BELGIAN STABILITY PROGRAMME

(2009-2013)

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1 Introduction: general political framework and objectives

The stability programme for 2009-2013 sets out Belgium's fiscal policy for the period in question. It takes account of the federal government's recovery plan decided on 11 December 2008. The programme's main policy lines are based on the opinion of the Public Sector Borrowing Requirement Section of the High Council of Finance sought by the government.

During 2008 and in the first quarter of 2009, the growth projections for 2009 were steadily revised downwards. This slowdown in growth then worsened as a result of the problems facing the financial markets in September and October and the subsequent recession. The central scenario used in the current programme for 2009 takes as its starting point a 1.9% contraction of the economy. In 2010, too, GDP growth, estimated at 0.6% is set to remain below its potential level.

These exceptional circumstances require a suitable strategy. Firstly, the government had to prevent the complete destabilisation of the financial and banking system in the final quarter of 2008. In order to ensure the continued functioning of the Belgian banking system, the government decided to recapitalise a number of large financial institutions. In addition, it provided for the possibility of benefiting from a State guarantee for interbank lending and the issue of bonds within a specific period. Furthermore, the deposit guarantee ceiling was raised and the existing deposit guarantee system extended. The recapitalisation in question had an immediate impact on the gross public debt.

At the end of 2008, the federal government drafted a set of measures to stimulate economic activity, in cooperation with the governments of the federate entities. These measures aim to provide companies with sufficient financial resources, by making further cost reductions in particular. A series of measures is designed to better protect the unemployed and speed up their integration in the labour market. A number of investment programmes have been accelerated and strengthened, with the emphasis being placed on sustainability.

In order to support the central agreement concluded between employers and workers, the existing systems aimed at reducing contributions will be simplified. With a view to reducing the wage handicap of businesses, a number of additional cost reductions will be introduced.

The budget is not immune from the macroeconomic environment. Adhering to the objectives of the previous stability programme as they are would further damage the economy. Running a deficit on a temporary basis is acceptable, given that, in this case, the effect of the automatic stabilisers ensures that economic activity does not contract excessively. Belgium has taken the framework put forward in the recovery plan drafted by the European Commission as a guideline. The fiscal impact of the December federal plan is estimated at 0.6% of GDP for 2009. Currently, the government foresees a deficit of 3.4% of GDP for 2009, for the public authorities as a whole.

The short-term problems cannot divert attention from the long-term objective. In fact, at the same time as stimulating the economy, efforts will have to be intensified with a view to ensuring that the medium-term objective is met, that is, the achievement of a balanced budget. This will involve a reduction of the deficit generated by the slump as soon as the economic climate allows. Therefore, fiscal policy can also contribute to re-establishing confidence among economic players. In accordance with the opinion of the High Council of Finance, the government believes that, from autumn 2009, it will be necessary to prepare a multiannual programme, when drafting the 2010 budget, enabling a gradual return to a balanced budget, preferably from 2013 and in 2015 at the latest, based on the growth forecasts for these years.

In addition, the government has adopted the recommendation of the High Council of Finance, which favours a clear, balanced distribution of the fiscal recovery efforts between the two main entities, as well as within each of them.

2 The economic context

In early 2009, the overall economic situation and the short-term outlook for growth are particularly uncertain.

As is customary, the Budget for 2009 was drawn up with reference to the Economic Budget compiled by the National Accounts Institute on 12 September 2008. The latter assumed economic growth of 1.2% in 2009. This economic budget, estimated by referring to the spring forecasts of the European Commission adjusted to take account of more recent observations, made allowances for an economic slowdown linked to the turmoil on the financial markets. However, after the collapse of Lehman Brothers in mid-September, the financial turmoil triggered a general loss of confidence and an actual crisis on the capital markets. From this time onwards, the economic environment deteriorated sharply and the situation became extremely uncertain.

The forecasts included in the September 2008 Economic Budget became unrealistic as from November. Over the months, the Planning Bureau adjusted its forecasts by taking into account the most recent data available. Therefore, in January and February 2009, two economic budgets were drawn up to serve as a reference for budgetary control and for the updating of budget estimates for 2009 on a basis that reflects the economic situation as accurately as possible. Finally, in early March, the Planning Bureau made the medium-term forecast, which provides the fixed point of reference for the economic context of the current Stability Programme.

For 2009 and 2010, the international environment used as a basis for this projection is that of the forecasts published by the European Commission on 19 January 2009. The international environment for the period 2011-2014 relates essentially to the latest OECD medium-term projections of December 2008.

In the current context, it would appear to be virtually impossible to produce balanced forecasts but the projection of the Planning Bureau seems to be a reasonable benchmark, although recent IMF estimates and even more so those of the OECD predict less favourable developments. At this stage, it is clearly preferable to adhere to a plausible, general framework and define a consistent strategy against a fast-moving background rather than relying too much on very unreliable numbers.

However, a number of broad lines regarding the economic outlook in early 2009 can be used

As from the end of the summer 2007, with the emergence of financial turmoil in the United States, the profile of economic activity shifted. Both in the euro area and in Japan, GDP contracted in the second quarter of 2008, this decline extending to the United States in the third quarter and worsening sharply in the fourth quarter in most of the developed economies. This marked deterioration is also borne out by the fall in the consumer and business confidence indicators, which in the case of many countries reached the lowest level since the creation of European economic indices in 1985. In emerging countries, China in particular, but even more so in India, the growth rate slowed markedly. The crisis became global.

In the euro area, all components of demand have been in decline since the second quarter of 2008.

During 2008, private consumption was first affected by the acceleration of price increases linked to soaring energy, food and commodity prices. Furthermore, the financial crisis has spread to the real economy. It led to a sharp deterioration in confidence. Credit conditions were tightened, reinforcing price adjustments in progress in the housing sector in a number of countries and leading to a drop in motor vehicle sales, for example. The fall in share prices and, in some countries, the decline in house prices, leading to a negative wealth effect, also slowed consumption. The credit squeeze and unfavourable expectations in terms of demand also led to a decrease in productive investments. Finally, the global economic slowdown hit export growth, which in turn triggered a marked slowdown in import volumes.

Initially, the economic slowdown was therefore associated with a combination of crisis factors: rising energy prices, adjustment of the property market and financial turmoil.

However, the situation on the capital markets seems to be the main crisis factor today and also the main element of uncertainty regarding the short- and medium-term outlook. Interventions by monetary and government authorities have been considerable. However, the financial markets cannot be considered entirely stabilised and the time-scale required in terms of the financial conditions returning to normal is extremely uncertain.

It is generally accepted that the recession is set to continue throughout the first two quarters of 2009 at least.

The gradual deterioration of conditions on the labour market is bound to hit confidence and affect the development of disposable household income. However, the marked slowdown in the rise in prices provides some support for household purchasing power. On average, all components of demand are expected to decline in 2009, with the exception of public consumption and investment. The public authorities' recovery initiatives and the massive cash injections by central banks should enable a gradual resumption of activity.

Until the end of the third quarter of 2008, the slowdown in the growth rate was less marked in Belgium than in neighbouring countries; however, in the fourth quarter, the quarterly decline in GDP was sharper compared to the area average. The fall in the consumer and business confidence indicators was considerable between September 2008 and February 2009. The National Bank's business barometer collapsed between September and December 2008, recording a new low. Thereafter, it became more or less stable.

Since the last projection of the Federal Planning Bureau, the national accounts for the fourth quarter and, therefore, the year 2008 have been updated. To ensure the consistency of the projection as a whole, the numbers used by the Planning Bureau for 2008 are included in the following tables, but the text refers to the latest data.

In Belgium, the growth rate has slowed since the final quarter of 2007, dropping from an increase in GDP at constant prices, from one quarter to the next, of 0.7% in the third quarter of 2007 to 0.4% then 0.3% during the following three quarters to just 0.1% in the third quarter of 2008. A fall of 1.7% was recorded in the fourth quarter. On an annual basis, growth therefore declined from 2.7% during the summer of 2007 to 1.2% in the third quarter of 2008 and negative growth of –0.8% in the fourth quarter. After recording a 1.1% annual average increase in GDP in real terms in 2008, the Federal Planning Bureau's projection finalised in March 2009, based on the latest quarterly accounts available, saw GDP by volume decline by 1.9% in 2009, followed by a return to 0.6% growth in 2010, .

Once the recovery is under way, the euro area is expected to exceed its potential growth rate marginally from 2011 onwards. This applies to Belgium in particular. It follows that the output gap, set to widen significantly in 2009 and marginally in 2010, would narrow gradually thereafter and disappear in 2014.

