, the state guarantee has only been applied for and obtained for a EUR 70 million loan from a gas and electricity company with a maturity date of 31 July 2023.

In March 2020, the Federal Government and the financial sector concluded an agreement to provide households 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 credits of up to 1 year meeting certain conditions (Guarantee I). The scheme initially expired on 30 September 2020 and was extended to 31 December 2020 with the Royal Decree of 16 September 2020. The maximum amount of credits guaranteed by the federal state is EUR 50 billion. The deadline for calling on the guarantee is 30 June 2023. Total loans of EUR 6.01 billion were granted under this scheme, and the outstanding amount of guaranteed loans is EUR 0.32 million, according to the latest estimates.

When this guarantee scheme was drafted in March 2020, it was still assumed that the corona crisis would have a relatively short duration. The law of 20 July 2020 introduced an additional state guarantee scheme. This second scheme (Guarantee II) covers 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 additional scheme is 20% of the envelope of the first guarantee scheme. This means that credits with an aggregate principal amount of up to EUR 10 billion can benefit from the state guarantee. The deadline for calling the state guarantee, originally set at 30 June 2025, has been 18 months after the last maturity date of the credit since 27 June 2021. Total loans of EUR 852.27 million were granted under this scheme, and the outstanding amount of loans guaranteed by the State is EUR 214.30 million, according to the latest estimates.

In the context of the financial crisis since 2008, guarantees were granted by the Federal Government on Dexia interbank loans, on the one hand, and risky structured assets of some financial institutions, on the other. Since autumn 2014, only Dexia has benefited from the state guarantee because the outstanding amounts of the guarantees in favour of KBC and Ageas had become EUR 0 billion.

Until 31 December 2021, only the 2013 guarantee scheme ran in favour of Dexia 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 maturity of 10 years. At the end of 2022, Belgium's exposure to Dexia in this scheme was EUR 15.28 billion, compared to EUR 24.73 billion at the end of 2021.

While this guarantee scheme in favour of Dexia expired on 31 December 2021, an extension was introduced with the law of 27 June 2021 and the royal decree of 11 July 2021. Commitments covered by the 2021 scheme may be made from 1 January 2022 to 31 December 2031 at the latest and may have a maturity of up to 10 years. The maximum guarantee amount is reduced to EUR 75 billion (of which EUR 72 billion for bond issues and EUR 3 billion for interbank overdrafts). The Luxembourg government's share of the guarantee is shared between the Belgian and French governments. Belgium's share of the guarantee thus increases to 53%. However, the reduction in the maximum guarantee amount results in Belgium's maximum exposure to Dexia decreasing by €3.95 billion to €39.75 billion. At the end of 2022, Belgium's exposure to Dexia in this scheme was EUR 4.15 billion, bringing its total exposure to Dexia to EUR 19.43 billion, or EUR 5.29 billion less than at the end of 2021.

On 31 March 2023, the total outstanding amount of the State guarantee in favour of Dexia was EUR 19.45 billion (of which EUR 14.34 billion for the 2013 scheme and EUR 5.11 billion for the 2021 scheme). This is EUR 0.01 billion more than the amount at the end of 2022. Dexia's financial position is monitored regularly. As things stand, based on the prospective risk analysis conducted 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 currently being wound up in an orderly manner, will have to be invoked.

Apart from the guarantees granted in the context of the financial crisis, the corona crisis and the energy crisis, there was an overall downward trend in the debts of institutions or companies whose debt service was guaranteed by the federal state. At the end of 2022, that State-guaranteed debt, including the limited historical debts for pre-1988 school buildings of the French Community and the Flemish Community (third State reform), amounted to EUR 2.44 billion, compared to EUR 2.72 billion at the end of 2021.

