Stability programme for Belgium

2021-2024

30/04/2021

INHOUDSOPGAVE

1. Foreword 4

2. Introduction 5

3. Economic situation and macroeconomic assumptions 7

3.1 The international economic environment 7

3.2 The evolution of the business cycle in Belgium 8

3.3 The economic outlook of the Federal Planning Bureau 8

4. Balance and debt of all public authorities 12

4.1 Budgetary objectifs in the medium term 12

4.1.1 The opinion of the High Council of Finance 12

4.1.2 Objectives in the current stability programme 13

4.2 Budgetary outlook in the medium term 14

4.2.1 The evolution of the nominal balance 14

4.2.2 The evolution of the structural balance 16

4.2.3 The evolution of the debt ratio 16

4.3 Comparison with the 2020 stability programme and sensitivity analysis 17

4.3.1 Comparison with the 2020 stability programme 17

4.3.2 Sensitivity analysis 18

4.4 Main points of fiscal policy per entity 19

4.4.1 Entity I 19

4.4.2 Entity II 21

5. Sustainability of public finances 26

5.1 The budgetary cost of ageing 26

5.1.1 The long-term budgetary consequences of ageing 26

5.2 Engagements conditionnels 28

5.2.1 Entity I 28
5.2.2 Entity II 31
5.2.3 Flemish Community 31
6. Quality of public finances 39
6.1 Tax reform 39
6.2 Pension reform 40
6.3 Investments 41
6.4 Spending reviews 42
6.4.1 Entity I 42
6.4.2 Entity II 43

1. Foreword

The Belgian stability programme sets out the guidelines and goals of budgetary policy for the period 2021-2024. It should be read in conjunction with the National Reform Programme. Both programmes serve as national medium-term budgetary plans within the meaning of Regulation (EU) No 473/2013. In accordance with Article 18 of Regulation (EU) No 2021/241 setting up the Recovery and Resilience Facility, the Belgian recovery and resilience plan is presented as a single document integrated into the National Reform Programme 2021.

The document entitled "Guidelines on the format and content of Stability and Convergence Programmes" of 15 May 2017 was used as a guideline for the implementation of the stability programme.

The trajectory of Entity I included in the stability programme was approved by the Federal Government's Council of Ministers on 30 April 2021.

The overall trajectory of the 2021-2024 Stability Programme was the subject of prior consultation in the Consultation Committee, as provided for in the cooperation agreement of 13 December 2013.

The Consultation Committee noted the indicative trajectories set out in the 2021-2024 stability programme

As provided for in the cooperation agreement of 13 December 2013, the April 2021 opinion of the "Public Authority Financing Requirements" Section of the High Council of Finance served as the basis for drawing up the 2021-2024 stability programme.

2. Introduction

Since the outbreak of coronavirus in Belgium, the various levels of government have taken a series of measures to protect public health and support the economic and social fabric.

Socio-economic measures focus on supporting:

- the health sector;
- companies;
- the self-employed;
- households;
- sectors particularly affected by the crisis.

Belgium went through an exceptionally severe recession in the first half of 2020, as a result of measures to limit the spread of the virus in Belgium and abroad that had an impact on our open economy. The Belgian economy contracted by 6.3% in 2020. For the time being, new outbreaks of the virus are holding back an economic recovery in the euro zone, but this recovery is expected to gain momentum as the proportion of the population vaccinated increases. In 2021, the Belgian economy should return to growth of 4.1%. Chapter 3 provides an overview of the macroeconomic assumptions.

As a result of the impact of the economic contraction and the direct impact of the measures taken, the public deficit increased to 9.4% of GDP in 2020 and public debt to 114.1% of GDP. The threat of coronavirus has again intensified in the first quarter of 2021, as it has in many other countries. This has led to the adoption of new measures and the extension of the existing ones. As a result, the measures taken will weigh on public finances again in 2021. According to current (highly uncertain) estimates, the deficit could amount to 7.7% of GDP in 2021 and public debt to 116.3% of GDP. Chapter 4 discusses the public balance and debt in more detail, as well as the budget path based on the most recent economic parameters.

In addition to the continued management of the crisis in the short term, there is also a need to focus on the medium term in order to achieve sustainable and inclusive growth. On the one hand, investment must be boosted by a stimulus policy. On the other hand, where economic conditions permit, fiscal policy should aim to achieve prudent budgetary positions and debt sustainability, as recommended by the European Commission in its country-specific recommendations. Chapter 5 addresses the sustainability of public finances.

In the framework of the federal government agreement and the 2021 budget of the various authorities, the focus is now more on the necessary recovery of the economy.

These stimulus measures are part of the Recovery and Resilience Facility (RRF) launched by the European Commission. This instrument should enable Member States to address the challenges identified in the European Semester in the areas of competitiveness, production, environmental sustainability, education and skills, health, employment and economic, social and territorial cohesion. It must also ensure that these investments and reforms address the challenges of the ecological and digital transitions to help create jobs and sustainable development, and increase the Union's resilience.

To this end, the federal government has introduced an ambitious recovery and resilience plan in consultation with the Regions, Communities and local authorities. This plan will be submitted to the

European Commission together with the National Reform Programme. The plan will give a strong boost to our economy, create jobs and accelerate the transition to a low-carbon and digital economy.

The investments and reforms, as described in the Belgian Recovery and Resilience Plan, will lead to a change in the composition of part of the public finances in the years ahead. Fiscal policy will focus more on supporting growth through so-called growth-enhancing expenditure, such as high-quality investments that strengthen the government's net asset position.

In the government agreement, the federal government has also decided to increase the employment rate, combat poverty and ensure that spending is redirected to improve social cohesion.

Overall, the quality of public finances should improve. Spending reviews can provide the impetus for this. The initiatives taken by various authorities in this context are explained in Chapter 6, which deals with the quality of public finances.

3. Economic situation and macroeconomic assumptions

3.1 The international economic environment

In 2020, global economic activity experienced a contraction that was exceptional in its nature and scope. Most economies contracted significantly during the year as a result of the health restrictions to contain the COVID-19 pandemic, and the related uncertainty. However, the health crisis has not impacted all economies in the same way. China was one of the few economies that experienced positive growth, while the contraction was less severe in the United States and Japan than in the euro area and the European Union (EU). According to the European Commission's (EC) February 2021 winter forecast, global non-EU economic growth reached -3.4% in 2020. It is expected to rise to 5.2% in 2021 and begin to normalise at 3.8% in 2022.

In the first half of 2020, the European economy fell sharply by almost 15%, followed by a significant but incomplete rebound in the third quarter, before falling again, albeit to a lesser extent, in the fourth quarter. According to the EC's preliminary flash estimates included in the winter 2021 forecast, activity fell by 6.8% in the euro area in 2020 and by 6.3% in the EU. This is an upward revision of 1 percentage point from the autumn 2020 forecast, when rates of 7.8% and 7.4% were expected in the euro area and the EU. The revision is attributable to a larger third quarter rebound than estimated in the autumn 2020 forecast. Estimates have meanwhile been revised upwards to -6.6% in the euro area and -6.1% in the EU following the publication of the Q4 2020 accounts.

The contraction in activity is attributable to the health context, which led to initial internal and external supply and demand shocks. In the first quarter, the lockdown measures introduced in China and the growing uncertainty had an adverse impact on European economies. The global spread of the virus reinforced these external factors and eventually caused internal shocks to the European economy as soon as the first positive cases were identified on the continent and lockdown measures were introduced in Italy.

The monetary, fiscal and financial policy stance was significantly relaxed in 2020 in response to tighter financial conditions, lower inflationary pressures and declines in economic activity. This had the effect of cushioning the shock and reducing the risk of permanent effects.

During 2021 and 2022, the gradual relaxation of restrictive sanitary measures, combined with the generalisation of vaccination, should allow the continuation of the catch up that was interrupted by the strengthening of sanitary measures in the last quarter of 2020 and the beginning of 2021.

According to EC estimates, GDP is expected to grow by 3.8% in the euro zone and by 3.7% in the EU in 2021. Real growth is then expected to reach 3.8% in the euro zone and 3.9% in the EU in 2022. The figures are explained by a catch-up effect.

There are significant uncertainties surrounding these forecasts, mainly related to the evolution of the pandemic and the vaccination programmes that are expected to end the health crisis. Nevertheless, the balance of risks appears to be more balanced than last autumn. The health risks are related to the evolution of the health measures, which are based on the dynamics of the epidemic and the effectiveness of vaccinations. The implementation of national recovery and resilience plans is a bullish risk. Uncertainties also remain regarding the evolution of trade tensions between the US on the one hand and China and the EU on the other, but they tend to be a bullish risk since the change to the US presidency.

3.2 The evolution of the business cycle in Belgium

The Belgian economy was not spared by the health crisis that broke out in the first quarter of 2020 at global and European level. Economic activity declined by 6.3% in 2020 compared to 2019, according to the most recent ICN figures released on 19 April 2021.

The contraction of activity in Belgium was therefore less marked than in the euro zone but stronger than in the EU, since economic activity fell by 6.8% (6.6%) in the euro zone and 6.3% (6.1%) in the EU, according to the estimates included in the EC's winter forecasts (and according to the latest estimates communicated to Eurostat in April).

The economic slowdown and the climate of uncertainty were reflected in the evolution of the level of business confidence measured by the National Bank of Belgium's Business Climate Barometer. The indicator collapsed in March and April 2020 to its lowest point ever recorded since the series began (1980). Business confidence then recovered steadily from May 2020, with the exception of a decline in November 2020, and crossed its long-term average in February 2021 and its pre-crisis level in March 2021. In April 2021, the indicator reached its highest level since March 2011.

The Consumer Confidence Index declined in March 2020 and also experienced its largest monthly drop on record in April 2020, to near its series low (1985). Its irregular improvement since last May lifted the index in March 2021 above its pre-crisis level and its long-term average. The increase is driven by an improvement in consumers' outlook on the economy and unemployment and their financial situation. Savings forecasts have been trending upwards since the beginning of 2020 and remain very high.

3.3 The economic outlook of the Federal Planning Bureau

The macroeconomic context on which the stability programme for the period 2021-2024 is established, is based on the preliminary version of the medium-term economic outlook for the period 2021-2026 drawn up by the Federal Planning Bureau, which was published on 26 February 2021.

In this draft version, the forecasts for 2021 are consistent with those of the 2021 Economic Budget published on 11 February 2021. Most of the information on public finances available on 8 February has been incorporated into the projections. The projection does not therefore take account of the Belgian Recovery and Resilience Plan.

The economic growth assumptions in the trading partner countries for 2021 and 2022 are largely based on the EC's autumn 2020 outlook updated on the basis of the Consensus Economics forecast of January 2021. For the period 2023-2026, the forecast published in January by Oxford Economics is used as the main source, after removing the impact of the NGEU Plan.

According to this forecast, GDP growth in the euro zone is expected to reach 4.4% in 2021 after falling to 6.8% in 2020. It is expected to decline to 4% in 2022. Thereafter, GDP growth should continue to slow from 1.8% in 2023 to 1.1% in 2026. This slowdown is explained by the end the catch-up process that began after the health crisis and by the ageing of the population, which is slowing the growth of the working-age population.

The assumption regarding oil prices and the euro/dollar exchange rate in 2021 and 2022 is based on quotations on futures markets on 22 January 2021. It is assumed that the exchange rate will stabilise over the period 2023-2026. Regarding oil prices, the Federal Planning Bureau forecasts a gradual increase in the price of oil to $65 in 2026, in line with the Oxford Economics outlook. This implies an annual increase of 5.5%.

Table 1: External environment: basic assumptions

	2020	2021	2022	2023	2024
Short-term interest rates (annual average)	-0,4	-0,6	-0,5	-0,2	0,1
Long-term interest rates (annual average)	0	-0,2	-0,1	0,4	0,8
USD/€ exchange rate x 100 (annual average)	114,1	122,2	123,2	123,2	123,2
Nominal effective exchange rate (2005=100)	104,5	105,7	106,3	106,3	106,3
GDP growth - world (excluding EU)	-3,2	5,1	4,9	3,2	3,2
GDP growth - EU	-6,6	4,3	3,9	2	1,5
Growth relevant external markets	-8,9	6	6,3	4,9	4
global imports by volume (excluding EU)	-8,8	6,9	6,5	4,4	3,9
Oil price (USD)	41,8	54,5	52,1	55	58

Source: medium-term economic outlook for the period 2021-2026 prepared by the Federal Planning Bureau and published on February 26, 2021

According to the forecasts of the Federal Planning Bureau, Belgian GDP should increase by 4.1% in 2021. Growth is expected to be supported by a catch-up effect in domestic demand (consumer spending and investment by individuals and governments). Exports should recover to a lesser extent than imports, meaning that the change in the balance of goods and services would be negative.

