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OLLI REHN
VICE-PRESIDENT OF THE EUROPEAN COMMISSION

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Brussels, 5 January 2012

Dear Steven,

As you may know, right after the publication of the Commission Services 2011 Autumn Forecast of 10 November, I wrote a letter to your predecessor Minister Reynders and recalled Belgium's obligations under the EDP and asked for the adoption, as a matter of urgency, of a budget that ensures a timely and lasting correction of the excessive deficit in 2012. I also said that the Commission will apply the new rules of economic governance following from the six-pack from day one of their entering into force. I sent similar letters to the authorities of Cyprus, Hungary, Malta and Poland.

In the meantime, your draft budget for 2012 has been submitted to Parliament, which I appreciate. The Belgian authorities have also shared with my services numerous supportive documents, for which I am very grateful. There have also been several technical meetings and other constructive and intensive communication with your services and other parts of the government, and my services have shared the outcome of their detailed assessment with the cabinets of MM. Di Rupo and Chastel and yours on 30 December and have further studied their response of 3 January.

On this basis, the Commission services have come to the conclusion that if the impact of the measures on the budget are taken into account, including the second round effects on growth which is the standard practice, the deficit forecast for Belgium in 2012 should be updated to about 3¼% of GDP, compared to the Commission's no policy change forecast of 4.6% of GDP and the government's fiscal target of 2.8% of GDP.

The divergence is notably the result of a 0.3% of GDP divergence in terms of the expected impact of budgetary measures (concerning in particular the reform of notional interests and the increase in the tax rate on interests and dividends, a part of the savings foreseen in healthcare expenditure and the expected yield of the fight against tax evasion), whereas the minor divergence that existed on the wage bill has been eliminated. In addition, it reflects an assumed 0.15% GDP of negative impact on the deficit stemming from the slower growth that will result from the new consolidation measures.

Mr Steven Vanackere
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Against this background, as the first-best solution, if the Belgian Government were to adopt in the coming days measures of a structural nature amounting to at least 0.3-0.5% of GDP (about EUR 1.2 to 2billion), this would allow us to conclude for the moment, and based on the Commission services Autumn forecast, that Belgium has undertaken the required fiscal effort, resulting in a deficit below 3% of GDP in 2012.

Should the actual adoption of measures not be possible at this stage, as an alternative I would be prepared to consider the creation of a budgetary reserve of the above-mentioned size by freezing (at least temporarily) some additional budgetary expenditure in the 2012 budget. This would allow the government to either use some of this budgetary reserve or to replace it by other consolidation measures in the context of the February "budgetary control" exercise. It would of course be important that the use of this reserve is limited, for instance by establishing a rule that it can only be used if the 1 October EDP notification to the Commission shows a deficit of at most 2.8% of GDP.

Given that the Commission intends to adopt the necessary EDP decisions on 11 January, we would need to receive the information on concrete additional measures and/or budgetary reserve by the end of the week, latest by Monday morning. My cabinet and services are at your disposal as always in case you have any further inquiries on the matter.

Yours sincerely,

Olli Rehn