Thus, the total debt guaranteed by the federal state (excluding corona and energy measures) stood at €21.87 billion or 3.96% of GDP at the end of 2022. This is a decrease of 10.5% compared to the end of 2021 (EUR 27.45 billion), largely due to the decrease in Dexia's secured debt. The total debt guaranteed by the federal state under the corona and energy crises is EUR 0.28 billion (including EUR 0.21 billion for the corona crisis), or 0.05% of GDP, according to the latest estimates. The amounts related to the corona crisis decreased by EUR 0.32 billion (or -60%) with one year difference. It should be noted that those amounts do not include 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 function exercised by the General Administration of the Treasury.

As compensation for granting guarantees (service fees) in the context of the financial crisis, EUR 13.57 million in 2021 and EUR 11.35 million in 2022 was received from financial institutions based on established entitlements by the Federal Government. According to the latest estimate, these non-tax revenues would amount to EUR 9.34 million this year. Since 2015, only guarantees remain in favour of Dexia, which awards only a very small fee for this. Compensations from corona-related schemes amounted to EUR 20.39 million in 2021 and EUR 10.13 million in 2022, amounting to EUR 1.80 million in 2023 (preliminary estimate).

For the sake of completeness, it should be noted that Belgium, as a euro area member state and following the European sovereign debt crisis, also guarantees the financial instruments issued by the EFSF in proportion to its share in the ECB's capital (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 created in June 2010 as a temporary mechanism to support Ireland, Portugal and Greece financially. These guarantees granted to the EFSF are not included in "contingent liabilities" because the loans granted by the EFSF are directly included in Eurostat's consolidated gross government debt. At the end of 2020, Belgium guaranteed €13.24 billion (debt principal and interest multiplied by an over-guarantee factor of 160%). This amount decreased to €12.85 billion in 2021 and increased slightly to €13.00 billion or 2.36% of GDP at the end of 2022. The portion of loans granted by the EFSF already included in Belgium's public debt amounts to EUR 6.53 billion, or 1.18% of GDP, at the end of 2022. In 2019, Portugal made its first early repayment, reducing the impact of the EFSF on Belgian debt by EUR 74 million. After a €10.9 billion repayment in 2015, Greece began its repayment in February 2023 (with €1.5 billion), which runs until 2070. Finally, note that if the loans provided by the EFSF would not be repaid, the EFSF will make every effort to minimise the impact on member states.

The function of the EFSF was taken over in October 2012 by the permanent European Stability Mechanism (ESM), which differs substantially in terms of organisation from the EFSF. The capital subscribed by members, namely the 20 euro member states (Croatia joined the ESM in March 2023), is €708.49 billion. Belgium's share in this is €24.27 billion (3.44%). Paid-up capital amounts to €80.97 billion, of which the Belgian share is €2.78 billion or 0.50% of 2022 GDP. Eurostat considers that the impact on members' government debt is limited to their capital contributions because they do not benefit from ESM financial support operations. The remaining callable capital is considered a "contingent liability" (3.89% GDP for Belgium). The total outstanding amount of loans provided by the ESM to Spain, Greece, and Cyprus is currently €86.19bn (after a €3.6bn repayment from Spain at the end of 2022) but only impacts the public finances of the beneficiary member states.

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 safeguards.

The Flemish government's exposure to the first group of guarantees is very limited. Indeed, they were provided to local authorities or, to a greater or lesser extent, privatised agencies of the Flemish government. This category is, first of all, subsidised by the Flemish government. Moreover, the Flemish government mostly has a monitoring function through government commissioners or the Domestic Administration Agency. The second category is backed by underlying assets. In many cases, the Flemish government has sufficient securities to recover the extracted amounts to a substantial extent. In many cases that security is a mortgage. The risk of foreclosure is very limited. A third category concerns the guarantees granted to companies to strengthen the economy and enhance innovation. This category is the riskiest for the Flemish government. However, the guarantee percentage here is rarely the full 100% of the loan. Moreover, pari passu agreements are often made with the banks, or the guarantee can only be enforced after all (personal) collateral has been used.

The total outstanding amount on 31 December 2022 of the debt guaranteed by the Flemish Region is €11.55 billion, a sharp decrease compared to 2021 (EUR 771.91 million).

