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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	COMMISSION OPINION of 20.11.2019 on the Draft Budgetary Plan of Belgium
Enclosed:	C(2019) 9101 final

Delegations will find attached document C(2019) 9101 final.

EUROPEAN
COMMISSION

Brussels, 20.11.2019
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COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Belgium

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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 15 October 2019, Belgium submitted the Draft Budgetary Plan for 2020. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies. By letter of 22 October 2019, the Commission invited the Belgian authorities to submit, as soon as possible, an updated Draft Budgetary Plan to the European Commission and the Eurogroup that ensures compliance with the Council recommendation[1] for Belgium.

5. Belgium is subject to the preventive arm of the Stability and Growth Pact. On 9 July 2019, the Council recommended Belgium to ensure that the nominal growth rate of net primary government expenditure does not exceed 1.6% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP towards the medium-term budgetary objective of 0.0% of GDP, and to use windfall gains to accelerate the reduction of the general government debt ratio. As its public debt, at 100% of GDP in 2018, exceeds the 60% of GDP reference value of the Treaty, Belgium also needs to comply with the debt reduction benchmark.

6. According to the Commission 2019 autumn forecast, the Belgian economy is expected to grow by 1.1% in 2019 and 1.0% in 2020. Economic growth is expected to be driven by domestic demand, while net exports are projected to weigh on growth. According to the Draft Budgetary Plan, the economy is expected to grow at the same rate and with a broadly similar composition. The macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible both for 2019 and 2020. Belgium complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently-produced macroeconomic forecasts. In order to ensure compliance with the requirement of Regulation (EU) No 473/2013, the draft Budget Act to be transmitted to the national parliament would need to be based on an independently-endorsed macroeconomic forecast.

[1] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Belgium and delivering a Council opinion on the 2019 Stability Programme of Belgium, OJ C 301, 5.9.2019, p.1.

7. For 2019, the Draft Budgetary Plan projects a headline deficit of 1.7% of GDP, which implies a deterioration in the structural balance[2] of 0.3% of GDP compared to 2018. For 2020, the headline deficit is planned to increase to 2.3% of GDP, which implies a deterioration in the structural balance by 0.3% of GDP. The Commission 2019 autumn forecast, which is based on a no-policy change assumption, projects headline deficits broadly in line with the projections set out in the Draft Budgetary Plan. In structural terms the two projections also concur.

8. The fiscal stance envisaged in the Draft Budgetary Plan for 2020 is expansionary. This is confirmed by the Commission 2019 autumn forecast. The caretaker federal government, which does not enjoy full budgetary powers, submitted a no-policy change Draft Budgetary Plan. Thus, the Plan does not contain any new major measures as regards the federal government. Several small and regional government measures are planned, although their overall net deficit-decreasing budgetary impact is less than 0.1% of GDP.

   The Recommendation of 9 July 2019 addressed by the Council to Belgium included the recommendations to continue reforms to ensure the fiscal sustainability of the long-term care and pension systems, and to improve the composition and efficiency of public spending and the coordination of fiscal policies by all levels of government to create room for public investment. Due to the prolonged period of caretaker federal government, the Belgian authorities did not take any further measures in this regard and did not indicate any new measures in the Draft Budgetary Plan.

9. In 2019, for Belgium to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 2.8%, corresponding to an annual structural adjustment by 0.1% of GDP. The Draft Budgetary Plan indicates a gap to the expenditure benchmark of 0.8% of GDP in 2019, pointing to a risk of significant deviation in 2019. The structural balance points to a risk of some deviation in 2019 (gap of 0.4% of GDP). Taking into account the positive impact of revenue windfalls on the structural balance, the overall assessment points to a risk of significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019. The Commission 2019 autumn forecast confirms this conclusion.

   In 2020, for Belgium to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 1.6%, corresponding to an annual structural adjustment by 0.6% of GDP. The Draft Budgetary Plan indicates a gap to the expenditure benchmark of 1.5% of GDP in 2019 and of 1.1% of GDP on average over 2019 and 2020 taken together, pointing to a risk of a significant deviation in 2020. The structural balance also points to a risk of significant deviation from the recommended structural adjustment in 2020 (gap of 0.8% of GDP) and on average over 2019 and 2020 taken together (gap of 0.6% of GDP). Those conclusions are confirmed by the Commission 2019 autumn forecast.

10. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase and reach 101.8% in 2020. It should be noted that compared to the Draft Budgetary Plan, the Commission 2019 autumn forecast uses more recent and upwardly revised data for nominal GDP in 2018, which contributed to a lower

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[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

projection of the debt-to-GDP ratio. Taking this into account, the Commission 2019 autumn forecast is broadly in line with the Draft Budgetary Plan. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark. Based on the Commission 2019 autumn forecast, the debt reduction benchmark is not projected to be met in 2019 and 2020, with gaps of 1.5% and 2.7% of GDP respectively.

11. Overall, while acknowledging the no-policy-change nature of its projections, the Commission is of the opinion that the Draft Budgetary Plan of Belgium is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, the Commission projects a risk of significant deviation from the required adjustment towards the medium-term budgetary objective in 2019 and 2020. Additionally, Belgium is not projected to comply with the debt reduction benchmark in 2019 and 2020.

The Commission is also of the opinion that Belgium has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2020 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2020.

As soon as a new federal government takes office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2020 budget will be compliant with the Stability and Growth Pact and to use any windfall gains to accelerate the reduction of the government debt-to-GDP ratio.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission