Belgium's Stability Programme 2000 - 2003

Ministry of Finance

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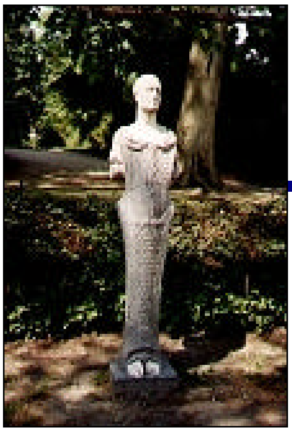


The main orientations of the 2000-2003 Stability Programme

the new Stability Programme

Sound public finances create the necessary conditions for price stability and lasting growth, which encourage job creation. In accordance with these principles, the Member States of the Monetary Union are required to present a Stability Programme updated each year.[1]

Belgium's new Stability Programme for the period 2000-2003 is fully in line with the Stability Programme of December 1998. It outlines the framework for budgetary policy over the next few years.

conditions to be met

As stated in the Government Agreement of 7 July 1999, all the measures and initiatives taken in the various areas of policy will have to meet the following conditions:

- compliance with the Stability Programme until a balanced Budget is achieved in 2002
- maintenance of a balanced Budget as soon as this is achieved, in accordance with the European Stability and Growth Pact and with the public accounting requirements
- financial equilibrium for a high-quality social security system, in which the resources required in order to cushion the effects of an ageing population are made available, without jeopardising the existing social protection and without the need to raise taxes
- continued reduction in the fiscal and parafiscal burden throughout the term of the present government

[1] In implementation of Council Regulation (EC) No 1466 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

government objective

The government has undertaken to continue to reduce the public-sector deficit, expressed as a percentage of GDP, to 1.0% in 2000 and to 0.5% in 2001, so as to achieve a balanced budget in 2002. Since the government expects the actual deficit to be smaller, these figures and, in particular, the figure of 1.0% for 2000 represent a maximum. In accordance with the Stability Programme, the proceeds deriving from stronger growth in 2000 will be assigned, as a matter of priority, to reducing the deficit.

government commitments

In order to achieve this objective, the government has committed itself to a twofold undertaking:

- it confirms the target set in the 1999-2002 Stability Programme, whereby the primary surplus of the general government is to be maintained at around 6% of GDP over the medium term;

- alongside this target for the primary surplus, it is setting an additional target for the financing balance, under which the net financing requirement will be reduced, in two stages, to balance by 2002.

On the basis of expected interest-rate movements, the commitment to a balanced budget by 2002 implies that the primary surplus will be slightly above 6%. As will be shown below, this is a realistic scenario. Once a balanced budget has been achieved, the government considers it desirable to build up a small structural surplus.

This policy aimed at achieving a balanced budget by 2002 results in an accelerated and lasting reduction in the public-sector debt, which will be reduced to close on the level of GDP by 2003. A reduction in the debt combined with an increase in the rate of employment is the best way of ensuring that a high level of social security protection is maintained and that the costs relating to the ageing population are covered.

Furthermore the government will create a structural budgetary margin of manoeuvre, which it will be able to use in accordance with the priorities laid down in the Government Agreement. The precise timetable and the scale of the new measures will depend on the budgetary margin available. In this connection it should be pointed out that the fundamental scenario is based on prudent assumptions.

content of this paper

The present paper describes the main budgetary and socio-economic policy issues for the coming years. It will then consider the actual budget outturns for the period 1996-1999. Finally, it will set out the budget strategy for the period 2000-2003, first of all looking at the budget for the year 2000.

The government is convinced that it can count on the support of Parliament and of the Belgian people in order to put this policy into effect.

1. Budgetary and socio-economic policy objectives

The present updated Stability Programme, which outlines the main points of budgetary policy for the period 2000-2003, is the first programme to be introduced by the government which took office in July 1999. There follow some brief comments on the main objectives of socio-economic policy.

chief objective: the active welfare state

The chief objective is to develop an "active welfare state". The government intends through a range of measures to bring about a significant increase in the rate of employment. This is currently lower than the average rate for Belgium's neighbours. To have as high a level of employment as possible is the best way of ensuring that the costs of an ageing population will be covered in the long term and that social security protection can be adequately financed.

stimulating employment

In order to raise the rate of employment, economic growth will need to be more labour-intensive. To this end the Government Agreement has laid down a number of orientations derived from the European employment guidelines. The main elements of the government's policy for stimulating employment are as follows:

