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REPORT FROM THE COMMISSION

Belgium

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

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1. INTRODUCTION

Article 126 of the Treaty on the Functioning of the European Union (TFEU or the Treaty) lays down the excessive deficit procedure (EDP). That procedure is further set out in Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1], which is part of the Stability and Growth Pact (SGP). Specific provisions for euro-area Member States under EDP are laid down in Regulation (EU) No 473/2013[2].

According to Article 126(2) TFEU, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3 %; and (b) whether the ratio of government debt to GDP exceeds the reference value of 60 %, unless it is sufficiently diminishing and approaching the reference value at a satisfactory pace.

Article 126(3) TFEU provides that, if a Member State does not fulfil the requirements under one or both of those criteria, the Commission has to prepare a report. That report must also "*take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*".

This report, which represents the first step in the EDP, analyses Belgium's compliance with the deficit and debt criterion of the Treaty, with due regard to the economic background and other relevant factors.

Data notified by the Belgian authorities on 29 March 2019[3] and subsequently validated by Eurostat[4] show that the general government deficit in Belgium reached 0.7% of GDP in 2018, while debt stood at 102.0% of GDP, above the 60% of GDP reference value. For 2019, the Draft Budgetary Plan (DBP) planned a deficit of 1.0% of GDP and a debt ratio of 100.2% of

[1] OJ L 209, 2.8.1997, p. 6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", adopted by the Economic and Financial Committee on 5 July 2016, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm .

[2] Regulation (EU) No 473/2013 of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

[3] According to Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Belgium can be found at http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables.

[4] Eurostat news release No 67/2019, https://ec.europa.eu/eurostat/documents/2995521/9731224/2-23042019-AP-EN/bb78015c-c547-4b7d-b2f7-4fffe7bcdfad

GDP; while Belgium's 2019 Stability Programme (SP), received by the Commission on 26 April 2019, plans a deficit of 0.8% of GDP and a debt ratio of 100.6% of GDP.

The notified data show that Belgium did not comply with the debt reduction benchmark[5] in 2018 (see Table 1), as the gap to the benchmark is 1.1 percentage points (pps.) of GDP. Moreover, in 2019 and 2020, Belgium is also forecast not to comply with the debt reduction benchmark, as its debt-to-GDP ratio is expected to remain 1.7 pps. of GDP above the backward-looking debt reduction benchmark in 2019 and 1.9 pps. of GDP above the forward-looking debt reduction bechmark in 2020, according to the Commission 2019 spring forecast. On the basis of the scenario included in the 2019 Stability Programme, compliance with the debt criterion is planned as of 2019, with an overachievement of the forward-looking debt reduction benchmark by 0.2 pps. in 2019 and 0.6 pps. in 2020.

Belgium's non-compliance with the debt reduction benchmark in 2018 provides evidence of a *prima facie* existence of an excessive deficit for the purposes of the Stability and Growth Pact before, however, considering all factors as set out below.

The Commission has therefore prepared this report to comprehensively assess the departure from the debt reduction benchmark and excess over the Treaty reference value in order to examine whether the launch of an excessive deficit procedure is warranted after all relevant factors have been considered. Section 2 of the report examines the deficit criterion. Section 3 examines the debt criterion. Section 4 deals with public investment and other relevant factors, including the assessment of compliance with the required adjustment path towards the Medium Term Objective (MTO). The report takes into account the Commission 2019 spring forecast, released on 7 May 2019, and the Commission's evaluation of subsequent macroeconomic and fiscal developments.

Table 1. General government deficit and debt (% of GDP)

		2015	2016	2017	2018	2019		2020	
						COM	SP	COM	SP
Deficit criterion	General government balance	-2.4	-2.4	-0.8	-0.7	-1.3	-0.8	-1.5	-0.2
Debt criterion	General government gross debt	106.4	106.1	103.4	102.0	101.3	100.6	100.7	98.5
	Gap to the debt reduction benchmark	n.r.	n.r.	1.3	1.1	1.7	-0.2	1.9	-0.6
	Change in structural balance	0.2	0.1	0.8	0.0	0.0	0.5	-0.3	0.6
	Required MLSA	1.4	2.2	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

Source: 2019 Stability Programme (SP) and Commission 2019 spring forecast (COM)

2. DEFICIT CRITERION

Belgium's general government deficit narrowed from 0.8% of GDP in 2017 to 0.7% in 2018. According to the Commission 2019 spring forecast, the deficit will widen to 1.3% in 2019,

[5] Compliance with the debt benchmark is assessed on the basis of three different configurations: the backward-looking, the forward-looking and the debt reduction benchmark adjusted for the impact of the cycle.

still respecting the 3% of GDP Treaty reference value. In 2020, the Commission forecast projects the deficit to rise further to 1.5% of GDP under a no-policy-change assumption.

The multiannual trajectory included in the 2019 Stability Programme puts forward a stabilisation of the deficit at 0.8% in 2019 and a reduction to 0.2% in 2020. On 18 December 2018 the Belgian Prime Minister tendered his resignation. Since then, a caretaker government has adopted budgets prepared under a no-policy change assumption. As a result, the government did not enjoy full budgetary powers pursuant to the national constitutional rules and/or conventions at the time of submitting the Stability Programme. In its absence, the Stability Programme presents a budgetary trajectory that is not backed by adopted or sufficiently detailed measures to achieve the MTO of a balanced budget in structural terms in 2021. For 2019 the difference between the Commission forecast and the Stability Programme stems from a number of measures that have not been included in the Commission forecast because they are not adopted or sufficiently specified or because they are considered temporary (ending in 2018 and no longer present in 2019)[6]. For 2020 the difference relies mostly on a reduction in expenditure (-0.6 pps. of GDP), and an increase in revenue (+0.2 pps. of GDP) that are not supported by specified additional measures.

Belgium thus complies with the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/97.

3. DEBT CRITERION

Government debt peaked at 107.5% of GDP in 2014 and fell to 103.4% in 2017. In 2018 debt fell further to 102.0% of GDP mostly due to the primary surplus and a decreasing contribution from of the negative snowball effect (lower interest payments combined with higher nominal GDP growth), only partly offset by an upward stock-flow adjustment. Debt dynamics are discussed in more detail in Section 4.2.

The Commission forecast expects a mild debt reduction in the coming years, to 101.3% of GDP in 2019 and 100.7% in 2020. The annual downward impact of 1.3 pp. of GDP on average rendered by primary surpluses and the snowball effect is projected to be partially offset by upward stock-flow adjustments in 2019-2020. Those projections do not account for the impact of potential financial sector asset sales.

