BELGIUM'S STABILITY PROGRAMME

(2014-2017)

Foreword

Belgium's stability programme sets out the fiscal policy stance and targets for the period 2014-2017. It should be read in conjunction with the National Reform Programme. The two programmes serve as the national medium-term fiscal plan as referred to in Regulation (EU) No 473/2013.

This stability programme was drawn up with due regard for the "Guidelines on the format and content of Stability and Convergence Programmes" dated 3 September 2012.

Pursuant to the cooperation agreement dated 13 December 2013, the stability programme is based on the decision and consultation of the Consultative Committee of 30 April 2014.

The stability programme was approved by the Federal Government Council of Ministers on 30 April 2014.

In view of the federal and regional elections on 25 May 2014, the stability programme comprises a purely indicative path for both the overall fiscal target and the allocation of the targets among the various levels of power; the incoming governments will have to consult again and decide on that path in accordance with the procedure laid down in the cooperation agreement of 13 December 2013.

Contents

1 Introduction

Since taking office in December 2011 the federal government has been working on reforming the State, consolidating public finances and carrying out social and economic reforms. The sixth State reform was adopted, public finances are on the right road, and various social and economic reforms have been completed or launched. Under the EU2020 strategy, Belgium will continue its commitment to a policy aimed at improving the dynamism of the economy and thus preserving social well-being.

As in other countries, public finances in Belgium were affected by the 2008 financial crisis and the economic crisis which followed. In 2009, owing to a substantial deficit, the European Commission initiated an excessive deficit procedure against Belgium. Despite the significant consolidation measures implemented, it was not possible to correct the excessive deficit on time. In June 2013 the Council of the European Union gave Belgium formal notice to take all necessary measures to cut its nominal deficit to 2.7% of GDP. According to the April 2014 notification from the National Accounts Institute, the deficit came to 2.6 % of GDP in 2013. The European Commission will decide on Belgium's exit from the excessive deficit procedure within the next few weeks.

For the first time, the stability programme takes account of the cooperation agreement of 13 December 2013 between the federal State, the Communities, the Regions, and the Community Commissions on the implementation of Article 3(1) of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Thus, in March 2014 the Public Sector Borrowing Requirements Section of the High Council of Finance issued an opinion on the overall fiscal target and its allocation among the various levels of power. On the basis of that opinion, the Consultative Committee discussed the government's overall fiscal target and its breakdown in nominal and structural terms.

Belgium approved a fiscal target restricting the structural deficit to –1.4% of GDP for 2014. That corresponds to a nominal deficit of -2.15 % of GDP, as indicated in the draft budget plan. From 2015 the structural balance should improve by an additional 0.7 % of GDP each year. That would make it possible to achieve a structurally balanced budget in 2016 and a structural surplus of 0.75 % of GDP in 2017, in accordance with the medium-term objective (MTO). This path leads to a steady decline in the debt ratio.

This overall path with budget targets is allocated among Belgium's various constituent entities. The allocation adopted takes account of the sixth State reform. It therefore allows for the mechanism whereby Entity II contributes to the consolidation of public finances and to the cost of population ageing provided for in the new Special Finance Act.

In view of the federal and regional elections on 25 May 2014, the stability programme comprises a purely indicative path for both the overall fiscal target and the allocation of the targets among the various levels of power; the incoming governments will have to consult again and decide on that path in accordance with the procedure laid down in the cooperation agreement of 13 December 2013.

They are the ones that will be responsible for taking the measures required to achieve the set targets. Those measures will be detailed in their multi-annual budget programmes.

The sixth State reform has been approved whereby a substantial set of powers is being transferred from federal level to the Communities and Regions. This will enable the Communities and Regions to develop their own policy in those areas, consistent with the powers already assigned to them.

The government has made the economic recovery a key objective. That corresponds to the recommendation by the High Council of Finance stating that the budget path should be supplemented by a strategy to reinforce growth potential and employment. To that end, the federal government, in consultation with the Communities and Regions and in collaboration with the social partners, has taken the initiative in drawing up a competitiveness, employment and recovery pact.

2 Economic situation and macroeconomic assumptions

2.1 International economic environment

The loss of momentum in global activity in 2011 ended in the second half of 2013. Growth strengthened in the advanced economies, especially in the United States, as well as in some emerging economies.

Various factors helped to dynamise global economic growth, such as the further easing of monetary policy in the United States, the less restrictive fiscal policy in the euro area, and the expansionary monetary and fiscal policy in Japan. The financial market tensions also ebbed away. According to the European Commission's winter forecasts, global economic growth came to 2.9 % in 2013. It should pick up in the years ahead to reach 3.6 % in 2014 and 3.9 % in 2015.

In the spring of 2013 the European economy came out of recession. Modest GDP growth was recorded in the remaining three quarters of the year. Taking account of a very low starting point, activity in the euro area dipped further by 0.4 % in 2013, and GDP recorded meagre growth of 0.1 % in the European Union (EU), according to the European Commission's winter forecasts. Against the backdrop of accelerating global activity, more vigorous GDP growth is expected in 2014, at 1.2 % in the euro area and 1.5 % in the EU. European growth is projected to accelerate further in 2015 to reach 1.8 % in the euro area and 2 % in the EU. Domestic demand is likely to outstrip exports as the engine of growth. Furthermore, the movement in business and consumer confidence confirms these forecasts of strengthening growth.

Although activity gathered pace in the most vulnerable countries, growth discrepancies still persist between the Member States. They reflect the varying experiences of the countries during the economic and financial crisis and their domestic or external adjustment needs. However, these divergences are expected to diminish over time.

While Belgium's GDP growth matched the average in the three main neighbouring countries, that average also conceals some divergences. France's performance is comparable to that of Belgium. Germany achieved stronger growth, with GDP up by 0.4 %. In contrast, GDP in the Netherlands declined by 1.1 %.

2.2 Economic developments in Belgium

After several quarters of stagnation or decline, economic activity in Belgium was restored to positive growth from the second quarter of 2013. That recovery was underpinned by export growth and the revival of private consumption. Over the year as a whole, GDP expanded by 0.2 %, whereas in 2012 it had fallen by 0.1 %. The main reason for the rather modest activity growth in 2013 was a negative growth effect at the beginning of the year.

Belgium's GDP was stable in the first quarter of 2013, principally on account of the traditional reduction in public investment following the local elections. After that, GDP grew by 0.2 % during the second quarter (quarter-on-quarter growth). The pace then gradually quickened, as it did in the euro area as a whole, reaching 0.3 % in the third quarter and 0.4 % in the final quarter.

Business and consumer confidence improved in parallel with this revival in economic activity. The National Bank of Belgium's barometer which assesses business confidence recorded a clear rise from the second quarter of 2013. The consumer confidence indicator also improved considerably, after the marked deterioration at the end of 2012. However, the indicator fell in March 2014, following the announcement of a number of corporate restructurings.

2.3 The economic outlook according to the Federal Planning Bureau

The budgetary path in this stability programme is based on an advance indication of the medium-term economic outlook for 2014-2019 produced by the Federal Planning Bureau in March 2014. For the short term (2014 and 2015), these projections are based on the February 2014 economic budget, adapted to take account of the latest developments.

The data on the international economic environment in 2014 and 2015 are based on the European Commission's winter forecasts. For subsequent years the Federal Planning Bureau's forecasts are based on the European Commission's extended economic projections produced in the context of the European semester in February 2014.

According to these forecasts, following growth of 1.2 % in 2014 and 1.8 % in 2015, the euro area's GDP should expand by an annual average of 1.5 % over the period 2016-2019. This scenario assumes that the output gap will be eliminated in 2018.

The European Commission's winter forecasts for 2014 and 2015 form the basis of the assumptions for oil prices and the euro/dollar exchange rate. After 2015, the euro exchange rate is projected to stabilise and the oil price will rise in real terms at an annual rate of between 1.5% and 2%.

However, the international scenario remains subject to some uncertainty. The abandonment of the expansionary monetary policy in the United States, a resurgence of the European debt crisis or a slackening of Chinese economic growth could inhibit the recovery of activity in Europe. Conversely, the global economy could prove more vigorous than expected in the event of a speedier recovery of confidence in the euro area or a stronger rise in investment in the United States.

Table 1: External environment: basic assumptions

	2013	2014	2015	2016	2017
Taux d'intérêt à court terme (moyenne annuelle)	0,2	0,3	0,4	0,9	1,5
Taux d'intérêt à long terme (moyenne annuelle)	2,7	2,6	2,9	3,3	3,5
Taux de change USD/€ x 100 (moyenne annuelle)	132,8	135,7	135,7	135,7	135,7
Taux de change effectif nominal (2005=100)	103,3	103,9	104,2	104,2	104,2
Croissance PIB - monde (hors UE)	3,6	4,1	4,4	4,6	4,6
Croissance PIB - UE	0,1	1,5	2	1,5	1,6
Croissance marchés extérieurs pertinents	1,4	4,4	5,8	5	5
Importations mondiales en volume (hors UE)	3,5	5,4	6,1	7,2	7,1
Prix du pétrole (USD)	108,7	104,1	99,6	102,2	104,9

Short-term interest rate (annual average)

Long-term interest rate (annual average)

USD/€ exchange rate x 100 (annual average)

Nominal effective exchange rate (2005 = 100)

GDP growth – world (excluding EU) (%)

GDP growth – EU (%)

Growth of relevant external markets (%)

Global imports, by volume (excluding EU)

Oil price (USD)

Source: Federal Planning Bureau

The Federal Planning Bureau predicts that Belgium's GDP will grow by 1.4 % in 2014 and 1.8 % in 2015. These estimates are in line with the European Commission’s winter forecasts. In 2014, economic activity in Belgium is set to be more dynamic than in the euro area, as it has been in previous years. In contrast, the GDP growth rate is likely to be similar to that of the euro area in 2015. During the period 2016-2019, Belgian GDP is forecast to grow by an average of 1.6 %, slightly outpacing the euro area average. The output gap, which was very negative in 2013 (-2.3 % of GDP), will gradually diminish and be eliminated by the end of the period.