- significant reductions in the fiscal and parafiscal burden on labour
- introduction of a "first job" scheme for young people, so as to enable everyone to join the labour market within six months of completing their education
- elimination of "unemployment traps"
- increase in the employment rate for persons aged 50 and above
- particular attention to be paid to enabling the long-term unemployed and those on minimum support to join the job market.

reduction (para)fiscal burden

As regards (para-)fiscal policy, the government has set itself the explicit target of reducing the sizeable fiscal and parafiscal burden imposed, above all, on labour to the level in neighbouring countries. During its present term of office, the government will work out a general reform of personal taxation, which should be brought into effect before the end of the present Parliament. In addition to the reduction of the overall fiscal and parafiscal burden, some internal adjustments will also be needed in order to provide tax incentives for employment and the environment.

other priorities

In addition to these socio-economic policy objectives, the government has laid down some important priorities in other areas, such as improving the operation of the civil service, justice and security, lasting development and mobility.

tight budgetary framework

The new initiatives announced by the government will be kept within a tight budgetary framework. All the measures and initiatives that are taken in the various policy areas must be in accordance with the four conditions listed in the introduction.

There is no contradiction between a prudent and orthodox budgetary policy aimed at a further reduction in the public-sector debt and an ambitious and innovative structural policy. If the limited available budgetary margin is used in the best possible way to promote employment and economic activity in general, this will also benefit the public-sector finances. A higher employment rate creates a wider and more stable basis for the financing of social security and new requirements of society.

2. Actual budgetary outturn in the period 1996-1999

2.1. Implementation of the 1999 Budget

When the initial 1999 Budget was drawn up, a net financing requirement of 1.3% of GDP was predicted. When the Budget for 2000 was prepared, the estimated deficit was reduced to 1.1% of GDP. As Table 1 shows, the net financing requirement and the primary balance are in line with the objectives of the initial Stability Programme.

results better than expected

Despite a number of setbacks, the results with respect to the Stability Programme proved to be better than expected. For example, when the initial Budget (and Stability Programme) was prepared, the government was still expecting economic growth of 2.4% in 1999. When the Budget for 2000 was drawn up, GDP growth for 1999 was revised to 1.7%. This substantial downward revision in growth was due, to the extent of 0.2 points, to the effects of the dioxin crisis, which led to a sharp decline in activity in a sizeable part of the agricultural and food processing sectors in the second and third quarters of 1999. The dioxin crisis not only caused a decline in growth with negative repercussions for the public-sector finances. It has also had a direct effect on the 1999 Budget. Additional expenditure linked to the crisis has been considerable, amounting to around 0.2% of GDP.

Despite these setbacks, the 1999 Budget is in line with the constraints set by the Stability Programme. This proves how valuable it is to pursue a prudent budgetary policy, enabling major shocks to be absorbed without necessarily leading to budgetary slippage.

faster rate of growth

Recently, both the national and international forecasting institutions have revised their growth estimates for 1999 upwards to nearly 2%. This faster rate of growth will naturally have a favourable effect on public finances, with the result that the deficit will probably be lower than the 1.1% forecast when the Budget for 2000 was drawn up.

2.2. Major trends for the general government in the period 1996-1999

government finances 1996-1999

In order to place the 1999 outturn in a somewhat wider context, the following table gives the data for the period 1996-1999, presented according to the ESA 95 methodology. Annex 1 shows the general government accounts for the period 1990-1999.

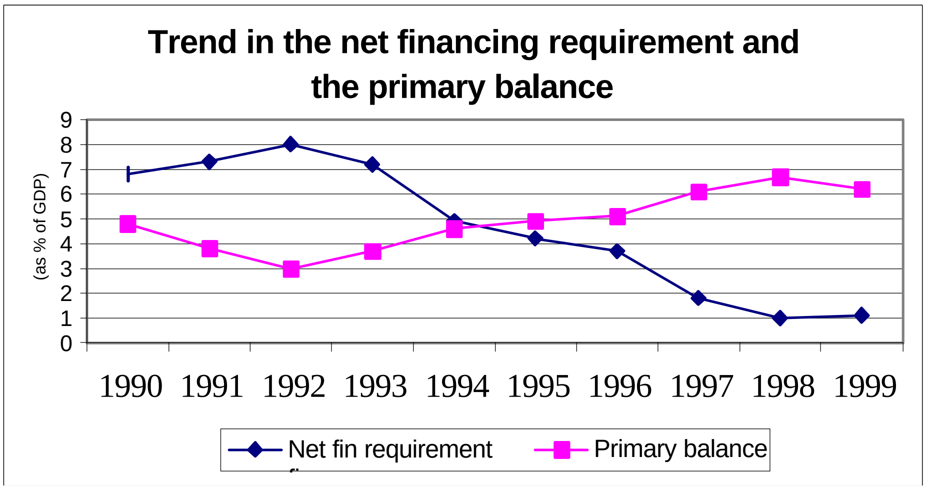
Table 1: Trend in general government finances
(as % of GDP)