Thereafter, Belgian GDP growth should gradually normalise, decelerating to 3.5% in 2022 and to 1.5% in 2024. Actual downward growth should tend towards potential upward growth so that the negative output gap would be reduced over the period and be very slightly positive in 2024 (0.1%).

These forecasts for 2021 and 2022 differ slightly from the EC winter forecast, especially for 2022 (3.9% in 2021 and 3.1% in 2022). Since economic activity in Belgium fell less than the average for the euro zone in 2020, the catch-up process should be less significant in 2021 and 2022. Average annual growth is expected to be 1.4% in Belgium and in the euro zone over the period 2023-2026.

Table 2: Macroeconomic forecasts

Change in % unless otherwise indicated	2020	2020	2021	2022	2023	2024
	In billion					
1. GDP growth at constant prices	416,4	-6,2	4,1	3,5	1,7	1,5
2. GDP at current prices (EUR billion)	449,7	-5,6	5,2	5,1	3,4	3,2
	Components of growth					
3. Final consumption expenditure by individuals	222,5	-7,7	6,1	5,6	1,9	1,8
4. Final consumption expenditure by public authorities	113,4	1,4	4,2	0,6	1,3	1,4
5. Gross fixed capital formation	105,2	-9	3,3	4,8	2,9	1,8
6. Inventory change and net acquisition of assets		0,3	-0,6	0	0	0
7. Exports of goods and services	356,9	-6,5	4,7	5,6	4,1	3,5
8. Imports of goods and services	356,3	-5,6	4,9	6,4	4,5	3,7
	Contribution to real GDP growth					
9. Total final demand (3+4+5)		-5,5	4,3	4,2	2	1,7
10. Inventory change and net acquisition of assets		0,3	-0,6	0	0	0
11. Balance of goods and services		-0,8	-0,2	-0,7	-0,3	-0,2

Source: medium-term economic outlook for the period 2021-2026 prepared by the Federal Planning Bureau and published on February 26, 2021

Consumer spending by individuals fell sharply by 7.7% in 2020. This contrasts with the slight 0.7% increase in purchasing power, despite the scale of the economic shock. As a result, the personal savings rate increased significantly to 20.3% of disposable income.

The purchasing power of individuals is expected to accelerate and increase by 1.1% in 2021. The gross primary income of individuals should rise again, while their net current transfers should experience a relatively small drop. Personal consumption spending is expected to catch up as consumer confidence rises and health measures are eased. It is expected to increase by 6.1%, significantly more than disposable income. The propensity of individuals to save is expected to decline to 16.3% of disposable income, still a high level.

Business investment fell by 10.1% in 2020. The sharp contraction in economic activity has affected profitability, while the financial aid granted by the public authorities only partially offset the loss of turnover. Given the uncertainty and the decline in capacity utilisation rates, they are expected to recover by only 1% in 2021. They are not expected to start catching up until 2022.

After a sharp contraction of 8.9% in 2020, housing investment is expected to increase by 5.5% in 2021.

As the decline in exports was greater than that of imports, net exports made a negative contribution to growth (-0.8%) in 2020. Rising domestic demand and external opportunities are expected to produce a rebound in imports and, to a lesser extent, exports in 2021 and 2022, which means that the contribution of net exports should remain negative.

Measured on the basis of the national consumer price index, inflation fell to 0.7% in 2020 due to lower energy prices (oil, electricity and natural gas). On an annual average basis, core inflation slowed slightly while unprocessed food inflation rose. Inflation is expected to accelerate from 2021 to average 1.3% in 2021. The acceleration of core inflation, the increase in excise duties on tobacco until 2024 and, above all, the rise in energy prices are expected to contribute to this.

Table 3: Price development

Change in %	2020	2020	2021	2022	2023	2024
	(2015=100)					
1. GDP deflator	108	0,7	1	1,6	1,7	1,7
2. Deflator of final consumption expenditure by individuals	107,7	0,7	1,3	1,6	1,7	1,7
3. Change in HICP	108,2	0,4	1,5	1,5	1,7	1,7
4. Deflator of final consumption expenditure by public authorities	109,7	2	0,8	1,6	1,9	1,9
5. Investment deflator	107	0,5	1,4	1,5	1,7	1,6
6. Deflator of exports of goods and services	103,4	-2,1	1,5	1,1	1,6	1,6
7. Deflator of imports of goods and services	102,8	-2,4	1,9	1	1,8	1,9

Source: medium-term economic outlook for the period 2021-2026 prepared by the Federal Planning Bureau and published on February 26, 2021

After five years of particularly strong growth, domestic employment fell by an annual average of 0.1% in 2020. This decline is relatively limited thanks to favourable starting points at the end of 2019 and the absorption of most of the initial shock to activity by average working hours. Despite the economic recovery, job losses are more pronounced in 2021 as protection schemes such as temporary unemployment for employees and bridging rights for the self-employed are phased out.

The harmonised unemployment rate (as defined by Eurostat) increased by 0.2 percentage points to 5.6% in 2020. The decline in employment was only partially reflected in an increase in unemployment, as the labour force dropped in the first half of the year and increased very slightly on an annual average basis. Unemployment should rise to 6.8% in 2021 and 2022 as the labour force catches up.

Belgium's unemployment rate should remain well below the euro zone average, which should rise from 8.3% in 2020 to 9.4% in 2021, according to the EC Autumn 2020 forecast.

Table 4: Developments in the labour market

Change in % unless otherwise indicated	2020		2020	2021	2022	2023	2024
	Level						
1. Domestic employment	4887,1	a	-0,1	-0,6	0,6	1,0	0,9
2. Number of hours worked	7270,5	b	-5,7	2,5	2,9	1,0	0,8
3. Unemployment rate (% definition = eurostat)	5,6		5,6	6,8	6,8	6,3	5,7
4. Labour productivity per worker	85,2	c	-6,1	4,8	2,9	0,7	0,7
5. Labour productivity per hour worked	57,3	d	-0,5	1,6	0,6	0,7	0,7
6. Employee salary costs (D1 SEC code)	229,6	e	-2,1	3,8	4,8	3,6	3,4
7. Salary cost per employee	56,6	f	-1,7	4,5	4,2	2,5	2,6

a: thousands, b: million hours, c: thousand euros, d: euros, e: billion euros, f: thousand euros

Source: medium-term economic outlook for the period 2021-2026 prepared by the Federal Planning Bureau and published on February 26, 2021

4. Balance and debt of all public authorities

4.1 Budgetary objectifs in the medium term

4.1.1 The opinion of the High Council of Finance

On 12 April 2021, the "Public Authority Financing Requirements" section of the High Council of Finance (Conseil supérieur des finances - CSF) published its opinion on the budget path in preparation for the 2021-2024 stability programme. This opinion was drawn up on the basis of the Federal Planning Bureau's medium-term forecasts of 26 February 2021, which are subject to a great deal of uncertainty due to the exceptional and constantly changing situation in which we still find ourselves one year after the outbreak of the COVID-19 pandemic. These forecasts do not yet take into account the mobilisation of funds from the European Recovery and Resilience Facility.

In addition to a normative budget path, the Section also makes a number of recommendations for a growth-enhancing policy. The Section believes that spending policy should focus more on growth-enhancing expenditure, such as high-quality investments that strengthen the net asset position of governments.

Particular attention should also be paid to the impact of large investment projects on the cash position of public authorities, especially in federated entities, where the scale of the required investments is high in relation to the size of government. The compatibility of these projects with the budgetary objectives is also perceived as problematic by the federated entities.

For this policy to be growth-friendly, it will also need to focus on increasing the employment rate and the fight against poverty, and redirect spending to improve social cohesion.

Past policies have been too pro-cyclical and short-term. The need for structural reforms is therefore very high.

Overall, the quality of public finances needs to improve, which will require a significant expenditure shift. Spending reviews can provide the impetus for this.

The Section also considers it important that sufficient transparency be provided on COVID-19 pandemic and stimulus package spending, so that it is clear which expenditures (and/or shortfalls) are or are not permanent as crisis-related expenditures. Coronavirus-related expenditures must be critically assessed: what is and what is not related to coronavirus, do these expenditures meet the T.T.T. (timely, temporary and targeted) criterion.

In developing an expenditure standard, the Section believes that it is desirable for all governments to implement an expenditure standard over time - particularly at the federated entity level - using the same "definition" for investments.

On the quantitative side, the CSF puts forward two normative paths in its recommendation. The first path foresees a cumulative structural improvement of 1.3 percentage points of GDP in 2022-2023. The alternative scenario is more restrictive, bringing the cumulative improvement to 1.6 percentage points of GDP.

As provided for in the cooperation agreement of December 2013, this opinion of the "Public Authority Financing Requirements" Section of the High Council of Finance (CSF) served as the basis for the negotiations within the Consultation Committee

4.1.2 Objectives in the current stability programme

Priority in the fight against coronavirus in 2020-2021

In the wake of the coronavirus pandemic, Belgium, like other EU Member States, has taken massive measures to strengthen the capacity of the health system and provide assistance to citizens and sectors affected by the crisis. These measures and the slowdown in economic activity contributed to a significant increase in the budget deficit.

This is in line with the country-specific recommendations made by the European Council in May 2020. More specifically, Belgium should *"in compliance with the general escape clause, take all necessary measures to effectively combat the pandemic, stimulate the economy and support the ensuing recovery; when economic conditions permit, pursue fiscal policies aimed at achieving cautious medium-term budgetary positions and ensuring debt sustainability, while fostering investment;"*

The activation of the general escape clause has enabled Belgium to respond quickly, forcefully and in a coordinated manner to the rapidly evolving COVID-19 crisis. This policy will continue in 2021.

Translation of the budgetary effort from the federal government agreement to the public authorities

The medium-term path of this stability programme is based on the budgetary effort included in the federal government agreement.

In the majority agreement, the federal government has decided that a fixed budgetary effort of 0.2% of GDP will be made each year in the period 2021-2024. A variable additional effort will also be made, depending on economic growth and recovery. Since the Belgian economy will not have recovered sufficiently from the coronavirus crisis by 2021, this variable effort will be 0% in 2021.

In accordance with the government agreement, from 2022 account will also therefore be taken of a variable structural budgetary effort which the government wishes to make. The final variable component will be set each year when the budget is drawn up, on the basis of the most recent figures from the Federal Planning Bureau's economic budget. In the original budget, this effort was set at 0.2% of GDP each year.

For the submission of the stability programme, this starting point is taken into account for Entity I and this effort is applied to the figures of the Monitoring Committee of 11 March 2021 and to the decisions within the framework of the 2021 federal budgetary control finalised on 2 April 2021.

For Entity II, the allocation key of the CSF opinion 75.4%-24.6% (Entity I - Entity II) is applied to the annual variable federal effort of 0.2%, resulting in an annual effort of 0.07% for Entity II. This effort is applied to the unchanged policy figures estimated by the Federal Planning Bureau.

The defined trajectory is indicative and will be adjusted in the coming years according to the budgetary efforts made by the entities in the fight against the pandemic and post-COVID-19 measures and the evolution of the economic growth forecasts.

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

As a % of GDP		2020	2021	2022	2023	2024
Entity I						
	Net lending	-6,88	-6,31	-3,40	-2,94	-2,67
	Structural balance	-4,33	-4,83	-3,22	-2,85	-2,69
	Structural improvement		*-0,50*	*1,61*	*0,37*	*0,16*
Entity II						
	Net lending	-2,50	-1,40	-1,08	-1,02	-0,99
	Structural balance	-1,43	-1,23	-1,00	-1,02	-1,03
	Structural improvement		*0,20*	*0,23*	*-0,02*	*-0,01*
All public authorities						
	Net lending	-9,38	-7,71	-4,48	-3,96	-3,66
	Structural balance	-5,76	-6,06	-4,22	-3,87	-3,72
	Structural improvement		*-0,30*	*1,84*	*0,35*	*0,15*

4.2 Budgetary outlook in the medium term

4.2.1 The evolution of the nominal balance

For 2020, the nominal balance included is that of the April 2021 EDP notification. The year 2020 closed with a nominal deficit of -9.4% of GDP. This is against a nominal deficit of -1.9% of GDP in 2019.

