COUNCIL OF
THE EUROPEAN UNION

Brussels, 17 May 2013

9655/13

UEM 79

NOTE

from:	Mr Dirk WOUTERS, Permanent Representation of Belgium to the European Union
date of receipt:	6 May 2013
to:	Mr Carsten PILLATH, Director General, Council of the European Union
Subject:	Belgium's Stability Programme 2013-2016

On behalf of Minister of Finance Koen GEENS, please find enclosed the update of the Stability Programme of Belgium for the period 2013-2016.

(Complementary close.)

(s.) Dirk WOUTERS

Encl.:

BELGIUM'S STABILITY PROGRAMME

(2013-2016)

Foreword

Belgium's stability programme sets out the fiscal policy stance and targets for the period 2013-2016. It should be read in conjunction with the National Reform Programme.

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

This programme is also based on the stability programme submitted in 2012, and on the recommendations put forward in the March 2013 opinion of the Borrowing Requirements Section of the High Council of Finance.

This programme was approved by the Federal Government Council of Ministers on 26 April 2013, and was discussed with the Communities and Regions at the Interministerial Conference on finance and the budget on 26 April. It was presented to the Federal Parliament on that same date.

Contents

1. INTRODUCTION

A new government took office on 6 December 2011. Since then, it has been working on the coalition agreement based on three main elements, namely a reform of the State, consolidation of public finances, and social and economic reforms. The sixth State reform is well under way, public finances are on the right track, and various social and economic reforms have been implemented or initiated. Under the EU 2020 strategy, the government will adhere to a policy aimed at improving the dynamism of the economy, in order to preserve social well-being.

As in other countries, public finances in Belgium were affected by the 2009 financial and economic crisis. In that year the deficit grew to 5.6% of GDP. On 2 December 2009 an excessive deficit procedure was initiated against Belgium for the first time since the start of economic and monetary union. Against that backdrop, on 2 December 2009 the Council of the European Union recommended that the Belgian government should meet the conditions for terminating the excessive deficit procedure by no later than 2012, and should make a structural budgetary effort averaging 0.75% of GDP per annum from 2010 to 2012. In 2012 the public deficit still came to 3.9% of GDP, but that was due mainly to the Dexia capital participation amounting to 0.8% of GDP.

At the time of the March 2013 budget review, the federal government decided to gear its fiscal policy to the structural budget balance, in line with the new European budgetary policy and regulations on the subject. The government is committed to cutting the structural deficit by 1% of GDP in 2013. In 2014 the structural balance will be improved by a further 0.6% of GDP. The stability programme provides for a structural balance in 2015 and a structural surplus of 0.75% of GDP in 2016, corresponding to the revised MTO. In addition, at the time of the 2013 budget review it was decided that the debt ratio would not be allowed to exceed 100% of GDP in 2013. From 2014 onwards, the debt ratio will decline, and that will have a beneficial effect on interest charges and hence on the fiscal balance.

It is important to break down the general government target into targets for the various entities. The basic idea behind the set path is that all government entities will more or less achieve a structurally balanced budget by 2015. In practice, taking account of the local authority investment cycle, it is assumed that in 2014-2015 Entity II will record a slight surplus of 0.1% of GDP. The details of the consolidation contribution to be made by the Communities and Regions will be specified, in particular, when the new text of the Special Finance Act is finalised.

The government will take the necessary measures to achieve these targets. The existing mechanisms for regular budget reviews and fiscal prudence will be maintained and reinforced if necessary. Together with the structural measures, they in fact represent key tools for ensuring that the set target is achieved.

The sixth State reform is currently being implemented. In the process, a substantial set of powers will be 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 federal government has made it a priority to boost competitiveness. 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 is working with the social partners to devise measures corresponding to the main objectives of the National Reform Programme.

2. ECONOMIC CONTEXT

2.1. The international economic environment

In the April 2013 edition of the World Economic Outlook, the IMF made a slight downward adjustment (-0.3 percentage point) to its forecast, compared to the figures published in November 2012. That downward adjustment concerns both the developed economies (- 0.3) and the emerging countries (-0.3), but is particularly marked for the European Union in general and the euro area in particular (- 0.5 percentage point).

World growth reached a low point in the second quarter of 2012, and remained disappointing until the end of the year, leading to annual average economic growth of 3.2%. The annual average is forecast to be similar in 2013 (3.3 %). Activity has already picked up in the growth countries and in the developing countries, and is set to strengthen gradually in the more developed economies from the second half of 2013, though the pace will vary from region to region. In the United States, increasingly dynamic private demand should generate growth of around 2%, despite strong fiscal tightening. In Japan, a relaunch policy will support activity, permitting growth in the order of 1.5%. Conversely, the recovery will come later and be more gradual in the euro area.

The sovereign debt crisis in the euro area has calmed down somewhat since the second half of 2012, but the improvement in financial market conditions has not been reflected in the real economy. Although the producer and consumer confidence indicators remain at a low level, they have begun to recover, on average, in the euro area since November 2012. That suggests that the business cycle has bottomed out. According to the European Commission's winter forecasts, activity should gradually gather pace during 2013. The revival is likely to be underpinned initially by the recovery of foreign demand, while in the first instance domestic demand will remain subdued because of the policy aimed at tackling both external imbalances and those concerning public finances, though that effect will vary depending on the Member State.

Taking account of the very low starting point and the very gradual nature of the recovery, economic growth is expected to fall by 0.3% in the euro area in 2013, and to record a meagre 0.1% rise in the European Union, with still considerable variations between countries. As domestic demand strengthens in 2014, economic activity could become more dynamic, so that GDP at constant prices is projected to grow by 1.4% in the euro area and 1.6 % in the European Union.

2.2. Economic developments in Belgium

Up to the beginning of 2011 the Belgian economy was still performing relatively well: during the 2008-2009 crisis the economy proved very resilient, with a less marked contraction in GDP than that seen in neighbouring countries; it also recovered more quickly. In the second quarter of 2011 activity gradually lost momentum. That continued in 2012. Over 2012 as a whole, Belgian GDP declined by 0.2%, the main factor being the fall in domestic demand.

Activity revived in the first quarter of 2012, with GDP up by 0.2% against the previous quarter. Together with a slight upturn in the economic indicators, that seemed to herald a recovery during the year. However, the improvement was only temporary: the economic situation subsequently deteriorated owing to the mounting macro-economic uncertainty, particularly in the euro area. In the second quarter of 2012, Belgium's GDP was 0.5% down against the previous quarter. That contraction of activity, which was more pronounced than expected, was also more marked than in the neighbouring countries. Belgian GDP subsequently stabilised in the third quarter, and then fell very slightly (-0.1 %) in the fourth quarter.

The recent movement in the National Bank of Belgium's barometer which assesses business confidence is rather difficult to interpret. The tendency towards a modest recovery that set in at the end of 2012 was abruptly halted by the sharp fall in March 2013. Similarly, the consumer confidence indicator declined in March 2013, following a slight improvement at the beginning of the year. Great uncertainty persists, especially in regard to the outlook for demand and the labour market.

2.3. The economic outlook according to the Federal Planning Bureau

An advance indication of the economic outlook for 2013-2018, produced by the Federal Planning Bureau in March 2013, serves as the basis for the path defined in this stability programme. For the short term (2013 and 2014) that outlook is based on the February economic budget, which was adapted to take account of the latest developments, particularly concerning prices and the labour market. The advance indication contains the essential elements of the information available on public finances on 13 March 2013, and therefore does not include the measures decided by the federal government at the time of the budget review concluded on 30 March.

The data on the international economic environment in 2013 and 2014 are based on the European Commission's winter forecast for 2013. For 2015-2018, the Federal Planning Bureau's forecasts are based largely on the IMF's medium-term projection dated October 2012. According to that scenario, growth in the euro area will average 1.6% from 2015 to 2017.

For 2013 and 2014, the Federal Planning Bureau bases its assumptions concerning the oil price and the euro/dollar exchange rate on the European Commission's winter forecast. After 2014, the oil price is assumed to increase by between 1.5 and 2% per annum in real terms, and the euro exchange rate is predicted to remain stable.

The short-term international scenario is relatively uncertain. Renewed nervousness on the financial markets could cast doubt on the scenario adopted. Conversely, economic growth could exceed expectations if confidence is restored sooner than expected.

Table 1: External environment: basic assumptions

	2012	2013	2014	2015	2016
Taux d'intérêt à court terme (moyenne annuelle)	0,6	0,4	0,7	1,5	2,1
Taux d'intérêt à long terme (moyenne annuelle)	3,2	2,9	3,2	3,5	3,7
Taux de change USD/€ x 100 (moyenne annuelle)	128,6	134,9	135,1	135,1	135,1
Taux de change effectif nominal (2005=100)	101,4	103,0	103,4	103,4	103,4
Croissance PIB - monde (hors UE)	3,9	4,0	4,5	5,0	5,1
Croissance PIB - UE	-0,3	0,1	1,6	1,9	2,0
Croissance marchés extérieurs pertinents	1,4	2,4	5,2	4,5	4,7
Importations mondiales en volume (hors UE)	4,0	4,2	6,0	7,4	7,5
Prix du pétrole (USD)	111,7	113,7	106,4	110,6	114,9

Short-term interest rate (annual average)

Long-term interest rate (annual average)

USD/€ exchange rate (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 per barrel of Brent)

Source: Federal Planning Bureau

The Federal Planning Bureau predicts 0.2% growth in 2013 and 1.5% in 2014, in line with the European Commission's winter forecasts. As in previous years, Belgium will thus slightly outperform the euro area average. The strengthening of growth starting in the second half of 2013 is likely to be confirmed in subsequent years, though activity growth will still be less than 2 %. The large negative output gap in 2013 is expected to diminish only very slowly, remaining slightly negative in 2016.

Table 2: Macroeconomic projections

Variation en % sauf indications contraires	2012 En milliards	2012	2013	2014	2015	2016
1. Croissance du PIB à prix constants	327,5	-0,2	0,2	1,5	1,6	1,7
2. PIB à prix courants (en milliards EUR)	376,9	1,9	2,0	3,2	3,2	3,4
	Composantes de la croissance					
3. Dépenses de consommation finale des particuliers	169,3	-0,7	0,3	0,9	1,0	1,3
4. Dépenses de consommation finale des pouvoirs publics	75,7	0,8	0,9	0,8	0,9	1,0
5. Formation brute du capital fixe	65,2	-0,5	-1,1	1,7	2,3	2,0
6. Variation de stocks et acquisition nette d'actifs	1,8	1,8	1,8	1,7	1,7	1,7
7. Exportations de biens et services	279,5	0,6	0,5	3,1	3,8	3,5
8. Importations de biens et services	267,3	0,0	0,4	2,5	3,4	3,2
	Contribution à la croissance du PIB					
9. Demande finale totale (3+4+5)	-	-1,1	0,1	1,0	1,2	1,3
10. Variation de stocks et acquisition nette d'actifs	-	-0,4	0,0	0,0	0,0	0,0
11. Balance des biens et services	-	0,5	0,1	0,6	0,4	0,4

S%

change unless otherwise stated

In billion

1. GDP growth at constant prices

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

Components of real GDP

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

Following the 0.7% decline in 2012, household consumption expenditure is set to rise by just 0.3% in 2013. The rather weak outlook for employment is likely to undermine consumers' confidence and boost their propensity to save. Consumer spending should subsequently pick up, growing at 0.9 % in 2014, 1 % in 2015 and 1.3 % in 2016.

In the context of a gradual, moderate revival in demand, and taking account of the low capacity utilisation rate, business investment is not expected to pick up until mid-2013, implying negative average annual growth (-0.4 %). It will only regain momentum very gradually. Similarly, investment in housing is set to fall in the second half of the year, so that the average annual growth remains negative in 2013 (-1.6 %).

Exports suffered from the weakening expansion of potential foreign markets in 2012. The improvement in the international environment should permit a gradual recovery of export growth in 2013. However, the annual average growth of exports will be only 0.5%. Imports are likely to grow by less than exports on account of weak domestic demand. The growth contribution of net exports is put at 0.1% in 2013, rising to 0.6 % in 2014.

