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**BELGIUM: MACRO FISCAL ASSESSMENT**  
**AN ANALYSIS OF THE JANUARY 2010 UPDATE OF THE STABILITY**  
**PROGRAMME**

The Stability and Growth Pact requires each EU Member State to present an annual update of its medium-term fiscal programme, called 'stability programme' for countries that have adopted the euro as their currency and 'convergence programme' for those that have not. The most recent update of Belgium's stability programme was submitted on 29 January 2010.

The attached technical analysis of the programme prepared by the staff and under the responsibility of the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission was finalised on 17 March 2010. Comments should be sent to Pim Lescrauwaet ([pim.lescrauwaet@ec.europa.eu](mailto:pim.lescrauwaet@ec.europa.eu)). The main aim of the analysis is to assess the realism of the budgetary strategy presented in the programme as well as its compliance with the requirements of the Stability and Growth Pact. However, the analysis also looks at the overall macro-economic performance of the country and highlights relevant policy challenges.

The analysis takes into account (i) the Commission services' autumn 2009 forecast, (ii) the code of conduct ("Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 10 November 2009) and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances.

Based on this analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 17 March 2010. The ECOFIN Council is expected to discuss the opinion on the programme on 16 April 2010.

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All these documents, as well as the provisions of the Stability and Growth Pact, can be found on the following website:

[http://ec.europa.eu/economy\\_finance/sgp/index\\_en.htm](http://ec.europa.eu/economy_finance/sgp/index_en.htm)

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## 1. INTRODUCTION

This document assesses the January 2010 update of Belgium's stability programme, which was submitted to the Commission and the Council on 29 January 2010 and covers the period 2009-2012. The programme builds on the budgets adopted by the different government tiers for 2010 and their respective budget targets for the period 2011-2012. It was approved by the government on 27 January 2010.

This assessment is structured as follows. Section 2 discusses the key challenges for public finances in Belgium. Section 3 assesses the plausibility of the macroeconomic scenario underpinning the public finance projections of the stability programme against the background of the Commission services' economic forecasts<sup>1</sup>. Section 4 analyses budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy. It also assesses risks attached to the budgetary targets. Section 5 reviews recent debt developments and medium-term prospects, as well as the long-term sustainability of public finances. Section 6 discusses institutional features of public finances. Finally, Section 7 concludes with an overall assessment of the programme. The annex provides a detailed assessment of compliance with the code of conduct, including an overview of the summary tables from the programme.

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<sup>1</sup> This assessment uses the Commission services' 2009 autumn forecast, as published on 3 November 2009, as a benchmark. However, more recent information that has become available has also been taken into account to assess the risks to the programme scenarios.

**Table 1. Comparison of key macroeconomic and budgetary projections**

		2008	2009	2010	2011	2012
Real GDP (% change)	<b>SP Jan 2010</b>	<b>1.0</b>	<b>-3.1</b>	<b>1.1</b>	<b>1.7</b>	<b>2.2</b>
	COM Nov 2009	1.0	-2.9	0.6	1.5	n.a.
	<i>SP Sep 2009</i>	<i>1.1</i>	<i>-3.1</i>	<i>0.4</i>	<i>1.9</i>	<i>2.4</i>
HICP inflation (%)	<b>SP Jan 2010</b>	<b>4.5</b>	<b>0.0</b>	<b>1.5</b>	<b>1.7</b>	<b>1.8</b>
	COM Nov 2009	4.5	0.0	1.3	1.5	n.a.
	<i>SP Sep 2009</i>	<i>4.5</i>	<i>0.0</i>	<i>1.5</i>	<i>1.6</i>	<i>1.6</i>
Output gap <sup>1</sup> (% of potential GDP)	<b>SP Jan 2010</b>	<b>1.8</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-2.2</b>	<b>-1.4</b>
	COM Nov 2009 <sup>2</sup>	1.7	-2.3	-2.8	-2.4	n.a.
	<i>SP Sep 2009</i>	<i>2.0</i>	<i>-2.3</i>	<i>-2.9</i>	<i>-2.3</i>	<i>-1.5</i>
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	<b>SP Jan 2010</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
	COM Nov 2009	-0.2	0.1	0.4	0.3	n.a.
	<i>SP Sep 2009</i>	<i>-1.6</i>	<i>-1.9</i>	<i>-2.1</i>	<i>-2.3</i>	<i>n.a.</i>
General government revenue (% of GDP)	<b>SP Jan 2010</b>	<b>48.8</b>	<b>47.7</b>	<b>49.1</b>	<b>49.5</b>	<b>49.8</b>
	COM Nov 2009	48.8	47.7	48.0	48.2	n.a.
	<i>SP Sep 2009</i>	<i>48.7</i>	<i>47.9</i>	<i>48.1</i>	<i>48.5</i>	<i>49.2</i>
General government expenditure (% of GDP)	<b>SP Jan 2010</b>	<b>50.0</b>	<b>53.7</b>	<b>53.9</b>	<b>53.6</b>	<b>52.8</b>
	COM Nov 2009	50.0	53.6	53.8	54.0	n.a.
	<i>SP Sep 2009</i>	<i>49.9</i>	<i>53.8</i>	<i>54.1</i>	<i>53.9</i>	<i>53.6</i>
General government balance (% of GDP)	<b>SP Jan 2010</b>	<b>-1.2</b>	<b>-5.9</b>	<b>-4.8</b>	<b>-4.1</b>	<b>-3.0</b>
	COM Nov 2009	-1.2	-5.9	-5.8	-5.8	n.a.
	<i>SP Sep 2009</i>	<i>-1.2</i>	<i>-5.9</i>	<i>-6.0</i>	<i>-5.5</i>	<i>-4.4</i>
Primary balance (% of GDP)	<b>SP Jan 2010</b>	<b>2.6</b>	<b>-2.3</b>	<b>-1.10</b>	<b>-0.4</b>	<b>0.8</b>
	COM Nov 2009	2.6	-2.0	-1.8	-1.7	n.a.
	<i>SP Sep 2009</i>	<i>2.5</i>	<i>-2.0</i>	<i>-1.9</i>	<i>-1.2</i>	<i>-0.1</i>
Cyclically-adjusted balance <sup>1</sup> (% of GDP)	<b>SP Jan 2010</b>	<b>-2.2</b>	<b>-4.6</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.2</b>
	COM Nov 2009	-2.1	-4.6	-4.3	-4.5	n.a.
	<i>SP Sep 2009</i>	<i>-2.3</i>	<i>-4.7</i>	<i>-4.4</i>	<i>-4.2</i>	<i>-3.6</i>
Structural balance <sup>3</sup> (% of GDP)	<b>SP Jan 2010</b>	<b>-2.2</b>	<b>-3.8</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.2</b>
	COM Nov 2009	-2.2	-4.2	-4.4	-4.5	n.a.
	<i>SP Sep 2009</i>	<i>-2.3</i>	<i>-4.7</i>	<i>-4.4</i>	<i>-4.2</i>	<i>-3.6</i>
Government gross debt (% of GDP)	<b>SP Jan 2010</b>	<b>89.8</b>	<b>97.9</b>	<b>100.6</b>	<b>101.4</b>	<b>100.6</b>
	COM Nov 2009	89.8	97.2	101.2	104.0	n.a.
	<i>SP Sep 2009</i>	<i>89.7</i>	<i>97.5</i>	<i>101.9</i>	<i>103.9</i>	<i>104.3</i>

**Notes:**

<sup>1</sup>Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.

<sup>2</sup>Based on estimated potential growth of 1.7%, 1.1%, 1.0% and 1.2% respectively in the period 2008-2011.

<sup>3</sup>Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.8% of GDP in 2009, deficit increasing according to the most recent programme and 0.1% of GDP in 2008, 0.1% of GDP in 2010 all deficit-reducing and 0.5% of GDP in 2009, deficit increasing in the Commission services' November 2009 forecast.

**Source:**

*Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations*

**2. KEY CHALLENGES IN THE ECONOMIC DOWNTURN AND THE POLICY RESPONSE**

This section describes recent economic and budgetary developments for Belgium, which form the background against which the current programme assessment should be viewed, and outlines the key challenges to be addressed by future economic policies.

The Belgian economy had started losing momentum in the course of 2007 as export growth slowed down in line with weakening external demand. From the beginning of 2008, domestic demand also gradually softened as a result of the sharp increase in inflation and the loosening of the labour market. In the second half of 2008, the global financial crisis hit Belgium hard mainly through two channels. First, as a small open economy, the country was affected strongly by the fall in world trade in the last quarter of 2008. Second, the problems in the banking sector have depressed domestic demand through confidence and wealth effects and a tightening of lending conditions. As a result, quarter-on-quarter GDP growth fell from 0.4% in the second quarter of 2008, to -0.2% in the third quarter and further to -2.1% in the last quarter of 2008. Growth remained strongly negative at the beginning of 2009 (-1.7%).

In response to the crisis, the government adopted expansionary fiscal measures, which were broadly in line with the European Economic Recovery Plan and have an estimated budgetary impact of ½% of GDP in both 2009 and 2010. The package included wage subsidies as well as financing and payment facilities for firms, increases in social benefits, a reduction of the VAT rate for residential construction and an acceleration of public investment. About half of the measures of the recovery package are of a permanent nature. The government also took a series of measures to support the financial sector<sup>2</sup>.

In the second quarter of 2009, quarter-on-quarter growth became flat and it turned positive (0.7%) in the third quarter of 2009, driven by net external demand and a positive contribution of inventories. In the fourth quarter of 2009, growth fell again to 0.3% according to the National Account Institute's flash estimate.

Growth is expected to remain low in the first half of 2010. This is the result of continued global headwinds stemming from the restructuring that financial institutions still need to undergo, and a further rise in unemployment together with low capacity utilisation. Moreover, the drivers of growth in the second half of 2009 may prove temporary. Indeed, the pick-up in exports was partly related to fiscal stimuli in Belgium's main trading partners, the strong rebound in investments to some extent reflected higher government investment and, finally, the positive contribution of inventories to growth after three quarters of negative contributions is likely to fade out.

In this context, the Commission services' autumn 2009 forecast projected annual GDP growth to amount to 0.6% in 2010 and 1.5% in 2011. This appears to be low, in particular with respect to 2010, in view of the better-than-expected outcome for the second half of 2009, but nevertheless illustrates the gradual nature of the recovery

As to the labour market, the recession began to take its toll around year-end 2008. Employment growth became negative in the first quarter of 2009, and is expected to remain so in the coming quarters in view of the usual lagged reaction of the labour market to the growth cycle. The rise in the unemployment rate has been relatively contained until now (from 6.9% in November 2008 to 8.0% in January 2010) as corporations have massively resorted to the reduction of overtime and the system of temporary unemployment (workers concerned retain their contract and thus are not included in unemployment statistics), which was extended temporarily to cushion the impact of the crisis. Nevertheless, a further significant increase in unemployment has to

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<sup>2 2</sup> Commission Services (2009), "Macro fiscal assessment of the April 2009 update of the Belgian Stability Programme", July 2009.

be expected (to around 10% in 2011 according to the Commission services' autumn 2009 forecast).

In this context, the Belgian economy faces a number of challenges. First and in view of the high degree of openness of the Belgian economy, it is important to ensure that Belgium will be able to reap the full benefits of the recovery of world trade. The extent to which Belgium will be able to benefit from a rebound of the world economy may be reduced as a result of its loss of competitiveness in recent years. Indeed, relative export prices have increased, especially from 2005 onwards, reflecting partly a more dynamic development of production costs in Belgium as a result of a more rapid increase in unit labour costs. The projected more rapid rise of the compensation of employees per head than labour productivity in the programme would lead to a further increase in unit labour costs. Second, Belgian exports suffer from an adverse geographical composition and a specialisation in goods with a relatively low technology content for which price competition is relatively high. Finally, the generally small size of firms and the low capacity and/or propensity of SMEs to export may contribute to the relatively weak export performance.

The second challenge relates to the fact that the crisis has had a significant impact on public finances. The general government headline deficit increased sharply to 5.9% of GDP in 2009, compared to 1.2% of GDP in 2008. In addition to the impact of the automatic stabilisers, this deterioration is due to a number of discretionary measures, including the recovery package. For 2010, the Commission services' autumn 2009 forecast projected a deficit of 5.8% of GDP. At the same time, the government debt-to-GDP ratio remained very high although the policy of achieving balanced budgets in recent years had helped to reduce the ratio until 2007. The debt ratio has started to increase again in 2008 as a result of the interventions in the financial sector. Due to the strong deterioration of the primary balance in 2009 and continued high deficits thereafter, debt is expected to continue increasing in 2010 and 2011 (to 104% of GDP according to the Commission services' autumn 2009 forecast).

On the basis of the planned 2009 deficit and debt figures notified to Eurostat in April 2009, an excessive deficit procedure was opened. The Council Decision under article 126(6) on the existence of an excessive deficit was adopted on 2 December, together with the Recommendation under article 126(7) with a view to bringing an end to the excessive deficit by 2012.