Table 2: Macroeconomic projections

Variation en % sauf indications contraires	2013	2013	2014	2015	2016	2017
	En milliards					
1. Croissance du PIB à prix constants	327,8	0,2	1,4	1,8	1,7	1,7
2. PIB à prix courants (en milliards EUR)	381,7	1,5	2,9	3,5	3,4	3,4
	Composantes de la croissance					
3. Dépenses de consommation finale des particuliers	171,3	0,6	1,3	1,6	1,6	1,6
4. Dépenses de consommation finale des pouvoirs publics	76,1	0,2	1	0,8	1	0,9
5. Formation brute de capital fixe	63,4	-1,6	1,3	3,1	3,1	2,9
6. Variation de stocks et acquisition nette d'actifs	1,7	1,7	1,7	1,7	1,6	1,6
7. Exportations de biens et services	290,1	1,9	3	4,1	3,7	3,7
8. Importations de biens et services	277,3	1,3	2,7	3,9	3,7	3,6
	Contribution à la croissance du PIB					
9. Demande finale totale (3+4+5)		-0,1	1,2	1,7	1,7	1,6
10. Variation de stocks et acquisition nette d'actifs		-0,4	0	0	0	0
11. Balance des biens et services		0,5	0,3	0,2	0,1	0,1

% change unless otherwise stated

In € billion

1. GDP growth at constant prices

2. GDP growth at current prices (in € billion)

Growth components

3. Household final consumption expenditure

4. General government final consumption expenditure

5. Gross fixed capital formation

6. Change in inventories and net acquisition of assets

7. Exports of goods and services

8. Imports of goods and services

Contribution to GDP growth

9. Total final demand (3+4+5)

10. Change in inventories and net acquisition of assets

11. External balance of goods and services

Source: Federal Planning Bureau

In 2012, the erosion of consumer confidence led to a 0.3% decline in private consumption expenditure and an increase in the savings ratio. Following the revival in confidence, household propensity to save declined slightly in 2013 and is expected to stabilise in 2014. Private consumption expenditure grew at a rate comparable to that of real disposable income in 2013, namely 0.6 %, and that trend is expected to continue in 2014, with a rise of 1.3 %. In view of its weight, the growth of this expenditure has a marked influence on the movement in domestic demand.

The gradual recovery of business investment in 2013 was not enough to offset the contraction in 2012, so that investment declined further by 0.5 % over 2013 as a whole. It is set to grow by 2.5 % in 2014 thanks to the improvement in business confidence, the increase in capacity utilisation, and favourable credit conditions. Investment in housing is likely to increase slightly in 2014, following last year's decline.

After a small rise of 1.9% in 2013, Belgian exports are expected to grow strongly in 2014, rising by 3% as a result of the more vigorous growth of export markets. Owing to the modest expansion of domestic demand, imports are set to grow by less than exports. The contribution of net exports to growth is estimated at 0.6 % in 2013 and 0.2 % in 2014.

Inflation measured by the national consumer price index continued to slacken in 2013, as the rise in consumer prices dropped from 2.8 % in 2012 to 1.1 % in 2013. This decline is due to the fall in underlying inflation and energy prices. The lower underlying inflation is due to the slower pace of labour cost increases and the changes made to the calculation of the price index, while the fall in energy prices is the result of the reduction in petroleum product prices and stronger competition between energy suppliers. Inflation is expected to continue falling in 2014, with prices rising by 0.8 %, particular factors being the cut in energy prices reinforced by the reduction in VAT on electricity for households.

Over the period 2013-2014, the inflation rate in Belgium is projected to be below the euro area average.

Table 3: Prices

Variation en %	2013	2013	2014	2015	2016	2017
	(2005=100)					
1. Déflateur du PIB	116,4	1,4	1,4	1,6	1,6	1,6
2. Déflateur des dépenses de consommation finale des particuliers	118,3	1,2	0,9	1,3	1,5	1,6
3. Variation de l'IHPC	119,6	1,2	0,9	1,3	1,5	1,6
4. Déflateur des dépenses de consommation finale des pouvoirs publics	126	2,1	0,7	1,9	1,8	1,7
5. Déflateur des investissements	120	1	1,7	1,7	1,9	1,9
6. Déflateur de l'exportation de biens et services	113,2	-0,4	0,6	0,9	1,6	1,8
7. Déflateur de l'importation de biens et services	116,3	-0,4	0,2	0,8	1,7	2

% change

1. GDP deflator

2. Deflator of household final consumption expenditure

3. Change in the HICP

4. Deflator of general government final consumption expenditure

5. Investment deflator

6. Deflator of exports of goods and services

7. Deflator of imports of goods and services

Source : Federal Planning Bureau

In 2013, the labour market had yet to benefit from the upturn in economic activity evident from the second quarter of the year. As an annual average, total employment was down by 0.3 %. Over the short term, the deterioration in the labour market is set to exceed that during the 2008-2009 recession, notably owing to the impact of corporate restructurings and because firms are making less use of labour retention mechanisms.

The employment outlook should improve in conjunction with the revival in economic activity. Thus, total employment is set to expand by 0.3 % in 2014. That growth should intensify in the medium term with an increase of up to 0.7 %. The employment rate of the population of working age (20-64 years) is projected to drop from 64 % in 2012 to 63.7 % in 2013, before rising slightly to 63.8 % in 2014.

The unemployment rate according to the Eurostat definition will remain at 8.4 % over the period 2013-2014, staying well below the rate for the euro area (12.1 % in 2013 and 12 % in 2014). The improvement in the Belgian labour market situation should then bring a steady decline in the unemployment rate to 7.3 % by the end of the projection period.

Table 4: Labour market

Variation en % sauf indications contraires	2013		2013	2014	2015	2016	2017
	Niveau						
1. Emploi intérieur	4544	a	-0,3	0,3	0,7	0,7	0,8
2. Nombre d'heures travaillées	7135,4	b	-0,4	0,5	0,7	0,6	0,6
3. Taux de chômage (% définition =eurostat)	8,4		8,4	8,4	8,3	8,2	7,9
4. Productivité du travail par personne active	72,1	c	0,4	1,2	1,1	1	1
5. Productivité du travail par heure travaillée	45,9	d	0,6	0,9	1,1	1,1	1,1
6. Coût salarial des emplyés (D1 code SEC)	201,4	e	1,9	0,9	2,8	3,5	3,3
7. Coût salarial par employé	53,1	f	2,3	0,7	2	2,6	2,3

% change unless otherwise stated

Level

1. Domestic employment

2. Number of hours worked

3. Unemployment rate (%, Eurostat definition)

4. Labour productivity per person in work

5. Labour productivity per hour worked

6. Compensation of employees (ESA code D.1)

7. Compensation per employee

(a) thousands; (b) million hours; (c) € thousand; (d) €; (e) € billion; (f) € thousand

Source : Federal Planning Bureau

3 Balance and debt of general government

3.1 Keystones of fiscal policy

Objectives in structural terms

The cooperation agreement of 13 December 2013 was applied for the purpose of drawing up this stability programme. On the basis of the opinion of the Borrowing Requirements Section of the High Council of Finance dated March 2014, The Consultative Committee discussed the government's overall budget target and the breakdown in nominal and structural terms.

The path for general government as presented by the Borrowing Requirements Section is based on three principles. First, the exit from the excessive deficit procedure (EDP) must be permanent. Second, the path is a continuation of the fiscal consolidation with special attention to the high debt level and the high costs of population ageing expected in Belgium. Third, attention focuses on economic growth potential and improving employment.

In its opinion, the Borrowing Requirements Section of the High Council of Finance notes an improvement in the budget outcomes in 2013.

This structural improvement needs to be consolidated and maintained at a steady pace in the next three years.

Belgium stands by its commitment to improve the structural balance by 0.5 % in 2014; that corresponds to the nominal target in the draft fiscal plan (-2.15 % of GDP). A structurally balanced budget should be achieved in 2016 and the MTO (0.75 %) is to be attained in 2017.

Table 5: Targets for 2014-2017

	Définition de l'objectif	Solde structurel estimé / à réaliser en % du PIB
2013	Solde structurel estimé comme point de départ	-1,9
2014	Amélioration du solde structurel de 0,5 %	-1,4
2015	Amélioration du solde structurel de 0,7 %	-0,7
2016	Réalisation d'un équilibre structurel	0
2017	Réalisation d'un surplus structurel de 0,75 % ou de l'OMT	0,75

Target definition

Estimated/target structural balance in % of GDP

Estimated structural balance as the starting point

0.5% improvement in the structural balance

0.7% improvement in the structural balance

Attainment of a structurally balanced budget

Attainment of a structural surplus of 0.75% or the MTO

The structural improvement over the period 2015-2017 will be 0.7 % of GDP each year. By 2017, the structural balance will have improved by 2.7 % of GDP compared to 2013.

The path results from postponement of the MTO by one year compared to the previous stability programme, but it goes further than the scenario based on the minimum improvements required by the preventive arm of the Six Pack for countries no longer subject to the excessive deficit procedure, namely an improvement in the structural balance of at least 0.5 % per annum.

Spreading the structural improvement over the three years 2015, 2016 and 2017 makes it possible to take account of the increasing benefits of the structural measures over time, particularly on the expenditure side, and ensures a multi-annual consolidation process. Attainment of the MTO in 2017, and its maintenance for several years, will permit pre-financing of a substantial part of the budgetary cost of ageing.

Debt reduction

According to the path described above, the debt ratio will decline sufficiently in the medium term. In accordance with the European regulations, the debt ratio of a euro area country declines sufficiently if the gap between the debt ratio and the benchmark (60 % of GDP) diminishes by an average of one-twentieth per annum over three years. A country has to conform to this rule after a three-year period following the correction of an excessive deficit. If Belgium exits the excessive deficit procedure in 2014, it will have to meet the debt criterion from 2017. The path described makes that possible.

The path for each entity

In an institutional structure such as Belgium, where many powers and financial resources are decentralised, the fiscal consolidation effort must be allocated in the best possible way.

From now on, that allocation takes place in accordance with the cooperation agreement of 13 December 2013. Under that agreement, in the updating of the stability programme the budget targets for the various levels of power are allocated in nominal and structural terms by a decision of the Consultative Committee. That decision has to be based on an opinion issued by the Borrowing Requirements Section of the High Council of Finance.

In future it is also necessary to take account of the new Special Finance Act. It contains mechanisms whereby the Communities and Regions contribute to the consolidation of public finances and the cost of ageing.

Consolidation of public finances as part of a broader policy

This programme focuses on the broad fiscal policy stance. Following a period of economic uncertainty, fiscal policy has to strike a balance between the potentially negative impact that a restrictive fiscal policy may have on total demand in the short term, and the favourable impact of such a policy on interest charges and economic growth via the restoration of (financial market) confidence.

With the aid of a targeted recovery strategy and due attention to the competitive position of Belgium's economy, the government is working to boost economic growth potential and stimulate employment. The main aspects of that policy are discussed in the national reform programme and will also be addressed in part 5 of this stability programme.

3.2 Medium-term public finances

3.2.1 The structural balance

The normative path is based on the improvement in the structural balance and the targets defined in terms of the structural balance. Line 10 in table 6 shows the targets for Belgium for the period 2014-2017. The table also translates that structural objective into a nominal balance. In practice, the nominal balance to be achieved each year will depend on the output gap and the impact of any one-off measures.

The translation of a structural objective in nominal terms depends on the estimate of the cyclical component, and thus on the output gap and potential growth. These data come from the Federal Planning Bureau's economic outlook for 2014-2019[1].