Table 3:Prices

Variation en %	2012 (2005=100)	2012	2013	2014	2015	2016
1. Déflateur du PIB	115,1	2,1	1,8	1,6	1,7	1,7
2. Déflateur des dépenses de consommation finale des particuliers	117,3	2,7	1,4	1,3	1,6	1,6
3. Variation de l'IHPC	118,5	2,8	1,4	1,3	1,6	1,6
4. Déflateur des dépenses de consommation finale des pouvoirs publics	123,0	2,6	2,0	1,1	1,3	1,8
5. Déflateur des investissements	119,6	2,6	1,6	2,1	1,9	1,8
6. Déflateur de l'exportation de biens et services	114,8	2,3	0,8	0,9	1,6	1,9
7. Déflateur de l'importation de biens et services	118,0	2,6	0,5	0,7	1,7	2,1

% 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

The Federal Planning Bureau expects inflation to fall sharply, measured by the rise in the harmonised index of consumer prices, from 2.8% in 2012 to 1.4% in 2013 and 1.3% in 2014. That fall is due to the substantial decline in energy prices resulting from the reduction in the oil price and keener competition on the retail energy market. Wage moderation, with wages frozen except for indexation and scale increases in 2013 and 2014, should also contribute towards curbing inflation. The revision of the "household consumption basket" forming the basis of the consumer price index is expected to play a role as well. Inflation is projected to stabilise at around 1.6% in 2014, assuming that there are no new international price shocks.

In 2013-2014, the rise in the Belgian inflation rate should not exceed the average predicted for the euro area.

Table 4: Labour market

Variation en % sauf indication contraire	2012 Niveau		2012	2013	2014	2015	2016
1. Emploi intérieur	4552,9	(a)	0,2	0,0	0,6	0,7	0,9
2. Nombre d'heures travaillées	6637,7	(b)	0,0	-0,1	0,6	0,8	0,8
3. Taux de chômage (% définition Eurostat)	7,3		7,3	7,5	7,6	7,7	7,5
4. Productivité du travail par personne active	71,9	(c)	-0,3	0,2	1,0	0,9	0,8
5. Productivité du travail par heure travaillée	49,3	(d)	-0,2	0,3	0,9	0,8	0,9
6. Coût salarial des employés (D1 code SEC)	197,0	(e)	3,4	1,6	2,1	2,9	3,3
7. Coût salarial par employé	51,7	(f)	3,3	1,6	1,5	2,1	2,1

(a) milliers d'unités; (b) millions d'heures; (c) mille EUR; (d) EUR; (e) milliards EUR; (f) mille EUR

% 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

The slowdown in activity in 2012 had a negative impact on the labour market. In 2013, employment should stabilise on average, over the year, giving way to an increase from 2014 thanks to the resumption of economic growth. The overall growth of employment is put at 0.6% in 2014. The upward trend should be confirmed in the medium term, with an increase of 0.7% in 2015, and 0.9% in 2016. The employment rate of the labour force (20 – 64 years), which is forecast to fall in 2012 and 2013, should pick up again from 2014.

The trend in the number of unemployed persons will be influenced by the growth of the labour force. That expansion of the labour force should be reinforced by the structural measures taken in regard to the labour market (unemployment, pensions, pre-pensions and time credit/career breaks). The unemployment rate is projected to rise by 0.2% in 2013 and 0.1% in 2014 to 7.5% and 7.6% respectively (Eurostat definition). Thanks to the improvement in the labour market, the unemployment rate should then stabilise before gradually declining.

3. BALANCE AND DEBT OF GENERAL GOVERNMENT

3.1. Keystones of fiscal policy

Objectives in structural terms

At the level of both the euro area as a whole and the individual Member States, the question is how to gear fiscal policy to the adverse macro-economic conditions. The deterioration in the economic environment for 2013 and for the ensuing years raises the question of the pace of fiscal consolidation. The programme for 2012-2015 stipulated that if there were a significant deterioration in the growth outlook up to 2015, the government would need to reassess the budget forecasts on the basis of a report by the Borrowing Requirements Section of the High Council of Finance, and in that case examine whether adherence to a target of a strict nominal balance amounted to an excessively restrictive fiscal stance.

The excessive deficit procedure against Belgium

Since 2 December 2009, Belgium has been the subject of an excessive deficit procedure. To bring that situation to an end, in its recommendation dated 2 December 2009 the Council asked Belgium, among other things, to cut its deficit below 3% of GDP by 2012 in a credible and sustainable manner, and to make an annual structural budget effort averaging 0.75% of GDP over the period 2010-2012.

On 10 July 2012, on the basis of a European Commission communication assessing the actions taken to reduce the deficit, the Council of the European Union recommended that Belgium should take action to implement the 2012 budget in the period 2012-2013 in order to make sure that the excessive deficit is corrected in that year[1]. In addition, Belgium has to specify the measures necessary to ensure implementation of the budgetary strategy for 2013 and beyond, thereby ensuring that the excessive deficit is corrected in a durable manner and that sufficient progress is made towards the MTO, including meeting the expenditure benchmark, and ensure progress towards compliance with the debt reduction benchmark. Finally, Belgium had to adjust the fiscal framework to ensure that the budgetary targets are binding at federal and sub-federal levels, and increase transparency of burden-sharing and accountability across government layers.

The Belgian authorities then endeavoured to implement these recommendations. A budget review was conducted in March 2013 to update the macro-economic and budgetary parameters, especially in view of the deterioration in the economic outlook. The target of reducing the structural fiscal deficit by 1% of GDP was set. To achieve that target, additional structural budgetary efforts were made. The government also committed itself to not allowing the debt to exceed 100% of GDP.

[1] Council Recommendation of 10 July 2012 on the National Reform Programme 2012 of Belgium and delivering a Council opinion on the Stability Programme of Belgium, 2012-2015 (2012/C 219/02).

When drawing up this stability programme the government was guided by the March 2013 opinion of the Borrowing Requirements Section of the High Council of Finance, and more particularly by the normative budgetary path which it proposed. The Section noted that, given the current outlook for potential and real growth, achieving the nominal budget targets of the 2012-2015 stability programme would require a considerably greater effort than was assumed under the previous stability programme (cumulative 3.5% of GDP instead of structural 2.7%).

In accordance with the recommendation of the Borrowing Requirements Section, the government gave priority to defining the effort in structural terms. Not only does that make fiscal policy more neutral in relation to cyclical fluctuations, it also chimes better with European economic governance as laid down, for instance, in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, and in the six-pack. Table 5 shows the targets and the government's commitments.

Table 5: Targets for 2013-2016

	Définition de l'objectif	Solde structurel estimé / à réaliser
2012	Solde structurel estimé comme point de départ	-2,9
2013	Amélioration du solde structurel de 1%	-1,8
2014	Amélioration du solde structurel de 0,6%	-1,2
2015	Réalisation d'un équilibre structurel	0,0
2016	Réalisation d'un surplus structurel de 0,75% ou l'OMT	0,75

Target definition

Estimated/target structural balance

Estimated structural balance as the starting point

1% improvement in the structural balance

0.6% improvement in the structural balance

Attainment of a structurally balanced budget

Attainment of a structural surplus of 0.75% or MTO

The government is committed to achieving a 1% improvement in the structural balance in 2013, and it needs to do so in order to create sufficient margin in relation to the 3% limit. At the time of the March budget review, a structural deficit of 1.8% of GDP was assumed for 2013. A balanced budget in structural terms is to be achieved in 2015, and the MTO (0.75%) in 2016.

The structural improvement over the period considered is significantly greater than the minimum objective included in the European regulations.[1] For 2013-2014 the improvement to be achieved in the structural balance comes to 1.6 %.

Accelerated debt reduction

The path outlined above (even if economic growth is rather meagre) permits a reduction in the debt ratio in the medium term (from 2014). However, the government is committed to cutting the debt ratio below 100% from 2013. At the time of the budget review it was decided that the potential measures enabling the debt to be kept below 100% should e identified by the end of June 2013. The Prime Minister, the Finance Minister and the Minister for the Budget were asked to prepare the corresponding proposals.

Allocation of the effort between the entities

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. In drafting the initial 2013 budget, the government asked the High Council of Finance, in preparation for the 2013-2016 stability programme, to supplement its usual recommendation with objective criteria for the allocation of the budgetary effort between Entity I and Entity II, and within Entity II.

As in its March 2012 opinion, the Borrowing Requirements Section assumes a scenario in which the various entitles progress towards balance. Taking account of the impact of the electoral cycle on the local authority budget, this is defined as a small surplus for Entity II equal to 0.1% of GDP for 2014 and 2015.

To ensure that the budgetary effort is evenly shared within this objective, it is necessary to transfer some charges from Entity I to Entity II. The Section examined two possible approaches for determining Entity II's contribution to the fiscal consolidation effort.

The first approach is in line with its 2012 recommendation (which formed the basis of the 2012-2015 stability programme) and is based on the primary expenditure breakdown (65/35); the second is based on the contribution towards achieving the MTO.

[1] See in particular Article 5 of Regulation n°1466/97 and Article 4 of Regulation n° 1467/97.

In both approaches, Entity II must in any case make the necessary effort to achieve a balanced budget by 2014 (0.2% of GDP). In the first case, the cumulative additional effort to be made by Entity II, on top of that needed to restore the balance at that level, comes to 0.9% of GDP by 2016, and 0.3% in the second case.

Table: Target path per Entity and contribution to the budgetary effort according to the two approaches examined by the High Council of Finance

En % du PIB	2012	2013 (a)	2013 (b)	2014	2015	2016
Solde de financement normé (équilibre structureel 2015)	-3,9	-2,15	-2,54	-2,1	-0,8	0,2
Entité I	-3,5	-2,15	-2,54	-2,2	-0,9	0,2
Entité II (*)	-0,4	0	0	0,1	0,1	0
Contribution de l'Entité II à l'effort budgétaire						
Partage selon effort primaire (**)				0,3	0,3	0,3
Contribution au MTO à l'horizon 2016				0,09	0,09	0,09
p.m. effort budgétaire en vue du retour à l'équilibre		0,2	0,2			
p.m. effort cumulé de l'entité II						
Partage selon effort primaire (**)		0,2	0,2	0,5	0,8	1,1
Contribution au MTO à l'horizon 2016		0,2	0,2	0,3	0,4	0,5

In % of GDP

Target fiscal balance (structural balance in 2015)

Entity I

Entity II(*)

Entity II's contribution to the budgetary effort

Share according to the primary effort (**)

Contribution to the MTO by 2016

p.m. budgetary effort with a view to restoring balance

p.m. cumulative effort

Share according to the primary effort (**)

Contribution to the MTO by 2016

(*) The surpluses amounting to 0.1% of GDP in 2014 and 2015 according to the stability programme take account of the electoral cycle of local authority investment expenditure.

(**) According to a 65/35 breakdown.

The respective targets of Entity I and Entity II are conditional, from 2014, on the transfer of charges from Entity I to Entity II. That transfer may be achieved, for instance, by implementing the reform of the Special Finance Act. To safeguard the path towards structural balance in 2015, the various entities will need to make the appropriate efforts. To that end, the government will take as the basis the High Council of Finance report dated March 2013.

The consolidation of public finances as part of a broader policy

The focus here is on the main aspects of fiscal policy. In times 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 a targeted relaunch strategy and due attention to the competitiveness of our economy, the government is working to strengthen growth potential and promote employment. The key aspects of that policy are presented in the National Reform Programme and are also discussed in part 5 of this stability programme.

3.2. Medium-term public finances

3.2.1. The structural balance

As already stated, the target path is based on the improvement in the structural balance and/or the objectives defined in terms of the structural balance. Line 10 in table 6 shows the targets and the Belgian government's commitments for 2013-2016. The table also translates that structural objective into a nominal balance. The nominal balance actually to be achieved in practice 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 indirectly on the output gap and potential growth. The cyclical component as estimated in the European Commission's winter forecasts[1] was used for 2013, as this also formed the basis for the March budget review. For 2014-2016, potential growth was taken from the Federal Planning Bureau's estimates.

