SUMMARY

Baseline scenario under an unchanged policy and the differences with other projections

In addition to an explanation of the baseline scenario under an unchanged policy, this part includes the consolidation exercise on public investment in 2022-2028 as requested to the Section by the federal government.

The Section has examined the fiscal baseline scenario used as reference for determining the recommended normative budgetary paths in the present advice. This scenario is based on the medium-term macro fiscal outlook of the Federal Planning Bureau (FPB) transmitted to the federal government for the preparation of the Stability Programme to be submitted to the European authorities by the end of April 2023. The main macroeconomic parameters of that outlook, as well as those relating to public finances, are presented in the communication of the FPB of 23 February 2023 on the draft version of the 'Economic Outlook 2023-2028'. As in previous years, the projection was drawn up 'under an unchanged policy', taking into account the legislative provisions in force and the decisions known on 8 February 2023 [1].

Because of the order of magnitude of the differences between this baseline scenario of the Federal Planning Bureau and the outlook of the Monitoring Committee [2] (MoCo), a budgetary path starting from the projections of the Monitoring Committee of 23 March 2023 has also been elaborated in exceptional circumstances, as further explained in the third part of the present report. Not the macroeconomic outlook but the fiscal outlook differs.

1 As before, the results shown for 2022, which are the basis for the outlook 2023-2028, are still preliminary estimates that may be revised by the National Accounts Institute (NAI) when the first official public accounts results will be published later in April 2023.

2 The mission of the Monitoring Committee is to draw up reports on the budgetary positions on a regular basis in preparation for each budget cycle. The Monitoring Committee is composed of the top officials from the FPS BOSA, FPS Finance, Social Security, NSSO, INAMI/RIZIV, NISSE and the Inspectorate of Finance.

Macroeconomic outlook

As far as the **macroeconomic context and cyclical evolution** are concerned, the expectations of the Federal Planning Bureau can be summarised as follows.

In the baseline scenario, **real economic growth slows to 1.0% in 2023**, in the wake of real growth on an annual basis which actually was maintained relatively well in 2022 (3.1%), despite the energy crisis. **Growth is expected to gain momentum in 2024 (1.7%), followed by average annual growth of 1.4% for the period 2025-2028.**

The slowdown in economic growth in 2023 compared to 2022 is due to slower growth in domestic demand (1.3%), especially private consumption, combined with a deterioration in the balance of goods and services (-0.3%) due to a slowdown in exports. Investments (gross fixed capital formation), on the other hand, are increasing after the decline recorded in 2022. The growth in investment is particularly pulled by a strong increase in public investment (10.6%) [3].

In the 2024-2028 projection period, higher economic growth in 2024 is explained by a resurgence in domestic demand in 2024 (1.9%), supported by private consumption and investment, and a smaller contraction in net exports (-0.2%). After 2024, economic activity growth stabilises at 1.4%, due to a decline in the growth of domestic demand (to 1.5%) and a less negative contribution from the balance of goods and services, which even becomes slightly positive in 2027. Following the 2024 upswing, the growth of private consumption slows down in the 2025-2028 period, while the growth of government consumption accelerates. After the growth acceleration in 2024, the growth of private investment is also slowing down, and will only gain momentum in 2028. Finally, public investment is experiencing a decline following the strong expansion of 2023-2024.

After a peak of 6.5% in 2022, the growth of the GDP deflator falls to 3.4% in 2023, and declines further to 1.6% in 2028. The growth of the deflator converges towards the growth of the national consumer price index (NCPI). **Combined with real GDP growth, the evolution of the GDP deflator contributes to the slowdown in nominal GDP growth to 3.0% as of 2026.**

[3] For information, in 2021 and 2022, the share of gross fixed capital formation of the general government sector is 11.3% of total domestic gross fixed capital formation at current prices, or 2.7% of nominal GDP.

In the baseline scenario of the FPB, **potential growth slows by about 0.1 percentage point per year, from 1.7% in 2022 to 1.1% in 2028.** That decline is due to a slowdown in potential employment growth and, to a rather limited extent, a slowdown in the growth of the capital stock at the end of the period. In 2023, effective real growth nevertheless falls below potential growth because expected real growth is only 1% in that year. From 2024 onwards, however, effective real growth again exceeds potential growth, except in 2025. **Consequently, the output gap - which has closed in 2022, after having become strongly negative in 2020 - becomes negative in 2023** [4]**. Subsequently, the output gap narrows every year - except in 2025 when it deteriorates very slightly - to be completely filled in 2028.**

Fiscal outlook

As far as the **global evolution of public finances** at the general government level is concerned, the **Federal Planning Bureau predicts that the headline deficit will rise to 5.7% of GDP in 2023**, compared to 4.0% of GDP in 2022. In 2028, the headline deficit rises to 5.9% of GDP, or a **cumulative deterioration of 1.9 percentage points of GDP over the period 2022-2028**.

The outlook of the Monitoring Committee is more optimistic. The headline deficit in 2023 remains high, but still 1% of GDP lower than the estimate of the Federal Planning Bureau. Based on the MoCo projections, the headline deficit would be 4.8% of GDP in 2023, compared to 4.1% of GDP in 2022. In 2028, the headline deficit would be 5.4% of GDP, or a cumulative deterioration of 1.3 percentage points of GDP over the period 2022-2028.

The differences between the Federal Planning Bureau and the Monitoring Committee are mainly at the level of Entity I. They are largely explained by a different assessment of certain revenues and expenditures. The main discrepancies concern the estimate of corporate income tax revenues, health care expenditure and pension expenditure.

The Federal Planning Bureau thus expects a **cumulative deterioration in the headline deficit of 1.7 percentage points of GDP between 2022 and 2026** (in other words, over the period 2023-2026), **and of 1.9 percentage points of GDP by 2028, about half of which is attributable to the rise in interest charges and the other half to the increase in the headline primary deficit**.

[4] Annex 4.1 compares the output gap estimates of the FPB (February 2023) with the estimates of the European Commission (November 2022) for the period 2022-2024.

For a more detailed analysis of the evolution expected by the Federal Planning Bureau under an unchanged policy of the primary balance, interest payments, the expenditure and revenue ratio and the structural balance as well as the conversion of the headline budget balance into the structural balance, reference is made to the text of part 1.2 of the full text.

In the outlook of the Federal Planning Bureau, the debt ratio of the general government increases over the projection period in an unchanged policy context. Therefore, the decline in the debt ratio in 2020-2021 was not of a permanent nature. After peaking at 112.0% of GDP in 2020, the debt ratio declined for two consecutive years, resulting in a debt ratio of 105.0% of GDP in 2022. Starting from that 105.0% of GDP in 2022, **the debt ratio steadily increases, accelerating to** 113.6% of GDP in 2026 and **119.1% of GDP by 2028**. **This is an increase of** 8.6 and **14.2 percentage points of GDP**, respectively.

For a more detailed discussion of the underlying endogenous and exogenous factors affecting the evolution of the debt ratio, reference is made to part 1.3 of the full text.

The Monitoring Committee estimates the debt ratio at 105.2% of GDP in 2022 and expects a further increase to 111.2% of GDP in 2026 and 115.9% of GDP in 2028.

The breakdown of the budget balance between Entity I and Entity II based on the outlook of the Federal Planning Bureau indicates that over the period 2023-2026 and by 2028, **the deterioration of the budget balance of the general government**, expressed as a percentage of GDP, **is due to the increase in the deficit of Entity I** (Federal Government and Social Security). The deficit of Entity I is almost exclusively causing the increase in the budget deficit of the general government in 2023. Following a minor decline in 2024, the deficit of Entity I increases every year.

Table 1
Evolution of budget balances of Entity I and Entity II
(% of GDP)

	2022	2023	2024	2025	2026	2027	2028	Δ2022-2026 (p.p.)
General Government	**-4,0%**	**-5,7%**	**-5,4%**	**-5,5%**	**-5,7%**	**-5,8%**	**-5,9%**	**-1,7%**
Entity I	-2,9%	-4,4%	-4,3%	-4,5%	-4,9%	-5,2%	-5,4%	-2,0%
Federal Government	-2,4%	-4,5%	-4,4%	-4,3%	-4,5%	-4,6%	-4,8%	-2,2%
Social Security	-0,5%	0,1%	0,0%	-0,2%	-0,4%	-0,5%	-0,6%	0,1%
Entity II	-1,2%	-1,3%	-1,1%	-1,0%	-0,8%	-0,6%	-0,5%	0,3%
Communities and Regions	-1,2%	-1,2%	-0,9%	-0,9%	-0,8%	-0,6%	-0,5%	0,4%
Local Governments	0,0%	-0,1%	-0,2%	-0,1%	-0,1%	0,0%	0,0%	-0,1%

Note: The sum of the variable components may not correspond to the total shown in the table, due to rounding up.
Source: Calculations of the HCF based on the FPB (February 2023): Economic Outlook 2023-2028.

The deficit of all Communities and Regions decreases annually over the entire projection period.

Table 2
Estimates of budget balances of Communities and Regions
(% of GDP)

	2022	2023	2024	2025	2026	2027	2028	Δ2022-2026 (p.p.)
Communities and Regions	-1,2%	-1,2%	-0,9%	-0,9%	-0,8%	-0,6%	-0,5%	0,4%
Flemish Community	-0,4%	-0,4%	-0,2%	-0,2%	-0,1%	0,0%	0,0%	0,3%
French Community	-0,2%	-0,1%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	0,0%
Walloon Region	-0,4%	-0,4%	-0,3%	-0,3%	-0,3%	-0,2%	-0,2%	0,1%
Brussels-Capital Region	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	-0,2%	0,0%
Other federated entitities and interregional units	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Note: The sum of the variable components may not correspond to the total shown in the table, due to rounding up.
Source: Calculations of the HCF based on the FPB (February 2023): Economic Outlook 2023-2028.

The Flemish Community and the Walloon Region contribute to the downward path of the budget deficit of all Communities and Regions over the projection period. Assuming a budget deficit of 0.4% of GDP in 2022, the **Flemish Community is well on its way to establish the ESA balanced budget in 2028 again, while the deficit of the Walloon Region is halving**. **The deficits of the French Community and the Brussels-Capital Region remain relatively stable over the projection period [5].**

[5] The breakdown of the budget balance of all Communities and Regions for the German-speaking Community, the French Community Commission, the Flemish Community Commission and the Common Community Commission is missing from the data provided by the Federal Planning Bureau.

The budget balance of local governments shows a deficit in 2023 and 2024 due to the expansion phase of their investment cycle ahead of the October 2024 local elections. Subsequently, the deficit gradually declines until 2028, returning to quasi-equilibrium, which was also observed in 2022.

European regulatory budgetary framework today and tomorrow, national budgetary rules and European fiscal guidelines for 2024

Current situation

The European Commission published a communication on 9 November 2022 setting out orientations for reforming the European economic governance framework. These are guidelines or proposals from the Commission that are currently still the subject of discussions between Member States. Once those political discussions on the reform guidelines are concluded in the Council of the European Union, the European Commission has finalised the preparation of the legislative proposals and those legislative proposals are finally approved by the Council of the European Union and the European Parliament, the revised EU economic governance framework will enter into force.

Pending this new framework, the existing legal framework will continue to apply.

However, at the same time, some elements of the proposed reform guidelines are already taken into account as input for Member States for the drawing up of their next Stability and Convergence Programmes in spring 2023. The guidelines on budgetary policy for 2024 were published by the Commission on 8 March 2023. On 14 March 2023, the Ecofin Council approved the revised draft conclusions on the reform guidelines, which did not take into consideration all but already some key elements of the reform. EU leaders ratified these guidelines on 23 March 2023.

The existing European budgetary framework

The **existing European budgetary framework** includes the Stability and Growth Pact (SGP), which consists of the preventive arm and the corrective arm. Compliance with the preventive arm of the SGP is assessed against two criteria:

- the *medium-term objective* (or MTO) expressed in structural terms [6] or , where appropriate, the convergence path towards it, and the expenditure benchmark. The convergence path is expressed in terms of the required annual structural improvement in the balance.

- the expenditure benchmark is an expenditure standard and imposes an upper limit on the net growth of public expenditure [7]. Respecting the expenditure benchmark allows the MTO to be reached and, once achieved, to be maintained.

The corrective arm of the SGP addresses the requirement in the Treaty on the Functioning of the European Union (TFEU) for Member States to avoid excessive deficits and excessive debt levels due to interdependence and strong spillover effects (*spillovers*) between Member States of the European Union, and of the euro area in particular. To reduce this risk, limit values were set:

- 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;

- the debt ratio of the general government should not exceed 60% of GDP or should decline sufficiently and approach this reference value at a satisfactory pace; this is the debt criterion of the corrective arm.

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[6] In structural terms, after excluding 1) the cyclical influences on the budget balance and 2) the impact of one-off and temporary measures, which are considered as 'one offs' in the ESA (not every temporary measure or impact is a one off; however, every one off is temporary).

[7] This is an expenditure aggregate that closely matches primary expenditure and the adjective ‘net’ means that any excess over the maximum expenditure growth can be offset by discretionary measures on the revenue side. For a detailed definition of the expenditure aggregate in question, see the Report of the Section of July 2020, part 2.1.1.3 ‘*Expenditure benchmark*’.

National budgetary framework

These European budgetary rules are translated to the different levels of government of a Member State according to nationally elaborated budgetary rules that are very different per Member State because they are highly dependent on the institutional organisation of the Member States. **In Belgium, the internal implementation of the European budgetary framework is governed by the cooperation agreement concluded on 13 December 2013** between the Federal Government, the Communities, the Regions and the Community Commissions [8] after its approval by their respective Parliaments, regarding the implementation of Article 3, §1 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

The core of that cooperation agreement is that all governments should move towards structural balance in the medium term. This means that budgets should be balanced in structural terms, i.e. after neutralising cyclical influences and so-called 'one offs' or one-off factors (defined in the ESA).

Reform of the EU economic governance framework

The European Commission published its orientations or guidelines on reforming the economic governance framework on 9 November 2022 [9]. Reforming the European budgetary rules is a key part of the proposed reform.

The Council of the European Union underlines the importance of the EU economic governance framework for achieving effective economic policy coordination and surveillance across the EU. This EU framework will keep public finances of all Member States sound and sustainable in the medium and long term, promote sustainable economic growth and convergence, and address macroeconomic imbalances, complemented by reforms and investments that boost growth and resilience.

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8 See https://www.hogeraadvanfinancien.be/sites/default/files/public/downloads/samenwerkingsakkoord_13_december_2013.pdf

9 European Commission, 09.11.2022, COM(2022) 583, Final communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, '*Communication on orientations for a reform of the EU economic governance framework*'.

The revised draft conclusions of the Council of 14 March 2023 do not yet address the full future economic governance framework, but consensus was already reached on a dozen key elements of the reform guidelines. The Council's decisions in this regard are set out in part 2.2.2 of the full text.

European fiscal guidelines for the Stability and Convergence Programmes 2023-2026

In terms of European budgetary rules, Member States are in a transition phase in 2023-2024. The application of the general escape clause will be discontinued at the end of December 2023 as the conditions for its deactivation from 2024 are met. Following successive crises, government deficits and public debt have risen sharply in most Member States. The new budgetary framework is not yet in place and the existing legal framework continues to apply.

In this complex context, on 8 March 2023, the European Commission published the guidelines for the preparation of the Stability and Convergence Programmes 2023-2026 [10].

In May-June 2023, the Commission will then communicate the *Country-specific recommendations* (CSR) for 2024 with a view to the preparation by the Member States in October 2023 of the draft budgetary plans for 2024. Those draft plans will be reviewed by the Commission in the autumn.

In its communication of 8 March 2023, the European Commission states that budgetary policy in 2023-2024 should focus on:

- ensuring medium-term debt sustainability,
- and promoting sustainable and inclusive growth in all Member States.

In the Stability and Convergence Programmes, Member States should:

1. include 'medium-term fiscal-structural plans', as referred to in the reform guidelines of the Commission;

2. establish the budgetary targets that meet the criteria set out in those reform guidelines:

[10] Document: European Commission, Brussels, 8.3.2023, COM(2023) 141 final, *Communication from the Commission to the Council 'Fiscal policy guidance for 2024'*.

a. <u>for Member States with high to moderate public debt challenges:</u>

- achieve credible and continuous debt reduction,

- or maintain medium-term debt at prudent levels,

- in line with the rules of the Stability and Growth Pact.