In the course of 2015, the Flemish government decided to itself take over the funding for several key players in the social housing sector: the VMSW and the VWF, where they previously took out self-secured loans from banks or insurance companies. In addition, the VIPA devised a new flat-rate subsidy system for both residential care centres and hospitals under which no new guarantee provision is allowed. As a result, the guaranteed debt of these 3 key players in the asset-backed category is falling where it had previously been rising sharply. Guarantees to (local) governments experienced a slight decrease in 2022. Guarantees also fell in the economic safeguards sector.

French Community

The FWB's guaranteed loans amounted to EUR 726 million at the end of 2022, a decrease of EUR 45 million compared to the end of 2021.

No particular risk has been identified in respect of these contingent commitments.

Walloon Region

The main bodies bearing the Walloon guarantee are the Société Wallonne du Crédit Social (EUR 2,680 million), the Société Wallonne du Logement (EUR 1,113 million) and the Walloon Housing Fund (EUR 1,303 million).

Alternative financing, through the programmes of the Centre Régional d'Aide aux Communes (CRAC) and the Société Wallonne, pour la Gestion du Financement Alternatif (SOWAFINAL), is associated with guarantees amounting to €463.97 .

Public investment companies also provide guarantees. These guarantees are granted according to transparent rules and through special programmes. These guarantees replace or complement capital participations.

The Walloon Region also granted guarantees as part of the construction of a hospital (CHC Mont Legia) amounting to EUR 115 million.

Financial Information Unit is entrusted with the supervision of the Region's guarantees. The terms of the loans from the various organisations are checked and validated by the Walloon Region's Debt and Financing Unit.

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

Brussels-Capital Region

The outstanding amount of the Brussels-Capital Region's guaranteed debts on 31/12/22 is €3.25 billion.

The annual appeal rate on the guarantee is 0.0236% in 2022. This percentage was 0.1429% in 2021.

Four entities represent more than 85% of the debts guaranteed by the Region on 31/12/2022: the Brussels Region Municipal Treasuries' Refinancing Fund (BGHGT), the Housing Fund of the Brussels-Capital Region, Vivaqua and the Société Bruxellois de la Gestion de Water (BMWB). Thanks to the endowment mechanisms and the presence of underlying assets covering the guaranteed debt, the risk of calling on the regional guarantee is very low for these entities (financial assets, mortgages, income, etc.).

It is important to note that, following the consolidation in 2014 and 2015 of numerous companies of the Brussels-Capital Region in the public administration sector (S1312), a large part of the Region's contingent liabilities relate to debts consolidated in the ESA: more than 75% of the guaranteed debts on 31/12/2022 are thus already included in the gross consolidated debt of the National Accounts.

The outstanding amount of the Brussels Capital Region is €3,417,609,192 on 1/4/23.

The maximum expected development of the outstanding amount of regional guarantees is EUR 3,617,609,192 on 31/12/23.

ANNEXES

Annex 1: Tables to be included based on the guidelines on the format and content of stability and convergence programmes

Table 1a. Macroeconomic prospects

Rate of change, unless indicated otherwise	ESA Code	2022 (Levels)	2022	2023	2024	2025	2026
1. Real GDP	B1*g	463,6	3,2	1,0	1,7	1,3	1,4
2. Nominal GDP	B1*g	549,5	9,3	4,4	4,1	3,2	3,0
Components Of real GDP							
3. Private consumption expenditure	P.3	277,9	4,1	1,6	1,9	1,7	1,3
4. Government consumption expenditure	P.3	132,9	3,2	1,1	0,8	0,9	1,2
5. Gross fixed capital formation	P.51	132,6	-0,8	0,8	2,8	1,6	1,7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	19,4	0,5	0	0	0	0
7. Exports of goods and services	P.6	523,8	5,1	2,3	2,5	3,3	3,4
8. Imports of goods and services	P.7	537,1	4,9	2,5	2,6	3,3	3,3
Contribution to real GDP growth							
9. Final domestic demand			2,0276	1,3022	1,8937	1,5076	1,4567
10. Changes in inventories and net acquisition of valu	P.52 + P.53		0,8	0	0	0	0
11. External balance of goods and services	B.11		0,2	-0,3	-0,2	-0,2	-0,1

