
BELGIUM'S STABILITY PROGRAMME

(2008-2011)

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1 Introduction: general policy framework and objectives

The stability programme for 2008-2011 sets out Belgian fiscal policy for the coming period. This programme is based on the commitments made in the March 2008 coalition agreement. The current government came to power after a period of protracted negotiations and an interim government in office for three months.

According to estimates from the National Accounts Institute, the general government accounts closed with a deficit of 0.2% of GDP in 2007. The assumed target of a surplus of 0.3% of GDP was not reached, partly because the non-recurring measures provided for in the budget were not actually implemented.

Against a backdrop of rising inflation, a worldwide economic slowdown and rising ageing-related expenditure, a balanced budget has been put forward for 2008. This was only possible through an extremely cautious spending policy and a contribution from all sub-sectors.

In the coalition agreement, the government committed itself to achieving a structural surplus for the whole public administration from 2009 onwards. This surplus must reach at least 1% of GDP by the end of the current legislature, i.e. in 2011. In this way, by the end of the government's term of office, fiscal policy will be back on the original path set out in the amended law on the Ageing Fund.

The government wants to meet this target via a fair balance between control over expenditure and growth in revenue. In close consultation with the regions and communities, it will determine the contribution that each level of government, including the local authorities, should make towards achieving this collective goal. The federal government will carry out a budget audit during the month of July. When the 2009 budget is drawn up, a prefiguration will also be established for the following years.

This commitment should enable our country to continue to bring down its public debt ratio, so as to be able to cope with population ageing-related expenditure in a sustainable manner. In 2007, the general government's overall debt ratio stood at 84.9% of GDP (including the Rail Infrastructure Fund's debt). In the future, the public debt ratio will continue to shrink, coming down to 71.1% of GDP by the end of 2011.

Fiscal policy is combined with an ambitious socio-economic programme, giving top priority to promoting employment. This, effectively, is an important lever for the long-term viability of the socio-economic regime. In the context of a global employment strategy, the activation policy will be reinforced and the policy of reducing the charges imposed on earned incomes will be continued, notably for medium to low incomes. The entrepreneurial spirit will be encouraged, thanks to an action plan focusing on small and medium-sized enterprises. As it is a major source of well-being and prosperity, the system of social protection will be strengthened, while particular attention will be paid to the environment and sustainable development.

2 The economic context

The Budget for 2008, which had been prepared in rather exceptional circumstances, was finalised at the beginning of March 2008. As is customary for the economic context, it was drawn up with reference to the Economic Budget compiled by the National Accounts Institute on 8 January 2008.

In drawing up these forecasts, the Federal Planning Bureau relied mainly on the outlook resulting from the OECD's December 2007 forecasts for its assumptions concerning the international environment.

The global economic situation and the short-term growth prospects are particularly uncertain in early 2008. The economic context taken into consideration when drawing up the Budget seemed quite reasonable on the basis of information available at the time it was being prepared.

Since the end of summer 2007, there has been persistent turbulence on the financial markets. The impact of this turmoil on the real economy is undeniably perceptible but difficult to assess precisely, both in terms of duration and scale. The most marked repercussions are on the American economy. In its Interim Assessment released in mid-March, the OECD forecast that the rate of growth of the US economy would remain around zero in the first half of the year. Beyond that, the likely impact of the economic support measures taken by the US monetary and fiscal authorities remains highly uncertain. Overall, a fairly sharp downward revision of the economic growth forecasts for the United States from the figures issued at the end of 2007 could be necessary.

On the other hand, the emerging economies, and China in particular, so far seem to be relatively immune to the turmoil on the financial markets as a result of the subprime mortgage crisis, and, at most, the rhythm of growth there has seen a slight slowdown from the exceptional performance of 2007, in line with expectations.

Although their forecasts are very cautious as they have to take account of numerous risk factors, both the European Commission (February Interim Forecast) and the OECD (March

Interim Assessment) point up the relative resilience of the European economies, even if the OECD considers that euro-area "growth is set to remain on the low side of potential for some time".

The consumer and business confidence indicators have been falling back since August, not only in the euro area but also in the European Union as a whole. The slowdown in the rate of growth became evident in the fourth quarter of 2007, with GDP in the euro area only 0.4% up on the previous quarter. Both domestic demand and foreign trade slowed. Private consumption is suffering from the effects of the increase in inflation linked to the sharp rise in energy and food prices. However, the fact that the situation on the employment market is still favourable is helping to prop up consumption. Enterprises' own high level of profitability and their sound financial situation are positive factors too. On the trade front, the contribution of exports to growth should start to feel the effects of the slowdown in the US economy and, undoubtedly, of the strength of the euro. So far, they seem to be resisting the pressures fairly well, against a backdrop of a global growth rate that nevertheless remains sustained.

At any rate, on the basis of the information it had by mid-March, the OECD scarcely modified its growth forecasts for the big European economies in 2008 compared with the December 2007 estimates. These estimates are consistent with the Commission's adjusted figures of February 2008.

The international economic context used in the January 2008 Economic Budget was therefore still a globally valid benchmark at the time the Budget was being drawn up. However, the elements of doubt have obviously built up over time and the risk factors are now leaning more heavily towards the possibility of less favourable performance than had been hoped. For instance, the ECB's March 2008 macroeconomic projections, which were not available when the Budget was finalised, grant a higher probability to the likelihood of a slightly sharper economic slowdown than had been forecast at the end of 2007.

2.1 The Belgian economic outlook for 2008 according to the January 2008 Economic Budget

In Belgium, the rate of growth slowed down during the second half of 2007, with the increase in GDP at constant prices on a quarterly basis falling from 0.7 and 0.6% in the first half of the year to 0.5% in the second. The Federal Planning Bureau forecasts relative stability in this

growth rate in 2008. The annual average growth of GDP in real terms is expected to fall from 2.7% in 2007 to 1.9% in 2008.

These predictions have been drawn up under the assumption of an exchange rate of 1.44 dollars to the euro and an average oil price of around 90\$ for a barrel of Brent over the year 2008.

The results of the NBB's business surveys tend to reinforce the prospect of a moderate slowdown in the rate of growth. While the synthetic confidence indicator reached a turning point and fell back in July, the sharp end-of-year drop, which could have been influenced by the national political context, was more or less offset by the results for the first quarter of 2008, helping to mitigate the downward trend.

Table 1
Growth and associated factors

<i>percentage change unless otherwise stated</i>	2006	2007	2006	2007	2008	2009	2010	2011
	billion	billion						
1. Real GDP	310.6	318.9	2.8	2.7	1.9	2.0	2.0	2.0
2. Nominal GDP	316.6	330.5	4.9	4.4	4.6	4.1	4.0	4.0
	Components of real GDP							
3. Private consumption expenditure	162.2	166.3	2.0	2.5	1.8	1.5	1.6	1.6
4. Government consumption expenditure	68.7	70.5	0.0	2.6	2.6	1.8	1.9	1.8
5. Gross fixed capital formation	63.9	67.2	4.2	5.1	2.4	2.7	2.5	2.7
6. Changes in inventories and net acquisition of valuables	-	-	0.9	-0.2	0.0	0.0	0.0	0.0
7. Exports of goods and services	268.4	280.7	2.6	4.6	4.5	5.6	5.6	5.6
8. Imports of goods and services	257.2	269.8	2.7	4.9	4.8	5.6	5.6	5.6
	Contributions to real GDP growth							
9. Final domestic demand	-	-	2.9	2.8	2.0	1.8	1.8	1.8
10. Changes in inventories and net acquisition of valuables	-	-	0.9	-0.2	0.0	0.0	0.0	0.0
11. External balance of goods and services	-	-	0.0	-0.1	-0.1	0.2	0.2	0.2

According to the Economic Budget, growth of domestic demand should weaken sharply in 2008, both on the household consumption and investment fronts. It is forecast to rise by only 2.1%, against 2.9% in 2007.