Table 1

Macroeconomic prospects

percentage change unless otherwise stated	2007 billion	2007	2008	2009	2010	2011	2012	2013
1. Real GDP	288,7	2,8	1,1	-1,9	0,6	2,3	2,3	2,1
2. Nominal GDP	334,9	5,2	3,4	1,2	2,4	4,1	4,1	4,0
	Components of real GDP							
3. Private consumption expenditure	149,1	2,1	0,9	-0,4	0,7	1,4	1,8	1,9
4. Government consumption expenditure	60,5	2,3	2,4	1,9	1,7	2,3	2,2	1,9
5. Gross fixed capital formation	65,0	6,2	4,3	-2,8	-0,2	2,8	2,8	1,7
6. Changes in inventories and net acquisition of valuables	-	1,3	1,7	1,5	1,6	1,7	1,7	1,7
7. Exports of goods and services	263,5	4,0	2,2	-4,5	1,2	4,5	4,8	4,7
8. Imports of goods and services	253,8	4,6	3,7	-3,0	1,4	4,3	4,5	4,4
	Contributions to real GDP growth							
9. Final domestic demand	-	3,2	2,4	-0,6	0,8	2,1	2,1	1,8
10. Changes in inventories and net acquisition of valuables	-	0,3	0,3	-0,2	0,1	0,2	0,0	0,0
11. External balance of goods and services	-	-0,4	-1,2	-1,3	-0,2	0,2	0,2	0,3

These predictions have been drawn up under the assumption of an average exchange rate of 1.47 dollars to the euro in 2008, declining to 1.345 in 2009 before stabilising at 1.337 dollars, and with Brent crude falling from $97 a barrel on average in 2008 to $52.5 in 2009, before gradually rising to $63 in 2010.

Based on this projection, final domestic demand is expected to fall until the end of 2009, before recovering slowly.

Private consumption was only slightly up, by 0.8%, in 2008. It is expected to decline by 0.4% in 2009 before returning to weak growth of 0.7% on average in 2010. In 2008, disposable household income remained more or less stable in real terms. It was affected by rising inflation and, in particular, higher fuel prices which are not taken into account in the health index used for the indexation of wages. However, the rise in employment remained positive on annual average and consumption was also sustained by the decline in the savings rate and rise in wages in real terms. In 2009, although employment levels are expected to stagnate, the slowing of inflation, together with the effect of the indexation of fiscal scales and the shift in the indexation of wages is expected to lead to a rise in income in real terms, but it will be accompanied by a marked increase in the savings rate, against a background of increasing unemployment and bearing in mind the losses in financial savings recorded. In 2010, the growth in consumption is expected to be slightly closer to that of disposable income.

Business investments held up relatively well until the middle of 2008, rising by 6.9% on annual average. However, from the second half of 2008, there was a marked slowdown. The deterioration in the outlook for demand, tighter credit conditions and the squeeze on margins are then expected to lead to a significant decline (-4.5% in 2009). A gradual recovery would entail nothing better than stagnation in 2010 (-0.2%). Housing investments, up by just 1% in 2008, are set to fall by 1.6% in 2009 with a further modest decline in 2010 (-1.1%).

Export trends were affected by the slowdown in world trade and, in particular, foreign demand for Belgian products. In the first part of 2008, they also suffered as a result of the appreciation of the euro. The loss of foreign market shares is expected to continue. Based on the assumptions made regarding the international environment, exports of goods and services, still up by 2.2% in 2008, are set to fall by 4.5% in 2009, before improving again (+1.2%) in 2010 following a gradual recovery. Despite the slowdown in final demand growth, imports rose more than exports in 2008 (+3.7%) which is explained by the relatively low average import volumes recorded in 2007. Therefore, net exports made a very negative contribution to growth in 2008. Likewise in 2009, the drop in imports is expected to be less than that in exports. In 2010, this negative contribution by foreign trade should be reduced.

Table 2

Price developments

% change	2007 (2000=100)	2007	2008	2009	2010	2011	2012	2013
1. GDP deflator	116,0	2,4	2,3	3,2	1,7	1,8	1,8	1,8
2. Private consumption deflator	117,4	2,8	4,3	0,7	1,8	1,8	1,7	1,8
3. HICP	114,9	1,8	4,5	0,7	1,8	1,8	1,7	1,8
4. Public consumption deflator	122,9	1,8	4,0	3,4	1,8	2,0	1,8	2,0
5. Investment deflator	111,6	2,2	4,1	1,4	2,3	1,5	1,5	1,4
6. Export price deflator (goods and services)	112,9	3,0	3,5	-2,5	1,0	1,8	1,7	1,8
7. Import price deflator (goods and services)	113,1	2,6	6,1	-4,7	1,5	1,7	1,7	1,8

The rise in prices measured by the national consumer price index on an annual basis was 1.9% in February 2009. It had peaked at 5.9% in July 2008, influenced by higher energy and food prices on international markets and also gas and electricity prices. As an annual average, the rise was 4.5% in 2008. Based on the above-mentioned exchange rate and oil prices, the pace of this increase is set to slow, amounting to 0.7% in 2009 and 1.8% in 2010.

Employment trends initially showed considerable resilience in the face of the economic slowdown but as from the fourth quarter of 2008, the slowdown in terms of the traditional business cycle gave way to a sharp contraction in activity. Consequently, the effects of the crisis on employment are set to feed through in the first half of 2009, with a marked rise in unemployment from the first quarter onwards. As an annual average, employment levels were still up in 2008, by 1.6%, and the employment rate rose slightly to 63.6% compared with 63.1% in 2007. Again as an annual average, employment is set to fall in 2009 and 2010 by 0.5% with a drop in the rate of employment (62.8% in 2009 and 62.2% in 2010). The unemployment rate based on harmonised Eurostat data is expected to rise from 7.1% in 2008, down in relation to 2007, to 9.1% in 2010.

Table 3

Labour market developments

	2007 Level		2007	2008	2009	2010	2011	2012	2013
1. Domestic employment	4.364,8	(a)	1,8	1,6	-0,5	-0,5	0,4	1,0	0,9
2. Numbers of hours worked	6.458,9	(b)	2,0	1,1	-1,3	-0,2	0,8	0,8	0,9
3. Unemployment rate (%, Eurostat definition)	7,5		7,5	7,1	8,2	9,1	9,3	9,1	8,9
4. Labour productivity, persons	66,1	(c)	0,9	-0,5	-1,4	1,1	1,9	1,3	1,1
5. Labour productivity, hours worked	44,7	(d)	0,8	0,1	0,6	0,8	1,5	1,5	1,2
6. Compensation of employees	168,0	(e)	5,8	5,2	2,6	1,8	3,5	4,0	4,2
7. Compensation per employee	45,9	(f)	3,7	3,3	3,2	2,2	3,0	2,8	3,1

a. thousands
b. millions of hours
c. thousands of euro
d. euro
e. billions of euro
f. thousands of euro

For the 2011-2013 period, the international economic environment, the Federal Planning Bureau’s benchmark for its projection, is, apart from a limited number of changes, that of the OECD’s medium-term projection, dating from December 2008. In the Planning Bureau’s projection, it is assumed that the price of a barrel of oil will rise gradually to $69 on average in 2013 and that the euro will be worth $1.337.

3 The overall budget balance and the public debt

Results for 2008 already affected by the crisis

Following the political crisis, the federal government's initial budget for 2008 was drafted in March 2008. It was based on a budget balance for the public authorities as a whole. Following an administrative budget audit in June, the 2008 figures were adapted. When drawing up the 2009 budget, the federal government focused above all on the 2009 budget. The estimated revenue and expenditure for 2008 were updated but not adjusted. Such an adjustment would only have been possible by implementing either non-recurring measures or measures affecting the slowdown of economic growth further still. The initial assumption at that point was a deficit of 0.3% of GDP. According to NAI estimates published on 31/3/2009, the borrowing requirement in 2008 amounted to 1.2% of GDP. This deficit can be explained in particular by the fact that the impact of the economic crisis on tax revenues is worse than expected and that the build-up over time of deferred payments has now been corrected. In addition, a series of measures was brought forward, for example the indexation of tax scales.

Budget 2009

The initial budget was still based on the macroeconomic estimates available in September 2008. Based on the assumption of growth of 1.2% of GDP, a balanced budget had been filed. Bearing in mind the rapid change in the economic context, the traditional budgetary control was carried out early and closed on 20 February 2009. In the context of this budgetary control, the government referred to the economic budget drawn up by the Federal Planning Bureau at the request of the National Accounts Institute. Just as in the current stability programme, the economy is expected to shrink by 1.9% in 2009. The budgetary control enabled the estimates regarding the principal revenue and expenditure flows to be adjusted based on the fundamental change in the economic climate and measures decided in connection with the recovery plan to be included. Conducting a restrictive fiscal policy against the current economic background would reduce growth further. For this reason, the government preferred to support the economy. All these factors contribute to the government estimating the overall budget balance at 3.4% of GDP.

Impact of the recovery plan

In accordance with the action plan put forward by the European Commission, the federal government drafted a recovery plan at the end of 2008, in cooperation with the communities and regions.

The budget for 2009 still assumed a surplus for entity II. But the budgets of the communities and regions and local authorities are also affected by the economic crisis. Furthermore they have to create a margin to stimulate economic activity within the scope of their powers. This results in a deficit for entity II.
The budget for 2009 already included measures amounting to 0.5% of GDP in order to support purchasing power. In addition, the federal government drafted a recovery plan in December, based on four key areas:

1. dealing with the financial and banking crisis;
2. strengthening sustainable socio-economic levers and investing in the environment;
3. promoting competitiveness among enterprises, employment and favouring a good social climate;
4. improving the public finances on a sustainable basis.