In its reform plans, the Commission proposes to base the classification of Member States in terms of debt level challenges on the *debt sustainability analysis framework* (DSA).

b. <u>for all Member States:</u>

- the budget deficit during the period covered by the Stability or Convergence Programme 2023-2026:

→ should not exceed the reference value of 3% of GDP,

→ or be reduced to less than 3% of GDP, i.e. by 2026 at the latest.

- keep the medium-term deficit below 3% of GDP under an unchanged policy.

3. report on their planned energy support measures: interpretation of the fiscal impact, the phasing out of the measures and the underlying assumptions on the evolution of energy prices;

4. indicate how their reform and investment plans, including those included in the Recovery and Resilience Plans (RRP), will contribute to fiscal sustainability and sustainable and inclusive economic growth, in line with the criteria set out in the reform guidelines of the Commission.

Therefore, it is important that the budgetary targets in the Stability and Convergence Programmes are in line with the criteria in the reform guidelines of the Commission, that is:

1. **ensuring that the debt ratio is placed on a credible and continuous downward path or kept at a prudent level in the medium term, depending on the debt situation in the Member State concerned, and**

2. **that the medium-term budget deficit is under the reference value of 3% of GDP.**

Country-specific recommendations for 2024

The country-specific recommendations will be **quantified and differentiated according to the public debt challenges** of the Member States concerned (the Commission proposes to base that analysis on the *Debt Sustainability Analysis framework* (DSA)). The CSR will include both quantitative guidelines and qualitative recommendations on investment and energy measures. Pending a decision on, and the entry into force of the new economic governance framework, the country-specific recommendations for 2024 will be consistent with both the reform guidelines of the Commission and the current Stability and Growth Pact regulations.

The Commission will continue to stress the **importance of public investment** in the country-specific fiscal recommendations. Securing nationally funded high-quality investments and making effective use of the *Recovery and Resilience Facility* (RRF) and other European funds remain important recommendations for all Member States, especially in view of the digital and green transition and other goals to strengthen resilience in order to achieve sustainable and inclusive economic growth.

In Member States with high to moderate public debt challenges, fiscal efforts should not weigh on investment, but investments should be made possible by limiting the growth of nationally financed current expenditure to the medium-term potential economic growth.

The country-specific recommendations for 2024 will also address the **fiscal cost of energy measures**. The Commission considers that those government interventions should be phased out by 2024 if wholesale prices remain stable and lower energy costs are reflected in retail prices. The savings made in this respect should be used to reduce government deficits. In contrast, if energy prices rise again and public support cannot be fully phased out, only highly targeted support measures to protect vulnerable households and businesses are appropriate. The transition from broadly applied to highly targeted measures will reduce fiscal costs, boost energy savings and allow a gradual and sustainable convergence of the economy in the near future.

Application of the excessive deficit procedure

The European Commission will propose to the Council of the European Union to open those excessive deficit procedures (EDP) in spring 2024 on the basis of figures achieved for 2023, in accordance with existing legal provisions.

Member States should take this into account when implementing their budgets for 2023 and when preparing their Stability and Convergence Programmes for 2023-2026 this spring and draft budgetary plans for 2024 this autumn.

The possible consequences of the initiation of an EDP for Member States concerned are explained in annex 4.6.

Recommendations and normative convergence paths

Principles and methodology for determining normative paths

In its recommendations, the Section has taken into account existing national budgetary rules and the fiscal guidelines of the European Commission for 2024 [11] **that guide the preparation of the Stability and Convergence Programmes 2023-2026.**

Pursuant to the European budgetary rules, the Section is obliged to use the outlook of the FPB as the basis for the budgetary paths it recommends. The economic outlook 2023-2028 under an unchanged policy (in ESA), published by the FPB on 23 February 2023, and taking into account the information available on 8 February 2023, is the basis for the present report.

The convergence paths recommended by the Section were drawn up in ESA [12]**.**

The year preceding the period covered by the Stability Programme is the basis for determining the path adopted by the Section. The present report is part of the preparation of the next Stability Programme and thus has **the year 2023 as its basis**.

[11] Document: European Commission (2023), '*Fiscal guidance for 2024*', COM (2023) 141 final, 08.03.2023, Communication from the Commission to the Council.

[12] Consequently, as far as the recording of the regional additional personal income tax is concerned, the projections of the Monitoring Committee first had to be converted from the advance payments approach to the ESA approach (on an enrolment basis).

Because the differences between the FPB and MoCo scenarios are so significant this time, the Section has opted to apply the objectives and methodology it considered in determining the normative paths (based on the FPB scenario) to the MoCo scenario as well. **This allows the governments themselves to decide which of the two scenarios they consider the most likely and wish to consider as a basis for drawing up the future budgetary path to be included in the Stability Programme 2023-2026.**

The uncertainty about the starting year 2023 has implications both for the determination of the required overall structural improvement and its allocation between Entity I and Entity II. For this reason, the Section has formulated the **recommendations in terms of required additional structural efforts with respect to an unchanged policy**.

Priority objectives of the budgetary path for the Stability Programme 2023-2026

The Section considers that it is highly appropriate for the Stability Programme 2023-2026 to meet **two priority objectives**.

The <u>first objective</u> is to bring the budget deficit of the general government below the reference value of 3.0% of GDP before the end of the period covered in that Stability Programme. Therefore, the budget deficit of the general government should be phased out in a sustainable manner to at least 2.9% of GDP by 2026 at the latest. The backloading [13] too often applied in the past, should be discontinued, and without further delay, at the latest in the budget 2024, the required fiscal consolidation should be initiated, in order to achieve the necessary turnaround in budgetary policy in the very short term.

The <u>second objective</u> is to ensure a credible and continuous debt ratio reduction, or to maintain medium-term debt at prudent levels, in line with the rules of the Stability and Growth Pact, because with a debt ratio to exceed 106% of GDP by the end of 2023 [14], Belgium will certainly be among the Member States with high to moderate public debt challenges.

13 Backloading/frontloading shall mean deferring/ advancing part of the fiscal effort to the later/earlier year, respectively.

14 Debt ratio 2023: FPB projections 106.8% of GDP, MoCo projections 106.4% of GDP.

Three normative paths were developed which reflect the additional structural effort required compared to the expected evolution under an unchanged policy in order to achieve the recommended targets of the Section.

The first and third paths start from the FPB scenario under an unchanged policy and differ in terms of the pace of the additional structural effort required, and consequently result in a different pace of debt ratio reduction.

If the governments consider the MoCo scenario more likely, they will find in path two the efforts that are required with respect to the MoCo projections under an unchanged policy in order to meet the targets of the Section. **However, once the choice has been made regarding the unchanged policy scenario to be considered as the basis for the future budgetary path, it is important to keep consistent and coherent within the same scenario.**

The Section also wishes to emphasise that it is not the intention to systematically formulate normative paths in the future on the basis of data sources other than the economic outlook at unchanged policy drawn up by the FPB. In application of the European budgetary framework, the Section is bound to base its recommendations for the preparation of the Stability Programme on this outlook.

The Section maintains this line in the present report, but nevertheless pays attention to the MoCo projections because of the order of magnitude of the deviations between both projections.

The Section considers it highly appropriate to exercise due caution, since the fiscal guidelines for 2024, as adopted by the Council of the European Union, clearly identify the following risk:

'If the budgetary targets in the Stability and Convergence Programmes are in line with the criteria in the reform guidelines of the Commission, that is, ensuring that the debt ratio is placed on a credible and continuous downward path or kept at a prudent level in the medium term, depending on the debt situation in the Member State concerned, and, that the medium-term budget deficit is under the reference value of 3% of GDP:

- *then the country-specific recommendations for 2024 will take into account the budgetary targets set by the Member States themselves and included in their Stability and Convergence Programmes;*

- *if these are not met and the Commission judges that the budgetary targets in the Stability and Convergence Programmes are not ambitious enough, it will set its own quantified targets for 2024 which are in line with both the reform guidelines and the current Stability and Growth Pact regulations.'*

Given the aforementioned European guidelines for 2024 regarding the reduction of the budget deficit and debt management according to public debt challenges, all paths in the present report should actually be understood as minimum paths.