Table 6: Composition of the structural balance[2]

En % du PIB		2013	2014	2015	2016	2017
1.	Croissance réelle du PIB	0,2	1,4	1,8	1,7	1,7
2.	Solde de financement effectif	-2,6	-2,1	-1,4	-0,4	0,6
3.	Charges d'intérêt	3,2	3,1	3,0	2,9	2,8
4.	Mesures one shot ou temporaires	0,6	0,3	0,0	0,0	0,0
5.	Croissance potentielle du PIB (en % du PIB)	0,9	1,0	1,1	1,3	1,3
6.	Output gap	-2,3	-1,9	-1,2	-0,7	-0,3
7.	Composante cyclique du budget	-1,3	-1,0	-0,7	-0,4	-0,2
8.	Solde de financement corrigé des variations du cycle (2-7)	-1,3	-1,1	-0,7	0,0	0,8
9.	Solde primaire corrigé des variations du cycle (8+3)	1,9	2,0	2,2	2,9	3,6
10.	Solde structurel (8-4)	-1,9	-1,4	-0,7	0,0	0,7

- [1] The method used by the Federal Planning Bureau and the differences compared to the European Commission's forecasts are explained in the Federal Planning Bureau report "La prévision par la Commission européenne de l'output gap pour la Belgique est-elle crédible?" (Igor Lebrun, March 2014)
- [2] According to the indicative path taken here, the medium-term objective (MTO) of 0.75% of GDP will be achieved in 2017.

In % of GDP

1. Real GDP growth

2. Actual fiscal balance

3. Interest charges

4. One-off or temporary measures

5. Potential GDP growth (in % of GDP)

6. Output gap

7. Cyclical component of the budget

8. Cyclically adjusted fiscal balance (2-7)

9. Cyclically adjusted primary balance (8+3)

10. Structural balance (8-4)

3.2.2 A translation into nominal balances

Table 6 presents the general government fiscal balance that can be derived from the structural approach on the basis of the assumed output gap.

For 2014 the nominal balance used is the one defined at the Consultative Committee meeting in July 2013 and in the October 2013 draft budget plan (-2.15 %).

The allocation of the effort between revenue and expenditure and between the various revenue and expenditure categories, shown in table 7, is purely technical and indicative.

In view of the elections on 25 May 2014, it is the incoming governments that will have to take the measures necessary to achieve the targets. Article 9 of Directive 2011/85 requires Member States to have a multi-annual budget programme. That provision was transposed into Belgian law by Article 124/3 of the Law of 22 May 2003 on the organisation of the budget and accounts of the federal State, and Article 16/12 of the

Law of 16 May 2003 laying down general provisions applicable to the budgets, the monitoring of grants and the accounts of the Communities and Regions, and on the organisation of the Court of Audit.

On that basis, when drawing up the 2015 budget the governments will have to establish a multi-annual budget programme covering the term of the parliament. In particular, the programme will have to include multi-annual budget targets, forecasts for each major revenue and expenditure item, and a description of the policies envisaged for the medium term.

Table 7: Budget forecasts for general government (indicative scenario)

		2013 *Niveau*	2013 *% du PIB*	2014	2015	2016	2017
		Solde de financement par sous-secteur					
1.	Ensemble des pouvoirs publics	-9.923	-2,6	-2,1	-1,4	-0,4	0,6
2.	Pouvoir fédéral	-9.549	-2,5	-2,3	-1,5	-0,4	0,6
3.	Communautés et Régions	-64	0,0	0,0	0,0	0,0	0,0
4.	Pouvoirs locaux	-646	-0,2	0,1	0,1	0,0	0,0
5.	Administrations de sécurité sociale	335	0,1	0,0	0,0	0,0	0,0
		Ensemble des pouvoirs publics					
6.	Recettes totales	198.316	52,0	51,1	51,3	51,7	52,3
7.	Dépenses totales	208.239	54,6	53,3	52,8	52,2	51,8
8.	Solde de financement	-9.923	-2,6	-2,1	-1,4	-0,4	0,6
9.	Charges d'intérêt (EDP)	12.091	3,2	3,1	3,0	2,9	2,8
10.	Solde primaire	2.168	0,6	1,0	1,6	2,5	3,4
11.	Mesures uniques ou temporaires	2.179	0,6	0,3	0,0	0,0	0,0
		Principales composantes des recettes					
12.	Impôts totaux	118.510	31,1	31,1	31,3	31,6	32,0
12a.	Impôts sur la production et les importations	49.304	12,9	12,9	12,8	12,8	12,9
12b.	Impôts sur le revenu, impôt sur le patrimoine	65.234	17,1	17,2	17,7	17,9	18,2
12c.	Impôts sur le capital	3.971	1,0	1,1	0,9	0,9	0,9
13.	Cotisations sociales	65.971	17,3	16,8	16,8	17,0	17,1
14.	Revenus de la propriété	4.208	1,1	0,8	0,8	0,8	0,9
15.	Autres	9.627	2,5	2,4	2,3	2,3	2,3
16.	Recettes totales	198.316	52,0	51,1	51,3	51,7	52,3
p.m.	Prélèvement global	186.917	49,0	48,5	48,7	49,2	49,7
		Principales composantes des dépenses					
17.	Dépenses de consommation	63.990	16,8	16,3	16,0	15,7	15,3
18.	Prestations sociales totales	101.157	26,5	26,3	26,1	26,0	25,9
dont	Indemnités de chômage	8.775	2,3	2,2	2,1	2,0	1,9
19.	Charges d'intérêt	12.091	3,2	3,1	3,0	2,9	2,8
20.	Subsides	9.978	2,6	2,3	2,4	2,4	2,4
21.	Formation brute de capital fixe	6.293	1,6	1,5	1,6	1,6	1,6
22.	Autres	14.731	3,9	3,7	3,8	3,7	3,7
23.	Dépenses totales	208.239	54,6	53,3	52,8	52,2	51,8

Level

% of GDP

Fiscal balance per sub-sector

1. General government
2. Federal government
3. Communities and Regions
4. Local authorities
5. Social security authorities

General government

6. Total revenue
7. Total expenditure
8. Fiscal balance
9. Interest charges (EDP)
10. Primary balance
11. One-off or temporary measures

Main revenue components

12. Total taxes

12a. Taxes on production and imports

12b. Taxes on income, taxes on assets

12c. Taxes on capital

13. Social contributions
14. Property incomes
15. Other
16. Total revenue

p.m. Overall levy

Main expenditure components

17. Consumption expenditure
18. Total social benefits

of which: unemployment benefits

19. Interest charges
20. Subsidies
21. Gross fixed capital formation
22. Other
23. Total expenditure

3.2.3 Indicative allocation of the targets

The breakdown between Entity I and Entity II is based on the assumption that Entity II must achieve a nominal balance throughout the period in question, namely from 2014 to 2017, except in 2014 and 2015 when the local authorities together must achieve a surplus of 0.1% of GDP. That corresponds to the local authority investment cycle: in non-election years it is necessary to achieve a surplus to provide the funding for investment which mostly takes place in election years.

Table 8 : Allocation of the targets[3]

En % du PIB	2014	2015	2016	2017
Entité I				
Solde structurel	-1,8%	-1,1%	-0,1%	0,7%
Solde de financement	-2,3%	-1,5%	-0,4%	0,6%
Entité II				
Solde structurel	0,4%	0,4%	0,2%	0,1%
Solde de financement	0,1%	0,1%	0,0%	0,0%
Ensemble des pouvoirs publics				
Solde structurel	-1,4%	-0,7%	0,0%	0,7%
Solde de financement	-2,1%	-1,4%	-0,4%	0,6%

In % of GDP

Entity I

Structural balance

Fiscal balance

Entity II

Structural balance

Fiscal balance

General government

Structural balance

Fiscal balance

- [3] According to the indicative path taken here, the medium-term objective (MTO) of 0.75% of GDP will be achieved in 2017.

Breakdown of the targets within Entity I

At the level of Entity I, a balanced budget is maintained for social security. The assumption is therefore that the federal State will continue to ensure a balanced budget in ESA terms via an equilibrium grant[4].

Breakdown of the targets within Entity II

In the Section's proposal, the route to a balanced budget for the Communities and Regions as a whole is achieved by stipulating a nominal balance for each Community and each Region during the period 2014-2017. On the basis of that nominal balance, the structural balance is then calculated for each federated entity. In its opinion the Section proposes a method for this calculation: it consists in dividing the cyclical component of the budget among the various federated entities according to their respective shares in final expenditure.[5]

Annex 1 gives an overview of the structural and nominal balances of the federated entities.

The incoming governments will have to hold further consultations and take a decision in accordance with the procedure laid down in the cooperation agreement of 13 December 2013.

3.2.4 Reduction in the public debt in line with the European obligations

During the years preceding the financial and economic crisis, the debt was steadily reduced. The financial and economic crisis caused the public debt to rise again. That was due to both exogenous and endogenous factors. Owing to the contraction of GDP, there was a corresponding continuous rise in the debt ratio. The European Union countries also faced substantial budget deficits. Furthermore, the crisis brought an increase in some social security expenditure (including unemployment benefits). Apart from that, the governments had to intervene to stabilise the financial sector. In

- [4] This technical assumption does not prejudge the incoming government's decision on the subject.
- [5] This calculation excludes unemployment expenditure which is attributed to Entity I and the (marginal) cyclical component of revenue which is allocated according to each entity's share in the tax revenues. See annexes 6.3 and 6.4 of the opinion "Budget path in preparation for the stability programme 2014-2017", High Council of Finance, Public Sector Borrowing Requirements Section, March 2014.

addition, the various European support operations and mechanisms had an influence on the debt.

In view of the high debt ratio and the resulting sensitivity of the Belgian economy to sudden fluctuations in interest rates, the Belgian government undertook to keep the debt ratio below 100 % of GDP. Various measures were taken to achieve that. Thus, in the third quarterly EDP report in March 2014 the debt ratio was estimated at 99.9% for 2013 and 99.6% for 2014 Nonetheless, following an extension of the consolidation scope by the National Accounts Institute, the debt ratio was estimated at 101.5 % for 2013 (April notification by the NAI) and 101.2 % for 2014.

For the years ahead, thanks to positive growth and the reduction in the fiscal balance, an endogenous decline in the debt ratio can be expected.

The debt ratio is to be cut by 8% between 2014 and 2017. That represents a decline of around 2.7 % per annum, which exceeds the obligations under the European rules[6].

Table 9: Debt ratio determinants

En % du PIB	2013	2014	2015	2016	2017
1. Taux d'endettement	101,5	101,2	99,4	96,7	93,2
2. Changement dans le taux d'endettement	0,4	-0,3	-1,8	-2,7	-3,5
	Éléments contribuant à l'évolution du taux d'endettement				
3. Solde primaire	0,6	1,0	1,6	2,5	3,4
4. Charges d'intérêt	3,2	3,1	3,0	2,9	2,8
5. Variation exogène de la dette	-0,7	0,3	0,2	0,2	0,2
p.m. Facteurs endogènes	1,1	-0,6	-2,0	-2,9	-3,7
p.m. Niveau implicite du taux d'intérêt (en %)	3,2	3,1	3,0	3,0	3,0

In % of GDP

1. Debt ratio

2. Change in the debt ratio

Factors contributing to the movement in the debt ratio

- [6] The rules stipulate that the debt must decline each year by 1/20th of the difference between the debt ratio and the threshold of 60 % of GDP. This annual reduction is calculated as an average over three years. For a State exiting the excessive deficit procedure, that requirement is considered to be fulfilled if sufficient progress is achieved over a 3-year transitional period. See Article 2 (1a) of Regulation n° 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

3. Primary balance

4. Interest charges

5. Exogenous change in the debt

p.m. Endogenous factors

p.m. Implicit level of interest rates (in %)

3.3 Comparison with the stability programme 2013-2016 and sensitivity analysis

3.3.1 Comparison with the stability programme 2013-2016

The consolidation path for public finances proposed by Belgium in this stability programme continues the reduction of the deficit and the public debt in line with the previous stability programme and conforms to the requirements set by the European Union Council.