Annex 2 comprises a more detailed overview of the budgetary impact of the measures included in Table 4. The additional measures taken at federal level account for some 0.6% of GDP in 2009. The plan also contains a set of measures with no budgetary impact.

Table 4

Budgetary impact of the federal recovery plan

	2009		2010	
	In billions of euro	% of GDP	In billions of euro	% of GDP
Existing measures	1,8	0,5	0,9	0,3
New measures	2,1	0,6	1,5	0,4
Providing support for enterprises	1,4	0,4	1,2	0,3
Ensuring employment and strengthening purchasing power	0,3	0,1	0,1	0,0
Investment in growth and sustainability	0,5	0,1	0,2	0,1
Total	3,8	1,1	2,4	0,7

Taking account of the recovery plan and the impact of the economic crisis on the budget, the overall budget balance is expected to amount to 3.4% of GDP in 2009, as already stated.

Policy situation unchanged: higher public deficits and debt ratio

Against a background of an unchanged policy scenario, the overall budget balance of 3.4% of GDP in 2009 is set to rise to 4.5% of GDP in 2010 and to around 5% in the medium term. The table below shows the overall budget balance and debt ratio based on an unchanged policy.

Table 5

Overall budget balance and debt ratio based on an unchanged policy[1]

(% of GDP)	2007	2008	2009	2010	2011	2012	2013
Real GDP growth	2,8	1,1	-1,9	0,6	2,3	2,3	2,1
Overall budget balance	-0,2	-1,2	-3,4	-4,5	-4,9	-5,1	-4,8
Structural balance	-1,2	-1,8	-2,2	-3,0	-3,8	-4,4	-4,4
Gross debt ratio	84,0	89,6	93,0	95,4	96,8	98,4	99,6

This table shows the overall budget balance rising to 5.1% in 2012 and the debt ratio approaching the 100% limit in 2013. It means that a return to growth will not be enough to eliminate the deficits at a sufficient rate and to change the negative development of the debt ratio.

[1] To establish the structural balance, it was assumed first that a change in GDP growth has no impact on potential growth.

Standardised path: return to balance in the medium term

From the point of view of an anti-cyclical policy, deficits are justified within the current macroeconomic context. This does not prevent them from compromising the sustainability of public finances in the long term. For this reason, the government is determined to reduce these deficits gradually via a multiannual route in the medium term. This path corresponds to the opinion of the High Council of Finance, which recommends that the government draft a multiannual programme enabling a gradual return to structural budgetary balance, preferably from 2013 onwards and in 2015 at the latest, based on the growth predictions for these years.

In order to eliminate the deficit, a multiannual path is required, providing for structural measures to enable a return to balanced public finances. This will require contributions from all components. According to the High Council of Finance, it involves both contributions from the different entities and contributions in terms of revenues, on the one hand, and expenditure, on the other. Furthermore, a special effort will be made with regard to fraud prevention. Such an overall exercise, providing for shared contributions by the different sub-sectors of the State, spread over a number of years, will be carried out by the government within the framework of drafting the budget for 2010.

The path proposed for the period 2010-2015 is based on the following points of departure:

- a structural contribution (in relation to the unchanged policy scenario) of 0.5% of GDP per annum;
- an additional structural contribution of 0.25% (for every percentage of GDP growth) in the event of economic growth ranging from 1 to 2%;
- an additional structural contribution of 0.8% (for every percentage of GDP growth) for the part of growth exceeding 2%.

Taking account of the growth predictions used, this will lead to equilibrium in 2015, both in structural and nominal terms. This path takes account both of the economic growth dynamic and the opinion of the High Council of Finance. The path illustrated in Table 6, is expressed in structural terms based on the growth assumptions adopted. In the event of any revision of the path, the usual overall budget balance elasticities will be taken into account in relation to growth.

Table 6
Budgetary impact of the standardised path

(% of GDP)	2008	2009	2010	2011	2012	2013	2014	2015
Overall budget balance	-1,2	-3,4	-4,0	-3,4	-2,6	-1,5	-0,7	0,0
Structural balance	-1,9	-2,2	-2,4	-2,3	-1,9	-1,1	-0,7	0,0
Cumulative effort			-0,5	-1,5	-2,5	-3,3	-4,1	-5,0
Primary balance	2,5	0,4	-0,1	0,6	1,5	2,5	3,3	3,9
Interest expenditure	3,8	3,7	3,8	3,9	4,0	4,1	4,1	3,9

A high degree of uncertainty persists with regard to the macroeconomic developments. The path may be revised based on macroeconomic developments and any changes to policy options at European level as a result of this development.

The contribution of the different sub-sectors

Belgium has the structure of a federal state. 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 Public Sector Borrowing Requirement Section of the High Council of Finance, 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, involving the responsibility of the different sub-sectors, is a guarantee for a successful fiscal policy.

In connection with the multiannual plan to be established, it will be necessary, therefore, to organise cooperation with all the levels of power in order to determine the contribution of the different sub-sectors. In any case, each sub-sector must make a substantial contribution to the realisation of a common path.

3.1 Debt developments

Reducing the debt ratio has been a key objective of Belgian fiscal policy for many years. In 2007, the debt ratio was brought down to 84% of GDP.

Table 7

General government debt developments (based on the standardised path)

	% of GDP	2007	2008	2009	2010	2011	2012	2013
1.	Gross debt	84,0	89,6	93,0	95,0	94,9	93,9	92,0
2.	Change in gross debt ratio	-3,9	5,6	3,4	2,0	-0,1	-0,9	-1,9
		Contributions to changes in gross debt						
3.	Primary balance	3,6	2,5	0,4	-0,1	0,6	1,5	2,5
4.	Interest expenditure	3,8	3,7	3,8	3,9	4,0	4,1	4,1
5.	Stock-flow adjustment	0,2	6,8	1,1	0,2	0,2	0,2	0,2
p.m.	Implicit interest rate on debt	4,6	4,6	4,3	4,3	4,4	4,5	4,5

Normally the debt ratio would have been expected to continue on its downward trend in 2008. Its upward movement is attributable to the measures taken by the government in response to the financial crisis. These measures have an overall impact of 6.1% on the debt ratio (see Box), hence the abnormally high figure relating to the so-called exogenous factors. Without these measures, the debt ratio would have continued to fall in 2008, to 83.5 %.

In the autumn of 2008, the public authorities were forced to take a series of measures to support the financial sector and prevent systemic risks. By ensuring the continuity of the activities of this sector, the interests of customers, savers and shareholders were safeguarded, whilst the risk of the negative consequences of the financial crisis affecting the real economy was limited.

At the end of September and in early October, two financial institutions were partly recapitalised. The Royal Decrees of 29 September 2008 and 1 October 2008 authorised the Federal Participation and Investment Company (société fédérale de participations et d'investissement (SFPI)) to subscribe to a capital increase at Fortis Banque and Dexia Banque of 9.4 and 1 billion euro respectively. In addition, the federal government committed itself to an additional financing of Fortis Banque amounting to 5.5 billion euro. All the regions together injected 1 billion euro to boost the capital of Dexia Banque. In addition, the federal, Flemish and Walloon governments each contributed 500 million euro to the insurance company Ethias. Finally, the federal government also subscribed to non-transferable securities without voting rights, to be issued by the KBC Group, with an injection of 3.5 billion euro to strengthen the latter's capital base. The federal government strengthened the capital base of the KBC Group with 2 billion euro and with a capital base facility of 1.5 billion euro.

(in billions of euro)	Federal	Regions	Total
Fortis: 1st injection of capital	4,7		
Fortis: 2d injection of capital	4,72		
Fortis: injection of capital in special purpose vehicle	0,6		
Fortis: loan to special purpose vehicle	2		
Fortis: bridging loan to Fortis holding	3		
total Fortis	**15,02**	**0**	**15,02**
Dexia: injection of capital by federal government	1		
Dexia: injection of capital by Flanders		0,5	0
Dexia: injection of capital by Wallonia		0,35	0
Dexia: injection of capital by Brussels		0,15	0
total Dexia	**1**	**1**	**2**
Ethias: injection of capital by federal government	0,5		
Ethias: injection of capital by Flanders		0,5	0
Ethias: injection of capital by Wallonia		0,5	0
total Ethias	**0,5**	**1**	**1,5**
KBC: loan by federal government	3,5		
KBC: injection of capital by Flanders		2	
total KBC	**3,5**	**2**	**5,5**
Total	**20,02**	**4**	**24,02**
Of which financed by new debt	**20,02**	**3,5**	**23,52**

These measures totalled 24.02 billion euro, 23.52 billion of which were financed by new debt. It must be underlined that the new debt is offset by new assets, which means that the net debt/net value of the public authorities is not affected.

In addition to these measures, a State guarantee for interbank lending and for the issue of bonds within a specific period as well as an increase in the deposit guarantee up to 100,000 euro have been provided for.