The adverse current government deficit and debt situation in combination with the above-average budgetary impact of population ageing (see section 5.2) and important contingent liabilities following the operations to stabilise the financial system, translate into a need for continued budgetary consolidation and structural reforms to ensure the long-term sustainability of public finances. These are also related to the low employment rate, in particular for older workers. Increasing the employment rate would not only have a direct positive impact on the budget, but also increase economic growth. Finally, reforms of the social security system could contain the budgetary impact of ageing.

### **3. MACROECONOMIC OUTLOOK**

Against the background of the current macroeconomic situation and the main policy challenges set out in the previous section, this section makes an assessment of the plausibility of the macroeconomic scenario underpinning the public finance projections of the programme.

According to the January 2010 update of the Stability Programme, GDP will grow by 1.1% in 2010, 1.7% in 2011 and 2.2% in 2012.<sup>3</sup> Final domestic demand is expected to increase by 1.1% 2010, 1.5% in 2011 and 2% in 2012. The change in inventories is expected to also contribute positively to growth in 2010 (0.4%). On the other hand, the contribution of net external demand to growth is projected to remain subdued (flat in 2010 and 0.2% in 2011 and 2012).

The macroeconomic scenario of the programme takes into account the effects of the stimulus package and its partial phasing out in 2010. The package included some permanent measures with a budgetary impact of 0.1% of GDP in 2009 and 0.3% of GDP as of 2010. The temporary measures amounted to around 0.3% of GDP in 2009 (i.a. the reduction of the VAT rate for residential construction and a number of labour market measures) and to 0.1% of GDP in 2010. The total withdrawal of the temporary measures in the course of 2010 is ensured as their legal basis explicitly mentions the expiration date.

Over the programme period, the output gap as recalculated by Commission services based on the information in the programme, following the commonly agreed methodology, is expected to widen slightly further in 2010 (from -2.4% in 2009 to -2.5% in 2010), before gradually declining to -2.2% in 2011 and -1.4% in 2012. This is based on potential growth in the programme as recalculated by Commission services of 1.3% on average over the period 2009-2012.

The Commission services' autumn 2009 forecast presented lower GDP growth in 2010 (0.6%). The programme's growth assumption however reflects the higher-than-expected growth in the second half of 2009. While the Commission services' forecast projected quarter-on-quarter GDP growth of 0.3% and 0.1% respectively for the third and the fourth quarter of 2009, actual growth came out at 0.7% and 0.3%. As a result, the carry-over amounts to 0.6%, compared to 0.1% in the autumn forecast. Hence, the difference between the programme's growth scenario and the Commission services' autumn 2009 forecast for 2010 appears justified taking into account the latest available information. The programme's scenario is also in line with the most recent projections of the National Bank of Belgium (projected GDP growth of 1.0%<sup>4</sup>) and more conservative than the recent forecast of the Federal Planning Bureau (projected GDP growth of 1.4%<sup>5</sup>). For 2011, the programme's growth assumption is much in line with the Commission services' autumn 2009 forecast (1.5% GDP growth). For 2012, the programme's growth assumption (2.2%) seems broadly consistent with a linear closure of the output gap by 2015.

In view of its lower growth projections, the Commission services expected a somewhat more negative output gap over the programme period (widening from -2.3% in 2009 to -2.8% in 2010 and declining to -2.4% in 2011) in spite of the Commission services' slightly lower potential growth estimates (1.1% on average over the period 200-2011).

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<sup>3</sup> The external assumptions of the programme are broadly in line with the Commission services' autumn 2009 forecast. The programme is somewhat more optimistic on world trade growth and EU growth.

<sup>4</sup> National Bank of Belgium (2009), "Projections économiques pour la Belgique – automne 2009", *Revue Economique*, December 2009.

<sup>5</sup> Federal Planning Bureau (2010), "Budget économique 2010-2011", February 2010.



**Table 2: Comparison of macroeconomic developments and forecasts**

	2009		2010		2011		2012
	COM	SP	COM	SP	COM	SP	SP
Real GDP (% change)	-2.9	-3.1	0.6	1.1	1.5	1.7	2.2
Private consumption (% change)	-1.0	-1.3	0.6	0.8	1.4	1.4	1.6
Gross fixed capital formation (% change)	-4.0	-3.7	-2.8	0.2	2.2	2.1	2.8
Exports of goods and services (% change)	-15.7	-12.0	1.4	2.3	2.8	3.6	4.7
Imports of goods and services (% change)	-14.8	-10.9	0.8	2.3	2.9	3.3	4.4
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	-1.0	-2.1	0.1	1.1	1.6	1.5	2.0
- Change in inventories	-1.0	-1.1	0.1	0.4	0.0	0.0	0.0
- Net exports	-0.9	-1.0	0.4	0	-0.1	0.2	0.2
Output gap <sup>1</sup>	-2.3	-2.4	-2.8	-2.5	-2.4	-2.2	-1.4
Employment (% change)	-0.8	-0.7	-1.4	-1.0	0.1	0.5	0.9
Unemployment rate (%)	8.2	8.2	9.9	9.4	10.3	9.6	9.5
Labour productivity (% change)	-2.1	-2.4	2.0	2.1	1.4	1.1	1.3
HICP inflation (%)	0.0	0.0	1.3	1.5	1.5	1.7	1.8
GDP deflator (% change)	1.3	1.2	1.3	1.3	1.6	1.9	1.9
Comp. of employees (per head, % change)	0.7	1.2	1.7	2.2	2.0	2.6	2.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.1	n.a.	0.4	n.a.	0.3	n.a.	n.a.
<u>Note:</u>							
<sup>1</sup> In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.							
<u>Source:</u>							
Commission services' autumn 2009 forecasts (COM); Stability programme (SP).							

As to the composition of growth, the programme's assumptions for 2010 differ rather substantially from that in the Commission services' autumn 2009 forecast. While the former expects a rather strong contribution of domestic demand and inventories, the latter assumes a significant contribution of net external demand. This difference seems to mainly follow from the programme's higher projection for investment. The programme's projection may be subject to downside risks in view of the still low capacity utilisation rate. This could entail a shift from domestic to net external demand in 2010. In 2011 on the other hand, the Commission services' autumn 2009 forecast projects a slightly larger contribution of domestic demand to GDP growth than the programme, with a possible positive impact on the budget.

On balance, the programme's growth scenario appears to be broadly plausible, while the composition of growth appears favourable in 2010.

The programme expects inflation to pick up from 0% in 2009 to 1.5% in 2010 and further to around 1¾% in 2011 and 2012. This is somewhat above the projections in the Commission services' autumn 2009 forecast. However, in the light of the latest developments in oil prices and given the somewhat more forceful recovery, the programme's projections for inflation appear to be realistic.

Employment trends initially showed relative resilience in the face of the economic slowdown, with employment declining by ¾% in 2009. In 2010, the fall in employment is projected to be larger in view of the usual lagged reaction of employment to economic growth, also reflecting the fact that employers massively resorted to the extended schemes of temporary unemployment. The programme projects a fall by 1%, while the Commission services' autumn 2009 forecast projected a reduction by 1.4%. In 2011, employment growth will still remain subdued (0.5% in the programme and 0.1% in the Commission services' autumn 2009 forecast). The differences, which also exist for the

unemployment rate, seem largely explained by the stronger projected GDP growth in the programme. Productivity is projected to recover from the sharp drop in 2009, increasing by 2% in 2010 and by 1¼% per year thereafter.

The programme projects the compensation of employees to increase by 2.2% in 2010, 2.6% in 2011 and 2.8% in 2012, markedly above expected productivity growth. The growth rates are also markedly above the Commission services' projection for Belgium (1.7% in 2010 and 2% in 2011) and its main trading partners. Hence, they appear to be on the high side even taking into account higher projected GDP growth.

#### **4. GENERAL GOVERNMENT BALANCE**

This section consists of four parts. The first three parts discuss the budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy in the programme. The final part analyses the risks attached to the budgetary targets.

##### **4.1. Budgetary implementation in 2009**

The general government deficit increased to 5.9% of GDP in 2009 from a deficit of 1.2% of GDP in 2008. The sharp increase in 2009 compared to 2008 mainly stemmed from the economic downturn (3% of GDP). This impact was moreover larger than could have been expected on the basis of standard elasticities (2¼% of GDP), in particular as certain tax items, such as corporate taxes, dwindled (-25.5% according to the programme). In addition, the stimulus packages (½% of GDP) in line with the European Economic Recovery Plan as well as previously decided expansionary measures (¾% of GDP) had a negative impact on the headline balance. Finally, a number of deficit-increasing one-offs, i.a. reflecting capital transfers to the private sector following two court decisions<sup>6</sup> and a speeding-up of the repayment to households of personal income taxes, led to a widening of the deficit by another ½% of GDP. The recovery package aimed at supporting the liquidity position and access to financing of corporations, ensuring the purchasing power of households, supporting employment and stimulating (housing) investment.

Table 3 compares the projected outcome for the general government balance, revenue and expenditure (as a percentage of GDP) in 2009 as presented in the new stability programme with the targets from the previous update of the programme. Differences between outcome and targets (excluding the impact of an unanticipated GDP developments which may have affected the ratio, referred to as the 'denominator effect') are decomposed in the impact of a different starting position (i.e. to the extent that the outcome of 2008 differed from what was anticipated in the previous programme update) and the impact of differences in the revenue / expenditure growth rate from the planned

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<sup>6</sup> First, the European Court of Justice ruled that corporate taxes had to be repaid as the Belgian 'received dividends deduction regime' was not compatible with Council Directive 90/435/EEC of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States. Second, the Belgian Constitutional Court ruled that unduly paid personal income taxes should be repaid to cohabiting and married unemployed persons to ensure equal treatment.

growth rates<sup>7</sup>. The outcome of the headline balance in 2009 was considerably (2½ pp) below the 3.4% of GDP deficit target which was set in the April 2009 update of the stability programme. There was no impact of a different starting position at the end of 2008.

The difference can be mainly attributed to a negative revenue surprise in the course of 2009, whereby actual revenue decreased by 4.2% compared to a planned increase by 0.4%. This is related to the functioning of the automatic stabilisers. GDP has declined by 3% compared to an expected drop of 1.9% in the April 2009 update of the programme. Moreover, the response of automatic stabilisers was stronger than could have been expected on the basis of standard elasticities. No further measures with an impact on the revenue side were announced after the April 2009 update of the stability programme. The negative revenue surprise amounted to 2.1% of GDP, excluding the denominator effect.

Expenditure in turn developed broadly in line with the planned rate, increasing by 5.3% compared to a planned growth rate of 4.9%. The negative expenditure surprise thus amounted to only 0.5% of GDP excluding the denominator effect, which is entirely explained by the unanticipated one-offs on the expenditure side. The additional stimulus measures that the government has taken after the submission of the programme in April 2009 (0.1% of GDP), with an impact mainly on the expenditure side, thus seem to have been compensated by expenditure restraint in other areas.

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<sup>7</sup> Mathematically, the difference in the revenue ratio in Table 3 can be expressed as:

$$\rho^o - \rho^p = \underbrace{\frac{1+r^p}{1+g^p} \Delta \rho_{-1}}_{\text{Base effect}} + \underbrace{\frac{\rho_{-1}^o}{(1+g^o)(1+g^p)} \Delta r}_{\text{Revenue growth effect}} - \underbrace{\frac{\rho_{-1}^o}{(1+g^o)(1+g^p)} \Delta g}_{\text{Denominator effect}} + \underbrace{\frac{\rho_{-1}^o (r^o g^p - r^p g^o)}{(1+g^o)(1+g^p)}}_{\text{Residual}}$$

where r is the growth rate of revenue and g is the growth rate of GDP. The subscript -1 refers to the previous year's value. Superscripts o and p refer to the outcome and the planned value respectively. Similar for the expenditure ratio.