Table 1b. Price developments

Rate of change, unless indicated otherwise	ESA Code	2022 (Levels)	2022	2023	2024	2025	2026
1. GDP deflator		118,5	5,9	3,4	2,3	1,9	1,7
2. Private consumption deflator		120,2	8,6	3,9	2,6	1,8	1,7
3. HICP		120,3	9,6	4,5	2,9	1,8	1,7
4. Public consumption deflator		118,8	6,6	6,4	2,4	2,3	1,8
5. Investment deflator		122,7	10	4,1	2	1,8	1,8
6. Export price deflator (goods and services)		125,5	14,3	-0,5	0,7	2	1,9
7. Import price deflator (goods and services)		130,9	18,8	-1,3	0,3	1,9	1,9

Table 1c. Labour market development

Rate of change, unless indicated otherwise	ESA Code	2022 (Levels)	2022	2023	2024	2025	2026
1. Employment, persons		5.090,40	2,0	0,7	0,8	0,6	0,7
2. Employment, hours worked		7.930,30	4,2	0,9	1,4	0,8	0,8
3. Unemployment rate (%)		5,6	5,6	5,7	5,5	5,4	5,4
4. Labour productivity, persons		91,1	1,1	0,3	0,9	0,7	0,6
5. Labour productivity, hours worked		58,3	-1,0	0,1	0,3	0,5	0,5
6. Compensation of employees	D.1	266,7	9,5	8,8	4,6	3,2	2,9
7. Compensation per employee		63,3	7,3	8,0	3,9	2,8	2,3

Table 1d. Sectoral balances

	ESA Code	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)
1. Net lending/borrowing vis-a-vis the rest of the world	B.9	-3,5	-2,0	-1,1	-0,2	0,3
of which						
- Balance on goods and services		n.a.	n.a.	n.a.	n.a.	n.a.
- Balance of primary incomes and transfers		n.a.	n.a.	n.a.	n.a.	n.a.
- Capital account		n.a.	n.a.	n.a.	n.a.	n.a.
2. Net lending/borrowing of the private sector	B.9	0,4	3,1	3,1	3,1	3,2
3. Net lending/borrowing of general government	EDP B.9	-3,9	-5,1	-4,2	-3,3	-2,9
4. Statistical discrepancy		n.a.	n.a.	n.a.	n.a.	n.a.