Private consumption is expected to increase by 1.8%, after a rise of 2.5% in 2007. The increase in disposable income will be influenced negatively by the accelerating inflation rate, and especially by the effects of the rise in fuel prices which are not taken into account in the health index which in turn serves as the basis for wage index-linking.

The expansion in investment by enterprises cooled off from mid-2007 onwards in light of less favourable demand prospects. It may only reach 3.4% this year, after rising by 7% in 2007¹. Investment in housing is suffering from the effects of the rise in mortgage interest rates and the slowdown in real growth of disposable income. It is expected to rise by no more than 1% in 2008 compared with 5.1% in 2007.

External markets for Belgian products are not likely to expand as much in 2008 than in 2007, considering the slowdown in the expansion of world trade. Moreover, the appreciation of the euro exchange rate is affecting the price competitiveness of Belgian exporters, who are expected to lose even more market share, albeit fairly marginally in 2008. Various technical factors nevertheless point to a similar export growth forecast for goods and services in 2008 to that in 2007 (4.5% compared with 4.6%). Despite the slower growth of final demand, the high growth already built up suggests, on an annual basis, an increase in imports of the same magnitude in 2008 than in 2007 also (4.8% compared with 4.9%). Net exports should therefore make a slightly negative contribution to growth.

Table 2
Price movements

% change	2006	2007	2006	2007	2008	2009	2010	2011
	(2005=100)	(2005=100)						
1. GDP deflator	102.0	103.6	2.0	1.6	2.6	2.1	1.9	1.9
2. Private consumption deflator	102.5	104.5	2.5	2.0	2.9	1.7	1.8	1.8
3. HICP	102.3	104.2	2.3	1.8	3.0	1.7	1.8	1.8
4. Public consumption deflator	103.0	105.5	3.0	2.5	3.1	2.6	2.3	2.3
5. Investment deflator	102.7	104.7	2.7	1.9	2.5	2.0	2.0	2.0
6. Export price deflator (goods and services)	103.4	106.3	3.4	2.7	1.9	0.9	1.2	1.4
7. Import price deflator (goods and services)	104.0	106.4	4.0	2.3	2.0	0.8	1.2	1.4

¹ These growth rates come to 3.3 and 5.3% respectively after accounting for the sale of public buildings.

The rise in prices measured by national consumer price index was 1.8% in 2007. In the Economic Budget, the annual average increase was estimated at 3% for 2008, with the above-mentioned exchange rate and oil price assumptions. On the basis of trends during the first two months of the year 2008, the Federal Planning Bureau estimated in March that this increase could be as much as 3.5%. This faster rise in prices seems to be largely due to the rise in oil prices, but also to higher gas and electricity tariffs and the increase in prices for some food products. The health index, which does not take fuel price movements into account, is expected to rise slightly less quickly, by 2.8% according to the Economic Budget and 3.3% according to the latest revised figures. After the first one in February, a second round of index-linking for civil service pay and social benefits is due in May/June.

Growth in employment, which lags behind the pace of economic activity somewhat, should slow down in 2008, but the employment rate is still expected to rise slightly to 63.7%, and the unemployment rate should fall back to 7.3%, according to harmonised Eurostat data, compared with 7.6% in 2007.

Table 3
Labour market movements

	2006	2007		2006	2007	2008	2009	2010	2011
	Level	Level							
1. Domestic employment	4,278.0	4,346.1	(a)	1.2	1.6	1.1	0.9	0.9	0.8
2. Numbers of hours worked	6,328.6	6,427.0	(b)	1.4	1.6	1.0	0.8	0.8	0.7
3. Unemployment rate (% Eurostat definition)	8.2	7.6		8.2	7.6	7.3	7.1	7.0	6.7
4. labour productivity, persons	72.6	73.4	(c)	1.6	1.1	0.8	1.1	1.2	1.3
5. Labour productivity, hours worked	49.1	49.6	(d)	1.4	1.1	0.8	1.2	1.3	1.4
6. Compensation of employees	158.2	165.5	(e)	4.5	4.7	4.2	4.3	4.4	4.4
7. Compensation per employee	44.1	45.5	(f)	3.2	3.1	3.2	3.3	3.4	3.4

a. thousands

b. millions of hours

c. euro

d. thousands of euro

e. billions of euros

f. thousands of euros

2.2 Medium-term forecasts

For the period 2009-2011, the economic context to which this programme refers is that set out in the medium-term forecasts drawn up by the Federal Planning Bureau in October 2007, albeit with a few small adjustments.

Since these forecasts are not particularly recent, a number of elements on which they were based are no longer completely up to date.

The international context used in the Federal Planning Bureau's forecasts was based on the OECD's medium-term projections from May 2007. A number of basic assumptions made at the time are now out of date. For example, it had been assumed that the average price of oil would be 74.98 dollars for a barrel of Brent in 2008, and that the euro exchange rate would stabilise at 1.39 dollar between 2008 and 2011. In the January 2008 Economic Budget, the corresponding assumptions were \$89.48 per barrel of Brent and 1.44 dollar to the euro.

Since these medium-term forecasts were drawn up, growth prospects for the year 2008 have been revised downwards from 2.1% to 1.9% in January's Economic Budget. Price developments have been changed too.

As a result, and especially as regards the year 2009, the medium-term outlook used in the programme is more of a consistent macroeconomic reference framework that is quite plausible for a prescriptive exercise where the details still need to be fine-tuned, than actual forecasts in the strict sense.

3 The overall budget balance and the public debt²

3.1 The overall balance

A small deficit in 2007

According to the estimates published by the National Accounts Institute, the 2007 fiscal year closed with a budget deficit of 0.2% of GDP. So, actual results overshoot the recommended target of a surplus of 0.3% of GDP. This is partly due to the fact that a major series of non-recurring measures (worth around 0.4% of GDP) was not implemented or not recorded in the accounts in ESA terms. This deficit is exclusively attributable to the federal government, which posted a deficit of 1% of GDP, while the other government sectors recorded a surplus (0.6% of GDP for the social security authorities, 0.3% of GDP for the communities and regions) or at least a balanced budget (the local authorities).

Towards balanced books in 2008

The budget for 2008 is influenced by a series of external factors. For instance, the economic climate is less favourable than in previous years. Furthermore, it was not possible for the final budget to be drawn up until the second half of March. As a result, the measures foreseen in the budget will not have any impact for about six months. The government nevertheless opted to put forward a budget that returns to structural balance, after the deficit in 2007. That was only possible with a strict control over expenditure at the level of the federal government and thanks to help from the various sub-sectors too.

^{- 2} Notably with a view to ending the dispute between the Belgian State and Eurostat, it was decided when drawing up the budget for 2008 to incorporate the Rail Infrastructure Fund into the government sector. The figures for the overall balance, for income and expenditure flows and for the public debt take account, not just for 2007 but also for the following years, of a consolidation of the said Rail Infrastructure Fund.

Limited use of non-recurring measures

This objective not only needs to be put into its correct economic context (with a negative output gap), but also into the difficult political context. Since the 2008 budget only covers a short period, it is impossible to attain a budget balance without one-off measures. These measures have nevertheless had a limited impact and they have been assessed according to two criteria:

- there can be no question of any deterioration of wealth;
- there can be no recurring additional cost for the following fiscal years.

Strict control over expenditure and the margin for new initiatives

Growth in real primary expenditure of the federal government was limited to 1.9% (in budget terms). This increase is mainly due to the rapid expansion of ageing-related expenditure (2.5% in real terms), without which this growth in primary expenditure would only be 1.4% in real terms. After adjusting them for development-cooperation spending too, primary expenditure rose by no more than 0.78% in real terms, and therefore less than the rate of real economic growth (+1.9%).

The federal government has set aside a budget of 320 million euro for new socio-economic initiatives. On the one hand, the government has taken a series of measures designed to prop up purchasing power (increase in minimum pensions, expansion of the Heating Oil Fund, raising the income tax threshold in favour of the lowest incomes, etc.). On the other hand, it has earmarked resources to support the activation policy and to encourage scientific research.

Building up budget surpluses over the period 2009-2011

Considering the challenge posed by population ageing, the government plans to attain structural surpluses from 2009 onwards, with the balanced budget in 2008 as a starting point. These budget surpluses should reach at least 1% of GDP by the end of the current legislature. After an initial deviation from the norm, the target to meet by the end of the legislature will be very close to the objective set out in the amended law on the Ageing Fund.

Article 2 of the new Growth and Stability Pact obliges the Member States of the European Monetary Union to formulate individual medium-term budget targets in terms of nominal growth and the debt ratio. This medium-term objective (MTO) serves a triple purpose:

- to provide a safety margin in relation to the 3% deficit criterion;
- to ensure sufficiently rapid progress towards sustainability;
- to provide scope for other items, such as public investment.

The Belgian government is sticking to an MTO of 0.5% of GDP. This target is expected to be met in 2009.

Establishing a multiannual budget plan

Table 4 sets out the objectives and estimates for public finance for the period 2008-2011. The general government's overall budget balances imply a clear commitment. The detailed figures for revenue and expenditure, as well as the breakdown of the standards between the sub-sectors, only have the status of estimates and serve merely as a guide. The increase in fiscal and parafiscal revenues is in no circumstances the result of new measures, but due to their own spontaneous development under an unchanged policy and to the widening of the basis of assessment resulting from the activation policy that has been implemented.

The government will carry out a budget audit during the month of July. When the 2009 budget is drawn up, a prefiguration will also be established for the following years. The contribution from each level of power, including the local authorities, will be negotiated with the communities and regions.

Table 4
General government budget forecasts

	2006	2007	2006	2007	2008	2009	2010	2011
	millions	millions	% of GDP					
<i>Net lending by sub-sector</i>								
1. General government	1,096	-574	0.3	-0.2	0.0	0.3	0.7	1.0
2. Central government	220	-3,396	0.1	-1.0	-0.6	-0.3	0.0	0.3
3. State government	621	940	0.2	0.3	0.1	0.0	0.0	0.0
4. Local government	-717	15	-0.2	0.0	0.1	0.2	0.2	0.1
5. Social security funds	971	1,866	0.3	0.6	0.4	0.4	0.5	0.6
<i>General government</i>								
6. Total revenue	154,480	160,791	48.8	48.7	49.0	48.8	48.9	49.2
7. Total expenditure	153,384	161,365	48.5	48.9	49.0	48.5	48.3	48.2
8. Net lending/borrowing	1,096	-574	0.3	-0.2	0.0	0.3	0.7	1.0
9. Interest expenditure	12,594	12,676	4.0	3.8	3.7	3.5	3.4	3.3
10. Primary balance	13,690	12,102	4.3	3.7	3.7	3.8	4.1	4.3
11. One-off and other temporary measures	2,260	-490	0.7	-0.1	0.0	0.0	0.0	0.0
<i>Selected components of revenue</i>								
12. Total taxes	96,232	99,343	30.4	30.1	30.4	30.1	30.2	30.3
12a. Taxes on production and imports	41,708	42,777	13.2	12.9	13.1	13.0	-	-
12b. Current taxes on income, wealth, etc	52,363	54,341	16.5	16.4	16.6	16.5	-	-
12c. Capital taxes	2,161	2,225	0.7	0.7	0.7	0.7	-	-
13. Social contributions	49,743	52,551	15.7	15.9	15.9	16.0	-	-
14. 14. Property income	1,817	1,996	0.6	0.6	0.6	0.6	-	-
15. Other	6,688	6,902	2.1	2.1	2.1	2.1	-	-
16. Total revenue	154,480	160,791	48.8	48.7	49.0	48.8	48.9	49.2
p.m. Tax burden	141,319	146,992	46.8	46.6	47.0	46.8	47.0	47.2
<i>Selected components of expenditure</i>								
17. Compensation of employees + intermediate consumption	48,927	51,130	15.5	15.5	15.4	15.2	15.0	14.9
18. Social payments	70,938	74,594	22.4	22.6	23.0	23.0	23.0	23.1
19. Interest expenditure	12,594	12,676	4.0	3.8	3.7	3.5	3.4	3.3
20. Subsidies	5,540	6,515	1.7	2.0	2.0	1.9	1.9	1.9
21. Gross fixed capital formation	5,324	5,579	1.7	1.7	1.7	1.6	1.6	1.8
22. Other	10,259	10,992	3.2	3.3	3.4	3.3	3.4	3.3
23. Total expenditure	153,382	161,486	48.5	48.9	49.0	48.5	48.3	48.2

The contribution of the various sub-sectors

Belgium has the structure of a federal state. The decision-making level is determined by the subject matter. In principle, the communities and regions retain autonomy over fiscal policy. Coordination of fiscal policy between the federal government and the communities and regions is ensured, on the one hand, by an advisory body, the High Council of Finance Public Sector Borrowing Requirement Section, and on the other, by agreements concluded between the federal government and the communities and regions. Belgium's experience shows that a system of clear agreements as to the result to be achieved at each level of power, involving the responsibility of the different sub-sectors, is a guarantee of a successful fiscal policy.

Consultations were held with the communities and regions when the budget for 2008 was being drawn up. Under the terms of the agreement concluded on 19 February 2008, the communities and regions will post a surplus of 530 million euro³. The communities and regions were also consulted on their contribution for the next few years. Pending the outcome of this dialogue, a balanced budget has been assumed for the following years.