	1996	1997	1998	1999	Difference 99/96
Revenue	45.8	46.2	46.6	46.4	0.6
Primary expenditure	40.8	40.1	39.9	40.2	-0.5
Primary balance (1999-2002 Stability Programme)	5.1	6.1	6.7	6.2 (6.0)	1.1
Interest expenditure	8.7	7.9	7.7	7.2	-1.5
Financing requirement (1999-2002 Stability Programme)	-3.7	-1.8	-1.0	-1.1 (-1.3)	2.6
Debt ratio	126.5	121.2	116.2	114.9	-11.7

net financing requirement 1996-1999

As mentioned above, the net financing requirement for 1999 is estimated to amount to 1.1% of GDP. Over the past three years the net financing requirement has been reduced from 3.7% of GDP in 1996 to 1.1% of GDP in 1999.

Chart 1



improvement primary balance 1996-1999

Some two–fifths of the reduction in the budget deficit during the period 1996-1999 is accounted for by the improvement in the primary balance, the rest being due to the fall in interest expenditure.

During the same period the primary balance increased from 5.1% to 6.2% of GDP. This improvement can be attributed in almost equal proportions to a growth in revenue and a reduction in primary expenditure.

growth tax revenue 1990-1999

Up to 1998 the trend in revenue as a percentage of GDP was upwards. This trend reflects, above all, tax revenue, which grew significantly in the period 1990-1999 because of measures such as the suspension of tax rate indexation, but also as a result of the trend in indirect taxation and corporation tax. The trend in corporation tax mainly reflects the improvement in corporate profitability and the effects of more efficient arrangements for collecting and monitoring revenue.

2.3. Outturn for the various entities

distinguishing Entities I and II

When analysing Belgian public-sector finances, it is common practice to distinguish between Entities I and II. The former comprises transactions of the Federal Government and the Social Security Department, while the latter covers transactions of the Communities, the Regions and the local authorities.

Table 2: Trend in the budget broken down by entity (1)
(as % of GDP)

	1996	1997	1998	1999	Difference 99/96
Entity I					
Revenue	33.3	33.4	33.6	33.2	-0.1
Primary expenditure	29.0	28.3	28.1	28.4	-0.6
Primary balance	4.3	5.2	5.5	4.8	0.5
Interest expenditure	7.8	7.2	7.0	6.6	-1.2
Financing requirement	-3.6	-2.0	-1.5	-1.7	1.9
Entity II					
Revenue	14.7	14.9	15.0	15.3	0.6
Primary expenditure	13.9	13.9	13.9	14.0	0.1
Primary balance	0.8	1.0	1.1	1.3	0.5
Interest expenditure	0.9	0.7	0.7	0.7	-0.2
Financing requirement	-0.1	0.2	0.5	0.7	0.8

(1)This table shows non-consolidated revenue and expenditure of the two entities. Total revenue and expenditure of the two entities may therefore differ from that shown in Table 1.

Entity I

During the period 1996-1999, around three-quarters of the 2.6 percentage point improvement in the net financing requirement for the public authorities as a whole is accounted for by Entity I. At this level primary expenditure in terms of GDP shows a drop of 0.6 percentage points. It should be noted that estimated expenditure for 1999 already takes into account substantial additional expenditure due to the dioxin crisis. The decline in the net financing requirement between 1996 and 1999 was achieved with an almost constant level of revenue in terms of GDP.