**Table 3: Budgetary implementation in 2009**

	2008		2009	
	Planned	Outcome	Planned	Outcome
	SP Apr 2009	SP Jan 2010	SP Apr 2009	SP Jan 2010
Government balance (% of GDP)	-1.2	-1.2	-3.4	-5.9
Difference compared to target <sup>1</sup>	0.0		-2.5	
<b>Difference excluding denominator effect <sup>1,2</sup></b>			<b>-2.6</b>	
<i>Of which:</i> due to a different starting position end 2008			0.0	
due to different revenue / expenditure growth in 2009			-2.5	
p.m. Residual <sup>3</sup>			-0.1	
<i>p.m. Nominal GDP growth (planned and outcome)</i>			1.2	-2.0
Revenue (% of GDP)	48.6	48.8	48.2	47.7
Revenue surprise compared to target <sup>1</sup>	0.2		-0.5	
<b>Revenue surprise excluding denominator effect <sup>1,2</sup></b>			<b>-2.1</b>	
<i>Of which:</i> due to a different starting position end 2008			0.2	
due to different revenue growth in 2009			-2.3	
p.m. Residual <sup>3</sup>			0.0	
<i>p.m. Revenue growth rate (planned and outcome)</i>			0.4	-4.2
Expenditure (% of GDP)	49.8	50.0	51.6	53.7
Expenditure surprise compared to target <sup>1</sup>	-0.2		-2.1	
<b>Expenditure surprise excluding denominator effect <sup>1,2</sup></b>			<b>-0.5</b>	
<i>Of which:</i> due to different starting position end 2008			-0.2	
due to different expenditure growth rate in 2009			-0.2	
p.m. Residual <sup>3</sup>			-0.1	
<i>p.m. Expenditure growth rate (planned and outcome)</i>			4.9	5.3
<b>Notes:</b>				
<sup>1</sup> A positive number implies that the outcome was better (in terms of government balance) than planned.				
<sup>2</sup> The denominator effect captures the mechanical effect that, if GDP turns out higher than planned, the ratio of revenue or expenditure to GDP will fall because of a higher denominator. Although the denominator effect can be very significant for revenue and				
<sup>3</sup> The decomposition leaves a small residual that cannot be assigned to the previous components. The residual is generally small, except in some cases where planned and actual growth rates of revenue, expenditure and GDP differ significantly.				
<i>Source: Commission services</i>				

**Box 1: The excessive deficit procedure (EDP) for Belgium**

The Commission launched the EDP for Belgium on the basis of the planned general government deficit of 3.4% for 2009, notified to Eurostat in April 2009. The Commission issued its report in accordance with Article 104(3) on 7 October 2009. On 2 December 2009, the Council adopted a decision stating that Belgium had an excessive deficit in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU). At the same time, the Council addressed a recommendation under Article 126(7) TFEU specifying that the excessive deficit should be corrected by 2012.

In particular, Belgium was recommended to 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. Belgium was recommended to 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. Belgium was also recommended to specify the measures that are necessary to achieve the correction of the excessive deficit by 2012, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected. Belgium also had to strengthen monitoring mechanisms to ensure that fiscal targets are respected. In addition, the Belgian authorities were recommended to seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. The Council established the deadline of 2 June 2010 for the Belgian government to take effective action to

implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010 and to outline in some detail the strategy that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared to the economic outlook in the Commission services' autumn 2009 forecast. Finally, the Belgian authorities should report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes between 2009 and 2012.

#### **4.2. The programme's budgetary strategy for 2010**

The programme targets a general government deficit of 4.8% of GDP in 2010, compared to a deficit of 5.9% of GDP in 2009. This target is more ambitious than the deficit included in the federal budget for 2010 (5.6% of GDP). This is explained by the more favourable macroeconomic environment (GDP growth of 1.1% instead of 0.4%) and the fact that the federal budget figure did not yet include the consolidation plans of the other government tiers.<sup>8</sup> Specifically, consolidation measures amounting to almost ½% of GDP decided by other government tiers were not yet included in the federal budget.

The target includes the impact of the measures foreseen in the budget for 2010 adopted by the Parliament on 22 December 2009 as well as the measures included in the budgets of the Regions and the Communities. These consist of consolidation measures amounting to 1% of GDP and a limited number of new expansionary measures (0.1% of GDP). The overall impact of the stimulus on the general government balance in 2010 remains at ½% of GDP, mainly because the package includes a number of permanent measures (of which the budgetary impact amounts to 0.3% of GDP in 2010 compared to 0.1% of GDP in 2009) but also as a result of the prolongation of some temporary measures into 2010, in particular the reduction of the VAT rate for residential construction and the extension of the temporary unemployment schemes. The impact of temporary measures nevertheless decreases from 0.4% of GDP in 2009 to 0.1% of GDP in 2010, and those measures are phased out in the course of 2010. The use of one-offs in the 2010 budget remains very limited (below 0.1% of GDP).

The revenue ratio is planned to increase to 49.1% of GDP, after a significant drop from 48.8% of GDP to 47.7% of GDP in 2009. Expenditure is set to further increase slightly, to 53.9% of GDP, after the strong rise in 2009 from 50% to 53.7% of GDP. Half of the planned increase in expenditure in 2010 stems from the expected rise in interest expenditure (0.1% of GDP). While the planned development of expenditure is broadly in line with the Commission services' autumn 2009 forecast, the planned increase in revenue is substantially higher than the Commission services' forecast. This almost entirely reflects the programme's higher planned taxes on income and wealth.

According to the programme, the entire increase in the programme's revenue ratio in 2010 stems from higher income and wealth taxes (16.3% of GDP compared to 15% 2009). The rise of the revenue ratio is the result of net consolidation measures on the revenue side amounting to 0.5% of GDP as well as a strong pick-up of revenue as a result of the cycle and technical factors.<sup>9</sup> The consolidation measures on the revenue side

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<sup>8</sup> The federal 2010 budget uses the indicative and larger deficit figures provided in the September 2009 complement to the April 2009 stability programme for the other government tiers.

<sup>9</sup> The latter include (i) the fact that the faster repayment of personal income taxes to households had a temporary negative impact on revenue in that year, and (ii) the strong rebound of corporate tax revenue after the sharp drop in 2010, reflecting the amplifying impact of the "notional interest rate deduction" scheme. The notional interest deduction allows corporations to calculate a fictitious interest cost on

amount to 0.6% of GDP and comprise a reduction of the "work bonus" in Flanders (i.e. an increase in personal income taxes), an increase in excise duties, higher corporate taxes, as well as non-fiscal revenues stemming from the banking sector and the producers of nuclear energy. On the other hand, the government took a number of expansionary measures (0.1% of GDP), in particular a reduction of the VAT rate for meals in restaurants.

On the expenditure side, government consumption is planned to slightly decrease as a percentage of GDP (from 16.7 to 16.5%). Also "other expenditure" is set to decline after an exceptionally high level in 2009, i.a. reflecting the impact of the above-mentioned one-offs. On the other hand, social benefits and, to a lesser extent, subsidies continue to rise, in part reflecting the continued rise in unemployment. The planned consolidation measures amount to 0.3% of GDP and include reductions in intermediate consumption and the compensation of employees, and some limited savings in the social security system.

The programme moreover mentions (p. 19) that the federal government has taken additional measures to ensure the achievement of the targets in the stability programme. These include for instance the commitment to propose a reform of the pension system of civil servants of local governments. The programme however does not provide more details, and it is impossible to assess their budgetary impact at the current juncture. The programme also mentions that, in order to ensure the achievement of the targets, more regular budget control exercises will be held. In addition, at the federal level, new measures with a negative budgetary impact will not be accepted as a rule. If in exceptional circumstances, the government would agree to a measure with a negative budgetary impact, it should be compensated by comparable savings measures of the same magnitude.

**Table 4. Main budgetary measures for 2010**

Revenue measures <sup>1</sup>	Expenditure measures <sup>2</sup>
Reduction of the work bonus in the Flemish Region (0.2% of GDP)	Expenditure restraint by the federal government (-0.1% of GDP)
Increase in excise duties (0.1% of GDP)	Expenditure restraint by the Flemish government (-0.1% of GDP)
Contribution of nuclear energy producers (0.1% of GDP)	
Several increases in corporate taxes (0.1% of GDP)	
Reduction of VAT rate for meals in restaurants (-0.1% of GDP)	
Notes:	
<sup>1</sup> Estimated impact on general government revenue	
<sup>2</sup> Estimated impact on general government expenditure	
<i>Source: Commission services and budget documents from the different government tiers.</i>	

their equity capital which can be deducted from the tax base, in the same way as interest payments on debt funding are traditionally deducted.

The programme foresees the improvement of the headline balance from 5.9% to 4.8% of GDP in 2010 to be realised mainly by the federal government. Indeed, the deficit of the federal government is planned to decline by 1% of GDP in 2010, to 3.3% of GDP. This improvement results from a projected strong increase in (tax) revenue, also as a result of consolidation measures in the 2010 budget (0.5% of GDP). The transfers to other government tiers, in particular the Regions and the Communities and the social security system would stabilise. The improvement of the deficit of the federal government should be achieved in spite of the planned significant increase in expenditure as a result of an exceptional grant to the social security system of  $\frac{3}{4}$ % of GDP. The deficit of the social security system will also slightly decline, from 0.8% to 0.5% of GDP, but this is largely due to the above-mentioned grant from the federal government as expenditure continues to rise strongly. The balance of the Regions and the Communities is planned to remain stable, at -0.6% of GDP, in spite of the consolidation foreseen in their 2010 budgets. This is mainly the result of the lagged drop in financing received from the federal level. Finally, the balance of the local governments is set to deteriorate from -0.2% to -0.4% of GDP.

The recalculated structural adjustment according to the programme amounts to  $\frac{1}{4}$ % of GDP, which is significantly lower than the recommended average annual structural adjustment in the recommendation under Article 126(7) ( $\frac{3}{4}$ % of GDP). However, the programme classified some of the temporary stimulus measures taken in the framework of the EERP (0.2% of GDP) as one-offs, as a result of which their withdrawal in 2010 is not included in the fiscal effort. According to the Commission services' methodology, the withdrawal of the stimulus package should be counted as part of the fiscal consolidation. Taking this into account, the adjustment would be  $\frac{1}{2}$ % of GDP. This is far better than the  $\frac{1}{4}$ % of GDP deterioration of the structural balance in the September 2009 complement to the April 2009 update of the stability programme, which was the basis of the recommendation under Article 126(7), and should be seen against the still rather fragile economy.

On the basis of currently available information, the budget target for 2010 included in the programme, taken at face value, and the measures underpinning this target thus would be consistent with the latest recommendations under Article 126(7) TFEU regarding 2010.

The impact of discretionary measures and automatic stabilisers ("bottom-up approach") is considerably higher (0.9% of GDP) than the planned stance of fiscal policy as measured by the change in the (recalculated) structural balance ("top-down approach") of  $\frac{1}{2}$ % of GDP. This is mainly related to the continued negative impact of the economic cycle on the budget (in particular the lagged reaction of unemployment to the decline in GDP in 2009), the expansionary trend expenditure growth related to previous government decisions, and the impact of population ageing.

#### **4.3. The programme's medium-term budgetary strategy**

This section describes the medium-term budgetary strategy outlined in the programme - and how it compares with the one in the previous update - as well as the composition of the budgetary adjustment, including the broad measures envisaged.

The main goal of the programme's medium-term budgetary strategy is to correct the excessive deficit by 2012 and to achieve a balanced budget, both in nominal and structural terms, by 2015. To this end the programme foresees an improvement of the headline deficit from 5.9% of GDP in 2009 to 4.8% in 2010, 4.1% in 2011 and 3% in 2012. The primary balance shows a slightly stronger improvement as interest expenditure is planned to rise by 0.2% of GDP over the programme period.

As this period is characterised by above-potential GDP growth, the adjustment in structural terms is smaller than the improvement of the headline balance. The structural deficit, as recalculated by Commission services based on the information in the programme following the commonly agreed methodology, improves from 3.8% of GDP in 2009 to 3.4% of GDP in 2010, 2.9% of GDP in 2011 and 2.2% of GDP in 2012. The adjustment amounts to ½% of GDP in 2010 (taking into account the withdrawal of some temporary stimulus measures that were classified as one-offs in the programme) and 2011 and increases to ¾% of GDP in 2012, thus amounting on average to ½% of GDP per year over the programme period. The adjustment appears to be somewhat back-loaded.

The planned average adjustment is somewhat below the recommended average effort of ¾% of GDP. This is due to the fact that the planned correction by 2012 is based on a better macroeconomic environment than in the Commission services' autumn 2009 forecast, on which the recommendations under Article 126(7) TFEU were based. Hence, the budgetary targets taken at face value would be broadly in line with the latest EDP recommendations, in particular with the correction of the excessive deficit by 2012, but the achievement of the 2012 deadline depends on a slightly lower average structural effort and somewhat more on the cyclical component.

Belgium's medium term objective (MTO) is a structural surplus of 0.5% of GDP (see Box 2). The programme does not mention a target year for achieving the MTO.

#### **Box 2: The medium-term objective (MTO) for Belgium**

As noted in the Code of Conduct<sup>10</sup>, the MTO aims to (a) provide a safety margin with respect to the 3% of GDP deficit limit; (b) ensure rapid progress towards fiscal sustainability; and (c) allow room for budgetary manoeuvre, in particular taking into account the needs for public investment. The MTO is defined in cyclically adjusted terms, net of one-off and other temporary measures. On 7 July 2009, the ECOFIN Council took note of a new methodology for setting MTOs, ensuring that implicit liabilities (costs related to ageing populations, in particular projected healthcare and pension expenditure) are also accounted for.

Specifically, the country-specific MTOs should take into account three components: (i) the debt-stabilising balance for a debt ratio equal to the 60% reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; (ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the 60% reference value, implying rapid progress towards it; and (iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure. This implies a partial frontloading of the budgetary cost of ageing irrespective of the current level of debt. In addition to these criteria, MTOs should provide a safety margin with respect to the 3% of GDP deficit reference value and, for euro area and ERM II Member States, in any case not exceeding a deficit of 1% of GDP.