Table 2a General government budgetary targets broken down by subsector

	ESA Code	2022 (Levels)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	-21.345	-3,9	-5,1	-4,2	-3,3	-2,9
2. Central government	S.1311	-14.303	-2,6	-3,4	-3,0	-2,5	-2,2
3. State government	S.1312	-5.542	-1,0	-1,4	-1,1	-0,8	-0,6
4. Local government	S.1313	-48	0,0	-0,1	-0,1	-0,1	-0,1
5. Social security funds	S.1314	-1.453	-0,3	-0,1	0,0	0,0	0,0
General government (S13)							
6. Total revenue	TR	272.873	49,7	51,1	51,2	51,8	51,9
7. Total expenditure	TE	294.218	53,5	56,2	55,4	55,1	54,8
8. Net lending/borrowing	EDP B.9	-21.345	-3,9	-5,1	-4,2	-3,3	-2,9
9. Interest expenditure	EDP D.41	8.350	1,5	1,7	2,0	2,2	2,4
10. Primary balance		-12.995	-2,4	-3,3	-2,2	-1,2	-0,5
11. One-off and other temporary measures		890	0,2	-0,1	-0,2	0,0	0,0
Selected components of revenue							
12. Total taxes (12=12a+12b+12c)		163.807	29,8	30,9	30,9	31,3	31,4
12a. Taxes on production and imports	D.2	69.471	12,6	13,3	13,1	13,1	13,0
12b. Current taxes on income, wealth, etc	D.5	90.438	16,5	16,9	17,1	17,6	17,8
12c. Capital taxes	D.91	3.897	0,7	0,7	0,7	0,7	0,7
13. Social contributions	D.61	83.221	15,1	15,5	15,8	15,9	15,9
14. Property income	D.4	3.895	0,7	0,7	0,7	0,7	0,7
15. Other		21.950	4,0	4,1	4,0	4,0	3,9
16=6. Total revenue	TR	272.873	49,7	51,1	51,2	51,8	51,9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		247.028	45,0	46,4	46,6	47,2	47,4
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	92.060	16,8	17,2	16,9	16,7	16,4
17a. Compensation of employees	D.1	68.251	12,4	13,1	13,0	12,8	12,6
17b. Intermediate consumption	P.2	23.809	4,3	4,2	4,0	3,9	3,8
18. Social payments (18=18a+18b)		141.213	25,7	26,8	26,8	26,8	26,7
of which Unemployment benefits		6.620	1,2	1,1	1,1	1,1	1,1
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	45.789	8,3	8,6	8,5	8,5	8,5
18b. Social transfers other than in kind	D.62	95.424	17,4	18,2	18,3	18,3	18,2
19=9. Interest expenditure	EDP D.41	8.350	1,5	1,7	2,0	2,2	2,4
20. Subsidies	D.3	20.374	3,7	3,8	3,7	3,7	3,6
21. Gross fixed capital formation	P.51	14.642	2,7	2,9	3,1	3,0	3,0
22. Capital transfers	D.9	4.687	0,9	1,1	0,9	0,9	0,8
23. Other		12.893	2,3	2,5	2,0	1,9	1,9
24=7. Total expenditure	TE	294.218	53,5	56,2	55,4	55,1	54,8
p.m.: Government consumption (nominal)	P.3	92.060	16,8	17,2	16,9	16,7	16,4

Table 2b. Breakdown of revenue

	2022 (Levels)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)
1. Total revenue at unchanged policies	272873,0	49,7	51,1	51,2	51,4	51,2
2. Total expenditure at unchanged policies	294217,9	53,5	56,2	55,5	55,8	56,1

Table 2c. Amounts to be excluded from the expenditure benchmark

	2022 (Levels)	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)
1. Expenditure on EU programmes fully matched by EU funds revenue	736	0,1	0,3	0,2	0,2	0,1
1.a Of which investment expenditure fully matched by EU funds revenue	294	0,1	0,1	0,1	0,1	0,0
2. Cyclical unemployment benefit expenditure	-163	0,0	0,0	0,0	0,1	0,1
3. Effect of discretionary revenue measures	536	0,1	0,6	0,2	0,4	0,2
4. Revenues increased mandated by law	0	0,0	0,0	0,0	0,0	0,0

Table 3. General government expenditure by function (based on unchanged policy)

	COFOG Code	2021 (% of GDP)	2026 (% of GDP)
1. General public services	1	n.a.	n.a.
2. Defence	2	n.a.	n.a.
3. Public order and safety	3	n.a.	n.a.
4. Economic affairs	4	n.a.	n.a.
5. Environmental protection	5	n.a.	n.a.
6. Housing and community amenities	6	n.a.	n.a.
7. Health	7	n.a.	n.a.
8. Recreation, culture and religion	8	n.a.	n.a.
9. Education	9	n.a.	n.a.
10. Social protection	10	n.a.	n.a.
11. Total expenditure (=item 7=23 in Table 2)	TE	n.a.	n.a.