Entity II

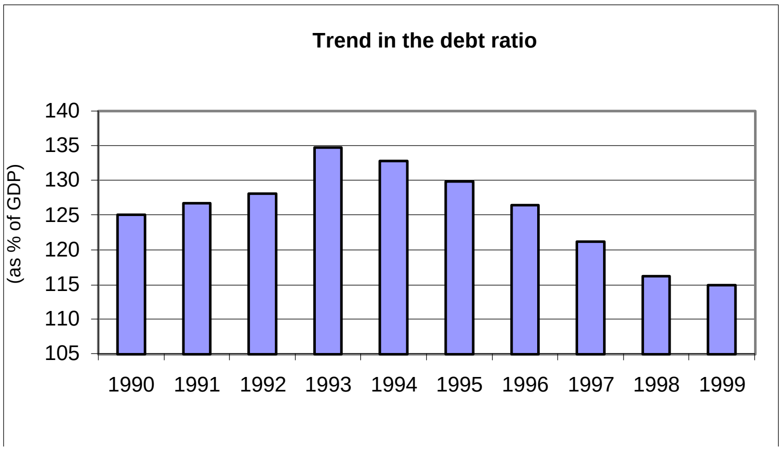
As far as Entity II is concerned, primary expenditure remains practically constant in terms of GDP. Thus, the increase in revenue was almost entirely reflected in an increased primary balance. The combination of the improvement in the primary balance and the reduction in interest expenditure meant that the net financing requirement of 0.1% of GDP in 1996 was changed to an expected budget surplus of 0.7% of GDP in 1999.

2.4. Reduction in the debt ratio

reduction debt ratio 1990-1999

Belgium's public-sector finances are still characterised by a high debt ratio. Bringing this ratio down is therefore a priority of budgetary policy. The debt ratio reached its highest level in 1993, when it stood at 134.7% of GDP. Since then, the ratio has steadily fallen. It was still 126.5% of GDP in 1996 and is expected to be reduced to 114.9% of GDP at the end of 1999. This reduction has been achieved despite the low rate of inflation in recent years.

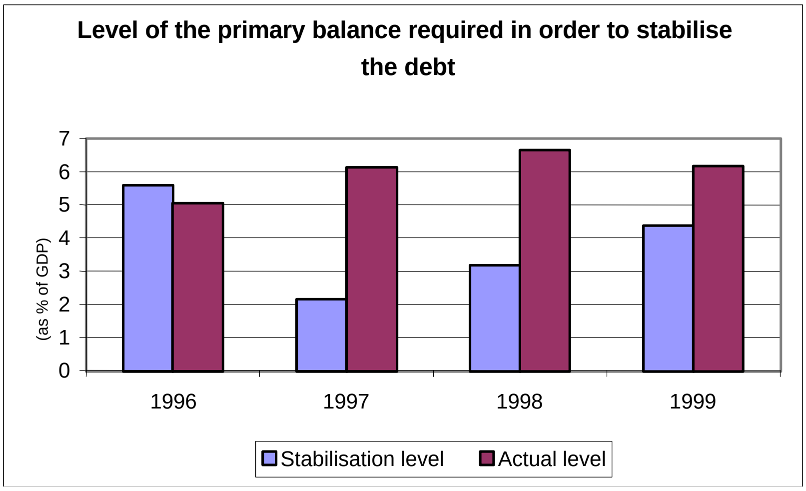
Chart 2



structural nature of reduction debt ratio

The level of the primary balance required in order to stabilise the debt ratio may be calculated on the basis of the implicit rate of interest on the debt and the nominal growth of GDP. Chart 3 shows that except in 1996, when the Belgian economy experienced a slowdown in growth, the actual primary balance was substantially higher than the level required in order to stabilise the debt ratio. This illustrates the structural nature of the reduction in the debt ratio.

Chart 3



factors influencing reduction debt ratio

In four years the debt ratio of the Belgian public sector has fallen by 14.9 percentage points. Around three-fifths of this decline is due to the inverse snowball effect. It is therefore directly attributable to the strict budgetary policy which has been pursued and has been primarily aimed at achieving a high primary balance.

However, the trend in the debt is not only due to the effect of strictly budgetary measures. The sale of financial assets, such as shareholdings in public-sector enterprises, capital gains on the sale of part of the National Bank of Belgium's gold reserves and movements in the portfolio of financial assets of the various government departments have resulted in an acceleration of the rate of debt reduction. These other factors account for about two-fifths of the reduction in the debt over the period under consideration (see Table 3).

Table 3: Factors influencing the trend in the debt
(as % of GDP)

	1996	1997	1998	1999	Cumulative change 1996/1999
Debt ratio	126.5	121.2	116.2	114.9	
Change in the debt ratio	-3.3	-5.4	-5.0	-1.3	-14.9
Contribution from:					
Snowball effect (1)	0.5	-4.0	-3.5	-1.6	-8.5
Other factors	-3.8	-1.4	-1.5	0.3	-6.4

(1) The snowball effect is defined as the difference between the actual primary surplus for year t and the primary surplus required in order to keep the debt ratio at a constant level.