On the back of a deficit in 2006, the local authorities ended the financial year 2007 in balance, or even with a slight surplus. This improvement in the local authorities' budget situation should continue in the coming years. This is why account is being taken of a gradually increasing surplus, rising from 0.1% of GDP in 2008 to 0.2% in 2009 and in 2010. With local elections on the horizon in 2012, this surplus is expected to fall back to 0.1% of GDP again in 2011.

In 2008, social security should generate a surplus of 0.4% of GDP. It was assumed that, in the next few years, this surplus would widen to 0.6% of GDP. The overall balance for social security is the result of a purely mechanical projection of revenue and expenditure, with no change in policy, which in no way prejudices the way in which the social measures set out in the coalition agreement will be implemented.

The federal government's overall balances result from the objective at the general government level as well as the balances foreseen for the sub-sectors. The 0.6%-of-GDP deficit in 2008 will have to be transformed into a surplus of 0.3% of GDP in 2011.

- ³ The budget balance of the communities and regions does not yet take account of the likely effect on this balance and that of the local authorities of the "local pact" concluded between the Flemish government and the local authorities for the Flemish Region to take over some of the debt of up to a maximum of 100 euro per inhabitant. This debt takeover plan is subject to certain commitments on the part of the local authorities, mainly as regards local taxation. The Flemish government puts the estimated cost at around 600 million euro. That would mean that the communities and regions' budget balance would fall by the said amount, but that an equivalent improvement in the local authorities' overall balance would be recorded.

3.2 Debt developments

Reducing the debt ratio quickly enough is still a key element of the government's strategy for coping with the budgetary consequences of population ageing.

Even taking into account the consolidation of the Rail Infrastructure Fund, the debt ratio fell back to 84.9% in 2007. The fiscal strategy that has been put in place implies that, in the coming years, the primary surplus will increase by about 0.2 percentage point a year, rising from 3.7% in 2008 to 4.3% in 2011. As a result of the positive debt reduction process thus launched, the debt ratio will come down to 71.1% in 2011. This estimate does not take account of any potential proceeds from privatisations or other operations that reduce the public debt. It is assumed that the impact of so-called exogenous factors tends to push the debt up marginally.

According to the growth and interest rate assumptions, the primary surplus needed to stabilise the debt ratio ranges from zero to 0.5% of GDP at most in the 2008-2011 period. The gap between the current primary balance and the target primary balance underlines the soundness of the scenario outlined for reducing the public debt.

Table 5
Movement in the general government debt ratio

<i>% of GDP</i>	2006	2007	2008	2009	2010	2011
1. Gross debt	88.2	84.9	81.5	78.1	74.7	71.1
2. Change in gross debt ratio	-3.9	-3.3	-3.4	-3.3	-3.5	-3.6
	Contributions to changes in gross debt					
3. Primary balance	4.3	3.7	3.7	3.8	4.1	4.3
4. Interest expenditure	4.0	3.8	3.7	3.5	3.4	3.3
5. Stock-flow adjustment	0.7	0.2	0.3	0.2	0.2	0.2
p.m. Implicit interest rate on debt	4.5	4.5	4.5	4.5	4.5	4.6

3.3 The cyclically adjusted balance

According to the Federal Planning Bureau's estimates, the Belgian economy's potential growth in the medium term fluctuates around 2%. Global labour productivity is expected to make up the bulk of it. Initially, the impact of the factors of labour and capital is almost the same, but in the coming years, the importance of the labour factor is likely to diminish because of the impact of population ageing.

Despite the strong growth in GDP recorded in 2007, the estimates used in this case point to a slightly negative output gap. In the following years, estimated growth will fluctuate around potential growth, so that for the whole period under review, the cycle will continue to have a negative impact on the primary balance and on the federal government's overall balance. At the end of the period, the cyclically adjusted balance virtually catches up with the real balance.

Table 6
Output gap and cyclically adjusted balance

% of GDP	2006	2007	2008	2009	2010	2011
1. Real GDP growth	2.8	2.7	1.9	2.0	2.0	2.0
2. Net lending of general government	0.3	-0.2	0.0	0.3	0.7	1.0
3. Interest expenditure	4.0	3.8	3.7	3.5	3.4	3.3
4. One-off and other temporary measures ¹	0.7	-0.1	0.0	0.0	0.0	0.0
5. Potential GDP growth	2.3	2.3	2.1	2.0	2.0	1.9
contributions:						
- labour	0.6	0.6	0.4	0.3	0.3	0.3
- capital	0.7	0.6	0.6	0.7	0.7	0.7
- total factor productivity	1.0	1.0	1.0	1.0	1.0	1.0
6. Output gap	-0.7	-0.3	-0.3	-0.3	-0.2	-0.1
7. Cyclical budgetary component	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1
8. Cyclically-adjusted balance (2 - 7)	0.7	0.0	0.2	0.5	0.8	1.0
9. Cyclically-adjusted primary balance (8 + 3)	4.7	3.8	3.8	4.0	4.2	4.3
10. Structural balance (8 - 4)	0.0	0.1	0.2	0.5	0.8	1.0

In order to switch to the structural balance, the non-recurring measures also need to be taken into account. A number of one-off measures envisaged for 2007 (sale of buildings, pension fund takeovers) were not implemented. The impact of a series of other one-off measures (levy on thirteenth month pay in cases of termination of contract, reduced taxation on the withdrawal of certain reserves) is more than cancelled out by the negative impact of measures decided previously (securitisation) and by the exceptional repayments of taxes collected in previous years. In the end, the impact the non-recurring measures foreseen in 2007 is slightly negative. For 2008, the initial budget contains no major one-off measures. On the other hand, account has been taken of the sale of disused buildings or military equipment, in each case for relatively minor amounts. The limited impact of these measures is wiped out by the negative impact of earlier measures. Roughly speaking, the impact of these one-off measures can be expected to be budget neutral. The structural balance therefore matches the cyclically adjusted cycle.

4 Comparison with the stability programme for 2007–2010 and sensitivity analysis

4.1 Comparison with the previous stability programme

Table 7 compares the targets of the stability programme for 2007-2010 with those of the current stability programme.

Table 7
Comparison with the previous stability programme

% of GDP	2006	2007	2008	2009	2010	2011
Real GDP growth						
Previous update	2.7	2.2	2.1	2.2	2.2	
Current update	2.8	2.7	1.9	2.0	2.0	2.0
Difference	0.1	0.5	-0.2	-0.2	-0.2	
General government net lending						
Previous update (1)	0.0	0.3	0.5	0.7	0.9	
Current update	0.3	-0.2	0.0	0.3	0.7	1.0
Difference	0.3	-0.5	-0.5	-0.4	-0.2	
General government gross debt						
Previous update (1)	87.7	83.9	80.4	76.6	72.6	
Current update	88.2	84.9	81.5	78.1	74.7	71.1
Difference	0.5	1.0	1.1	1.5	2.1	

(1) In the 2007-2010 stability programme, the Rail Infrastructure Fund had not been consolidated into the general government sector.