As communicated by the authorities, the MTO of Belgium is a surplus of 0.5% of GDP. In view of the new methodology and given the most recent projections and debt level, the MTO reflects the objectives of the Pact.

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<sup>10</sup> "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council on 10 November 2009, available at: [http://ec.europa.eu/economy\\_finance/sgp/legal\\_texts/index\\_en.htm](http://ec.europa.eu/economy_finance/sgp/legal_texts/index_en.htm)



**Table 5: Composition of the budgetary adjustment**

(% of GDP)	2008	2009		2010		2011		2012	Change: 2009-2012
	COM	COM	SP	COM	SP	COM <sup>1</sup>	SP	SP	SP
<b>Revenue</b>	<b>48.8</b>	<b>47.7</b>	<b>47.7</b>	<b>48.0</b>	<b>49.1</b>	<b>48.2</b>	<b>49.5</b>	<b>49.8</b>	<b>2.1</b>
<i>of which:</i>									
- Taxes on production and imports	12.6	12.2	12.4	12.3	12.4	12.4	12.4	12.4	0.0
- Current taxes on income, wealth, etc.	16.6	15.2	15.0	15.5	16.3	15.7	16.4	16.6	1.6
- Social contributions	16.1	16.5	16.7	16.2	16.6	16.1	16.5	16.6	-0.1
- Other (residual)	3.6	3.9	3.6	4.0	3.8	4.0	4.2	4.2	0.6
<b>Expenditure</b>	<b>50.0</b>	<b>53.6</b>	<b>53.7</b>	<b>53.8</b>	<b>53.9</b>	<b>54.0</b>	<b>53.6</b>	<b>52.8</b>	<b>-0.9</b>
<i>of which:</i>									
- Primary expenditure	46.2	49.7	50.1	49.8	50.2	49.9	49.9	49.0	-1.1
<i>of which:</i>									
Compensation of employees and intermediate consumption	15.7	16.5	16.7	16.4	16.5	16.2	16.1	15.7	-1.0
Social payments	23.3	25.2	25.3	25.8	25.8	26.0	25.9	25.7	0.4
Subsidies	2.1	2.3	2.1	2.4	2.3	2.4	2.4	2.2	0.1
Gross fixed capital formation	1.7	1.8	1.7	1.9	1.7	2.0	1.8	1.9	0.2
Other (residual)	3.5	4.0	4.2	3.3	3.8	3.3	3.7	3.6	-0.6
- Interest expenditure	3.8	3.9	3.6	4.0	3.7	4.1	3.7	3.8	0.2
<b>General government balance (GGB)</b>	<b>-1.2</b>	<b>-5.9</b>	<b>-5.9</b>	<b>-5.8</b>	<b>-4.8</b>	<b>-5.8</b>	<b>-4.1</b>	<b>-3.0</b>	<b>2.9</b>
<b>Primary balance</b>	<b>2.6</b>	<b>-2.0</b>	<b>-2.3</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-1.7</b>	<b>-0.4</b>	<b>0.8</b>	<b>3.1</b>
One-off and other temporary measures	0.1	-0.5	-0.8	0.1	0.0	0.0	0.0	0.0	0.8
<b>GGB excl. one-offs</b>	<b>-1.3</b>	<b>-5.4</b>	<b>-5.1</b>	<b>-5.9</b>	<b>-4.8</b>	<b>-5.8</b>	<b>-4.1</b>	<b>-3.0</b>	<b>2.1</b>
Output gap <sup>2</sup>	1.7	-2.3	-2.4	-2.8	-2.5	-2.4	-2.2	-1.4	1.0
Cyclically-adjusted balance <sup>2</sup>	-2.1	-4.6	-4.6	-4.3	-3.4	-4.5	-2.9	-2.2	2.4
<b>Structural balance<sup>3</sup></b>	<b>-2.2</b>	<b>-4.2</b>	<b>-3.8</b>	<b>-4.4</b>	<b>-3.4</b>	<b>-4.5</b>	<b>-2.9</b>	<b>-2.2</b>	<b>1.6</b>
<i>Change in structural balance</i>		-2.0	-1.6	-0.2	0.3	-0.1	0.5	0.7	
Structural primary balance <sup>3</sup>	1.6	-0.3	-0.2	-0.4	0.3	-0.4	0.8	1.6	1.8
<i>Change in structural primary balance</i>		-1.8	-1.8	-0.1	0.4	0.0	0.5	0.8	
<b>Notes:</b>									
<sup>1</sup> On a no-policy-change basis.									
<sup>2</sup> Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.									
<sup>3</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.									
<i>Source:</i>									
Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations.									

The programme plans to achieve the total reduction of the headline deficit by 2.9% of GDP over the period from 2009 to 2012 mainly through a reduction in the deficit of the federal government (from 4.3% of GDP in 2009 to 2.6% of GDP in 2012). The contribution of the social security system to the overall improvement would amount to 0.8% of GDP, leading to a balanced social security budget in 2012. The Regions and Communities from their side should reduce their deficit by 0.4% of GDP, to 0.2% of GDP in 2012. Finally, the deficit of the local governments is planned to remain stable at 0.2% of GDP.

This division of the effort is based on the federal budget for 2010 and 2011<sup>11</sup> and the targets announced by the other government tiers for the period up to 2012<sup>12</sup>. For 2010,

<sup>11</sup> The federal government took up in its budget for 2010 a number of elements, including the further impact of the measures that will enter into force in (the course of) 2010 as well as some additional measures, underpinning the 2011 budget target of the federal government.

<sup>12</sup> These in particular reflect the budget targets put forward in the coalition agreements of the different Regions and Communities, but these do not specify new measures beyond 2010.

these targets for the different government tiers have been formalised in a so-called "cooperation agreement". While such agreements were often concluded in the past, the previous agreement dated back already to the year 2000. The current agreement not only fixes the targets of the different government tiers, but also of the individual governments. The programme announces that another agreement will be finalised shortly, covering the years 2011 and 2012.

The consolidation path is mainly based on an increase in the revenue-to-GDP ratio from 47.7% of GDP in 2009 to 49.8% of GDP in 2012. These revenue targets are significantly higher than the Commission services' projections in its autumn 2009 forecast. In addition to the factors cited in Section 4.2 regarding 2010 (the better macroeconomic environment and higher tax elasticity assumptions, in particular for corporate taxes), this mainly reflects the fact that the measures underlying the programme's targets for 2011 and 2012 have not been fully specified and to a more limited extent the different macroeconomic assumptions (in particular higher wage growth in the programme).

The planned adjustment on the revenue side mainly results from a rise of taxes on income and wealth and to a more limited extent from a rise in "other revenue". The other revenue categories remain broadly unchanged. The rise in income and wealth taxes reflects, in addition to the impact of macroeconomic variables (such as the development of employment, wages, corporate profits and asset prices) and the authorities' assessment of the development of tax elasticities, also the planned discretionary measures. These have only been specified to a limited extent however. The federal government has mentioned in its 2010 budget the planned additional budgetary impact in 2011 of measures that enter into force in the course of 2010. For many of the measures on the revenue side, this impact is planned to increase in 2011 (positive impact of 0.3% of GDP). This in particular goes for the rise in excise duties, the contribution from the financial sector and the enhanced fight against fraud. Moreover, there will be no impact any more of the temporary stimulus measures (positive impact of below 0.1% of GDP). For the other government tiers, no information on the measures underpinning the targets is available.

The expenditure ratio is planned to fall from 53.7% of GDP in 2009 to 52.8% of GDP in 2012, still markedly above the level recorded in 2008 (50% of GDP). The programme's expenditure ratio for 2010 is in line with the Commission services' autumn 2009 forecast, but that for 2011 is somewhat lower. This is due to the fact that the programme's target for 2011 is partly based on currently unspecified measures, which are spread over the different primary expenditure categories. In 2012, the expenditure ratio is planned to decline by a further 0.8% of GDP, also based on unspecified measures. According to the programme, compensation of employees and intermediate consumption should fall, while social payments are planned to further increase, partly as a result of previously decided measures and population ageing, and, to a lesser extent, higher investment, subsidies and interest expenditure. The government does not plan one-off measures to achieve the budgetary targets in 2011 and 2012.

Compared to the previous update (i.e. the September 2009 complement to the April 2009 update), the consolidation path is more ambitious as the government now plans to correct the excessive deficit by 2012, compared to 2013 in the previous update. The headline targets are more ambitious for all years of the programme period. As to the composition of the adjustment, the additional effort is equally spread over revenue and expenditure, with the understanding that the additional effort on the expenditure side partly reflects a smaller increase in interest expenditure in the current programme

The programme also mentions that additional measures would be taken in case this would be needed to achieve the targets and that a reform of the pension system is currently being prepared.

#### 4.4. Risk assessment

This section discusses the plausibility of the programme's budgetary projections by analysing various risk factors. For the period until 2011, Table 5 compares the detailed revenue and expenditure projections in the Commission services' autumn 2009 forecast, which are derived under a no-policy change scenario, with those in the updated programme. However, although the assessment uses the Commission services' forecast as a benchmark, it also takes explicitly into account all available information about more recent developments.

Regarding 2010, the 4.8% of GDP target is significantly better than the 5.8% of GDP deficit projection in the Commission services' autumn 2009 forecast. Taking into account most recent information, a large part of the difference is explained by the improved growth prospects (around 0.3% of GDP), the better specification of some planned measures (0.2% of GDP) and lower interest expenditure (0.1% of GDP). There however remains a gap of over ¼% of GDP, which may require additional measures which are not yet specified.

The gap seems to be situated mainly in the programme's higher planned taxes on income and revenue, possibly related to the Commission services' more conservative assessment of corporate tax revenue. According to the 2010 federal budget, taxes paid by corporations would increase by almost 30%, while the Commission services forecasted a rise by 8.5% in a context of an increase in corporations' gross operating surplus by 4.7%. The difference seems to be too large to be only explained by divergent underlying assumptions on corporate profitability. A considerable rebound of corporate tax revenue in 2010 cannot be discarded at this stage in view of the exceptional strong drop in 2009<sup>13</sup>, which reflected i.a. the interplay between significantly lower profits and a more or less stable tax deduction following the "notional interest rate deduction" scheme<sup>14</sup>. Still, some caution is warranted regarding the development of this tax category in 2010 and beyond, also because corporations are allowed to carry forward past losses and the impact of the notional interest rate deduction is difficult to predict. Hence, the optimistic assumption regarding corporate tax elasticities constitutes a negative risk to government revenue in 2010.

For 2011 and 2012, the main risk is related to the fact that the measures underpinning the targets are not sufficiently specified. This is confirmed by the Commission services' autumn 2009 forecast, which projects a headline deficit of 5.8% of GDP in 2011, compared to a target of 4.1% of GDP. Of course, the better starting position would lead to a lower deficit in 2011 under unchanged policy, but there would still remain a gap with the programme's target, which could be roughly estimated at around ½% of GDP (assuming that the 2010 target is not achieved on the back of one-off measures). For 2012, this gap would further widen in the absence of specified measures. This is all the more important as the structural adjustment is the highest in 2012 and thus considerable additional measures are required in that year (in particular on the expenditure side).

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<sup>13</sup> The fall in corporate tax revenue would amount to 25.5% according to the programme.

<sup>14</sup> The notional interest deduction allows corporations to calculate a fictitious interest cost on their equity capital which can be deducted from the tax base, in the same way as interest payments on debt funding are traditionally deducted.

Hence, there is a need to specify the underlying measures for those years in order to ensure the achievement of the targets.

The forecast under unchanged policy from the High Finance Council, based on the projections from the Federal Planning Bureau, confirms these gaps between the programme's targets and the projections under unchanged policy. Specifically, the High Finance Council<sup>15</sup> projects a deficit of 5.4% of GDP in 2010, 5.5% of GDP in 2011 and 5.7% of GDP in 2012.<sup>16</sup>

An additional risk to the budgetary targets stems from the somewhat favourable macroeconomic scenario. In particular, the programme includes high projections for wage growth (compared to productivity increases) over the entire programme period. This could lead to worse outcomes of the headline targets and may impede the correction of the excessive deficit by 2012 in the absence of additional corrective measures. The government however committed to take additional and exceptional measures in order to achieve the targets in case the macroeconomic environment would be worse than anticipated in the programme (with the exception of a double-dip scenario, whereby current growth proves unsustainable).

Another risk relates to the fact that to stabilise the financial system, the Belgian government adopted a number of measures. First, it provided capital injections to four major financial institutions, amounting to around 6% of GDP. Second, it provided guarantees for future losses which banks may potentially incur on their portfolios of risky assets (almost 10% of GDP). Third, the government set up a scheme to guarantee, upon demand and under certain conditions, wholesale and interbank debt issued by banks. To date, one bank has applied and currently enjoys a guarantee for a maximum amount of EUR 60.5 billion (17% of GDP), of which less than 50% is currently used. Finally, the Belgian government offered a guarantee for all private bank deposits up to EUR 100 000 and extended it to certain insurance products, also in exchange for a fee. The measures involving guarantees pose a significant indirect risk for the general government balance and debt, if these were to be extensively called upon. The recapitalisation measures are already included in the debt figures, but could in the future negatively affect the general government balance if the invested amounts would not be fully recovered. The institutions nevertheless pay a fee in return for the financial support and the currently expected budgetary impact in 2010 and 2011 will be positive for around 0.1% of GDP as the expected fees and dividends paid by banks (around 0.3% per year) will exceed the additional interest expenditure (around 0.2% of GDP).

