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Recommendation for a

COUNCIL DECISION

giving notice to Belgium to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit

{SWD(2013) 381 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(9) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) According to Article 126 Treaty on the Functioning of the European Union (TFEU) Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) On 2 December 2009, the Council decided[1], in accordance with Article 126(6) TFEU, that an excessive deficit existed in Belgium and issued a recommendation to correct it by 2012 at the latest, in accordance with Article 126(7) TFEU and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[2]. In order to bring the general government deficit below 3% of GDP in a credible and sustainable manner, the Belgian authorities were recommended to (a) implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010 and strengthen the planned fiscal effort in 2011 and 2012; (b) ensure an average annual fiscal effort of ¾% of GDP over the period 2010-2012, which should also contribute to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus; (c) specify the measures that are necessary to achieve the correction of the excessive deficit by 2012, cyclical conditions permitting, and to accelerate the reduction of the deficit if economic or budgetary conditions turned out better than expected at the time the EDP recommendations were issued; and (d) strengthen the monitoring mechanisms to ensure that fiscal targets are respected. In its recommendations, the Council established a deadline of 2 June 2010 for effective action to be taken in line with the provisions of Article 3(4) of Regulation (EC) No 1467/97.

[1] All documents related to the excessive deficit procedure of Belgium can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/belgium_en.htm

[2] OJ L 209, 2.8.1997, p. 6.

(4) According to the provisions of Article 126(8) TFEU, the Council decided on [21 June 2013] that Belgium did not take effective action in response to the December 2009 Council recommendation within the period laid down in that recommendation.

(5) According to Article 10(3) of Regulation (EC) No 1467/97, if actual data pursuant to Regulation (EC) No 479/2009 indicate that an excessive deficit has not been corrected by a participating Member State within the time limits specified in a recommendation issued under Article 126(7), the Council shall immediately take a decision under Article 126(9), that is, give notice to the Member State to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.

(6) The Commission services' 2013 Spring Forecast, projects real GDP to remain flat in 2013 with domestic demand continuing the contraction initiated in 2012. While household consumption is likely to stagnate, investment is expected to drop, driven by an economy-wide lack of confidence, a depressed construction sector, tightening credit conditions and an industry featuring ample spare capacity. Both private consumption and investment are anticipated to gain pace only as of 2014 when domestic demand would become the main driver behind a real GDP growth rate of 1.2%. Against the background of this more robust domestic demand, import growth is assumed to catch up with export growth. This would limit further gains from net exports in 2014, contrary to 2013 when positive net foreign demand growth is expected to prevent GDP from contracting.

(7) According to the Commission services' 2013 Spring Forecast, the general government deficit is projected to decrease to 2.9% of GDP in 2013. The initial 2013 budget targeted a nominal deficit of 2.15% of GDP. However, since the drafting of the budget, the official growth projections underpinning the budget (+0.7%, in line with the Commission services' 2012 Autumn Forecast) have been substantially revised downwards, to 0.2% in the 2013 Stability Programme and 0.0% in the Spring Forecast. Therefore, the government abandoned the nominal deficit target and replaced it by a commitment to improve the structural balance by 1.0 % of GDP. In March 2013, the government took additional measures amounting to 0.2% of GDP on top of around 0.75% of GDP of measures taken in the initial 2013 budget, which have been taken into account in the Commission services' 2013 Spring Forecast. This forecast projects a structural improvement of ¾ % of GDP in 2013, including a ¼ pp. contribution from lower interest expenditure.

(8) At unchanged policy, the Commission services' 2013 Spring Forecast projects the deficit to rise again above the reference value in 2014, to 3.1% of GDP, despite the projected growth above potential. This new rise is due to the autonomous rising trend in social transfers and the fact that the 2013 budget also included around 0.4% of GDP of one-off and temporary revenues, such as a fiscal amnesty, the sale of telecom licenses and an exceptionally high dividend from the National Bank of Belgium.

