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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING BELGIUM

3. On the basis of the Draft Budgetary Plan for 2017 submitted on 17 October 2016 by Belgium, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. The Commission opinion is to be seen in light of the latest economic and budgetary data. In this context, as indicated in the Commission recommendation for a Council Recommendation on the economic policy of the euro area as well as in the Commission Communication 'Towards a positive fiscal stance for the euro area', it is important that the aggregate fiscal stance of the euro area is positive and supports the ongoing recovery, while ensuring the long-term sustainability of national public finances.
5. Belgium is subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO) of a structural balance of 0% of GDP. In particular, the Council recommended Belgium on 12 July 2016 to achieve an annual fiscal adjustment of at least 0.6 % of GDP towards the MTO in 2016 and in 2017. As the debt ratio was 105.4% of GDP in 2013 (the year in which Belgium corrected its excessive deficit), exceeding the 60% of GDP reference value, Belgium is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (2014-2016). In that period, it should ensure sufficient progress towards compliance. Following the end of the transition period, Belgium is subject to the debt reduction benchmark.
6. The macroeconomic projections underlying the Draft Budgetary Plan are assessed as plausible. The national forecast of economic growth reaching 1.4% in 2016 and 1.2% in 2017 broadly concurs with the Commission 2016 autumn forecast of 1.2% and 1.3% GDP growth respectively. Both scenarios expect domestic demand to be the main growth driver in 2017. This reflects a combination of rather strong investment growth and a pick-up in household consumption. The expected employment growth in 2017 is less dynamic than the Commission projections. The overall robustness of the macroeconomic scenario underlying the budget would benefit from the

incorporation of second-round effects emanating from budgetary measures included in the Draft Budgetary Plan.

7. Belgium complies with the requirement of Regulation (EU) No 473/2013 that the draft budget has to be based on independently produced macroeconomic projections. The macroeconomic forecast underlying the Draft Budgetary Plan has been produced by the Federal Planning Bureau, under the responsibility of the National Accounts Institute. Both are long-standing institutions established by law.
8. The Draft Budgetary Plan projects a general government deficit of 3.0% of GDP in 2016, compared to a deficit target of 2.5% of GDP in the latest Stability Programme. This revision reflects higher primary expenditures. As a result, the fiscal effort in structural terms for 2016 has changed from a targeted improvement of 0.6% of GDP in the Stability Programme to a deterioration of 0.2% of GDP in the Draft Budgetary Plan. In 2017, a headline deficit of 1.7% of GDP is targeted, 0.3 pp above the objective in the Stability Programme. A (recalculated) structural improvement of 1.4% of GDP is planned in 2017, up from 0.8% in the Stability Programme, in order to compensate for the deviation in 2016. According to the Draft Budgetary Plan, gross public debt will rise to 107% of GDP in 2016, before declining to 106.5% in 2017.

Lower interest rate expenditures have been making an important positive contribution to the overall structural effort in recent years. Between 2013 and 2015 the fall in interest expenditure improved the structural balance by 0.6% of GDP. The Draft Budgetary Plan expects a further reduction in the interest expenditure of 0.4% of GDP in 2016 and 0.3% in 2017 as Belgian bond yields are currently at historically low levels. Considering the substantial windfall savings in interest expenditure, the projected deterioration of 0.2% in the structural balance in 2016 is accompanied by a more pronounced deterioration in the structural primary balance of 0.5% according to the Draft Budgetary Plan.

9. In its Draft Budgetary Plan for 2016, Belgium indicated that the budgetary impact of the increased inflow of refugees is significant in 2015 and 2016 and should be considered as an unusual event outside the control of the government, for the purposes of Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97. According to the 2017 Draft Budgetary Plan this expenditure is estimated at 0.14% of GDP in 2016. In the 2016 Stability Programme the Belgian authorities also invoked the clause with respect to exceptional expenditure linked to security measures related to the threat of terrorism in 2016. According to the 2017 Draft Budgetary Plan, which requests the clause to also be applied in 2017, those expenditures linked to security measures related to the threat of terrorism amount to 0.06% of GDP both in 2016 and in 2017. As a result, Belgium requests a temporary deviation from the adjustment path towards the MTO of 0.20% of GDP in 2016 and 0.06% in 2017. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for that additional expenditure, in that the inflow of refugees and the threat of terrorism are exceptional events, their impact on Belgium's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. The Commission will make a final assessment, including on the eligible amounts, in spring 2017 and spring 2018, on the basis of observed data for 2016 and 2017 as provided by the authorities.

10. The planned consolidation in 2017 is about evenly divided between the revenue and the expenditure side. On the revenue side the main contribution stems from a further increase of the standard financial withholding tax. A fixed levy on company fuel cards, improved tax collection, a widening of the scope of the stock exchange transaction tax and, mostly unspecified, anti-fraud measures are the main other tax measures. On the expenditure side, savings on healthcare and social benefits represent the bulk of the consolidation in 2017. Health care savings consist of measures to curb the underlying trend of rising expenditure by means of a lower allowed real growth norm. Considering that Belgium has a good track record of respecting the growth norm, envisaged savings are included in the Commission forecast.
11. The Commission 2016 autumn forecast expects a deficit of 3.0% of GDP in 2016, the same as put forward in the Draft Budgetary Plan. A slightly smaller structural deterioration of -0.1% of GDP is projected in 2016 compared to the Draft Budgetary Plan. The budgetary deterioration in 2016 appears predominantly caused by the financing gap created by the tax reform to reduce the tax pressure on labour. This package was planned to be budgetary neutral and financed through a range of alternative revenue sources, mainly related to consumption and non-labour income. Aside from the initial expectation of a financing gap in 2016, several of the alternative revenue measures (e.g. the system of permanent fiscal regularisation and the transparency tax) are not expected to yield the initial targets according to the Commission forecast.