Finally, there are risks related to the fact that the path is to some extent back-loaded, and that the target of 3% of GDP in 2012 leaves no margin, in particular given that the Belgian authorities have a mixed track record in achieving budgetary targets. In particular, the Belgian authorities have in subsequent programme updates postponed the realisation of headline surpluses (see Figure 2 in Annex 2). In particular, the target has not been reached in 2007 in spite of the good macroeconomic environment and also in 2008 part of the slippage could have been avoided. In 2009 on the other hand, it was impossible to stick to the initial target in view of the unexpectedly strong deterioration of the economic environment, but the government seems to have been successful in containing the deficit in spite of particularly strong automatic stabilisers and the

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<sup>15</sup> High Finance Council (2010), "Evaluation 2008-2009 et trajectoires budgétaires en préparation au prochain Programme de Stabilité", January 2010.

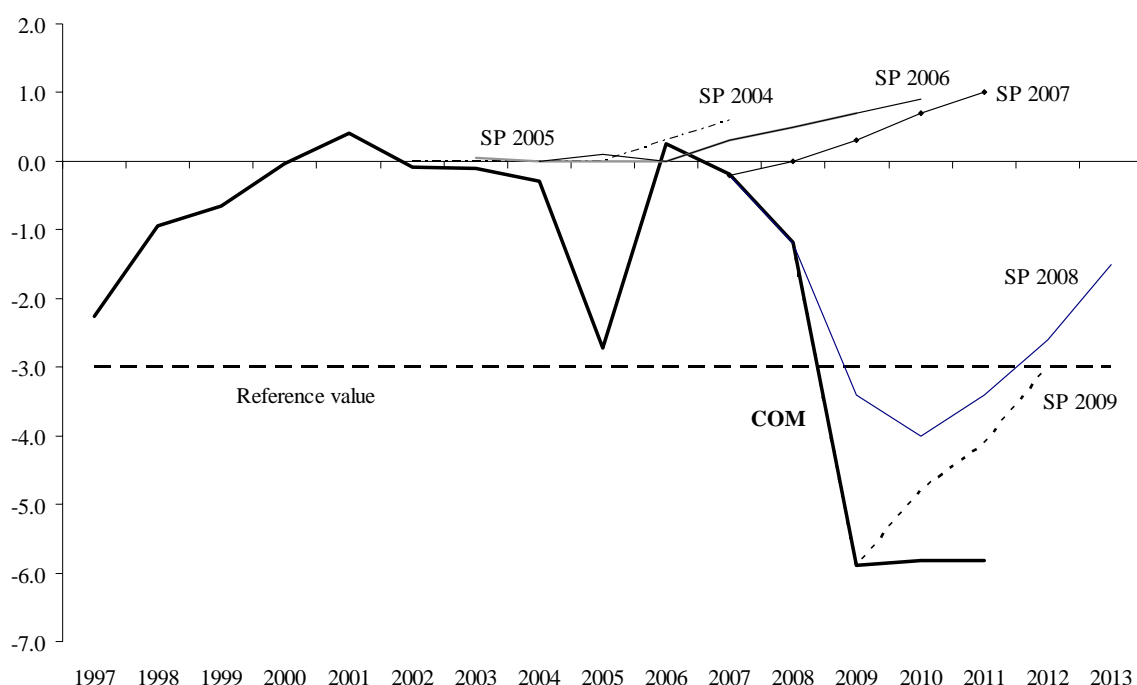
<sup>16</sup> However, these projections do not take into account all recent information and therefore are somewhat too pessimistic.

implementation of the measures taken in the framework of the European Economic Recovery Programme. A more front-loaded path could better ensure that the deficit is brought below the 3% of GDP threshold by 2012.

Going forward, the commitment to have regular and stringent budget control exercises to ensure that the targets are met as well as the decision not to take additional expansionary measures at the federal level should be implemented rigorously in order to help ensuring that the targets are achieved. Another important factor to assure the achievement of the targets by all governments is the planned conclusion of the formal "cooperation agreement" between the different governments. This intention would fix the individual targets for the period 2011-2012, although no enforcement mechanisms are foreseen.

Overall, there is some risk that the budgetary outcomes will be worse than targeted in the programme. This is especially the case as from 2011, mainly because the measures backing the target for 2011 are only partly specified and no measures have been specified for 2012.

**Figure 1: Government balance projections in successive programmes (% of GDP)**



*Source: Commission services' autumn 2009 forecast (COM) and successive stability programmes*

## 5. GOVERNMENT DEBT AND LONG-TERM SUSTAINABILITY

This section is in two parts. A first part describes recent debt developments and medium-term prospects, including risks to the outlook presented in the programme. A second part takes a longer-term perspective with the aim of assessing the long-term sustainability of public finances.

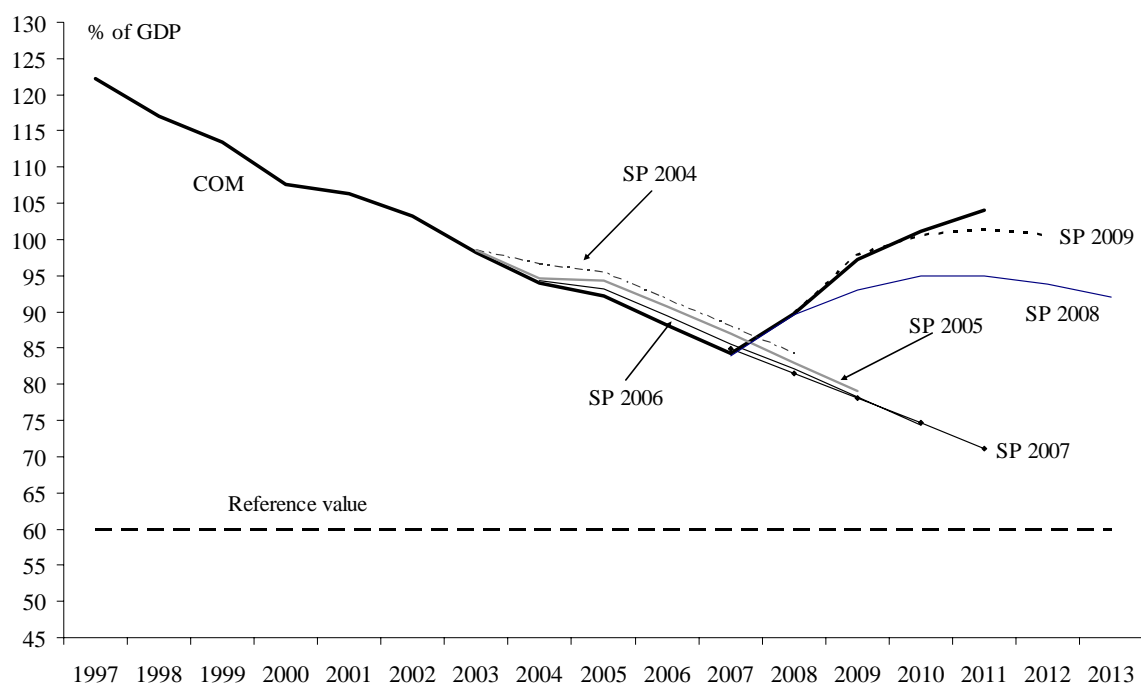
## 5.1. Recent debt developments and medium-term prospects

### 5.1.1. Debt projections in the programme

The Belgian debt ratio was on a steady downward path between 1993 (134% of GDP) and 2007 (84.9% of GDP).<sup>17</sup> This substantial decline was mainly possible thanks to high – though decreasing – primary surpluses. The reduction of the debt ratio also benefited from declining interest expenditure. In 2008, the debt ratio increased as a result of the operations to stabilise the financial system, which amounted to more than 6% of GDP and led to a significant stock-flow adjustment. In 2009, the debt ratio increased further to 97.9%, which was mainly attributable to a negative primary balance in combination with a contraction of nominal GDP.

The updated stability programme expects the debt ratio to rise further to around 100% of GDP in 2010 and thereafter stabilise broadly at that level. The latter is expected on the back of gradual improvements in macroeconomic conditions and in the primary balance.

**Figure 2: Debt projections in successive programmes (% of GDP)**



Source: Commission services' autumn 2009 forecast (COM) and successive stability programmes

<sup>17</sup> The assumption of the national railway company's debt in 2005 caused a temporary slowdown of the downward trend.

**Table 6: Debt dynamics**

(% of GDP)	average 2003-07	2008	2009		2010		2011		2012
			COM	SP	COM	SP	COM	SP	SP
<b>Gross debt ratio<sup>1</sup></b>	<b>91.3</b>	<b>89.8</b>	<b>97.2</b>	<b>97.9</b>	<b>101.2</b>	<b>100.6</b>	<b>104.0</b>	<b>101.4</b>	<b>100.6</b>
Change in the ratio	-3.8	5.6	7.3	8.1	4.0	2.7	2.8	0.8	-0.8
<i>Contributions<sup>2</sup>:</i>									
<b>1. Primary balance</b>	<b>-3.8</b>	<b>-2.6</b>	<b>2.0</b>	<b>2.3</b>	<b>1.8</b>	<b>1.1</b>	<b>1.7</b>	<b>0.4</b>	<b>-0.8</b>
<b>2. “Snow-ball” effect</b>	<b>0.3</b>	<b>1.4</b>	<b>5.4</b>	<b>5.4</b>	<b>2.2</b>	<b>1.4</b>	<b>1.1</b>	<b>0.2</b>	<b>-0.2</b>
<i>Of which:</i>									
Interest expenditure	4.4	3.8	3.9	3.6	4.0	3.7	4.1	3.7	3.8
Growth effect	-2.1	-0.8	2.7	2.8	-0.5	-1.1	-1.5	-1.7	-2.1
Inflation effect	-2.0	-1.5	-1.2	-1.0	-1.3	-1.2	-1.6	-1.8	-1.8
<b>3. Stock-flow adjustment</b>	<b>-0.3</b>	<b>6.8</b>	<b>-0.1</b>	<b>0.3</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>
<i>Of which:</i>									
Cash/accruals diff.	0.2	0.5		n.a.		n.a.		n.a.	n.a.
Acc. financial assets	-0.5	6.4		n.a.		n.a.		n.a.	n.a.
<i>Privatisation</i>	-0.1	0.0		n.a.		n.a.		n.a.	n.a.
Val. effect & residual	-0.1	-0.1		n.a.		n.a.		n.a.	n.a.

Notes:

<sup>1</sup>End of period.

<sup>2</sup>The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

*Source:*  
Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations

### 5.1.2. Assessment

The debt ratio in 2009 came out slightly higher than projected in the Commission services' autumn 2009 forecast, mainly reflecting the larger contraction of nominal GDP in the programme. For 2010 and 2011, the programme plans lower debt-to-GDP ratios than those projected by the Commission services. This is explained by the programme's higher nominal GDP growth as well as its smaller deficit targets compared to the Commission services' projections, which are made under the unchanged policy assumption.

The risks related to the budgetary targets as mentioned in section 4.4 also constitute a risk for the debt targets. Moreover, the Belgian government retains considerable contingent liabilities related to the guarantees provided to banks, amounting to almost one quarter of GDP. On the other hand, the government commits to use any cash inflows stemming from future sales of its participations in financial institutions to reduce the debt-to-GDP ratio. Risks related to the possible need for additional support to the financial sector appear limited at the current juncture.

## 5.2. Long-term debt projections and the sustainability of public finances

### 5.2.1. Long-term debt projections and the sustainability of public finances

This section presents sustainability indicators based on the long-term age-related government spending as projected by the Member States and the EPC in 2009 according to an agreed methodology<sup>18</sup>.

Table 7 shows that age-related spending is projected to rise by 6.6 percentage points of GDP between 2010 and 2060, clearly above the EU average (4.6 p.p.). Sustainability indicators for two scenarios are presented in Table 8; 'the 2009 scenario' is based on a no-policy-change assumption and the 2009 structural primary balance as a starting year, while 'the programme scenario' takes into account the consolidation planned in the programme up to 2012 and is based on the projected 2012 structural primary balance as a starting position. Including the increase of age-related expenditure and assuming that the structural primary balance remained at its 2009 level, the sustainability gap (S2)<sup>19</sup> would amount to 6.5% of GDP; about 1½ percentage points more than in last year's assessment. This is due to a lower estimated structural primary balance in the starting year. In addition, the rise in age-related expenditure is also higher in the 2009 projections than in the previous ones. The starting budgetary position is not sufficient to stabilise the debt ratio over the long-term and entails a risk of unsustainable public finances even before considering the long-term budgetary impact of ageing.