3. Budget strategy for the period 2000-2003

3.1. The Budget for the year 2000

3.1.1. The main starting assumptions:

budget based on cautious assumptions

The government has based the elaboration of its Budget for the year 2000 on cautious macro-economic assumptions (see Annex 3). This strategy is in line with the policy that has been pursued over the past few years. It allows the results for the whole of the public sector to remain consistent with the objectives set when the Budget was drawn up even in the event of unforeseen setbacks, such as the slowdown in growth and the dioxin crisis in 1999.

the 2000 Budget in line with assumptions

The 2000 Budget is no exception to this rule:

- Real GDP is forecast to grow by 2.5% in the year 2000. This figure is lower than the most recent forecasts from most of the national and international forecasting bodies.
- On short-term interest rates, the government's forecasts incorporate an appreciable increase in the 3-month Treasury certificate rate to 4.4% by the end of 2000, or an annual average of 3.35%. On long-term interest rates (for which the benchmark is 10 year OLOs) an increase to 6.1% by end-2000, or an average rate of 5.85%, has been assumed.
- Although the government is implementing an ambitious programme to cut non-wage labour costs, which will have a positive effect on employment, no budget payback effects have been taken into account.

- As for the Communities and Regions, the recommendations of the High Finance Council[1] have been adopted. In the recent past the overall budgetary outturn of the Communities and Regions has been significantly better than this target.

no sale of financial assets in forecast debt ratio

In Section 2.4 above it was shown that the change in government debt between 1996 and 1999 is accounted for not only by the change in the primary balance but also by measures having a direct impact on the debt ratio. In this regard, it is important to note that the forecast for the change in the debt ratio in 2000 does not take into consideration any income from the sale of financial assets, which will be used to accelerate the debt reduction programme.

[1] The High Finance Council is a consultative body which draws up a recommendation on the short and medium-term budget objectives.

3.1.2. *How policy priorities are reflected in the Budget*

employment promotion measures

Despite the tight budgetary framework within which it has been working and the need to respect the requirements of the Stability Programme, the Federal government's strict budgetary discipline has enabled it to create sufficient budgetary room for manoeuvre to take a number of important initiatives that are in line with the priorities of the government agreement.

Employment promotion measures are central to this approach. With effect from the second quarter of 2000 the government will embark upon a major programme to cut non-wage labour costs. In addition to these cuts, which apply to the private sector, additional reductions in labour costs have also been provided for the non-commercial sector. The launch of the "First Jobs" programme is intended to make it possible for every young person to join the labour market within six months of completing his/her education. As part of the campaign against unemployment traps, the reduction in social security contributions that already applies to workers on the minimum wage is being extended. The overall total of social security contribution cuts is expected to increase by some BEF 50 billion (EUR 1.24 billion) in 2000, or around 0.5 % of GDP.

tax measures

Pending the general reform of personal taxation, some tax measures have already been taken, such as the reintroduction of full indexation of the tax scales, the phased abolition of the Supplementary Crisis Contribution[1], a reduction in VAT on labour-intensive services and enhancing the tax-deductibility of child-minder costs.

social security measures

In the interests of a modern, efficient and fair social security system, a number of measures have been taken to ensure access to health care, especially for the chronically ill. The lowest pensions and the guaranteed income for the elderly have been raised.

general intrest measures

Additional funds have been freed up to promote the use of public transport and to develop urban policy. The Budget resources allocated to justice and to security policy more generally have been increased significantly. The government has also budgeted for the funds required to modernise government departments. A steady and substantial increase in the funds available for international and development aid policy has also been budgeted for.

[1] The first phase of the withdrawal of the Supplementary Crisis Contribution has already been decided. The main beneficiaries in the first instance will be those with the lowest incomes and pensions. The government will then continue with the abolition of the said tax, while meeting its budgetary goals.

3.1.3. Monitoring performance on the Budget for the year 2000

further reducing the government deficit

The Budget for the year 2000 is based upon cautious assumptions. In accordance with the Stability Programme, the budgetary room for manoeuvre that would arise, especially if economic growth were to be stronger than forecast, will be used as a matter of priority to further reducing the government deficit, which will then also result in a more rapid decline in the debt ratio.