The deterioration in the nominal balance reflects both the government's fiscal response to the COVID-19 crisis and the reduction in economic activity. Revenues decreased by almost EUR 10 billion, while expenditure increased significantly, by more than EUR 22 billion. In relation to this unprecedented increase, public expenditure directly linked to the discretionary measures to combat the pandemic are currently estimated at approximately 16 billion euros in 2020, or 3.5% of GDP (excluding the impact of tax exemptions for regional and local support under COVID-19).

In line with the fiscal path described above, the nominal balance for 2021 is estimated at 7.7%. This figure should be considered very provisional, as additional measures have recently been announced or are being developed at different levels and have not yet been taken into account.

Table 6: Budgetary forecasts for all public authorities

		2020 Level	2020	2021	2022 % GDP	2023	2024
		Financing balance					
1.	General government	-42.318	-9,4	-7,7	-4,5	-4,0	-3,7
1a.	Federal authority	-31.486	-7,0	-6,1	-3,4	-3,0	-2,7
1b.	Communities and regions	-11.915	-2,6	-1,3	-1,1	-1,0	-0,9
1c.	Local authorities	641	0,1	-0,1	0,0	-0,1	-0,1
1d.	Social security administrations	442	0,1	-0,2	0,0	0,0	0,0
		General government					
2.	Total revenue	228.251	50,6	50,3	50,4	50,8	51,2
3.	Total expenditure	270.569	60,0	58,0	54,9	54,8	54,8
4.	Net lending	-42.318	-9,4	-7,7	-4,5	-4,0	-3,7
5.	Interest expenses (EDP)	8.833	2,0	1,7	1,4	1,2	1,2
6.	Primary balance	-33.485	-7,4	-6,0	-3,1	-2,8	-2,5
7.	One-off or temporary measures	103	0,0	0,1	0,1	0,0	0,0
		Main components of revenue					
8.	Taxes on production and imports	59.552	13,2	13,4	13,4	13,5	13,4
9.	Income tax, wealth tax, etc.	71.583	15,9	15,7	15,6	15,8	16,0
10.	Capital taxes	3.268	0,7	0,7	0,7	0,7	0,7
11.	Social security contributions	72.586	16,1	15,9	15,9	16,1	16,2
12.	Property income	2.947	0,7	0,7	0,7	0,8	0,8
13.	Others	18.317	4,1	4,0	3,9	4,0	4,0
14.	Total revenue	228.251	50,6	50,3	50,4	50,8	51,2
p.m.	Aggregate levy	206.988	45,9	45,6	45,7	46,1	46,3
		Main components of expenditure					
15.	Consumer spending	79.938	17,7	17,2	16,7	16,6	16,5
15a.	Compensation	60.332	13,4	13,0	12,6	12,6	12,5
15b.	Intermediate consumption	19.606	4,3	4,2	4,1	4,0	4,0
16.	Social benefits	128.317	28,4	28,6	27,0	27,1	27,3
16a.	Social benefits in kind	36.655	8,1	9,0	8,4	8,4	8,5
16b.	Social benefits in cash	91.663	20,3	19,6	18,6	18,7	18,8
	of which: unemployment benefits	0	10,6	8,3	7,0	6,7	6,6
17.	Interest expenses	8.833	2,0	1,7	1,4	1,2	1,2
18.	Subsidies	22.979	5,1	4,3	4,2	4,1	4,1
19.	Gross fixed capital formation	12.496	2,8	3,0	2,8	3,0	3,0
20.	Capital transfers	3.795	0,8	0,9	0,8	0,9	0,9
21.	Others	14.211	3,1	2,3	2,0	2,0	1,9
22.	Total expenditure	270.569	60,0	58,0	54,9	54,8	54,8

4.2.2 The evolution of the structural balance

Taking account of cyclical influences and one-offs, the structural balance is deducted from the above nominal path.

In the FPB scenario, potential growth averages 0.9 percent in the 2020-2021 period, then accelerates, and average potential growth rises to 1.3 percent in the period 2023-2024. Real effective growth declined significantly in 2020. A relatively strong recovery is expected in 2021, followed by a slower pace of recovery over the period 2022-2023. The output gap - which was still positive in 2019 - turned sharply negative in 2020. During the period 2021-2023, the output gap remains negative but closes quickly to become positive again from 2024.

Exceptional measures to combat the coronavirus pandemic and with only a temporary impact are not considered as one-offs, in accordance with the European directives under the General Escape Clause.

Table 7: Composition of the structural balance of all the public authorities

As a % of GDP	2020	2021	2022	2023	2024
1. Real GDP growth	-6,3	4,1	3,5	1,7	1,5
2. Effective financing balance	-9,4	-7,7	-4,5	-4,0	-3,7
3. Interest expenses	2,0	1,7	1,4	1,2	1,2
4. One-off or temporary measures	0,0	0,1	0,1	0,0	0,0
Of which					
One-off revenue measures	0,1	0,1	0,1	0,0	0,0
One-off expenditure measures	0,0	0,0	0,0	0,0	0,0
5. Potential GDP growth (% of GDP)	0,9	0,9	1,1	1,3	1,3
6. Output gap	-5,9	-2,9	-0,6	-0,2	0,1
7. Cyclical component of the budget	-3,6	-1,8	-0,4	-0,1	0,0
8. Cyclically adjusted financing balance (2-7)	-5,7	-5,9	-4,1	-3,9	-3,7
9. Cyclically adjusted primary balance (8+3)	-3,8	-4,3	-2,7	-2,6	-2,5
10. Structural balance (8-4)	-5,8	-6,1	-4,2	-3,9	-3,7

4.2.3 The evolution of the debt ratio

Public debt (Maastricht definition) reached 114.1% of GDP at the end of 2020, an increase of 16 percentage points of GDP compared to 2019. This is the highest level of debt in more than 20 years, although it is still below the 1993 peak of over 130% of GDP.

The explanation for this higher public debt is twofold; firstly, there is of course the deficit in the nominal balance mentioned above, resulting from the increase in expenditure and the fall in revenue due to the COVID-19 crisis. On the other hand, the slowdown in economic activity also caused a decline in GDP; if the GDP in 2020 had remained at the same level as in 2019, public debt would have reached 108.1%.

For 2021, the debt ratio is estimated at 116.3% of GDP. It is expected to increase further to 117.4% in 2024. The increase between 2021 and 2024 is entirely due to the estimated impact of exogenous factors. Endogenous factors have the effect of reducing the debt ratio. Exogenous factors include a number of technical aspects such as the differences between SEC and cash concepts. In addition, no account has been taken of revenue from privatisations.

Table 8: Determinants of the debt ratio

As a % of GDP	2020	2021	2022	2023	2024
1. Debt ratio	114,1	116,3	116,0	116,7	117,4
2. Change in debt ratio	16,1	2,1	-0,3	0,8	0,6
	Factors determining the debt ratio				
3. Primary balance	-7,4	-6,0	-3,1	-2,8	-2,5
4. Interest expenses	2,0	1,7	1,4	1,2	1,2
5. Exogenous change in debt	1,2	0,0	0,9	0,6	0,6
p.m. Endogenous factors	14,9	2,1	-1,2	0,1	0,0
p.m. Implied interest rate (in %)	1,7	1,4	1,2	1,0	1,0

4.3 Comparison with the 2020 stability programme and sensitivity analysis

4.3.1 Comparison with the 2020 stability programme

The 2020 stability programme was prepared under exceptional circumstances due to the COVID-19 epidemic. In this context, the European Commission issued guidelines on how to streamline and simplify the stability programmes in 2020 in the light of these exceptional circumstances and the severe constraints faced by Member States at that time. Therefore, last year's stability programme was geared towards 2020.

Table 9 compares the growth assumptions and budgetary goals of the current and previous stability programmes for 2020.

Table 9: Comparison with the previous stability programme

% GDP	2020
GDP growth (at constant prices)	
Previous update	-8,0
Current update	-6,3
Difference	1,7
Net lending	
Previous update	-7,5
Current update	-9,4
Difference	-1,9
Structural balance	
Previous update	/
Current update	-5,8
Difference	
Gross debt ratio	
Previous update	115,0
Current update	114,1
Difference	-0,9

4.3.2 Sensitivity analysis

a. Sensitivity analysis of GDP growth

Two alternative scenarios will be examined in relation to GDP growth. The first scenario is based on an acceleration of economic growth of 0.5% per year over the period 2021-2024, which represents a cumulative total of 2% for the entire period. The second scenario assumes that annual GDP growth will be 0.5 percentage points lower than the baseline assumption over the period 2021-2024. This analysis is based on the assumption of a constant elasticity of public finances in relation to GDP, as estimated by the European Commission, namely 0.615 for Belgium.

The net lending will become positive more quickly in the event of stronger growth. With growth 0.5 percentage points higher than the baseline scenario, the nominal net lending is projected to improve by 0.3% of GDP in 2021. In 2022, the impact on the nominal net lending should be 0.6% of GDP.

If growth is lower than forecast, the annual impact will also be 0.3% of GDP, implying that the nominal net lending should deteriorate by 0.3% of GDP in 2021. This figure is expected to increase further to 1.2% of GDP in 2024, leading to a nominal balance of -4.9% of GDP. This deterioration in the balance is explained, on the one hand, by revenue factors, such as a fall in tax revenue and, on the other hand, by expenditure factors, in particular an increase in unemployment benefits.

Table 10: Impact of alternative growth assumptions on the net lending

As a % of GDP	2020	2021	2022	2023	2024
Stability programme					
Real GDP growth	-6,3	4,1	3,5	1,7	1,5
Net lending	-9,4	-7,7	-4,5	-4,0	-3,7
Positive change of 0.5 pp/year					
Real GDP growth		4,6	4,0	2,2	2,0
Net lending		-7,4	-3,9	-3,0	-2,4
Negative change of 0.5 pp/year					
Real GDP growth		3,6	3,0	1,2	1,0
Net lending		-8,0	-5,1	-4,9	-4,9

b. Interest rate sensitivity analysis

Given the current economic context and the sensitivity of public finances to interest rate fluctuations, an interest rate sensitivity analysis was also carried out.

Rising market interest rates affect public finances in a number of ways. Firstly, due to the ongoing need for refinancing, there is a direct impact on interest charges, which has a negative impact on the balance. On the other hand, increases in interest rates can also have a negative impact on economic activity, mainly because of the direct effect of interest rates on consumption and investment.

The table below shows the results of a simulation of a linear increase in the yield curve of 100 basis points starting in March 2021. For 2021, this would result in an increase in interest expense of €278 million.

A linear increase in the yield curve of 100 basis points would lead to a direct increase in interest charges of EUR 0.28 billion (0.1 % of GDP) for Entity I in 2021, and EUR 1.8 billion (0.3 % of GDP) in 2024. Since the majority of the debt is held by Entity I, these figures provide an adequate indication of the cost of an increase in interest rates.

However, this impact on the financing balance relates exclusively to the direct impact of an increase in interest rates. The indirect impact on the economy of such an increase is not part of this sensitivity analysis.

Table 11: Impact of an increase in interest rates for Entity I

Impact of an increase in interest rates with 100 basis points (*)	2021	2022	2023	2024
Impact on long-term interest expense	134	634	1.068	1.496
Impact on short-term interest expense	144	281	306	338
Difference in interest expense vs. baseline scenario (in EUR million)	278	915	1.374	1.834
Difference in interest expense vs. baseline scenario (in % of GDP)	0,06	0,18	0,27	0,34

(*) before taking into account the impact of swap transactions from March 2021

4.4 Main points of fiscal policy per entity

4.4.1 Entity I

After the last two budget years, 2019 and 2020, which were characterised by provisional appropriation acts - and that was following the fall of the federal government on 18 December 2018, the 16 May 2019 elections and the long period of government formation - the 2021 budget year can enjoy a full-fledged budget.

In view of the high level of uncertainty regarding economic recovery and growth, the Federal Government will have to pursue a dynamic fiscal policy within the European framework. This policy is based on four guidelines:

- providing the necessary temporary and targeted resources for the fight against the pandemic and the mitigation of its impact on the most affected economic actors and population groups;
- implementing a strong recovery policy to turn around our businesses and increase investment in response to major challenges such as climate change and opportunities such as digitalisation;
- providing the resources necessary for this government to achieve its social, security and competitiveness objectives;
- ensuring fiscal sustainability without jeopardising the economic recovery. Therefore, the government agreement already provides for an annual budgetary effort in the years to come.

