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Commission assesses the Belgian stability programme

The European Commission has published a recommendation to the Council of Ministers on the Belgian stability programme. The recommendation was made in accordance with the new reinforced procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The Belgian stability programme covers the period 1999-2002 and projects a decline in the general government deficit ratio to 0.3% of GDP and in the gross debt ratio to 106.8% of GDP by the end of the period of the programme. The Commission considers that the envisaged medium-term objectives are in line with the Stability and Growth Pact requirements. Moreover, the intermediate objective of keeping the primary surplus at 6% of GDP throughout the period covered by the programme is welcome and should ensure steady reductions in the high level of government debt. The Commission believes that the structural measures announced in the programme are appropriate and in line with the Broad Economic Policy Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Belgian programme on 15 March 1999.

The Commission recommendation is adopted on the initiative of President Jacques Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic, monetary and financial affairs, as part of the procedures in the Stability and Growth pact for surveillance and co-ordination of national economic and budgetary policies at the level of the EU.

The Stability and Growth Pact, agreed by the Amsterdam European Council in June 1997, requires countries participating in the euro zone to present stability programmes to the Council and the Commission. These programmes aim to demonstrate how countries intend to meet the objectives of the Pact and in particular the medium-term goal of a budget close to balance or in surplus. The Commission's analysis considers in particular whether the medium-term budgetary target provides a sufficient margin for normal cyclical fluctuations without exceeding the reference value of 3% of GDP. The programmes cover the current year and at least three future years (the Belgian programme covers the period 1999-2002).

The Commission's main conclusions are the following:

- the programme is based on a realistic macroeconomic scenario which assumes that GDP will decelerate from the current level towards growth close to trend during the latter part of the period covered by the programme;

- the programme builds on the budgetary efforts of recent years: the general government deficit fell from 7.1% in 1993 to 1.3% in 1998 while the gross debt ratio declined from 135.0% in 1993 to 117.5% of GDP in 1998 thus meeting the objectives set by the previous Belgian convergence programme for the period 1997-2000;
- the stability programme envisages a further reduction of the deficit ratio to 0.3% of GDP over the period 1999-2002. In addition, the Belgian authorities aim to maintain a general government primary surplus of at least 6 % of GDP, throughout the period 1999-2002;
- the programme does not envisage any new discretionary measures to achieve the budgetary targets, assuming that the permanent measures already adopted will continue to provide sufficient budgetary resources;
- the Belgian authorities affirm their commitment to take any necessary measures in case of any slippage from the programme's objectives, including for the primary surplus. The programme also defines a realistic approach for accelerating the pace of deficit reduction in case of windfall gains arising from stronger than expected economic growth.
- the envisaged medium-term government deficit target is in line with the Stability and Growth Pact as it provides the necessary margin to prevent the deficit, in the event of a normal cyclical downturn, from exceeding the 3 % of GDP reference value.
- the programme does not cover public investment, the level of which has been particularly low for a number of years; yet, it seems desirable, while respecting the programme's budgetary targets, to increase government investment in order to enhance the potential of the Belgian economy. At the same time, the stability programme does not define any specific long-term strategy for social security spending to deal with future pressures arising from population aging;
- within the context of the Belgian institutional framework, fiscal policy relied on a "co-operation" agreement signed in 1994 between the Federal government and Regions and Communities, in the framework of the convergence programme; this agreement has not yet been renewed for the period covered by the stability programme.

Key figures from the Belgian stability programme

	1999	2000	2001	2002
Real GDP growth rate (annual % change)	2.4	2.3	2.3	2.3
General government budget deficit (% of GDP)	1.3	1.0	0.7	0.3
Government debt (% of GDP)	114.5	112.2	109.6	106.8
Inflation (Consumption Deflator)	1.3	1.2	1.2	1.3
Employment growth (in thousands)	41.8	26.0	20.5	22.3