COUNCIL OF THE EUROPEAN UNION

Brussels, 19 November 2013 (OR. en)

16468/13

ECOFIN 1036
UEM 382
EUROGROUP 14

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	15 November 2013
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2013) 8000 final
Subject:	COMMISSION OPINION of 15.11.2013 on the Draft Budgetary Plan of BELGIUM

Delegations will find attached document C(2013) 8000 final.

This document is aimed for discussion in the **Eurogroup.**

Encl.: C(2013) 8000 final

EUROPEAN
COMMISSION

Brussels, 15.11.2013
C(2013) 8000 final

COMMISSION OPINION

of 15.11.2013

on the Draft Budgetary Plan of BELGIUM

{SWD(2013) 600 final}

EN EN

COMMISSION OPINION

of 15.11.2013

on the Draft Budgetary Plan of BELGIUM

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING BELGIUM

3. On the basis of the Draft Budgetary Plan for 2014 submitted on 15 October 2013 by Belgium, the Commission has adopted the following opinion in accordance with Article 7 of the Regulation (EU) No 473/2013.

4. Belgium is currently subject to the corrective arm of the SGP. In addition to the Draft Budgetary Plan, Belgium submitted a report on effective action as decided by the Council in June 2013. The Council opened the Excessive Deficit Procedure for Belgium on 2 December 2009 and recommended to correct the excessive deficit by 2012 at the latest. On 21 June 2013 the Council decided that Belgium had not taken effective action in compliance with the Council's recommendations and decided to give notice. Belgium was given a deadline of 21 September 2013 to take effective action to ensure a sustainable correction of the excessive deficit by 2013. Belgium was required to reduce the headline deficit to 2.7% of GDP in 2013, which was judged to be consistent with an improvement in the structural balance of 1% of GDP, based on the Commission 2013 Spring Forecast. The Council also decided that Belgium shall present structural measures for 2014 which ensure a sustainable correction of the excessive deficit and appropriate progress towards its medium-term objective (MTO). After the correction of the excessive deficit, Belgium will be subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO. As the debt ratio in 2013 is projected at 100.4% of GDP, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit expected for 2013, Belgium is subject to the transitional arrangements as regards compliance with the debt criterion. In this period, it should ensure sufficient progress towards compliance.

5. The macroeconomic scenario underpinning the 2014 budgetary plan does not display major differences compared to the Commission 2013 Autumn Forecast, with both projecting economic growth to reach 1.1% of GDP in 2014. This compares to 1.5% in the Stability Programme as a consequence of lower investment and higher import

growth estimates. Compared to the Commission 2013 Autumn Forecast, the composition of growth is somewhat more driven by net exports and less by domestic demand. Overall, differences between both forecast scenarios are limited and the macroeconomic scenario underpinning the Draft Budgetary Plan appears plausible.

6. The macroeconomic forecasts underlying the draft budgetary plan have been produced by the Federal Planning Bureau whose statutes, based on the information available to the Commission at this stage, contain provisions supporting the independence of this institution as a body producing macroeconomic forecasts.

7. Belgium's Draft Budgetary Plan confirms the 2013 headline deficit target of 2.5% of GDP, in line with the 2013 Stability Programme. For 2014, the Draft Budgetary Plan targets a headline deficit of 2.1% of GDP, compared to a deficit projection of 2.0% in the Stability Programme. This marginal revision is due to the fact that the official target is defined in structural terms, which is confirmed at 1¼ % of GDP, while the economic outlook underpinning the Draft Budgetary Plan is less buoyant than in the macro-economic scenario of the Stability Programme.

8. According to the Commission 2013 Autumn Forecast, the headline deficit is currently expected to reach 2.8% of GDP in 2013. The divergence with the budgetary target is partly explained by an expected shortfall at local level, as well as a slightly more pessimistic view on tax revenue developments. The general government deficit is currently projected at 2.6% of GDP in 2014, i.e. half a point higher than in the Draft Budgetary Plan. In line with the above-described 2013 budgetary developments, around 0.3% of GDP of the difference with the target is due to the base effect stemming from the different outcome projected for 2013. Based on past trends, the Autumn Forecast also projects a higher growth in government expenditure, in particular in social payments and subsidies.

9. The Draft Budgetary Plan confirms the commitment to limit the gross debt ratio to 100% of GDP in 2013, in line with the 2013 Stability Programme. In order to reach this target, the sale of government assets would be necessary, as current deficit targets are likely to result in a higher gross debt ratio. According to the Commission 2013 Autumn Forecast, the debt ratio is currently projected to reach 100.4% of GDP at the end of 2013. The Draft Budgetary Plan foresees a further rise in the debt ratio in 2014, in contrast to the 2013 Stability Programme. This upward revision is mainly due to higher debt-increasing stock-flow adjustments[1], but also because of lower GDP growth and a lower primary surplus. In the Commission 2013 Autumn Forecast, a stronger debt increase is projected as a result of the lower primary surplus as well as the lower nominal GDP growth, which adds to the higher basis.