3.2. Budget targets for the period from 2000 to 2003

bringing the net financing requirement down to zero

The Budget strategy set out in the Stability Programme tabled in 1998 is based on maintaining the primary balance at a level of around 6% of GDP in the medium-term. As was shown at the time, this strategy should enable the government deficit to be brought down to 0.3% of GDP in 2002, even on cautious macro-economic assumptions.

The primary balance target has now been supplemented by a borrowing requirement target. Starting from the forecast deficit for the year 2000, the government has the firm intention of bringing the net financing requirement down to zero in 2002, in two stages. Taking into account the projected macro-economic performance, the commitment to reach a balanced budget in 2002 means the primary balance should be slightly in excess of 6%.

possible deviation

The government will be allowed to deviate from this commitment only if economic growth in the years ahead is appreciably lower than the trend growth or in the event of large and unexpected movements in the level of interest rates.

building structural surplus

The government believes that, once a balanced budget has been achieved in 2002, it will be desirable to build up a modest structural surplus, for two main reasons. Firstly, building up a modest surplus will accelerate the reduction of the debt ratio, which will make it easier to absorb the costs associated with the ageing of the population that will begin to be felt from 2010 onwards. Secondly, it will also allow the automatic stabilisers to operate without a deficit immediately reappearing in the event of unfavourable economic developments.

3.3. The implications of these targets for the general government as a whole

3.3.1. The main assumptions

projections

As far as the growth assumptions are concerned, the most recent forecasts from the economic research institutes have not been incorporated. For the year 2000 the Budget estimates have been used, while for 2001 a more cautious estimate than most of the recent forecasts has been adopted. The projections for both these years are based on growth of 2.5%[1]. From 2002 onwards a trend growth estimate of 2.3% is projected. On the basis of recent data from the European Commission, the output gap for 1999 can be estimated at - 0.4% of potential GDP. These growth figures thus mean that the balancing of the budget projected for 2002 would be of a structural nature.

assumption of rising interest rates

As already indicated above, when drawing up the Budget for the year 2000, the government has based its forecasts on an assumption of rising interest rates. In the following years interest rates are expected to move steadily to reach 3.5% short-term and 5.5% long-term with effect from 2002. This assumption results in a decline in the implicit rate of interest paid on the government's debt of some 30 basis points between 2000 and 2003.

revenue forecasts

The revenue forecasts take into account the 2000 Budget measures. As already indicated, these measures provide for a major reduction in non-wage labour costs, the full effect of which will be felt in 2001.

primary expenditure projections

The primary expenditure projections have been calculated on the basis of real average growth of 1.5% per annum for the years 2001 to 2003 inclusive. This means continuing to pursue a restrictive policy on primary expenditure.

adjusted objective at the Budget review stage

As has already been stressed, the Budget for the year 2000 is based on cautious assumptions. The government has the firm intention of using any room for manoeuvre created by stronger economic growth in the year 2000 primarily to continue to reduce the government deficit. To this end, an adjusted objective will be formulated at the Budget review stage. The scenario set out here is still based on the data used for the initial Budget for the year 2000.

[1] The European Commission is forecasting a growth of 2.7% in 2000 and 2.8% in 2001.

3.3.2. Trend in public finances up to 2003

projected trend in public finances

Table 4 sets out the projected trend in public finances on the basis of the assumptions used and taking into account the decisions already taken on the Budget for the year 2000. In the scenario presented here, revenue declines by 0.6 percentage point of GDP, primarily as a result of the easing of the fiscal and parafiscal burden, which comes on top of quite a sharp decline of around 0.5 percentage point between 1999 and 2000. The change over the period from 2000 to 2003 is determined inter alia by the fact that some tax-reduction measures will come fully into effect by 2001. Primary expenditure, which grows at an annual average rate of 1.5% in real terms, thus declines steadily as a percentage of GDP.

Table 4: Trend in public finances according to the assumptions used
(as % of GDP)

	2000	2001	2002	2003	Change 2003/2000
Total revenue	45.8	45.5	45.4	45.2	-0.6
Primary expenditure	39.8	39.4	39.1	38.8	-1.0
Primary balance	6.0	6.1	6.3	6.4	0.4
Interest expenditure	6.9	6.7	6.4	6.0	-1.0
Financing requirement	-1.0	-0.6	-0.1	0.4	1.4
Debt ratio	112.4	108.9	105.2	101.2	-11.2

According to this scenario the primary balance would be 6.1% of GDP in 2001 and 6.3% in 2002. The Budget targets for 2001 and 2002 - a net financing requirement of 0.5% of GDP and a balanced budget respectively - would thus be missed by a small margin.