According to Belgium's 2019 Stability Programme the debt ratio would decline to 100.6% of GDP at the end of 2019 and to 98.5% of GDP in 2020. The difference from the Commission's projection at unchanged policy mainly stems from a lower planned headline deficit in the Stability Programme with broadly similar nominal growth assumptions, and slightly lower stock-flow adjustments.

Following the abrogation of the excessive deficit procedure in June 2014, Belgium was subject to a three-year transition period to comply with the debt reduction benchmark. That transition period started in 2014 and ended in 2016. Since 2017, after the end of the transition period, the standard debt reduction benchmark is applicable.

The notified data show that Belgium did not comply with the debt reduction benchmark in 2018 (see Table 1), as the gap to the benchmark is 1.1 % of GDP. Belgium is forecast not to comply with the debt reduction benchmark in 2019 and 2020 as its debt-to-GDP ratio is

[6] See the Assessment of the 2019 Stability Programme for Belgium.

expected to remain 1.7% and 1.9% of GDP above the debt reduction benchmark in 2019 and 2020, according to the Commission 2019 spring forecast.

On the basis of the scenario included in the 2019 Stability Programme, compliance with the debt criterion would be ensured as of 2019 as Belgium would over-achieve the debt reduction benchmark (in its forward-looking configuration) by 0.7% of GDP in 2019 and strictly comply by 0.0% in 2020. The 2018 Stability Programme planned compliance with the debt criterion as of 2018. The difference with the Commission forecast is due to a deficit reduction that is 0.5% higher in 2019 and 1.3%. higher in 2020 given that the Commission forecast is based on a no-policy change assumption, whereas the Stability Programme reflects a planned effort to achieve Belgium's MTO (a structural balance of 0.0% of GDP) in 2021 which is, however, not underpinned by sufficiently detailed measures. Part of the difference also stems from a higher expected stock flow adjustment in 2019, not counter-balanced by the lower adjustment in 2020.

The analysis thus suggests that *prima facie* the debt criterion for the purpose of the Treaty and Regulation (EC) No 1467/1997 is not fulfilled based on the 2018 outturn data and the Commission 2019 spring forecast as well as the 2019 Stability Programme before, however, consideration is given to all relevant factors set out below.

Table 2: Debt dynamics

	2015	2016	2017	2018	2019		2020	
	COM	COM	COM	COM	COM	SP	COM	SP
Government gross debt ratio [a]	106.4	106.1	103.4	102.0	101.3	100.6	100.7	98.5
Change in debt ratio [b] (1 = 2+3+4)	-1.2	-0.3	-2.7	-1.4	-0.7	-1.4	-0.5	-2.1
Contributions:								
• Primary balance (2)	-0.6	-0.4	-1.6	-1.6	-0.8	-1.3	-0.5	-1.8
• 'Snowball' effect (3)	0.2	-0.6	-1.0	-0.4	-0.6	-0.9	-0.7	-0.9
of which:								
Interest expenditure	3.0	2.8	2.5	2.3	2.1	2.1	2.0	1.9
Real GDP growth	-1.7	-1.5	-1.7	-1.4	-1.2	-1.3	-1.2	-1.4
Inflation (GDP deflator)	-1.0	-1.8	-1.7	-1.2	-1.5	-1.8	-1.6	-1.5
• Stock-flow adjustment (4)	-0.7	0.7	0.0	0.5	0.7	0.9	0.7	0.6

Notes:

[a] In percent of GDP.

[b] The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t}-\frac{D_{t-1}}{Y_{t-1}}=\frac{PD_t}{Y_t}+\left(\frac{D_{t-1}}{Y_{t-1}}*\frac{i_t-y_t}{1+y_t}\right)+\frac{SF_t}{Y_t}$$

where t is a time subscript; D, PD, Y and SF are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth. The term in parentheses represents the "snow-ball" effect, measuring the combined effect of interest expenditure and economic growth on the debt ratio.

Source: 2018 Stability Programme (SP) and Commission 2018 spring forecast

4. RELEVANT FACTORS

Article 126(3) TFEU provides that the Commission report "*shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*". Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that "*any other factors which, in the* *opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission*" need to be given due consideration.

In case of apparent breach of the debt criterion, the analysis of the relevant factors is particularly warranted given that debt dynamics are to a larger extent influenced by factors outside the control of the government than is the case for the deficit. This is recognised in Article 2(4) of Regulation (EC) No 1467/97, which provides that the relevant factors shall be taken into account when assessing compliance on the basis of the debt criterion irrespective of the size of the breach. In that respect, at least the following three main aspects need to be considered (and have been considered in the past) when assessing compliance with the debt criterion given their impact on the debt dynamics and sustainability:

1. Adherence to the MTO or the adjustment path towards it, which, is supposed to ensure sustainability or rapid progress towards sustainability under normal macroeconomic circumstances. As by construction the country-specific MTOs take into account the debt level and implicit liabilities, compliance with the MTO or the adjustment path towards it should ensure convergence of the debt ratios towards prudent levels at least in the medium term;

2. Structural reforms, already implemented or detailed in a structural reform plan, which are expected to enhance sustainability in the medium term through their impact on growth, thereby contributing to bring the debt-to-GDP ratio on a satisfactory downward path. Overall, adherence to the MTO (or the adjustment path towards it) alongside with the implementation of structural reforms (in the context of the European Semester) is expected under normal economic conditions to bring debt dynamics on a sustainable path through the combined impact on the debt level itself (through the achievement of a sound budgetary position at the MTO) and on economic growth (through the reforms).

3. Unfavourable macroeconomic conditions, and in particular low inflation, which can hamper the reduction of the debt-to-GDP ratio and make compliance with the SGP provisions particularly demanding. A low-inflation environment makes it more demanding for a Member State to comply with the debt reduction benchmark. Under such conditions, adherence to the MTO or the adjustment path towards it is a key relevant factor in assessing compliance with the debt criterion.

In view of those provisions, the following subsections consider in turn (1) the medium-term budgetary position, including an assessment of compliance with the required adjustment towards the MTO and the development of public investment; (2) the developments in the medium-term government debt position, its dynamics and sustainability; (3) the medium-term economic position, including the state of play in terms of implementation of structural reforms; (4) other factors considered relevant by the Commission; and (5) other factors put forward by the Member State.

4.1. Medium-term budgetary position

The ex-post assessment of Belgium's compliance with the preventive arm finds that there is no sufficiently robust evidence to conclude on the existence of a significant deviation from Belgium's adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together.