Table 4. General government debt developments

	ESA Code	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)
1. Gross debt		105,1	106,7	107,1	107,6	107,8
2. Change in gross debt ratio		-4,0	1,5	0,4	0,5	0,2
Contributions to changes in gross debt						
3. Primary balance		-2,4	-3,3	-2,2	-1,2	-0,5
4. Interest expenditure	EDP D.41	1,5	1,7	2,0	2,2	2,4
5. Stock-flow adjustment		1,4	0,9	0,4	0,5	0,4
of which:						
- Differences between cash and accruals						
- Net accumulation of financial assets						
- privatisation proceeds						
- Valuation effects and other						
p.m.: Implicit interest rate on debt		1,4	1,6	1,8	2,0	2,2
Other relevant variables						
6. Liquid financial assets						
7. Net financial debt (7=1-6)						
8. Debt amortization (existing bonds) since the end of the previous year						
9. Percentage of debt denominated in foreign currency						
10. Average maturity						

Table 5. Cyclical developments

	ESA Code	2022 (% of GDP)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)
1. Real GDP Growth		3,2	1,0	1,7	1,3	1,4
2. Net Lending of general government	EDP B.9	-3,9	-5,1	-4,2	-3,3	-2,9
3. Interest expenditure	EDP D.41	1,5	1,7	2,0	2,2	2,4
4. One-off and other temporary measures		0,2	-0,1	-0,2	0,0	0,0
4.a Of which one-offs on the revenue side: general government		0,3	-0,1	-0,2	0,0	0,0
4.b Of which one-offs on the expenditure side: general government		-0,1	-0,1	0,0	0,0	0,0
5. Potential GDP growth (%)		1,7	1,6	1,5	1,4	1,3
contributions:						
- labour		0,9	0,8	0,7	0,6	0,6
- capital		0,6	0,6	0,6	0,6	0,6
- total factor productivity		0,2	0,2	0,2	0,2	0,2
6. Output gap		0,0	-0,6	-0,4	-0,4	-0,4
7. Cyclical budgetary component		0,0	-0,3	-0,2	-0,3	-0,3
8. Cyclically-adjusted balance (2 - 7)		-3,9	-4,7	-4,0	-3,1	-2,7
9. Cyclically-adjusted primary balance (8 + 3)		-2,4	-3,0	-2,0	-0,9	-0,3
10. Structural balance (8 - 4)		-4,1	-4,6	-3,8	-3,0	-2,7

Table 6. Divergence from the 2021 Stability Programme

	ESA Code	2022	2023	2024	2025	2026
Real GDP growth (%)						
Previous update		3,0	1,9	1,5	1,3	
Current update		3,2	1,0	1,7	1,3	1,4
Difference		0,2	-0,9	0,2	0,0	
General government net lending (% of GDP)	EDP B.9					
Previous update		-5,2	-3,6	-3,4	-2,7	
Current update		-3,9	-5,1	-4,2	-3,3	-2,9
Difference		1,4	-1,5	-0,8	-0,6	
General government gross debt (% of GDP)						
Previous update		108,0	108,8	109,7	110,1	
Current update		105,1	106,7	107,1	107,6	107,8
Difference		-2,8	-2,1	-2,6	-2,5	

Table 7a. Sustainability of public finances

	2007 (% of GDP)	2010 (% of GDP)	2020 (% of GDP)	2030 (% of GDP)	2040 (% of GDP)	2050 (% of GDP)	2060 (% of GDP)
Total expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Social security pension	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Old-age and early pensions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other pensions (disability, survivors)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Health care	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Long-term care (this was earlier included in the health care)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Education expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: from pensions contributions (or social contributions if appropriate)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension reserve fund assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: consolidated public pension fund assets (assets other than government liabilities)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Systemic pension reforms							
Social contributions diverted to mandatory private scheme	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension expenditure paid by mandatory private scheme	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Assumptions							
Labour productivity growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real GDP growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Participation rate males (aged 20-64)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Participation rates females (aged 20-64)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total participation rates (aged 20-64)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Unemployment rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Population aged 65+ over total population	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Table 7b. Contingent liabilities

	2022 (% of GDP)	2023 (% of GDP)
Public guarantees	23,8%	n.a.
Of which: linked to the financial sector	8,2%	n.a.