Table 10 compares the growth assumptions and budget targets of the successive stability programmes.

Economic growth is expected to be relatively similar to last year's forecast. Stronger growth is predicted up to 2015 (1.8 %). Growth is expected to stabilise from 2016 (1.7%).

In accordance with the High Council of Finance recommendation, Belgium decided to postpone the structural balance to 2016. In the previous programme that balance was planned for 2015. The aim is to achieve the MTO in 2017 (0.75 %).

The debt ratio is higher than was forecast last year. The reason lies in the extension of the consolidation scope by the NAI in April 2014. Nevertheless, a steady decline in the debt ratio is still planned.

It is vital to reduce the debt (in % of GDP) and create budget surpluses after 2016 in order to guarantee the sustainability of public finances in the long term, in the context of population ageing.

Table 10: Comparison with the previous stability programme [7]

En % du PIB	2013	2014	2015	2016	2017
Croissance du PIB					
Mise à jour précédente	0,2	1,5	1,6	1,7	
Mise à jour actuelle	0,2	1,4	1,8	1,7	1,7
Ecart	0,0	-0,1	0,2	0,0	
Solde de financement					
Mise à jour précédente	-2,5	-2,0	-0,5	0,4	
Mise à jour actuelle	-2,6	-2,1	-1,4	-0,4	0,6
Ecart	-0,1	-0,1	-0,9	-0,8	
Solde structurel					
Mise à jour précédente	-1,8	-1,2	0,0	0,7	
Mise à jour actuelle	-1,9	-1,4	-0,7	0,0	0,7
Ecart	-0,1	-0,2	-0,7	-0,7	
Taux d'endettement brut					
Mise à jour précédente	100,0	99,0	96,5	93,0	
Mise à jour actuelle	101,5	101,2	99,4	96,7	93,2
Ecart	1,5	2,2	2,9	3,7	

In % of GDP

GDP growth

previous update

current update

difference

Fiscal balance

previous update

current update

difference

Structural balance

previous update

current update

difference

Gross debt ratio

previous update

current update

- [7] According to the indicative path taken here, the medium-term objective (MTO) of 0.75% of GDP will be achieved in 2017. For 2016, the structural balance was 0.75 % of GDP. It is rounded down to 0.7 % in this stability programme.

difference

3.3.2 Sensitivity analysis

The economic outlook remains unsure in the context of the debt crisis within the euro area and uncertainty on the financial markets. In accordance with the Code of Conduct, it is therefore important to conduct sensitivity analyses on the macroeconomic parameters for the path described in this stability programme.

Two alternative scenarios are examined. The first scenario assumes that, for the period 2014-2017, economic growth declines by 0.5 percentage point per annum, or 2 % altogether over the period in question. In the second scenario, over the period 2014-2017 GDP growth exceeds the baseline assumption by 0.5 pp per annum.

In this analysis, it is assumed that the elasticity of public finances to GDP is constant at 0.55 for Belgium, as estimated by the European Commission [8].

In the event of higher growth, the fiscal balance will automatically become positive more quickly. If growth were 0.5% higher than in the baseline scenario, the fiscal balance would improve by 0.27% of GDP in 2014. In 2017, the impact on the fiscal balance of growth which is 0.5% higher than the baseline scenario in each year would be 1.1% of GDP. In this scenario, a nominal surplus of 0.5% of GDP would be achieved in 2016, with a surplus of 1.7% of GDP in 2017. In that case, the debt will consequently also be reduced faster (in % of GDP).

In the lower growth scenario, the annual impact would again be 0.27% of GDP, which means that the fiscal balance would deteriorate by 0.27% of GDP in 2014. That would increase to 1.1% of GDP in 2017. This increase in the deficit is due partly to factors relating to revenue, such as a reduction in tax revenues, and partly to factors concerning expenditure, particularly an increase in spending on unemployment benefits.

Table 11: Impact of growth fluctuations on the fiscal balance

En % du PIB	2013	2014	2015	2016	2017
Programme de stabilité					
Croissance réelle du PIB	0,2	1,4	1,8	1,7	1,7
Solde de financement	-2,6	-2,1	-1,4	-0,4	0,6
Variation positive de 0,5 point de pourcentage					
Croissance réelle du PIB		1,9	2,3	2,2	2,2
Solde de financement		-1,8	-0,9	0,5	1,7
Variation négative de 0,5 point de pourcentage					
Croissance réelle du PIB		0,9	1,3	1,2	1,2
Solde de financement		-2,4	-2,0	-1,2	-0,5

In % of GDP

Stability programme

Real GDP growth

- [8] Gilles Mourre, George-Marian Isbasoiu, Dario Pernoster and Matteo Salto, 'The cyclically-adjusted budget balance used in the EU fiscal framework: an update', Economic Papers 478 (European Commission), March 2013.

Fiscal balance

Positive deviation of 0.5 percentage point

Real GDP growth

Fiscal balance

Negative deviation of 0.5 percentage point

Real GDP growth

Fiscal balance

3.4 Outcomes in 2013

In the April 2013 stability programme for 2013-2016, the Belgian government planned to cut the structural balance for 2013 from -2.9 % to -1.8 %, which corresponded to limiting the nominal borrowing requirement to 2.5 % of GDP. On the basis of the European Commission's calculations, the Council of the European Union stipulated in its decision dated 21 June 2013 that Belgium must keep its deficit down to 2.7 % of GDP in 2013, in order to maintain an adequate safety margin in relation to the limit of 3 % of GDP.

At the Consultative Committee meeting on 2 July 2013 the federal government undertook to limit the Entity I deficit to 2.4 % of GDP (- € 9.289 million), including a safety margin of € 226 million.

At the level of Entity II, taking account of a reserve to offset the estimated local authority deficit and a correction for the contribution to the pension responsibility mechanism, the Communities and Regions had to limit their deficit to -€173 million (-0.05 % of GDP). At the time of this decision, the estimated budget deficit of the local authorities came to -€ 260 million. Overall, the target fiscal balance of Entity II was therefore set at -€433 million or -0.11 % of GDP.

The latest NAI estimates (April 2014 notification) expect a deficit of 2.6 % of GDP for 2013.

Table 12: Fiscal balance 2011-2013

En % du PIB	2011 Réalisations	2012 Réalisations	2013 Programme de stabilité	2013 Comité de concertation	2013 Réalisations
Ensemble des pouvoirs publics	-3,8	-4,1	-2,5	-2,5	-2,6
Entité I	-3,4	-3,6	-2,5	-2,4	-2,4
Pouvoir fédéral	-3,5	-3,6	-2,5	-2,4	-2,5
Sécurité sociale	0,1	0,0	0,0	0,0	0,1
Entité II	-0,4	-0,5	0,0	-0,1	-0,2
Solde structurel	-3,4	-2,9	-1,8	-1,8	-1,9

In % of GDP

Outcomes

Stability Programme

Consultative Committee

Outcomes

General government

Entity I

Federal government

Social security

Entity II

Structural balance

The actual fiscal balance (-2.6 %) is very close to the targets set by the stability programme (-2.5 %) and the Consultative Committee's decision (-2.5 %), and better than stipulated in the formal notice addressed to Belgium in June 2013 by the Council of the European Union.

The Entity I deficit comes to 2.4 % of GDP. The target set by the Consultative Committee has been met. A small surplus in social security compensated for the less good results recorded by the federal government.

Entity II ended the year 2013 with a deficit of 0.2 % whereas the target was 0.1 %. This excess is attributable to the local authorities.

3.5 The 2014 budget

3.5.1 Overall target

Decision of the Consultative Committee dated 17 July 2013

For 2014, the Consultative Committee set a target deficit of -2.25 % of GDP for Entity I and a target surplus of 0.1 % of GDP for Entity II. The respective targets of Entity I and Entity II must be adapted to take account of the impact of non-payment of the amount set aside by the Communities and Regions to cover the expected increase in the responsibility contribution for the pensions of their officials (€ 132 million). A sum of € 132 million is therefore reserved in the budgets of the Communities and Regions in accordance with the decision of the Consultative Committee on 17 July 2013.

Draft budget plan

The draft budget plan for 2014 was drawn up in October 2013 on the basis of the Consultative Committee's decision of 17 July 2013.

3.5.2 Entity I

To achieve its target for 2014, in drawing up the initial budget the federal government took discretionary measures with a total net effect on the overall balance of € 2,761.7 million. Those measures comprise both primary expenditure cuts and new revenues or recovery measures. These measures were presented in detail in the draft budget plan submitted in October 2013.

A fiscal prudence circular was published on 17 January 2014. The circular sets out the chosen approach and the method for achieving the fiscal target for 2014. It concerns precautionary measures imposed on the federal public services and the public planning services, the Ministry of Defence and the Federal Police. The circular also applies to public interest bodies and similar agencies consolidated with the federal State, and to public social security institutions.

The circular provides for the following measures:

- in the case of the FPSs and PPSs, a cap of 2% on staff appropriations, 15% on operating appropriations and 20% on investment appropriations. The same limits are imposed on institutions to be consolidated in respect of the part of their expenditure covered by a grant;
- release (25 % per quarter) of the non-capped commitment and settlement appropriations for the FPSs and PPSs ;
- detailed monthly monitoring of the execution of the budgets of the FPSs, PPSs, institutions to be consolidated and social security institutions.

The government also approved a timetable for work relating to the budget. It scheduled a budget review in March on the basis of a report by the Monitoring Committee.

The budget review confirmed the target fiscal balance of -2.25 % of GDP for Entity I.

3.5.3 Entity II[9]

a) The Flemish Community

The Flemish Community's budget for 2013 ended with a small surplus. Thus, the Flemish government again achieved a balanced budget, for the third time in a row. The parliament likewise adopted a balanced budget for 2014. Since there will be a change of government in 2014, the 2014 appropriations were blocked: only 7/12 of the appropriations specified in the budget can be released. That ensures that the incoming government will be able to start work on a proper footing, and still have scope for making any necessary adjustments.

- [9] This section is based on the contributions from the federated entities for the preparation of the March 2014 EDP report.

b) The Walloon Region and the French Community

The budgets provide for a surplus of € 86,525 thousand for the Walloon Region and a deficit of -€ 92,251 thousand for the French Community.

The work relating to the 2014 budget review has been completed. The circular was adopted by the governments of Wallonia and the French Community on 27 February 2014. In accordance with the decrees dated 15 and 20 December 2011, this budget review aimed to assess how the new estimates of the macroeconomic parameters from the Economic Budget of 12 February 2014 will affect the forecast revenues and expenditure appropriations for 2014, in order to compare the result with the budget target set by the governments when the initial budget for 2014 was drawn up. At this stage, the budget targets of Wallonia and the French Community are confirmed.

c) Brussels-Capital Region

In accordance with the agreements concluded at the time of the interfederal consultation, the Brussels-Capital Region has entirely eliminated its deficit in ESA terms in the 2014 budget. For the first time in many years, it even succeeded in drawing up a budget showing a small surplus of € 6 million. In addition, this budget takes account of the Region's contribution towards the consolidation of general government finances, amounting to € 17.7 million, which will be deducted from the transfers to be made by the federal government.