For 2012, the estimate of the impact of one-off measures was taken from the European Commission's winter forecasts, supplemented by the one-off impact of the participation in the capital of Dexia (0.8 % of GDP). For 2013, the basis used was the same, but it was adjusted to take account of the revenue which the government expects to raise from the regularisation operation and from the one-off measures included in the budget review[2]. No one-off measures are taken into

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[1] The real growth estimates used by the Commission and those included in the February economic budget forming the basis of the budget review are identical.

[2]

Mesures one shot contrôle budgétaire 2013 (en millions EUR)	
Précompte professionnel chômage temporaire	52
Régularisation	513
Dexia upfront fee	81
Bpost	103
Remboursement droits de douane	126
Licences 800 MHz	360
Bpost dividendes + recettes fiscales	23,2
Bonus à l'emploi	8,2
Soins de santé	20,5
Bâtiments gendarmerie	20
Fedesco	3
Optifed	5
Total	1 315
En % PIB	0,34

Budget review 2013 one-off measures (in € million)
Withholding tax for temporary lay-offs
Regularisation
Dexia upfront fee
Bpost
Refund of customs duties
800 MHz licences

account for 2014-2016.

Table 6: Composition of the structural balance

En % du PIB	2012	2013	2014	2015	2016
1. Croissance réelle du PIB	-0,2	0,2	1,5	1,6	1,7
2. Solde de financement effectif	-3,9	-2,5	-2,0	-0,5	0,4
3. Charges d'intérêt	3,4	3,3	3,1	3,1	3,0
4. Mesures one shot ou temporaires	-0,4	0,3	0,0	0,0	0,0
5. Croissance potentielle du PIB (en %)	0,8	0,8	1,1	1,2	1,3
6. Output gap	-1,2	-1,8	-1,4	-1,0	-0,6
7. Composante cyclique du budget	-0,7	-1,0	-0,7	-0,5	-0,3
8. Solde de financement corrigé des variations du cycle (2-7)	-3,3	-1,5	-1,2	0,0	0,8
9. Solde primaire corrigé des variations du cycle (8+3)	0,2	1,8	1,9	3,1	3,7
10. Solde structurel (8-4)	-2,9	-1,8	-1,2	0,0	0,75

In % of GDP

1. Real GDP growth

2. Actual fiscal balance

3. Interest charges

4. One-off or temporary measures

5. Potential GDP growth

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)

Bpost dividends + tax revenues
Work bonus
Health care
Police buildings
Fedesco
Optifed
Total
In % of GDP

On the basis of the assumptions used, the nominal balance needs to be cut from a deficit of 2.5% of GDP in 2013 to -0.5% in 2015 in order to achieve a surplus of 0.4% in 2016.

The nominal balances derived from the structural targets differ slightly from those according to the target path included in the opinion of the Borrowing Requirements Section. Those differences arose because the figures used here date from after the March budget review, and because of differences in the starting point regarding the output gap, so that the cyclical adjustment deviates slightly from that used by the Borrowing Requirements Section.

3.2.2. A translation into nominal balances

Table 7 presents the general government fiscal balance derived from the structural approach on the basis of the output gap used. For general government, the nominal balance is taken as the balance defined in the budget review (2.5%).

In accordance with the recommendation of the Borrowing Requirements Section, Entity II is assumed to achieve a balanced budget in 2013 followed by a small 0.1% surplus in 2014-2015, reverting to a balanced budget in 2016. As already stated, negotiations will begin on the fair allocation among the various entities of the budgetary effort to be made.

At the level of Entity I, a balance is maintained for social security. It is therefore assumed that, via the equilibrium appropriation, the federal government will continue to maintain a balance in ESA terms (in accordance with the government's decisions).

The allocation of the effort between revenue and expenditure, and internally between the various revenue and expenditure categories, shown in table 7 is purely a guide.

Table 7: General government budget outlook[1]

		2012 *Niveau*	2012 *% du PIB*	2013	2014	2015	2016
		Solde de financement par sous-secteur					
1.	Ensemble des pouvoirs publics	-14.851	-3,9	-2,5	-2,0	-0,5	0,4
2.	Pouvoir fédéral	-12.965	-3,4	-2,5	-2,1	-0,6	0,4
3.	Communautés et Régions	-338	-0,1	-0,1	0,0	0,0	0,0
4.	Pouvoirs locaux	-1.275	-0,3	0,1	0,1	0,1	0,0
5.	Administrations de sécurité socilae	-273	-0,1	0,0	0,0	0,0	0,0
		Ensemble des pouvoirs publics					
6.	Recettes totales	191.322	50,8	51,3	51,1	51,7	52,1
7.	Dépenses totales	206.173	54,7	53,8	53,0	52,2	51,6
8.	Solde de financement	-14.851	-3,9	-2,5	-2,0	-0,5	0,4
9.	Charges d'intérêt (EDP)	12.984	3,4	3,3	3,1	3,1	3,0
10.	Solde primaire	-1.867	-0,5	0,8	1,2	2,5	3,4
11.	Mesures uniques ou temporaires	-1.470	-0,4	0,3	0,0	0,0	0,0
		Principales composantes des recettes					
12.	Impôts totaux	113.440	30,1	30,7	30,9	31,4	31,8
12a.	Impôts sur la production et les importations	48.491	12,9	12,9	12,9	12,9	13,0
12b.	Impôts sur le revenu, impôt sur le patrimoine,	61.810	16,4	16,8	17,3	17,7	18,1
12c.	Impôts sur le capital	3.139	0,8	0,9	0,8	0,8	0,8
13.	Cotisations sociales	64.022	17,0	16,9	16,8	16,8	16,8
14.	Revenus de la proprieté	3.833	1,0	1,1	1,0	1,1	1,1
15.	Autres	10.027	2,7	2,6	2,4	2,4	2,4
16.	Recettes totales	191.322	50,8	51,3	51,1	51,7	52,1
p.m.	Prélèvement global	179.251	47,6	48,1	48,2	48,7	49,1
		Principales composantes des dépenses					
17.	Dépenses de consommation	62.000	16,5	16,4	16,0	15,7	15,5
18.	Prestations sociales totales	97.345	25,8	26,3	26,1	25,9	25,8
dont	Indemnités de chômage	6.769	1,8	1,8	1,8	1,7	1,7
19.	Charges d'intérêt	12.984	3,4	3,3	3,1	3,1	3,0
20.	Subsides	10.121	2,7	2,5	2,5	2,5	2,4
21.	Formation brute de capital fixe	6.573	1,7	1,6	1,5	1,5	1,5
22.	Autres	17.150	4,6	3,8	3,8	3,6	3,5
23.	Dépenses totales	206.173	54,7	53,8	53,0	52,2	51,6

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

[1] A transfer of charges between Entity I and Entity II is not yet taken into account.

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, etc.

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. Social benefits

of which: unemployment benefits

19. Interest charges

20. Subsidies

21. Gross fixed capital formation

22. Other

23. Total expenditure

3.2.3. Public debt reduction in line with European obligations

In 2007 the debt ratio had been cut to 84 %. The financial and economic crisis brought the debt reduction to a halt. In 2012, the debt ratio climbed back to 99.6 %. Apart from the endogenous rise in the debt ratio against the backdrop of a contraction or weaker growth of GDP and the serious deterioration in public finances in the wake of the economic crisis, the increase in the debt ratio is also due to the significance of exogenous factors, namely the successive interventions needed to stabilise the financial sector, plus the impact on the debt of the various European support operations and mechanisms.

In view of the high debt ratio and the resulting sensitivity of the Belgian economy to sudden interest rate movements, the Belgian government intends not to allow the debt ratio to exceed 100 %. During the budget review it was decided that the potential measures enabling the debt ratio to be kept below 100% should be identified by the end of June 2013. The Prime Minister, the Finance Minister and the Minister for the Budget were asked to prepare appropriate proposals.

In view of the weak growth, restricting the deficit to 2.5% of GDP is not sufficient to achieve an endogenous reduction in the debt ratio in 2013; endogenous factors will still increase the debt ratio by 0.5 %. Including the estimated impact of the measures to keep the debt ratio below 100%, the effect of the exogenous factors amounts to -0.1 %. Factors taken into account here include the Belgian contribution to the ESM (€ 1.1 billion), the impact of the EFSF operations for a similar amount, the partial repayment by KBC of the loan from the Flemish government (€ - 1.7 billion), and the favourable impact on the debt ratio of the OLO issuance differentials (€ - 1.4 billion).

Cutting the deficit permits a substantial endogenous reduction in the debt ratio from 2014, on the basis of the assumed growth and interest rates. The debt reduction increases from 1.2 percentage points in 2014 to 3.7 percentage points in 2016.

The estimated impact of exogenous factors slightly restrains the reduction in the debt ratio. For 2014-2016, account is taken of an average 0.2 % of GDP deviation between the fiscal balance and the movement in the debt, and a further phased loan repayment by KBC to the Flemish government (€ 0.5 billion per annum, including premium). For 2014, a contribution of € 0.5 billion to the ESM is also taken into account.

Between 2013 and 2016 the debt ratio is cut by 7.0%. That represents an average reduction of around 2.3% per annum, in line with the European rules.[1] It is attributable largely to the effects of the structural consolidation of public finances.

Table 8: Debt ratio determinants

En % du PIB	2012	2013	2014	2015	2016
1. Taux d'endettement	99,6	100,0	99,0	96,5	93,0
2. Changement dans le taux d'endettement	1,8	0,4	-0,9	-2,5	-3,6
	Éléments contribuant à l'évolution du taux d'endettement				
3. Solde primaire	-0,5	0,8	1,2	2,5	3,4
4. Charges d'intérêt	3,4	3,3	3,1	3,1	3,0
5. Variation exogène de la dette	-0,3	-0,1	0,2	0,1	0,1
p.m. Endogene factoren	2,1	0,5	-1,2	-2,6	-3,7
p.m. Niveau implicite du taux d'intérêt (en %)	3,6	3,3	3,2	3,2	3,2

In % of GDP

1. Debt ratio

2. Change in the debt ratio

Factors contributing to the movement in the debt

3. Primary balance

4. Interest charges

5. Exogenous change in the debt

p.m. Endogenous factors

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

[1] The European rules specify that the debt must be cut each year by 1/20th of the difference between the debt ratio and the ceiling of 60% of GDP. That annual reduction is calculated as an average over 3 years. See Regulation (EU) n° 1177/2011 of the Council of 8 November 2011 amending Regulation (EC) n° 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, amending Article 2 of Regulation (EU) n° 1467/97 by inserting an Article 2(a).

3.3. Comparison with the stability programme 2012-2015 and sensitivity analysis

3.3.1. Comparison with the stability programme 2012-2015

The consolidation path for public finances proposed by the Belgian government under this stability programme ensures the reduction of the deficit and the public debt in line with the previous stability programme and in accordance with the requirements set by the European Union Council.

Table 9 compares the growth assumptions and budget targets of the successive stability programmes.

The forecast for economic growth is lower than last year's forecast. The economic downturn means a sharp deterioration in the outlook for 2013, and in subsequent years growth will remain weak at around 1.5%. Compared to the previous programme, growth will be 1.7 percentage points lower over the period 2012-2015.

The federal government has set the target of a structural balance in 2015. In nominal terms, this means that the fiscal balance will be 0.5 percentage points lower than estimated in the stability programme last year.

The debt ratio is higher than was expected last year. That is due partly to the support for the financial sector (Dexia), the support measures for struggling European Union Member States, and the lower than expected nominal GDP. The debt ratio will begin to fall in 2014, dropping by 0.9% of GDP to 99.0 %.

It is vital to reduce the debt and create budget surpluses after 2015 in order to guarantee the sustainability of public finances in the long term, in the context of population ageing.