As a matter of fact, the paths do not yet provide substantial buffers for possible future shocks of the type we have experienced in recent years (the COVID-19 pandemic, disruptions to supply chains, the energy crisis followed by sharply rising energy prices and soaring inflation), or possible setbacks due to higher-than-expected costs due to future challenges, such as population ageing, the war in Ukraine, further interest rate increases due to the restrictive monetary policy of the ECB and climate change. It is then only the third path that stabilises the debt ratio in the 2024-2026 period at the 2023 level.

The Section recommends avoiding backloading [15] in any case. This presumably does not send a good signal, either to financial markets or in the context of European fiscal surveillance, in particular debt sustainability analysis.

If the governments choose to depart from the MoCo outlook, the Section considers that a minimum additional structural effort of 0.7 percentage point of GDP per year, starting in 2024, is required to bring the net borrowing ratio below the reference value of 3.0% of GDP in 2026 (as shown in the second path).

The third path, which allows for stabilisation of the debt ratio from the first year, or from 2024 onwards, is the least risky in the light of the assessment to be made by the European Commission on compliance with the European guidelines for the Stability Programme 2023-2026.

The three paths are briefly explained below.

[15] Backloading/frontloading shall mean deferring/ advancing part of the fiscal effort to the later/earlier year, respectively.

Normative path 1 based on FPB projections

In **path 1**, an **additional structural effort of 2.8 percentage points of GDP** is required cumulatively over 2024-2026, i.e. an **average of 0.9 percentage points of GDP per year** (effort maintained further in 2027-2028 *for illustrative purposes*).

This path results in a **budget balance of -2.9% of GDP in 2026** and allows the debt ratio, albeit following an increase in 2024 and 2025, to stabilise at 108% of GDP in 2026.

Table 3
Recommended normative path for the general government, starting from the FPB projections

GENERAL GOVERNMENT *starting from the Economic Outlook 2023-2028 Federal Planning Bureau 2/2023*										
As a % of GDP		**2022**	**2023**	**Horizon Stability Programme 4/2023** **2024**	**2025**	**2026**	**2027**	**2028**	**(26 - 23) resp. Σ(Δ 26-24)**	**(28 - 23) resp. Σ(Δ 28-24)**
Unchanged policy (02/2023 FPB)										
Budget balance	(1)	-4,0%	-5,7%	-5,4%	-5,5%	-5,7%	-5,8%	-5,9%	0,0%	-0,2%
Interest payments	(2)	1,5%	1,7%	1,9%	2,1%	2,3%	2,5%	2,6%	0,5%	0,9%
Primary balance	(3)	-2,5%	-4,0%	-3,5%	-3,4%	-3,4%	-3,3%	-3,3%	0,5%	0,7%
Structural balance (SB)	(4)	-4,2%	-5,2%	-5,1%	-5,2%	-5,5%	-5,6%	-5,9%	-0,2%	-0,7%
Δ structural balance			*-1,02%*	*0,16%*	*-0,10%*	*-0,28%*	*-0,16%*	*-0,28%*	*-0,2%*	*-0,7%*
Debt ratio	(5)	105,0%	106,8%	108,4%	110,8%	113,6%	116,3%	119,1%	6,8%	12,3%
(implicit interest rate - nominal GDP growth)	*(6)*	*-8,4%*	*-2,7%*	*-2,2%*	*-1,2%*	*-0,9%*	*-0,8%*	*-0,7%*		
Normative scenario:										
STRUCTURAL IMPROVEMENT	*(Δ7) = (Δ7.a) + (Δ7.b)*			*1,1%*	*0,8%*	*0,7%*	*0,8%*	*0,7%*	*2,6%*	*4,0%*
under unchanged policy	*(Δ7.a)*			*0,2%*	*-0,1%*	*-0,3%*	*-0,2%*	*-0,3%*	*-0,2%*	*-0,7%*
of which phasing out energy support measures	*(Δ7.a1)*			*0,7%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,7%*	*0,7%*
recommended additional structural effort	***(Δ7.b)***			***0,9%***	***0,9%***	***0,9%***	***0,9%***	***0,9%***	***2,8%***	***4,7%***
Normative structural balance (SB)	(7)	-4,2%	-5,2%	**-4,1%**	**-3,3%**	**-2,6%**	**-1,9%**	**-1,2%**	**2,6%**	**4,0%**
Cyclical impact	(8)	0,0%	-0,3%	-0,2%	-0,3%	-0,3%	-0,2%	0,0%	0,1%	0,3%
One-off measures (one-offs)	(9)	0,2%	-0,1%	-0,1%	0,0%	0,0%	0,0%	0,0%	0,1%	0,1%
Normative budget balance	(10) = (7) + (8) + (9)	-4,0%	-5,7%	**-4,5%**	**-3,6%**	**-2,9%**	**-2,0%**	**-1,2%**	**2,8%**	**4,5%**
Normative interest payments	(11)	1,5%	1,7%	1,9%	2,1%	2,2%	2,4%	2,4%	0,5%	0,7%
Evolution interest payments	*(Δ11)*		*0,2%*	*0,2%*	*0,2%*	*0,1%*	*0,1%*	*0,1%*	*0,5%*	*0,7%*
Normative structural primary balance	(12) = (7) + (11)	-2,7%	-3,5%	-2,2%	-1,2%	-0,4%	0,5%	1,2%	3,1%	4,7%
Structural primary improvement	*(Δ12)*		*-0,8%*	*1,3%*	*1,0%*	*0,8%*	*0,9%*	*0,7%*	*3,1%*	*4,7%*
Normative primary balance	(13) = (10) + (11)	-2,5%	-4,0%	-2,6%	-1,5%	-0,7%	0,3%	1,2%	3,3%	5,2%
Cumulative primary effort	(14) = (13) - (3)	0,0%	0,0%	**0,9%**	**1,9%**	**2,8%**	**3,6%**	**4,5%**	**2,8%**	**4,5%**
Additional primary effort	*(Δ14)*		*0,0%*	*0,9%*	*0,9%*	*0,9%*	*0,9%*	*0,9%*	*2,8%*	*4,5%*
Debt ratio	(15)	105,0%	106,8%	**107,5%**	**108,1%**	**108,0%**	**107,2%**	**105,6%**	**1,2%**	**-1,2%**
Annual difference, of which:	*(16) = (Δ15)*		*1,8%*	*0,7%*	*0,6%*	*0,0%*	*-0,8%*	*-1,7%*	*1,2%*	*-1,2%*
Endogenous evolution	*(15.a)*		*1,3%*	*0,3%*	*0,3%*	*-0,3%*	*-1,1%*	*-1,9%*	*0,3%*	*-2,8%*
Primary balance	*(15.a1)*		*4,0%*	*2,6%*	*1,5%*	*0,7%*	*-0,3%*	*-1,2%*	*4,8%*	*3,2%*
Impact (implicit interest rate - growth)	*(15.a2)*		*-2,7%*	*-2,2%*	*-1,2%*	*-1,0%*	*-0,8%*	*-0,7%*	*-4,4%*	*-6,0%*
Exogenous evolution	*(15.b)*		*0,6%*	*0,4%*	*0,3%*	*0,3%*	*0,3%*	*0,3%*	*0,9%*	*1,5%*

Source: Calculation by the 'Public Sector Borrowing Requirements (PSBR)' Section, HCF, based on the FPB's Economic Outlook 2023-2028 (2/2023).

Normative path 2 based on MoCo projections

In **path 2**, an **additional structural effort of 2.1 percentage points of GDP** is required cumulatively over 2024-2026, i.e. an **average of 0.7 percentage points of GDP per year** (effort maintained further in 2027-2028 *for illustrative purposes*).

This path [16] results in a **budget balance of -2.9% of GDP in 2026** and allows the debt ratio, following an increase in 2025, to practically stabilise at 107% of GDP in 2026.