For 2019 and 2018 and 2019 taken together, the fiscal adjustment presents a risk of a significant deviation from the preventive arm requirements of Belgium.

Headline, structural balance and adjustment towards the MTO

Headline balance

Belgium's headline deficit fell from 0.8% of GDP in 2017 to 0.7% in 2018. Both the revenue and expenditure-to-GDP ratios increased, by 0.4 pp. and 0.2 pp. of GDP respectively.

MTO and structural balance

In their 2019 Stability Programme, the Belgian authorities confirmed their MTO of a balanced budget in structural terms. The MTO appears sufficiently stringent under what can be considered as normal economic conditions to ensure debt rule compliance in the medium and long term. In the 2019 Stability Programme, Belgium postponed the planned achievement from 2020 to 2021. According to the Stability Programme, achievement of the MTO would require an effort of 0.9% of GDP. According to the Commission 2019 spring forecast, a higher effort (1.4% of GDP) would be required due to a different (higher) estimate of the 2018 structural deficit. In addition, the Commission forecast expects the structural balance to remain stable in 2019 and to deteriorate by 0.3 pp. of GDP at unchanged policy in 2020, the last year of the Commission projections. According to the High Council of Finance, an additional deterioration of 0.4% of GDP will take place in 2021 at unchanged policy[7]. As a result, achieving the MTO in 2021 will require substantial additional measures from the next government after the May 2019 elections.

Compliance with the recommended adjustment towards the MTO

On 11 July 2017, the Council recommended Belgium to pursue a substantial fiscal effort in 2018 in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Belgium’s public finances. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translated into a requirement of a nominal growth rate of net primary government expenditure which would not exceed 1.6 % in 2018. It would correspond to a structural adjustment of at least 0.6 % of GDP. At the same time, the Council stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes would need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances. Following the Commission's assessment of the strength of the recovery in Belgium while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Belgium's 2018 Draft Budgetary Plan, the Council on 13 July 2018 noted that no additional elements in that regard needed to be taken into account.

In 2018, and based on outturn data and the Commission forecast, the growth of primary government expenditure, net of discretionary revenue measures and one-offs, exceeded the expenditure benchmark, leading to a gap of 0.7% of GDP, pointing to a significant deviation.

[7] High Council of Finance (2019), Avis 'Trajectoire budgétaire en préparation du Programme de Stabilité 2019-2022'. Based on data provided by the Federal Planning Bureau.

The structural balance is estimated to have remained flat in 2018, leading to a gap of 0.6% of GDP with respect to the recommended effort, also pointing to a significant deviation.

However, although on a diminishing trend, there still remain uncertainties regarding the treatment of the substantial increase in advanced corporate income tax payments collected in 2017 and 2018 (about ½ % of GDP in each year). This revenue increase stems notably from the introduction, in two steps, 2017 and 2018, of significantly higher surcharges for non-payment of advanced tax payments. This measure introduces a permanent change in the timing of recurrent revenue, by shifting -at least in part- tax collection from expost tax settlement to advance tax payments, and therefore it creates an exceptional and temporary peak in tax revenue in 2017 and 2018. In the baseline scenario of the 2019 spring forecast and following the same methodology as last year, the Commission considered that any tax collection in excess of the trend was to be considered as a one-off, temporary revenue, which would eventually be offset by lower tax settlement revenue, starting in 2019. Other analyses, such as that of the National Bank of Belgium, consider a higher share of the CIT revenue increase in 2017 and 2018 as temporary, whereas the government assess a higher proportion as structural. However, even after taking into account those uncertainties and considering the entire increase as structural both in 2017 and 2018, there appears to be a significant deviation over 2017 and 2018 taken together. At the same time, the excess over the 0.25% of GDP threshold for a significant deviation appears to be very small once those uncertainties are taken into account. Given the uncertainty surrounding these figures, the Commission acknowledges that both upside and downside risks should not be discarded, and that a stable estimate of the permanent impact will only be measurable after some time, while the outturn corporate income tax data for 2019 will provide the first clear indication of the magnitude of the impact.

When 2017 and 2018 are taken together, there is a difference in the readings between the expenditure benchmark and the structural balance driven by the different indications for 2017. Regarding the expenditure benchmark, there is a gap of 0.6% of GDP, pointing to a significant deviation. Regarding the effort in the structural balance, there is a gap of 0.1% of GDP, pointing to some deviation. The conclusion of considering 2017 and 2018 together relies on the individual readings for 2018 and 2017. The former was already discussed above. In 2017, the growth of primary government expenditure in Belgium, net of discretionary revenue measures and one-offs, exceeded the expenditure benchmark by approximately 0.5% of GDP. On the other hand, Belgium's structural balance improved by more than 0.8% of GDP, exceeding the structural adjustment – corrected for the impact of unusual events – of at least 0.58% of GDP recommended by the Council for that year. Based on the structural balance pillar, there was therefore a positive deviation of approximately 0.3% of GDP. The ensuing difference of approximately 0.7% of GDP between both pillars of the preventive arm in 2017 calls for an overall assessment, in which the following factors are to be considered:

- The positive impact of lower interest expenditure change on the structural balance (0.3 pps. of GDP), improving the reading of the fiscal effort based on the structural balance but which does not affect compliance with the expenditure benchmark. The latter is considered to reflect more appropriately the underlying fiscal effort.

- The negative impact of higher inflation (GDP deflator of 1.9%) compared to expected inflation (1.5% GDP deflator forecast) on the expenditure benchmark compared to the structural balance (0.1 pps of GDP). Social benefits and public sector wages are indexed to realised, not expected, inflation. However, higher inflation also positively impacts tax revenues. The expenditure benchmark only captures the former impact, and therefore under-estimates the overall fiscal position.

- Revenue windfalls, that benefit the structural balance but not the expenditure pillar. In that regard, 2017 represented the peak of the business cycle in Belgium. As a result, there were revenue windfalls (representing approximately 0.1% of GDP) mainly due to growth in the revenue of direct and indirect taxes exceeding standard elasticities.
- Finally, the remaining uncertainties regarding the treatment of the substantial increase in corporate income tax payments collected in 2017 and 2018 (approximately 0.5% in 2017 and 0.7% of GDP in 2018). Higher surcharges for non-payment of advanced tax payments were introduced in 2017. They introduce a permanent change in the timing of recurrent revenue, by shifting - at least in part - tax collection from ex-post tax settlement to advance tax payments, therefore creating an exceptional and temporary peak in tax revenue. In that regard, the Commission expressed a reservation in its May 2018 Article 126(3) report regarding the nature of the observed increase in corporate income taxes. In its 2019 spring forecast, the Commission considers that in 2017 and 2018 there is a 0.5% of GDP one-off increase in revenue, to be eventually offset by lower tax settlement revenue in the following years. Starting from 2018, an additional structural increase in tax collection of 0.2% of GDP has taken place.

  In this regard, the 2019 Stability Programme considers a higher share of the CIT revenue increase as structural. The Commission acknowledges this is still a possibility. An ex post upward revision of the permanent effect of the measure would improve the assessment of the underlying budgetary position. As a result, the relatively conservative stance of the Commission 2019 spring forecast represents a relevant factor to be considered in the overall assessment, given the magnitude of the extra revenues (around 0.5% of GDP in 2017 and 0.7% of GDP in 2018), as well as their high level of uncertainty.

Amid such uncertainty, and in line with last year’s analysis, in the context of this report, such a relevant factor for the overall assessment, given both the magnitude of the extra revenues as well as the high level of uncertainty as regards the extent of their temporary nature, results in a difficulty to conclude on the significance of the deviation from the adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together.

Belgium’s Draft Budgetary Plan for 2019 was accompanied by a formal request to avail of the flexibility available under the preventive arm pursuant to the "Commonly agreed position on Flexibility within the Stability and Growth Pact" endorsed by the ECOFIN Council in February 2016. Belgium requested a temporary deviation from the adjustment path towards the MTO in view of the implementation of major structural reforms with a positive impact on the long-term sustainability of public finances. All the relevant parts have been already legislated and the 2019 Stability Programme details a credible timeline of implementation. The request for flexibility for structural reforms refers to a pension reform, a “tax shift”, a reform of corporate income taxation, a labour market reform as well as a reform of the public administration. As the request for the temporary deviation should be submitted in the year ahead of the application of the clause, the Commission assessed the fulfilment of the eligibility criteria for the structural reform clause as of 2019. The Commission 2019 spring forecast indicates that Belgium will continue to respect the minimum benchmark in 2019 which provides a safety margin towards the 3% of GDP deficit threshold. On that basis, the Commission considers that Belgium qualifies for the requested temporary deviation of 0.5% of GDP in 2019 for structural reforms. Taking into account that flexibility, Belgium is therefore expected to pursue an annual structural adjustment towards the MTO of 0.1% of GDP in 2019, which corresponds to a nominal growth rate of net primary government expenditure which does not exceed 2.8%.

For 2019, the Commission Spring forecast projects a growth rate of expenditure that exceeds the benchmark by 0.4% of GDP pointing to some deviation. In turn, the structural balance is projected to remain stable, pointing to some deviation (-0.1% of GDP) from the recommended structural adjustment. Over 2018 and 2019 taken together, the expenditure benchmark points to a risk of significant deviation, with an average deviation of 0.6% of GDP. The projected average deviation for the structural balance over the same period amounts to -0.3% of GDP according to the Commission forecast, also indicating a risk of significant deviation. Thus, the overall assessment confirms the risk of significant deviation over 2018-2019 taken together.

In 2020, Belgium is required to pursue an annual structural adjustment towards the MTO translating into a nominal growth rate of net primary government expenditure which does not exceed 1.6% which would correspond to a structural adjustment of 0.6% of GDP. According to the Commission 2019 Spring forecast, the growth of nominal primary government expenditure in 2020, net of discretionary revenue measures and one-offs, is expected to exceed the applicable expenditure benchmark by 1.3% of GDP, pointing to a risk of a significant deviation. The structural balance is expected to deteriorate by 0.3 percentage points of GDP in 2020, thus also pointing to a risk of a significant deviation by 0.9% of GDP.

Following an overall assessment a significant deviation from the adjustment path towards the MTO is currently expected in 2019 and 2020, putting at risk the compliance with the requirements of the preventive arm of the Pact.

Box 1: flexibility under the preventive arm

In the context of the fiscal surveillance carried out by the Commission over recent years, Belgium has benefitted from the flexibility clauses and allowances foreseen under the Stability and Growth Pact (SGP). Regulation (EC) No 1466/97 caters for additional expenditure if it represents an unusual event, the impact on public finances is significant, and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the MTO. In this regard, over 2015-2017 Belgium benefitted from a cumulated allowance of around EUR 763 million, or 0.18% of GDP. The flexibility granted to Belgium was a relevant factor to ensure its (broad) compliance with the preventive arm of the SGP based on outturn data, in particular for 2015, 2016 and 2017. Compliance with the preventive arm was also regarded by the Commission as a key mitigating factor not to trigger an excessive deficit procedure despite *prima facie* non-compliance with the debt reduction benchmark.

In 2015, Belgium was granted flexibility of 0.03% of GDP for additional expenditure related to the exceptional inflow of refugees.

As regards 2016, flexibility granted to Belgium amounted to 0.13% of GDP, with eligible additional expenditure for the exceptional inflow of refugees amounting to 0.08% of GDP and 0.05% of GDP for security-related measures due to the severity of the terrorist threat.

As regards 2017, the flexibility granted to Belgium amounted to 0.02% of GDP for security-related measures.

As regards 2019, the Commission has assessed that Belgium is eligible for a temporary deviation from the adjustment path towards the MTO amounting to 0.5% of GDP, in view of the implementation of major structural reforms with a positive impact on the long-term sustainability of public finances (“structural reform clause”).

Public investment

Over the forecast horizon, public investment is projected to remain stable at 2.4% of GDP. From 2009 to 2016, public investment was lower than the general government deficit. In 2017 the general government deficit below the investment ratio and has remained below since.

The federal government has been pursuing a 'National Pact for Strategic Investment’ that projects a significant increase in infrastructure investment. It aims to identify obstacles for private investment and accelerate it in key areas by mobilising private (55%) and public (45%) means. Regions and Communities can join the initiative.

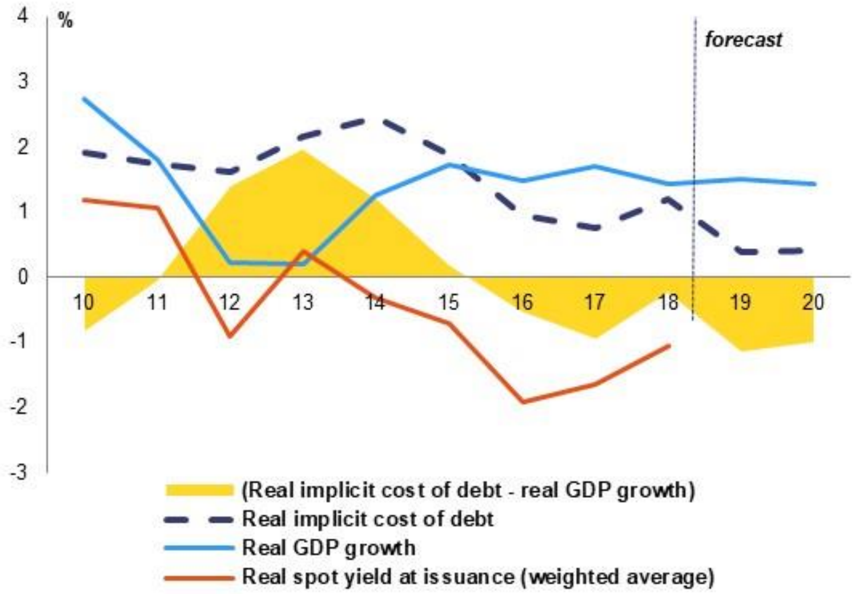
4.2. Medium-term government debt position

Debt dynamics

Between 1997 and 2007, Belgium's government debt-to-GDP ratio decreased by 36 pp., thanks to sizeable (although gradually declining) primary surpluses. That trend of sustained debt reduction was halted by the financial and economic crisis of 2008. At the end of 2007, Belgium's general government debt stood at 87% of GDP. It rose to 107% of GDP in 2014, an increase of 20 pp. It compares to an increase of 27 pp. in the euro area.

The main drivers behind the increase between 2007 and 2014 were the upward snowball effect (+10.5 pp.) and stock-flow adjustments (+9.4 pp.), with the previous primary surpluses gone (see Graph 1). The snowball effect reflects how interest spending generally surpassed nominal growth since 2008. Yet, at 1.4 pp. on average, the annual upward impact of that dynamic in 2008-2015 was similar to that in 1997-2007, as the denominator effect of lower nominal growth was offset by the nominator effect stemming from lower interest spending in terms of GDP. The latter ratio continued to decline after 2007 as continuously declining interest rates compensated for an increasing debt ratio. A further decline in interest spending resulted in a slightly downward snowball effect in 2016 for the first time since 2011.

Graph 1. Drivers of "snowball effect" on government debt



The substantial debt increase due to stock-flow adjustments occurred predominantly in 2008 and 2011, when the Belgian State had to intervene in the financial system. In 2008 authorities provided support to Fortis, KBC, Dexia and Ethias. In 2011 the Belgian State acquired Dexia Belgium, the current Belfius bank. The recovering of part of the financial sector bailout resulted in downward stock-flow adjustments representing 3.9% of GDP in 2012-2017. Remaining participations include a share of 7.8% in BNP Paribas, 100% of Belfius, 100% of insurer Ethias (including stakes of regional and local authorities), and 51.4% of Dexia bank. Dividends paid by financial institutions represented about 0.2% of GDP in 2018.

Since 2017, the acceleration of positive primary surpluses has become the main driving force behind the decrease of the debt ratio. This highlights how the return to substantial primary surpluses is a precondition for putting debt on a clear downward trajectory and complying with the debt reduction benchmark.

In 2018, the debt-increasing stock-flow adjustment of 0.5% of GDP mainly reflects the difference between accrued and paid interest.

According to the Commission 2019 spring forecast, the debt-to-GDP ratio would fall by 0.7 pp. in 2019 to 101.3% of GDP. A primary surplus of 0.8% of GDP and a downward snowball effect of 0.6% of GDP as a result of an increase in the GDP deflator and decrease in interest expenditures are partly offset by upward stock-flow adjustments. A similar trend is expected in 2020 when debt would decrease to 100.7% of GDP at unchanged policy.

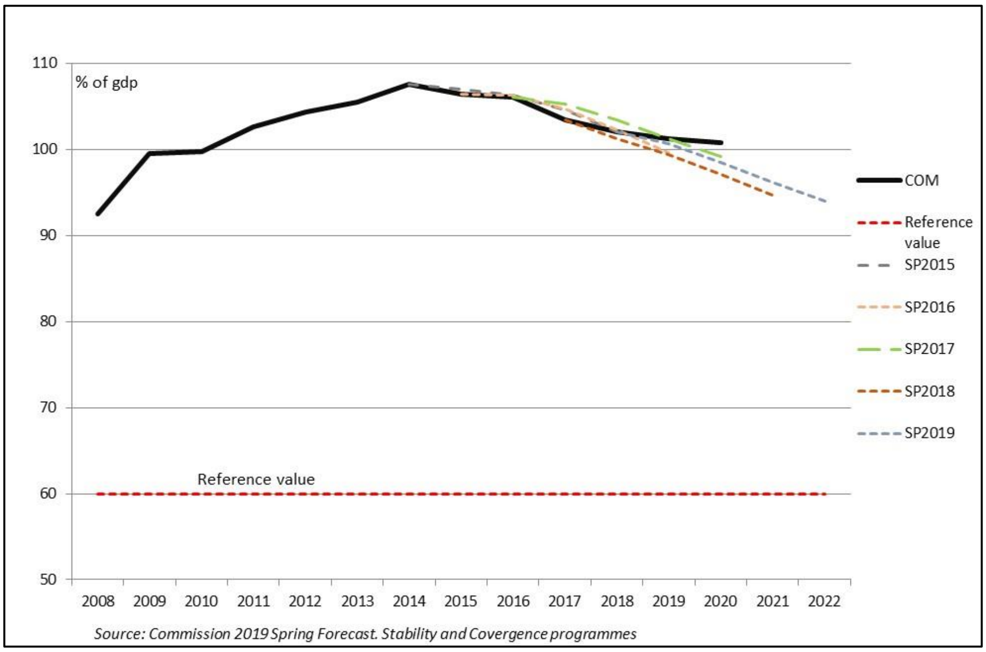
Interest expenditure

In line with the general trend in the euro area, interest rates on Belgian debt instruments are at historical lows. The ten-year bond yield averaged 0.57% during the first quarter of 2019. The spread between Belgian and German bonds has been broadly stable for several years. It averaged 37, 41, 35 and 53 basis points in 2016, 2017, 2018 and the first quarter of 2019 respectively, compared to a maximum of 366 basis points at the end of November 2011. The implicit interest rate on the outstanding debt stock declined steadily in recent years, from 4.6% in 2007 to 2.4% in 2018. It is projected to decline further to 2.2% in 2020.

Debt sustainability

Belgian authorities have been using favourable market conditions to refinance the outstanding debt against much lower rates at considerably longer maturity. The average maturity of long-term issuance remained at a high level at 14.8 years in 2018 (15.0 years in 2017 and 17.5 years in 2016) with an average weighted yield of 0.95% (0.9% in 2017 and 0.8% in 2016). As a result, the average life to maturity of the total federal debt portfolio[8] rose to 9.6 years at the end of 2018[9]. It is the longest ever and compares to around 6 years until 2009 and 8 years at the end of 2015[10]. The 12-month and 60-month refixing risk[11] of the federal debt significantly declined in 2018 to 16.0 and 40.1%, respectively, from 20.3% and 56.8% at the end of 2012[12]. Currently, Belgium does not appear to face a risk of financial stress in the short term. If interest rates were to start rising, the high debt level implies a substantial hike in interest expenditure over time, though the high average life to maturity means that that hike would materialise only gradually.

Graph 2 : Debt projections in successive stability programmes (% GDP)



The sensitivity to potential shocks in nominal growth and interest rates as well as the unfavourable starting point result in high sustainability risks in the medium term. At unchanged policy, the debt level is projected to increase and peak at 103.4% of GDP in 2029[13], thus remaining well above the 60% of GDP Treaty threshold. The full implementation

8 The federal debt represents 84.6% of the general government debt.

9 Belgian Debt Agency, 2018-2019 Review outlook.

10 Belgian Debt Agency, 2018-2019 Review outlook.

11 The proportion of outstanding debt which matures in a given time period or which is subject to changes in interest rates because of a floating interest rate.

12 Belgian Debt Agency, 2018-2019 Review outlook.

13 Fiscal Sustainability Report 2018, Volume 2 – Country Analysis. Projections start from the European Commission 2019 winter forecast, with the no-policy change assumption translated into a structural primary balance kept constant (excluding ageing costs) at the level of the last year of the forecast (2020). The

of the Stability Programme would put debt on a decreasing path by 2029, although remaining above the 60% of GDP reference value in 2029. However, the fiscal effort required for reaching the MTO is substantial, considering that the structural deficit is estimated at 1.4% of GDP in 2019 at unchanged policy.

Lastly, the sustainability of public debt is also determined by the economy's growth potential. As described above, the gradual decline of total factor productivity growth since the beginning of the 1990s has lowered potential growth. It underscores the importance of implementing structural reforms in order to boost potential growth. Progress with regard to reforms is discussed in Section 4.3.

4.3. Medium-term economic position

Despite a recent slowdown in growth, macroeconomic conditions remain favorable; and cannot be considered a major mitigating factor to explain Belgium's gaps to comply with the debt reduction benchmark. In fact, nominal economic growth is expected to remain steady throughout the forecast horizon. Belgium made limited progress in addressing the 2018 CSRs, but from a multiannual perspective undertook important structural reforms in past years to increase the sustainability of the pension system and to reform taxation and the labour market, including wage indexation, so as to support competitiveness.

Cyclical conditions, potential growth and inflation

The Belgian economy proved to be rather resilient following the global economic recession in 2009. GDP quickly regained pre-crisis levels. However, the 2010 and 2011 recovery was followed by stagnation, with flat GDP growth in 2012 and 2013. The strong rebound observed in 2014 and 2015, with growth reaching 1.4% and 1.7% respectively, was followed by the slight dip to 1.5% in 2016 due to the weaker external environment and the negative, though transitory, impact of the security situation linked to the terrorist attacks of March 2016. As a result, growth resumed and reached 1.7% in 2017. However, it receded back to 1.4% in 2018 and is expected to further decrease to 1.2% in 2019 and 2020 on the back of strong domestic demand, countering the falling and negative contribution from net exports in 2019 and 2020, respectively.

Potential growth estimates for Belgium are 1.3% on average over 2016-2019. The slowdown compared to the pre-2009 situation is broad-based as it reflects the continuation of a long-term trend of declining gains in total factor productivity (which is estimated to have stabilised at a low level in recent years), a decline in the contribution of labour to potential growth (due to a slower growth of the working age population) and somewhat lower capital accumulation. The negative output gap is estimated to have closed in 2017 compared to a trough of -1.6% in 2013. It is expected to remain positive and stable at 0.2% of GDP throughout 2019-2020.

The relatively low nominal GDP growth until 2015 had an important impact on the evolution of the debt-to-GDP ratio in those years, increasing the structural adjustment required to assure that the debt ratio stayed on a firm downward path as required by the debt benchmark.

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baseline scenario is based on the following macroeconomic assumptions for the long term: potential GDP growth remains around 1.2%; inflation and the change in the GDP deflator stabilise at 2% in the medium term; long-term interest rates on new and rolled-over debt converge to 3% in real terms by 2027 and short-term rates to a value consistent with the long-term interest rate and historical (pre-crisis) euro area yield curve (see also European Commission, 2012). Projected ageing costs are based on the 2018 Ageing Report.

Moreover, the primary balance was also impacted by those cyclical conditions, which fed through in public debt.

Table 3: Macroeconomic and budgetary developments[a]

	2015	2016	2017	2018	2019		2020	
	COM	COM	COM	COM	COM	SP	COM	SP
Real GDP (% change)[b]	1.7	1.5	1.7	1.4	1.2	1.3	1.2	1.4
GDP deflator (% change)	1.0	1.8	1.7	1.2	1.5	1.7	1.6	1.6
Potential GDP (% change)	1.2	1.3	1.3	1.4	1.3	1.3	1.3	1.3
Output gap (% of potential GDP)	-0.3	-0.1	0.3	0.2	0.2	0.2	0.1	0.2
General government gross debt	106.4	106.1	103.4	102.0	101.3	100.6	100.7	98.5
General government balance	-2.4	-2.4	-0.8	-0.7	-1.3	-0.8	-1.5	-0.2
Primary balance	0.6	0.4	1.6	1.6	0.8	1.3	0.5	1.8
One-off and other temporary measures	0.1	0.0	0.5	0.6	0.0	0.0	0.1	0.0
Government gross fixed capital	2.3	2.2	2.2	2.4	2.4	2.4	2.5	2.4
Cyclically-adjusted balance	-2.2	-2.3	-1.0	-0.8	-1.4	-0.9	-1.6	-0.3
Cyclically-adjusted primary balance	0.8	0.5	1.5	1.4	0.7	1.2	0.4	1.6
Structural balance[c]	-2.3	-2.3	-1.4	-1.4	-1.4	-0.9	-1.8	-0.3
Structural primary balance	0.7	0.6	1.0	0.9	0.7	1.2	0.3	1.6

Notes:

[a] In percent of GDP unless specified otherwise.

[b] Calendar-adjusted only in the SP.

[c] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source: 2019 Stability Programme (SP) and Commission 2019 spring forecast

However, the improvement in macroeconomic conditions that has taken place since 2016 means that they can no longer be regarded as a major mitigating factor in explaining the gap to the debt benchmark (1.1% of GDP in 2018 according to the backward-looking configuration). After a protracted period of low domestic price growth until 2015, inflation accelerated in Belgium to 2.2% in 2017 and 2.3% in 2018. The GDP deflator is expected to accelerate from 1.2% in 2018 reaching 1.5% growth in 2019 and 1.6% in 2020, below the levels observed in 2016 and 2017 (1.8% and 1.7%, respectively). Nominal GDP growth is expected to mildly increase from 2.6% in 2018 to 2.8% in 2019 and 2020, remaining below the rates observed in 2016 (3.1%) and 2017 (3.4%).

Declining interest rates have created a supportive context for budgetary consolidation. The implicit nominal interest rate on Belgian public debt has fallen continuously over the past two decades and that trend has accelerated in recent years. As a consequence, total interest expenditure by the general government has continued to decrease as a share of GDP. Between 2008 and 2018 interest expenditures fell by approximately 1.6 pp. of GDP, amounting to a decrease in interest expenditure of 0.4 pp. of GDP in 2017 and 0.1 pp. of GDP in 2018. Against that background of falling interest expenditure, the stable structural balance in 2018-2019 is accompanied by a deterioration in the structural primary balance in 2018 and 2019 (-0.1 pp. and -0.2 pp. respectively). The sensitivity analysis in the 2019 Stability Programme highlights how a linear increase of the yield curve by 100bp would imply 0.03% of GDP higher costs in 2019, rising to 0.25% of GDP in 2022[14], though relative to a baseline of falling interest payments. It underscores the risks inherent to a consolidation strategy that leans significantly on windfall gains stemming from lower interest expenditures.

[14] Stability Programme Belgium 2019-2022, p. 21.

Structural reforms

In its Communication of 13 January 2015, the Commission strengthened the link between effective implementation of structural reforms, investment, and fiscal responsibility in support of jobs and growth, within the existing rules of the SGP.

The 2019 Country report for Belgium concluded that the country had made limited progress in addressing the 2018 country-specific recommendations. Limited progress has been made on distributing fiscal targets among the various levels of government in a way that can be enforced and on improving the composition of public expenditure. In contrast with 2018, when an agreement was reached between all levels of government regarding the achievement of the MTO by 2020, this year the Concertation Committee[15] only took note of the overall trajectory of the Stability Programme towards achieving the MTO by 2021 (i.e. it did not formally approve it). In addition, and as done in the past, there was also no formal commitment on the annual fiscal targets among the different sub-entities within each entity. Moreover, given that the Belgian government does not enjoy full budgetary powers according to national constitutional rules and/or conventions since December 2018, the Committee took the decision to label the fiscal targets in the Stability Programme as "indicative". Regarding spending reviews, the Flemish region is running a pilot programme to introduce them as a structural element of its budgetary framework. The federal government is working on a strategic plan to integrate spending reviews in its budgetary process. However, so far, no spending review has been undertaken at the federal level, despite the high needs for expenditure reprioritisation. Meanwhile, the National Pact for Strategic Investment projects an increase in infrastructure investment of EUR 150 billion until 2030, out of which EUR 82.5 billion would be spent by the private sector. Although Communities are phasing in major education reforms (e.g. covering several sectors in the Flemish Community and the French Community's Pacte d'Excellence), limited progress has been made as regards vocational training and supporting equity. Limited progress has been achieved in fostering investment in knowledge-based capital, even if measures vary in scope at the regional, community and federal levels. Progress on sectoral regulation has been limited overall, including in improving the functioning of the retail sector. For certain professional services regulatory restrictions continue to hamper competition.

The Country report also highlights measures supporting the recent job-rich economic growth, via improved competititiveness, including a "tax shift"; a related labour market reform that, among others, supports wage moderation policies; as well as a corporate income tax reform. Gradual decreases in personal income taxation and employers' social security contributions, with more than proportional reductions for lower salaries, have been legislated. Targeting low wages favours the young and the low-skilled, who tend to have lower wages, but also the lowest employment rates; thus it supports activation for some of the most vulnerable groups. However, labour remains highly taxed as a factor of production in Belgium. Although the tax shift reduced the labour tax wedge (income tax plus employer and employee contributions) for very low wage earners (fifty percent of the average wage), it remains the highest in the EU for average wage earners. With respect to the high income tax burden on labour, this is due to narrow personal income tax brackets, even if the "tax shift" has broadened the base of

[15] The Concertation Committee (Comité de concertation/Overlegcomité) brings together all Belgian governments to reach a common position in the case of shared competences or to solve conflicts between governments.

the 40% tax bracket, as even average income earners are subject to the highest income tax rate. Broadening the tax base by reducing tax expenditures could generate the necessary revenues to broaden tax brackets, as the extensive use of tax expenditures reduces the efficiency of the Belgian tax system. In that regard, the recent reform of the corporate income tax to move towards a system with lower statutory rates and fewer tax exemptions will help simplify the tax system and increase the attractiveness of the Belgian economy.

Belgium has modernised its public pension system in recent years. A first set of pension reforms was legislated in 2015. They reduced early exit possibilities, by further tightening the standard eligibility requirements for both early and pre-retirement, and increased the legal retirement age from 65 to 66 in 2025 and to 67 by 2030. As a result of those reforms, and taking into account the new 2018 demographic projections for Belgium of the Ageing Working Group, public expenditure on pensions is now expected to increase by 2.9 pps. of GDP by 2070, mostly during the next two decades, compared to the 3.3 pps. expected prior to their adoption (with an horizon 2013-2060). However, life expectancy is projected to increase faster than the effective retirement age. In particular, introducing a link between, on the one hand, early and statutory retirement ages and, on the other hand, gains in life expectancy, would help contain ageing costs beyond 2030. Furthermore, early retirement conditions for several large groups of civil servants remain more favourable than the standard conditions. Public spending on long-term care is projected to increase by 1.7 percentage points of GDP by 2070, an above average increase starting from what is already one of the highest levels in the EU.

