SUMMARY AND RECOMMENDATIONS

Budgetary outcomes in 2022: deficit and debt ratio remained high despite decrease

In recent years, successive crises have weighed heavily on public finances. First there was the outbreak of the COVID-19 pandemic in 2020, which was accompanied by a historic economic contraction in that year and substantial budgetary support measures to mitigate the effects of the health crisis, in addition to the impact of automatic stabilizers. The year 2021 then saw a strong economic rebound and economic recovery continued in 2022. Consequently, COVID-19 measures were phased out over the past two years. In contrast, the July 2021 floods, which hit the Walloon Region particularly hard, had an increasing impact on public expenditure, especially in the year 2021. Finally, the war in Ukraine and rising energy prices forced the various governments to take new measures that weighed on public finances in 2022.

After a sharp deterioration in 2020 due to the health crisis (-7.0 percentage points of GDP), the **headline budget balance of the General Government** partially recovered over the past two years (combined result of +5.1 percentage points of GDP) up to **-3.9% of GDP in 2022**. The improvement continued in 2021 and 2022, although it slowed in 2022 (+1.6 percentage point of GDP).

The improvement in the budget balance in 2022 resulted from the economic recovery after the health crisis, which was accompanied by a strong increase in GDP (+3.2% in real terms on an annual basis and, partly due to high inflation, +9.3% in nominal terms) and a net decrease in support measures. In 2022, the favourable budgetary impact of the further phasing out of the COVID-19 measures and reduced flood-related expenditure was higher than the total budgetary impact of the newly adopted measures to mitigate the effects of the energy crisis (overall 1.02% of GDP) and related to the Ukraine crisis (overall 0.19% of GDP).

Table 1
General Government budgetary outcome (% of GDP)

	2017	2018	2019	2020	2021	2022	Δ 2021-2022 (p.p.)	*p.m. nominal growth (%) in 2022*	Δ 2020-2022 (p.p.)	Δ 2017-2022 (p.p.)
Revenue	**51,3%**	**51,4%**	**49,9%**	**49,9%**	**49,9%**	**49,7%**	**-0,3%**	*8,8%*	**-0,3%**	**-1,7%**
Fiscal and parafiscal revenue	44,2%	44,2%	42,9%	42,9%	43,1%	42,8%	-0,3%	*8,6%*	-0,1%	-1,4%
Direct taxes on households (o.w. PIT), non-residents and non-profit institutions	12,5%	12,4%	11,9%	12,4%	11,9%	12,4%	0,5%	*14,0%*	0,0%	-0,1%
Direct taxes on companies (o.w. CIT)	4,1%	4,4%	3,8%	3,3%	3,9%	4,1%	0,1%	*13,4%*	0,7%	-0,1%
Indirect taxes	13,3%	13,4%	13,3%	13,0%	13,4%	12,6%	-0,8%	*3,2%*	-0,3%	-0,7%
Actual social contributions	13,4%	13,3%	13,2%	13,5%	13,0%	13,0%	-0,1%	*8,7%*	-0,6%	-0,5%
Taxes on capital	0,8%	0,8%	0,7%	0,7%	0,8%	0,7%	-0,1%	*-4,5%*	0,0%	-0,1%
Non-fiscal and non-parafiscal revenue	7,2%	7,1%	7,0%	7,0%	6,9%	6,9%	0,0%	*9,7%*	-0,1%	-0,3%
Primary expenditure	**49,7%**	**50,1%**	**49,9%**	**57,0%**	**53,7%**	**52,0%**	**-1,7%**	*5,9%*	**-4,9%**	**2,4%**
Current expenditure	46,5%	46,7%	46,6%	53,4%	49,9%	48,5%	-1,4%	*6,2%*	-4,9%	2,1%
Compensation of employees	12,4%	12,4%	12,3%	13,2%	12,5%	12,4%	-0,1%	*8,8%*	-0,7%	0,0%
Acquisition of goods and services	4,0%	4,1%	4,1%	4,3%	4,2%	4,3%	0,1%	*11,5%*	0,0%	0,3%
Subsidies to companies	3,7%	3,7%	3,7%	5,0%	4,3%	3,7%	-0,6%	*-6,2%*	-1,2%	0,1%
Social benefits	24,6%	24,6%	24,5%	28,0%	26,2%	25,7%	-0,5%	*7,1%*	-2,3%	1,1%
Current transfers	1,8%	2,0%	2,0%	3,0%	2,6%	2,3%	-0,3%	*-2,0%*	-0,6%	0,6%
Capital expenditure	3,2%	3,4%	3,4%	3,6%	3,8%	3,5%	-0,3%	*1,3%*	-0,1%	0,3%
Gross fixed capital formation	2,4%	2,6%	2,6%	2,7%	2,7%	2,7%	-0,1%	*7,0%*	0,0%	0,3%
Other capital expenditure	0,8%	0,8%	0,7%	0,9%	1,1%	0,9%	-0,2%	*-13,3%*	0,0%	0,0%
Primary balance	**1,7%**	**1,3%**	**0,0%**	**-7,0%**	**-3,8%**	**-2,4%**	**1,4%**		**4,7%**	**-4,0%**
Interest payments	2,4%	2,1%	2,0%	2,0%	1,7%	1,5%	-0,2%	*-1,7%*	-0,4%	-0,8%
Budget balance	**-0,7%**	**-0,9%**	**-2,0%**	**-9,0%**	**-5,5%**	**-3,9%**	**1,6%**		**5,1%**	**-3,2%**
Cyclical component	0,1%	0,3%	0,6%	-3,5%	-0,9%	0,1%	0,9%		3,6%	0,0%
One offs	0,4%	0,6%	0,2%	0,0%	-0,3%	0,1%	0,4%		0,1%	-0,3%
Structural balance	**-1,2%**	**-1,8%**	**-2,8%**	**-5,5%**	**-4,3%**	**-4,0%**	**0,3%**		**1,5%**	**-2,8%**
Structural primary balance	1,1%	0,4%	-0,8%	-3,6%	-2,6%	-2,5%	0,1%		1,1%	-3,7%
Gross debt	**102,0%**	**99,9%**	**97,6%**	**112,0%**	**109,1%**	**105,1%**	**-4,0%**		**-6,9%**	**3,1%**
p.m. nominal GDP								*9,3%*		

Note: The sum of the variable components may not correspond to the total shown in the table, due to rounding up.

Source: National Accounts Institute (Government Accounts, April 2023), FPB (Economic Outlook 2023-2028, June 2023), and own calculations.

The decrease in the budget deficit observed in 2021 and 2022 was largely the result of a reduction in the primary deficit (combined result of -4.7 percentage points of GDP). This was attributable to the drop in the primary expenditure ratio, that reached an exceptional level of 57.0% of GDP in 2020. The revenue ratio slightly declined in 2022, whereas it remained stable in 2020 and 2021. The continued fall in interest payments (combined result of -0.4 percentage point of GDP in 2021-2022) had a favourable impact on the budget balance evolution during the entire period in question. A detailed analysis of the evolution of revenue and expenditure is given in Chapter 1 of the full text.

A structural approach abstracts from the impact of the business cycle and one-off and temporary factors on the budget balance. Due to the exceptional economic circumstances resulting from the COVID-19 crisis, the structural figures should however be interpreted with caution. In 2020, the structural deficit of the General Government doubled and grew to exceptional proportions against the background of the health crisis. The structural balance only partially recovered in the last two years (combined result of +1.5 percentage point of GDP). In **2022** the **structural deficit** reached **4.0% of GDP**, which was close to the headline deficit recorded for that year (3.9% of GDP). This is partly due to the fact that the *output gap*, which measures the difference between real and potential GDP and is used to measure the cyclical impact on the budget balance, was closed in 2022.

Table 2
Budget balances of the sub-sectors of the General Government (% of GDP)

	2017	2018	2019	2020	2021	2022	Δ 2021-2022 (p.p.)	Δ 2020-2022 (p.p.)	Δ 2017-2022 (p.p.)
General Government	**-0,7%**	**-0,9%**	**-2,0%**	**-9,0%**	**-5,5%**	**-3,9%**	**1,6%**	**5,1%**	**-3,2%**
Entity I	-1,1%	-0,3%	-1,7%	-6,9%	-3,8%	-3,0%	0,8%	4,0%	-1,9%
Federal Government	-1,3%	-0,2%	-1,9%	-7,1%	-4,1%	-2,7%	1,4%	4,4%	-1,4%
Social Security	0,2%	-0,1%	0,2%	0,2%	0,3%	-0,3%	-0,5%	-0,4%	-0,4%
Entity II	0,4%	-0,6%	-0,3%	-2,1%	-1,7%	-0,9%	0,8%	1,1%	-1,3%
Communities and Regions	0,2%	-0,4%	-0,2%	-2,2%	-1,7%	-0,9%	0,8%	1,3%	-1,1%
Flemish Community	*0,32%*	*-0,15%*	*0,08%*	*-1,18%*	*-0,65%*	*-0,45%*	*0,20%*	*0,73%*	*-0,77%*
French Community	*-0,05%*	*-0,05%*	*-0,07%*	*-0,33%*	*-0,17%*	*-0,16%*	*0,01%*	*0,17%*	*-0,11%*
Walloon Region	*-0,06%*	*-0,15%*	*-0,10%*	*-0,40%*	*-0,66%*	*-0,19%*	*0,47%*	*0,21%*	*-0,13%*
Brussels-Capital Region	*-0,04%*	*-0,09%*	*-0,15%*	*-0,26%*	*-0,30%*	*-0,22%*	*0,08%*	*0,04%*	*-0,18%*
German-speaking Community	*-0,007%*	*-0,001%*	*-0,004%*	*-0,011%*	*-0,010%*	*-0,015%*	*-0,005%*	*-0,003%*	*-0,007%*
Common Community Commission	*0,005%*	*-0,020%*	*0,000%*	*-0,002%*	*0,023%*	*-0,004%*	*-0,027%*	*-0,002%*	*-0,009%*
French Community Commission	*0,003%*	*0,001%*	*-0,002%*	*-0,001%*	*-0,002%*	*-0,005%*	*-0,003%*	*-0,004%*	*-0,008%*
Flemish Community Commission	*-0,001%*	*-0,011%*	*-0,004%*	*-0,009%*	*0,001%*	*-0,004%*	*-0,005%*	*0,005%*	*-0,004%*
Interregional units	*0,01%*	*0,03%*	*0,02%*	*-0,01%*	*0,02%*	*0,13%*	*0,11%*	*0,14%*	*0,12%*
Local Governments	0,2%	-0,1%	0,0%	0,1%	0,0%	0,0%	0,0%	-0,1%	-0,2%
HCF approach regional personal income tax (*):									
p.m. Correction for advance payments approach	*-0,1%*	*0,0%*	*-0,1%*	*-0,2%*	*0,2%*	*-0,1%*	*-0,3%*	*0,1%*	*0,0%*
p.m. Budget balance including advance payments to regions (HCF approach)									
Entity I	*-1,0%*	*-0,3%*	*-1,7%*	*-6,7%*	*-4,0%*	*-2,8%*	*1,1%*	*3,9%*	*-1,9%*
Federal Government	*-1,2%*	*-0,2%*	*-1,9%*	*-6,9%*	*-4,2%*	*-2,6%*	*1,7%*	*4,3%*	*-1,4%*
Entity II									
Communities and Regions	*0,1%*	*-0,5%*	*-0,3%*	*-2,4%*	*-1,6%*	*-1,0%*	*0,5%*	*1,4%*	*-1,1%*
Flemish Community	*0,18%*	*-0,15%*	*0,03%*	*-1,31%*	*-0,58%*	*-0,50%*	*0,09%*	*0,81%*	*-0,68%*
Walloon Region	*-0,04%*	*-0,16%*	*-0,11%*	*-0,47%*	*-0,57%*	*-0,25%*	*0,33%*	*0,23%*	*-0,20%*
Brussels-Capital Region	*-0,03%*	*-0,10%*	*-0,15%*	*-0,28%*	*-0,28%*	*-0,24%*	*0,04%*	*0,05%*	*-0,21%*

(*) The balance of the other federated entitities is not affected by the correction.

Note: The sum of the variable components may not correspond to the total shown in the table, due to rounding up.

Source: National Accounts Institute (Government Accounts, April 2023).

Entity I, that is made up of the Federal Government and Social Security, closed the year 2022 with a nominal budget deficit of 3.0% of GDP in ESA terms. As a consequence, Entity I accounted for the largest part (76%) of the overall budget deficit of the General Government. The deficit of Entity I dropped by 0.8 percentage point of GDP compared to 2021 (and by 4.0 percentage points of GDP compared to 2020, the year of the COVID-19 crisis), but remained significantly higher than before the outbreak of the COVID-19 crisis.

The nominal budget balance of Entity II amounted to -0.9% of GDP in 2022 in ESA terms. Although the budget balance of Entity II improved over the last two years, it remained worse than before the outbreak of the COVID-19 crisis. That evolution is mainly due to the Communities and Regions subsector. The budget balance of the Local Governments remained more stable and fluctuated around equilibrium.

When looking at the budgetary evolution of the individual communities and regions, it appears that each federated entity closed the year 2022 with a (nominal) budget deficit. Moreover, the budget balance of each federated entity deteriorated over the entire period 2017-2022 considered. Nonetheless, in 2022 the balance showed an improvement in the Walloon Region (+0.47 percentage point of GDP), the Flemish Community (+0.20 percentage point of GDP), the Brussels-Capital Region (+0.08 percentage point of GDP) and the French Community (+0.01 percentage point of GDP). In contrast, the budget deficits of the German-speaking Community and the three Community Commissions [1] in Brussels increased in 2022.