Table 4
Recommended normative path for the general government, starting from the MoCo projections

GENERAL GOVERNMENT *starting from the Monitoring Committee note 2023-2028 (version 23.03.2023)*										
As a % of GDP		2022	2023	Horizon Stability Programme 4/2023 2024	2025	2026	2027	2028	(26 - 23) resp. Σ(Δ 26-24)	(28 - 23) resp. Σ(Δ 28-24)
Unchanged policy (03/2023 MoCo)										
Budget balance	(1)	-4,1%	-4,8%	-4,6%	-4,7%	-5,0%	-5,2%	-5,4%	-0,2%	-0,7%
Interest payments	(2)	1,5%	1,8%	2,0%	2,2%	2,4%	2,6%	2,9%	0,6%	1,1%
Primary balance	(3)	-2,6%	-3,0%	-2,6%	-2,5%	-2,6%	-2,6%	-2,5%	0,4%	0,4%
Structural balance (SB)	(4)	-4,2%	-4,3%	-4,2%	-4,3%	-4,7%	-5,0%	-5,4%	-0,4%	-1,1%
Δ structural balance			*-0,04%*	*0,08%*	*-0,15%*	*-0,37%*	*-0,31%*	*-0,39%*	*-0,4%*	*-1,1%*
Debt ratio	(5)	105,2%	106,4%	107,2%	109,0%	111,2%	113,5%	115,9%	4,8%	9,5%
(implicit interest rate - nominal GDP growth)	*(6)*	*-8,4%*	*-2,7%*	*-2,1%*	*-1,1%*	*-0,8%*	*-0,6%*	*-0,4%*		
Normative scenario:										
STRUCTURAL IMPROVEMENT	*(Δ7) = (Δ7.a) + (Δ7.b)*			*0,8%*	*0,5%*	*0,3%*	*0,4%*	*0,3%*	*1,6%*	*2,3%*
under unchanged policy	*(Δ7.a)*			*0,1%*	*-0,2%*	*-0,4%*	*-0,3%*	*-0,4%*	*-0,4%*	*-1,1%*
of which phasing out energy support measures	*(Δ7.a1)*			*0,7%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,7%*	*0,7%*
recommended additional structural effort	*(Δ7.b)*			***0,7%***	***0,7%***	***0,7%***	***0,7%***	***0,7%***	***2,1%***	***3,4%***
Normative structural balance (SB)	(7)	-4,2%	-4,3%	**-3,5%**	**-3,0%**	**-2,6%**	**-2,3%**	**-2,0%**	**1,6%**	**2,3%**
Transitional corrections	(8)	0,2%	-0,5%	-0,4%	-0,3%	-0,3%	-0,2%	0,0%	0,2%	0,5%
Normative budget balance	(10) = (7) + (8) + (9)	-4,1%	-4,8%	**-3,9%**	**-3,3%**	**-2,9%**	**-2,4%**	**-2,0%**	**1,9%**	**2,8%**
Normative interest payments	(11)	1,5%	1,8%	2,0%	2,2%	2,4%	2,5%	2,7%	0,6%	0,9%
Evolution interest payments	*(Δ11)*		*0,3%*	*0,2%*	*0,2%*	*0,2%*	*0,2%*	*0,2%*	*0,6%*	*0,9%*
Normative structural primary balance	(12) = (7) + (11)	-2,8%	-2,5%	-1,5%	-0,8%	-0,3%	0,3%	0,7%	2,2%	3,2%
Structural primary improvement	*(Δ12)*		*0,2%*	*1,0%*	*0,7%*	*0,5%*	*0,6%*	*0,5%*	*2,2%*	*3,2%*
Normative primary balance	(13) = (10) + (11)	-2,6%	-3,0%	-1,9%	-1,1%	-0,5%	0,1%	0,7%	2,4%	3,7%
Cumulative primary effort	(14) = (13) - (3)	0,0%	0,0%	0,7%	1,4%	2,0%	2,7%	3,3%	**2,0%**	**3,3%**
Additional primary effort	*(Δ14)*		*0,0%*	*0,7%*	*0,7%*	*0,7%*	*0,6%*	*0,6%*	*2,0%*	*3,3%*
Debt ratio	(15)	**105,2%**	**106,4%**	**106,5%**	**107,0%**	**107,2%**	**106,8%**	**106,0%**	**0,8%**	**-0,4%**
Annual difference, of which:	*(16) = (Δ15)*		*1,2%*	*0,1%*	*0,5%*	*0,1%*	*-0,3%*	*-0,8%*	*0,8%*	*-0,4%*
Endogenous evolution	*(15.a)*		*0,3%*	*-0,3%*	*0,0%*	*-0,3%*	*-0,7%*	*-1,2%*	*-0,5%*	*-2,5%*
Primary balance	*(15.a1)*		*3,0%*	*1,9%*	*1,1%*	*0,5%*	*-0,1%*	*-0,7%*	*3,5%*	*2,7%*
Impact (implicit interest rate - growth)	*(15.a2)*		*-2,7%*	*-2,2%*	*-1,1%*	*-0,8%*	*-0,6%*	*-0,5%*	*-4,1%*	*-5,1%*
Exogenous evolution	*(15.b)*		*0,9%*	*0,4%*	*0,5%*	*0,4%*	*0,4%*	*0,4%*	*1,3%*	*2,1%*

Source: Calculations by the 'Public Sector Borrowing Requirements (PSBR)' Section, HCF, based on the Monitoring Committee note (version 23/03/2023).

[16] Path calculation taking into account: 1/ for projections under an unchanged policy: NFS and debt ratio version 23.03.2023, interest cost and primary balance recalculated using implicit interest rate note MoCo 16.03.2023, 2/ transitional adjustments (general government: cyclical component and one offs) based on note MoCo 16.03.2023.

Given the high overall economic uncertainty for the short and medium term, which is reinforced by 1/ the uncertainty about the fiscal baseline 2023 (i.e. will the nominal and structural balances actually turn out so much more favourable than initially expected or not), 2/ the uncertainty about the further path of the fiscal position and 3/ the maintenance of the debt ratio at a very high level and the absence of substantial debt reduction over the horizon of the Stability Programme, the Section considers that:

- **the normative path 1 reflects the *minimum fiscal effort* necessary to avoid further derailment of public finances, if the FPB projections are considered as a basis;**

- **the normative path 2 reflects the *minimum fiscal effort* necessary to avoid further derailment of public finances, if the MoCo projections are considered as a basis;**

- **nevertheless, of the three paths, 1 and 2 are <u>not the least risky</u> in the light of the assessment to be made by the European Commission on compliance with the European guidelines for the Stability Programme 2023-2026.**

- **taking into account the optimistic but still uncertain starting point 2023, the Section considers that any backloading is ruled out in the choice of path 2 and that a minimum required additional structural effort of 0.7 percentage point of GDP should be achieved, especially in the first year of the Stability Programme, i.e. in 2024.**

Normative path 3 based on FPB projections allowing stabilisation of the debt ratio

Path 3 projects a certain degree of frontloading [17] in order to allow for **stabilisation of the debt ratio at the 2023 level**.

17 Frontloading/ backloading shall mean advancing/deferring part of the fiscal effort to the earlier/ later year, respectively.

An additional structural effort of 2.8 percentage points of GDP is required cumulatively over 2024-2026. However, unlike the other paths, the cumulative additional structural effort is not spread evenly over the period 2024-2026. **The main focus of the effort is in 2024 and decreases in 2025-2026, stabilising the debt ratio at the 2023 level over the following three years.**

This path results in a **budget balance of -2.9% of GDP in 2026** and allows the **debt ratio to stabilise over the Stability Programme horizon at the 2023 level of 106.8% of GDP**.

Because of the stabilisation of the debt ratio from the first year, i.e. from 2024 onwards, path 3 is the <u>least risky</u> in the light of the assessment to be made by the European Commission on compliance with the European guidelines for the Stability Programme 2023-2026.