For the years 2006 and 2007, the macroeconomic context was ultimately more favourable than the assumption used when the 2007-2010 stability programme was being drawn up. For subsequent years, on the basis of the figures used in this programme, a negative deviation of 0.2 percentage point is recorded in each case. For the period from 2008 to 2010, cumulative growth is 0.6 percentage point lower. Should growth be revised downwards in 2008, this gap would continue to widen.

The targets for the overall balances in the 2007-2010 programme were the same as those set out in the amended law on the Ageing Fund.

The comparison of the overall balance and debt ratio figures between the two versions is disrupted by the consolidation of the Rail Infrastructure Fund. This consolidation has a positive effect of around 0.1% of GDP on the overall balance. On the other hand, the debt ratio is pushed up as a result (1.4% of GDP in 2007 and gradually declining to 0.7% of GDP in 2011). As regards the overall balances, in 2007, a deviation of 0.5 percentage point from the recommended target (a surplus of 0.3% of GDP) was recorded. The initial budget for 2008 foresees a return to balance, albeit in a less favourable macroeconomic context. Over the following years, the lost ground vis-à-vis the original target will gradually be made up. The target fixed for 2011 is still 0.1% of GDP less than that laid down in the law on the Ageing Fund.

Owing to the consolidation of the RIF, the debt ratio is higher in the current edition of the stability programme. In 2007, the difference comes to 1 percentage point. In the subsequent years, this gap will widen further under the combined effect of a slightly lower surplus and less favourable GDP growth.

4.2 Sensitivity analysis

Since the Belgian public debt is still quite sizeable, it is still sensitive to interest rate fluctuations. The federal government (which holds more than 90% of the total debt) manages its debt in such a way as to control the various risks (exchange rate, interest rate and refinancing risks). This risk management strategy is in line with the general guidelines on the debt which are imposed each year.

In view of the average duration of the outstanding debt, the effect of a rise in the interest rate will not feed through to the interest charges until much later. Table 8 illustrates the impact on the interest charges of an increase in the interest rate assumptions of 100 basis points for the period 2008-2011.

Table 8
Impact of a change in the interest rate assumptions

<i>% of GDP</i>	2009	2010	2011
Degree to which interest charges deviate from the scenario described	0.2	0.3	0.3

In the current international economic context, there is less of a risk in the short term of seeing highly divergent trends in interest rates than of seeing inflation and, more generally, the overall economic environment, develop less favourably.

A change in GDP mainly affects public revenue and, to a lesser extent, expenditure. The growth scenario used in the stability programme is compared with a growth path corresponding to estimated potential growth, a scenario with an annual growth rate that is 0.5 percentage point lower and a scenario where growth is 0.5 percentage point higher.

Table 9
Sensitivity of the overall balances to changes in growth

	2008	2009	2010	2011
Stability programme				
Real GDP growth	1.9	2.0	2.0	2.0
Financing balance	0.0	0.3	0.7	1.0
Potential growth				
Real GDP growth	2.1	2.0	2.0	1.9
Financing balance	0.1	0.4	0.8	1.0
Weaker growth				
Real GDP growth	1.4	1.5	1.5	1.5
Financing balance	-0.3	-0.2	-0.1	-0.1
Stronger growth				
Real GDP growth	2.4	2.5	2.5	2.5
Financing balance	0.3	0.8	1.5	2.1

The growth assumption used in this stability programme for the 2008-2011 period is very close to potential growth. The divergence from the base scenario is therefore very small. If growth surpasses the estimates, and provided that the additional growth is all used to improve the overall balance, the surplus would reach 2.1% of GDP in 2011. If growth were 0.5 of a percentage point lower in each year of the period considered, from 2008 to 2011, and in the absence of any compensatory efforts, a small deficit of 0.1% of GDP would be recorded at the end of the period.

5 The quality of public finances

Since the previous stability programme was submitted, the Belgian authorities have pressed on with their huge programme of reforms aimed at raising the economy's growth and employment potential. Besides implementing the measures already planned, new initiatives were taken during the course of 2007, as well as when the budget for 2008 was being drawn up.

More precisely, these many provisions aim to encourage supply and demand on the labour market, to sharpen enterprises' competitive edge and to improve their fiscal and regulatory environment, as well as guaranteeing a high-quality social protection system. Funds have also been made available for certain priority areas.

In its March 2008 agreement, the new federal government gave this process renewed impetus by setting out the broad socio-economic policy guidelines for the medium term.

Priority is given to promoting employment, so as to successfully take up the main challenges facing the socio-economic model. This objective will notably be achieved by continuing the activation policy and reducing the charges imposed on labour, especially for low to average incomes, taking into account their family background. The entrepreneurial spirit will also be encouraged, notably with an action plan focusing on small and medium-sized enterprises. The social protection system, a major source of well-being and prosperity, will be further strengthened. Particular attention will also be paid to the environment and sustainable development. Measures implementing these broad policy lines will be decided over the next few months.

5.1 Stimulating supply and demand on the labour market

Both supply and demand on the labour market are being stimulated by the continued reduction in levies on earned income. New cuts in charges on labour have been introduced and various existing measures have been reinforced. These reductions in taxes or parafiscal levies are targeted on certain groups, such as low-income workers, or more generally concern all workers.

5.2 Making work more attractive and raising labour supply

Several schemes have been introduced to make work more financially attractive and to make it easier for people to go into paid employment rather than not working. Thanks to these measures, the worker's net income can be increased without generating any additional costs for the employer.

The extension of the rise in flat-rate professional expenses allowances is leading to a general reduction in the tax burden on earned incomes. The increase in 2006 of the first tranche of these expenses was doubled in 2007. The ceiling on tax-deductible expenses has also been raised. This measure has been extended for 2008.

Moreover, there will be an improvement in net earnings of low-wage workers thanks to the targeted increase in the tax-exempt quota as of July 2008. The scope of this measure will also be widened in future. A further step will be taken by the new government to limit the number of intermediary tax brackets.

The "work bonus" system, which consists of a sliding-scale reduction in personal social security contributions, is being extended once again to combat unemployment traps. The amount of the allowance and the pay threshold below which the bonus is granted has been raised in the context of the central agreement for 2007-2008⁴. In addition, funds are earmarked in the 2008 budget for extending the measure. The new government wants to put the emphasis on the lowest income groups.

⁴ These increases compensate for the double rise in the average minimum monthly wage as at 1 April 2007 and 1 October 2008. Compensation is also envisaged in terms of reductions in charges for employers.

In addition, a flat-rate reduction in income tax was introduced in 2007 by the Flemish Region to help workers living in this Region. Initially targeted on low wages, this reduction is being widened in 2008 and will apply to all workers in 2009.

As a complement to these reductions in charges, interregional worker mobility is fostered through granting premiums and employment for older workers favoured by raising the income ceiling allowed after retirement. Initiatives will also be developed for encouraging workers to actually stay in earned employment until the statutory retirement age. A better work-life balance will also incite workers to stay in the job market longer.

Moreover, the activation measures for job seekers introduced in 2004 are bearing fruit. According to the assessments made so far, the reduction in unemployment has been greater in the age groups targeted by the activation plan than in other segments. This trend suggests that the drop in unemployment is not exclusively attributable to the improvement in the economic situation, but also to the measures implemented. The assessment of this activation policy will enable the new government to improve assistance for job seekers, in the framework of a strengthened follow-up.