Recovery policy

This federal government will introduce an ambitious recovery plan in consultation with the Regions, Communities and local authorities. The recovery and investment plan will give a strong boost to our economy, create jobs and accelerate the transition to a low-carbon economy. A total of EUR 4.7 billion is earmarked for this purpose in the Federal Government Agreement for the period 2020-2024. This took into account, inter alia, EUR 1.0 billion from the NextGenerationEU temporary stimulus instrument. In the meantime, the federal share of the envelope allocated to Belgium has been increased by EUR 250 million.

And in the course of the budget review, the federal government also decided to provide an additional boost of EUR 328 million (excluding VAT) on top of these European funds. A total of EUR 5.3 billion will be injected into our economy as part of the recovery policy.

New policies

The federal government agreement clarifies its ambitious social, security and economic competitiveness goals. To achieve these goals, structural measures are planned which will amount to EUR 3.2 billion by 2024.

Dynamic fiscal policy

In the majority agreement, the federal government has decided that a fixed budgetary effort of 0.2% of GDP will be made each year in the period 2021-2024, to which will be added a variable effort, depending on economic growth and recovery. Since the Belgian economy will not have recovered sufficiently from the coronavirus crisis by 2021, this variable effort will be 0% in 2021.

From 2022 onwards, a variable effort will be set each year. Once the Belgian economy has sufficiently recovered from the crisis and is growing at its potential, the variable effort will be 0.2% of GDP per annum. If economic growth is lower, the variable effort will be lower. If economic growth is higher, it will be higher.

The final variable component will be defined each year on the basis of the most recent figures from the Federal Planning Bureau's economic budget.

At the time of the government agreement and on the basis of the economic forecasts presented at the time by the Federal Planning Bureau, this implied a total fiscal effort for Entity I of 1.4% of GDP by 2024, with 0.8% of GDP via a fixed effort and 0.6% via a variable effort.

For the submission of the stability programme, account has been taken of this starting point and of the subsequent effort with regard to Entity I:

Entity I	2021	2022	2023	2024
Fixed	0,2%	0,2%	0,2%	0,2%
Variable	0	0,2%	0,2%	0,2%
Total	0,2%	0,4%	0,4%	0,4%

2020

On 20 April 2021, the ICN published the notification of the government deficit and debt to the European Commission under the excessive deficit procedure. According to the European Commission, the financing balance of Entity I for 2020 shows a deficit of EUR 31 billion or -6.9% of GDP (based here on the CSF concept, i.e. payment of regional personal income tax according to the advance payment system). The estimate of this balance takes into account the direct impact of the COVID-19 measures taken by the government, which are estimated at around EUR 16 billion, and also excludes the impact of tax exemptions on regional and local support in the context of the COVID-19 pandemic. Moreover, this balance is obviously also affected by the impact of the economic crisis.

2021

The financing balance of Entity I is estimated at a deficit of EUR 29.9 billion for 2021, or -6.3% of GDP. This balance is also negatively affected by the numerous measures taken in the fight against the COVID-19 pandemic. For 2021, the direct impact is provisionally estimated at around EUR 8 billion (excluding the impact of tax exemptions on regional and local support for the COVID-19 pandemic).

The government is maintaining the policy it set out in the original budget. For 2021, the focus remains on providing the necessary means and measures to deal with both the health crisis and the economic crisis, and to give a boost to businesses and SMEs.

4.4.2 Entity II

4.4.2.1 Flanders

	DB 2021	DAB 2021	Difference
Net lending	**-3.547.835**	**-4.426.225**	**-878.390**
Construction costs main works Oosterweel (incl. Interes	146.086	146.086	
Revenus recovery plan (EU)	0	-1.048.837	
Expenditures recovery plan (EU)	0	2.000.000	
Corrections before budgetary target assessment	146.086	1.097.249	951.163
Balance after correction of budgetary target	-3.401.749	-3.328.976	72.773

The prefiguration of the budgetary adjustment (AB 2021) results in a deficit of EUR 4.4 billion. This deficit includes the estimated construction costs of EUR 146.1 million for the main works on the Oosterweel link and takes into account the estimated income and expenditure for the "Vlaamse Veerkracht" (Flemish Resilience) recovery plan (see below). The budgetary impact of the third wave of coronavirus has not yet been included in this deficit and is still being adjusted. The financing balance shown above is therefore subject to reserve, as it currently includes EUR 1 billion of coronavirus expenditure (= figure for the 2021 budget preparation).

The Flemish Government is an investment government. It will monitor and report on its efforts on the basis of a clear investment definition. With the Oosterweel link and the recovery plan, we are planning a significant additional investment boost that we are not including in our budget target. This additional expenditure should provide a sustainable increase to the productivity and competitiveness of the Flemish economy. The balance after corrections to the control of the budgetary target amounts to EUR -3.3 billion.

The Flemish government has undertaken to ensure that the underlying budget deficit is at least halved in 2024 compared with the 2022 deficit, leaving aside the part of the 2022 deficit resulting from the implementation of the VV recovery plan and the Oosterweel junction. Following the country-specific recommendations, a Flemish spending standard will be included in the 2022 budget.

It is assumed that the rules for the allocation of EU subsidies apply for the 'Vlaams Veerkracht' recovery plan. A total of EUR 4.3 billion of stimulus funding is planned for investment and reform in Flanders. However, the revenue from Europe amounts to a maximum of EUR 2.255 billion, which means that, proportionally, a maximum of 52.44 % is financed by European revenue. For 2021, the expenditure for the recovery plan is estimated at a maximum of EUR 2 billion of liquidation appropriations in SEC. In proportion to the above ratio, EUR 1.048 billion in revenue from Europe is expected.

In relation to the preparation of the 2021 budget, no detailed figures are yet available for the 2021 budget adjustment. AB 2021 was indeed used as an experiment for adapting the process and testing a minimal execution. The AB process is not quite finished yet, as the draft decrees will be submitted to the Flemish Parliament on 21 May.

The minimum implementation of the budgetary adjustment is in line with the philosophy of a performance-based budget. The overhaul of the budgetary adjustment process should enable a more strategic and sustainable approach to Flemish public finances. Sound public finances require a modern and agile administration with a focus on added value. This added value lies in the analysis and evaluation of the policy, including the "Vlaamse Brede Heroverweging" (VBH) and the spending reviews. From a political point of view, the preparation and implementation of the budget are two key moments.

The timing of the budgetary adjustment has been shifted so that the process better matches the execution account of the previous budget year. The execution of this cycle is also more technical and budgetary (no new policy): updating of open-end regulations on the basis of implementation data, budget-neutral offsets that do not initiate a new policy, incorporation of a number of central adjustments (index, distribution of endogenous growth, etc.) and adjustments on the revenue side on the basis of the most recent economic parameters.

Following the country-specific recommendations, the Flemish Government decided to launch a "Vlaamse Brede Heroverweging", based on the experience of the spending reviews pilot project in 2019. This involved a thorough check of all expenditure items and, where necessary, of the cost coverage rates in the Flemish budget. The VBH, which is also included in the Flemish contribution to the Recovery and Resilience Plan, should eventually lead to a structural anchoring of the spending reviews and took place in spring 2021. It was therefore decided to start this year with the minimum budgetary adjustment, on an experimental basis.

4.4.2.2 Walloon Region

Like all entities in the country, in Europe and, even more widely, around the world, the Walloon Region must deal with the coronavirus pandemic. While this crisis has had a profound impact in health and socio-economic terms, the extent of which cannot be measured with certainty at this stage, the repercussions and impacts on public finances are very significant.

Indeed, on the basis of the provisional accounts for 2020, the impact of the health crisis on regional finances has been estimated at EUR 2.16 billion (EUR 1.55 billion in expenditure and EUR 0.6 billion in reduced revenue). As a result of this impact, the provisional accounts for 2020 should show an ESA financing balance (LSF concept) of EUR -2.568 billion. By immunising the expenditure and the revenue reductions linked to COVID-19, the SEC financing balance (CSF concept) should be reduced to -EUR 449 million (excluding the expenses dedicated to the Recovery, the balance would be -EUR 163 million).

As regards the budgetary targets for the coming years, it should first be noted that recent published estimates of economic parameters show how volatile the indicators can be. Moreover, it is clear that these forecasts are bound to change as the pandemic evolves and its socio-economic consequences, in particular, change. On 31 March 2021, the expenditure already incurred in the coronavirus crisis was already estimated at more than EUR 600 to 700 million, whereas in the initial budget it was estimated at EUR 700 million for the whole year.

It is in this more than uncertain context that the Walloon government's budget work to prepare the 2021 adjustment will begin in May.

Since the 2020 adjustment, the government has adapted its approach to budgetary targets so it can deal with this unprecedented context. In fact, the government is presenting a path which tends to ensure that, excluding the impact of COVID-19 and the recovery plan, the Region's path remains identical to the budgetary objectives of the government agreement, including the savings measures already set out in the previous financial year.

By pursuing this approach, neutralising the essential strategic investments and subject to the forthcoming adjustment, the objective for the Walloon Region in 2021 would be to aim for a deficit limit similar to that set in the initial budget.

This approach makes it possible to give a clear objective of a return to balance by 2024 as regards the Region's ordinary expenditure, but nevertheless takes into account the imponderables necessary for the recovery and strategic investments and the unknowns linked to the end of the coronavirus crisis.

Indeed, the coronavirus crisis will certainly continue, at least in terms of its effects on the Region's finances in 2022, and it is therefore appropriate not to take into account in the calculation of the path either the direct and indirect expenditure linked to the coronavirus or the reductions in revenue that can be directly attributed to COVID-19, subject to the maintenance of the general safeguard clause, which has so far been announced by the EU until 2022.

The Walloon Region is also fully in line with the Recovery and Resilience Plan set up by Europe, the details of which are currently being discussed with the country's various entities. Whether in the context of its Regional Policy Statement, Get-Up Wallonia (currently under development) or the immediate recovery, resilience and transition measures, the Region has always wanted to be involved in a three-part transition:

- ecological transition: updating energy efficiency, public housing renovation plan, mobility and soft mobility, renewable energy, biodiversity, agriculture and food;
- transition of knowledge and skills: training, internships, literacy, skills upgrading, orientation towards science, technology, engineering and mathematics (STEM), etc.;
- economic and industrial transition: transition to a circular, regenerative and zero waste economy; development of economic sectors of the future, such as digital, biotechnology, bioeconomy, silver economy, artificial intelligence, modernisation of industry; consideration of new economic models and new democratic methods of work organisation (such as cooperatives) that are respectful of workers, consumers' rights and the planet; support for self-creation of employment (strengthening local economic anchoring).

These objectives for the Region, already set out in the government agreement, are fully in line with the objectives of the European RRP, since the selection criteria at European level contribute to ecological and digital transition plans, a sustainable impact of the investments on economic growth, job creation, economic and social resilience and a fair balance between cost and return on investment.

4.4.2.3 Brussels-Capital Region

Although the effects of the COVID-19 crisis will not only have an impact on the 2020 budget, but also on that of the following years, the Government of the Brussels-Capital Region has set itself the goal of returning to a balanced budget in 2024, with the exception of certain strategic growth-promoting investments.

To avoid undermining the early economic recovery and promote sustainable and inclusive growth, the Brussels-Capital Region will continue to invest in mobility, social housing, employment policy and the implementation of the Climate Plan. In addition, specific recovery measures will be implemented, and will be financed to the maximum extent possible by the European Recovery and Resilience Plan. At the same time, multi-annual rationalisation paths will be launched, focusing on the increased effectiveness and efficiency of public spending (e.g. through spending reviews), thereby generating savings and creating room for strategic growth-enhancing measures.

In the evaluation of the budgetary objective, the Government of the Brussels-Capital Region does not take into account certain strategic investment expenditure that results from the attacks or has a significant economic impact. Strategic investments have been clearly delineated and a concrete multi-annual path has been agreed (around EUR 500 million per year during this legislature), which will be closely monitored. The majority of strategic investments will be reserved for investments in metros, trams and buses (including the expansion and modernisation of the metro and tram network and heavy electrical equipment for the metro to ensure the safety and performance of the network). In addition, a large part of the budget will be devoted to the necessary extensive renovation of the tunnels. The Region's security investments, which will only be included in the strategic investments in 2021, are for the final phase of the creation of the crisis and communication centre.