Table 9: Comparison with the previous stability programme

En % du PIB	2012	2013	2014	2015	2016
Croissance du PIB					
Mise à jour précédente	0,1	1,3	1,7	1,8	
Mise à jour actuelle	-0,2	0,2	1,5	1,6	1,7
Ecart	-0,3	-1,1	-0,2	-0,2	
Solde de financement					
Mise à jour précédente	-2,8	-2,15	-1,1	0,0	
Mise à jour actuelle	-3,9	-2,5	-2,0	-0,5	0,4
Ecart	-1,2	-0,3	-0,8	-0,5	
Solde structurel					
Mise à jour précédente	-2,1	-1,2	-0,3	0,6	
Mise à jour actuelle	-2,9	-1,8	-1,2	0,0	0,75
Ecart	-0,8	-0,6	-0,9	-0,6	
Taux d'endettement brut					
Mise à jour précédente	99,4	97,8	95,5	92,3	
Mise à jour actuelle	99,6	100,0	99,0	96,5	93,0
Ecart	0,2	2,2	3,6	4,3	

In % of GDP

GDP growth

previous update

current update

difference

cumulative difference

Fiscal balance

previous update

current update

difference

Structural balance

previous update

current update

difference

Gross debt ratio

previous update

current update

difference

3.3.2. *Sensitivity analysis*

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

Two sensitivity analyses are conducted, one concerning GDP growth and the other concerning interest rates.

a. Sensitivity analysis concerning GDP growth

In regard to GDP growth, two alternative scenarios are examined. In the first scenario, economic growth slows down over the period 2013-2016, by 0.5 percentage point per annum, or a cumulative 2% during the period in question. In the second scenario, GDP growth over the period 2013-2016 is 0.5 percentage point higher than in the baseline scenario.

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[1].

If growth is higher, 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 2013. In 2016, 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 surplus of 0.3% of GDP will be achieved in 2015, with a surplus of 1.5% of GDP in 2016. In that case, the debt will consequently also be reduced faster (in % of GDP).

If growth is lower than forecast, the annual impact would again be 0.27% of GDP, which means that the fiscal balance would deteriorate by 0.27% of GDP in 2013. That would increase to 1.1% of GDP in 2016. 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.

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[11] 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.

Table 10: Impact of growth fluctuations on the fiscal balance

En % du PIB	2012	2013	2014	2015	2016
Programme de stabilité					
Croissance réelle du PIB	-0,2	0,2	1,5	1,6	1,7
Solde de financement	-3,9	-2,5	-2,0	-0,5	0,4
Variation positive de 0,5 point de pourcentage					
Croissance réelle du PIB		0,7	2,0	2,1	2,2
Solde de financement		-2,2	-1,4	0,3	1,5
Variation negative de 0,5 point de pourcentage					
Croissance réelle du PIB		-0,3	1,0	1,1	1,2
Solde de financement		-2,7	-2,5	-1,4	-0,7

In % of GDP
Stability programme
Real GDP growth
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

b.Sensitivity analysis concerning interest rates

In the current economic environment, and in view of the sensitivity of public finances to interest rate fluctuations, it is also essential to conduct an interest rate sensitivity analysis.
A rise in market interest rates affects public finances via various channels. First, in view of the continuous need for refinancing, there is a direct impact on interest charges which has an adverse effect on the balance. Next, interest rate increases have an adverse influence on economic activity, mainly owing to the direct effect of interest rates on consumption and investment.

If both short- and long-term interest rates were to rise by 100 basis points from 1 May 2013 over the entire period 2013-2016, the impact on the federal public debt interest charges, taking account of the estimated average maturity of the debt, comes to +€0.2 billion in 2013 (0.05% of GDP) and + €1.4 billion in 2016 (0.33% of GDP).

Table 11: Impact of an interest rate increase

Impact d'une augmentation des intérêts avec 100 points de base dès le 1er mai 2013	2013	2014	2015	2016
Différence en charges d'intérêts comparée avec le scénario de base (en millions EUR)	183	733	1 099	1 417
Différence en charges d'intérêts comparée avec le scénario de base (en % PIB)	0,0	0,2	0,3	0,3

Impact of a 100 basis point increase from 1 May 2013

Difference in interest charges compared to the baseline scenario (in € million)

Difference in interest charges compared to the baseline scenario (in % of GDP)

The impact on the fiscal balance solely concerns the direct effect of an interest rate increase, as the indirect impact is not included in this sensitivity analysis.

3.4. Outcomes in 2012

The government based the budget targets used to draw up the initial 2012 budget on the objectives set out in the coalition agreement of 6 December 2011. For 2012 it was decided that the general government deficit should be limited to 2.8% of GDP, broken down into a 2.4% deficit for Entity I and a 0.4% deficit for Entity II.

The latest NAI estimates (March 2013) which were confirmed by Eurostat assume a deficit of 3.9 % of GDP for 2012. The main reason for this deviation from the target is the capital transfer totalling 0.8% of GDP for the recapitalisation of the Dexia Group, effected by the federal government in December 2012. In November 2012, the French and Belgian governments agreed to recapitalise the Dexia Group in the sum of € 5.5 billion. Belgium was to provide 53 % of that amount, or € 2.915 billion. At the end of December 2012 the government effected this capital transfer[1], implying a deterioration in the fiscal balance of 0.8% of GDP for 2012. The full impact of this operation is borne by the federal government's fiscal balance, which is 1.0% of GDP more negative than originally planned in the stability programme 2012-2015. Excluding that operation, there is a deviation of 0.3% of GDP from the initial target. However, that must be considered in the economic context. The nominal GDP ultimately achieved in 2012 is 1.5% below the figure used for drawing up the initial budget.

[1] On the basis of the Eurostat guidelines and a recommendation by the Committee on Monetary Financial and Balance of Payment Statistics, the federal government was informed in March 2013 that the contribution to the recapitalisation must be included in the 2012 fiscal balance.

Table 12: Fiscal balance 2010 - 2012

En %pib	2010 Réalisations	2011 Réalisations	2012 Programme de stabilité	2012 Réalisations excl. Dexia	2012 Réalisations incl. Dexia
Ensemble des pouvoirs publi	-3,8	-3,7	-2,8	-3,2	-3,9
Entité I	-3,1	-3,4	-2,4	-2,7	-3,5
Pouvoir fédéral	-3,0	-3,4	-2,4	-2,7	-3,4
Sécurité sociale	-0,1	-0,1	0,0	-0,1	-0,1
Entité II	-0,7	-0,3	-0,4	-0,4	-0,4
Solde structurel	-3,3	-3,4	-2,1	-2,9	-2,9

In % of GDP

Actual figures

Stability Programme

Actual figures excluding Dexia

Actual figures including Dexia

General government

Entity I

Federal government

Social security

Entity II

Structural balance

The structural balance estimated in accordance with the methodology used by the European Commission comes to 2.9 % for 2012.

Social security, which is also part of Entity I, ended the year 2012 with a slightly more negative balance than planned. Instead of achieving a balanced budget, social security recorded a 0.1% deficit in 2012.

Entity II achieved its stability programme target of -0.4% of GDP for 2012. The Communities and Regions cut their deficit to 0.1% of GDP, improving on the planned figure of -0.2 %. In 2012 the local authorities recorded a 0.3% deficit, slightly worse than the 0.2% target. One of the factors here concerns investment expenditure in the run-up to the October 2012 local elections.

Table 13: Public finances 2010-2012

	2010	2011	2012	2010	2011	2012
	En % du PIB			*Évolution réelle*		
Recettes	48,7	49,5	50,8	3,5	2,1	1,7
Recettes fiscales et parafiscales	43,1	43,5	44,6	3,2	1,3	1,6
Impôts directs	15,6	16,0	16,4	4,8	3,1	1,7
Ménages	12,7	12,9	13,0	3,6	1,7	-0,1
Entreprises	2,8	3,0	3,4	10,3	10,1	9,4
Autres secteurs	0,0	0,0	0,0	-2,9	-17,6	-11,3
Impôts indirects	12,8	12,6	12,9	4,6	-1,1	1,3
Impôts sur le capital	0,7	0,7	0,8	9,0	3,5	14,5
Cotisations sociales	16,5	16,6	17,0	0,2	1,5	1,1
Autres	3,2	3,6	3,7	9,9	12,3	2,6
Dépenses courantes charges d'intérêt exclues	46,3	46,8	47,7	1,5	1,4	1,0
Salaires	12,5	12,6	12,8	0,5	0,7	0,7
Frais de fonctionnement	3,7	3,7	3,7	-0,9	-0,6	-1,7
Prestations sociales	24,8	25,1	25,8	0,6	1,5	2,0
Autres	5,2	5,4	5,4	10,3	3,7	-1,0
Dépenses de capital	2,8	3,1	3,6	-15,9	15,1	13,4
Solde primaire	-0,4	-0,4	-0,5			
Charges d'intérêt	3,4	3,3	3,4			
Solde de financement	-3,8	-3,7	-3,9			
Taux d'endettement	95,5	97,8	99,6			

In % of GDP

Actual change

Revenues

Fiscal and parafiscal revenues

Direct taxes

Households

Enterprises

Other sectors

Indirect taxes

Taxes on capital

Social security contributions

Other

Current expenditure excluding interest charges

Wages

Operating costs

Social benefits

Other

Capital expenditure

Primary balance

Interest charges

Fiscal balance

Debt ratio

General government revenues increased from 49.5 % of GDP in 2011 to 50.8 % of GDP in 2012, a real rise of 1.7 %. The increase in the proportion of GDP is due largely to higher fiscal and parafiscal revenues. Withholding tax revenue were up, while company tax assessments were much more positive than in 2011; account must also be taken of the introduction of contributions payable by financial institutions and the effects of the measures to combat tax evasion and social security fraud. The movement in indirect taxes benefited from the increase in contributions payable by nuclear power companies. The increase in other revenues was due partly to the growth of contributions to the deposit guarantee system and the repayment by bpost of State support wrongly received in the past.

In regard to current expenditure excluding interest charges, real growth of 1.0% was recorded in 2012, compared to 2011. While wages went up by 0.7% in real terms, expenditure on operating costs was down by 1.7 %. The increase in capital expenditure includes in particular the recapitalisation of Dexia Group and higher investment expenditure by local authorities on account of the October 2012 elections. Interest charges were up slightly against 2011.

In 2012, the debt ratio increased to 99.6 % of gross domestic product. That is 1.8 percentage points higher than the 2011 figure, and a 4.1 percentage point increase on 2010. Endogenous factors increased the debt ratio by 2.1 %, of which 0.8 % is due to the said recapitalisation of Dexia Group. Exogenous factors cut the debt ratio by 0.3 percentage point. The main components comprise Belgium's participation in the mutual support mechanism of the European Financial Stability Fund and the initial capital contributions to the European Stability Mechanism. The two together added 1.7% of GDP to the debt. A number of factors curbed the rise in the debt: the repayment by KBC (+1.1 % of GDP), the positive issue premiums (+0.6 % of GDP) and the liquidity surpluses (+0.4 % of GDP).

3.5. The 2013 budget

3.5.1. At the level of Entity I

3.5.1.1. The multi-annual budget plan for 2012-2014

During the November 2011 negotiations concerning the coalition agreement, a multi-annual budget plan for 2012-2014 was drawn up. On the basis of the growth forecasts at that time[1], this plan assumed that the fiscal deficit would be cut to 2.8% of GDP in 2012, with a structural balance being achieved in 2015. The Entity I deficit was to be reduced to 2.4 % in 2012, 2 % in 2013 and 1.6 % in 2014.

To that end, a package of measures was approved at the level of federal government and social security, with an estimated impact rising from € 11.3 billion in 2012 to € 15.9 billion in 2014. The key elements of this multi-annual plan were presented in the stability programme submitted last year. The measures described below, taken in connection with the initial budget and the 2013 budget review, are additional to the effects of the multi-annual plan.

3.5.1.2. The initial 2013 budget

In drawing up the 2013 budget the government took as the basis the estimates in the Monitoring Committee's report dated 17 October 2012. On the assumption of real GDP growth of 0.7%, the Entity I deficit for 2013 was estimated at € 12.1 billion. To keep the deficit down to the target of 2.15% required an effort of € 3.7 billion. This basic figure was subjected to a number of technical adjustments and updating totalling € 0.3 billion.

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[1] At the time, economic growth was projected at 0.8 % in 2012 and 2.1 % in 2013 and 2014. That comes to a cumulative total of 3.5 percentage points more than the current estimates/actual figures.

Following these adjustments, an effort amounting to € 3.4 billion was require for 2013. To create a margin for granting an additional reduction in charges, on top of that already included in the July relaunch plan, an extra effort equal to € 0.3 billion was made. That brings the total budgetary effort for 2013 to € 3.8 billion. The table below outlines the results of the conclave and shows the allocation of the measures which were decided. In order to give an idea of the structural impact of the measures, their impact in 2014 was estimated in just the same way as when the multi-annual budget plan was drawn up. That impact amounts to € 2.6 billion.

Table 14: Overview of the initial 2013 budget set-up

	En milliards EUR	En % du PIB	Proportion de l'effort
Déficit estimé (Comité de monitoring)	-12,1	-3,1	
Objectif programme de stabilité	-8,3	-2,15	
Effort	3,7	1,0	
Corrections techniques	0,3	0,1	
Effort	3,4	0,9	
Marge nouvelles mesures	0,3	0,1	
Effort total	3,8	1,0	
Dépenses primaires	0,7	0,2	18%
Sécurité sociale	0,7	0,2	19%
Recettes fiscales	1,1	0,3	28%
Autres	1,3	0,3	35%

In € billion

In % of GDP

Percentage of the effort

Estimated deficit (monitoring committee)

Stability programme target

Effort

Technical adjustments

Effort

Margin for new measures

Total effort

Primary expenditure

Social security

Tax revenues

Other

When the initial budget was drawn up, primary expenditure amounting to € 0.7 billion was scrapped in relation to the monitoring committee's estimates. The main measures were:

- a saving of € 100 million on the total of € 257 million that the Monitoring Committee had taken into account for covering additional grant requests from the departments;
- an additional saving totalling € 25 million on the operating and investment grants of most departments (and € 2.9 million on the operating grants of public interest bodies);
- a saving of € 107.5 million on the budget for Development Cooperation, Preventive Diplomacy and Conflict Prevention;
- a saving of € 100 million on the National Defence budget, including an improvement of € 67.3 million in ESA adjustments as a result of the scheduled delivery of two NH90 helicopters being postponed from 2013 to 2014;
- an additional saving of € 50 million on the SNCB Group grants, on top of the € 90 million saving already planned in the notification dated 1 December 2011;
- an additional saving of € 17.2 million on the public service compensation paid to bpost subject to agreement with the private partner, CVC;
- a € 25 million reduction in the grants to Beliris;
- a reassessment of the expenditure of the Public Sector Pensions Service, resulting in a reduction of € 12 million.

Tax measures totalling € 1.1 billion were taken, the principal ones being:

- universal application of the 25% rate of withholding tax (net impact of € 361 million);
- adjustment of the method of calculating the reference interest rate for the risk capital deduction (€ 256 million);
- the increase in the tax on life insurance premiums from 1.1% to 2 % (€ 139.2 million);
- the increase in the excise duty on tobacco and alcohol (€ 159.5 million);
- the introduction of a separate 0.4 % tax on the exempt capital gains on shares for large companies (€ 95 million).

The measures taken in regard to social security had an estimated impact of € 710 million, and include:

- A package of health care measures totalling € 370 million. As a result, the estimated expenditure is € 346 million lower than the statutory budget target (which permits 2% real expenditure growth in 2013).

- An adjustment to the percentage allowance for temporary lay-offs generates savings of € 50 million. Other measures with a smaller impact on the budget concern raising the qualifying age for granting the return-to-work supplement, and adjustments to the time credit and career break systems.

- Additional savings on the operating resources of the social security institutions and third parties totalling € 37.9 million.

- Reinforcement of the "back to work" scheme should generate a saving of € 25 million in invalidity insurance. Other measures were also taken in this sector, with an estimated impact of € 25 million.

- The introduction of a personal solidarity contribution of 13.07 % on performance-related benefits, yielding an estimated € 53 million.

Measures classified under the 'miscellaneous' heading had an estimated impact of € 1.3 billion. These include:

- Fiscal and social regularisation for a total of € 513 million. This measure concerns the adjustment of the 2005 programme law and termination of the current regularisation.

- When the initial 2012 budget was drawn up, a package of specific fraud prevention measures was also devised. The estimated net effect of those measures comes to € 217 million.

- The 2013 figures also take account of the proceeds from the auction of 800 MHz licences planned for 2013. For Entity I, revenue amounting to € 220 million is taken into account. In addition, € 50 million of that revenue will contribute to achieving the target relating to the usurped powers.

- Via EU Emissions Trading, Belgium will receive € 25.3 million in revenue from the auction of emission rights in 2013. The total revenue was estimated at € 218 million when the initial budget was drawn up. Pending final agreements on the share-out, 25 % or € 54.5 million was recorded as revenue for the federal government.

- When the initial budget was drawn up, account was also taken of a supplementary contribution from the banks (€ 50 million) and of the effects of the agreement on extension of the guarantee for Dexia.

As already stated in table 14, a margin of € 300 millions was planned for additional reductions in charges.

3.5.1.3. The 2013 budget review

The government based the budget review on the Monitoring Committee's report dated 7 March 2013. There was a change in the economic situation between the drafting of the initial budget and the budget review. The estimated real growth was revised from 0.7% to 0.2%. Nominal GDP growth (which determines the movement in tax revenues, among other things) was adjusted downwards by almost 1 percentage point.

The growth revision prompted reconsideration of the targets for public finances. There will be greater emphasis on targets in structural terms, making fiscal policy less dependent on fluctuations in growth forecasts, and therefore more stable. The government is following the recommendation of the Borrowing Requirements Section here, and is also adhering to European principles.

The government has set itself the target of improving the structural balance of general government by 1% in 2013, and cutting the debt ratio below 100%. Before the budget review, an improvement in the structural balance amounting to 0.4% of GDP was achieved, with an estimated nominal deficit of € 11.8 billion for general government. Taking account of the effort by Entity II to achieve a balanced budget, that still left an improvement in the structural balance of 0.4% of GDP to be achieved at the level of Entity I. Table 15 shows the target set at the time of the budget review and the main effort items.

Table 15: March 2013 budget review

	2013 En millions EUR	2013 En % du PIB	2014 Indicatif En millions EUR
Solde de financement entité I estimé par le Comité de monitoring	-11 049	-2,88	
Solde de financement entité II estimé par le Bureau fédéral du Plan	-748	-0,19	
Solde de financement ensemble des pouvoirs publics	-11 797	-3,07	
Impact conjoncture (sur base prévisions d'hiver de la Commission)	-3 843	-1,00	
Impact mesures one off pour le contrôle budgétaire	1 145	0,30	
Solde structurel 2013	-9 099	2,37	
Solde structurel 2012 (estimation Bureau fédéral du Plan mars 2013)	-10 760	-2,80	
Amélioration structurelle déjà réalisée	1 660	0,43	
Effort structurel encore à réaliser	2 182	0,57	
Dont entité II	748	0,19	
Dont entité I	1 434	0,37	
Corrections techniques	373	0,10	255
Dont one offs	142	0,04	
Recettes non-fiscales	293	0,08	9
Dépenses primaires	249	0,06	277
Soins de santé	166	0,04	166
Sécurité sociale	108	0,03	225
Recettes fiscales	364	0,09	491
Charges d'intérêt	22		22
Total amélioration structurelle au niveau de l'entité I	1 434	0,37	1 436
Mesures one-shot	28	0,01	20
Solde nominal	9 445	-2,46	

2013

In € million

In % of GDP

2014

Indicative

In € million

Entity I fiscal balance estimated by the Monitoring Committee

Entity II fiscal balance estimated by the Federal Planning Bureau

Fiscal balance of general government

Impact of the economic situation (on the basis of the Commission's winter forecasts)

Impact of one-off measures for budget review

Structural balance in 2013

Structural balance in 2012 (estimated by the Federal Planning Bureau in March 2013)

Structural improvement already achieved

Structural improvement yet to be achieved

Of which: Entity I

Of which: Entity II

Technical adjustments

Of which: one-off measures

Non-fiscal revenues

Primary expenditure

Health care

Social security

Tax revenues

Interest charges

Total structural improvement at the level of Entity I

One-off measures

Nominal balance

The overall improvement in the structural balance amounting to € 1.434 million was achieved by:

- a number of technical adjustments amounting to € 231 million;

- a number of measures concerning primary expenditure, amounting to € 249 million, including further restrictions on staff/operating expenses, additional savings at the level of grants to public enterprises, and a restriction on expenditure on national defence and development cooperation;

- measures concerning social security amounting to € 274 million, including in particular an additional limit on funding for health care amounting to € 166 million, and a number of measures to curb service vouchers;

- a € 364 million increase in tax revenues, generated in particular by increasing the excise duty on tobacco, increasing lease registration fees and modifying the system of payments in dissolution;

- a range of additional non-fiscal revenues amounting to € 293 million;

- downward revision of the interest charges by € 22 million.

The impact of the measures taken in connection with the budget review is estimated at € 1.4 billion for 2014. Together with the measures in the initial budget, the total impact comes to roughly € 4 billion, or a good 1% of GDP. With the addition of the impact for 2014 of the measures in the multi-annual plan 2012-2014, the total package comes to € 20 billion for Entity I.

3.5.2. *Measures at the level of Entity II*

3.5.2.1. The Walloon Region and the French Community

As soon as they took office in the summer of 2009, the governments of Wallonia and the French Community accorded priority to the consolidation and sustainability of the public finances of the two entities. It should be remembered that, following the 2009 economic recession, Wallonia and the French Community had to contend with an automatic reduction in their revenues (particularly their institutional revenues) amounting to some €1.25 billion.

The general Belgian and international climate dented consumer and business confidence, so that the economy struggled to revive. The institutional revenues of the two entities, being closely linked to GDP growth, were directly affected by the weakness of economic activity. More indirectly, the adverse economic climate also had repercussions on the growth of the Walloon Region's own tax revenues.

However, in 2009 the two governments undertook to ensure that, overall, the budget of the two Entities would be restored to balance by no later than 2015, and took various measures to achieve that.

In the autumn of 2009 they adopted a set of mainly structural measures aimed at controlling the growth of primary expenditure and optimising the collection of Wallonia's own revenues. The scale of these measures was calibrated so as to set Wallonia and the French Community on the road to restoration of a balanced budget, and to safeguard, over the whole period considered, the funding of the Marshall Plan 2.Green, the government's programme of socio-economic measures aimed at pursuing the economic revival of Wallonia and the French Community.

However, when the initial budget was drawn up, the government decided to restrict the overall borrowing requirement of the French Community and Wallonia to a maximum deficit corresponding to 2.8% of the two entities' total revenues.

In 2011, the governments of the Walloon Region and the French Community aimed at a maximum deficit of € 563 million, or € 252 million better than the federal government expected (€ -815 million). That favourable margin enabled the Walloon Region to contribute € 207.5 million to Holding Communal, one of the main shareholders in Dexia SA, as part of the more general intervention by the Belgian and French States in favour of Dexia SA, and with due regard for the official target set for the Walloon Region and the French Community under the Stability Programme 2011-2014.

The targets for 2012 and 2013 were confirmed in the two adjustments to the 2012 budget and in the drafting of the initial budget for 2013. Taking account of the marked downturn in economic activity and its impact on the revenues of the Regions and Communities, that confirmation required a budget effort of more than € 595 million, of which almost € 573 million concerned the primary expenditure of the two entities in the context of the second adjustment to the 2012 budget and the initial budget for 2013.

That effort is additional to the huge package of economy measures introduced in the Walloon Region and the French Community since 2009 to ensure a balanced budget in the near future. The plans include the freezing (zero nominal growth) of numerous primary expenditure items (around € 1.9 billion for the Walloon Region) plus various successive reductions. In the Walloon Region, spending was cut by 2.5 % in 2010, 5 % in 2012 and 3 % in 2013; in the French Community it was cut by 3.8 % in 2012 and 5 % in 2013. The operating grants and supplements for the para-regional and para-community institutions have also been frozen in nominal terms since 2009, except for compensation. At the time of the adjustments to the 2012 budget and the drafting of the 2013 budget, some decree provisions were amended so that the increase in the operating resources granted to some Community structures would be limited to the expected GDP growth.

The main structural measures adopted in 2009 and maintained by the government since then are as follows:

- reduction in the number of ministers;
- 15% cut in spending on ministerial offices, in addition to the 10% cut already made in 2005;
- annual 3% cut in spending on the civil service, with senior officials being made responsible for recruitment policy;
- 30% cut in spending on communication in the Walloon Region;
- freezing (zero growth) of the operating grant paid to the Walloon Parliament and the Parliament of the French Community;
- freezing of operating subsidies paid to public interest bodies and the like, and monitoring of the use of their reserves, having regard to any implications for the consolidated budget balance;
- monitoring of investment expenditure.

Apart from these structural measures, the adjustment of the 2009 budget also concerned the cancellation of a number of new policies which had not yet been implemented.

At the level of the French Community, the phasing of certain multi-annual expenditure plans (revision of operating grants and subsidies of compulsory education institutions, refinancing of universities, etc.) was revised in order to spread the impact over the period in question. The government also decided to raise from 55 to 58 years the minimum age for persons in the education sector to be granted special leave on personal grounds prior to retirement. That should achieve a structural reduction in the cost of educational staff.

Apart from expenditure, a number of measures concerning revenue were adopted in the 2009, 2010, 2011, 2012 and 2013 budgets:

- Environmental taxes:
  - revision of the conditions for granting 'eco-bonuses' (incentives rewarding vehicles with low CO_2 emissions) to take account of the steady improvement in the performance of vehicles in Wallonia, and a tougher set of 'eco-penalties' intended to further promote this improvement by targeting vehicles with CO_2 emissions in excess of the regional average;
  - revision of the rates charged for waste disposal;
  - implementation of a new charge for drinking water extraction.
- Registration fees on the transfer of real estate: application of the reduced rates granted for sales of property giving rise to land registry fees of €745 or less to the part of the property's market value which does not exceed the thresholds for the grant of subsidised mortgage loans.
- Registration fees on gifts of movable property: 10% increase in the rates from 3 to 3.3%, 5 to 5.5% and 7 to 7.7% respectively.

- Radio and television licence fees: active policy aimed at improving the collection rate, which thus increased from 80 to 94.7%.
- Taxes on motor vehicles: the three Belgian Regions reached agreement on the introduction of a vehicle tax disc and a toll per kilometre for vehicles over 3.5 tonnes.
- Tax on electronic entertainment devices: increase in the amounts charged on the various categories of devices when the initial 2013 budget was drawn up.

In drawing up the 2013 budget, the government also decided to anticipate a possible slowdown in the Belgian economy, since it had noted a marked slowdown in economic activity in the 2nd, 3rd and 4th quarters of 2012 compared to the 1st quarter. It thus decided to create cyclical provisions amounting to €43 million for the Walloon Region and the French Community. If necessary, those provisions can absorb the impact of the loss of revenue for the two entities in the event of a further reduction in real GDP growth in 2013.

In addition to the quantitative measures, the government took qualitative measures to improve fiscal governance. The government set up a number of budget monitoring processes regarding civil service expenditure, spending on the salaries of teaching staff, student grants and loans, energy premiums and expenditure relating to investment in waste processing. Since 2010, the government has engaged in a constructive dialogue with representatives of the National Accounts Institute (NAI), in order to incorporate in the budget processes the latest developments in Eurostat guidelines concerning the application of the ESA95 standards. In particular, operations concerning loans and equity investments are subject to constant assessment in regard to the definition of financial transactions under the ESA. On the basis of the NAI's recommendations, some operations concerning loans and equity investments are no longer regarded as financial transactions as defined in the ESA. Others, whose status is still being analysed, give rise to provisions intended to neutralise any reclassification as non-financial transactions. This dialogue also led to confirmation that various regional intervention measures were classed as financial transactions under the ESA. Finally, the Region will in future seek the prior opinion of the NAI in order to ensure that transactions are correctly imputed under the ESA standards. There have also been various improvements in debt management and the fulfilment of borrowing requirements, designed to improve control over the interest rate risk, spread the repayments more evenly, diversify the counterparties, increase competition, diversify funding methods, boost reactivity, reduce timescales and thus optimise the financing conditions in a challenging financial context.

In conclusion, the government of Wallonia and the French Community is committed to continuous monitoring of the two entities' public finances.

3.5.2.2. The Flemish Community

Drawing up the 2013 budget (September 2012)

The initial 2013 budget was based on the September 2012 economic growth forecasts of the Federal Planning Bureau, which predicted growth of – 0.1 % for 2012 and 0.7 % for 2013.

On the basis of those assumptions, the increase in the gross budget margin was estimated at € 621 million in 2013. That was supplemented by additional structural economy measures amounting to € 164 million, and use of the existing buffers amounting to € 130 million. Altogether, this created a gross budget margin of € 916 million.

The gross budget margin is used mainly to finance all kinds of external cost drivers and expenditure while maintaining a constant policy. That spending amounts to € 871 million. There is also provision for € 83 million in discretionary appropriations and € 45 million in payment appropriations to permit new policy initiatives. All policy initiatives are based on the "Vlaanderen in actie" action plan and also promote a caring social community in Flanders.

Structural savings

In connection with the structural savings, it was decided to cut the wage appropriations by € 100 million, corresponding to around 1% of the total wage bill paid by the Flemish government.

When the budget was drawn up, the increase in the health index in 2013 was estimated at 1.9%. Normally, that would trigger an increase of € 61.1 million in non-wage appropriations. However, that indexation was not applied in 2013, generating savings equivalent to that amount.

Apart from this non-indexation of non-wage appropriations, there will also be zero growth in the Provincial Fund, as a result of the progress in the internal reform of the State. That generates a saving of € 3.2 million.

In addition, the "constant policy" concept also allowed for the budgetary effect of the previous decision to cut the number of civil servants by 6% between now and 2014.

Use of the gross budget margin

Constant policy

The gross budget margin is used in the first instance to offset the movement in expenditure with no change of policy, amounting to € 871 million.

Just to offset the effect of inflation on wages requires an extra € 368 million compared to the 2012 budget adjustment. Provision was made for a further € 117 million for the implementation of the Flemish intersectoral agreement in the non-market sector, the collective labour agreement (CLA) with the arts sector, and the CLA for Flemish civil servants. It was also decided to maintain a number of social and job-related measures. For instance, employment premiums will continue to be honoured, the preparation of a child care decree has begun, and the elimination of waiting lists for disabled persons is continuing under the perspective plan approved by the Flemish government. These last two efforts are additional to those already specified under the non-market CLA (VIA-IV).

An additional € 49 million in payment appropriations was also allocated so that all the commitments of the previous and current administration can be honoured promptly and in full.

Additional policy initiatives

Apart from the additional expenditure provided under the constant policy, € 83 million was allocated for new policy initiatives.

An additional €20 million was made available to maintain the growth path to 3% of GDP for Research and Development. That € 20 million is additional to the € 12.5 million in supplementary appropriations for the integration of higher education relating to R&D. In view of the slowing of economic growth in 2012 and 2013, that permits adherence to the path laid down for achieving the 3% target.

€30 million was made available for additional infrastructure capacity in education. Finally, an additional discretionary appropriation of € 33 million was provided for the investment policy.

Adjustment to the 2013 budget (April 2013)

At the time of the budget adjustment, the gross budget margin declined by € 78 million. That was due to a € 313.5 million reduction in revenues, combined with an increase of € 239.6 million in the estimated under-used appropriations, and a € 4.1 million increase in the surplus.

There are some welcome developments on the expenditure side to offset this negative gross budget margin.

The fall in inflation affects not just revenue but also expenditure. For instance, outside the index provision system, the indexation of wage appropriations can be cut by 80 basis points, implying a gain of € 16.5 million.

Following close scrutiny of the appropriations required with no change of policy, expenditure on the various cost drivers is down by € 126.9 million.

Payment requirements were also examined in detail, whereupon the payment appropriations were reduced by € 99.7 million.

The negative gross budget margin thus becomes a positive net budget margin of € 165.1 million, converted into additional policy initiatives.

Thus, a € 150 million buffer was immediately created in the form of discretionary and payment appropriations to compensate for disappointing economic growth or extra expenditure.

There is provision for € 10.1 million in additional payment appropriations in the FFEU (Financieringsfonds voor schuldafbouw en eenmalige investeringsuitgaven) as the counterpart to the extra injection of € 14.4 million in the fund by way of discretionary appropriations.

The remaining € 5 million will be used to combat youth unemployment.

3.5.2.3. The Brussels-Capital Region

Following the April 2012 Stability Programme 2012-2015 the Brussels government decided at the time of the 2012 budget review to tighten up its multi-annual path towards a balanced budget.

For the 2013 fiscal year the budget of the Brussels-Capital Region is based on a deficit of € 131.6 million. That implies a reduction in the deficit of € 81.5 million compared to the 2012 budget. Taking the initial 2012 budget as the point of reference, i.e. before the government committed itself to achieving a balanced budget more quickly, the target for 2013 means cutting the deficit by € 122.4 million, or almost half.

The Brussels-Capital Region will achieve its budget target without resorting to fiscal measures, or in other words without increasing taxes for citizens or businesses in Brussels. Moreover, in this exercise the Region took care to ensure that the fiscal consolidation is not at the expense of the efforts needed to address the priority challenges facing the Region, such as those concerning demographics, employment and mobility. Thus, additional resources were allocated to mobility, and measures have been taken to extend and modernise the existing metro network. Extra scope was also made available for tackling youth unemployment and for supporting businesses and trade. Past commitments and the statutory organic expenditure, including in particular the renovation of social housing and the local authority grants, will be honoured.

The German-speaking Community

In view of the unexpected deterioration in the economic parameters, the German-speaking Community has had to adopt strict measures to cut its expenditure, while aiming to avoid job losses. The measures include the following:

A) Wage costs:

1) Staff of the German-speaking Community departments, including teaching staff:

- temporary scale reduction of 1% in 2013 and a further 1% in 2014 ; this measure will be abolished in 2018 and 2019;
- reform of the system of cumulative days' sick leave in the civil service.

2) Government and Parliament:

- permanent 2% reduction in the salaries of Ministers and the Parliamentary President.

B) Operating expenses and subsidies

1) Government departments:

reduction of up to 10% in department operating costs which are not linked to current contracts;

2) Local authorities:

grant increases (municipal fund – roads) in 2013 and 2014 limited to the increase in the index;

3) Public interest bodies:

grants for 2013 and 2014 limited to the figure for 2012;

4) Bodies subsidised under a management contract in force up to 2014:

2015 subsidy limited to the amount of the subsidy granted in 2014.

C) Staggering of investment expenditure

The German-speaking Community's revenues consist mainly of grants over which they have no influence. Owing to the stagnation of economic growth, those revenues therefore declined.

At the time of the first adjustment to the 2013 budget, the government took measures to cope with this new situation and still adhere to the budget path. It adjusted the expenditure on implementing the PPP project concerning school infrastructure. Since some of the work is ahead of schedule, some invoices will have to be paid in 2013 instead of in 2014 as originally planned. Consequently, part of the deficit expected in 2012 and 2014 will be charged to the 2013 budget.

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 (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 October 2012 ([1]). It presents an updated assessment of the fiscal cost of ageing, defined as the growth of total social expenditure over a given period. The report also presents a reasoned comparison between this SCA assessment and that offered in the "Ageing Report" ([2]) published jointly by the Economic Policy Committee, the Ecofin Council and the European Commission.

4.1.1. The SCA baseline scenario

The estimated cost of ageing according to the SCA's 2012 report takes account of most of the structural reforms concerning pensions, unemployment with a company supplement, career breaks and time credit, approved in December 2011, including an advance indication of the reform of the pension bonus in schemes for employees and self-employed persons, for which the detailed arrangements were not specified until March 2013. The estimate takes no account of the reform of the age supplement in the public sector for which it was not possible to assess the detailed rules at that time. The impact of the reforms of the pension bonus and the age supplement on their own was recently assessed by the Federal Planning Bureau.

[1] High Council of Finance, Study Committee on Ageing, *Annual Report,* October 2012.
[2] European Commission, "The 2012 Ageing Report", European Economy 2/2012.

According to the baseline scenario to which the SCA refers, total social expenditure will increase from 25.3 % of GDP in 2011 to 31.4 % in 2060, implying that the fiscal cost of ageing will be 6.1% between 2011 and 2060. The two components at the root of this increase are pensions and health care costs. Between 2011 and 2060 pension expenditure is projected to rise by 4.6 % of GDP (from 9.9% to 14.5% of GDP) while the cost of health care will go up by 3% (from 8% to 11% of GDP). Other social expenditure is projected to fall by a total of 1.5 % of GDP. Among the assumptions adopted, unemployment expenditure in particular is expected to decline by 0.9% of GDP by 2060.