If the financing requirement criterion is to be applied, the primary balance needs to be increased to 6.2% of GDP in 2001, while the primary balance required to ensure a balanced budget in 2002 is 6.4% of GDP.

results of applying the financing requirement criterion

Table 5 sets out the main results of applying the financing requirement criterion. Following the increase in the primary balance to 6.4% of GDP in 2002, a primary balance of 6.2% in 2003 is enough for indebtedness to be stabilised in nominal terms[1].

Table 5: Trend in public finances under the 2000-2003 Stability Programme
(as % of GDP)

	2000	2001	2002	2003	Change 2003/2000
Primary balance	6.0	6.2	6.4	6.2	0.2
Interest expenditure	6.9	6.7	6.4	6.0	-1.0
Financing requirement	-1.0	-0.5	0.0	0.2	1.2
Debt ratio	112.4	108.8	105.0	101.3	-11.1

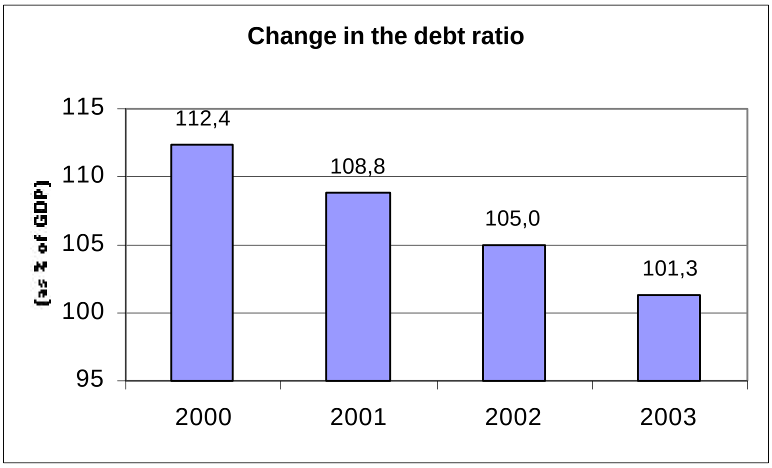
achieving a balanced budget by 2002

The scenario outlined above shows that on the basis of cautious assumptions it is possible to achieve a balanced budget by 2002, provided that a tight budgetary policy is pursued. Such a policy will enable extra budgetary room for manoeuvre to be created towards the end of the life of the current Parliament, which may be used for the priorities specified in the government agreement.

steady reduction debt ratio

As can be seen from the chart below, the application of the strategy that has been adopted is reflected in a steady reduction in indebtedness. Excluding any income from privatisations, the indebtedness ratio will have been brought down almost to the level of GDP in 2003.

Chart 4



[1] This is based on the assumption that the net amount of new lending and equity investment amounts to 0.2% of GDP.

3.4. The implications of this scenario for the budgetary targets of the different entities

coordinating budgetary policies

Belgium is a federal country in which the federal entities and local authorities have wide budgetary competences. This makes it essential that the budgetary policies of the different constituent entities be coordinated.

In this context, the "Financing Requirements" section of the High Finance Council draws up a recommendation each year for the authorised deficits of the federal entities. The recommendation for the year 2000 advocates overall balance in the finances of the Communities and Regions. In its 1999 annual report the High Finance Council mapped out a new path for the recommended balances of the federal entities for the period 2001-2010. In its recommendation the High Finance Council draws a distinction between those entities of the federation that are in deficit at the start of the period and the Flemish Community, which has been running a budget surplus for a number of years now.

balancing the budgets no later than 2010

The entities that are initially in deficit must achieve a lasting reduction of their deficit in order to balance their budgets by no later than 2010. As far as the Flemish Community is concerned, the "Financing Requirements" section of the High Finance Council thinks it desirable that it keep its budget at least in structural balance during the period 2001-2010. Alongside this base scenario, an alternative scenario, involving a gradual reduction in the Budget surplus, has been proposed specifically for the Flemish Community. In drawing up its Budget for the year 2000, the Flemish government has opted for the latter, more rigorous, scenario.

Compliance with this recommendation means that, for the period 2000-2003, the Communities and Regions must show an overall balance, which implies a primary balance of about 0.4% of GDP.