In contrast to the "2009 scenario", the "programme scenario" shows a smaller gap. If the budgetary consolidation planned in the programme was achieved, risks to long-term sustainability of public finances would be mitigated because the planned structural primary surplus would be sufficient to close the gap stemming from the initial budgetary position. However, almost all of the long-term budgetary impact of ageing would remain to be covered.

**Table 7: Long-term age-related expenditure: main projections**

(% of GDP)	2007	2010	2020	2030	2040	2060	Change 2010- 60
<b>Total age-related spending</b>	<b>26.5</b>	<b>26.8</b>	<b>28.2</b>	<b>31.1</b>	<b>32.7</b>	<b>33.4</b>	<b>6.6</b>
- Pensions	10.0	10.3	11.8	13.9	14.6	14.7	4.5
- Healthcare	7.6	7.7	8.1	8.4	8.7	8.8	1.1
- Long-term care	1.5	1.5	1.7	2.0	2.5	2.9	1.3
- Education and unemployment benefits	7.4	7.3	6.7	6.9	6.9	7.0	-0.3
<b>Property income received</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>-0.2</b>

*Source: Economic Policy Committee and Commission services.*

<sup>18</sup> Economic Policy Committee and the European Commission (2009), '2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-60)', *European Economy* No. 2/2009. European Commission (2009), 'Sustainability Report 2009', *European Economy* No. 9/2009. European Commission (2008), 'Public finances in EMU – 2008', *European Economy* No. 4/2008..

<sup>19</sup> The S2 indicator is defined as the change in the current level of the structural primary balance required to make sure that the discounted value of future structural primary balances (including the path of property income) covers the current level of debt.



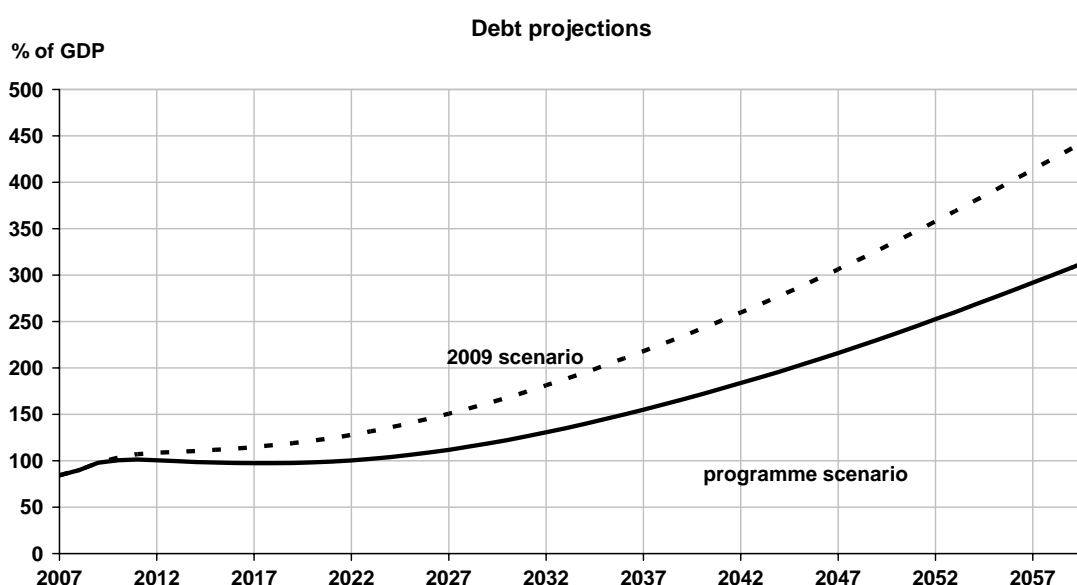
**Table 8: Sustainability indicators and the required primary balance**

Value	2009 scenario			Programme scenario		
	S1	S2	RPB	S1	S2	RPB
Value	5.9	6.5	6.0	3.9	4.6	5.9
<i>of which:</i>						
Initial budgetary position (IBP)	1.6	1.7	-	-0.3	-0.2	-
Debt requirement in 2060 (DR)	0.7	-	-	0.6	-	-
Long-term change in the primary balance (LTC)	3.6	4.8	-	3.6	4.8	-

*Source: Commission services.*

Based on the assumptions used in the projection of age-related expenditure and the calculation of the sustainability indicators, Figure 3 displays the projected debt/GDP ratio over the long-term.

**Figure 3: Long-term projections for the government debt ratio**



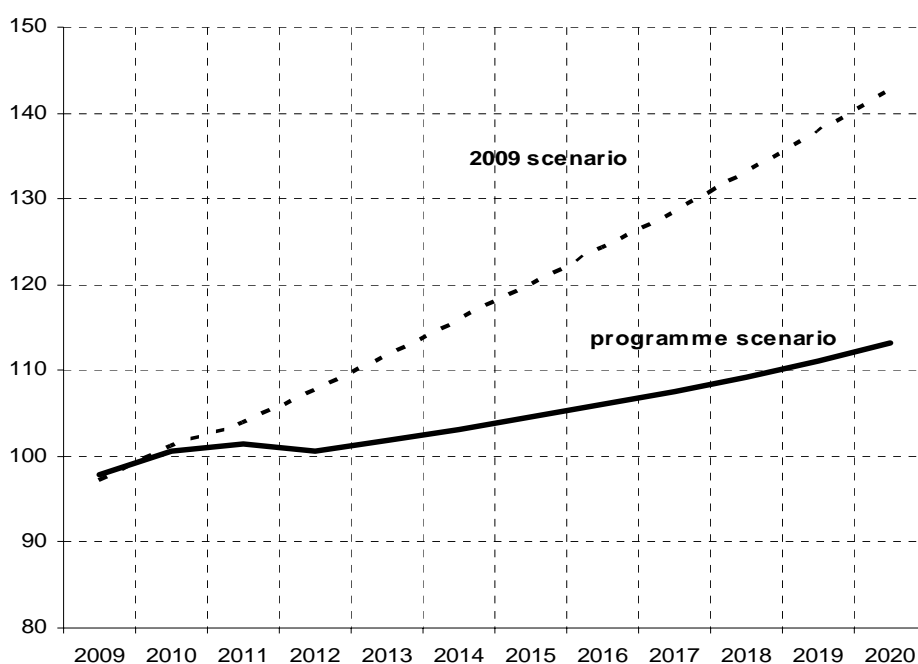
*Note:* Being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication of the risks faced by Member States.

*Source: Commission services.*

Based on the alternative assumptions of economic developments presented in the Commission services' autumn 2009 forecast publication<sup>20</sup>, Figure 4 shows projected medium-term trajectory of the debt/GDP ratio. The projected debt trajectories show relatively similar paths under both sets of assumptions, however, the debt levels both in the 2009 and the programme scenarios when account is taken on most recent economic developments would be at slightly higher levels than under the baseline assumptions presented above.

<sup>20</sup> Section 3.5 in European Commission (2009), 'European Economic Forecast – autumn 2009', European Economy No. 10/2009. This economic scenario assumes that the output gap caused by the crisis will be closed by 2017.

**Figure 4: Medium-term projections for the government debt ratio**



*Source: Commission services*

### *5.2.2. Additional factors*

For an overall assessment of the sustainability of public finances, other relevant factors are taken into account, as shown in Table 9. Among the factors that weigh on the sustainability risk are the high tax burden, the high government debt level and lack of pension assets. In addition, the programme makes a reference to national age-related expenditure projections, which are based on different assumption compared to the common EPC projections. These projections would have only a small impact on the sustainability indicators.

**Table 9: Additional factors for the assessment of long-term sustainability risks.**

	<b>Impact on risk</b>
Debt and pension assets	-
Decline in structural balance until 2011 in COM Autumn 2009 forecast	na
Alternative projection of cost of ageing	na
Strong decline in benefit ratio	na
High tax burden	-
Difference between S1 and S2	na

*Note: '-' : factor tends to increase the risk to sustainability, '+' : factor tends to decrease the risk to sustainability.  
'na': not applicable.*

*Alternative projections are often presented in the programmes, whose assumptions often diverge from the common method. Projections currently discussed in the Economic Policy Committee but not yet published, are for the time being also considered "unofficial".*

*An explanation on these factors can be found in chapter V of: European Commission (2009), Sustainability Report 2009, European Economy No. 9/2009.*

*Source: Commission services.*

### 5.2.3. Assessment

The long-term budgetary impact of ageing is clearly higher than the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. This i.a. reflects that Belgium has not yet introduced sufficient reforms of the pension system in order to increase the effective retirement age and to reduce its cost. The budgetary position in 2009 as estimated in the programme worsened from the estimated starting position of the previous programme, and thus compounds the budgetary impact of population ageing on the sustainability gap. Moreover the current level of gross debt is above the Treaty reference value. Ensuring primary surpluses over the medium term and undertaking reforms of the labour market and the social security system, in particular a further pension reform aimed at curbing the projected substantial increase in pension expenditure, would contribute to reducing the high risks to the sustainability of public finances.<sup>21</sup>

Medium-term debt projections until 2020 that are based on more recent economic developments and projections on the potential growth show that the budgetary development envisaged in the programme is not enough to stabilise the debt in the medium term and consolidation should thus continue after the programme period. The '2009 scenario' that is based on the budgetary situation of 2009 and the no-policy-change assumption shows that the debt would increase to over 140% of GDP by 2020. The implementation of measures planned in the programme - the 'programme scenario' - would reduce the increase in the debt ratio to over 110% of GDP.

## 6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

This section is subdivided into two elements: the fiscal framework and the quality of public finances in a broader sense.

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<sup>21</sup> In the Commission's 2009 Sustainability Report the risk to long-term sustainability of public finances was assessed as medium.

## **6.1. Fiscal framework**

The fiscal framework in Belgium benefits from the existence of independent fiscal institutions. On the other hand, numerical fiscal rules and medium-term budgetary frameworks appear to be weak, which has contributed to frequent slippages in the past and continues to constitute a risk in the current fiscal situation. In particular, the absence of a genuine multi-annual budgetary framework might hamper the consolidation process. The inclusion by the federal government in its 2010 budget a preview of the 2011 budget is a first step towards multi-annual budgeting, but it should be extended to all government levels, be elaborated in more detail, and cover a longer time period.

In view of Belgium's decentralised government structure, which includes substantial autonomy of communities and the regions over their budgets, coordination of fiscal policy between the different levels is crucial. A key element of the coordination mechanism is the annual advice to the government of the "Public Sector Borrowing Requirements" section of the HFC on the budgetary policy to be adopted. This advice includes recommendations on the budget balances of the various levels of government for the years to come and form the basis of a series of budgetary conventions, which take the form of political agreements between governments at federal and regional level, setting the medium-term budgetary targets for the different levels of government and acting as internal stability programmes.

As confirmed in the programme update, a new agreement has been concluded for the years 2009 and 2010, but no agreement has been reached yet for the outer years. As such agreements are an important tool to ensure budgetary discipline and have contributed to Belgium's budgetary performance in the past, the programme's announcement that another agreement will be concluded for 2011-2012 is welcomed. In order to give the regional entities more incentives to contribute to the consolidation effort, it could be envisaged to develop effective mechanisms to enforce that the different government tiers comply with the predefined targets. Each government could then prepare detailed multiannual budgetary strategies based on these targets. In addition, it could be useful to analyse the possibilities to revise the income sources of the regions and communities in order to increase the impact of their budgetary and economic choices on their budgetary position.

Moreover, in order to avoid expenditure slippages in a context of strict budget consolidation requirements, the introduction of multi-annual and binding expenditure ceilings would be warranted. Such expenditure ceilings should also be sustainable and thus in line with potential GDP growth. This also means that the existing ceiling for health care expenditure should be revised downward. Such rules would reinforce the effect of the planned stringent and more frequent "budget control exercises" and the announced improvement of the reporting system of local governments.

## **6.2. Quality of public finances**

Belgium is confronted with a high overall tax burden, amounting to 46% of GDP in 2007. This tax burden in particular includes high labour taxes of 22.9% of GDP in 2007. This is combined with a high level of government spending (48.4% of GDP in 2007).

Up to now, the government took several measures to reform the tax system, including tax reductions on labour and to a lesser extent for enterprises. In spite of those measures, the

labour tax system continues to include, also as a result of its interactions with the system of unemployment benefits, significant inactivity, unemployment and low wage traps.

While reducing the tax wedge on labour should help to increase the employment rate, the need for strict budgetary consolidation considerably reduces the scope for such tax reductions. They should therefore be limited to those areas where the impact on employment and growth is the highest and be compensated by savings measures. Preference should be given to other labour market reforms to support employment, including for instance of the system of unemployment benefits and early retirement.

At the same time, primary expenditure growth has exceeded nominal GDP growth over the period 2000-2009. Structural reforms of the pension system, including in particular early retirement schemes, have been initiated with the 2005 Generation Pact, but it appears that the budgetary impact has been minimal. Moreover, the activity rate of older workers remains low. Hence, further efforts are needed to increase labour market participation and employment and at the same time to reduce the budgetary cost of the pension system. The recently decided financial disincentives for employers to resort to the system of early retirement are a step in the good direction. Also the planned reform of the pension system is a welcome step in this respect, but it should be ensured that the outcome leads to a significant positive impact on potential growth and the budget. More generally, a broad expenditure review could be useful to identify areas of excessive spending.