Table 5
Path for the general government, allowing stabilisation of the debt ratio, based on FPB projections

GENERAL GOVERNMENT - Path allowing stabilisation of debt ratio *starting from the Economic Outlook 2023-2028 Federal Planning Bureau 2/2023*										
As a % of GDP				Horizon Stability Programme 4/2023					(26 - 23) resp.	(28 - 23) resp.
		2022	2023	2024	2025	2026	2027	2028	Σ(Δ 26-24)	Σ(Δ 28-24)
Unchanged policy (02/2023 FPB)										
Budget balance	(1)	-4,0%	-5,7%	-5,4%	-5,5%	-5,7%	-5,8%	-5,9%	0,0%	-0,2%
Interest payments	(2)	1,5%	1,7%	1,9%	2,1%	2,3%	2,5%	2,6%	0,5%	0,9%
Primary balance	(3)	-2,5%	-4,0%	-3,5%	-3,4%	-3,4%	-3,3%	-3,3%	0,5%	0,7%
Structural balance (SB)	(4)	-4,2%	-5,2%	-5,1%	-5,2%	-5,5%	-5,6%	-5,9%	-0,2%	-0,7%
Δ structural balance			*-1,02%*	*0,16%*	*-0,10%*	*-0,28%*	*-0,16%*	*-0,28%*	*-0,2%*	*-0,7%*
Debt ratio	(5)	105,0%	106,8%	108,4%	110,8%	113,6%	116,3%	119,1%	6,8%	12,3%
(implicit interest rate - nominal GDP growth)	*(6)*	*-8,4%*	*-2,7%*	*-2,2%*	*-1,2%*	*-0,9%*	*-0,8%*	*-0,7%*		
More ambitious normative scenario:										
STRUCTURAL IMPROVEMENT	*(Δ7) = (Δ7.a) + (Δ7.b)*			*1,8%*	*0,7%*	*0,1%*	*0,6%*	*0,6%*	*2,6%*	*3,8%*
under unchanged policy	*(Δ7.a)*			*0,2%*	*-0,1%*	*-0,3%*	*-0,2%*	*-0,3%*	*-0,2%*	*-0,7%*
of which phasing out energy support measures	*(Δ7.a1)*			*0,7%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,7%*	*0,7%*
recommended additional structural effort	***(Δ7.b)***			***1,6%***	***0,9%***	***0,4%***	***0,8%***	***0,9%***	***2,8%***	***4,5%***
Normative structural balance (SB)	(7)	-4,2%	-5,2%	**-3,5%**	**-2,7%**	**-2,6%**	**-2,0%**	**-1,4%**	**2,6%**	**3,8%**
Cyclical impact	(8)	0,0%	-0,3%	-0,2%	-0,3%	-0,3%	-0,2%	0,0%	0,1%	0,3%
One-off measures (one-offs)	(9)	0,2%	-0,1%	-0,1%	0,0%	0,0%	0,0%	0,0%	0,1%	0,1%
Normative budget balance	(10) = (7) + (8) + (9)	-4,0%	-5,7%	**-3,8%**	**-3,0%**	**-2,9%**	**-2,2%**	**-1,4%**	**2,8%**	**4,3%**
Normative interest payments	(11)	1,5%	1,7%	1,9%	2,1%	2,2%	2,3%	2,4%	0,5%	0,7%
Evolution interest payments	*(Δ11)*		*0,2%*	*0,2%*	*0,1%*	*0,1%*	*0,1%*	*0,1%*	*0,5%*	*0,7%*
Normative structural primary balance	(12) = (7) + (11)	-2,7%	-3,5%	-1,5%	-0,6%	-0,4%	0,3%	1,0%	3,1%	4,5%
Structural primary improvement	*(Δ12)*		*-0,8%*	*2,0%*	*0,9%*	*0,2%*	*0,7%*	*0,7%*	*3,1%*	*4,5%*
Normative primary balance	(13) = (10) + (11)	-2,5%	-4,0%	-1,9%	-0,9%	-0,7%	0,1%	1,0%	3,3%	4,9%
Cumulative primary effort	(14) = (13) - (3)	0,0%	0,0%	1,6%	2,4%	2,8%	3,5%	4,3%	**2,8%**	**4,3%**
Additional primary effort	*(Δ14)*		*0,0%*	*1,6%*	*0,8%*	*0,3%*	*0,7%*	*0,8%*	*2,8%*	*4,3%*
Debt ratio	(15)	**105,0%**	**106,8%**	**106,8%**	**106,8%**	**106,8%**	**106,2%**	**104,8%**	**0,0%**	**-2,0%**
Annual difference, of which:	*(16) = (Δ 15)*		*1,8%*	*0,0%*	*0,0%*	*0,0%*	*-0,6%*	*-1,4%*	*0,0%*	*-2,0%*
Endogenous evolution	*(15.a)*		*1,3%*	*-0,4%*	*-0,3%*	*-0,3%*	*-1,0%*	*-1,7%*	*-0,9%*	*-3,6%*
Primary balance	*(15.a1)*		*4,0%*	*1,9%*	*0,9%*	*0,7%*	*-0,1%*	*-1,0%*	*3,5%*	*2,4%*
Impact (implicit interest rate - growth)	*(15.a2)*		*-2,7%*	*-2,2%*	*-1,2%*	*-1,0%*	*-0,8%*	*-0,7%*	*-4,4%*	*-6,0%*
Exogenous evolution	*(15.b)*		*0,6%*	*0,4%*	*0,3%*	*0,3%*	*0,3%*	*0,3%*	*0,9%*	*1,5%*

Source: Calculations by the 'Public Sector Borrowing Requirements (PSBR)' Section, HCF, based on the FPB's Economic Outlook 2023-2028 (2/2023).

Methodology for allocating the recommended general government budgetary paths among the various levels of government

In recent years the Section has been using the expected structural balance under an unchanged policy of the year prior to the start of the normative path (SB_{t-1}) as a reference indicator for the allocation of the recommended general government budgetary paths among the various levels of government. That structural balance SB_{t-1} reflects the fiscal impact of the policy choices made by the governments concerned and their (expected) fiscal baseline. The allocation of the path recommended for the general government among the various entities and governments was made according to their respective share in the structural balance SB_{t-1} expected at the general government level on the basis of the FPB's February outlook:

$$(SB_{t\text{-}1\ \text{sub-sector}\ x} / SB_{t\text{-}1\ GG})$$

That approach is maintained in the present report for the following reasons. The existing European regulation laid down in the Stability and Growth Pact is still applicable, pending a final decision on the reform of the EU economic governance framework, of which the budgetary framework is a part. The aforementioned cooperation agreement of December 2013, which implements the existing European budgetary framework, is also still applicable.

Recommended budgetary paths by government sub-sector – allocation of the additional structural improvement over Entity I, Entity II, all communities, regions and local governments

Table 6
Share of the sub-sectors in the SB_{2023} under an unchanged policy of the general government

	SB_{2023} under unchanged policy *as a % of GDP (unless otherwise stated)*	**Entity I**	**Entity II**	**o.w. C&R**	**LG**	**GG**	o.w. undivided (**)
1	Projections FPB (Feb. 2023)						
	SB_{2023}	-4,09%	-1,15%	-1,06%	-0,09%	-5,24%	
	% share in GG	77,97%	22,03%	20,30%	1,74%	100,00%	does not apply
2	Projections MoCo (23.03.2023) (*)						
	SB_{2023}	-2,70%	-1,55%	-1,46%	-0,09%	-4,28%	-0,03%
	% share in GG	63,12%	36,28%	34,16%	2,13%	100,00%	0,60%
(2-1)	Difference (MoCo - FPB)						
	SB_{2023}	1,38%	-0,40%	-0,40%	0,00%	0,96%	-0,03%
	% share in GG	-14,85%	14,25%	13,86%	0,39%	0,00%	does not apply

(*) Converted from advance payments approach to ESA.

(**) Unallocated general government corrections: excluded from normative budgetary paths based on MoCo projections.

Source: HCF-PSBR calculations based on the FPB's Economic Outlook 2023-2028 (02/2023) and the Monitoring Committee Note (version 23/03/2023).

The application of this allocation key results in the following normative convergence paths (for Entity I, Entity II, all communities and regions (C&R) and local governments (LG)), which have paths 1 to 3 at the general government level as a point of reference.

The Section advises the entities and authorities concerned not to use possible margins in case the debt ratio does not stabilise or fall in the standardised convergence paths.

The debt ratio of local governments is decreasing in the three convergence paths but the Section considers it advisable not to use any margins anyway, as this may represent a small but additional contribution to the substantial efforts required to stabilise the debt ratio of the general government or at least slow down its increase.