Nevertheless, after the publication of the 2019 Country report Parliament adopted a number of additional measures. They include the “Jobs deal”, a package of 28 labour market measures divided into two pillars: fiscal and social. They include new incentives to support job creation and employment, promote job training and skill upgrading, increase the participation of older workers, and offer further options for mobility to workers beyond the “cash for car” possibility already in place. Finally, a reform of the public administration is ongoing, but the Programme does not provide a quantitative detail of its impact.

4.4. Other factors considered relevant by the Commission

Among the other factors considered relevant by the Commission, particular consideration is given to financial contributions to fostering international solidarity and achieving the policy goals of the Union, the debt incurred in the form of bilateral and multilateral support between Member States in the context of safeguarding financial stability, and the debt related to financial stabilisation operations during major financial disturbances (Article 2(3) of Regulation (EC) No 1467/97).

Rescue operations in the financial sector explain part of the debt increase since 2007 as discussed in section 4.2. The direct cumulative debt impact of those operations reached almost 7% of GDP in 2011 but declined to around 3% of GDP as of 2018 due to the sale of some of the acquired assets as well as the reimbursement of loans. Contingent liabilities related to guarantees granted to the financial sector all relate to Dexia. Awaiting full resolution, the Belgian State guarantees 51.4% of Dexia's liabilities. Those guarantees reached 7.4% of GDP as of April 2019, down from 8.7% at the end of 2016.

Article 12(1) of Regulation (EU) No 473/2013 requires that this report considers also "*the extent to which the Member State concerned has taken into account the Commission's Opinion on the country's Draft Budgetary Plan, as referred in Article 7(1)*" of the same

Regulation. The Commission Opinion on Belgium's draft budgetary plan for 2019 pointed to a risk of non-compliance with the provisions of the SGP in 2018-2019. In particular, it projected a risk of significant deviation from the required adjustment towards the MTO for and a risk of non-compliance with the debt reduction benchmark in 2018 and 2019. The Commission invited the authorities to implement the necessary measures within the national budgetary process to ensure that the 2019 budget complies with the SGP and to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio. However, a federal budget for 2019 was not adopted in Parliament. Upon the resignation of Belgium's Prime Minister on 18 December 2018, a caretaker government has been adopting "current affairs" budgets. Since March 2019 Parliament further concretized remaining measures of the "Jobs deal" (see section 4.3.).

4.5. Other factors put forward by the Member State

On 31 May 2019, the Belgian authorities transmitted documents concerning relevant factors in accordance with Article 2(3) of Regulation (EC) No 1467/97 ('the Belgian observations'). The analysis presented in the other sections of this report already broadly covers the factors put forward by the authorities.

The Belgian observations stress the impact of a "tax shift" and "*Jobs deal"* to strengthen job creation via both labour supply and demand. In this regard, the former reduces both labour costs and the burden on labour income; while the latter promotes further labour market participation, including for vacancies in professions facing labour shortages. The authorities' observations also refer to the corporate income tax reform that has implemented a significant fall in the tax rate for businesses, with particular incidence on small and medium sized enterprises (SMEs). They point out a strategic public investment plan (the "*National Pact for Strategic Investments*") that has already identified six thematic and four cross-cutting areas where the new incoming governments will have to further specify investments. Finally, they emphasize the continous reform of the pension system, with measures already implemented in the previous legislature, to increase the age and career conditions for early retirement; and new measures to increase the age for early retirement, harmonisation of regimes, address certain forms of abuse and incentive developing the second pillar pension.

Other relevant factors put forward by the Belgian authorities include the general consensus in Belgium to reduce public debt and deficits, as evidenced by the system of strict budgetary discipline introduced by the caretaker government since december 2018. The Belgian observations also include an assessment of the evolution of advanced corporate income tax payments. In particular, they decompose the evolution in a structural and a one-off component. The former is due to, among other things, the reformed and reduced notional interest deduction rate and increase in gross operating surplus of companies. The latter is related to the shift from tax assessments to advanced payments as a result of the increased penalty for companies that do not make advanced payments as from 1 January 2017. The authorities estimate an equal (50%) decomposition between these two components.

5. CONCLUSIONS

General government gross debt stood at 102.0% of GDP at the end of 2018, well above the 60% of GDP reference value. Belgium did not comply with the debt reduction benchmark in 2018. Moreover, the Commission forecast does not expect Belgium to comply with the debt reduction benchmark either in 2019 or in 2020, based on a no-policy-change assumption. This suggests that before consideration is given to all relevant factors, the debt criterion as defined in the Treaty does not appear to have been fulfilled *prima facie* in 2018. In line with the Treaty, this report also examined the relevant factors.

An overall assessment of compliance with the preventive arm points to large uncertainties related to key factors of fiscal performance in 2017 and 2018, notably regarding the extent to which the recent improvement in the headline balance is of a structural nature. It cannot be excluded that there is a significant deviation over 2017 and 2018 taken together even after taking into account those uncertainties. At the same time, in any event, the excess over the 0.25% of GDP threshold for a significant deviation appears to be very small once those uncertainties are taken into account. Therefore, on that basis, there is no sufficiently robust evidence to conclude on the existence of a significant deviation from the adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together. Belgium is assessed to be at risk of some deviation in 2019, and at risk of a significant deviation over 2018 and 2019 together and in 2020. Hence, the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be prudent. At the same time, Belgium's debt ratio has declined by 5.5 percentage points since 2014 and is projected to fall by another 1.3 percentage points by 2020, despite sizeable debt-increasing stock-flow adjustments in recent and following years.

Belgium has made progress in implementing the structural reforms announced since the beginning of 2015, notably in the area of pensions, competitiveness and taxation. For several of those reforms, progress is considered substantial. They are expected to contribute to enhancing the economy's growth potential and reducing the risks of macroeconomic imbalances, thereby having a positive impact on debt sustainability in the medium to long term. The non-budgetary neutral nature of the tax reform undertaken has worsened the budgetary position in 2017 and 2018, although. In a letter sent to the Commission on 31 May 2019, the Belgian authorities highlighted their commitment to structural reforms and a strategic public investment plan.

The analysis presented in this report includes the assessment of all the relevant factors and notably: (i) the macroeconomic conditions, which are no longer considered a factor to explain Belgium's gap to the debt reduction benchmark; (ii) the implementation of growth-enhancing structural reforms in past years, several of which are considered substantial and projected to help improve debt sustainability, even if they have a temporary non-neutral budgetary impact; (iii) the fact that there is no sufficiently robust evidence to conclude on the existence of a significant deviation from Belgium's adjustment path towards the MTO in 2018 and over 2017 and 2018 taken together. Overall, the current analysis is not fully conclusive as to whether the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is or is not complied with.