4.4.2.4 French Community

The 2020 budget of the Wallonia-Brussels Federation ended with a deficit of approximately 1.6 billion euros; its increase was mainly caused by the economic crisis that followed the health crisis. The FWB's revenue is made up of allocations indexed to inflation and to GDP growth, estimated at -10.6% for 2020. On the expenditure side, an emergency fund of approximately EUR 240 million was created to support stakeholders reliant on the competences of the FWB.

The initial 2021 budget, drawn up at the end of 2020, resulted in a deficit of 821 million euros, based in particular on an improvement in the 2020 growth forecasts, from -10.6% to -7.4%, and on a recovery in growth in 2021, estimated at +6.5%. Expenditures, on the other hand, increased by about 3% (not including emergency-related expenditures in 2020).

However, the adjustment of this budget, which will be presented to Parliament in July, will lead to an increase in this deficit, particularly in view of the revision of GDP growth estimates in 2021 from +6.5 % to +4.1 %, which will lead to a reduction in revenue of approximately EUR 30 million.

However, this adjustment was still being prepared when the stability programme was concluded.

Furthermore, despite the crisis and the sharp drop in the FWB's funding, the Government decided to maintain the implementation of the education reform initiated in 2017, the "Pact of Excellence", for which expenditure in 2021 is estimated at €280 million, and should generate return effects in the next few years, in particular due to the expected reduction in repetition, the cost of which is currently estimated at more than €400 million per year for the FWB.

In addition, as part of the 2021 budget, the Government has also decided to structurally increase by some EUR 50 million its investment expenditure in infrastructure and the digital transition, so it can respond to the dynamic set in motion by the Recovery and Resilience Plan, which will represent European funding of approximately EUR 495 million for the sectors within the FWB's remit.

Lastly, in view of the deterioration of the deficit, at the end of 2020 the Government decided on a strategy of analysing its expenditure to ensure that it is efficient and in line with the objectives of the Community policy statement. This strategy will have to be stepped up gradually in the coming years. For the time being, a pilot "spending review" exercise has been launched and will be supported by the OECD through technical assistance financed by the European Commission.

4.4.2.5 German-speaking community

The budgetary policy of the German-speaking Community is part of the Belgian budgetary policy, with the main objective of reducing deficits and in the context of the European obligations resulting from the Six-Pack and Two-Pack programmes.

2020 Budget and beyond

The German-speaking Community will experience a shortfall in revenue of 38 million euros in 2020 and 2021 due to the COVID-19 pandemic. This corresponds to about 10% of the GC's budget for one year. In the following years, this shortfall is expected to be between 9 and 12 million euros per year.

Furthermore, additional expenditure due to the pandemic amounted to 33.3 million euros in 2020 and 47 million euros in 2021, i.e. a total of 80 million euros, of which 3 million euros will recur annually.

This results in a total deficit of EUR 50 million in 2020 and EUR 95 million in 2021, i.e. EUR 145 million. This corresponds to more than a quarter of the GC's annual budget.

In this context, it is quite impossible for the German-speaking Community to achieve a balanced budget according to SEC standards during this legislative period.

In addition, the government has decided to act in a counter-cyclical manner and launch an investment programme totalling 600 million euros, spread over ten years.

The main themes of this programme are the care sector, climate protection and digitalisation. It will make a decisive contribution to boosting the regional economy.

For this reason, the government has decided to neutralise a large part of its infrastructure investments, as the other entities in the country have been doing for some time.

As a result, the deficit in 2020 will be 35 million euros, plus 15 million euros of neutralisation, i.e. 50 million euros. In 2021, the deficit will be 45 million, plus the neutralisation of 50 million, which equals 95 million euros.

The German-speaking Community will of course seek funding from the European Union's recovery programme to (partly) close these financial gaps.

5. Sustainability of public finances

The sustainability of public finances depends, among other things, on the implicit liabilities associated with population ageing, as well as on the contingent liabilities of the public authorities. These two aspects are discussed below.

5.1 The budgetary cost of ageing

Major structural pension reforms have been adopted via the law of 10 August 2015. These measures are intended to meet the cost of demographic ageing and guarantee the long-term sustainability of Belgian public finances.

The legal retirement age will be gradually raised from 65 to 66 in 2025 and to 67 in 2030. The age and seniority requirements for early retirement have been made more stringent. The minimum age was raised from 62.5 to 63 in 2018. The minimum career length was increased from 41 to 42 years in 2019. The minimum age for receiving a survivor's pension will increase to 50 in 2025 and 55 in 2030.

The government agreement provides for the Minister for Pensions to submit a concrete proposal to the Council of Ministers by 1 September 2021 on future reforms to ensure the financial and social sustainability of the system.

5.1.1 The long-term budgetary consequences of ageing

According to the baseline scenario of the 2020 report of the Study Committee on Ageing (CEV), the budgetary cost of demographic ageing, defined as the increase in total social expenditure, is expected to total 4.3% of GDP between 2019 and 2070. This is an increase of 2.2 percentage points from the July 2019 CEV results. More than three-quarters of this difference is attributable to the 2019-2025 medium-term period (1.7 percentage points).

It should be mentioned that since the CEV report is dated July 2020, it does not take into account the second wave of COVID-19 and its negative effects, the additional measures decided upon in the fight against COVID-19, or the government agreement.

This increase between 2019 and 2025 is primarily due to the fact that GDP has not recovered its projected level for 2025 in the absence of a COVID-19 pandemic (this lower GDP increases the burden of all social expenditures). This "GDP effect" is responsible for more than half (0.9 percentage points) of the increase in the budgetary cost compared to the 2019 CEV report projection and for almost all of the increase in pension and healthcare spending. Other factors are also at play for some social expenditures. In primary disability expenditure, the number of disabled persons has been revised upwards by the INAMI, while, contrary to predictions in the previous report, unemployment expenditure is not reduced in the new forecasts following the COVID-19 crisis. Lastly, among other social expenditures, integration income expenditures are higher due to an additional number of beneficiaries as a result of the crisis caused by the COVID-19 pandemic

Total social expenditure should rise from 24.8% of GDP in 2019 to 29.1% of GDP in 2070. This expenditure should reach a maximum of 29.8% of GDP by 2040.

Between 2019 and 2070, the increase in pension and healthcare expenditure, each by 2.6 percentage points of GDP, would be partly offset by the decrease in other expenditure (-0.9 percentage points of GDP).

The table below details the budgetary cost of ageing according to the CEV baseline scenario.

Table 12: The table below details the budgetary cost of ageing according to the CEV baseline scenario (in % of GDP)

Budgetary cost components of aging	2019	2025	2040	2070	2019-2040	2040-2070	2019-2070
Pensions	10,6	12,0	13,5	13,3	2,9	-0,3	2,6
Employees	6,0	6,9	7,9	7,5	1,9	-0,3	1,6
Self-employed	0,8	1,0	1,1	1,2	0,3	0,1	0,4
Public sector[a]	3,8	4,1	4,5	4,5	0,7	0,0	0,7
Health care[b]	7,9	8,8	10,0	10,4	2,2	0,4	2,6
Disability	2,0	2,5	2,3	2,0	0,3	-0,3	0,0
Unemployment[c]	1,3	1,2	1,0	0,9	-0,3	-0,1	-0,4
Family allowances	1,5	1,5	1,3	1,0	-0,2	-0,2	-0,4
Other social security expenditure[d]	1,5	1,7	1,7	1,5	0,1	-0,2	-0,1
Total	**24,8**	**27,6**	**29,8**	**29,1**	**5,0**	**-0,7**	**4,3**
p.m. Teaching salaries[e]	4,0	4,1	3,9	3,8	-0,1	-0,1	-0,2

Bron: Source: Annual report Study Committee on Ageing July 2020

a. Including the pensions of public businesses dependent on the State (the results presented in this report do not include the raising of the age and career requirement for early retirement, nor the raising of the legal retirement age in these schemes) and the GRAPA.

b. Public spending on acute and long-term health care.

c. Including unemployment with company top-up, time credit and career break

d. Mainly expenditure on accidents at work, occupational diseases, living security fund (only the part under social security according to SEC 2010 principles), disability benefits and integration benefits

e. According to the CEV definition, teachers' salaries are not part of the total budgetary cost of ageing. On the other hand, educational expenditure is included in the budgetary cost of ageing, according to the concepts of the Ageing Working Group.

More than three-quarters of this difference is attributable to the medium-term period and the remainder to the downward revision of the fertility assumption in the demographic outlook used. In the long term, this leads to a smaller working-age population, which has an impact on the labour force, employment and GDP.

Lower GDP increases overall social expenditure as a percentage of GDP, which is far from offset by lower expenditure on family and maternity benefits.

In its 2020 report, the CEV developed three alternative scenarios to assess their impact on the estimated cost of ageing. These alternative assumptions concern labour productivity growth (which determines the evolution of the average wage) and the long-term structural unemployment rate. These hypotheses are each tested separately and then in combination.

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

In the first alternative scenario, annual labour productivity growth is assumed to be significantly lower than in the baseline scenario. It amounts to 1% from 2031, instead of 1.5% from 2045, all other assumptions remaining unchanged. In this case, the average annual productivity growth rate is 0.3 percentage points lower over the projection period. With unchanged employment, these lower productivity gains lead to a GDP in scenario S1 that is 1.4% lower in 2040 than in the baseline scenario and 14.5% lower in 2070. The budgetary cost of ageing over the period 2019-2070 increases by 2.2 percentage points of GDP to 6.5% of GDP. The increase is particularly noticeable in pension and healthcare expenditure.

In the second alternative scenario, the long-term structural unemployment rate decreases to 8% in 2028, instead of 7% from 2032 onwards in the baseline scenario. Between 2020 and 2040, employment grows less rapidly in scenario S2 than in the baseline projection and the level of GDP is 1.1% lower in 2040. After 2040, the employment growth rate evolves at the same rate as in the baseline scenario, as does GDP. The budgetary cost of ageing over the period 2019-2070 increases by 0.4 percentage points of GDP to 4.7% of GDP.

When these two alternative scenarios are combined (lower productivity growth and higher unemployment rate than in the baseline scenario), the level of GDP is 2.4% lower in 2040 and 15.4% lower in 2070 than in the baseline scenario and the budgetary cost of ageing increases by 2.7 percentage points of GDP to 7% of GDP between 2019 and 2070.

Political strategy

To meet the challenge of demographic ageing, the Belgian authorities have developed a comprehensive strategy, of which fiscal policy is only one aspect. This strategy is based on three key areas:

- budgetary: the government agreement of 30 September 2020 provides for a fixed budgetary effort of 0.2% of GDP each year from now until 2024, to which will be added from 2022 onwards a variable effort that will depend on growth and economic recovery. The total budgetary effort will be distributed as follows: 1/3 expenditure, 1/3 revenue, 1/3 miscellaneous;
- economic: economic growth is stimulated by reductions in the burden on labour and structural reforms of the labour market and pensions. Thanks to this dynamic growth, social spending is reduced and the basis for its financing is broadened;
- social security: the government wishes to modernise social security in collaboration with the social partners, in order to guarantee its sustainability while developing its efficiency.

These three key elements are mutually reinforcing. Progress in one area contributes to the achievement of the goals of the other areas.

5.2 Engagements conditionnels

5.2.1 Entity I

The sustainability of public finances is determined, among other factors, not only by the evolution of the government's firm commitments, but also by that of contingent liabilities. These contingent liabilities are not part of the public debt and represent only potential debt. When guarantees are called upon, capital transfers are made which then have an unfavourable impact on the financing balance and, consequently, on the public debt. To date, the federal government has never been required to make a payment under a guarantee agreement entered into with a financial institution during the financial crisis.

In March 2020, the federal government and the financial sector reached an agreement to supply sufficient funding to households and businesses throughout the coronavirus crisis. The Law of 27 March 2020 and the Royal Decree of 14 April 2020 introduced a State guarantee scheme for new loans with a maximum duration of 12 months that met certain conditions (Guarantee I). The scheme originally expired on 30 September 2020 but has been extended to 31 December 2020. The maximum amount of loans guaranteed by the Federal State is EUR 50 billion. The deadline for calling in the State guarantee is 30 June 2023. To date, a total of EUR 3.3 billion has been granted under this scheme.

When the guarantee scheme was created in March 2020, it was still assumed that the coronavirus crisis would last a relatively short time. The law of 20 July 2020 introduced a new State guarantee scheme covering new loans to SMEs with a maturity of more than 12 months and up to 36 months (Guarantee II). The maximum guarantee amount of this supplementary scheme is 20 % of the envelope of the first guarantee scheme. This means that loans can receive a State guarantee for a global principal amount of up to EUR 10 billion.