Table 7
Recommended normative path for Entity I, Entity II, C&R and LG, based on FPB projections

Path 1 - Entity I, Entity II, C&R and LG *starting from the Economic Outlook 2023-2028 Federal Planning Bureau 2/2023*									
			Horizon Stability Programme 4/2023					(26 - 23) resp.	(28 - 23) resp.
As a % of GDP	2022	2023	2024	2025	2026	2027	2028	Σ(Δ 26-24)	Σ(Δ 28-24)
Entity I:									
required additional structural effort compared to unchanged policy (FPB)			*0,8%*	*0,9%*	*0,9%*	*0,9%*	*0,9%*	*2,7%*	*4,5%*
normative budget balance	-2,9%	-4,4%	-3,6%	-2,8%	-2,2%	-1,6%	-0,9%	2,2%	3,5%
normative debt ratio	83,5%	84,7%	85,0%	85,1%	84,8%	83,9%	82,3%	0,0%	-2,4%
Entity II:									
required additional structural effort compared to unchanged policy (FPB)			*0,2%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,2%*	*0,2%*
normative budget balance	-1,2%	-1,3%	-0,9%	-0,8%	-0,7%	-0,5%	-0,3%	0,6%	1,0%
normative debt ratio	21,4%	22,1%	22,5%	23,0%	23,3%	23,4%	23,2%	1,2%	1,2%
C&R:									
required additional structural effort compared to unchanged policy (FPB)			*0,0%*	*0,1%*	*0,0%*	*0,0%*	*0,1%*	*0,2%*	*0,3%*
normative budget balance	-1,2%	-1,2%	-0,9%	-0,7%	-0,6%	-0,4%	-0,2%	0,6%	0,9%
normative debt ratio	17,3%	18,0%	18,5%	19,0%	19,4%	19,6%	19,5%	1,4%	1,5%
LG:									
required additional structural effort compared to unchanged policy (FPB)			*0,1%*	*-0,1%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*-0,1%*
normative budget balance	0,0%	-0,1%	-0,1%	-0,1%	-0,1%	0,0%	0,0%	0,1%	0,1%
normative debt ratio	4,1%	4,1%	4,0%	4,0%	3,9%	3,8%	3,7%	-0,2%	-0,4%
GG:									
required additional structural effort compared to unchanged policy (FPB)			*0,9%*	*0,9%*	*0,9%*	*0,9%*	*0,9%*	*2,8%*	*4,7%*
normative budget balance	-4,0%	-5,7%	-4,5%	-3,6%	-2,9%	-2,0%	-1,2%	2,8%	4,5%
normative debt ratio	105,0%	106,8%	107,5%	108,1%	108,0%	107,2%	105,6%	1,2%	-1,2%

Source: HCF-PSBR calculations based on the FPB's Economic Outlook 2023-2028 (02/2023).

Table 8
Recommended normative path for Entity I, Entity II, C&R and LG, based on MoCo projections

Path 2 - Entity I, Entity II, C&R and LG *starting from the Monitoring Committee note 2023-2028 (23.03.2023)*									
As a % of GDP			Horizon Stability Programme 4/2023					(26 - 23) resp.	(28 - 23) resp.
	2022	2023	2024	2025	2026	2027	2028	Σ(Δ 26-24)	Σ(Δ 28-24)
Entity I:									
required additional structural effort compared to unchanged policy (MoCo)			*0,9%*	*0,6%*	*0,7%*	*0,7%*	*0,7%*	*2,3%*	*3,7%*
normative budget balance	-2,9%	-3,4%	-2,5%	-2,1%	-1,8%	-1,5%	-1,2%	1,6%	2,2%
normative debt ratio	83,8%	84,3%	83,6%	83,0%	82,3%	81,5%	80,3%	-2,0%	-4,0%
Entity II:									
required additional structural effort compared to unchanged policy (MoCo)			*-0,2%*	*0,1%*	*0,0%*	*0,0%*	*0,0%*	*-0,2%*	*-0,2%*
normative budget balance	-1,2%	-1,3%	-1,3%	-1,2%	-1,0%	-0,9%	-0,7%	0,3%	0,6%
normative debt ratio	21,4%	22,1%	22,9%	23,7%	24,4%	24,9%	25,1%	2,3%	3,0%
C&R:									
required additional structural effort compared to unchanged policy (MoCo)			*-0,4%*	*0,2%*	*0,0%*	*0,0%*	*0,0%*	*-0,2%*	*-0,2%*
normative budget balance	-1,2%	-1,2%	-1,3%	-1,1%	-1,0%	-0,8%	-0,7%	0,2%	0,5%
normative debt ratio	17,3%	18,0%	18,9%	19,8%	20,5%	21,0%	21,3%	2,5%	3,3%
LG:									
required additional structural effort compared to unchanged policy (MoCo)			*0,1%*	*-0,1%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*-0,1%*
normative budget balance	0,0%	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	0,0%	0,1%	0,1%
normative debt ratio	4,1%	4,1%	4,0%	4,0%	3,9%	3,9%	3,8%	-0,2%	-0,3%
GG:									
required additional structural effort compared to unchanged policy (MoCo)			*0,7%*	*0,7%*	*0,7%*	*0,7%*	*0,7%*	*2,1%*	*3,4%*
normative budget balance	-4,1%	-4,8%	-3,9%	-3,3%	-2,9%	-2,4%	-2,0%	1,9%	2,8%
normative debt ratio	105,2%	106,4%	106,5%	107,0%	107,2%	106,8%	106,0%	0,8%	-0,4%

Source: HCF-PSBR calculations based on the Monitoring Committee Note (version 23/03/2023).

Table 9
Normative path for Entity I, Entity II, C&R and LG, allowing stabilisation of the debt ratio at the general government level

Path 3 - Entity I, Entity II, C&R and LG - path allowing stabilisation of the debt ratio at the general government level *starting from the Economic Outlook 2023-2028 Federal Planning Bureau 2/2023*									
As a % of GDP			Horizon Stability Programme 4/2023					(26 - 23) resp.	(28 - 23) resp.
	2022	2023	2024	2025	2026	2027	2028	Σ(Δ 26-24)	Σ(Δ 28-24)
Entity I:									
required additional structural effort compared to unchanged policy (FPB)	*0,0%*	*0,0%*	*1,3%*	*0,8%*	*0,5%*	*0,8%*	*0,9%*	*2,7%*	*4,3%*
normative budget balance	-2,9%	-4,4%	-3,0%	-2,4%	-2,2%	-1,7%	-1,1%	2,2%	3,3%
normative debt ratio	83,5%	84,7%	84,4%	84,1%	83,8%	83,0%	81,7%	-0,9%	-3,0%
Entity II:									
required additional structural effort compared to unchanged policy (FPB)	*0,0%*	*0,0%*	*0,3%*	*0,0%*	*-0,1%*	*0,0%*	*0,0%*	*0,2%*	*0,2%*
normative budget balance	-1,2%	-1,3%	-0,8%	-0,7%	-0,6%	-0,5%	-0,3%	0,7%	1,0%
normative debt ratio	21,4%	22,1%	22,4%	22,7%	23,0%	23,1%	23,1%	0,9%	1,0%
C&R:									
required additional structural effort compared to unchanged policy (FPB)	*0,0%*	*0,0%*	*0,2%*	*0,1%*	*-0,1%*	*0,0%*	*0,0%*	*0,2%*	*0,2%*
normative budget balance	-1,2%	-1,2%	-0,7%	-0,6%	-0,6%	-0,4%	-0,3%	0,6%	0,9%
normative debt ratio	17,3%	18,0%	18,4%	18,8%	19,1%	19,3%	19,3%	1,1%	1,3%
LG:									
required additional structural effort compared to unchanged policy (FPB)	*0,0%*	*0,0%*	*0,1%*	*-0,1%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*-0,1%*
normative budget balance	0,0%	-0,1%	-0,1%	-0,1%	-0,1%	0,0%	0,0%	0,1%	0,1%
normative debt ratio	4,1%	4,1%	4,0%	3,9%	3,9%	3,8%	3,7%	-0,2%	-0,4%
GG:									
required additional structural effort compared to unchanged policy (FPB)	*0,0%*	*0,0%*	*1,6%*	*0,9%*	*0,4%*	*0,8%*	*0,9%*	*2,8%*	*4,5%*
normative budget balance	-4,0%	-5,7%	-3,8%	-3,0%	-2,9%	-2,2%	-1,4%	2,8%	4,3%
normative debt ratio	105,0%	106,8%	106,8%	106,8%	106,8%	106,2%	104,8%	0,0%	-2,0%

Source: HCF-PSBR calculations based on the FPB's Economic Outlook 2023-2028 (02/2023).