5.3 Increasing demand for labour

Waivers on the payment of withholding tax on the salaries of scientists were introduced back in 2004, in order to support the research and development effort and encourage the knowledge-based economy. This tax incentive has been gradually widened over time. Since 2007, this benefit has been granted to all holders of a master's degree in a scientific subject. In addition, the different rates of reduction will be harmonised as of 2008 and the maximum rate will be applied to all categories of scientists.

Employment of workers aged over 50 is being encouraged by the application, since April 2007, of a further reduction in employers' social security contributions, increasing with age. Enterprises are also being given incentives to recruit workers who have lost their jobs through restructuring, through further cuts in contributions. Furthermore, the higher benefit granted to employers if they take on workers aged at least 45 is aimed at boosting employment of older people.

In the context of negotiations on the central agreement for 2009-2010 next autumn, the government has also said it would be prepared to expand the system of partial exemption from the withholding tax on earned incomes in the case of night work and shift work, which had already been reinforced in 2007⁵.

Several provisions concern both demand and supply on the labour market. Tax benefits for overtime were further raised in April 2007, with more attention paid to workers' earnings. During the next round of collective bargaining negotiations, and depending on the proposals put forward by the social partners, the government will be considering reinforcing this system, as well as a change in the number of overtime hours allowed and the regime governing employers' related social security contributions.

Likewise, a new tax incentive scheme enabling workers to receive a bonus linked to the firm's financial results is being set up in 2008, in order to stimulate workers' involvement in their company.

- 5 The government attached a condition to this request from the social partners, namely that the extra tax advantage must not be used to finance pay rises.

5.4 Competitiveness and the business environment

The continued improvement in the fiscal and regulatory climate for businesses is fostering investment, employment and innovation and therefore stimulating economic growth.

Enterprises are being encouraged to pursue their research and development activities with the help of the exemption from corporation tax of the allowances and subsidies granted by regional institutions under R&D aid schemes. Furthermore, technological innovation is promoted by a new tax allowance encouraging companies to acquire and develop patents.

Moreover, various measures have been adopted in a bid to attract foreign investment in Belgium, such as the introduction of the principle of fiscal uniformity as regards VAT, a legal framework for pension funds or the widening of the Parent-Subsidiary Directive to companies established in a country with which Belgium has concluded a double taxation agreement.

Preserving business competitiveness is also a key priority. In close consultation with the social partners, the government is undertaking, by means of the law on competitiveness and a reduction in employers' contributions, to ensure a more favourable movement in wage costs in Belgium than in its main trading partners. When the central agreement for 2007-2008 was concluded, the government decided to introduce a specific reduction in charges to help employers from October 2007. This "intersectoral structural wage adjustment" accounts for 0.15% of total labour costs and works as a reduction in the withholding tax. The various reductions in charges mentioned above are also helping to safeguard business competitiveness.

The administrative constraints on businesses will also be reduced by an easing of the statistical burden and the development of e-government (notably with optimal use of the Crossroads Bank for Enterprises). Citizens will benefit from the development of e-government too, for dealing with administrative formalities or using the electronic identity card, for instance.

5.5 A strengthened social protection system

Consolidating a high level of social protection is a major objective for the Belgian authorities, which also want to make sure that unemployment traps are avoided. Apart from its role in providing citizens' well-being, solidarity and in the fight against poverty, this system adds to the dynamism of economic activity. Growth is effectively stimulated, while household income is kept at an adequate level. In order to meet all these targets, various social benefits are increased and access conditions widened.

A sustainable financial balance for the social security system is guaranteed by setting up a structural financing method and by keeping health care expenditure under control.

5.6 Social security with a balanced budget

Alternative sources of funding have been pursued in order to ensure the financing of the social security system, while transferring levies on earned income to other tax sources. An amount is levied on revenue from the withholding tax on income from movable property, from VAT, from excise duties on tobacco and from the packaging levy to go towards funding social security. In 2007, the social security budget also benefited from the positive effect of the cuts in employers' social security contributions on economic activity.

The policy of a strict control over spending has made it possible to keep the increase in health care expenditure in 2005 and in 2006 within the real growth target of 4.5%. According to the estimates available in March 2008, health care expenditure in 2007 should stay within this margin.

In line with the coalition agreement, the health care budget for 2008 adheres to the 4.5% growth target. Funds have been released, within this target, for priority matters, such as the improvement of patient protection (with the adoption of a multiannual plan for combating cancer, for instance) or the continued upgrading of the role of general practitioners. Moreover, a financial reserve of 580 million euro is being built up so as to guarantee the future of the health care system⁶.

5.7 Boosting social benefits

When the 2007 budget was being drawn up, the government allocated extra funding to top up the amounts originally earmarked for adapting the oldest and lowest pensions in line with prosperity. Pensions were upgraded through the granting of a flat-rate "annual bonus in line with prosperity" in April 2007.

On top of the resources already decided when implementing the Generation Pact, additional funds are being devoted to upgrading pensions in 2008. The prosperity bonus is increased with a new bonus, which a wider category of pensioners receives, and is incorporated into the monthly pension payment⁷. Following the increase at the end of 2006, the amount of the minimum income for elderly people (Income Guarantee for the Elderly or IGE) will benefit from a further increase of 2% as of July 2008. This increase will also be applied to minimum pensions for employees and the self-employed. Finally, from July 2008 onwards, the solidarity contribution levied on pensions will be gradually reduced. This measure will initially be targeted at the lowest pensions.

- ⁶ 73.7 million euro will nevertheless be allocated for a hospital backlog.

- ⁷ These adjustments in line with prosperity are also made in the form of a percentage. An extra allowance is granted on top of the bonus in situations where this bonus would be less than a 2% increase in the pension.

With a view to ensuring that the elderly have a decent level of income, access to the minimum pension is also being widened for part-time workers and the minimum entitlement per year worked raised to the advantage of low-wage workers.

Pensions will be raised further in the future, with priority always being given to the oldest and lowest pensions. The pension calculation method will notably be reviewed so as to reform and improve the system. Moreover, the development of supplementary pension schemes will be encouraged.

Households with a disabled person will see an increase in their means, thanks to the total exemption of the partner's income from the calculation of the integration allowance.

Family purchasing power has also been boosted. The family allowance at the start of the school year is turned into an age supplement and thus extended to all children entitled to family allowances over the period 2008-2009⁸. Furthermore, the amount of family allowance for the first child of self-employed workers is being raised again in 2008. The government also decided in 2007 to grant extra child benefit to low-income single-parent families. In addition, family allowances will in future benefit from an adjustment in line with prosperity.

The raising in 2008 of the maximum income ceiling, below which help in paying heating oil, gas or electricity bills can be requested, means that more households can at last see their energy bills lightened.

⁸ The school subsidy introduced in 2006 and renewed in 2007 was limited to 6-18 year-olds.

5.8 Efforts aimed at priority policy areas

Thanks to rigorous control over primary expenditure⁹, resources have been released in the 2008 budget for priority policy areas. Apart from security, development cooperation and mobility, particular attention is accorded to energy and the environment.