The supplementary guarantee scheme was modified in December 2020 to allow loans to be made until 30 June 2021 and, from 1 January 2021, it also applies to loans with a term of between 12 months and 5 years. This new scheme is also available to borrowers who were already considered to be distressed businesses as of 31 December 2019. The deadline for calling in the State guarantee is 30 June 2025. To date, a total amount of EUR 338 million has been granted under this scheme (subject to possible changes in reporting).

Since 2008, in the context of the financial crisis, the federal government has granted guarantees, on the one hand, on Dexia's interbank loans and, on the other hand, on the risky structured assets of some financial institutions. As of autumn 2014, only Dexia still benefits from the State guarantee, as the amount of outstanding guarantees in favour of KBC and Ageas has fallen to EUR 0 billion.

At present, only the 2011/2013 guarantee scheme in favour of Dexia is still active for a maximum amount of EUR 85 billion, in which Belgium holds a 51.41% share (almost EUR 43.7 billion). At the end of 2020, Belgium's exposure to Dexia was EUR 28.50 billion, compared with EUR 31.12 billion at the end of 2019. On 31 March 2021, the outstanding amount of the State guarantee to Dexia amounted to EUR 26.60 billion, i.e. EUR 1.9 billion less than the amount at the end of 2020. As things stand at present and on the basis of the Treasury Administration's prospective risk analysis, there is no risk that within two years it will be necessary to call on the State guarantee for Dexia, the residual bank which is now being resolved in an orderly fashion. Dexia's financial situation is regularly monitored.

On 31 December 2021, the current guarantee scheme in favour of Dexia will expire. An extension of the guarantee scheme for ten years from 2022 has been agreed. The maximum guarantee amount has been reduced to EUR 75 billion. The Luxembourg State's share of the guarantee is divided between the Belgian and French States. Belgium's share of the guarantee thus increases to 53%. The reduction in the maximum guarantee amount means that Belgium's exposure to Dexia falls by EUR 3.95 billion to EUR 39.75 billion. The parliamentary process for the adoption of the law governing the extension is currently underway.

Apart from the guarantees granted in the context of the financial crisis from 2008 onwards, the debts of organisations or companies whose debt servicing is guaranteed by the federal government have generally followed a downward trend. At the end of 2020, this State-guaranteed debt, including the limited historical debts for school buildings of the French and Flemish Communities dating from before 1988, amounted to 2.97 billion EUR.

At the end of December 2020, the total amount of debt guaranteed by the federal government thus reached EUR 31.48 billion or 7% of GDP. This is a decrease of 10% compared to the end of 2019 (EUR 34.64 billion), mainly as a result of the decrease in Dexia's guaranteed debt. It should be noted that this amount does not include the amounts guaranteed by the deposit protection scheme managed by the Guarantee Fund for Financial Services, a function performed by the General Administration of the Treasury.

As compensation for the granting of guarantees (service fee) in the context of the financial crisis, the federal government received EUR 17.2 million in 2019 and EUR 15.2 million in 2020 on an accrual basis from the financial institutions. For this year, according to the latest estimate, this non-tax revenue should amount to EUR 13.8 million. Since 2015, only the guarantee in favour of Dexia remains, which only grants a very small indemnity for this.

For the sake of completeness, it should also be noted that Belgium, as a member of the euro zone, also guarantees EFSF loans in proportion to its share in the CBE's capital (adjusted by excluding the countries to which loans are granted, currently 3.73%) up to 160% of the total. As a reminder, the EFSF was created in June 2010 as a temporary mechanism to provide financial support to Ireland, Portugal and Greece. These guarantees granted to the EFSF are not included in contingent liabilities because the loans granted by the EFSF are directly recorded by Eurostat in consolidated gross government debt. At the end of 2018, Belgium guaranteed EUR 13.62 billion (principal and interest multiplied by a factor of 160%). This amount decreased in 2019 to EUR 13.55 and stood at EUR 13.24 or 2.94% of GDP at the end of 2020. The share of EFSF loans already included in the Belgian public debt is EUR 6.52 billion or 1.45% of GDP. In 2019, Portugal made a first early repayment, as a result of which the impact of the EFSF on Belgian debt decreased by EUR 74 million. Finally, it should be noted that if EFSF loans are not 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), whose organisation differs substantially from the EFSF. The capital subscribed by the members, i.e. the 19 Member States, amounts to EUR 704.8 billion. Belgium's share of this amount is EUR 24.3 billion (3.45%). The paid-in capital amounts to EUR 80.5 billion and the Belgian share of this amount is EUR 2.78 billion or 0.62% of GDP. Eurostat considers that the impact on members' public debt is limited to their capital contribution, provided that they do not benefit from ESM financial support operations. The remaining callable capital is considered a contingent liability.

Table 13: Contingent liabilities (Federal Government only, as of 1/1/2021) as a % of GDP

	List of measures	Date of adoption	Maximum amount of contingent liabilities (as a % of GDP) (1)	Estimated take-up (as % of GDP) (2)
in response to COVID-19	Household and corporate credit guarantee scheme - Guarantee II	22/06/2020	2,11%	0,07%
	Subtotal		2,10%	0,10%
Others	Guarantees to public enterprises	/	0,63%	0,63%
	Guarantees to the financial sector	/	8,41%	6,03%
	Miscellaneous guarantees	/	0,00%	0,00%
	Subtotal		9,04%	6,66%
	Total		**11,15%**	**6,73%**

5.2.2 Entity II

5.2.3 Flemish Community

The majority of the debts guaranteed by Flanders are maturing debts.

The list of debts guaranteed by the Flemish Region is diverse, but can be subdivided into three main categories: 1) guarantees to (local) authorities, 2) guarantees covered by assets, and 3) economic guarantees. The risk for the Flemish Authority in relation to the first group of guarantees is very limited. These guarantees were granted to local authorities or to agencies more or less autonomous from the Flemish Authority itself. This category was initially subsidised by the Flemish Government. In addition, the Flemish Authority generally performs a supervisory function via the Government Commissioners or the Agentschap Binnenlands Bestuur. The second category is covered by underlying assets. The Flemish Authority often has sufficient securities in this case, so that it can recover a substantial part of the requisitioned amounts if necessary. This security is often a mortgage. The risk of this being used is very small. A third category includes guarantees to companies to boost the economy and innovation. This category contains the most risks for the Flemish Authority. However, the percentage of the guarantee is almost never 100% of the loan. In addition, pari passu agreements have often been concluded with the banks or the guarantee can only be called upon after all (personal) securities have been called upon.

The total outstanding debt guaranteed by the Flemish Region on 31 December 2020 amounted to EUR 12.3 billion, which represents a slight decrease compared to 2019 (EUR 12.35 billion). The decrease in guaranteed debt is less than in previous years due to the coronavirus crisis. The guaranteed debt is expected to decrease further in the coming years.

In the course of 2015, the Flemish government decided to provide financing itself to a number of important players in the social housing sector, namely the VMSW (Vlaamse Maatschappij voor Sociaal Wonen) and the VWF (Vlaams Woningfonds), whereas they previously took out secured loans from banks or insurance companies themselves. In addition, a new flat-rate subsidy system has been developed with VIPA for both care and housing service centres and hospitals; this system no longer allows for the granting of guarantees. As a result, the secured debt of these three major players in the asset-backed category is declining, in contrast to a sharp increase previously. Guarantees to local authorities have also reduced in 2020. These are mainly existing secured loans that are being repaid. In the area of economic guarantees, guarantees increased as a result of the coronavirus crisis.

Table 14: Contingent liabilities

	List of measures	Date of adoption	Maximum amount of contingent liabilities (as a % of GDP) (1)	Estimated take-up (as % of GDP) (2)
in response to COVID-19	PMV Crisis Guarantee: for companies and self-employed persons who need a bridging loan due to the coronavirus crisis but are not covered by the federal guarantee scheme. This is in addition to the existing guarantee scheme of up to EUR 300 million per year for investment loans and up to EUR 1.5 million for operating capital with a 75 % guarantee by the Flemish Authority.	mei/20	0,02%	0,00%
	In the context of the temporary relaxation of EU state aid rules following the coronavirus crisis, Gigarant (guarantee scheme above EUR 1.5 million) will launch a guarantee adapted to COVID-19, which offers more flexibility. Gigarant's capacity guarantee will be increased by €1.5 billion to €3 billion.	mei/20	0,32%	0,08%
	Subtotal			
Others	Outstanding guarantees to local authorities			0,04%
	Outstanding guarantees covered by assets			2,28%
	Outstanding economic guarantees (without COVID-19)			0,19%
	Subtotal			2,52%
	Total		**0,34%**	**2,60%**

5.2.3.1 French Community

Loans guaranteed by the FC amounted to EUR 763 million at the end of 2020, which represents 56% of the maximum amount of contingent liabilities and a decrease of EUR 4 million compared to the end of 2019.

This decrease of EUR 4 million is mainly due to the reduction, according to the amortisation plans, of the amount guaranteed for the loans contracted by the RTBF, the Cinéma Palace and the Société de gestion Bois-St-Jean (EUR -11 million), partially offset by the increase in the number of loans guaranteed for subsidised free education schools, in application of the decree provisions (EUR +6 million).

No particular risk has been identified in relation to these contingent liabilities.

Table 15: Outstanding debts and rate of call on the regional guarantee

	List of measures	Date of adoption	Maximum amount of contingent liabilities (as a % of GDP) (1)	Estimated take-up (as % of GDP) (2)
in response to COVID-19				
	Subtotaal			
Others	Palace	2013	0,002%	0,001%
	RTBF	14/07/1997	0,027%	0,003%
	Bois Saint-Jean	2008	0,005%	0,004%
	FGBS	5/02/1990	0,254%	0,153%
	Centre sportif et culturel des Fourons asbl	30/03/2018	0,000%	0,000%
	SAFS Vinci Patrimoine		0,000%	0,000%
	Subtotaal		0,289%	0,162%
	Totaal		**0,289%**	**0,162%**

5.2.3.2 Walloon Region

The total guarantees of the Walloon Region amounted to 6,899 million as of 31/12/2020, in particular following the issuance of 304 million in new guarantees during 2020.

The main bodies that support the Walloon guarantee are the Société Wallonne du Crédit Social (2,580 million), the Société Wallonne du Logement (1,298 million), the Fond du Logement de Wallonie (1,016 million) and the Société Wallonne de Financement Complémentaire des Infrastructures (SOFICO). Alternative financing, via the programmes of the Centre Régional d'Aide aux Communes (CRAC) and the Société Wallonne pour la Gestion du Financement Alternatif (SOWAFINAL), amounts to 521 million in guarantees.

Smaller amounts are guaranteed by SRIW's GELIGAR programme for a total of 35 million and by the Société de Gestion des Participation (SOGEPA) for an amount of 159 million.

As mentioned above, the Region guaranteed a total of 304 million in 2020, 240 million of which for SWCS, 31 million via Gelligar and 24 million for the Walloon Transport Organisation.

The monitoring of the Region's guarantees is entrusted to the Financial Information Unit. The terms and conditions of the loans made by the various bodies are checked and validated by the Walloon Region's debt and financing unit.