10. The Draft Budgetary Plan reports 0.4% of GDP of new revenue measures. Some of these measures already entered into force in mid-2013 in the context of the 2013 budget review, with an estimated impact of 0.1% of GDP in 2013. The additional impact in 2014 is estimated at ¼ % of GDP in the Commission 2013 Autumn Forecast. New measures include an increase in indirect taxation (e.g. increase in excise duties on tobacco and biofuels, introduction of VAT on lawyers, etc.), as well as in direct taxation (such as the introduction of a minimum corporate income tax for companies that pay a dividend, increase in the banking tax on savings deposits). A

[1] The composition of stock-flow adjustments has not been reported in the DBP.

number of limited stimulus measures have also been introduced, among others, a decrease in social security contributions and personal income tax for workers. The Draft Budgetary Plan also contains 0.7% of GDP of expenditure reductions, compared to an unchanged policy situation. From that, 0.16% of GDP of savings are foreseen in the health care system compared to the growth norm set in the coalition agreement. Partial replacement of retiring staff and lower budgets for functioning costs of ministries at both federal and sub-federal levels are expected to curb the rise in administrative expenditure. The system of service vouchers will be modified in order to contain the expenditure rise on subsidies. Finally, the Draft Budgetary Plan foresees a reduction in investment, especially due to the investment cycle at local level. In contrast to the 2012 and 2013 budget, the Draft Budgetary Plan for 2014 seems to contain only a limited number of one-off measures, which contributes to the sustainability of the consolidation effort.

11. The headline balance planned in the Draft Budgetary Plan in 2013 is below the 3% of GDP deficit reference value. According to the Commission 2013 Autumn Forecast, the headline deficit is currently expected to be slightly above the target of 2.7% of GDP set in the Council Decision to give notice of 21 June 2013. The fiscal effort in 2013 was estimated at ¾% of GDP at the time of the Council Decision to give notice. Since that decision, both the federal government and sub-federal entities have taken additional measures to keep their budgets on track. The fiscal effort is currently estimated at 0.8% of GDP. However, when corrected for the downward revision in potential growth since the time of the Council Decision as well as for revenue shortfalls compared to the forecast underlying the Council Decision, the adjusted structural improvement is estimated at 1% of GDP, in line with the effort of 1% of GDP required by the Council. Therefore Belgium can be considered to have taken effective action in compliance with the Council Decision of 21 June 2013. This conclusion is supported by a bottom-up assessment which estimates the size of the additional fiscal effort for 2013 on the basis of the discretionary revenue measures and the expenditure developments under the control of the government[2] between the baseline scenario underpinning the Council Decision and the Commission Autumn Forecast, which shows that Belgium has taken additional measures for 2013 adding up to over ¼% of GDP, which is in line with the amount of measures deemed necessary to reach the structural target spelled out in the Council Decision.

12. If the Council abrogates the excessive deficit procedure in spring 2014, Belgium will enter into a three-year transition period to comply with the debt reduction benchmark. In 2014, following an overall assessment of the Draft Budgetary Plan and calculated on the basis of the Commission 2013 Autumn Forecast, Belgium is making sufficient progress towards compliance with the debt criterion.

13. According to the Draft Budgetary Plan, the change in the (recalculated) structural balance[3] in 2014 is appropriate. However, based on the projections in the Commission 2013 Autumn Forecast, the change is currently estimated just below the required minimum annual structural adjustment towards the MTO of 0.5% of GDP and below the improvement underlying the calendar for convergence. The difference

[2] Excluding notably unemployment benefit payments related to the evolution of the number of unemployed and changes in interest expenditure related to interest and exchange rate changes.

[3] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology.

between both projections stems from the different assessment of the headline deficit (mainly on the expenditure side), while the assessments of the cyclical impact and of the size of one-off measures are broadly concurring. Even if the deviation is not judged to be significant in 2014, it may contribute to a significant deviation the following year. According to the information provided in the Draft Budgetary Plan, the growth rate of government expenditure, net of discretionary revenue measures, in 2014 is expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. However, the Commission Autumn Forecast shows an expenditure growth, net of discretionary revenue measures, above this reference rate, which indicates a risk that the expenditure benchmark will not be respected. Following an overall assessment of the Draft Budgetary Plan, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, a deviation from the adjustment path towards the MTO is to be expected in 2014 which, if repeated the following year, could be assessed to be significant and could put under risk the compliance with the requirements of the preventive arm of the SGP.

14. On 9 July, the Council also addressed recommendations to Belgium in the context of the European Semester. In particular, in the area of public finances the Council recommended to Belgium to adopt explicit coordination arrangements to ensure that budgetary targets are binding at federal level and sub-federal levels within a medium-term planning perspective, including through the prompt adoption of a rule on the general government budget balance/surplus that complies with the requirements of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and to increase the transparency of burden sharing and accountability across government layers. On 17 July 2013, the federal government and sub-federal entities agreed on a burden sharing of the general government target for 2014. The Draft Budgetary Plan makes no further reference to the adoption of coordination arrangements and progress so far seems to be limited. The Council Decision to give notice of 21 June 2013 requires Belgium to submit a report by 31 December 2013 on the intended implementation of the European Semester recommendation on this issue.

15. The Council also recommended Belgium to shift taxes from labour to less growth-distortive tax bases. Overall, new revenue measures avoid tax increases on labour income, but there is no substantial shift from taxes away from labour.

16. Overall, the Commission, based on its forecast, is of the opinion that the Draft Budgetary Plan sent on 15 October is broadly compliant with the rules of the SGP. In particular, the Commission 2013 Autumn Forecast points to broad compliance with respect to the EDP Decision for 2013. However, the Commission Forecast for 2014 also points to a risk that the structural balance, although close to the required effort, will not show sufficient progress towards the MTO in 2014. The Commission is also of the opinion that Belgium has made limited progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the European Semester to adopt explicit coordination arrangements between federal and sub-federal levels. The Commission invites the authorities to ensure full compliance with the SGP within the national budgetary process for the 2014 budget and to take the necessary action at all levels of government. Moreover, it invites the authorities to accelerate progress towards implementation of the fiscal recommendation under the European Semester.

Done at Brussels, 15.11.2013

For the Commission
Olli REHN
Vice-President