Consequently, the 2014 budget permits the structural switch from deficit budgets to surplus budgets, and does so 2 years sooner than planned.

d) French Community Commission

The entity's budget target (balance in ESA terms) was met in full. At this stage there are no plans for a budget review.

e) German-speaking Community

Since the 2013 fiscal year the annual budget of the German-speaking Community has included the sums needed to meet the expenditure relating to responsibility for the pensions of its staff, including teaching staff.

When the initial budget was drawn up the German-speaking Community had a structural deficit of -€6.029 million. The 2014 budget shows a deficit of -€29.8 million. The government of the German-speaking Community has drawn up a draft budget for 2015 which restores a balance in 2015.

The German-speaking Community constantly monitors the execution of its budget. The work on the 2014 budget review has been completed. It confirmed the target.

4 Sustainability of public finances

The medium- and long-term sustainability of public finances constitutes a major challenge, the main factor being the fiscal consequences of population ageing. The scale of these consequences is measured by the “fiscal cost of ageing” which has been calculated annually since 2002 by the Study Committee on Ageing (see point 1 below). To address this challenge, the Belgian government has developed a strategy in line with the three-pronged strategy defined at European level some time ago (point 2). Some major measures and reforms have already helped to put that strategy into practice. Assessment of the sustainability of public finances may also be influenced by the existence of contingent liabilities and changes in those liabilities (point 3).

4.1 The fiscal cost of ageing

The latest report by the Study Committee on Ageing (SCA) dates from July 2013 ([10]). It presents an updated assessment of the fiscal cost of ageing, defined as the growth of total social expenditure over a given period.

4.1.1 The SCA baseline scenario

The estimated cost of ageing according to the SCA’s 2013 report takes account of most of the structural reforms concerning pensions, unemployment with a company supplement, other unemployment, career breaks and time credit - approved in December 2011 - and analyses in detail the reform of the pension bonus and the age supplement.

According to the baseline scenario to which the SCA refers, total social expenditure will increase from 25.8 % of GDP in 2012 to 31.2 % in 2060, putting the fiscal cost of ageing at 5.4 % between 2012 and 2016. The two components at the root of this increase are pensions and health care costs..

- [10] High Council of Finance, Study Committee on Ageing, *Annual Report*, July 2013.

Between 2012 and 2060 pension expenditure is projected to rise by 4.5 % of GDP (from 10.2% to 14.7% of GDP) while the cost of health care will go up by 2.6% (from 8.1% to 10.7% of GDP). Other social expenditure (incapacity, unemployment, unemployment with company supplement, family allowances and other benefits) is projected to fall by 1.7 % of GDP up to 2060, to a total of 5.7% of GDP. Among the assumptions adopted, unemployment expenditure in particular is expected to decline by 0.9% of GDP by 2060.

Table 13: Budgetary implications of ageing

(en % du PIB)	2012	2018	2030	2060	2012-2018	2018-2060	2012-2060
Pensions	10,2	11,0	13,6	14,7	0,8	3,7	4,5
Salariés	5,6	6,2	7,8	8,3	0,6	2,1	2,8
Indépendants	0,8	0,9	1,1	1,1	0,0	0,2	0,3
Secteur public	3,9	4,0	4,7	5,3	0,1	1,3	1,4
Soins de santé	8,1	8,3	9,0	10,7	0,2	2,4	2,6
Invalidité	1,7	1,8	1,7	1,4	0,1	-0,3	-0,2
Chômage	2,0	1,8	1,3	1,1	-0,2	-0,6	-0,9
Chômage avec complément d'entreprise	0,4	0,3	0,3	0,3	-0,1	0,0	-0,1
Allocations familiales	1,6	1,6	1,6	1,4	0,0	-0,3	-0,3
Autres dépenses de sécurité sociale	1,7	1,7	1,7	1,5	0,0	-0,2	-0,2
Total	**25,8**	**26,6**	**29,1**	**31,2**	**0,7**	**4,6**	**5,4**
p.m. Rémunérations de l'enseignement	4,2	4,0	4,1	4,1	-0,2	0,1	-0,1

(*in % of GDP*)

Pensions
Employees
Self-employed
Public sector
Health care
Invalidity
Unemployment
Unemployment with company supplement
Family allowances
Other social security expenditure
Total
p.m. Salaries of teaching staff

Source: High Council of Finance, Study Committee on Ageing, Annual Report July 2013, p. 34

In its 2013 Report the SCA assessed the impact of the introduction of the new pension bonus on the cost of ageing (via the impact of all pension schemes on expenditure). Thus, the introduction of the new pension bonus should reduce total pension scheme expenditure by 0.6 % in 2020 and 2.0 % in 2060. In 2060, the expected saving corresponds to a reduction in that expenditure amounting to 0.3 % of GDP. The progressive effect evident from these forecasts arises because the pension bonus reform concerns only future generations of new pensioners. Thus, the savings associated with the reform will tend to increase until such time as all generations of pensioners have come under the new provisions on the pension bonus.

In addition, as a result of the relatively recent implementation of the pension bonus (since 2006) and the age supplement (2000), it is not until the 2030s that all generations of pensioners will be affected; that reinforces the progressive character of the savings analysed in the SCA 's figures.

4.2 Political strategy

Fiscal policy has always been a key element of the Belgian strategy for coping with the budgetary impact of ageing. However, that is only one part of the Belgian government's strategy, which is based on three fundamental pillars.

The Belgian government chose to make gradual progress towards balanced public finances while safeguarding economic growth. The various levels of power are committed to achieving a balanced budget. The reduction in the debt ratio which must ensue will lower future interest charges, so that the resulting margin can be used to cover the rising expenditure on social protection. In its opinion, the Borrowing Requirements Section examined a scenario in which, following what is proposed in this stability programme, the MTO will be maintained for 5 to 6 years, after which the budget balance will gradually rise from 0.6 % in 2023 to 1 % in 2040. In this scenario, it would be possible to absorb around 2/3 of the estimated cost of ageing.

The second pillar relates to the economy and concerns boosting the employment rate and stimulating production potential. A higher number of persons in work means that the burden of funding social expenditure is more evenly spread.

The third pillar of the Belgian strategy for coping with the challenge of population ageing consists in reforming social security to strengthen its sustainability and to consolidate a strong, affordable social security system based on solidarity.

These three aspects of the strategy are interdependent, as progress achieved on one aspect strengthens the others. For instance, the structural reforms which the government is currently undertaking on pensions and the labour market are encouraging people to work longer, they make work more worthwhile, and they should ensure a significant rise in the employment rate and a reduction in the fiscal cost of ageing (see above). At the same time, they consolidate the future of the pension system by redistribution and ensure that the system is fairer for employees.

4.3 Contingent liabilities

Apart from other factors, the sustainability of public finances is determined not only by the government's firm commitments, but also by the contingent liabilities. These contingent liabilities are not part of the public debt and only represent a potential debt. When guarantees are called, they trigger capital transfers which then have an adverse impact on the fiscal balance and therefore on the public debt.

4.3.1 Entity I

So far, the federal government has never had to make any payments under a guarantee agreement concluded with a financial institution during the crisis.

Since 2008, against the backdrop of the financial crisis, the federal government has granted – and continues to grant – guarantees covering both interbank borrowings by Dexia and risky structured assets of miscellaneous financial institutions. On the basis of the agreement signed on 24 January 2013, the final guarantee ceiling in favour of Dexia was cut from € 90 to € 85 billion, and Belgium's share of it was reduced from 60.5 % to 51.41 %. This reduced Belgium's maximum exposure to the Dexia group from € 54.45 billion to € 43.7 billion. The reduction in the guarantee payments (from 90 to 5 basis points) is offset by a significant reduction in the risks incurred. On 31 December 2013, Dexia's guaranteed interbank financing, which comprises the residue of the old guarantee system dating from 2008 and the guarantees granted on the basis of the December 2011 scheme, represented an outstanding total of € 39.8 billion, which is by far the largest part of the financial sector's guaranteed debt. In addition, the limited State guarantee in favour of BNP Paribas Fortis was ended early on 18 December 2012, and the guarantee agreement between the federal State and

KBC was amended on 19 December 2012. Provision was made here for a form of conditional premium rebate in the event of speedier reduction of the residual risks by KBC. On 31 December 2013, the State was still guaranteeing three of the fifteen Collateral Debt Obligations (CDO) of KBC in the original portfolio, representing a maximum risk of € 4.7 billion. The maximum guarantee for Fortis Cashes (Ageas) was stable in 2013 at € 870.9 million. Finally, in August 2013 the guaranteed debt of Royal Park Investments (RPI), the ex-Fortis "bad bank", was repaid in full after the sale of its portfolio on 27 April 2013; that brought the public debt down by € 0.9 billion.

In general, the total amount of the guarantees granted to financial institutions continues to decline gradually as a result of natural developments and active management of the portfolios covered. At the end of February 2014, the outstanding amount of the guarantees in favour of financial institutions thus came to €44.145 billion, a reduction in relation to year-end 2013 (€45.36 billion) despite the rise in Dexia's guaranteed debt. The outstanding amount of the guarantee for Dexia in 2013 is the only active guarantee which could yet increase, to a maximum of € 43.7 billion.

Apart from the guarantees granted in the context of the financial crisis from 2008 onwards, the debts of institutions or firms whose debt service is guaranteed by the federal State have been declining overall. At the end of 2013, the debt guaranteed by the State stood at €4.55 billion. Thus, at the end of December 2013, the total amount of debt guaranteed by the federal State – including small debts relating to school buildings for the French Community and the Flemish Community - came to €49.9 billion, or 13.1% of GDP. That is significantly lower than the end-2012 figure (€64.4 billion or 17.1 % of GDP), despite the slight increase in Dexia's guarantee debt.

In return for the grant of the guarantees (service fee) during the financial crisis, the financial institutions paid the federal government €728.9 million in 2011, €748.9 million in 2012, and €541.7 million in 2013 on the basis of recorded rights. According to the latest estimates, these non-fiscal revenues will come to €371.1 million in cash terms for this year.

To complete the picture, it should also be noted that Belgium, as a Member State of the euro area, also guarantees the EFSF loans in proportion to its share in the ECB's capital (3.7% at present). These guarantees are not included in the "contingent liabilities" because the EFSF loans are recorded by Eurostat in the consolidated gross public debt. At the end of 2013, the impact of the EFSF assistance increased the Belgian public debt by € 6.65 billion (or 1.7% of GDP) in cumulative terms over 2011, 2012 and 2013. The function of the EFSF was taken over by the European Stability Mechanism in October 2012.

Finally, it should be mentioned that the Regions and Communities have also granted guarantees. Pursuant to Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, these will also be published alongside the State guarantees.