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

Table 16: Outstanding debts and rate of call on the regional guarantee

	List of measures	Date of adoption	Maximum amount of contingent liabilities (as a % of GDP) (1)	Estimated take-up (as % of GDP) (2)
in response to COVID-19				
	Subtotal			
Others	CHRETIEN HOSPITAL	/	0,0264%	
	FLW	/	0,2150%	
	CRP LES MARRONNIERS	/	0,0007%	
	The Circuit de Spa-Francorchamps public limited com	/	0,0035%	
	SOFICO	/	0,1361%	
	SOWAER SA (OS) (2)	/	0,0429%	
	OTW (ex. SRWT)	/	0,0616%	
	SWCS	/	0,5457%	
	SWDE	/	0,0000%	
	Société Wallonne du Logement (SWL)	/	0,2745%	
	Belga Films	/	0,0003%	
	Entrepôts de la Famenne	/	0,0001%	
	Air Belgium	/	0,0003%	
	Icarus	/	0,0003%	
	Citadel of Namur	/	0,0000%	
	Fonderies Marichal Ketin	/	0,0001%	
	G TEC	/	0,0002%	
	NOVASEC SERVICES	/	0,0001%	
	SALM INVEST	/	0,0002%	
	KARRAS	/	0,0000%	
	PROXY SERVICES SPRL	/	0,0001%	
	TRENDY FOODS BELGIUM	/	0,0003%	
	WAMOS BENELUX	/	0,0002%	
	HAINAUT CARAVANING	/	0,0001%	
	ROM AG	/	0,0006%	
	MYDIBEL	/	0,0005%	
	MONNAIE SA (DECUBE Group)	/	0,0000%	
	BIA GROUP	/	0,0005%	
	CHAUSSURES MANIET	/	0,0005%	
	MATRENT (BIA GROUP)	/	0,0000%	
	MISOHAMA - Cassis & Paprika	/	0,0008%	
	MANEXCO (MANIET GROUP)	/	0,0002%	
	JOHN COCKERILL (form. CMI)	/	0,0011%	
	ASL Airlines Belgium	/	0,0004%	
	TPF SA	/	0,0002%	
	EDITOR BELGIUM	/	0,0000%	
	LOUYET GROUP	/	0,0003%	
			0,0000%	
	PROGRESCOM	/	0,0000%	
	JDC INNOVATION	/	0,0000%	
	RUE DU WEB	/	0,0000%	
	DEME	/	0,0003%	
	OILCO	/	0,0002%	
	SEAMADE	/	0,0006%	
		/	0,0000%	
	NLMK	/	0,0328%	
	BBK	/	0,0001%	
	BELGA FILMS	/	0,0001%	
	BODYMAT (ALLMAT)	/	0,0005%	
	MARICHAL KETIN	/	0,0000%	
	TRADITION CAMPAGNARDE	/	0,0001%	
	VALFRAIS	/	0,0001%	
		/	0,0000%	
	CRAC	/	0,0190%	
	SOWAFINAL	/	0,0017%	
	CRAC LT	/	0,0896%	
	Subtotal			
	Total		**1,5%**	

The outstanding debt guaranteed by the Brussels-Capital Region at 31/12/2020 amounted to EUR 3.1 billion.

Since 2002, the annual rate of guarantee calls on the total amount outstanding has been extremely low, as shown in the table below.

Table 17: Outstanding debts and rate of call on the regional guarante

Year	Outstanding amount 31/12 (x1000 euros)	Take-up (%)
2002	524.428	0,1522%
2003	596.329	0,1558%
2004	692.078	0,0045%
2005	823.449	0,0550%
2006	842.435	0,0872%
2007	1.101.324	0,0991%
2008	2.043.635	0,0068%
2009	2.086.646	0,0000%
2010	2.083.758	0,0000%
2011	2.212.102	3,0514%
2012	2.400.283	0,0000%
2013	2.579.254	0,0014%
2014	2.661.501	0,0000%
2015	2.698.122	0,0000%
2016	2.835.148	0,0481%
2017	2.776.331	0,0348%
2018	2.838.833	0,0353%
2019	2.937.807	0,0354%
2020	3.097.353	0,0099%

In 2011, the call rate of 3.05% was mainly due to the liquidation of Holding Communal. This exceptional event was caused by the collapse of the Dexia share price, which represented the majority of the holdings of Holding Communal. The full amount of this guarantee call has been recorded in the 2011 regional accounts. Despite this, the Region's 2011 budget target was met. The current portfolio of regional guarantees no longer includes this type of risk.

It is important to note that, following the consolidation in 2014 and 2015 of many companies in the Brussels-Capital Region in the general government sector (S1312), a significant proportion of the Region's contingent liabilities related to debts consolidated in the SEC: 73% of the debts guaranteed at 31/12/2020 are thus already included in the calculation of the consolidated gross debt of the National Accounts.

The table below shows the expected (maximum) evolution of the outstanding regional guarantees.

Table 18: Evolution of outstanding regional guarantees

Organisation	Outstanding amount 1/4/2021 (in million euros)	Maximum outstanding amomunt on 31/12/2021 (in million euros)
ABAE / BAOB	0	10
Bruxelles-Propreté / Net Brussel	0	24
Bruxelles – énergie / Brussel Energie	2	37
Centre de Tri SA / NV	0	60
Eco-prêts / Eco-leningen	6	6
Fonds de garantie / Waarborgfonds	33	34
Fonds du logement / Woningfonds	1157	1154
FRBRTC / BGHFGT	1011	1211
Vivaqua	359	346
Port de Bruxelles / Haven van Brussel	17	16
SBGE + Aquiris / BMWB + Aquiris	462	435
CityDev	0	4
SFAR	62	76
SLRB / BGHM	46	104
Sociétés de crédit social : actifs et passifs / Sociaal krediet maatschappijen : Activa en Passiva	59	61
STIB / MIVB	6	4
WIELS	1	3
TOTAL	3220	3584

Four entities account for more than 90% of the debts guaranteed by the Region as at 31/12/2020: the Fonds Régional Bruxellois de Refinancement des Trésoreries Communales (FRBRTC), the Fonds du Logement de la Région de Bruxelles-Capitale, Vivaqua and the Société Bruxelloise de Gestion de l'Eau (SBGE).

FRBRTC

The Region provides a guarantee for loans contracted by the Fund to finance Missions 1 (granting loans to municipalities in financial difficulty), 2 (financial intermediation activity for municipalities) and 5 (assistance to municipalities to finance their investments).

Under Missions 1 and 5, the Region assumes full responsibility for the repayment of principal and interest.

For Mission 2, the FRBRTC has a claim on the municipalities: these financial flows correspond exactly to the amounts for which the Fund is committed to the banks. The financial assets therefore cover the debts guaranteed by the Region for an equivalent amount.

The breakdown between missions 1 and 5 and mission 2 as of 31/12/2020:

Table 19: The breakdown between missions 1 and 5 and mission 2 as of 31/12/2020

BGFHGT – FRBRTC (x1000 euros)	31/12/2020
Mission 1	114.245
Mission 2	733.300
Mission 5	163.818
Total	1.011.363

The 2021 budgetary envelope foresees a guarantee authorisation of EUR 949 million for new funding for missions 1, 2 and 5.

Structure of guaranteed liabilities as at 31/12/2020:

Fixed rates: 61.75%

Variable rates: 38.25%

HOUSING FUND

The regional guarantee covers all loans taken out with banks by the Fonds du Logement, which enables it to grant mortgage loans to individuals. The presence of such an income item and an allocation granted each year by the Region makes the risk of calling on the regional guarantee very low.

The 2021 budget provides for a maximum guaranteed volume of new financing of EUR 186 million.

The total guaranteed outstanding amount of the Fonds du Logement at 31/12/2020 was EUR 1,057 million, of which 89 will be amortised in 2021.

SBGE

The regional guarantee mainly relates to the flows owed by the SBGE to the company Aquiris, the concessionaire of the Brussels North wastewater treatment plant. The contingent liabilities table shows the sum of all future cash flows that will be payable by SBGE to Aquiris by 2027. This total guaranteed volume thus decreases as SBGE makes payments to Aquiris.

The SBGE's revenue is largely explained by the income from the sewerage service invoiced to Vivaqua and by regional subsidies. The risk on this guarantee is therefore very low.

The debts guaranteed by the Region at 31/12/2020 amounted to:

- first rank (SBGE): EUR 92 million;
- second rank (Aquiris): EUR 370 million.

VIVAQUA

Vivaqua's revenue comes from the sale of water and from sewerage charges, two important components of the water price, which is offered by Vivaqua but approved by the Government. The stable and predictable nature of Vivaqua's revenue items makes the risk of calling the guarantee very low.

The debts guaranteed by the Region at 31/12/2020 amounted to EUR 340 million.

Table 20: Contingent liabilities

	List of measures	Date of adoption	Maximum amount of contingent liabilities (as a % of GDP) (1)	Estimated take-up (as % of GDP) (2)
In response to Covid-19				
	Subtotal			
Others	ABAE	/	0,002%	0,000%
	Bruxelles-Propreté	/	0,005%	0,000%
	Brussels - energy	/	0,008%	0,000%
	Sorting Centre SA	/	0,013%	0,000%
	Eco-loans	/	0,001%	0,001%
	Guarantee Fund	/	0,008%	0,007%
	Housing Fund	/	0,257%	0,257%
	FRBRTC	/	0,269%	0,225%
	Vivaqua	/	0,077%	0,080%
	Port of Brussels	/	0,004%	0,004%
	SBGE + Aquiris	/	0,097%	0,103%
	CityDev	/	0,001%	0,000%
	SFAR	/	0,017%	0,014%
	SLRB	/	0,023%	0,010%
	Social credit companies: assets and liabilities	/	0,014%	0,013%
	STIB	/	0,001%	0,001%
	WIELS	/	0,001%	0,000%
			0,80%	0,72%
	Total		**0,80%**	**0,72%**

6. Quality of public finances

Since the outbreak of coronavirus in Belgium, the various levels of government have taken a series of measures to protect public health and support the economic and social fabric.

Initially, socio-economic measures focused on supporting:

- the health sector;
- companies;
- the self-employed;
- households;
- sectors particularly affected by the crisis.

In the framework of the federal government agreement and the 2021 budget of the various authorities, the focus is now more on the necessary recovery of the economy.

The federal government's coalition agreement of 30 September 2020 also announced a number of important measures that will have an impact on the composition of public revenues and expenditures.

The main measures with an impact on the composition of public finances are discussed below:

- tax reform
- pension reform
- investments
- spending reviews

6.1 Tax reform

The Belgian tax system is characterised by numerous exceptions, exemption schemes and differences in treatment within the various tax areas, and high tax rates are applied. This leads to economic and social distortions and sometimes to undesirable environmental consequences. This is why the federal coalition agreement provides for a comprehensive tax reform to modernise and simplify the tax system and make it fairer and more neutral. In this way, this reform will meet the government's commitments contained in this governmental agreement, such as:

- increasing the employment rate;
- supporting climate ambitions;
- encouraging entrepreneurship;
- stimulating investment;
- combating poverty;
- supporting families.

This reform will improve the macroeconomic situation and, consequently, public finances, in both the short and long term.

The guiding principles of the reform are as follows:

- the burden on labour (for employees, civil servants and the self-employed, also taking into account parafiscal charges) will be reduced;

- This relief will be financed by a broadening of the tax base. It is therefore a shift in the tax burden in which the tax reform measures must be balanced, taking reasonable account of feedback effects;
- as regards personal income tax, the government will endeavour to simplify the system by gradually abolishing deductions, tax reductions and exceptional arrangements as far as possible, including the introduction of a gradual shift from alternative remuneration to remuneration in euros;
- the new tax system must be designed to minimise the possibilities of tax optimisation and ensure the correct application of the tax;
- the new tax system should also contribute to meeting the climate and environmental goals set out in the government agreement;
- taxes are levied and collected as simply and efficiently as possible. No new tax will be introduced except within the framework of budgetary discussions where the agreed balances are respected (revenue, expenditure and miscellaneous) and with respect for workers, entrepreneurship and savers.

The government has taken steps to ease the burden of taxation on families and make it more compatible with balancing work and family life and caring for elderly family members who live with them. One way to do this was to extend tax reduction for child care. In addition, the tax-free allowance supplement for dependent (grand)parents and siblings over 65 years of age has been increased.

The Government will reform the current tax and parafiscal benefits of professional athletes and sports clubs with a view to creating greater fairness, while ensuring that each provides their fair share, according to the financial capacity of the sport.

6.2 Pension reform

The first pension pillar faces the challenge of increasing age-related expenditure. Further increases in the employment rate and productivity growth, as well as a credible fiscal path, are important levers in addressing this.

The federal government has set a goal of 80% employment by 2030. The increase in the activity and employment rate of older workers is very important here. The federal government will take concrete initiatives in this respect, in consultation with the social partners and the federated entities.

Measures will be taken concerning end-of-career arrangements, to increase the effective length of employees' careers. One way of doing this

is through part-time pensions, smoother career ends, training and reorientation throughout the career, and by promoting the transfer of know-how between generations of employees.

The minimum pension will be gradually increased (full and incomplete career) to 1,500 euros net for a full career (reduced in proportion to the difference between the career and 45 years, in the event of incomplete careers).

A pension bonus will be introduced, so that people who work longer also accumulate more pension rights. This strengthens statutory pensions and means that people are encouraged to work longer.

By 2040, the cost of ageing, particularly in relation to pensions, will increase further. The federal government is examining what reforms can be implemented to ensure financial and social sustainability.

The Minister for Pensions will begin preparatory work and consultations at the start of government in order to submit a concrete proposal to the Council of Ministers by 1 September 2021.