(9) Public debt rose from 84% of GDP in 2007 to almost 100% of GDP in 2012. The dynamics of the deficit and of GDP account for around 6.5 pps. of the increase, while exogenous factors amount to around 9 pps., mainly due to rescue operations in the financial sector in the form of equity injections. According to the Commission services' 2013 Spring Forecast, it is expected to increase to over 102% of GDP in 2014. The Belgian government intends to sell financial assets in order to keep the debt below 100% of GDP in 2013. In this context, the Belgian government announced recently the sale of Royal Park Investment (the special purpose vehicle created in the

context of the Fortis rescue operation) which would reduce the debt level by 0.2% of GDP.

(10) The European Commission Fiscal Sustainability Report 2012 shows that Belgium does not appear to face a risk of fiscal stress in the short term. However, fiscal sustainability risks are high in a medium- to long-term perspective. The long-term budgetary impact of ageing in Belgium is well above the EU average, which is mainly the result of a rapid increase in pension expenditure as a share of GDP over the coming decades. Although the December 2011 pension reform was an important positive step, additional measures appear necessary to fully restore the long-term sustainability of public finances.

(11) Measures taken in the initial 2013 budget and the March 2013 budget control are currently expected to bring the deficit below 3% of GDP in 2013. However, according to the Commission services' 2013 Spring Forecast, the safety margin against breaching the Treaty reference value is very narrow. Moreover, the correction is currently not yet sustainable.

(12) Against the background of high uncertainties regarding economic and budgetary developments, the budgetary target recommended for the final year of the correction period should be set at a level clearly below the reference value, in order to guarantee an effective and lasting achievement of the correction within the requested deadline.

(13) Therefore, a further reduction of the 2013 deficit to 2.7% of GDP is warranted, which is consistent with a structural improvement of 1% of GDP in 2013. To this end, additional measures with an estimated impact of ¼% of GDP are considered necessary, also in view of possible negative second round effects.

(14) Belgium committed in its Stability Programme to achieve a balanced budget in structural terms in 2015, before reaching its MTO of a surplus of 0.75% of GDP in structural terms in 2016. Subsequently, in a letter sent to the Commission on 28 May 2013, the Belgian authorities committed to target a higher fiscal effort at ¾% of GDP in 2014. Also in view of the high level of debt this is an appropriate effort and it will comply with the debt reduction benchmark., a Thereafter, Belgium should continue making sufficient progress towards its medium-term objective including meeting the expenditure benchmark, and towards compliance with the debt reduction benchmark.

(15) Furthermore, Belgium should strengthen the long-term sustainability of the pension and social security systems. In this respect, additional efforts are needed to close the gap between the effective and the statutory retirement age, while measures to link the statutory retirement age to developments in life expectancy would allow safeguarding the sustainability of the pension system in the long term.

(16) In addition, Belgium should 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.

(17) Finally, to ensure the success of the fiscal consolidation strategy, it will also be important to back the fiscal consolidation by comprehensive structural reforms, in line with the Council recommendations addressed to Belgium in the context of the European Semester and in particular those related to the Macroeconomic Imbalances Procedure,

HAS ADOPTED THIS DECISION:

Article 1

1. Belgium shall put an end to the present excessive deficit situation by 2013.

2. Belgium shall reduce the headline deficit to 2.7% of GDP in 2013 This nominal improvement is consistent with an improvement in the structural balance of 1% of GDP in 2013, based on the Commission services' 2013 Spring Forecast.

3. Belgium shall adopt and fully implement all the consolidation measures incorporated in the 2013 budget as well as additional measures of structural nature to achieve the recommended structural effort for 2013.

4. Belgium shall stand ready to adopt further measures should risks to the budgetary plans materialise. Budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner.

Article 2

1. Belgium shall submit to the Commission, by 21 September 2013 at the latest, a report outlining the measures taken to comply with this Decision. The Commission will evaluate this report with a view to assessing progress made towards the correction of the excessive deficit.

2. Belgium shall submit further quarterly reports to the Commission, examining progress made in complying with this decision.

3. Belgium shall submit a report by 31 December 2013 on the intended implementation of the first recommendation issued under the European Semester regarding the adoption of explicit coordination arrangements to ensure that budgetary targets are binding at federal level and sub-federal levels within a medium-term planning perspective.

4. Belgium shall present structural measures for 2014 which ensure a sustainable correction of the excessive deficit and appropriate progress towards its medium-term objective.

Article 3

This Decision is addressed to the Kingdom of Belgium.

Done at Brussels,

For the Council
The President