## **7. OVERALL ASSESSMENT**

Taking into account risks attached to the budgetary targets discussed above, this section assesses the appropriateness of the fiscal strategy in relation to the Council Recommendations under Article 126(7) of 2 December 2009 with a view to correcting the excessive deficit and the budgetary objectives of the Stability and Growth Pact, against the background of the current economic situation, the debt and long-term sustainability position of the country, and the institutional features of its public finances.

Overall, in 2010 the budgetary strategy set out in the programme is consistent with the Council recommendations under Art. 126(7). The recommendations under Article 126(7) TFEU addressed to Belgium stated that the Belgian authorities should implement the deficit-reducing measures in 2010 as planned in the draft budget for 2010. The projections for the budget presented in the programme projects a budgetary target of -4.8% of GDP for 2010, which is significantly better than the target in the 2010 budget (-5.6% of GDP), which was adopted by the Parliament on 22 December 2009. The improved target in the programme comes from an upward revision of the macro-economic scenario in the programme relative to that of the budget and the inclusion of the consolidation measures taken by the regional governments. The 2010 target in the programme is subject to relatively contained risks (around ¼% of GDP), which are in particular related to the possible overestimation of corporate tax revenue in the programme. In this context, there may be a need for additional measures to ensure that the target is achieved. The planned regular and stringent follow-up of the budget in the coming months (“budget control exercises”) should ensure an early correction when slippages were to appear.

From 2011 on, taking into account the risks, the budgetary strategy may not be fully consistent with the Council recommendation under Article 126(7). This recommendation stated that the Belgian authorities should strengthen the planned fiscal effort. The programme now plans a correction of the excessive deficit by 2012 (instead of 2013 in the September 2009 complement to the April 2009 update) and has therefore

strengthened the planned fiscal effort. The structural balance presented in the programme, as recalculated by the Commission's services according to the commonly agreed methodology, is foreseen to improve from -3.8% of GDP in 2009 to -2.2% in 2012, implying an annual average effort of ½% of GDP<sup>22</sup> (compared to around ¼% of GDP in the September complement to the April 2009 update of the stability programme). Nevertheless, it remains somewhat below the recommended average effort of ¾% of GDP. This is due to the fact that the programme's budgetary strategy is based on a better macroeconomic environment, in particular for 2010, than in the Commission services' autumn 2009 forecast, on which the recommendations under Article 126(7) TFEU were based. The main risk to the budgetary strategy is that the measures underpinning the target for 2011 are only partly specified and there are no measures specified for 2012. The somewhat optimistic macroeconomic scenario combined with the somewhat smaller-than-recommended annual fiscal effort, constitutes an additional risk. Therefore, the strategy needs to be backed up by fully specified measures as from 2011 and additional measures need to be considered to ensure the achievement of the targets if risks materialise. The Belgian government however committed in the programme to take the necessary exceptional measures if economic growth is insufficient to achieve the 3% of GDP deficit target in 2012, which may indeed be needed. The adjustment could also benefit from a stronger focus on expenditure restraint.

The recommendations under Article 126(7) TFEU addressed to Belgium also stated that the budgetary path should 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. The strategy taking into account the risks may not be sufficient to bring the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace. Hence, the programme's budgetary strategy until 2012 should be backed up by measures and the government should stand ready to take additional measures to achieve the budgetary targets to ensure that debt is brought back on a downward path as planned in the programme. Continued fiscal consolidation will be needed also in the years beyond the programme period, in view of the very high debt-to-GDP ratio and the above-average cost of ageing.

The recommendations under Article 126(7) TFEU addressed to Belgium also stated that the Belgian authorities should accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected and should seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value. The government committed in the programme to comply with these recommendations.

The long-term budgetary impact of ageing is clearly higher than the EU average, mainly as a result of a relatively high increase in pension expenditure as a share of GDP over the coming decades. The budgetary position in 2009 as estimated in the programme compounds the budgetary impact of population ageing on the sustainability gap. Ensuring primary surpluses over the medium term and undertaking reforms of the labour market and the social security system, in particular a further pension reform aimed at curbing the projected substantial increase in pension expenditure, would contribute to reducing the high risks to the sustainability of public finances. Medium-term debt projections that assume GDP growth rates to only gradually recover to the values

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<sup>22</sup> The programme classified the temporary stimulus measures (0.3% of GDP) as one-offs, as a result of which their withdrawal (in 2010) is not included in the fiscal effort. According to the Commission services' methodology, the withdrawal of the stimulus package can be counted as part of the fiscal consolidation. Therefore, the actual fiscal effort according to the Commission services' methodology would be somewhat larger.

projected before the crisis and tax ratios to return to pre-crisis levels show that the budgetary strategy envisaged in the programme, taken at face value, would not be enough to stabilise the debt-to-GDP ratio by 2020 and consolidation should thus continue after the programme period.

The fiscal framework in Belgium benefits from the existence of independent fiscal institutions. However, numerical fiscal rules and medium-term budgetary frameworks appear to be weak, which has contributed to frequent slippages in the past. The programme announces a number of improvements, including the conclusion of multi-annual budgetary agreements among all governments, some steps towards multi-annual budgeting at the federal level, frequent and stringent budget control exercises and the plan to improve the reporting system of local governments. Nevertheless, more could be done to improve the fiscal framework. In particular, there do not exist multi-annual, enforceable expenditure ceilings.

Belgium is confronted with a high overall tax burden in combination with a high level of government spending. The government has taken several measures to reform the tax system, including important tax reductions on labour and to a lesser extent for enterprises. In spite of those measures, the labour market continues to include, also as a result of its interactions with the system of unemployment benefits, significant inactivity, unemployment and low wage traps. In a context of strict budgetary consolidation, further labour tax cuts will have to be fully compensated. On the expenditure side, primary expenditure growth has outpaced nominal GDP growth in the period 2000-2009. The planned reform of the pension system is a welcome step that could lead to a significant positive impact on the budget and potential growth.

\* \* \*

## ANNEX. COMPLIANCE WITH THE FORMAT AND CONTENT REQUIREMENTS FOR STABILITY AND CONVERGENCE PROGRAMMES

This annex provides an assessment of whether the programme respects the requirements of Section II of the code of conduct (guidelines on the format and content), notably as far as (i) the model structure (Annex 1 of the code of conduct); (ii) the formal data provisions (Annex 2 of the code of conduct); and (iii) other information requirements is concerned. It also assesses to what extent Belgium followed up on the Council's recommendation to report on progress made in the correction of the excessive deficit, in a separate chapter of the programme.

### (i) Model structure

The table of contents of the programme update broadly adheres to the code of conduct. The programme largely follows the model structure on Annex 1 of the code of conduct. Nevertheless, some topics, such as the quality of public finances and the institutional features are not taken up in a separate chapter.

### (ii) Data requirements

The programme update provides all compulsory data specified in the standard tables in Annex 2 of the code of conduct with the exception of the data on the sectoral balances. Some of the optional data have not been provided. Table 2 (general government budgetary prospects) is incomplete. First, only the sum of compensation of employees and intermediate consumption is reported, while the breakdown between the two is missing. Second, only the aggregate social payments are reported, while the breakdown in social transfer in kind and transfers in other than in kind is missing. Third, government consumption is missing. Table 3 (General government expenditure by function) is missing. Table 4 (general government debt developments) is incomplete: the missing variables are the breakdown of the stock-flow adjustment, the liquid financial assets and net financial debt. Table 7 (long-term sustainability) is largely incomplete: the programme only provides information about pension and health care expenditure.

The tables on the following pages show the data presented in the January 2010 update of stability programme, following the structure of the tables in Annex 2 of the code of conduct. Compulsory data are in bold, missing data are indicated with grey-shading.

### (iii) Separate chapter on progress made in the correction of the excessive deficit

In its recommendations under Article 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Belgium to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Belgium complied with this recommendation.

### (iv) Other information requirements

The table below provides a summary assessment of the adherence to the other information requirements in the code of conduct.

The SCP...	Yes	No	Comments
<i>a. Involvement of parliament</i>			
... mentions status vis-à-vis national parliament.		X	
... indicates whether Council opinion on previous programme has been presented to national parliament.		X	
<i>b. Economic outlook</i>			
... (for euro area and ERM II Member States) uses "common external assumptions" on main extra-EU variables.		X	
... explains significant divergences with Commission services' forecasts <sup>1</sup> .	X		
... bears out possible upside/downside risks to economic outlook.		X	
... analyses outlook for sectoral balances and, especially for countries with high external deficit, external balance.		X	



The SCP...	Yes	No	Comments
<i>c. Monetary/exchange rate policy</i>			
... (CP only) presents medium-term monetary policy objectives and their relationship to price and exchange rate stability.			
<i>d. Budgetary strategy</i>			
... presents budgetary targets for general government balance in relation to MTO and projected path for debt ratio.	X		
... (in case new government has taken office) shows continuity with respect to budgetary targets endorsed by Council.			
... (when applicable) explains reasons for deviations from previous targets and, in case of substantial deviations, whether measures are taken to rectify situation (+ provides information on them).	X		
... backs budgetary targets by indication of broad measures necessary to achieve them and analyses their quantitative effects on balance.		X	With the exception of 2010 and partly 2011
... specifies state of implementation of measures.	X		
<i>e. "Major structural reforms"</i>			
... (if MTO not yet reached or temporary deviation is planned from MTO) includes comprehensive information on economic and budgetary effects of possible 'major structural reforms' over time.		X	
... includes quantitative cost-benefit analysis of short-term costs and long-term benefits of reforms.		X	
<i>f. Sensitivity analysis</i>			
... includes comprehensive sensitivity analyses and/or develops alternative scenarios showing impact on balance and debt of: a) changes in main economic assumptions b) different interest rate assumptions c) (for CP only) different exchange rate assumptions d) if common external assumptions are not used, changes in assumptions for main extra-EU variables.	X X	X	
... (in case of "major structural reforms") analyses how changes in assumptions would affect budget and potential growth.			
<i>g. Broad economic policy guidelines</i>			
... provides information on consistency with broad economic policy guidelines of budgetary objectives and measures to achieve them.	X		Provides partial information on reforms
<i>h. Quality of public finances</i>			
... describes measures to improve quality of public finances, both revenue and expenditure sides.	X		
<i>i. Long-term sustainability</i>			
... outlines strategies to ensure sustainability.	X		
... includes common budgetary projections by the AWG and all necessary additional information (esp. new relevant information).		X	Based on comparable national calculations
<i>j. Other information (optional)</i>			
... includes information on implementation of existing national budgetary rules and on other institutional features of public finances.	X		
<p><b>Notes:</b> SCP = stability/convergence programme; CP = convergence programme  <sup>1</sup>To the extent possible, bearing in mind the typically short time period between the publication of the Commission services' autumn forecast and the submission of the programme.</p> <p><b>Source:</b>  Commission services</p>			

## Tables from Annex 2 of the code of conduct

Table 1a. Macroeconomic prospects

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
<b>1. Real GDP</b>	B1*g	291.6	1.0	-3.1	1.1	1.7	2.2
<b>2. Nominal GDP</b>	B1*g	344.6	2.9	-2.0	2.4	3.6	4.1
<b>Components of real GDP</b>							
<b>3. Private consumption expenditure</b>	P.3	150.8	1.1	-1.3	0.8	1.4	1.6
<b>4. Government consumption expenditure</b>	P.3	62.9	3.3	2.2	1.1	1.3	2.1
<b>5. Gross fixed capital formation</b>	P.51	67.9	4.4	-3.7	0.2	2.1	2.8
<b>6. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53	<i>n.a.</i>	1.2	0.1	0.5	0.5	0.5
<b>7. Exports of goods and services</b>	P.6	267.7	1.6	-12.0	2.3	3.6	4.7
<b>8. Imports of goods and services</b>	P.7	261.5	3.0	-10.9	2.3	3.3	4.4
<b>Contributions to real GDP growth</b>							
<b>9. Final domestic demand</b>		-	2.3	-2.1	1.1	1.5	2.0
<b>10. Changes in inventories and net acquisition of valuables</b>	P.52 + P.53	-	-0.1	-1.1	0.4	0.0	0.0
<b>11. External balance of goods and services</b>	B.11	-	-1.2	-1.0	0	0.2	0.2

Table 1b. Price developments

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
<b>1. GDP deflator</b>		118.2	1.9	1.2	1.3	1.9	1.9
<b>2. Private consumption deflator</b>		122.3	4.2	0.0	1.5	1.7	1.8
<b>3. HICP<sup>1</sup></b>		120	4.5	0.0	1.5	1.7	1.8
4. Public consumption deflator		126.9	3.5	3.2	0.9	1.9	1.8
5. Investment deflator		114.4	2.5	-1.5	1.4	1.5	1.7
<b>6. Export price deflator (goods and services)</b>		117.7	4.3	-4.2	0.8	1.7	1.9
<b>7. Import price deflator (goods and services)</b>		120.7	6.6	-5.5	0.9	1.9	2.0

<sup>1</sup> Optional for stability programmes.