In 2017, the Commission 2016 autumn forecast projects a headline deficit of 2.3% of GDP, considerably higher than the Draft Budgetary Plan. First, a less favourable appreciation of the expected impact of certain measures underpinning the 2017 budget explains about 0.3 pp of the difference. Moreover, the Commission 2016 autumn forecast does not project that the measures that are not expected to yield the envisaged revenues in 2016 will catch up in 2017. Second, the budget includes an improvement by 0.1% of GDP of the regional and local authorities' budget, while according to the Commission 2016 autumn forecast their deficit will deteriorate slightly from the 2016 level. Third, assumptions regarding inflation and interest rates each result in 0.1 pp of GDP higher expenditures than the Draft Budgetary Plan. The differing view on the evolution of the headline balance reflects the projected structural improvement in 2017, which the Commission 2016 autumn forecast estimates at 0.7% of GDP, and the outlook for public debt, which will only level off in 2017 according to the Commission 2016 autumn forecast.
12. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2016 autumn forecast, Belgium will not make sufficient progress towards compliance with the debt rule in 2016. Given shortfalls from the requirements in the first two years of the transition period, the minimum linear structural adjustment reaches 2.6% of GDP in 2016 on the basis of the Commission 2016 autumn forecast, while the expected adjustment amounts to -0.1% of GDP this year. After the end of the transition period, Belgium is forecast not to comply with the debt rule as its debt-to-GDP ratio is expected to remain 2.9% of GDP above the debt benchmark in 2017.
13. On 18 May 2016, the Commission issued a report under Article 126(3) TFEU, as Belgium did not make sufficient progress towards compliance with the debt rule in 2015. The report concluded that, after the assessment of all relevant factors, the debt criterion should be considered as complied with.

14. According to the Draft Budgetary Plan, the change in the (recalculated) structural balance in 2016 falls 0.8% short of the required improvement, pointing to a risk of a significant deviation. With a deviation of 0.4%, the expenditure benchmark signals a risk of some deviation. Considering that the (recalculated) structural balance is negatively impacted by revenue shortfalls compared to standard elasticities, the expenditure benchmark appears to be a better indicator of the underlying fiscal effort. Therefore, the plans point to a risk of some deviation from the adjustment path towards the MTO in 2016. That conclusion would not change if the budgetary impact of the exceptional inflow of refugees and security measures were deducted from the requirement. The Commission 2016 autumn forecast in turn projects the structural balance to deteriorate by 0.1% of GDP in 2016, leading to a gap of -0.7% of GDP relative to the required effort, which points to a risk of a significant deviation. The expenditure benchmark also signals such a risk given a gap of -1.4% of GDP. When taking into account the revenue shortfalls, the structural balance would point to some deviation but the expenditure benchmark would still signal a significant deviation after taking into account one-off factors. Whereas the substantial decline in interest expenditures in 2016 improves the structural balance, this is not the case for the expenditure benchmark. Therefore, the expenditure benchmark is considered to correctly reflect the underlying fiscal effort. As a result, the overall assessment on the basis of the Commission 2016 autumn forecast points to a risk of significant deviation from the adjustment path towards the MTO in 2016. That conclusion would not change if the budgetary impact of the exceptional inflow of refugees and security measures were deducted from the requirement.

In 2017 as well as in 2016 and 2017 taken together, both the (recalculated) structural balance and the expenditure benchmark point to compliance according to the Draft Budgetary Plan. On the basis of the Commission forecast for 2017, the structural balance points to compliance and the expenditure benchmark shows a risk of some deviation. In contrast, when 2016 and 2017 are taken together, the Commission forecast points to a risk of significant deviation based on both indicators given the large deviations in 2016. After taking into account revenue shortfalls and one-off factors in 2016 for respectively the structural balance and the expenditure benchmark, the average gap for the structural balance points to a risk of some deviation but the expenditure benchmark continues to point to a risk of significant deviation. As a consequence, the overall assessment on the basis of the Commission 2016 autumn forecast concludes that there is a risk of a significant deviation from the adjustment path towards the MTO in 2016 and 2017 taken together as the significant deviation in 2016 is not sufficiently compensated for in 2017. That conclusion would not change if the budgetary impact of the exceptional inflow of refugees and security measures were deducted from the requirement.

15. The Draft Budgetary Plan contains no new information regarding fiscal-structural reforms such as the distribution of fiscal targets among all government levels. The Draft Budgetary Plan nevertheless lists a number of other structural reforms that were agreed on during the budget discussions at federal level and which are relevant for the non-fiscal Council recommendations. They relate to measures to allow for a more flexible organisation of labour, provisions to nurture e-commerce activities, the reintroduction of reduced minimum wages for employees below the age of 21, and the reform of the Law of 1996 on competitiveness.
16. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Belgium, which is currently under the preventive arm and subject to the (transitional) debt rule,

is at risk of non-compliance with the provisions of the SGP. The Commission projects a significant deviation from the required adjustment path towards the MTO in 2016 and, as a result of this, also over 2016 and 2017 taken together. In line with the Commission Communication 'Towards a positive fiscal stance for the euro area', the Commission therefore invites the authorities to implement all planned measures within the national budgetary process and to ensure that the 2017 budget complies with the SGP.

The Commission is also of the opinion that Belgium has made no progress with regard to the structural part of the fiscal country-specific recommendations issued by the Council in the context of the 2016 European Semester and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made in the implementation of the country-specific recommendations will be made in the 2017 Country Reports and in the context of the country-specific recommendations to be adopted by the Council in May 2017.

Done at Brussels, 16.11.2016

For the Commission
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