Table 3
Evolution of gross consolidated debt ratio and share of the sub-sectors (% of GDP)

	2017	2018	2019	2020	2021	2022	Δ 2021-2022 (p.p.)	*p.m. nominal growth (%) in 2022*	Δ 2020-2022 (p.p.)	Δ 2017-2022 (p.p.)
General Government	**102,0%**	**99,9%**	**97,6%**	**112,0%**	**109,1%**	**105,1%**	**-4,0%**	*5,3%*	**-6,9%**	**3,1%**
Entity I	83,8%	82,0%	80,0%	90,5%	87,7%	83,7%	-4,0%	*4,4%*	-6,8%	-0,1%
Entity II	18,2%	17,8%	17,6%	21,6%	21,4%	21,4%	0,0%	*9,3%*	-0,2%	3,2%
Communities and Regions	12,8%	12,7%	12,7%	16,5%	16,9%	17,0%	0,2%	*10,3%*	0,5%	4,2%
Local Governments	5,3%	5,1%	4,9%	5,0%	4,6%	4,4%	-0,2%	*5,3%*	-0,6%	-0,9%
p.m. nominal GDP								*9,3%*		

Note: The sum of the variable components may not correspond to the total shown in the table, due to rounding up.

Source: Calculations by the 'Public Sector Borrowing Requirements' Section, based on the National Accounts Institute and the National Bank of Belgium (NBB.Stat).

Although the **gross consolidated debt ratio of the General Government** has shown a downward trend since 2014 and although it dropped below the level of 100% of GDP in 2018 for the first time since the outbreak of the financial and economic crisis (2008-2009), the health crisis of 2020 pushed the ratio up again by 14.4 percentage points of GDP. After peaking at 112.0% of GDP in 2022, the debt ratio declined over the last two years by 6.9 percentage points of GDP cumulatively, resulting in a debt ratio of **105.1% of GDP by the end of 2022**, as a result of the strong nominal GDP growth.

[1] The Common Community Commission, the French Community Commission and the Flemish Community Commission.

The decrease observed in 2021-2022 was mainly attributable to Entity I (combined result of -6.8 percentage points of GDP), and to a lesser extent, to the Local Governments (combined result of -0.6 percentage point of GDP). In contrast, the contribution of Communities and Regions to the total debt continued to rise (combined result of +0.5 percentage point of GDP in 2021-2022), a trend that has been observed ever since the financial and economic crisis of 2008-2009. A detailed analysis of the debt ratio per sub-sector and per federated entity is given in Chapter 2 of this Report.

Specific assignment related to public investment requested by the federal government to the Section

Chapter 3 of this Report deals with the new assignment the federal government has given to the Section within the framework of the federal policy regarding public investment and more particularly the Recovery and Investment Plan. The purpose of the exercise is to consolidate investment expenditure of all levels of government in Belgium as well as of the different federated entities. Like the previous chapters of this Report, the analysis is of a retrospective nature and based mainly on the Government Accounts published by the National Accounts Institute in April 2023.

Evaluation of the fiscal policy in a retrospective and prospective approach

The evaluation is based on the national budgetary framework, on the existing European budgetary framework and on the different analyses/reports as provided for in the European Semester [2].

Both the retrospective and prospective evaluation based on the European budgetary rules are important for the continuation of the budgetary work during the current year, in particular for the finalisation of the 2024 budget and the preparation of the draft budgetary plan in October 2023.

[2] The report, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, the fiscal policy guidance for 2024, the recommendation of the Commission to the Council of the European Union on the 2023National Reform Programme for Belgium and delivering a Council opinion on the 2023 Stability Programme of Belgium, the 'Spring Forecast' 2023, the Country Report 2023 for Belgium and the 'Debt Sustainability Monitor 2022'.

The assessment of compliance with the national budgetary framework refers – in the absence of effectively binding budgetary agreements between the various levels of government – to the budgetary paths and other recommendations of the Section. However, this assessment of compliance is mainly focussed on the new Stability Programme 2023-2026. Moreover, a retrospective evaluation based on the successive normative recommendations of the Section is more appropriate after the deactivation of the general escape clause – at the end of 2023 – because this allows for an overall analysis and assessment of the budgetary evolution in that specific four-year period 2020-2023.

Retrospective analysis

Compliance with country-specific recommendations

As far as the implementation of country-specific recommendations is concerned, the overall picture of progress made in country-specific recommendations (CSRs) for 2019-2022 appears rather poor:

- only 5% are fully implemented;
- substantial progress has been made for 15%;
- some progress had been made for 54%;
- limited progress has been made for 23%;
- no progress has been made for 3%.

CSRs concern a wide range of policy areas related to 14 out of the 17 Sustainable Development Goals or SDGs that provide a policy framework to implement United Nations Agenda 2030 for sustainable development.

The European Commission expects that as the Recovery and Resilience Plan is implemented further, there will be significant progress in addressing the country-specific recommendations aimed at structural reforms.

On country-specific recommendations related to fiscal policy, the state of play is as follows:

Table 4
Implementation of country-specific recommendations – state of play

Description of country-specific recommendations *as to fiscal policy*	RRF (Recovery and Resilience Facility)	Rating of the degree of progress (5/2023)
CSR 2019		
Continue reforms to ensure the fiscal sustainability of long-term care	-	Limited progress
Continue reforms to ensure the fiscal sustainability of the pension systems, including by limiting early exit possibilities from the labour market	✓ as of 2021	Limited progress (*)
Improve the composition and efficiency of public expenditure, in particular through spending reviews	-	Some progress
Co-ordinate fiscal policies by all levels of government to create room for public investment	-	Limited progress
CSR 2020		
Front-load mature public investment projects	✓ as of 2021,2022, 2023,2024, 2025,2026	Some progress
CSR 2021		
Use the Recovery and Resilience Facility to finance additional investment in support of the economic recovery while pursuing a prudent fiscal policy Preserve nationally financed investment	-	Full implementation
When economic conditions allow it, conduct a fiscal policy aimed at 1/ achieving prudent medium-term fiscal positions and 2/ ensuring medium-term fiscal sustainability	-	Some progress
At the same time enhance investment to boost growth potential Pay particular attention to 1/ the composition of public finances, both on the revenue and expenditure side of the budget, and 2/ the quality of budgetary measures, in order to ensure a sustainable and inclusive economic recovery Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition	-	Substantial progress
Give priority to fiscal structural reforms that will help to provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including - where relevant - by strengthening the coverage, adequacy and sustainability of health and social protection systems for all	-	Limited progress
CSR 2022		
Ensure prudent fiscal policy in 2023, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential economic growth, taking into account 1/ temporary and targeted support to households and firms most vulnerable to energy price hikes and 2/ aid to Ukrainian refugees Stand ready to adjust current expenditure to the evolving situation	-	None
Expand public investment for the green and digital transitions and for energy security, taking into account the REPower EU initiative, including by making use of the Recovery and Resilience Facility and other EU funds	-	Substantial progress
For the period beyond 2023, pursue a fiscal policy aimed at: 1/ achieving prudent medium-term fiscal positions, 2/ ensuring credible and gradual debt reduction and 3/ achieving fiscal sustainability in the medium term through gradual consolidation, investment and reforms	-	Limited progress
Prioritise the improvement of fiscal sustainability of long-term care, including by promoting a cost-efficient use of the different care settings	-	Limited progress
Reform the taxation and benefit systems to reduce disincentives to work by shifting the tax burden away from labour and by simplifying the taxation and benefit systems Reduce tax expenditures and make the tax system more investment-neutral.	-	Limited progress

(*) The state of play does not yet take into account the pension reform decided by the inner cabinet (Federal Government) on 10 July 2023.

Source: Country Report 2023 - European Commission – 24.05.2023 – SWD (2023) 601 final.

Compliance with the deficit and debt criteria

As the public deficit (General Government) in Belgium reached 3.9% of GDP [3] in 2022, the 3% of GDP reference value defined in the Treaty on the Functioning of the European Union (TFEU) was exceeded and the European Commission issued a report [4] under Article 126(3) of this Treaty on 24 May 2023.

This report examines Member States' compliance with the deficit and debt criteria of the corrective arm of the Stability and Growth Pact (SGP) [5].

Exceeding either criterion is enough to prepare such report. In the report, the Commission makes an initial assessment of the conditions for launching an Excessive Deficit Procedure (EDP). As a reminder: the term 'deficit' in the EDP refers to an excessive deficit as well as to an excessive debt that is not diminishing at a satisfactory pace.

The decision tree regarding the assessment of compliance with the deficit and debt criteria is described in the full text of the Report (under 4.1.3.). The European assessment is that, in addition to **exceeding** the 3% of GDP **reference value** in 2022, the **headline budget deficit is exceptional but not temporary** and, moreover, the deficit is **not close to the 3% of GDP reference value.**

Belgium's gross consolidated debt-to-GDP ratio (debt ratio) stood at 105.1% of GDP at the end of 2022, largely exceeding the 60% of GDP reference value. Still, compared to the previous year, this represented a decline of 4 percentage points of GDP.

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[3] Figures validated by Eurostat: EUROSTAT-EURO Indicators, 47/2023, 21.4.2023.

[4] European Commission, 24.05.2023, COM (2023) 631final.

[5] As a reminder, the criteria of the corrective arm of the Stability and Growth Pact:
- avoid excessive deficits: the nominal budget balance of the General Government should not exceed the critical threshold of 3% of GDP: this is the *deficit criterion* of the corrective arm;
- avoid excessive debt: the debt ratio of the General Government should not exceed 60% of GDP or should diminish sufficiently and approach this reference value at a satisfactory pace: this is the *debt criterion* of the corrective arm.

If the 60% of GDP reference value is exceeded, the European Commission will check whether the debt ratio is 'sufficiently diminishing'. That condition is measured by the debt reduction benchmark. The debt reduction benchmark is the recommended annual decrease of the difference between the effective debt ratio and the reference value. According to the existing European rules, this difference or differential has to decrease at an average rate of (at least) 1/20th or 5% over the previous three years.

Based on the debt ratio realised in 2019-2021 and the outlook for 2023-2024, the debt reduction benchmark was respected in 2022 in Belgium.

In Belgium, the gap to the debt reduction benchmark was 0.7% of GDP in 2022 (compliance), compared to +2.0% of GDP in the previous year (non-compliance).

The outlook is weaker than the 2022 outcome: non-compliance with the debt reduction benchmark is expected for the current and next year, especially in 2024, as was the case in 2021.

The report of 24 May 2023 concluded that Belgium did not meet the deficit criterion in 2022, but that the debt criterion, on the other hand, was met.

Regarding the launch of new excessive deficit procedures, the European Commission has advised the Council of the European Union to open **a deficit-related excessive deficit procedures in spring 2024, based on the budgetary outcome of 2023. Belgium must take this into account in the execution of its 2023 budget and in preparing the draft budgetary plan for 2024.**

Fiscal stance

The fiscal stance was expansionary in 2022 and a supportive fiscal policy is also expected in 2023. In the European context, the so-called '*fiscal stance*' is expressed as the difference (as a % of GDP) between medium-term potential growth and the growth in net primary expenditure [6].

[6] Definition of this 'net primary expenditure': excluding discretionary revenue measures, excluding COVID-19 crisis-related temporary emergency measures and including expenditure financed by non-repayable support from the Recovery and Resilience Facility and other EU funds.

If this difference is negative, then the fiscal stance is expansionary. In 2022, the *fiscal stance* was -2.1% of GDP and it is projected to be -1.1% of GDP for 2023. The main explanatory factor of the expansionary fiscal stance is the growth in nationally financed primary current expenditure (net of new discretionary revenue measures), which provided an expansionary contribution of 1.9% to the fiscal stance in 2022. That significant expansionary contribution included:

- the additional impact of budgetary measures to mitigate the economic and social impact of the increase in energy prices and, to a lesser extent, the cost of providing temporary protection to displaced persons from Ukraine; the estimated cost of COVID-19 temporary emergency measures fell sharply in 2022;

- the rising current expenditure, driven in particular by the automatic indexation of social benefits and wages in the public sector and other structurally increasing current expenditure notably reflecting population ageing;

- **the increase in net primary expenditure in 2022 is therefore only partly due to the aforementioned support measures related to the energy crisis and the reception of war refugees.**

According to the Commission, the supportive fiscal stance in 2022 is further due to the fact:

- that Belgium continued to support economic recovery with investments financed by the Recovery and Resilience Facility, as recommended by the Council of the European Union; expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022;

- that nationally financed investment provided a neutral contribution to the fiscal stance; thus, nationally financed investment was maintained, as recommended by the Council.

For **2023**, the Commission expects a **this situation to persist**, albeit to a lesser extent: in addition to less costly and more targeted measures to cushion the impact of high energy prices, **net primary current expenditure is increasing more than potential output growth** due to the following factors:

- the permanent increase in public sector wages and social benefits due to automatic indexation,

- the structural increase in current expenditure due to population ageing, a reform of residential energy contract taxation and a temporary reduction in social security contributions for companies in the first half of 2023.

Debt sustainability analysis

Debt sustainability analysis contributes to the monitoring and coordination of Member States' fiscal policies and plays a key role in the budgetary surveillance as referred to in the Stability and Growth Pact and the European Semester. The analysis (called 'Debt Sustainability Monitor 2022') was published by the European Commission in April 2023.

For Belgium, sustainability risks are assessed as low in the short term, but the opposite is true in the medium and long term where the risk is considered high.

Short-term sustainability risks are assessed as low for Belgium, but the analysis points to a number of short-term vulnerabilities such as continuing high gross financing needs (fuelled by debt repayment and high government deficits) and rising interest rates.

Belgium is sensitive to macroeconomic shocks, making it likely that the debt ratio will be higher in 2027 than in 2022.

Other factors that play an important role are:

- Risk-increasing factors: the rise in interest rates, the share of short-term debt, high gross financing needs, the large share of public debt held by non-residents and the lack of budgetary coordination among the different levels of government, some federated entities displaying specific vulnerabilities;

- Risk-mitigating factors: the lengthening of debt maturities in recent years, which means that the rise in interest rates affects interest expenditure in a delayed manner, the relatively stable financing sources (diversified and with a broad base of investors) and the fact that the debt is fully nominated in euro; the full implementation of the structural reforms as referred to in *NextGeneration*EU and RRF could be growth-enhancing, thus somewhat mitigating the debt sustainability challenges.

In the medium term, the sustainability risks for Belgium are considered to be high because the debt ratio is already very high and will increase further under unchanged policy. In 2033, Belgium's debt ratio would reach 121.6% of GDP (under unchanged policy). This increase is due to the rising cost of population ageing and the gradual reduction of the favourable snowball effect (reflecting the impact of interest expenditure and nominal growth on debt dynamics).

In the long term, the sustainability risks for Belgium are considered to be high. The explanatory factor is rising ageing costs: pension spending, healthcare spending and/or long-term care spending. The latter in particular would be the main driving factor in Belgium, according to the European Commission.

Prospective analysis

Assessment of the 2023-2026 Stability Programme against the recommendations of the Section of April 2023

In addition to the balanced-budget objective (in structural terms) and the requirement to meet the medium-term objective (MTO), or the adjustment path towards it, as referred to in the Stability and Growth Pact, budgetary coordination between the various governments is also one of the main objectives of the Cooperation Agreement of 13 December 2013 [7].

Article 2(4), second subparagraph, of the Cooperation Agreement regulates the manner in which budgetary coordination should be established. The table below summarises the implementation in April 2023.

[7] Cooperation Agreement of 13.12.2013 between the Federal Government, the Communities, the Regions and the Community Commissions on the implementation of Article 3(1) of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (BOJ 18.12.2013 ed. 3): https://www.hogeraadvanfinancien.be/sites/default/files/public/downloads/samenwerkingsakkoord_13_december_2013.pdf .

Table 5
Implementation of budgetary coordination as referred to in the Cooperation Agreement of 13 December 2023

Art. 2, § 4, second subparagraph, C.A.	Implementation
Prior consultation in the Concertation Committee on the overall budgetary target of the governments.	The draft SP 2023-2026 was submitted at the **Concertation Committee of 28 April 2023**.
The governments that entered into the C.A. commit to making maximum effort to reach consensus.	**No consensus** was reached between the governments involved.
The individual budgetary targets of the aforementioned governments and of the local governments are set in nominal and structural terms.	The (draft) SP 2023-2026 merely specifies: - the budget balances and structural balances of the General Government, Entity I and Entity II (as a % of GDP)* - the budget balances of the Federal Government, of the whole of Communities and Regions, of the Local Governments and Social Security (as a % of GDP)**
This determination must be approved by a decision of the Concertation Committee.	**No agreement** was reached between the governments involved: - note was taken of the paths recommended by the Section in its Advice of 4/2023 - note was taken of the Stability Programme 2023-2026

(*) Tables 5 and 6 of SP 2023-2026.
(**) Budget balances of the Federal Government and of the whole of Communities and Regions in Table 6 expressed from an advance payments approach as regards additional regional tax on personal income tax.
Source: 2023-2026 Stability Programme of Belgium and notification of the Concertation Committee of 28 April 2023, item 2.

As a result, the Section has to conclude once again that in April 2023, no agreement was reached between the different governments as to the budgetary objectives for the period 2024-2026. The outcome of the consultations remained limited to taking note of both the budgetary recommendations of the Section in its preparation of the Stability Programme and the Stability Programme itself.

The lack of binding agreements on:

- the overall medium-term objective for the General Government,
- the adjustment path towards that medium-term objective,
- the distribution of that path among the different governments,

and the lack of:

- the required detailing of the objectives in nominal and structural terms for *all* governments involved, i.e. also for the subsectors of Entity II (whole of the Communities and Regions and whole of the Local Governments) and the individual communities and regions,

goes directly against Article 2(4), second subparagraph, of the Cooperation Agreement signed by the Federal Government and the individual communities and regions at the end of 2013, after its approval by their respective Parliaments.

Such gaps contradict Belgium's previous commitments to the European Union, in particular the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, which entered into force on 1 January 2013 and which the Federal Government, mandated by the Communities and Regions, signed on 2 March 2012 and pursuant to which the aforementioned Cooperation Agreement was established.

The European Commission has repeatedly raised this lack of budgetary coordination and its risks, and in its country-specific recommendations it also urges Belgium each year to finally address this problem, but to no avail so far.

The discrepancies between the SP and the Section's recommendations are partly due to the different starting points (for 2023) and partly due to the differences between the SP and the Section’s recommendations as to the methodology for determining the path.

The difference in starting budget balance 2023 explains the difference in the cumulative deficit reduction over the 2024-2026 period between the paths.

The evolution of the paths is also different: in the SP, the reduction of the General Government deficit is roughly evenly distributed between 2024 and 2025, while the recommended paths opted for frontloading (and this for the GG as well as for EI and EII).

In the paths for Entity I and Entity II, the SP applies frontloading only for Entity II and not for Entity I where the main effort of deficit reduction is made in 2025.

The distribution of the balance improvement between the two entities is also different between the paths. The share of Entity I in the deficit reduction is clearly lower in the SP than in the recommended paths, and the reverse is true for Entity II.

The path in the SP 2023-2026 is in line with the recommendation to bring the General Government’s balance deficit below 3% of GDP by 2026 at the latest.

In terms of the budget balance and the structural balance, the starting points for 2023 in the SP are closest to those of the normative path 2 (based on the outlook of the MoCo note). The recommendation to rule out any *backloading* and opt for *frontloading* is interpreted with some flexibility in the SP: at the General Government level, *frontloading* is spread over the first two years, the second of which comes after the scheduled elections [8]. For Entity I, the focus is in 2025, but for Entity II in 2024.

In the Stability Programme, Entity I makes relatively little budgetary effort compared to the Section's recommendations.

The debt ratio increases by 1.1% of GDP in the SP over the 2024-2026 horizon. This corresponds to the normative path 1 (based on the outlook of the FPB), where the debt ratio starting point for 2023 is roughly in line with the SP.

In conclusion, the SP 2023-2026 opts for a minimum path that does not provide buffers for future shocks and allows for further increases in the debt ratio for the next few years.

European assessment of the 2023-2026 Stability Programme (and the 2023 National Reform Programme)

In that assessment, the Commission verifies the extent to which the fiscal policy guidance for 2024, published in March 2023, were respected and also takes into account the previous findings included in the report under Article 126(3) of the TFEU, the 2023 Country Report and the 2022 debt sustainability analysis report.

For **2022**, the conclusion is that Belgium has **not sufficiently limited the growth in nationally financed current expenditure**.

8 Federal, regional and European elections in June 2024 and local elections in October 2024.

For 2023, the growth in nationally financed primary current expenditure would be above the potential medium-term economic growth and this would not be due to the targeted support measures related to energy prices and war refugees. Expansionary growth would also result from permanent increases in public sector wages and social benefits (due to indexation of public sector wages and social benefits), structurally rising current expenditure due to population ageing, a reform of taxation on residential energy contracts, and a temporary decline in social security contributions for companies in the first half of 2023. The conclusion is that **the projected growth in nationally financed primary current expenditure in 2023 would not be in line with the recommendation of the Council of the European Union.**

For 2024, the Commission estimates the 2024 balance deficit to be 0.5 percentage point of GDP higher than the figures in the SP. The difference is mainly due to:

1) the measures to reduce the deficit by 0.2% of GDP that were not sufficiently specified in the SP and for this reason were not retained in the Commission's 2023 Spring Forecast;

2) the Commission's less favourable projection of government revenue, especially as regards corporate income tax.

The improvement in the budget balance of 2024 compared to the previous year would be partly due to the withdrawal of temporary support measures to mitigate the economic and social impact of rising energy prices. **It is recommended that the related savings be used to reduce the public deficit.**

In structural terms, the Stability and Growth Pact requires an annual improvement of more than 0.5% of GDP for Member States with a public debt exceeding 60% of GDP or with more pronounced debt sustainability risks. As Belgium is in that condition, **an improvement in the structural balance of at least 0.7% of GDP for 2024 would be appropriate**, according to the European Commission.

To achieve such an improvement, the growth rate of nationally financed net primary expenditure should not exceed 2% in 2024.

The decision of the Council of the European Union reads as follows:

Belgium faces significant challenges in terms of fiscal sustainability. These relate to both the high level of government debt and, under unchanged policy, the expected worsening of the impact of age-related spending on public finances in the face of a rapidly ageing population.

Beyond the economic and social challenges addressed by the Recovery and Resilience Plan, Belgium faces additional challenges related to the labour market, the education system, energy policy and the green transition.

Based on the 2023 Spring Forecast and the 2023 Country Report, the European Commission has prepared a proposal of recommendations to be submitted to the European Council for endorsement. **More specifically, the proposal of recommendations to Belgium concerns fiscal policy, the implementation of plans and programmes partly financed by EU funds, labour market policy and energy policy. The specific recommendations are included in the full text of the Report.**