Table 8. External assumptions

	2022	2023	2024	2025	2026
Short-term interest rate (annual average)	0,3	3,2	2,9	2,8	2,6
Long-term interest rate (annual average)	1,8	2,8	2,7	2,8	2,9
USD/EUR exchange rate (annual average)	105,4	110	111,6	111,6	111,6
Nominal effective exchange rate	-0,9	1,6	0,8	0	0
World excluding EU, GDP growth	3,4	3,3	3,4	3,5	3,5
EU GDP growth	3,5	1	1,6	2,2	2
Growth of relevant foreign markets	7,9	3,4	3,6	3,5	3,4
World import volumes, excluding EU	4,1	2,6	3,5	3,8	3,8
Oil prices (Brent, USD/barrel)	100,9	84,6	79,8	84,4	89,2

Table 9a. RRF impact on the programme

Revenue from RRF grants (in % GDP)							
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
RRF GRANTS as included in the revenue projections	0,00%	0,07%	0,15%	0,18%	0,16%	0,11%	0,11%
Cash disbursements of RRF GRANTS from EU	0,00%	0,15%	0,00%	0,15%	0,32%	0,08%	0,08%

Deze gerapporteerde cijfers houden nog geen rekening met bijkomende middelen ten bedrage van 282,14 miljoen euro uit RepowerEU
Ces chiffres ne tiennent pas encore compte des fonds supplémentaires de 282,14 millions d'euros provenant de RepowerEU.

Expenditure financed by RRF grants (in %GDP)							
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Compensation of employees D.1	0,00%	0,00%	0,01%	0,00%	0,00%	0,00%	0,00%
Intermediate consumption P.2	0,00%	0,02%	0,02%	0,03%	0,02%	0,01%	0,00%
Social payments D.62+D.632	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Interest expenditure D.41	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Subsidies, payable D.3	0,00%	0,01%	0,01%	0,04%	0,04%	0,03%	0,01%
Current transfers D.7	0,00%	0,00%	0,01%	0,01%	0,02%	0,02%	0,01%
TOTAL CURRENT EXPENDITURE	**0,00%**	**0,03%**	**0,06%**	**0,08%**	**0,08%**	**0,05%**	**0,03%**
Gross fixed capital formation P.51g	0,00%	0,02%	0,06%	0,05%	0,03%	0,01%	0,01%
Capital transfers D.9	0,00%	0,01%	0,03%	0,04%	0,04%	0,04%	0,03%
TOTAL CAPITAL EXPENDITURE	**0,00%**	**0,04%**	**0,09%**	**0,09%**	**0,07%**	**0,05%**	**0,04%**
Other Exp				0,01%	0,00%	0,00%	0,04%
3.2 Local government				0,01%	0,01%	0,01%	0,00%
TOTAL EXPENDITURE	**0,00%**	**0,07%**	**0,15%**	***0,18%***	***0,16%***	***0,11%***	***0,11%***

Annex 2: Emergency measures

Covid

Budgetary impact Covid		
EUR millions	2022	2023
Entity I	2.841	718
Flanders	592	40
Wallonia	447	80
Brussels-Capital Region	199	
German-speaking community	6	2
French community	54	41
Total	**4.140**	**881**

Energy crisis

Budgetary impact energy measures		
EUR millions	2022	2023
Entity I	4.383	1.934
Expenditures	*5.080*	*3.228*
Additional revenues	*697*	*1.294*
Flanders	121	957
Wallonia		430
Brussels-Capital Region		204
German-speaking community	4	32
French community	65	85
Total	**4.572**	**3.642**

Ukraine Refugees

Budgetary impact Ukrainian refugees		
	2022	2023
Entity I	231	462
Flanders		200
Wallonia	100	93
Brussels-Capital Region	52	63
German-speaking community	4	4
French community	18	38
Total	**405**	**860**

Floods

Budgetary impact floods		
	2022	2023
Entity I		
Flanders		
Wallonia		361
Brussels-Capital Region		3
German-speaking community	28	7
French community	1	31
Total	**29**	**402**