Since the debt ratio is subject to the risk of (partial) exercise of the guarantees granted, and since the government’s exposure to the financial sector therefore affects the rating that the government is accorded by the rating agencies, the federal government and the institutions concerned are doing everything they can to monitor closely and control the risks facing the financial sector. On the basis of the detailed data that banks must report, the Debt Agency carefully examines the risk of State guarantees being exercised. That agency's research shows that at the end of December 2013 there was no risk overall in the case of two of the institutions covered by guarantees, and a small risk over 24 months for a single institution.

In general, it should also be noted that in recent years the Belgian banking sector has been strengthened, notably by a reduction in risk exposures and by the contraction of the sector's balance sheet total. Moreover, the application of the Banking Law approved by the Chamber on 4 April 2014 (Law on the status and monitoring of credit institutions) will strengthen the banks and provide additional protection for consumers and savers, in particular via a ban on own account trading activities by banks, the restriction of risky investments for third parties, and the increased stringency of the capital standards.

Table 14: Contingent liabilities (federal State only)

En % du PIB	2013	28/02/2014 (1)
Garanties	13,07	12,48
Dont : concernant le secteur financier	11,88	11,25

In % of GDP

Guarantees

Of which: concerning the financial sector

(1) For French Community and Flemish Community school buildings, the position regarding a historical debt applies as at 31 December 2012.

4.3.2 Entity II[11]

a) The Flemish Community

The total amount of the guaranteed debt of the Flemish Region as at 31/12/2013 came to €11.7 billion.

The list of debts guaranteed by the Flemish Region is diverse, but it can be divided into three main categories: 1) (local) public authority guarantees; 2) asset-backed guarantees; 3) economic guarantees.

The breakdown of the list into these three categories accurately reflects the risk profile of the guarantees. The first group consists of (local) public authority guarantees. The risk incurred by the Flemish government on these guarantees is small, as they are granted to local authorities or to agencies which are independent of the Flemish government to some degree. In the first place, this category is subsidised by the Flemish government. In addition, the Flemish government often has a supervisory role via the government commissioners (agencies) or the Domestic Administration Agency ("Agentschap Binnenlands Bestuur", which is the body responsible for local authorities). This means that the Flemish government can monitor and sometimes even influence the financial situation of these players. The latter are often actually included in the consolidated debt position of the Flemish government or local authorities. Debt in this category as at 31/12/2013 came to € 1.0 billion.

The second category of guarantees granted by the Flemish government is backed by the underlying assets. Often, the Flemish government has sufficient collateral in this case to recover the bulk of the amounts guaranteed. In the majority of cases, that collateral consists of mortgages, which may or may not be first mortgages. In some cases, the Flemish government also guarantees the liabilities of companies without any direct link to their assets, e.g. the Flemish Social Housing Association and the Flemish Building Fund. The financial health of entities receiving these guaranteed loans is monitored by the Flemish government so that any financing risks can be

- [11] This section is based on the contributions from the federated entities towards preparation of the March 2014 EDP report.

detected in time. This also limits the risk of losses associated with guarantees in this category. As at 31/12/2013, the debt in this category stood at € 9.6 billion.

A third category concerns the guarantees granted to businesses to boost the economy and innovation. This is the category involving the most risks for the Flemish government. Here, the guarantee hardly ever covers the whole 100% of the loan. It is true that *pari passu* agreements are concluded with the banks in many cases, and that the guarantee can only apply after the use of all collateral (including personal assets). As at 31/12/2013, the debt in this category came to € 1.1 billion.

b) The French Community

The French Community has provided guarantees in four cases.

- Le Palace

The French Community guaranteed two bank loans taken out by the NPI Le Palace for a total of €8 975 175 (including VAT exclusive of revision).

The French Community is repaying the two loans to Le Palace, so the risk is zero.

Amount outstanding as at 31/12/2013: €0.54 million

- RTBF

The guarantee was included in the expenditure budget decree.

The guarantee was never called.

Risk: 0

Amount outstanding as at 31/12/2013: €80.3 million

- Bois Saint-Jean

The French Community granted the intermunicipal association a 50-year lease on the site of Bois Saint-Jean; the 50-year term was subsequently reduced to year-end 2033.

In 2008, Ecetia took out a loan from Ecetia finances (mixed intermunicipal association) of €25.1 million for a 25-year term for the rebuilding of the Country Hall and an additional sports hall. Repayment in equal annual instalments of € 1.743 million with the first payment due on 1/2/2009. The French Community guaranteed this loan against default.

Ecetia assigned the management of the Bois Saint-Jean site to a management company, SA Bois Saint-Jean, in which the French Community has a majority shareholding, for an annual rental of €1.743 million.

On expiry of the lease, which coincides with the end of the loan, the infrastructures revert to the ownership of the French Community.

Amount outstanding as at 31/12/2013: €22.1 million

Risk: 0

- The Community Guarantee Fund for School Buildings (administrative service with accounting autonomy and no legal personality)

The Community guarantees the amount, as the fund comes within its consolidation scope and is not an institutional unit in ESA terms.

Amount outstanding as at 31/12/2013: €484.7 millions

Call on the guarantee: €0.6 million in 7 years

Negligible risk

c) Walloon Region

The government of the Walloon Region regularly grants primary or lower ranking regional guarantees on financial assets and liabilities.

Generally speaking, the financial risk for the Region is very low. Except in the case of agricultural structures where the government guarantees the loans taken out by farmers and farm businesses for investment or working capital in agriculture and horticulture under the Agricultural Investment fund and the Investment Support for Agricultural Development, there have never been any calls on primary guarantees. In regard to agricultural structures, the amounts called upon are very small.

Primary guarantees are now granted exclusively on financial liabilities (loans, credit facilities, compulsory funding programme, etc.) of public sector bodies with a specific government decree in each case, and there is government monitoring at all stages up to the actual grant of the regional guarantee.

In addition, these bodies are closely supervised and monitored by the Walloon Region. For the great majority of the guarantees granted, there is a corresponding asset which can be realised (property, financial assets, etc.).

Apart from the primary guarantees granted, there are also regional guarantees "against default" for certain categories of loans granted to households by housing associations. In practice, these are third-ranking regional guarantees granted on financial assets. If an individual defaults on the repayment of a housing association loan covered by the regional guarantee, the first guarantee exercised is the mortgage and the various forms of real collateral for the loan. If a balance remains after the exercise of that guarantee, a solidarity fund steps in to clear it. That fund is formed by a 20 basis point levy collected when each loan is granted. In the event of insufficient funds, the Walloon Region has to intervene directly to top up this fund.

These various elements combined with the checks conducted by the auditors on each institution and the obligation on those institutions to present balanced accounts mean that the financial risk of the regional guarantee is very small.

d) Brussels-Capital Region

As at 31/12/2013, the outstanding total of the debts guaranteed by the Region came to €2.7 billion.

Since 1999, the annual rate of guarantee calls on the outstanding total has been extremely low.

Four entities represent over 80% of the debts guaranteed by the Region: the Brussels Regional Refinancing Fund for Municipal Cash Resources (FRBRTC), the Brussels Water Management Company (SBGE), the Brussels-Capital Housing Fund and Hydrobru (Brussels intermunicipal water company).

For the FRBRTC and the Housing Fund, the total guaranteed debts cover the bank loans of those institutions. Those borrowings are used for loans to municipal authorities (FRBRTC) and mortgage loans to households (Housing Fund), two types of loan presenting little risk. Sound financial assets of an equivalent amount therefore cover the debts guaranteed by the Region.

For the SBGE, 90% of the debts guaranteed by the Region are commercial debts to Aquiris, the company operating Brussels sewage treatment plants. These commercial debts are financed by SBGE revenues raised by a levy on the price of water. As the SBGE decides the amount of that levy, there is virtually no risk of a guarantee call on these commercial debts representing € 615 million.

For Hydrobru, the guaranteed debt covers borrowings (particularly from the EIB). Hydrobru's revenues come from the distribution and sale of water for which it sets the price. There is therefore virtually no risk of a guarantee call on the €165 million.

e) French Community Commission

In 2012 the COCOF granted guarantees on loans taken out by the Brussels French-speaking Institute of Vocational Training for a maximum of € 6 million.

In 2013, the College approved the proposed registration of a mortgage and encumbrance with a mandate on a site owned by COCOF in order to guarantee a loan of €4,961,000 granted by the NPI HOPPA for the construction of a day centre and accommodation for disabled persons.

These guarantees are linked to assets; they therefore entail little risk for COCOF's budget.

5 Quality of public finances[12]

The Belgian government gives priority to pursuing the lasting consolidation of public finances in order to ensure sustainable, balanced economic growth. A credible fiscal consolidation strategy was defined for that purpose, making sure that the effort was balanced between revenue and expenditure.

Implementation of the structural reforms of the labour market and pensions resulting from the coalition agreement is continuing. These reforms aim to boost the employment rate, particularly among older workers, and to stimulate the economy's growth potential.

The recovery strategy adopted in July 2012 has also been further developed. This strategy aims to dynamise economic activity, boost citizens' purchasing power, promote business competitiveness and facilitate the creation of quality jobs.

In line with that, an Interfederal Pact for Competitiveness, Employment and Recovery was concluded in November 2013 between the federal government and the Regions and Communities. The synergies and cooperation between these levels of power are being reinforced in a number of areas.

In determining new revenues, the government took care to safeguard labour incomes. A whole package of measures was implemented to reduce the burdens on labour and encourage employment. The tax system was also made fairer by improving the contribution from the various income categories.

There has been an effort to enhance the efficiency of public spending so as to make savings while still offering citizens high quality public services. The strict monitoring of expenditure has also been reinforced.

5.1 Promoting the employment of older workers

Belgium aims to achieve a further rise in the employment rate of older workers, which is still comparatively low in Belgium. New provisions were introduced to encourage

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- [12] Some of the measures and reforms are presented in more detail in the National Reform Programme 2014.

these workers to continue working and thus postpone their actual retirement age. In addition, a number of measures approved earlier to meet that objective have entered into force.

In 2014, the pension bonus system was reformed and harmonised across the various pension schemes. Older workers are given a financial incentive to continue working for at least one year after meeting the conditions of eligibility for early retirement. The amount of the bonus is a progressive standard rate. It is also granted after the statutory retirement age. In addition, the conditions for access to early retirement (age and minimum seniority requirements) have been further tightened up.

In order to eliminate employment traps, survivors' pensions will be adjusted from 2015. At present, the amount of such a pension is influenced by its combination with a maximum amount of permissible earned income. Recipients therefore have an incentive to cut down on their work or even to leave the labour market.

The survivors' pension will be replaced by a transitional allowance for those under the age of 45 years. Employment traps will be eliminated since the whole of this allowance can be combined with earned income. The age threshold of 45 years will be gradually increased to 50 years by 2025. The allowance will be subject to a time limit, depending on whether there are dependent children.

The "standard 45-year career" principle has been relaxed. According to this principle, the maximum career taken into account for a full statutory pension was 45 years. For the purpose of calculating the pension, this principle will in future be based on the number of full-time equivalent days rather than the number of calendar years. Thus, it will be possible to take account of more than 45 years of work and incomplete years. In addition, the calculation of the pension will in future take into consideration the final months of working life in the year of retirement. Workers will thus be encouraged to continue working beyond 1 January in the year of retirement.