**Table 1c. Labour market developments**

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
<b>1. Employment, persons<sup>1</sup></b>		4446.9	1.9	-0.7	-1.0	0.5	0.9
2. Employment, hours worked <sup>2</sup>		6538	1.2	-2.4	-0.1	1.1	0.8
<b>3. Unemployment rate (%)<sup>3</sup></b>		7	7.0	8.2	9.4	9.6	9.5
<b>4. Labour productivity, persons<sup>4</sup></b>		65600	-0.8	-2.4	2.1	1.1	1.3
5. Labour productivity, hours worked <sup>5</sup>		44.6	-0.2	-0.7	1.2	0.6	1.4
<b>6. Compensation of employees</b>	D.1	177	5.4	0.5	1.1	3.1	3.7
<b>7. Compensation per employee</b>		47400	3.3	1.2	2.2	2.6	2.8

<sup>1</sup>Occupied population, domestic concept national accounts definition.

<sup>2</sup>National accounts definition.

<sup>3</sup>Harmonised definition, Eurostat; levels.

<sup>4</sup>Real GDP per person employed.

<sup>5</sup>Real GDP per hour worked.

**Table 1d. Sectoral balances**

% of GDP	ESA Code	2008	2009	2010	2011	2012
<b>1. Net lending/borrowing vis-à-vis the rest of the world</b>	B.9	n.a.	n.a.	n.a.	n.a.	n.a.
<i>of which :</i>						
- Balance on goods and services		n.a.	n.a.	n.a.	n.a.	n.a.
- Balance of primary incomes and transfers		n.a.	n.a.	n.a.	n.a.	n.a.
- Capital account		n.a.	n.a.	n.a.	n.a.	n.a.
2. Net lending/borrowing of the private sector	B.9	n.a.	n.a.	n.a.	n.a.	n.a.
3. Net lending/borrowing of general government	EDP B.9	n.a.	n.a.	n.a.	n.a.	n.a.
<b>4. Statistical discrepancy</b>		n.a.	optional	optional	optional	optional

**Table 2. General government budgetary prospects**

	ESA Code	2008	2008	2009	2010	2011	2012
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
<b>Net lending (EDP B.9) by sub-sector</b>							
<b>1. General government</b>	S.13	-4061	-1.2	-5.9	-4.8	-4.1	-3.0
<b>2. Central government</b>	S.1311	-5424	-1.6	-4.3	-3.3	-3.3	-2.6
<b>3. State government</b>	S.1312	-205	-0.1	-0.6	-0.6	-0.3	-0.2
<b>4. Local government</b>	S.1313	-279	-0.1	-0.2	-0.4	-0.2	-0.2
<b>5. Social security funds</b>	S.1314	1848	0.5	-0.8	-0.5	-0.3	0.0
<b>General government (S13)</b>							
<b>6. Total revenue</b>	TR	168192	48.8	47.7	49.1	49.5	49.8
<b>7. Total expenditure</b>	TE <sup>1</sup>	172426	50.0	53.7	53.9	53.6	52.8
<b>8. Net lending/borrowing</b>	EDP B.9	-4061	-1.2	-5.9	-4.8	-4.1	-3.0
<b>9. Interest expenditure</b>	EDP D.41	13002	3.8	3.6	3.7	3.7	3.8
<b>10. Primary balance<sup>2</sup></b>		8936	2.6	-2.3	-1.1	-0.4	0.8
<b>11. One-off and other temporary measures<sup>3</sup></b>		-	0.0	-0.8	0.0	0.0	0.0
<b>Selected components of revenue</b>							
<b>12. Total taxes (12=12a+12b+12c)</b>		102689	29.8	28.0	29.4	29.5	29.7
<b>12a. Taxes on production and imports</b>	D.2	57058	12.6	12.4	12.4	12.4	12.4
<b>12b. Current taxes on income, wealth, etc</b>	D.5	43261	16.6	15.0	16.3	16.4	16.6
<b>12c. Capital taxes</b>	D.91	2370	0.7	0.7	0.7	0.7	0.7
<b>13. Social contributions</b>	D.61	55605	16.1	16.7	16.6	16.5	16.6
<b>14. Property income</b>	D.4	2626	0.8	0.8	0.8	0.9	0.9
<b>15. Other<sup>4</sup></b>		7273	2.1	2.2	2.4	2.5	2.6
<b>16=6. Total revenue</b>	TR	168192	48.8	47.7	49.1	49.5	49.8
<b>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)<sup>5</sup></b>		160512.0	46.6	45.4	46.7	46.8	47.2
<b>Selected components of expenditure</b>							
<b>17. Compensation of employees + intermediate consumption</b>	D.1+P.2	54262	15.7	16.7	16.5	16.1	15.7
17a. Compensation of employees	D.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
17b. Intermediate consumption	P.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>18. Social payments (18=18a+18b)</b>		80249	23.3	25.3	25.8	25.9	25.7
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
18b. Social transfers other than in kind	D.62	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>19=9. Interest expenditure</b>	EDP D.41	13002	3.8	3.6	3.7	3.7	3.8
<b>20. Subsidies</b>	D.3	7131	2.1	2.1	2.3	2.4	2.2
<b>21. Gross fixed capital formation</b>	P.51	5717	1.7	1.7	1.7	1.8	1.9
<b>22. Other<sup>6</sup></b>		12066	3.5	4.2	3.8	3.7	3.6
<b>23=7. Total expenditure</b>	TE <sup>1</sup>	172426	50.0	53.7	53.9	53.6	52.8
<b>p.m.: Government consumption (nominal)</b>	P.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

<sup>1</sup>Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

<sup>2</sup>The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

<sup>3</sup>A plus sign means deficit-reducing one-off measures.

<sup>4</sup>P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

<sup>5</sup>Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

<sup>6</sup>D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

**Table 3. General government expenditure by function**

% of GDP	COFOG Code	2007	2012
1. General public services	1	n.a.	n.a.
2. Defence	2	n.a.	n.a.
3. Public order and safety	3	n.a.	n.a.
4. Economic affairs	4	n.a.	n.a.
5. Environmental protection	5	n.a.	n.a.
6. Housing and community amenities	6	n.a.	n.a.
7. Health	7	n.a.	n.a.
8. Recreation, culture and religion	8	n.a.	n.a.
9. Education	9	n.a.	n.a.
10. Social protection	10	n.a.	n.a.
11. Total expenditure (=item 7=23 in Table 2)	TE <sup>1</sup>	n.a.	n.a.

<sup>1</sup>Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

**Table 4. General government debt developments**

% of GDP	ESA Code	2008	2009	2010	2011	2012
<b>1. Gross debt<sup>1</sup></b>		89.8	97.9	100.6	101.4	100.6
<b>2. Change in gross debt ratio</b>		5.6	8.0	2.7	0.8	-0.8
<b>Contributions to changes in gross debt</b>						
<b>3. Primary balance<sup>2</sup></b>		2.6	-2.3	-1.1	-0.4	0.8
<b>4. Interest expenditure<sup>3</sup></b>	EDP D.41	3.8	3.6	3.7	3.7	3.8
<b>5. Stock-flow adjustment</b>		6.8	0.3	0.2	0.2	0.2
<i>of which:</i>						
- Differences between cash and accruals <sup>4</sup>		n.a.	n.a.	n.a.	n.a.	n.a.
- Net accumulation of financial assets <sup>5</sup>		n.a.	n.a.	n.a.	n.a.	n.a.
<i>of which:</i>						
- <i>privatisation proceeds</i>		n.a.	n.a.	n.a.	n.a.	n.a.
- Valuation effects and other <sup>6</sup>		n.a.	n.a.	n.a.	n.a.	n.a.
<b>p.m.: Implicit interest rate on debt<sup>7</sup></b>		4.6	4.0	3.9	3.9	3.9
<b>Other relevant variables</b>						
6. Liquid financial assets <sup>8</sup>		n.a.	n.a.	n.a.	n.a.	n.a.
7. Net financial debt (7=1-6)		n.a.	n.a.	n.a.	n.a.	n.a.

<sup>1</sup>As defined in Regulation 3605/93 (not an ESA concept).

<sup>2</sup>Cf. item 10 in Table 2.

<sup>3</sup>Cf. item 9 in Table 2.

<sup>4</sup>The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

<sup>5</sup>Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

<sup>6</sup>Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

<sup>7</sup>Proxied by interest expenditure divided by the debt level of the previous year.

<sup>8</sup>AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

**Table 5. Cyclical developments**

% of GDP	ESA Code	2008	2009	2010	2011	2012
<b>1. Real GDP growth (%)</b>		1.0	-3.1	1.1	1.7	2.2
<b>2. Net lending of general government</b>	EDP B.9	-1.2	-5.9	-4.8	-4.1	-3.0
<b>3. Interest expenditure</b>	EDP D.41	3.8	3.6	3.7	3.7	3.8
<b>4. One-off and other temporary measures<sup>1</sup></b>		0.0	-0.8	0.0	0.0	0.0
5. Potential GDP growth (%)		1.8	1.4	1.3	1.4	1.5
contributions:						
- labour		0.6	0.4	0.3	0.3	0.3
- capital		1.0	0.8	0.8	0.8	0.8
- total factor productivity		0.2	0.2	0.2	0.3	0.4
6. Output gap		1.9	-2.6	-2.8	-2.5	-1.8
7. Cyclical budgetary component		1.0	-1.4	-1.5	-1.4	-1.0
8. Cyclically-adjusted balance (2 - 7)		-2.2	-4.5	-3.3	-2.7	-2.0
9. Cyclically-adjusted primary balance (8 + 3)		1.6	-0.9	0.4	1.0	1.8
10. Structural balance (8 - 4)		-2.2	-3.7	-3.3	-2.7	-2.0

<sup>1</sup>A plus sign means deficit-reducing one-off measures.

**Table 6. Divergence from previous update**

	ESA Code	2008	2009	2010	2011	2012
<b>Real GDP growth (%)</b>						
<b>Previous update</b>		1.1	-3.1	0.4	1.9	2.4
<b>Current update</b>		1.0	-3.1	1.1	1.7	2.2
<b>Difference</b>		-0.1	0.0	0.7	-0.2	-0.2
<b>General government net lending (% of GDP)</b>	EDP B.9					
<b>Previous update</b>		-1.2	-5.9	-6.0	-5.5	-4.4
<b>Current update</b>		-1.2	-5.9	-4.8	-4.1	-3.0
<b>Difference</b>		0.0	0.0	1.2	1.4	1.4
<b>General government gross debt (% of GDP)</b>						
<b>Previous update</b>		89.7	97.5	101.9	103.9	104.3
<b>Current update</b>		89.8	97.9	100.6	101.4	100.6
<b>Difference</b>		0.1	0.4	-1.3	-2.5	-3.7

**Table 7. Long-term sustainability of public finances**

% of GDP	2000	2005	2008	2014	2030	2050
Total expenditure	n.a.	n.a.	23.2	26.4	29.0	31.3
Of which: age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension expenditure	n.a.	n.a.	9.1	10.3	13.3	14.4
Social security pension	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Old-age and early pensions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other pensions (disability, survivors)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Health care	n.a.	n.a.	7.3	8.6	9.5	11.5
Long-term care ( <i>this was earlier included in the health care</i> )	n.a.	n.a.	1.2	1.4	1.6	2.8
Education expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Of which</i> : from pensions contributions (or social contributions if appropriate)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension reserve fund assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Of which</i> : consolidated public pension fund assets (assets other than government liabilities)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Assumptions</b>						
Labour productivity growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real GDP growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Participation rate males (aged 20-64)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Participation rates females (aged 20-64)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total participation rates (aged 20-64)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Unemployment rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Population aged 65+ over total population	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

**Table 8. Basic assumptions**

	2008	2009	2010	2011	2012
<b>Short-term interest rate<sup>1</sup> (annual average)</b>	4.6	1.3	1.5	2.5	2.5
<b>Long-term interest rate (annual average)</b>	4.2	3.7	3.7	4.1	4.5
<b>USD/€ exchange rate (annual average) (euro area and ERM II countries)</b>	146.60	139.20	148.20	148.20	148.20
<b>Nominal effective exchange rate (for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)</b>	n.a.	n.a.	n.a.	n.a.	n.a.
<b>World excluding EU, GDP growth</b>	3.8	-0.4	3.8	4.1	5.0
<b>EU GDP growth</b>	0.8	-4.1	0.9	1.7	2.3
<b>Growth of relevant foreign markets</b>	2.3	-11.0	3.6	4.8	6.4
<b>World import volumes, excluding EU</b>	4.6	-12.6	4.6	5.0	7.0
<b>Oil prices (Brent, USD/barrel)</b>	96.9	61.3	76.5	80.5	84.5

<sup>1</sup>If necessary, purely technical assumptions.