After a fall in 2009, the implicit interest rate is set to rise again from 2011. This trend goes hand in hand with a contraction in GDP in 2009 and limited growth in 2010. Therefore, the parameters relating to the reduction of the debt are less favourable than in previous years and, moreover, the overall budget balance is affected by the macroeconomic situation. For the first time in years, in 2009 and 2010, endogenous factors will have the effect of increasing the debt ratio by 2.3 and 1.8% respectively. In 2010, the debt ratio will continue to rise to 95%. Thereafter, it will decrease owing to the impact of the reduction of the overall budget balance and the more favourable economic climate.

The estimated debt ratio in 2009 has taken account of an impact of 1% of GDP from exogenous factors. This involves an increase in the capital base of KBC granted by the Flemish government[2], on the one hand, and a buffer of 0.4% planned for other differences between the overall budget balance and the actual debt developments, on the other. For estimates going beyond 2009, account was taken only of an impact of 0.2% arising from so-called exogenous factors (mainly the difference between the cash balance and budget balance). No account has yet been taken of any sales of financial interests acquired by the government over the last few months. They would give rise to a quickening of the pace of reduction of the debt.

3.2 The cyclically adjusted balance

In the recent past, the Belgian economy was still assumed to generate trend growth of some 2%. The change in the macroeconomic context has given rise, above all, to a sharp downward revision of the labour factor in terms of growth potential. According to the estimates of the current programme, this is expected to fall from 0.8% in 2007 to 0.3% in the 2011-2013 period. The share of the capital factor will also decrease although less significantly. The aforesaid movements result in a decline in the potential growth to a level of approximately 1.5% in the 2009-2013 period.

[2] On 22 January 2009, the Flemish government decided to recapitalise KBC by subscribing to securities to the amount of 2 billion euro to strengthen its capital base and to provide an additional facility of 1.5 billion euro for the capital base.

Table 8

Output gap and cyclically adjusted balance

% of GDP		2007	2008	2009	2010	2011	2012	2013
1.	Real GDP growth	2,8	1,1	-1,9	0,6	2,3	2,3	2,1
2.	Net lending of general government	-0,2	-1,2	-3,4	-4,0	-3,4	-2,6	-1,5
3.	Interest expenditure	3,8	3,7	3,8	3,9	4,0	4,1	4,1
4.	One-off and other temporary measures	-0,2	0,0	0,0	0,0	0,0	0,0	0,0
5.	Potential GDP growth	2,1	1,9	1,5	1,4	1,4	1,5	1,5
	contributions:							
	- labour	0,8	0,6	0,4	0,4	0,3	0,3	0,3
	- capital	0,9	1,0	0,8	0,7	0,7	0,8	0,7
	- total factor productivity	0,4	0,3	0,3	0,3	0,4	0,4	0,4
6.	Output gap	2,1	1,3	-2,2	-2,9	-2,1	-1,3	-0,7
7.	Cyclical budgetary component	1,1	0,7	-1,2	-1,6	-1,1	-0,7	-0,4
8.	Cyclically-adjusted balance (2 - 7)	-1,4	-1,9	-2,2	-2,4	-2,3	-1,9	-1,1
9.	Cyclically-adjusted primary balance (8 + 3)	2,5	1,8	1,6	1,5	1,7	2,2	2,9
10.	Structural balance (8 - 4)	-1,2	-1,9	-2,2	-2,4	-2,3	-1,9	-1,1

The output gap turns negative as from 2009. On the assumption of a return to economic growth to a level exceeding the growth potential as from 2011, the output gap will gradually narrow from this date and disappear in 2014.

On the basis of the estimated output gap, there will be a negative economic impact on the budget from 2009 onwards, which will reach 1.6% in 2010 and then decrease steadily thereafter.

In order to switch to the structural balance, the non-recurring measures also need to be taken into account. For 2008, it can be assumed that in the final analysis one-off measures were neutral in terms of the overall budget balance. The initial budget for 2009 provided for a series of one-off measures, the impact of which can be estimated at 0.4% of GDP. This impact is largely neutralised by the measures provided for in the recovery plan (elimination of the contribution of the communities and regions, reduction of VAT for building, speeding up of the payment of invoices, etc.).

The structural balance for 2010 is estimated at –2.4% of GDP. In the following years, the path proposed is expected to result in a steady improvement of the structural balance, which will be reduced to zero in 2015 (see projected path and assumptions in Table 6).

3.3 Comparison with the previous stability programme

Table 9 compares the objectives of the 2008-2011 stability programme with those of the current stability programme.

Table 9

Comparison with the previous stability programme

% of GDP	2007	2008	2009	2010	2011	2012	2013
Real GDP growth							
Previous update	2,7	1,9	2,0	2,0	2,0		
Current update	2,8	1,1	-1,9	0,6	2,3	2,3	2,1
Difference	0,1	-0,8	-3,9	-1,4	0,3		
General government net lending							
Previous update	-0,2	0,0	0,3	0,7	1,0		
Current update	-0,2	-1,2	-3,4	-4,0	-3,4	-2,6	-1,5
Difference	0,0	-1,2	-3,7	-4,7	-4,4		
General government gross debt							
Previous update	84,9	81,5	78,1	74,7	71,1		
Current update	84,0	89,6	93,0	95,0	94,9	93,9	92,0
Difference	-0,9	8,1	14,9	20,3	23,8		

A comparison with the numbers relating to GDP growth shows that the economic/financial frameworks of the two versions are virtually incompatible. For the 2009-2011 period, cumulative GDP growth is expected to be around 5% lower. As already described above and in accordance with the European Commission’s recommendations in this respect, the government has decided to resort to the automatic stabilisers in the short term and to support economic activity via a recovery plan.

The combined effects of lower GDP growth, of deficits instead of surpluses and of the impact of the measures to support the financial sector obviously result in a less favourable development of the debt ratio. In 2011, the debt ratio is expected to be higher by around 24% of GDP than provided for in the 2008-2011 stability programme.

4 The quality of public finances

For several years, the Belgian authorities have been implementing a policy of reforms intended to strengthen the economy's growth potential. The initiatives developed are aimed particularly at stimulating the labour market, improving the fiscal and regulatory environment of enterprises and providing for a high-quality social protection system .

Renewed impetus was given to this process when the federal government's broad socio-economic policy guidelines were set out in May 2008.

Promoting employment is an essential priority of this programme. Continuing the activation policy and reducing the charges imposed on labour, as well as encouraging an entrepreneurial spirit combine to achieve this objective. Priority is also given to strengthening the social protection system.

Numerous provisions entered into force and new initiatives were adopted in 2008. The 2009 budget was drafted against a particularly difficult economic background. Nevertheless, thanks to the tight control of expenditure, margins have been freed up for measures in favour of employment, purchasing power and competitiveness. Preference has also been given to a number of priority areas, such as security and justice, or development cooperation.

Furthermore, to provide an appropriate response to the crisis and restore confidence, the federal government has developed a recovery plan, jointly with the Regions and social partners. It combines short and long-term measures and fits into the framework of the action plan put forward by the European Commission.

The measures of the recovery plan are based on four broad policy lines: dealing with the banking and financial crisis, strengthening the socio-economic levers, maintaining business competitiveness and a good social climate and ensuring the sustainability of public finances. Several of these actions are detailed below. In addition, many provisions of the 2009 budget are designed to combat the crisis.

Regarding the following sections it was decided to deal separately with the measures announced within the context of this plan and to refer back to the plan when the measures taken within this context and the measures adopted previously converge.

4.1 Stimulating the labour market

Based on the government agreement, a number of employment measures have been taken, involving the players concerned at all levels of power, as well as the social partners, in the implementation of a coherent strategy.

These measures aim to maintain the course of the existing policies by increasing resources and intensity and to adapt to the crisis by means of new measures, whilst leaving a significant area of autonomy to the social partners. This strategy is in line with the general guidelines of European policy. It acts both on labour supply and demand, the quality of jobs and better governance regarding employment policy, in particular as a result of the strengthening of the cooperation and partnership with the Regions.

Participation in the labour market is made more attractive by an ongoing reduction in labour costs, combating unemployment traps and strengthening the activation and assistance policy. Investment in human capital and, therefore, life-long learning are also of crucial importance.

4.1.1. Reduction of charges imposed on labour

These measures are aimed mainly at making work financially more attractive and, consequently, encourage the switch from inactivity to activity. They also enable workers' net income to increase, without entailing additional costs for the employer. Particular attention is also given to low and middle incomes. A significant part of these measures is included in the recovery plan and the implementation of the central agreement for 2009-2010.

Since July 2008, workers on low and middle incomes have benefited from higher net earnings thanks to the targeted increase in the tax-exempt quota[3]. Moreover, the increase in the work bonus, in October 2008, is essentially aimed at the lowest income groups. The maximum increase actually applies at minimum wage level then decreases gradually as wages rise.

In addition, the bringing forward to October 2008 of the indexation of tax scales on withholding tax on professional income, amounting to 2%, and the maintenance of full indexation in 2009, on the basis of inflation in 2008, will lead to an additional rise in net income for all workers.

Following the increases in 2006 and 2007, the first tranche of deductible flat-rate professional expenses is again raised in 2009, by 1.5 percentage point. This rise also relates to the maximum amount of deductible expenses. These measures will be reflected in the calculation of withholding tax on professional income of May 2009. Furthermore, the amount of the basic exemption of the reimbursements by the employer of travel costs between home and office is doubled in 2009.

The Flemish Region has also extended the flat-rate reduction in personal income tax, established in 2007 for workers living in this Region. In 2008, the threshold of income giving entitlement to the reduction was raised and the amount of the reduction was increased to 200 euro from 150 euro initially planned. The benefit concerns all workers in 2009. The amount of the reduction is 250 euro for all workers and 300 euro for low-income workers.

4.1.2. Combating unemployment traps

In addition to the aforesaid lowering of charges, a set of measures was introduced in July 2008 to remove any unemployment traps and raise the labour supply.

[3] This measure, adopted in June 2008, has been taken into account in the calculation of the withholding tax on professional income since July 2008. However, it relates to all income for 2008.

The « Income Guarantee » allowance system enables an unemployed person accepting a part-time job to continue to receive part of his unemployment benefit, so that he earns more than the amount of the benefit alone. The system has been overhauled to make it financially more attractive: the highest supplement is now granted irrespective of the family circumstances of the job seeker and the work bonus is no longer deducted from the benefit.

In addition, young people are encouraged to take risks and set up their own businesses. The period of activity as a self-employed person is now taken into consideration in the calculation of the waiting period, after which a waiting benefit may be granted.

In general terms, the increase in the employment rate of young people is a major objective. To this end, efforts will be concentrated on young people leaving education, and training and help in finding work will be increased.

Finally, the partner of an unemployed person who is the main breadwinner is encouraged to take up employment thanks to the higher authorised income ceiling. This increase is limited, however, in order not to create new unemployment traps for an unemployed person who is the main breadwinner.

4.1.3. An ambitious activation policy

The activation policy was reformed in 2004 with the introduction of the Plan to Assist and Monitor the Unemployed (PAS). The assessments made confirm that this system is working efficiently: a return to work is facilitated, the number of training courses and people returning to education is rising and the control process has improved.

This activation policy will be strengthened further in 2009, within the framework of the employment strategy.

A new activation plan will be developed first in conjunction with the Regions, taking into account the views of the social partners. The proposals of the federal government relate in particular to a reduction in the timescale before measures are taken to get job seekers back to work, an improvement in the assistance and monitoring procedure, by closer adaptation to the profile of the job seeker and reinforcement of the latter's involvement. Furthermore, regional employment services should be given greater freedom to act.

Mobility on the labour market will also be stimulated. Bonuses will be granted to job seekers who follow intensive language training, take up jobs requiring long commutes or go to work in another Region[4].

The supplement for the older unemployed taking up work will rise from May 2009, with the removal of the condition of 20 years' service. This flat-rate unemployment benefit, which may be drawn in addition to the wage from a new job, encourages the over 50s to take up work, even at a lower salary than that prior to the unemployment period. The supplement will be granted for a maximum of 36 months and its total will be degressive.

Furthermore, with the same objective of increasing the employment rate of older people, an income supplement will be granted temporarily to older workers who decide to transfer from a job with considerable responsibilities to one with fewer responsibilities within the company and consequently suffer a loss of income. The amount and duration of payment of this supplement will be progressive according to the age of the worker.

Finally, from 2009, a return to work bonus of 75 euro will be granted for 12 months to job seekers who are the breadwinners of single parent families, in order to encourage their return to the labour market.

4.1.4. An increased training effort

Training plays an essential part in safeguarding employment and represents an important factor of integration, promotion, development and professional mobility. In addition, training contributes to increasing the value added and improving production processes. Henceforth, emphasis is placed on considerable levels of investment in training workers and job seekers, an increased effort being made for certain target groups.

[4] The methods of awarding these bonuses will be fixed after discussions with the social partners.

4.2 Improving the business environment

A fiscal and regulatory framework favourable to business activity contributes to supporting employment, innovation and investments and, consequently, reinforces the growth potential of the economy.

Over the last few years, a whole series of measures has made the tax environment more attractive, such as the deduction of notional interest, the deduction for patent revenues and the widening of the Parent-Subsidiary Directive. The government wishes to make further improvements. The option of introducing a legal framework relating to fiscal consolidation, within a neutral budgetary framework, will be examined and new bilateral agreements concluded to stimulate investments.

Enterprises will also benefit from a new reduction in their administrative expenses[5], with the reduction of publication costs for the electronic filing of documents, extension of the uses of the Crossroads Bank for Enterprises (for the liberal professions in particular) and the ongoing reduction of the statistical burden.

Specific attention has been paid to small and medium-sized enterprises, with the adoption at federal level of an SME action plan in October 2008. This plan covers some forty measures to promote the framework of activity of these enterprises and stimulate entrepreneurship.

Specifically, these provisions aim to encourage the creation and development of enterprises, strengthen the security of entrepreneurs and improve relations with the public authorities, the labour market and the social status of the self-employed. It is planned, inter alia, to facilitate the transfer of the status of an unemployed or salaried person to that of a self-employed person, to further reduce the level of administrative expenses, protect and improve the image of trades and crafts, put in place a more accessible company model, thanks to reduced start-up capital (the SPRLStarters) or facilitate access to the capital, as well as to public markets.

[5] Administrative simplification measures will also relate to individuals (purchase or sale of property, declaration of birth, tax returns, etc.).

In addition, specific measures have been taken to minimise the impact of the financial crisis on access to credit by SMEs and to enable them to realise their investments[6].

A number of additional measures in favour of enterprises have been taken in the context of the recovery plan.

4.3 A strengthened social protection system

The strengthening of the social protection system is a priority for the Belgian authorities.

4.3.1. Social security with a balanced budget

The sources of funding for the social security system must be diversified in order to bring about a transfer from levies on earned income towards other tax sources (in particular, withholding tax on income from movable property, VAT, excise duties on tobacco and the packaging levy). In addition, since 2007, the social security budget has benefited from the expected positive effect of the cuts in employers' social security contributions on economic activity, thanks to the transfer of an amount equivalent to a part of the proceeds from the personal income tax and corporation tax.

As a result of the policy of strict control over spending, the rise in health care expenditure in 2006 and 2007 was in line with the real growth target of 4.5%. According to available estimates, the increase in expenditure in 2008 should continue to stay within this margin.

The 2009 budget for health care provides for adherence to the growth target of 4.5%. Structural savings measures[7] have been taken in order to free up resources for new initiatives, within this target, and with a view to topping up the 'Fonds pour l'avenir des soins de santé' (fund for the future of health care).

[6] This relates to the strengthening of the system of subordinated loans granted by the Participation Fund and the issue of a bond loan to meet loan requests.
[7] These measures relate to the drugs, implants and hospital environment sectors, in particular.

It is planned in particular to improve accessibility to care, promote general medical practice, continue hospital refinancing as well as develop a plan to make the nursing profession an attractive option. In addition, a specific sum of money is earmarked for the implementation of the Cancer Plan and the establishment of a multiannual framework to improve cover for the specific requirements of chronically ill patients.

Furthermore the strategy providing for health care is confirmed. In 2009, a total of 306.6 million euro[8] will actually be allocated to the 'Fonds pour l'avenir des soins de santé', intended to offset, as from 2012, the future medical costs resulting from an ageing population.

The government will ensure, moreover, that it guarantees the sustainable control of expenditure, increased accountability of the different players, as well as the effective allocation of available resources. To this end, a taskforce will be charged with proposing structural measures to ensure that the health care system is financially sustainable.

4.3.2. Upgrading social benefits

A high-quality social protection system makes it possible to safeguard the well-being, prosperity and solidarity among citizens as well as combat poverty. By ensuring that households have a decent income, in particular those on low incomes, this system also contributes to sustaining economic activity. These objectives are even more important in difficult economic times. Many provisions have now been adopted in accordance with budget objectives, in order to upgrade the level of a series of social benefits.

[8] This amount is added to the 615 million allocated during previous years: in 2007, the Fund had been topped up with 309 million euro and, at the time of the budgetary audit of July 2008, the government had decided to allocate 306.3 million euro to the Fund.

The continued increase of pension levels is a major priority. In addition to the biennial linking of benefits to the prosperity scheme for the period 2007-2008 and measures provided for in the 2008 budget, the budgetary audit of July 2008 enabled additional resources to be released for pensions, in particular the lowest ones. Pensions starting in 2003 were therefore raised by 2% in September 2008 and the amount of the minimum pension for the self-employed and the basic amount of Income Guarantee for the Elderly (IGE) were increased in October 2008.

Specific amounts were set aside to link social benefits to prosperity during 2009-2010. The government's decision regarding the precise distribution of this money among the different benefits (pensions, allowances, etc.) takes account of the views of the social partners.

In 2009, in addition to linking benefits to prosperity, extra resources will be earmarked for an increase in pensions, again with the emphasis on the oldest and lowest pensions. For salaried workers, pensions starting more than 15 years ago will be raised by 2% and minimum pensions by 3% in June 2009. The minimum entitlement per year of service will also be increased, by 3%. The other categories of pensions will rise by 1.5% on the same date. Measures have also been taken favouring self-employed workers: minimum pensions will be increased by 20 euro per month in May 2009, so as to reduce the gap with the pensions of salaried workers. In August 2009, the amount of the minimum pension will be raised by a further 3% and the amount of other pensions will go up by 1.5%. Moreover, the adjustment of pension penalties is removed in 2009, in the event of early retirement after 42 years of service.

Furthermore, continuing with the measures adopted in 2007 and 2008, the pensions of salaried and self-employed workers starting in 2004 will benefit from a 2% prosperity adjustment in September 2009.

Moreover, the law relating to the Generation Pact provides for the granting of an additional allocation[9] from 2009 for linking social welfare benefits to prosperity. The government has decided to appropriate this allocation by raising both the social integration income and the allocation of income replacement for disabled persons by 2% in June 2009, as well as by increasing the «IGE» by 0.8% in June 2009 and 0.6% in 2010.

Family purchasing power has also been supported. The family allowance supplement for low-income single-parent families was increased again in October 2008, along with the income ceiling enabling more benefit to be drawn from this. The increase in age supplement for young people between 18 and 25 planned for 2010 has been brought forward to 2009. Moreover, an age supplement of 25.50 euro will be granted to children between 0 and 5. The total family allowances for the 1st child of self-employed workers was raised again in January 2009.

The energy bill of households on the lowest income will be reduced as a result of the decrease in the lifeline rate for gas and electricity or the intervention of the Heating Oil Social Fund. For low income households, which are not entitled to the lifeline rates, a one-off flat-rate reduction of the gas and electricity bill is planned and they will also be entitled to call on the Heating Oil Social Fund.

The income threshold below which an intervention by the Fund can be requested was raised in 2008 via the establishment of a new category of beneficiaries. The amount of the interventions was also increased. In 2009, the income ceiling of the new category of beneficiaries will be raised and a minimum intervention will be granted to the other categories. Furthermore, the categories of beneficiaries and interventions relating to gas, electricity and heating oil will be harmonised.

[9] According to this law, this money must correspond at least to the estimated amount of expenditure resulting from linking 1% of these benefits to prosperity.

4.4 Strict management of expenditure

When the 2009 budget was drafted, an in-depth analysis of the federal government's primary expenditure was carried out. Strict monitoring of expenditure has been implemented and the different departments have been requested to make expenditure-related efficiency gains. The new initiatives proposed were also subjected to a rigorous selection process.

By way of an example of expenditure-related efficiency gains, a policy of selective replacement of retiring federal officials has been developed. Staff working for services whose processes have been automated may only partly be replaced whilst virtually all highly qualified officials will be replaced, so as to safeguard the quality of services offered. This policy should enable staff costs to be cut by around 1%.

4.5 The economic recovery plan

4.5.1. Measures favouring enterprises

In order to support business competitiveness, the government has reinforced a set of reductions of charges in favour of employers. These measures implement the central agreement concluded between the social partners, which forms an essential part of this recovery plan.

When the 2007-2008 central agreement was drawn up, the government had introduced a specific cut in charges to reduce Belgium's wage handicap. This «intersectoral structural wage adjustment» involved a partial dispensation from the payment of the withholding tax on professional income amounting to 0.25%. This exemption will be increased to 0.75% in June 2009 and 1% in January 2010.

Again with a view to limiting the wage handicap, the percentage dispensation from payment of the withholding tax on professional income for night and shift work will be increased again from 10.7% to 15.6% in June 2009. Furthermore, tax incentives for overtime (exemption from the withholding tax on professional income for the employer and tax reduction for the worker) may be applied to a maximum of 100 overtime hours in 2009 and 130 hours in 2010, instead of the current 65 hours.

Efforts in favour of research and development are further strengthened. After the harmonisation of the rates of reduction regarding withholding tax on the salaries of researchers at the maximum rate of 65% in July 2008, this rate is increased to 75% from 2009.

Provision for the simplification of employment schemes is also made: the different reductions of existing charges will be realigned in terms of a structural reduction and an increased reduction for workers on low salaries.

To provide a support for enterprises, the recovery plan also makes it easier to access credit and to spread the payment of taxes and social contributions as well as to speed up the payment of invoices received by the authorities.

The building sector, which is particularly exposed to economic trends, is receiving special attention. In order to support this sector, reduced VAT rates are applicable in 2009 for the construction of newbuilds (on a limited number of invoices) and public social housing, as well as for redeveloping housing after demolition. Furthermore, the tax benefits for energy saving investments have been extended. Therefore, they will contribute to reducing household energy bills and promoting sustainable development.

4.5.2. Maintaining purchasing power

Maintaining household purchasing power is also a major government concern. The purchasing power of temporarily unemployed workers receives a temporary boost in 2009 and 2010 as a result of the increase in allowance percentages and the benefit calculation threshold. Agency or temporary workers will also be entitled to these benefits. Besides, in order to support employment, a more forceful approach has been developed in the case of restructuring.

The central agreement also creates a balance between maintaining the purchasing power of workers and business competitiveness: the different sectors may grant workers a maximum benefit of 125 euro in 2009 and 250 euro in 2010, in line with the indexation of wages. These benefits may comprise a mobility allowance, for example, or an increase in minimum sector-based wages.

To supplement the measures already adopted in the 2009 budget, a one-off reduction of 30 euro of the electricity bill will reduce household energy costs. In addition, the establishment of the price watchdog will ensure a rigorous analysis of « sensitive » product price developments and the competition authority will examine a number of sectors identified as priority sectors (energy, food, distribution and telecommunications).

4.5.3. Sustainable development

To promote growth and sustainability, green and energy-saving investments will also be prioritised and a number of investment programmes, particularly in the area of transport, will be speeded up.

4.5.4. Regional plans

The Regions have also developed their own recovery plans, in cooperation with each other and the federal government's plan. The Flemish Region's plan is based on bolstering the financing of SMEs, activation of job seekers and providing support measures for restructuring operations. The Brussels-Capital Region has prioritised assistance for business financing. The actions of the Walloon Region are concentrated on investments, access to credit, employment and training, the environment/employment alliance and the simplification of administrative measures.

5 Long-term sustainability of public finances

5.1 Introduction

Like most Western European countries, Belgium is faced 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 fiscal policy, this strategy also consists of major economic and social policy initiatives.

As a result of the economic crisis policy is primarily geared to short-term issues. All the same, sight must not be lost of the question of the sustainability of public finances in the medium and long term. The procedure planned in the 2001 Law providing for an ongoing reduction in the public debt and establishing an Ageing Fund (Law of 5 September 2001) bears witness to this. This Law stipulates that the Study Committee on Ageing publishes an estimate of the costs linked to ageing each year and that the government explains its policy on the matter.

5.2 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. The latest report from the Study Committee dates from June 2008.[10] Consequently the medium-term figures do not yet take account of the slowdown in growth, which has worsened since. However, these estimates were established on the basis of the latest population projections published during 2008.[11]

[10] High Council of Finance, Study Committee on Ageing, Annual Report, June 2008

[11] Federal Planning Bureau – FPS Economy – Directorate-general Statistics and Economic Information: population forecasts 2007-2060.

Table 10

Budgetary consequences of population ageing

% of GDP	2007	2010	2020	2030	2050	2007-2030	2007-2050
	Study Committee on Ageing						
Pensions	8,8	9,1	10,5	12,3	13,3	3,5	4,5
Health care	7,0	7,6	8,1	8,9	10,4	1,9	3,4
Other social security expenditure	6,9	6,9	6,3	5,7	5,2	-1,1	-1,6
of witch							
Incapacity	1,2	1,3	1,3	1,2	1,1	0,0	-0,1
Unemployment	2,0	1,9	1,6	1,3	1,2	-0,7	-0,8
Early retirement	0,4	0,4	0,4	0,4	0,3	-0,1	-0,1
Other sectors	3,3	3,2	3,1	2,9	2,6	-0,4	-0,7
Social security expenditure	22,6	23,5	25,0	26,9	28,9	4,3	6,3
P.m. remuneration of teaching staff	3,9	3,8	3,7	3,8	3,7	-0,5	-0,4

According to the June 2008 report by the Study Committee on Ageing, social expenditure is expected to increase by 6.3% of GDP between 2007 and 2050. This results from an increase in the weight of pension and health care expenditure estimated at 4.5% and 3.4% respectively. This increase is only partially offset by the reduction in weight of other social expenditure (unemployment, family allowances, etc.).