Access to supplementary 2nd pillar pensions will be made easier by the introduction of a legal framework gradually phasing out the differences between the status of blue-collar and white-collar workers between now and 2025. The amount of these pensions depends in particular on the length of the workers' career.

In the Flemish Region, job seekers' support has been extended to persons over the age of 60. The approach has also been adapted to take account of the specific needs of this category.

5.2 Making work financially more attractive and maintaining purchasing power

The social bonus (reduction in personal social security contributions) and the tax bonus (tax reduction) were further augmented in favour of low-wage workers. That increases their wages at no extra cost to the employer. Since 2014, the social bonus has been indexed automatically and increases whenever the minimum wage is indexed.

In addition, under the aforementioned Pact the federal government decided to increase the tax bonus in 2015, 2017 and 2019 by € 50 million on each occasion. Following the assignment of new powers, the Flemish government likewise decided to devote € 125 million to reductions in charges from the last quarter of 2014, mainly in favour of young people and older workers.

Various social benefits, notably minimum and flat-rate allowances, were increased in September 2013 via a prosperity adjustment. This link to prosperity was confirmed in the Interfederal Pact on Competitiveness, Employment and Recovery. By supporting the purchasing power of the poorest households, these measures stimulate demand and hence economic growth.

5.3 Reducing labour costs for businesses

New reductions in fiscal and parafiscal levies on employers encourage demand for labour. These reductions generally target certain groups, notably low wage earners and young workers.

The basic flat-rate structural reduction in the levy was increased to make up for the abolition of the one-day waiting period for blue-collar workers as part of the harmonisation of the status of blue-collar and white-collar workers.

The reduction in employers' social security contributions for low wage earners was increased by indexing the wage ceiling up to which workers qualify as low wage earners.

Small and medium-sized enterprises (SMEs) are encouraged to take on staff via extension of the reduction in employers' contributions for the recruitment of the 4th and 5th workers. Moreover, in regard to tax, these SMEs are granted an increase in the rate of exemption from payment of withholding tax. This measure is being funded partly by the revenue raised by the ‘‘fairness tax’’.

The Activa plan aimed at young people with low skills was further reinforced by an extension of the target group. A reduction in employers' contributions is granted for the recruitment of a young low-skilled person up to the age of 30 (instead of 27) and a job seeker who has been unemployed for at least 6 months (instead of 12 months).

The exemption from payment of withholding tax for night work and shift work was extended to continuous working in 2014 (market and non-market sector). The maximum number of overtime hours for which exemption may be granted was increased from 130 to 180 hours in the hotels and restaurants sector and in construction. Measures to combat illicit labour were demanded in return.

Under the Interfederal Pact on Competitiveness, Employment and Recovery, the federal government planned to increase in three stages (2015, 2017 and 2019) the structural reduction in levies, the targeted contribution reductions for low wages and the exemption from payment of the withholding tax for shift work.

5.4 Stimulating business competitiveness

The reductions in charges mentioned above help to support business competitiveness. In addition, to reduce the wage gap in relation to the main neighbouring countries the government decided to freeze wages during 2013-2014, except for indexation and scale increases. The expert group on competitiveness has already submitted an initial report to the government on productivity and labour costs, and on corporate training efforts. At the government's request, that group is continuing its work in order to deliver a more detailed report in mid-2014.

In addition, the method of calculating the consumer price index has been adapted, in particular in order to bring the inflation measure more into line with actual consumer behaviour. This means that indexation exerts less pressure on prices and wage increases. For example, the impact of clearance sales and changes in consumption patterns have been incorporated in the calculation of the index.

In April 2014, the VAT on electricity was cut from 21% to 6 %, which will slow the pace of inflation and limit its effects. That will encourage business competitiveness. This measure will be assessed by no later than 1 September 2015.

Access to credit is vital to the development of SME activities. The contractual relationship between these firms and the banks has been made more balanced. In particular, the organisations representing SMEs and the credit sector respectively have adopted a code of conduct. To encourage SMEs to invest, the investment allowance for SMEs has been increased by raising the deduction rate.

5.5 A more balanced tax system

Various provisions were adopted to raise contributions from tax bases other than labour and to eliminate loopholes in the tax system.

A number of excise categories were increased. In August 2013 there was an 8% increase in the rate of various excise duties. The duty on tobacco was raised in 2014. The restriction on bio-fuel subsidies in response to the European Commission's request also means an increase in excise revenues in 2014. Moreover, from mid-2013 limits were imposed on tax exemptions for international diplomats.

Regarding VAT, lawyers' services are now subject to 21% VAT so that the system is similar to that applicable to bailiffs and notaries, and in line with other European countries.

An effort was made to increase the contribution from capital incomes. A 25% withholding tax on income from movable property has applied since August 2013 to gains made on incomes from certain unit trusts without a European passport. In October 2014, the rate of the withholding tax on liquidation gains will be raised from 10 to 25 %. Before that increase applies, firms are eligible for the transitional arrangements for liquidation gains up to 30 September 2014. Under these transitional arrangements, taxable reserves approved by general meetings held no later than 31 March 2013 can be incorporated in the company capital against payment of a 10% withholding tax. The tax rate on dividends paid by intermunicipal associations pursuing commercial activities went up from 15 to 25%.

In regard to miscellaneous revenues, the subscription tax on savings deposits was increased by 12 basis points in 2013 and 19.29 basis points in 2014. This is an annual tax on financial institutions, calculated on the proportion of regulated savings deposits exempt from withholding tax.

A "fairness tax" was introduced in corporation tax from the 2014 tax year in order to eliminate existing loopholes. This tax concerns large companies which pay little or no tax as a result of tax optimisation, in particular via the notional interest scheme or by carrying forward tax losses, but which nevertheless pay dividends. This measure does not concern SMEs.

Furthermore, "fiscal compliance" has been improved by optimising the income tax return procedure.

5.6 Controlling expenditure

The Belgian government has maintained its efforts to enhance government efficiency and the quality of services offered to citizens while keeping expenditure under control. All departments are rationalising primary expenditure, and the selective replacement of retiring officials is continuing. Strict monitoring of expenditure is being maintained.

Via their positive effect on employment, the structural reforms of the labour market and pensions also help to cut public expenditure.

In regard to health care, the government watches over the accessibility of quality health care for citizens and monitors employment in the sector. The sustainability of the social security system is ensured by adopting structural economy measures. From the financial angle, the statutory norm for the real growth of health care expenditure has been capped at 3 % for 2014. As a result of savings which have been approved, the actual increase in expenditure should be less than that norm.

6 Institutional aspects of public finances

6.1 Adaptation of the budgetary framework in line with European rules

Following the economic and financial crisis of 2008 it was decided to reinforce the budgetary frameworks applicable to the Member States. This was done via the Six Pack, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), and the Two Pack.

During 2013 and in the first quarter of 2014 Belgium implemented these new rules via a cooperation agreement and three pieces of legislation.

Some of the obligations contained in these documents will have an effect when the 2015 budget is drawn up. Others, essentially those in the cooperation agreement of 13 December, are already having an impact on the drafting of this stability programme.

a) Cooperation agreement of 13 December 2013 between the Federal State, the Communities, the Regions and the Community Commissions on the implementation of Article 3(1) of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

As its title indicates, this cooperation agreement is intended to implement the TSCG. All the parliaments concerned gave their consent to the cooperation agreement.

Aiming at balance

This cooperation agreement requires public authorities to achieve a balance in the general government accounts. This rule is considered to be respected if the annual structural balance for general government conforms to the medium-term objective or the convergence path towards the MTO as defined in the stability programme, the lower limit being a deficit of 0.5 % of GDP.

Coordination mechanism

To ensure the attainment of this target balance for general government, a coordination mechanism has been introduced for the various governments. Thus, in connection with the updating of the stability programme, the cooperation agreement provides for a breakdown of the annual budget targets into individual targets for the various levels of power in nominal and structural terms.

That breakdown is to be based on an opinion of the Borrowing Requirements Section of the High Council of Finance. In that opinion, the Borrowing Requirements Section of the High Council of Finance has to examine the investment behaviour of the local authorities and take account of any updating of the medium-term objective[13].

The fixing of the individual budgetary targets in nominal and structural terms for the governments and local authorities must be approved by a decision of the Consultative Committee.

For the local authorities, it was agreed that, in the exercise of its powers and/or supervision, each government should take the measures necessary to ensure adherence to the budget targets.

Corrective mechanism

The cooperation agreement included a number of provisions guaranteeing adherence to the budget targets by each government. Thus, the Public Sector Borrowing Requirements Section of the High Council of Finance has to identify any discrepancies and assess the existence of exceptional circumstances, if any. Where a significant discrepancy is found, the government concerned will have to justify it and, in accordance with the Treaty, take immediate corrective measures. The Public Sector Borrowing Requirements Section of the High Council of Finance has to issue an opinion on the scale of the corrective measures to be taken. Those corrective measures must enable the discrepancy to be rectified within 18 months unless the economic or institutional situation justifies a longer period in the opinion the Borrowing Requirements Section of the High Council of Finance.

Once a year, the Public Sector Borrowing Requirements Section of the High Council of Finance has to check the implementation of the corrective measures in preparing one of its opinions.

- [13] See High Council of Finance, Public Sector Borrowing Requirements Section, "Opinion. Budget path in preparation for the Stability Programme 2014-2017", March 2014

Independent body

The role of the Public Sector Borrowing Requirements Section of the High Council of Finance as an independent body in regard to public finances is confirmed and reinforced.

b) The laws of 10 April 2014 respectively amending the Law of 22 May 2003 on the organisation of the budget and accounts of the federal State and the Law of 16 May 2003 laying down general provisions applicable to the budgets, the monitoring of grants and the accounts of the Communities and Regions, and on the organisation of the Court of Audit

These two laws are intended to transpose Directive 2011/85/EU but also to bring national law into line with Regulation EU 473/2013.

In accordance with the Two Pack, the federal State budget must in future be submitted to the Chamber of Representatives by 15 October in each year.

On the subject of public accounts, the retrospective checks have been stepped up. In future, the general accounts of the federal State and of each Community and Region will have to be submitted for certification by the Court of Audit at the latest with effect from the accounts for the 2020 fiscal year. The certification sought comprises a detailed, reasoned opinion on the regularity, truthfulness and reliability of the accounts submitted.

There is now greater transparency in the execution of the budget. It operates via monthly reporting of the budget figures for the federal State, social security and the Communities and Regions, and quarterly reporting for the local authorities. The General Data Bank is responsible for the collection and publication of the data[14].

The budgets will have to be considered from a multi-annual perspective. That is why each government is asked to establish a medium-term budgetary framework. That budgetary framework will be based on the objectives in accordance with the cooperation agreement of 13 December 2013. The budgetary framework has to be supplemented by multi-annual budgetary planning.