The government has effectively increased the budget for the "Kyoto Fund", which finances the federal policy for reducing greenhouse gas emissions, and for FEDESCO, which pre-funds eco-energy investment in federal public services, via the third-party investor system. In addition, a specific sum is being allocated for forecasts relating to security of energy supply to be carried out.

The new government also wants to encourage ecologically responsible behaviour, both by private individuals and companies, notably by offering tax incentives.

- ⁹ The real growth of general government primary expenditure excluding ageing-related spending, is limited to 1.4% (in budget terms), that is, a much lower rate of growth than that forecast for economic activity. The fight against tax and social security fraud is also being stepped up in order to generate extra revenue.

6 The long-term sustainability of public finances

6.1 Introduction

Like most Western European countries, Belgium is confronted with major changes in the age structure of its population. The combined effect of the decline in the birth rate, on the one hand, and the significant increase in life expectancy, on the other, is already leading to changes in terms of the age structure, something that will be even more evident in the post-2010 period. As a result, a declining number of persons of working age will have to finance social benefits for a growing number of inactive persons in future.

In order to ensure that a sufficiently high level of collective prosperity is maintained in the medium term, a coherent strategy has been developed. Apart from a specifically targeted budget policy, this strategy also consists of economic and social policy initiatives.

Back in 2001, a law was adopted guaranteeing a constant reduction in the public debt and establishing an Ageing Fund (law of 5 September 2001), combined with the obligation to draw up a policy note on ageing every year. This law confirms the importance that Belgium attaches to being able to guarantee in the long term an efficient system of social protection in general and payment of pensions in particular.

6.2 The budgetary consequences of population ageing

As stipulated by the law on the Ageing Fund, the Study Committee on Ageing updates its estimate of the budgetary cost of ageing once a year. This estimate serves as a basis for the government when drawing up its policy on ageing. According to the June 2007 report by the Study Committee on Ageing, social expenditure is expected to increase by 4.4% of GDP between 2006 and 2030 and by 6.2% between 2006 and 2050. The Study Committee's projections differ from those of the AWG¹⁰. On the one hand, they are slightly more recent (2007 rather than 2006) and, on the other hand, there are also differences in terms of methodology. The AWG's projections put the emphasis on international comparability, while the Study Committee on Ageing tries to take maximum account of national policy measures and the specific features of Belgium's social security system when compiling its forecasts.

Table 10
Budgetary impact of population ageing

% of GDP	2006	2010	2020	2030	2050	2006-2030	2006-2050
	Study Committee on Ageing						
Pensions	8.9	9.1	10.5	12.5	13.4	3.6	4.5
Health care	7.0	7.7	8.4	9.2	10.5	2.2	3.5
Other social security expenditure of witch	7.0	6.7	6.3	5.6	5.2	-1.5	-1.8
Incapacity	1.2	1.3	1.3	1.1	1.0	-0.1	-0.2
Unemployment	2.1	1.9	1.7	1.2	1.1	-0.9	-1.0
Early retirement	0.4	0.4	0.4	0.4	0.4	0.0	0.0
Other sectors	1.6	1.6	1.6	1.6	1.6	0.0	0.0
Social security expenditure	22.9	23.5	24.0	27.3	29.1	4.4	6.2
P.m. remuneration of teaching staff	4.0	3.8	3.7	3.6	3.7	-0.5	-0.4

- ¹⁰ European Commission: The impact of ageing on public expenditure: projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050) – Report prepared by the Economic Policy Committee and the European Commission, European Economy, Special Report N° 1/2006.

6.3 A single strategy, three main policy lines

For Belgian politicians, population ageing is one of the main challenges for the decades ahead. In order to meet this challenge, a coherent strategy has been developed. This revolves around three basic policy lines:

1. fiscal policy: continue to reduce the public debt and build up the reserves necessary for the Ageing Fund;
2. economic policy: raise the employment rate and stimulate economic activity;
3. social policy: continue developing a strong social security system based on solidarity.

Fiscal policy

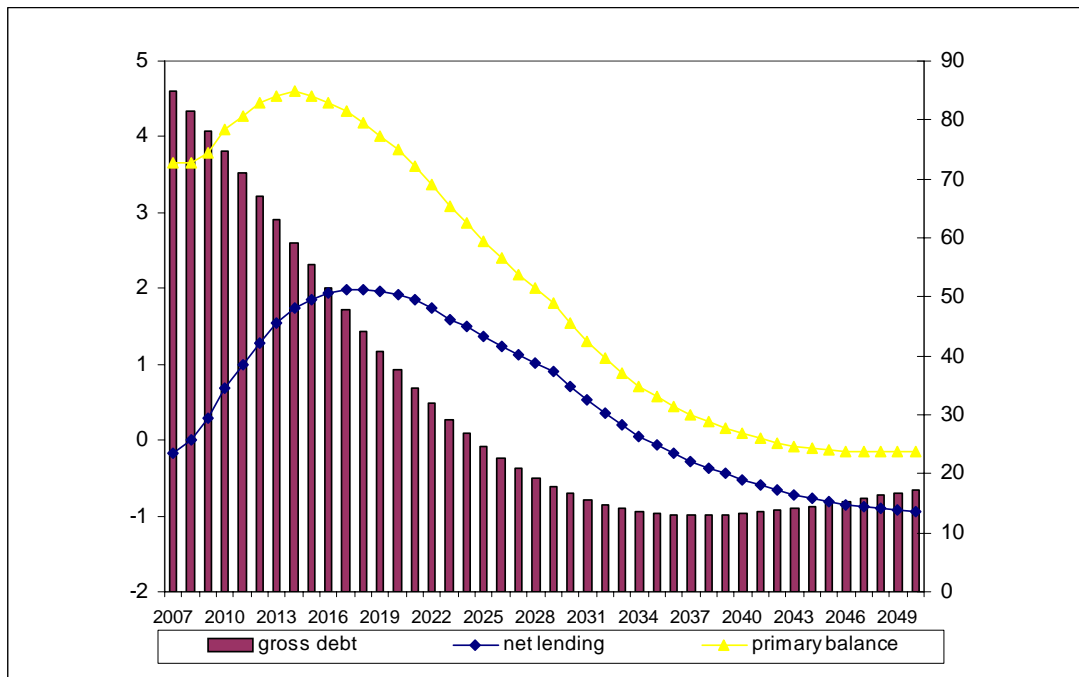
Fiscal policy constitutes a basic element of a global strategy aiming to deal with the impact of population ageing. Against a backdrop of an increase in expenditure linked to the future socio-demographic shock, the budgetary margins and commitments must be analysed from a long-term perspective. Particular attention also needs to be paid to the long-term sustainability¹¹ of public finances. So as not to seriously jeopardise future fiscal policy, it is essential for these changes to be anticipated now in order to share the burden fairly between the different generations. With the establishment of the Ageing Fund and the related annual procedure, fiscal policy now slots into a long-term perspective.

One of the main objectives of fiscal policy is to bring down the debt ratio sufficiently so as to reduce the weight of interest charges on the public debt in future. The margin freed up in this way can then be used notably to meet the growing expenditure on social protection without having to cut into other areas of spending or raise more revenue.