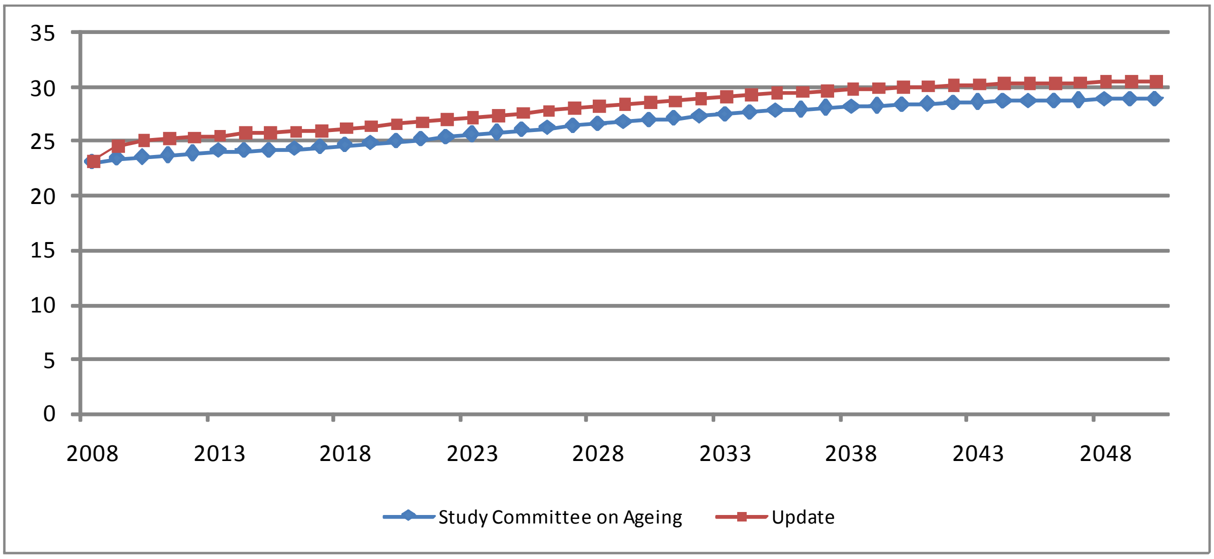
The Study Committee's projections differ from those of the AWG.[12] On the one hand, they are more recent (2008 instead of 2006) and, on the other, there are also differences in terms of methodology. The AWG's projections put the emphasis on international comparability, whilst the Study Committee on Ageing tries to take maximum account of national policy measures and the specific features of Belgium's social security system, when compiling its forecasts.

Neither the Study Committee's projections nor those of the AWG take account of the current economic crisis. In order to be able to trace a long-term path, however, an adjusted estimate has been made on the basis of the developments of social expenditure until 2014 as estimated by the Federal Planning Bureau. As from 2015, the dynamics of the estimates of the Study Committee on Ageing are based on this series.

[12] European Commission: The impact of population 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 No. 1/2006.

Chart 1

Long-term social security expenditure (percentages of GDP)



5.3 A single strategy, three main policy lines

For Belgium's public authorities, 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: increase 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 an important 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 sustainability[13] of public finances in relation to the budget cost. So as not to jeopardise future fiscal policy, it is essential for these changes to be anticipated now in order not to pin the costs on to future generations. With the establishment of the Ageing Fund and the related annual procedure, fiscal policy now slots into a long-term perspective.

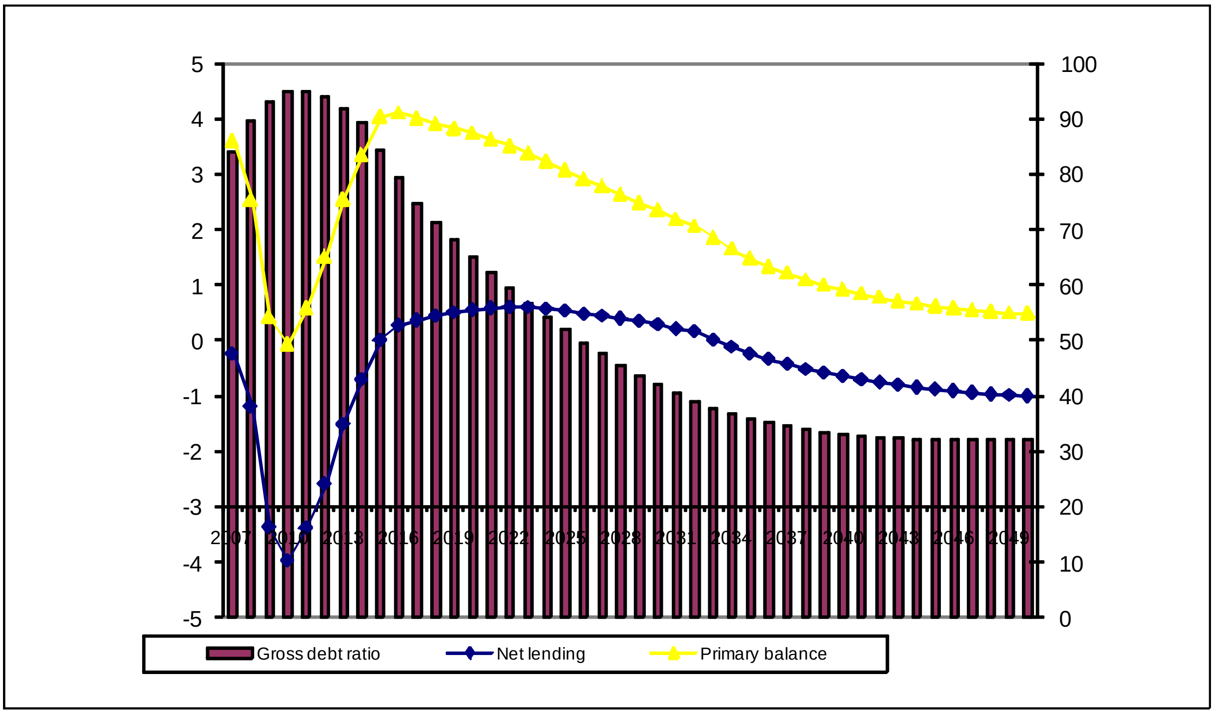
One of the main objectives of fiscal policy is to bring down the debt ratio sufficiently so as to reduce future interest charges. The margin freed up in this way can then be used to meet the growing social protection expenditure in particular without having to cut into other areas of spending or raise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

Essentially, owing to the impact of the global financial crisis and the sharp deterioration of the economic situation, the government is abandoning in the short term the established target. By simply sticking to the set budget targets fiscal policy would entail a contraction, with the effect of making the economic situation worse still. In particular with a view to ensuring the long-term sustainability of finances, the current stability programme plots a path enabling a balance to be achieved in 2015. On this basis and according to the recommendations of the High Council of Finance, an illustrative scenario has been drafted enabling the additional cost of ageing to be offset to a large extent in the 2015-2050 period, by reducing the primary balance without the debt ratio going up too much. Chart 2 shows the key basic data in this scenario according to which, after 2015, a small surplus of just under 0.6% of GDP is generated by 2020. In the following period, this surplus will be reduced gradually before allowing again small deficits from 2035 on.

[13] 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 reduced and without jeopardising the attainment of various public finance standards."

Chart 2

Long-term debt ratio, lending and primary balance (percentages of GDP)



Fiscal policy as an element of global strategy

As previously mentioned, the fiscal policy is only one element of a more global strategy. It would be wrong to base the strategy designed to monitor ageing 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. A host of measures, which fall within the scope of this objective, has been discussed in Chapter 4.

6 Institutional aspects of the Belgian fiscal policy

6.1 The NAI as an independent body responsible for establishing statistics and macroeconomic projections

Both the IMF and the European Commission underline the importance of independent bodies for establishing the most important statistics and estimates of macroeconomic parameters used within the framework of drawing up the budget. The Law of 21 December 1994 set up the National Accounts Institute (NAI). The NAI is responsible for coordinating the establishment of essential statistics and macroeconomic forecasts. The compiling of statistics is entrusted to the following bodies:

- National Bank of Belgium (national and regional accounts, foreign trade statistics, financial accounts).
- Federal Planning Bureau (short-term forecasts, economic budget and input-output tables).
- The two bodies jointly ensure the drawing up of public accounts.

The Board of Directors of the NAI comprises representatives of the National Bank, Federal Planning Bureau and FPS Economy. In addition, a steering committee has been set up for the national accounts as well as two scientific committees, one for the national accounts and the other for the economic budget.

The economic budget, that is all the macroeconomic parameters based on which the government drafts the budget, is prepared by the Federal Planning Bureau, subsequently submitted to the scientific committee on the economic budget and finally approved by the Board of Directors of the NAI. This method, which involves different independent bodies in drafting the economic budget via their representation within the Board of Directors or scientific committee, guarantees qualitative projections without any political influence. The government takes the estimates of the economic budget as a starting point for drafting the budget.