6.3 Investments

In addition to the budgetary effort, the federal government has also decided to implement new policies to the tune of more than 5 billion euros, including more than 1 billion euros in temporary measures, 3.223 billion euros in structural measures and at least 1 billion euros in public investments. The temporary measures will cover the years 2021 and 2022.

Investments are needed to boost our economy in the midst of the economic crisis, as well as to increase productivity. The level of gross public investment stood at 2.6% in 2019, relatively low compared to the EU average of around 3%. It is the responsibility of each level of government to do everything within its jurisdiction to increase this rate. However, a public investment rate of 4% is targeted for 2030. In doing so, we are trying to anticipate planned investments as much as possible. This will be a significant part of the recovery and transition plan. Public investments will be made within the European framework. The use of external funding, including the FRR, will be maximised.

The European-funded part of the National Recovery and Resilience Plan investment plan for Belgium is structured around six strategic areas:

- climate, sustainability and innovation;
- digital transformation;
- mobility;
- social and living together;
- economy of the future and productivity;
- public finances.

In addition to the projects financed by Europe, the various levels of government will also finance a number of additional investments themselves.

For federally-funded projects, the Council of Ministers announced in the budget notification of 2 April 2021 that an additional budget of 328 million (excluding VAT) will be provided in the coming years for the following projects:

- districts of the future (Defence): EUR 100 million excluding VAT;
- customs scanner (FPS Finance): EUR 58 million excluding VAT;
- renovation of buildings (Régie des Bâtiments): EUR 170 million excluding VAT.

In addition to these projects, the federal government has also launched the federal transformation fund. This leveraged fund includes EUR 500 million for economic recovery and EUR 250 million for investments in the sustainable economy.

The Flemish government has also drawn up a recovery plan worth EUR 4.3 billion. This plan will be financed by the FRR to the tune of EUR 2.25 billion and is based on seven pillars/challenges:

- strengthening the Flemish care and welfare system;

- strengthening the efficiency of the Flemish administration;
- ensuring the digital transition of Flanders;
- promoting the decarbonisation of the economy and society;
- investing in infrastructure;
- managing the coronavirus crisis and Brexit;
- strengthening our human capital.

6.4 Spending reviews

Following the country-specific recommendations of the European Commission to improve the composition and efficiency of public spending in order to create margins for increased public investment, the various federated entities have taken initiatives to improve the quality of public finances. This includes the implementation of spending reviews or comparable budgeting techniques.

Here is a summary of the initiatives taken by the various federated entities.

6.4.1 Entity I

Following the 2018 country-specific recommendation to improve the efficiency and composition of public spending at all levels of government in order to free up margins for public investment, including through spending reviews, a request for technical assistance was submitted to the European Commission at the end of 2018 to prepare a report on the usefulness of spending reviews and to make proposals to decision-makers on how best to implement spending reviews at the federal level.

This was done by the OECD Secretariat as part of the "Preparations for implementation of Spending Reviews in Belgium" project set up by the European Commission's Directorate General for Structural Reform Support (DG REFORM).

The project resulted in two outputs: (1) a reference document entitled "Spending reviews in OECD countries", and (2) a technical note on the integration of spending reviews into the Belgian budgetary system, together with advice and recommendations for the federal government to take into account.

Given that the government was a caretaker government from the end of 2018 to the beginning of October 2020, any political decision on spending reviews was postponed. The spending reviews were anchored in the government agreement when the new government was formed in October 2020. The government agreement states that, "the pursuit of these objectives through means such as streamlining regulations (overlapping and dormant regulations), the proper application of regulatory impact assessments, spending reviews and zero-based budgeting.

- In addition, the Council of Ministers of 18 December 2020 approved a note on the implementation of spending reviews within the federal administration. In line with the OECD recommendations to start with selective spending reviews, the Council of Ministers decided to start with a pilot project in the following three areas:
- tax expenditures;
- primary public expenditure;
- social security.

On 12 February 2021, the Council of Ministers agreed on the topics and task descriptions for the following three pilot projects:

- exemption from payment of payroll tax;
- the impact of widespread teleworking;
- effective care.

Reports are due by 30 June 2021.

Reflections on the spending review process will be carried out in July 2021 on the basis of the experience gained during the three pilot projects. Corrections can then be made if necessary or the formalisation can be continued. Following this evaluation, the Council of Ministers will decide on the topics for a new round of spending reviews when the budget for 2022 is drawn up.

6.4.2 Entity II

6.4.2.1 Brussels-Capital Region

As the preparation, execution and implementation of spending reviews are complex processes that require extensive expertise in various fields, the Brussels-Capital Region requested and obtained technical assistance from DG REFORM in the framework of the Structural Reform Support Programme (SRSP) for the setting up and execution of two pilot projects in the fields of mobility and social housing. The main objective of the pilot projects is to strengthen the capacities of the administration (in particular the Brussels Finance and Budget administration and the Brussels Institute for Statistics and Analysis) and to draw lessons from this first experience that will be useful for a structural anchoring of this policy evaluation tool.

Since spending reviews can only be optimally effective when they are structurally embedded in a mature budgetary system with sound budget preparation, a medium-term strategic orientation and a sufficiently strong link between budget, policy and results (ex-ante and ex-post assessments of policy proposals and moves towards performance budgeting), additional technical assistance under SRSP was requested and obtained for a PEFA (Public Expenditure and Financial Accountability) gap analysis of public financial management.

On the basis of the experience with the spending reviews pilot projects and the results of the PEFA analysis, a report will also be drafted with technical assistance in the framework of the SRSP, including recommendations on the structural anchoring of spending reviews in the budgetary process of the Brussels-Capital Region.

Taking into account the above recommendations, the Government will then take a decision on how spending reviews will be structurally anchored in the budget process and what actions are necessary for this. Due attention should be paid to further training for the administration in the design and implementation of such complex policy evaluations and the production of quality reports that can be usefully followed up. Given the limited staff resources and a growth trajectory yet to be achieved in terms of expertise development, it will probably be possible to review a limited number of topics per year.

6.4.2.2 French Community

In September 2020, the Government of the Wallonia-Brussels Federation decided on a strategy to strengthen the analysis of its expenditure within the framework of the budget cycle. In particular, it decided to set up a pilot spending review project to assess the relevance of existing policies in the WBF in the light of objectives and principles to be determined by the Government, for example:

- consistency with the policy objectives set out in the Community policy statement. This objective applies mainly to the analysis of pre-existing DPC policies that may no longer be consistent with government objectives;
- the efficiency of the policy in achieving its objectives;
- the effectiveness of the policy, which questions the possibility of achieving the same objectives while using fewer resources or, more generally, leads to an analysis of the appropriateness of allocating resources to a policy, taking into account all the resources and needs of the WBF.

The integration of this type of analysis into the WBF budget cycle is unprecedented, and the Government therefore decided to implement a pilot project, for which the list of expenditure to be analysed was approved at the end of October 2020, at the same time as the draft budget for 2021.

Quick win projects were selected. The aim is to have the first results of the analyses by the beginning of summer 2021, so that these results can be incorporated into the 2022 budget proposal to be drawn up in early autumn. A second deadline has been set for the summer of 2022.

No additional resources have been made available at this stage to conduct the analyses, which are organised by ministerial offices and administrations. However, from June 2021, the WBF will receive technical assistance from the OECD under the technical assistance programme granted by the European Commission.

6.4.2.3 Walloon Region

Based, on the one hand, on the observation that the Walloon Region's expenditure increased significantly faster than its revenue over the period 2015-2020 and that, on the other hand, the Walloon Government plans to carry out an ambitious investment programme, the Walloon Region has therefore decided to carry out a zero-based budgeting exercise in order to free up significant room for manoeuvre. This was further confirmed by the impact of the coronavirus crisis on public finances.

The BBZ programme has a three-fold objective so it can meet the challenges of investment margin requirements and the reduction of the revenue/expenditure gap:

- complete review of the revenues controlled by the Walloon Region so they can be optimised with regard to the criteria of consistency, efficiency and effectiveness
- review of operating expenses through the BBZ methodology at the activity level, i.e. review of the operating activities of all Walloon actors (i.e. 22,000 employees within the PAUs and the SPW)
- review of intervention expenditure (+/- 500 devices) through the "Spending Review" methodology

This reform includes:

1. a public market component for revenue analysis and expenditure analysis (activity and spending review component)
2. following the selection of the Walloon Region for its EU spending review programme, European Commission technical assistance was provided to review the current spending review procedures (on the basis of the analyses and results of the above-mentioned public

procurement contract, among others) and draw up action plans for incorporating the spending review into the budgetary process over the long term.

The public procurement component has been divided into four waves from October 2020 to May 2022. Wave 1, which just ended in March 2021, covered the themes of Training, Digital, Diversity, Mobility, Airports and Family. In total, this wave will have involved almost 5,000 people in Wallonia, analysed almost 100 systems, investigated almost 240 levers and identified more than 90 avenues for reinvestment.

Several examples of levers can already be given:

- IT and digitalisation levers (e.g. integrated management software at Forem)
- organisational levers (e.g. internalisation of service providers in the Digital Agency)
- HR levers (e.g. regionalisation of the AVIQ family benefits register)
- purchasing levers (e.g. better management of public contracts between SOFICO and SPW MI)
- break levers (e.g. deconsolidation of part of Sowaer's activities from the Walloon budget)

At the end of this wave 1, levers in the various entities were validated by the entities that participated and by the Government for almost 40 million. This amount will be reinvested in the Region's entities and various policies in accordance with the reinvestment decisions taken.

6.4.2.4 Flanders

These reform proposals attempt to redirect and limit Flemish spending as much as possible, on the one hand through a spending standard, and, on the other hand through the 'Vlaamse Brede Heroverweging', which aims to structurally anchor spending reviews in the Flemish budgetary process.

An expenditure standard allows for structural budgeting and makes the development of expenditure independent of cyclical fluctuations. In concrete terms, the expenditure standard defines the maximum growth path for public expenditure, taking into account the trend growth in revenue and the budgetary objectives.

For the expenditure standard, advice is given on the systematics of the expenditure standard on the one hand (how to implement it) and the budgetary policy objective (the budgetary margin) is formulated on the other hand. The updated master plan for a Flemish spending standard was submitted in October 2020.

On the basis of these objectives, we will examine which appropriate (temporary) expenditure standard is required to return to a balanced budget and rebalance the net asset position of the Flemish government in the medium term. The simulations will be provided before the 2021 parliamentary recess.

In addition, at the end of last year the Flemish Government set up the "Brede Vlaamse Heroverwegingen" programme. The aim is to control spending in the ten strategic areas by the summer - i.e. before the 2022 budget is drawn up. The questions addressed are: Is the current regulation effective? Can the current distribution of competences between the different authorities and in relation to the (non)commercial sector be improved? What are the possible savings options? For which topic in the strategic field is an in-depth spending review recommended? This reform path also includes a budget for the organisation of spending reviews in the coming years.

The "Vlaamse Brede Heroverweging" (VBH) aims to perform a thorough check of the different expenditure items and, where necessary, of the cost coverage rates in the Flemish budget. The aim is to improve the quality of public finances in terms of efficiency and effectiveness. A scientifically based vision has an important role to play in this regard.

ANNEXES

Annex 1: Sectoral balances

In % of GDP	2020	2021	2022	2023	2024
1. Net lending/borrowing vis-a-vis the rest of the world	-1,7	-1,4	-0,8	-0,7	-0,7
2. Net lending/borrowing of the private sector	7,7	6,3	3,7	3,2	3,0
3. Net lending/borrowing of general government	-9,4	-7,7	-4,5	-4,0	-3,7
4. Statistical discrepancy					

Annex 2: Developments without a change in policy

	2020	2020	2021	2022	2023	2024
	Level	*% of GDP*				
1. Total revenue at unchanged policies	228.251	50,6	50,3	50,2	50,5	50,6
2. Total expenditure at unchanged polic	270.569	60,0	58,0	55,0	55,0	55,1

Annex 3: Amounts to be excluded from the expenditure criterion

	2020	2020	2021	2022	2023	2024
	Level (million of euros)	*% of GDP*				
1. Expenditure on EU programmes fully matched by EU funds revenue		0,1	0,1	0,1	0,1	0,1
2. Cyclical unemployment benefit expenditure	-843	-0,2	0,2	0,2	0,1	0,0
3. Effect of discretionary revenue measures	-4.724	-1,0	0,4	0,3	0,3	0,2
4. Revenues increased mandated by law						