Table 16: Budgetary implications of ageing (*)

(en % du PIB)	2011	2012	2017	2030	2060	2011-2017	2017-2060	2011-2060
Pensions	9,9	10,2	10,7	13,6	14,5	0,9	3,7	4,6
Salariés	5,4	5,6	6,0	7,6	7,8	0,6	1,9	2,5
Indépendants	0,8	0,8	0,8	1,0	1,1	0,0	0,2	0,3
Secteur public	3,7	3,8	3,9	5,0	5,6	0,2	1,6	1,8
Soins de santé	8,0	8,2	8,6	9,4	11,0	0,6	2,3	3,0
Invalidité	1,6	1,7	1,7	1,6	1,5	0,1	-0,2	-0,1
Chômage	2,0	2,0	1,8	1,3	1,1	-0,2	-0,7	-0,9
Chômage avec complément d'entreprise	0,4	0,4	0,4	0,3	0,3	-0,1	-0,1	-0,2
Allocations familiales	1,6	1,7	1,6	1,6	1,4	0,0	-0,2	-0,2
Autres dépenses de sécurité sociale	1,7	1,8	1,8	1,7	1,6	0,1	-0,2	-0,1
Total	**25,3**	**25,9**	**26,6**	**29,5**	**31,4**	**1,4**	**4,7**	**6,1**
PM Rémunérations de l'enseignement	4,1	4,2	4,1	4,3	4,2	-0,1	0,2	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

(*) Excluding the reform of the age supplement in the public sector, which was not yet defined at the time of the projection.

Source : Study Committee on Ageing.

In its 2012 Report the SCA assessed the impact on the cost of ageing of all the structural reforms decided at the end of 2011 in regard to pensions, pre-pensions and unemployment benefits, i.e. excluding the pension bonus and age supplement. The projections showed very clearly that this first package of reforms would have a very marked impact up to 2020-2030, in other words in the period when the cost of ageing is rising fastest. In 2030 the reduction in the cost of ageing comes to

0.5 % of GDP. After that, the impact of these measures dwindles, declining to 0.3% of GDP in 2060, since – in the case of pension expenditure – the longer working life leads to higher average pensions. However, the reform of the pension bonus and the age supplement will moderate that effect. According to a recent study by the Federal Planning Bureau, this additional reform will reduce pension expenditure under the various schemes by 1.6% in 2030 and by 2% in 2060, corresponding to 0.2 % of GDP in 2030 and 0.3 % of GDP in 2060.

Overall, taking account of the reform of the pension bonus and the age supplement, the structural reforms implemented by the government in 2011-2012 will have an estimated impact on the fiscal cost of ageing amounting to 0.7% of GDP in 2030 and 0.6 % in 2060.

That result is achieved via a considerable increase in the activity rate - and hence the employment rate - of older workers (55-64 years), assuming no change in structural unemployment. By reducing the opportunities to give up work via the system of unemployment with company supplement (pre-pension) or early retirement, the measures taken (excluding the reform of the pension bonus) boost the activity rate of the 55-64 age group by 6.2 percentage points, and raise their employment rate by 5.6 percentage points in 2060 compared to a situation with no reforms.

4.1.2. The SCA's projections compared to those in the Ageing Report 2012

The SCA puts the fiscal cost of ageing at 6.1% of GDP between 2011 and 2060. The Ageing Report estimates that cost at 9.1% of GDP. These two figures are not comparable since the scope of the expenditure concerned is not the same in both cases: in the Ageing Report, spending on education is included, but not child allowances and various other social benefits which are taken into account by the SCA. Moreover, the Ageing Report disregards the impact of the reforms.

If, for the sake of comparability, the assessment is confined to the expenditure categories included in both estimates, namely pension spending in the broad sense, and expenditure on health care and unemployment, and if the adjustment for the reforms accepted by the Economic Policy Committee ([1]) is included, the total difference between the two projections is still considerable: 1.7 % of GDP more by 2060, for the Ageing Report projection.

Table 17: Increase in social expenditure by 2060, in % of GDP

En % du PIB	Pensions, chômage avec complément d'entreprise et invalidité	Soins de santé	Chômage	Total
Ageing Report 2012 et correction pour réformes	5,1	3,1	-0,1	8,1
Comité d'étude sur le vieillisement	4,3	3	-0,9	6,4

IIn % of GDP

Pensions, unemployment with company supplement, and incapacity

Health care

Unemployment

Total

Ageing Report 2012 and adjustment for reforms

Study Committee on Ageing

This discrepancy is due largely to the use of different population forecasts in the two projections, and to differences in the macro-economic assumptions adopted.

[1] Economic Policy Committee, Peer review of major pension reform, EPC opinion on Belgium, 28 September 2012.

The population forecasts for the projection in the Ageing Report – obtained from Eurostat - lead to greater population ageing than the SCA projection based on nationally produced Population Forecasts 2011-2060. That accounts for 0.5% of GDP of the difference in the results of the two projections.

As for the macro-economic assumptions, both projections use the same long-term growth and labour productivity figures, but that is not so in the case of labour productivity. In the SCA scenario, employment growth is stronger, mainly owing to a more favourable trend in the employment rate. In this scenario, unemployment declines gradually in the long term. The Ageing Report scenario assumes that, in the medium term, the unemployment rate will converge on the average European structural unemployment rate (driven up by the crisis) for the Member States whose initial (structural) unemployment rate exceeds the European average. That assumption penalises some countries, including Belgium, whose labour market stood up well to the crisis ([1]). In consequence, those countries record a weak rise in their employment rate and hence in their growth. Via the impact on unemployment expenditure and the denominator effect on pensions and other spending, the effects of these differences between the macro-economic assumptions account for 1% of GDP of the gap between the fiscal cost of ageing in the SCA projections and that in the Ageing Report.

For these reasons, the Belgian government considers that the assessment of the cost of ageing according to the Ageing Report is at the upper end of the range of plausibility. However, this assessment does help to quantify the problems of sustainability in the medium term, and to set an MTO at +0.75 % of GDP. Achieving an MTO of 0.75% therefore seems to offer a solution to the sustainability problems with a sufficient degree of security in Belgium's case.

[1] The Commission recognises this problem: see op cit (12) note 11, page 28.

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 Belgian levels of power are committed to restoring 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.

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 problem 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 in the sense that 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 (see point 5.3 and Programme 2012-2015) 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 4.1.1 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. So far, the federal government has never had to pay out under any guarantee agreed with a financial institution at the time of the financial crisis.

Since 2008, against the backdrop of the financial crisis, the federal government has granted – and is still granting – guarantees covering both interbank borrowings by Dexia and risky structured assets of miscellaneous financial institutions. The outstanding amount of the guarantees actually granted by the Federal State to certain financial institutions during the financial crisis decreased from €62.05 to €46.96 billion between the end of 2009 and the end of 2011. Owing to the introduction of a new guarantee in favour of the Dexia group (Dexia II) in December 2011, the outstanding amount increased again to € 59.6 billion in 2012, despite the reduction in the guarantees for the other financial institutions. Apart from the recapitalisation of the Dexia group (with the Belgian State contributing € 2.915 billion), the agreement on 8 November 2012 amended the temporary guarantee mechanism (Dexia II). The final guarantee ceiling was cut from € 90 to € 85 billion and Belgium's share 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.

The State guarantee in favour of BNP Paribas Fortis was ended early on 18 December 2012, on account of the marked reduction in the investment portfolio on which the State guaranteed losses up to a maximum of €1.5 billion. On 19 December 2012 the guarantee agreement between the Federal State and KBC was amended and an incentive was added (in the form of a conditional premium rebate) to encourage KBC to speed up the reduction of the residual risks. 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 2013, the outstanding amount of the guarantees in favour of financial institutions thus came to € 51.807 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. That favourable trend was temporarily halted to a small degree in 2011 and 2012. At the end of 2012, the debt guaranteed by the State stood at € 5.07 billion. At the end of December 2012, the total amount of debt guaranteed by the Federal State – including debts relating to school buildings for the French Community and the Flemish Community - thus came to € 64.397 billion.

In return for the grant of the guarantees (service fee) during the financial crisis, the financial institutions paid the federal government €729.0 million in 2011 and €749.1 million in 2012, on the basis of recorded rights. For this year, these non-fiscal revenues are estimated, following the March 2013 budget review, at €564.2 million in cash terms, and € 537.7 million according to the ESA 95.

To complete the picture, it should also be noted that Belgium, as a member country of the euro area, also guarantees the EFSF loans in proportion to its share in the ECB's capital (3.72% 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 2012, the impact of the EFSF assistance increased the Belgian public debt by € 5.83 billion (or 1.55% of GDP) in cumulative terms for 2011 and 2012. 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. Following the liquidation of Holding Communal, the federated entities no longer had any outstanding guarantees for the financial sector on account of the financial crisis

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. The government has asked the National Bank of Belgium to present it with a report on the structural banking reforms in Belgium before the summer recess. Pending that report, interim measures will be taken to limit the exposure of deposits to risks as a result of own account trading activities.

Table 18: Contingent liabilities *(Federal State only)*

En % du PIB	2012	28/02/2013 (1)
Garanties	17,1	14,8
Dont: concernant le secteur financier	15,7	13,5

(1) Pour les bâtiments scolaires de la Communauté française et de la Communauté flamande, la situation s'applique au 31 décembre 2012.

In % of GDP

Guarantees

Of which: concerning the financial sector

(1) For French Community and Flemish Community school buildings, the situation applies as at 31 December 2012.

5. QUALITY OF PUBLIC FINANCES[1]

The Belgian authorities consider it a priority to pursue the sustainable consolidation of public finances in order to ensure sustainable, balanced economic growth. A credible fiscal consolidation strategy was defined for that purpose, with the effort balanced between revenue and expenditure.

The structural reforms of the labour market and pensions resulting from the coalition agreement aim to boost the employment rate, particularly among young people and older workers, and thus to strengthen the economy's growth potential. These reforms are being phased in.

In addition, labour incomes are safeguarded in the determination of new revenues. Resources have actually been earmarked for easing the burden on labour and thus encouraging job creation.

The pursuit of greater efficiency in public spending could also generate savings, though good quality public services will be maintained.

The government’s socio-economic policy received a new impetus with the adoption of a relaunch strategy in July 2012. It comprises around forty measures to stimulate economic activity, support the purchasing power of citizens, boost the competitiveness of businesses and promote the creation of quality jobs. What is more, at the time of the drafting of the 2013 budget and the March 2013 budget review, additional measures were taken to strengthen employment and competitiveness.

To ensure that the measures are effective, a monitoring procedure was set up, based on reference indicators, and progress reports are produced every six months. An open dialogue was also initiated between the federal government and the social partners, and between the federal government and the Communities and Regions, in order to identify measures which could reinforce the initiatives developed by the various levels of power.

5.1. Stimulating the labour market

A whole series of measures, notably reductions in fiscal and parafiscal charges, are aimed at increasing labour market participation. Young people and the older age group are the focus of particular attention. Despite further progress, the employment rate of these two groups of workers is in fact a weakness of the Belgian labour market.

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[1] Some of the measures and reforms are presented in more detail in the National Reform Programme 2013.

The measures aimed at these two categories of workers are presented first, followed by the other reductions in charges applicable in general or aimed at particular groups or sectors.

5.2. Youth employment

The labour market entry of young people is being facilitated in 2013 by the creation of 10,000 transitional apprenticeships for young people with no more than higher secondary education qualifications. They are granted an integration allowance of almost € 900, of which € 200 is payable by the firm. Firms qualify for a reduction in the employer's contributions for a maximum of four years if they take the young person on at the end of the apprenticeship. Furthermore, firms in the private sector as a whole are required to offer 1 % apprenticeships.

In addition, training of these young people will be improved by doubling the reduction in employer's social contributions for the target group of mentors involved in the transitional apprenticeships.