- [14] Pursuant to the directive, reporting began in February 2014. http://www.budgetfederal.be/FR/figures/Pages/EUreport.aspx

In regard to economic forecasts, the obligation to use the NAI forecasts as the basis for drawing up the budgets has been institutionalised. Differences compared to the European Commission's forecasts (and those of other independent bodies, if appropriate) must be justified in the general explanatory report.

The budget forecasts will be evaluated every three years by the Public Sector Borrowing Requirements Section of the High Council of Finance.

To ensure transparency, there is also an obligation to publish a sensitivity analysis for the main budget variables, information on the contingent liabilities and tax expenditure, and a list of all the bodies and funds not included in the scope of the ordinary budget.

c) The Law of 28 February 2014 amending in so far as the National Accounts Institute is concerned the Law of 21 December 1994 containing social and miscellaneous provisions

This law partly supplements the two laws transposing Directive 2011/85.

In particular, it gives the National Accounts Institute (NAI) the task of producing the economic forecasts for the multi-annual budgetary frameworks.

The NAI is required to attach to its economic forecasts a sensitivity analysis and a comparison with the forecasts of the European Commission and those of other independent bodies, if appropriate.

Every three years the NAI must arrange an evaluation of the economic forecasts by a scientific committee composed partly of members from outside the NAI. The result of that evaluation will be made public and taken into account in subsequent forecasts. If that evaluation shows a significant discrepancy over a period of not less than four successive years, the necessary measures will be taken and made public.

6.2 The sixth State reform

Butterfly Agreement

The Butterfly Agreement – the political agreement concluded by the eight negotiating parties[15] on 11 October 2011 – defines the contours for the sixth Belgian State reform. The two main decisions respectively concerned the transfer of a large block of powers from federal level to the federated entities and the preparation of a major revision of the Special Finance Act (SFA). In addition, a number of other agreements were reached on splitting the Brussels-Halle-Vilvorde electoral district and reforming Parliament, including simultaneous elections at the various levels of power and abolition of direct elections to the Senate.

Parliamentary procedure

The parliamentary work on changes to the Constitution, and the debate on the special law on the sixth State reform and the special law reforming the financing of the Communities and Regions, increasing fiscal autonomy for the Regions and financing the new powers, was completed in the Senate on 19 December. The legislation was enacted on 6 January 2014 and published in the Moniteur belge on 31 January 2014. Subject to a few exceptions, these laws take effect on 1 July 2014.

Transfer of powers

The coalition agreement of 1 December 2011 assumed a transfer of powers amounting to € 16.9 billion. Following an updating of the figures and extrapolation to 2015, that sum increases to almost € 20 billion (around 5 % of GDP). However, the resources transferred or assigned for that purpose from federal level to the federated entities will be lower as a result of the incorporation of the responsibility mechanism and consolidation contributions.

- [15] The six current governing parties plus Groen and Ecolo

The main blocks of powers transferred to the Communities and Regions under the sixth State reform concern the following spheres:

- Community powers:
  - Care of the elderly and certain aspects of health care policy (including mental health and preventive measures)
  - Family allowances
  - Law centres.
- Regional powers:
  - Certain aspects of employment policy (including monitoring of the availability of the unemployed, the policy on target groups, and placement)
  - Mobility and road safety (including speed limits and fines for offences under the road safety regulations)
  - Tax expenditure (tax reductions and tax credits) concerning:
    - own homes
    - protection of a property against theft or fire
    - maintenance and restoration of protected monuments
    - services paid for with service vouchers
    - expenditure on energy saving
    - expenditure on the renovation of housing in positive action zones in large cities
    - renovation of social housing.

In addition, powers are also transferred in the following spheres:

- the economy (including equity funds, inter-university centres and the licensing of commercial establishments)
- energy and the environment (including distribution tariffs and waste transit)
- agriculture (BIRB and agricultural disaster fund)
- local authorities (including public disaster funds and urban policy)

- urban planning, housing and regional development (including purchase committees)
- other: e.g. animal welfare, control over the access of minors to films.

Exercise of the powers

The Communities and Regions are responsible for the matters assigned to them from 1 July 2014. However, the federal State will continue to exercise the powers within its own budget in the name and on the behalf of the Regions and Communities until the end of the year. If the Communities and Regions cannot exercise the new powers independently by 1 January 2015, there will be a transitional period up to 31 December 2015 during the which the FPSs and the PPSs may continue to provide administrative services in the name and on the behalf of the federated entities. In that case the federal government will deduct the costs of the resources transferred to them under the special law.

For the powers currently being exercised by the other federal institutions, there is no deadline specified in the special law and they can therefore continue to exercise those powers for a longer period on behalf of the entities so long as the latter contribute towards financing the resulting costs.

However, the sixth State reform did make provision for a number of exceptions to the above principles. For instance, the institutions responsible for the administration and payment of family allowances continue to perform that task up to the end of 2019. In the case of the target group policy in regard to social security contributions and the activation of benefits, the federal institutions currently responsible (i.e. the NSSO, NSSO-APL, NEO and PPS IS) were also nominated as the administrative and technical operator.

Special Finance Act[16]

The reform of the financing of the Communities and Regions increases the fiscal autonomy of the Regions and also maintains solidarity between the federated entities in order to ensure the long-term viability of public finances.

To avoid an abrupt transition to the new financing law, a transitional mechanism ensures that each Region will have the same resources at the time of the launch in 2015 as it had under the previous financing law.

The Regions receive an apportionment of the federal personal income tax to fund their new powers.

New personal income tax powers replace a substantial part of the Regions' current resources. Fiscal autonomy concerns the amount of the current personal income tax appropriation for the Regions less the negative term, with the addition of 40 % of the total tax expenditure transferred for the 2015 tax year.

In regard to employment, the resources are transferred in full, 90 % directly via the appropriation and 10% via the transitional mechanism. The funding will be adjusted annually in line with inflation and a certain percentage of GDP growth as a contribution towards financing the cost of ageing. For the 2016 fiscal year, that figure is 75 %. From the 2017 fiscal year, 55 % of GDP growth up to a growth rate of 2.25% will be taken into account. The whole of any GDP growth in excess of 2.25 % will be taken into account.

- [16] For the German-speaking Community, the law of 31 December 1983 organising the financing of the German-speaking Community has been amended.

The funding of the current powers of the Communities has been modified in that the "Lambermont turbo" mechanism is being terminated from 2010 and the appropriation to offset the radio and television licence fee is included in the VAT appropriation and allocated according to the pupil formula. New appropriations based on demographic formulas will be granted to fund the new Community powers (including family allowances, care of the elderly and hospital infrastructures). The budget parameters will vary according to the powers, and include inflation, the birth rate, growth of the population over the age of 80 and (partly) real GDP growth (or per capita growth).

In addition, the financing law ensures fair funding for the Brussels-Capital Region[17]. On the one hand, this concerns compensation for the loss of revenue for the Brussels-Capital Region owing to the net flow of commuters, charged against the funding of the Flemish Region and the Walloon Region. That amount comes to €49 million in 2016, falling to €44 million in 2017. In addition, the Brussels-Capital Region receives €159 million from the State to compensate for the loss of revenue due to the presence of international officials whose income is exempt from personal income tax.

- [17] The principle of the proper funding of the Brussels institutions was also enshrined in the special law of 19 July 2012 on the proper funding of the Brussels institutions (including mobility, security for Brussels as an international centre, and full compensation for mortmain for public buildings).

Finally, the new financing law offers a number of mechanisms concerning responsibility and consolidation, namely contributions from the Communities and Regions for the pensions of their officials, contributions towards the consolidation of public finances (ranging from €250 million in 2014 to 1.25 billion in 2015 and € 2.5 billion from 2016) and, as already stated, mechanisms to increase the participation of the Communities and Regions in addressing the future rise in the cost of ageing.

Annexes

Annex 1: Breakdown of the targets for the federated entities

	En % du PIB			
	2014	2015	2016	2017
Communauté flamande				
Solde structurel	0,11%	0,10%	0,06%	0,03%
Solde nominal	0,00%	0,00%	0,00%	0,00%
Communauté française				
Solde structurel	0,04%	0,04%	0,02%	0,01%
Solde nominal	0,00%	0,00%	0,00%	0,00%
Région wallonne				
Solde structurel	0,01%	0,02%	0,01%	0,01%
Solde nominal	0,00%	0,00%	0,00%	0,00%
Région de Bruxelles-Capitale				
Solde structurel	-0,01%	0,01%	0,01%	0,00%
Solde nominal	0,00%	0,00%	0,00%	0,00%
Communauté germanophone				
Solde structurel	0,0012%	0,0009%	0,0006%	0,0002%
Solde nominal	0,0000%	0,0000%	0,0000%	0,0000%
Commission communautaire commune				
Solde structurel	0,0005%	0,0042%	0,0024%	0,0010%
Solde nominal	0,0000%	0,0000%	0,0000%	0,0000%
Commission communautaire française				
Solde structurel	0,0006%	-0,0002%	0,0008%	0,0003%
Solde nominal	0,0000%	0,0000%	0,0000%	0,0000%
Commission communautaire flamande				
Solde structurel	0,0008%	0,0005%	0,0003%	0,0001%
Solde nominal	0,0000%	0,0000%	0,0000%	0,0000%

In % of GDP

Flemish Community

Structural balance

Nominal balance

French Community

Structural balance

Nominal balance

Walloon Region

Structural balance

Nominal balance

Brussels-Capital Region

Structural balance
Nominal balance
German-speaking Community
Structural balance
Nominal balance
Joint Community Commission
Structural balance
Nominal balance
French Community Commission
Structural balance
Nominal balance
Flemish Community Commission

Annex 2: Sectoral balances

En % PIB	2013	2014	2015	2016	2017
1. Equilibre vis-à-vis l'étranger	-0,1	0,8	1,4	1,9	2,4
2. Capacité de financement du secteur privé	2,6	3,0	2,9	2,4	1,8
3. Capacité de financement du secteur public	-2,6	-2,2	-1,4	-0,4	0,6
4. Ecart statistique	-0,1	-0,1	-0,1	-0,1	-0,1

In % of GDP

1. Balance in relation to the rest of the world

2. Private sector financing capacity

3. Public sector financing capacity

4. Statistical discrepancy

Annex 3: Revenue with no change of policy

	2013	2013	2014	2015	2016	2017
	Niveau (millions EUR)	*% du PIB*				
1. Recettes totales à politique inchangée	198.316	52,0	50,9	50,6	50,6	50,7

Level (€ million)

% of GDP

1. Total revenue with no change of policy

Annex 4: Amounts to be excluded from the expenditure criterion

	2013	2013	2014	2015	2016	2017
	Niveau (en millions EUR)	*% PIB*				
1, Dépenses au titre des programmes UE totalement couvertes par des recettes au titre des fonds UE	885	0,2	0,2	0,2	0,2	0,2
2. Dépenses liées aux prestations pour chômage conjoncturel	522	0,1	0,1	0,1	0,1	0,0
3. Hausse des recettes (discrétionnaires et par la loi)	2.747	0,7	0,6	0,4	0,5	0,5

Level (€ million)

1. Expenditure under EU programmes totally covered by revenue from EU funds
2. Expenditure relating to cyclical unemployment benefits
3. Increase in revenue (discretionary and statutory)