Further breakdown of the recommended additional structural effort between the individual communities and regions [18]

In order to establish the recommended budgetary paths of the Flemish Community, the French Community, the Walloon Region and the Brussels-Capital Region, the same methodology is applied as for the sub-sectors of the general government. The allocation key is based on the basis of the share of their respective structural balance under an unchanged policy in the corresponding structural balance of the general government and this for the year prior to the start of the convergence path, i.e. 2023. To this end, the FPB's projections under an unchanged policy were considered as the basis (i.e. path 1 and path 3). It was no longer possible to also work out path 2 (assuming the MoCo projections) for the individual communities and regions in the absence of detailed data on the corrections that would allow the budget balances to be converted into structural balances.

Table 10
Share of the individual communities and regions in the SB2023 of the general government

SB_{2023} under unchanged policy *as a % of GDP (unless otherwise stated)*	**FlC**	**FrC**	**WR**	**BCR**	GC, CCC, FrCC & FlCC *(by balance)*	**TOTAL C&R**
Projections FPB (Feb. 2023)						
SB_{2023}	-0,37%	-0,11%	-0,34%	-0,20%	-0,04%	-1,06%
% share in GG	7,04%	2,09%	6,51%	3,80%	0,85%	20,30%
% share in C&R	34,70%	10,28%	32,10%	18,73%	4,20%	100,00%

Source: HCF-PSBR calculations.

The application of this allocation key results in the following normative convergence paths (for the Flemish Community, the French Community, the Walloon Region and the Brussels-Capital Region), which have paths 1 and 3 at the general government level as a point of reference.

The Section advises the federated entities concerned not to use possible margins in case the debt ratio does not stabilise or fall in the standardised convergence paths.

18 In the absence of separate data for the German-speaking Community, the French Community Commission, the Flemish Community Commission and the Common Community Commission in the data provided by the Federal Planning Bureau, it is not possible for the Section to recommend separate convergence paths for these entities as well. These four entities are classified under the heading 'Other federated entities and inter-regional units' without further subdivision.

Table 11
Recommended normative path for the individual communities and regions, based on FPB projections

As a % of GDP	2022	2023	2024	2025	2026	2027	2028	(26 - 23) resp. Σ(Δ 26-24)	(28 - 23) resp. Σ(Δ 28-24)
Path 1 - Individual federated entities									
starting from the Economic Outlook 2023-2028 Federal Planning Bureau 2/2023			**Horizon Stability Programme 4/2023**						
Flemish Community:									
required additional structural effort compared to unchanged policy (FPB)			*-0,08%*	*0,04%*	*-0,08%*	*0,00%*	*0,02%*	*-0,12%*	*-0,10%*
normative budget balance	-0,37%	-0,41%	-0,30%	-0,27%	-0,22%	-0,15%	-0,09%	0,19%	0,33%
normative debt ratio	5,86%	6,27%	6,55%	6,84%	7,08%	7,24%	7,27%	0,81%	1,00%
French Community:									
required additional structural effort compared to unchanged policy (FPB)			*0,08%*	*0,03%*	*0,02%*	*0,00%*	*0,01%*	*0,13%*	*0,14%*
normative budget balance	-0,17%	-0,12%	-0,10%	-0,08%	-0,07%	-0,05%	-0,03%	0,06%	0,10%
normative debt ratio	2,18%	2,22%	2,22%	2,24%	2,24%	2,22%	2,18%	0,02%	-0,04%
Walloon Region:									
required additional structural effort compared to unchanged policy (FPB)			*0,03%*	*0,03%*	*0,03%*	*0,01%*	*0,00%*	*0,09%*	*0,09%*
normative budget balance	-0,40%	-0,39%	-0,28%	-0,23%	-0,18%	-0,13%	-0,08%	0,21%	0,31%
normative debt ratio	6,46%	6,53%	6,63%	6,72%	6,78%	6,77%	6,72%	0,24%	0,19%
Brussels-Capital Region:									
required additional structural effort compared to unchanged policy (FPB)			*0,02%*	*0,03%*	*0,02%*	*0,03%*	*0,02%*	*0,07%*	*0,12%*
normative budget balance	-0,22%	-0,20%	-0,16%	-0,13%	-0,10%	-0,07%	-0,05%	0,10%	0,16%
normative debt ratio	1,80%	1,98%	2,11%	2,22%	2,30%	2,35%	2,37%	0,32%	0,39%
C&R (*)									
required additional structural effort compared to unchanged policy (FPB)			*0,04%*	*0,13%*	*0,00%*	*0,04%*	*0,06%*	*0,17%*	*0,27%*
normative budget balance	*-1,18%*	*-1,17%*	*-0,87%*	*-0,73%*	*-0,60%*	*-0,42%*	*-0,25%*	*0,58%*	*0,93%*
normative debt ratio	*17,27%*	*17,99%*	*18,51%*	*19,02%*	*19,39%*	*19,56%*	*19,50%*	*1,40%*	*1,52%*

(*) Including the German-speaking Community, the Common Community Commission, the French Community Commission, the Flemish Community Commission and unallocated entities for which no separate convergence paths can be drawn up in the absence of detailed data.

Source: HCF-PSBR calculations based on the FPB's Economic Outlook 2023-2028 (02/2023).

Table 12
Normative path for individual communities and regions, allowing stabilisation of the debt ratio at the general government level

As a % of GDP	2022	2023	2024	2025	2026	2027	2028	(26 - 23) resp. Σ(Δ 26-24)	(28 - 23) resp. Σ(Δ 28-24)
Path 3 - Individual federated entities - path allowing stabilisation of the debt ratio at the general government level									
starting from the Economic Outlook 2023-2028 Federal Planning Bureau 2/2023			**Horizon Stability Programme 4/2023**						
Flemish Community:									
required additional structural effort compared to unchanged policy (FPB)			*-0,03%*	*0,03%*	*-0,12%*	*-0,01%*	*0,01%*	*-0,12%*	*-0,11%*
normative budget balance	-0,37%	-0,41%	-0,25%	-0,23%	-0,22%	-0,16%	-0,10%	0,20%	0,31%
normative debt ratio	5,86%	6,27%	6,51%	6,76%	6,99%	7,16%	7,22%	0,72%	0,94%
French Community:									
required additional structural effort compared to unchanged policy (FPB)			*0,10%*	*0,03%*	*0,01%*	*-0,01%*	*0,01%*	*0,13%*	*0,14%*
normative budget balance	-0,17%	-0,12%	-0,08%	-0,07%	-0,07%	-0,05%	-0,03%	0,06%	0,09%
normative debt ratio	2,18%	2,22%	2,21%	2,21%	2,21%	2,20%	2,16%	0,00%	-0,06%
Walloon Region:									
required additional structural effort compared to unchanged policy (FPB)			*0,07%*	*0,02%*	*-0,01%*	*-0,01%*	*-0,01%*	*0,09%*	*0,08%*
normative budget balance	-0,40%	-0,39%	-0,23%	-0,19%	-0,18%	-0,14%	-0,09%	0,21%	0,30%
normative debt ratio	6,46%	6,53%	6,59%	6,64%	6,70%	6,71%	6,67%	0,16%	0,13%
Brussels-Capital Region:									
required additional structural effort compared to unchanged policy (FPB)			*0,05%*	*0,02%*	*0,00%*	*0,02%*	*0,02%*	*0,07%*	*0,11%*
normative budget balance	-0,22%	-0,20%	-0,13%	-0,11%	-0,10%	-0,08%	-0,05%	0,10%	0,15%
normative debt ratio	1,80%	1,98%	2,08%	2,17%	2,26%	2,31%	2,34%	0,27%	0,35%
C&R (*)									
required additional structural effort compared to unchanged policy (FPB)			*0,18%*	*0,11%*	*-0,11%*	*0,00%*	*0,05%*	*0,17%*	*0,22%*
normative budget balance	*-1,18%*	*-1,17%*	*-0,73%*	*-0,61%*	*-0,59%*	*-0,45%*	*-0,29%*	*0,58%*	*0,89%*
normative debt ratio	*17,27%*	*17,99%*	*18,37%*	*18,76%*	*19,13%*	*19,35%*	*19,34%*	*1,15%*	*1,35%*

(*) Including the German-speaking Community, the Common Community Commission, the French Community Commission, the Flemish Community Commission and unallocated entities for which no separate convergence paths can be drawn up in the absence of detailed data.

Source: HCF-PSBR calculations based on the FPB's Economic Outlook 2023-2028 (02/2023).