- ¹¹ The Public Sector Borrowing Requirement Section has defined as follows the notion of sustainability: "Sustainability must be considered as a situation in which, at a more or less constant level of revenue, the public authorities manage to absorb the impact of demographics on part of their expenditure, without the share of other primary expenditure in GDP being cut back, and without jeopardising the attainment of various public finance standards."

Bearing this in mind, an effort has been made to return to a structural balance, at least as far as the 2008 budget is concerned. From 2009 onwards, structural surpluses will be gradually built up to reach at least 1% of GDP by the end of the legislature. In this way, by the year 2011, the budget will more or less be back to the surplus foreseen in the amended law on the Ageing Fund and recommended by the Public Sector Borrowing Requirement Section of the High Council of Finance. Efforts to build up surpluses will have to be continued in the coming years; according to the recommendations of the High Council of Finance, a surplus of 2% of GDP will need to be achieved by 2019. The chart below illustrates the impact of the above-mentioned scenario on a number of key parameters of public finances.

Chart 1



Fiscal policy as an element of a global strategy

As previously mentioned, the fiscal policy sketched out above is only one element of a more global strategy. It would be wrong to base the strategy designed to tackle the consequences of an ageing society exclusively on a budgetary pillar. A whole range of other policy areas must also make a major contribution. By stimulating employment and, more generally, economic growth, the financial basis for meeting the cost of population ageing becomes stronger. Since more and more people will be dependent on social security, a strong social security system based on solidarity will become even more important. The coalition government agreement provides a host of measures in the above-mentioned policy areas, which have already been discussed in chapter 5.

7 Institutional aspects of Belgian budgetary policy

Coordination of fiscal policy

Belgium is a federal state made up of different levels of power with coordinated competences. Thus, the regions notably have competence for a large part of economic and employment policy, while the communities are responsible for cultural policy in the broad sense (including education). To date, social security is mainly organised at federal level.

Each of these federate entities not only has exclusive and autonomous competence over its own remit, but can also pursue its own fiscal policy. Since Belgium, as a member country of the Economic and Monetary Union, is subject to a series of international obligations, notably in fiscal policy matters, and that these concern the budgetary results of all the public authorities, therefore including the regions and communities, a budget consultation framework has been set up between the federal government and the federate bodies.

At the political level, this coordination of fiscal policy is ensured by the Consultative Committee (composed of heads of government of the federal authorities and of the communities and regions) and by the Interministerial Conference on Finance and the Budget. The Public Sector Borrowing Requirement Section of the High Council of Finance plays an important preparatory role as an advisory body. This section is made up of experts nominated by the National Bank of Belgium, the federal Ministries of Finance and the Budget and the governments of the communities and regions.

In its annual recommendation, Public Sector Borrowing Requirement Section sets out the budget targets for the various public authorities: the federal government, social security, each community and region, and the local authorities as a whole. As already stated, the communities and regions have substantial autonomy over their budgets. The opinions of the High Council are therefore not binding, but they form the starting point for agreements to be concluded between the federal government and the communities and regions within the Interministerial Conference on Finance and the Budget, and to be confirmed by the Consultative Committee.

New steps in the State reform

Since 1970, the unitarian Belgium has been converted, in five reforms, into a federal State with a multi-layered structure of government. At each step, more autonomy was devolved to the communities and regions, with the aim of bringing policy-making closer to the citizens and enabling better governance at all levels of power.

In recent months, the idea that a new phase in the reform of our institutions would be advisable has gained ground. Indeed, the current distribution of competences and financing arrangements have clearly proved to be inadequate for all levels of government to be able to respond to the future challenges. This is why any new institutional reform will have to strengthen the various levels of power. A new balance between the different authorities needs to be sought, so that they support each other more and cooperate more efficiently.

A proposal for an extraordinary law has been put before the Senate envisaging a first step in this new reform. More specifically, this draft law provides for a series of packages of competences in the field of economic and industrial policy, housing policy and mobility to be transferred to the federate bodies. These concern, for example, competence for granting business start-up permits, for the social economy, for the Participation Fund and the agricultural disaster fund, etc.

Expanding on this first stage, between now and mid-July, the government will make a statement to the Chamber of Representatives on the content of a second package of reform proposals. Both the first and the second packages are structured around three main themes:

- homogenisation and coherence of competences;
- more efficient functioning of the federation;
- adapted financing of the federate bodies, the federal State and the Brussels-Capital Region.

Annexes

Annex 1: Main assumptions used for the medium-term forecasts

	2006	2007	2008	2009	2010	2011
Short-term interest rate (annual average) (1)	2.9	4.2	4.1	4.0	3.8	3.7
Long-term interest rate (annual average) (1)	3.8	4.2	4.2	4.3	4.5	4.6
USD/euro exchange rate (annual average)	125.5	135.0	139.0	139.0	139.0	139.0
Nominal effective exchange rate (2000=100)	107.1	109.4	110.0	110.0	110.0	110.0
GDP-growth - world (excluding EU)	5.8	5.6	5.3	5.5	5.3	5.2
GDP-growth - EU	3.0	2.8	2.4	2.4	2.3	2.3
Growth of relevant external markets	8.9	6.7	6.5	7.0	6.9	6.9
Global imports by volume (excluding EU)	8.4	7.5	6.8	7.5	7.5	7.5
Oil price (USD)	65.2	69.5	74.9	72.7	73.6	74.6

(1) Interest rate assumption used for the macro-economic context. For estimates of public finances, the forward rates applicable on 28/1/2008 have been used.

Short-term interest rate (3 months)			4.3	4.0	4.2	4.1
Long-term interest rate (10 years)			4.4	4.5	4.7	4.8

Annex 2: The basic assumptions of the Study Committee on Ageing

The government bases its long-term budget strategy notably on the estimates of the cost of population ageing drawn up by the Study Committee on Ageing. Each year, it updates its estimates of the long-term trend in social security expenditure. The basic assumptions it uses are as follows:

Summary of the basic assumptions adopted by the Study Committee on ageing		
Demographic scenario	2030	2050
Birth rate	1.69	1.74
Life expectancy at birth : male	80.9	83.9
Life expectancy at birth : female	86.4	88.9
Net migration	17,062	17,127
Socio-economic scenario (by sex and age group. impact of ageing on successive generations)		
Standard of education	maintained at the latest recorded level	
Potential activity rate. male	modelled taking account of the cohorts and the	
Potential activity rate. female	probable switching between socio-demographic	
Numbers leaving the labour force: disabled, older unemployed workers, early retirement or retirement	categories by sex and age group	
Macro-economic scenario (long-term)		
Increase in productivity and annual wages per capita	1.75% per annum	
Structural unemployment rate in 2030 (including older unemployment <i>not seeking work</i>)	8%	
Employment rate in 2030 (% of the population of working age (15-64 years))	69.2%	
Social policy scenarios (long-term)		
Pay threshold	1.25% per annum	
Minimum entitlement per year worked	1.25% per annum	
Linking of benefits to prosperity (general scheme)	0.5%	
Linking of the flat-rate benefits to prosperity	1.0%	