6.2 Towards modernised public accounting

The IMF's ROSC evaluation in particular insisted on the abandonment of the traditional cash basis of accounting and on the harmonisation of the accounting framework for the different entities of the public authorities as well as on the need to provide for the option of supplying consolidated data and balance sheets.[14]

A series of important measures was taken to modernise the budget and accounting process. At federal level, the FEDCOM project was launched in September 2007. This project provided for the establishment of a modern accounting platform. To start with, the intention was to make use of budget accounting (drawing inspiration from the European System of Accounts (ESA) in terms of the point at which entries are recorded). In 2008 (decision by the Council of Ministers dated 25 July 2008) it was decided to implement, within the FEDCOM project, double-entry accounting across the board which entailed full application of the Law of 22 May 2003. On 1 January 2009, FEDCOM was implemented fully in the so-called pilot FPSs[15]. This means that as from this date, all their budget operations as well as the accounting treatment thereof are carried out in the new computer system. Double-entry accounting is used with the option of drawing up a balance sheet.[16] With regard to the other FPSs, the new system will be implemented based on three phases of deployment, which will coincide each time with a calendar year. As from 2012, accounting should then be based on the FEDCOM system for all FPSs, PPSs and departments of the federal government and double-entry accounting should also be employed.

At the same time, the legal framework is also adapted. The programme law comprises the provisions required to regulate the entry into force of the Law of 22 May 2003 organising the budget and accounting of the federal government. Bearing in mind the gradual implementation of the FEDCOM application, the new Law will also be applied gradually. The Law applies to FPSs which have joined the FEDCOM system. The Law will only apply in full, therefore, from 2012.

[14] IMF – 2008: Belgium: Report on Observance of Standards and Codes – Fiscal Transparency Module.
[15] FPS Info Technology and Communication, Chancellery, FPS B&MC, FPS P&O and FPS Health.
[16] If the publication of a balance sheet for an individual FPS has hardly any use or value added, the possibility thereof exists nevertheless.

A general accounting plan applicable to the federal government and communities and regions has also been approved. At the Interministerial Conference on Finance and the Budget of 12 December 2008, an agreement was reached with the latter on a joint accounting plan and the creation of a commission (comprising, in particular, representatives of the federal government, communities and regions), which will issue opinions, in future, on the application of the accounting plan and any changes to be made thereto. These decisions are important in the context of the switch by the communities and regions (at their own pace) to a double-entry accounting system, if they have not done so already.[17] In the medium term, reporting with regard to the accounts on the part of the federal government, communities and regions will be based on an identical accounting plan.

[17] Currently, the German-speaking community and Brussels Region already keep double-entry accounting.

Annexes

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

	2008	2009	2010	2011	2012	2013
Short-term interest rate (annual average) (1)	3,7	1,2	1,8	2,5	2,9	3,0
Long-term interest rate (annual average) (1)	4,4	3,6	3,9	4,9	4,9	4,9
USD/euro exchange rate (annual average)	147,1	134,5	133,7	133,7	133,7	133,7
Nominal effective exchange rate (2000=100)	110,5	111,6	111,9	111,9	111,9	111,9
GDP-growth - world (excluding EU)	4,0	1,2	3,2	5,0	5,0	5,0
GDP-growth - EU	1,0	-1,8	0,5	2,4	2,4	2,4
Growth of relevant external markets	3,5	-3,1	2,5	6,2	6,4	6,4
Global imports by volume (excluding EU)	5,6	1,8	4,5	7,0	7,0	7,0
Oil price (USD)	96,9	52,5	63,1	64,9	66,9	69,0

(1) Interest rate assumption used for the macro-economic context. For estimates of public finances, the forward rates applicable on 06/02/2009 have been used.

Short-term interest rate (3 months)	4,4	1,5
Long-term interest rate (10 years)	4,6	4,5

Annex 2: Outline of the recovery plan

		2009	2010
1.	**EXISTING MEASURES**		
	Reduction contribution FASFC (Federal Agency for the Safety of the Food Chain)	30	30
	Prosperity enveloppe	291,5	570,1
	Raising of ceiling on tax deductible expenses (réduction professionelle)	85,0	85
	Pensions	158,7	201,3
	Heating oil, gas and electricity reduction	30,5	30,5
	Family allowance and age supplement increase	11,3	17,6
	Indexation of tax scales	1.143,2	PM
	Fund for the reduction of the global energy cost (FRCE)	2	2
	SUBTOTAL	**1752,15**	**936,5**
2.	**NEW MEASURES**		
A.	**SUPPORT FOR ENTERPRISES**		
	Payment facilities: National Institute of Social Security, National Institute of Social Insurance for Self-employed People, VAT, withholding tax, and refund VAT	443,5	8,5
	Central agreement (AIP): reduction of charges for companies	184	428
	General lowering of charges	233	590
	Withholding tax on professional income for researchers	38	38
	Removal of credit insurance contract tax	15	15
	Speeding up invoice payments	267	0
	Withholding tax deferment	104	13
	Changels to the central agreement (AIP) support fund (luncheons vouchers, simplification of reduction contributions,...)	44,4	45,1
	Central agreement (AIP): general reduction of (net) charges for public enterprises	24,1	56,6
	Increase in Participation Fund capacity	0	1,5
		1353	**1195,7**
B.	**ENSURING EMPLOYMENT AND STRENGTHENING PURCHASING POWER**	0	0
	Temporary unemployment	100	102,8
	Restructuring measures	16	16
	Reduction of household electricity costs	135	0
		251	**118,8**
C.	**INVESTING IN GROWTH AND SUSTAINABILITY**	0	0
	Green investments	18,8	52,5
	Fund for the reduction of the global energy cost (FRCE)	9	9
	Bond loan FRCE: tax deduction	0	1
	Acceleration of public investments	126,9	100
	Measures construction industry	300	7,6
		454,7	**170,1**
	SUBTOTAL	**2058,7**	**1484,6**
3.	**BUDGET NEUTRAL MEASURES**		
	Credit opening		
	Credit mediator at BeCeFi (Belgian knowledge Centre for SME)		
	EIB investment credit extension application		
	Price observation agency		
	Competition authority		
	Reciprocal information flow		
	Supplier repercussions		
	Central agreement (AIP): additional benefits of 250 EUR/employee		
	FEDESCO: increasing debt position to 100 billion EUR		
	Employment/environment alliance		
	Economic diplomacy		
	Finexpo and Ducroire		
	Common information campaign		
	Carry Back feasibility examination		
	Use of Central agreement (AIP) correction for Maribel Social		
	TOTAL	**3810,9**	**2421,1**

Annex 3: Budget forecasts for all public authorities

		2007	2007	2008	2009 (1)	2010	2011	2012	2013
		Volume	% of GDP						
		Net lending by sub-sector							
1.	General government	-784	-0,2	-1,2	-3,4	-4,0	-3,4	-2,6	-1,5
2.	Central government	-3.592	-1,1	-1,7	-2,4				
3.	State government	993	0,4	0,0	-0,3				
4.	Local government	-191	-0,1	0,0	-0,2				
5.	Social security funds	1.824	0,5	0,5	-0,4				
		General government							
6.	Total revenue	160.947	48,1	48,6	48,2				
7.	Total expenditure	161.882	48,3	49,8	51,6				
8.	Net lending/borrowing	-784	-0,2	-1,2	-3,4	-4,0	-3,4	-2,6	-1,5
9.	Interest expenditure	12.838	3,8	3,7	3,8	3,9	4,0	4,1	4,1
10.	Primary balance	12.053	3,6	2,5	0,4	-0,1	0,6	1,5	2,5
11.	One-off and other temporary measures		-0,2	0,0	0,0				
		Selected components of revenue							
12.	Total taxes	99.490	29,7	29,7	29,0				
12a.	Taxes on production and imports	42.810	12,8	12,5	12,2				
12b.	Current taxes on income, wealth, etc	54.455	16,3	16,5	16,1				
12c.	Capital taxes	2.225	0,7	0,7	0,7				
13.	Social contributions	52.663	15,7	16,2	16,3				
14.	Property income	2.087	0,6	0,7	0,8				
15.	Other	6.707	2,0	2,1	2,1				
16.	Total revenue	160.947	48,1	48,6	48,2				
p.m.	Tax burden	154.411	46,1	46,5	46,0				
		Selected components of expenditure							
17.	Compensation of employees + intermediate consumption	51.105	15,3	15,8	16,1				
18.	Social transfers	74.651	22,3	23,2	24,6				
19.	Interest expenditure	12.838	3,8	3,7	3,8				
20.	Subsidies	6.543	2,0	2,1	2,1				
21.	Gross fixed capital formation	5.439	1,6	1,6	1,7				
22.	Other	11.307	3,3	3,4	3,3				
23.	Total expenditure	161.882	48,3	49,8	51,6				

Annex 4: Basic assumptions of the Study Committee on Ageing

Summary of the basic assumptions adopted by the Study Committee on Population ageing

Demographic scenario		**2030**	**2050**
Birth rate		1,76	1,76
Life expectancy at birth : male		81,2	84
Life expectancy at birth : female		87	89,7
Net migration (*1000)		17,4	26,2
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:	categories by sex and age group and reforms		
disabled, older unemployed workers, persons taking early retirement or retirement			
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 *not seeking work)*	8%		
Employment rate in 2030 (% of the population of working age (15-64 years))	68,1%		
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%		