The recruitment of various categories of young people is also being encouraged by reductions in employer's social contributions. From 2013 there will be a bigger reduction for the target group of very low-skilled and low-skilled young people. In addition, a new reduction is being introduced for young people with medium skills.

Furthermore, the system of unemployment benefit activation (Activa plan) is being extended for young people up to the age of 27 years (and not just 25 years). For a three-year period the unemployment benefit is "activated", i.e. it is deducted from the wage paid by the employer. There are also closer checks on active job-seeking by young unemployed persons, after 6 months for the integration allowances and after nine months for unemployed persons under the age of 25, instead of after 15 months as used to be the case.

5.3. Employment of older workers

The pension bonus system was reformed in 2013 to ensure consistency with the reforms regarding pensions. Under this system, older people are encouraged to remain on the labour market beyond the early retirement age (62 years). This financial incentive is now progressive: the benefit increases the older the worker. There is no time limit either, so that the bonus is granted to persons who continue working after retirement age (65 years). In addition, the bonus cannot be granted until at least one year after the conditions for access to an early retirement pension have been met.

The benefit was also standardised for the various pension systems (employees and self-employed persons, age supplement in the civil service). In future, a fixed amount will be paid per day actually worked, increasing with the number of years worked. The new rules apply from 2014, and rights acquired under the old system will be upheld.

In 2013, reductions in employers' social security contributions were also adjusted with the creation of a single system of reductions for older workers. The reduction targets particular income groups and is progressive according to age. The amount thus comes to € 400 per quarter for a worker over the age of 54, € 1000 for a worker over the age of 58, and € 1500 for a worker over the age of 62 years.

To encourage citizens to work longer, a system of degressive taxation will be introduced in July 2013 for the supplementary pension capital built up by employers' contributions. The tax rate will decline the older the beneficiary at the time of receiving this capital.

Various structural reforms also took effect in 2013, in particular the increase in the minimum age and seniority conditions for taking early retirement, a restriction on the pension rights accruing during certain "equivalent periods" (such as the third period of unemployment and half-time jobs for persons nearing retirement) and relaxation of the conditions for working beyond retirement age.

The system of monitoring job-seeking activity was extended in 2013 to include unemployed persons aged between 50 and 55 years, and will also include those up to the age of 58 years in 2016.

5.4. Reduction in charges imposed on labour

The net wages of workers on low incomes will increase as a result of the increase in the social bonus[1] (reduction in personal social security contributions) and the tax bonus (tax credit) in 2013. These reductions in charges will be incorporated directly in calculating the payroll tax. This will make working more attractive than inactivity.

The structural reduction in employers' social security contributions is augmented from 2013 with the aim of supporting employment and competitiveness. The wage ceiling below which employers qualify for this benefit is being increased: a larger number of employees can thus be taken into account for granting the reduction. In addition, an annual budget of € 370 million is to be used to increase the fixed amount of this reduction from € 400 to € 452.5 per quarter from April 2013, and to € 455 from January 2014, in accordance with the arrangements determined by the social partners, with specific measures being provided for the non-market sector.

The increase in the reductions in employers' social security contributions for the first three persons recruited in SMEs was brought forward to 1 October 2012, to encourage job creation in these firms.

In addition, firms in the hotel and restaurant sector with fewer than 20 employees are granted a fixed reduction in social security contributions for five employees of their choice, which is increased for workers under the age of 26 years. The aim is to encourage steady, good quality jobs and at the same time do more to combat fraud.

To support innovation and human resources in research and development, the proportion of researchers' remuneration exempt from payroll tax is increased from 75% to 80% from 2013 for all categories of researchers.

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[1] The social bonus was increased first in January 2013 and again in April 2013 (thus permitting an increase in the minimum wage). Furthermore, a new indexation system for the social bonus will operate from April 2014, such that employees receiving wage indexation can reap the full benefit of this bonus.

5.5. A more balanced tax system

The budgetary effort relating to revenue aims to safeguard labour incomes by ensuring a larger contribution from the other income categories, notably capital incomes, which will help to restore the balance between taxes on labour and capital taxes. In 2013 the rate of the withholding tax on most financial products[1] goes up from 21 % to 25 %. A 0.4 % tax applies to capital gains on shares realised by holding companies and large firms. The tax on life insurance goes up from 1.1% to 2%, except for group insurance policies, pension funds and policies covering the outstanding balance on mortgage loans.

In addition, the excise duty on certain alcohol products and tobacco is being increased. Certain indirect taxes are going up, particularly in relation to registration fees. The VAT deduction on company cars is being modified: the government has set up a number of practical ways for taxpayers to determine correctly the type of use of their property. The rate of the notional interest deduction is also being adjusted in line with the long-term interest rate applicable to borrowings by the Belgian State. Measures to combat abuse of the system are being stepped up.

In regard to various revenues, the measures to combat social security fraud and tax evasion are being intensified further, the legal framework concerning tax regularisation is being amended and a series of licences are being put on sale. The financial sector is also being asked for an additional contribution in the form of a targeted increase in the subscription tax (i.e. the bank tax on regulated savings deposits) or the financial stability contribution

[1] There is an exception for savings accounts, the "Leterme" State notes, liquidation pay-outs (up to 1 October 2014) and part of the incomes from copyright.

5.6. Boosting competitiveness

The government considers it essential to reduce the wage gap between Belgium and its main trading partners in order to bolster the competitiveness of firms. The aim is to narrow that gap by 1.6% in 2013-2014 and eliminate it altogether by 2018.

In 2013-2014, the gap is to be reduced by freezing wages[1] apart from indexation and scale increases, strengthening the structural reduction in employers' social security contributions described earlier, and updating the "consumption basket" used as the basis for calculating the consumer price index and indexation.

It is also intended to adapt the 1996 law on employment promotion and the safeguarding of competitiveness so that, when determining the wage norm, the social partners must take account of the actual movement in labour costs in the two preceding years in the main neighbouring countries, as well as the movement expected in the next two years. That adjustment also aims to make the sectors responsible for respecting training targets.

Measures have also been adopted to provide more specific support for SMEs and to encourage them to build up their capital. In fact, a change in the rate of withholding tax on their dividends is stimulating sustainable investment in SMEs. In the first two years, the tax on their new share dividends will be 25%, then fall to 20% in the third year and 15% from the fourth year.

The reductions in charges previously mentioned also aim to support the competitiveness of firms. Other measures are intended to improve their business environment, notably by continuation of the administrative simplification plan, modernisation of the tax system and labour law, and easier access to financing for SMEs.

[1] There are some exceptions, including for the lowest wages.

5.7. Controlling expenditure

The efforts to boost government efficiency while offering quality services for citizens are continuing. Primary expenditure was rationalised in all departments. In particular, expenditure on staff is being contained by selective replacement of officials taking retirement. During the budget review it was decided to make additional savings on staff expenditure.

The structural reforms of the labour market mentioned above will also limit public spending while stimulating employment.

The financial balance of social security is secured in the long term by controlling the growth of health care expenditure and by the federal government's equilibrium grant to social security. This objective accords with that of maintaining the Belgian system of a high standard of social protection.

The statutory limit for the real growth of health care expenditure is set at 2 % in 2013, excluding the social agreement; the structural measures which have been decided will actually keep the real growth of expenditure below that ceiling. The accessibility and quality of patient care is assured, as is employment in this sector. Some of the savings achieved concern the pharmaceutical sector, in particular the imposition of a reduction in the price of reimbursed medication, measures to promote competition on the post-patent market, reduction in the volume of prescriptions, and introduction of a tax on marketing activities. Medical services which exceeded the planned budgets in 2012 were structurally reduced to a sustainable budget path.

In 2013, a "prosperity budget" of € 208.7 million was devoted to augmenting the lowest social benefits. This support for the lowest income groups helps to stimulate demand and hence economic growth. The social partners approved the recommendation on a prosperity-linked adjustment at the end of March 2013. The focus is on the lowest pensions, the lowest unemployment and incapacity benefits, and raising the ceiling for calculating social benefits, in order to ensure the link between the latest wage and the benefit, with due regard for the insurance principle. In addition, the minimum household pension for self-employed workers was increased in April 2013, in line with the minimum household pension for employees.

6. Institutional aspects of public finances

6.1. The sixth State reform

The political agreement that the negotiators[1] concluded on 11 October 2011 outlines a sixth Belgian State reform. There were two main decisions: one concerns the transfer of a large set of powers from federal level to the federated entities, and the other concerns the devising of a radical adjustment to the Special Finance Act (SFA). In addition, a number of other agreements were reached on splitting the Brussels-Halle-Vilvorde district and reforming Parliament, namely simultaneous elections at the various levels of power and abolition of direct elections to the Senate.

During 2012, some steps were already approved by Parliament:

- the first funding stream for the Brussels-Capital Region: from 2012 the Region will receive a grant for mobility policy, language allowances, increased mortmain, a bigger grant for security policy and a bigger grant for the French and Flemish Community Commissions;
- the splitting of both the judicial and the electoral district of Brussels-Halle-Vilvoorde.

Situation in 2013 :

- Reform of the Senate to take effect after the May 2013 elections
- Transfer of powers

In order to make the sets of powers more homogeneous and more coherent, thus avoiding conflicts between the various levels of power and increasing management efficiency, substantial powers were transferred to the Communities and Regions amounting to a total of €16 898 million The most substantial power transfers were effected in the following spheres:

- Employment market (Regions)
- Health care and personal assistance (Communities)
- Family allowances (Communities)
- Justice (Communities)
- Mobility and road safety (Communities)
- Tax expenditure (Regions)

[1] The 6 parties composing the present coalition plus Ecolo and Groen.

- Special Finance Act

Another key aspect of the October 2011 policy agreement is the reform of the Special Finance Act (SFA) which provides the funding for the Communities and Regions. The proposed change in the law is based on the principle that, for the Regions, the emphasis must be on fiscal autonomy and the assumption of responsibility, whereas for the Communities, the focus must be on mechanisms concerning the needs of the population. In regard to the Regions, the most significant change in the law on funding concerns the extension of their fiscal autonomy. For the Communities, the current additional resources will no longer be funded by VAT revenues but will come from personal income tax, while the compensation for the television and radio licence fees will be funded by VAT.

Two elements of the future State funding are also included in the new SFA. First, the Communities and Regions will be asked to make a contribution towards the pension costs of their officials. By 2030, their contribution should match that for private sector employees, namely 8.86 %. The second challenge concerns climate change: a financial system of bonuses and penalties will be devised to encourage the Regions.

Comori (the Committee for the Implementation of the Institutional Reforms) is currently working out the final details for the transfer of powers. One last step concerns finalising the agreement on the financing of the federated entities, the Special Finance Act. After that, Parliament will debate and vote on these agreements, a process that will be completed by no later than the autumn of 2013. The actual transfer of powers and entry into force of the new SFA are scheduled for 1 January 2015.

As stipulated in the coalition agreement, the policy agreement on the SFA and the transfer of powers will be finalised after the debate on the consolidation of public finances aimed at restoring a structurally balanced budget in Belgium by 2015. Following that debate, it will be necessary to make the final adjustments to certain variables in the SFA, such as the reference amounts for the transfers and their adjustment parameters, without altering the said mechanisms and fiscal autonomy arrangements of the Regions and the proper funding of the Brussels institutions.

Annex 1: Sectoral balances

En %pib	2012	2013	2014	2015	2016
1. Equilibre vis-à-vis l'étranger	1,2	1,8	2,8	3,7	4,4
2. Capacité de financement du secteur privé	5,2	4,4	4,9	4,3	4,1
3. Capacité de financement du secteur public	-3,9	-2,5	-2,0	-0,5	0,4
4. Ecart statistique	-0,1	-0,2	-0,1	-0,1	-0,1

In % of GDP

1. Budget surplus (+) or deficit (-) in relation to the rest of the world

2. Budget surplus (+) or deficit (-) of the private sector

3. Budget surplus (+) or deficit (-) of general government

4. Statistical discrepancy

Annex 2: Revenue with no change of policy

	2012 *Niveau*	2012 *% du PIB*	2013	2014	2015	2016
1. Recettes totales à politique inchangée	191 322	50,9	51,3	50,6	50,6	50,5

Level

% of GDP

1. Total revenue with no change of policy

2. Measures concerning revenue