In line with the outcomes of the preceding years, it is assumed that the local authorities will achieve a small surplus of about 0.15% of GDP for 2000 and 2001. For the subsequent years a balanced budget is expected.

At the meeting of the Concertation Committee of the Communities and Regions and the Federal Government of 24 November, an agreement was reached on the above-mentioned objectives for the period 1999-2002.[1] This provides a guarantee that all levels of power will collaborate loyally in meeting the budgetary objectives.

[1] For 2003, the figures for Entity II are based on the recommendation of the High Finance Council.

indicative change in the balances of the various entities

Taking into account the commitments entered into in the new cooperation agreement, the indicative change in the balances of the various entities is outlined in Table 6.

Table 6: Interest payments and budget balances of the various entities
(as % GDP)

	2000	2001	2002	2003
Entities I and II				
Primary surplus	6.0	6.2	6.4	6.2
Interest expenditure	6.9	6.7	6.4	6.0
Financing requirement	-1.0	-0.5	0.0	0.2
Entity I				
Primary surplus	5.2	5.3	5.7	5.6
Interest expenditure	6.3	6.0	5.7	5.4
Financing requirement	-1.1	-0.7	0.0	0.2
Entity II				
Primary surplus	0.9	0.9	0.6	0.6
Interest expenditure	0.7	0.7	0.6	0.6
Financing requirement	0.2 (1)	0.2 (1)	0.0	0.0

(1) This is the surplus of the local authorities, estimated at 0.15% of GDP. In order to simplify the presentation, this figure was rounded up to 0.2%.

balanced budget by 2002

The net financing requirement of Entity I, which is still at 1.1% of GDP in 2000, will be brought into balance by 2002. Around a half of this improvement will be attributable to the reduction in interest payments. The other half is to be achieved by building up a larger primary surplus. On the assumption that the local authorities eliminate their surplus by 2002, all the major components of the public sector would achieve a balanced budget by 2002, with general government as a whole achieving structural budgetary balance.

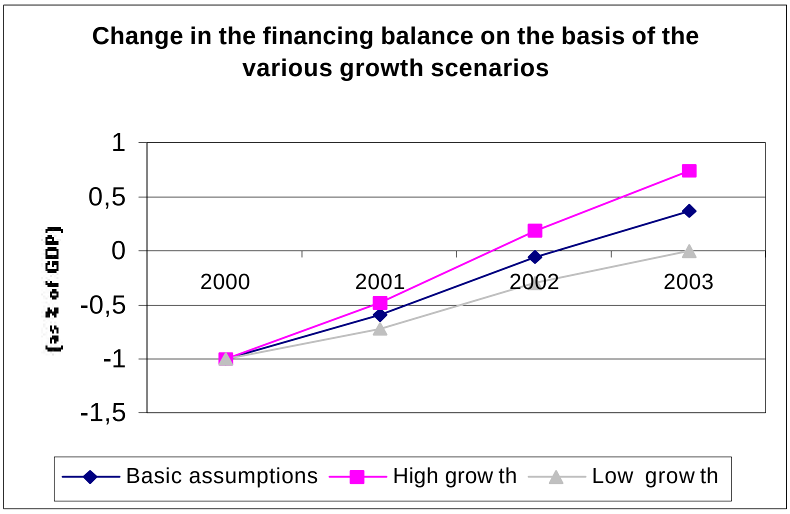
3.5. The sensitivity of the scenario to the assumptions

different growth assumptions

Given the sensitivity of public finances to a number of macro-economic parameters such as interest rates and the cyclical position of the economy in general, it is preferable that budget policy projections covering a number of years be based on cautious assumptions, as the government has done.

In order to illustrate the effects of the business cycle on the central scenario, the impact of a difference of 0.3 of a percentage point per annum in the growth assumptions for the period from 2001 to 2003 has been estimated. Chart 5 shows the net financing requirements for the different growth assumptions.

Chart 5



impact economic growth

In the high-growth scenario a small surplus would already be achieved in 2002, with a further increase following in 2003. If economic growth were to be consistently 0.3 of a percentage point lower than in the central assumptions, budgetary balance would not be achieved until 2003. These simulations illustrate the sensitivity of public finances to the performance of the economy.

impact interest rates

Due to the high level of government debt, the path outlined for public finances is also sensitive to movements in interest rates. In order to make the Budget less dependent on the evolution of interest payments, the average maturity of government debt has been lengthened quite considerably as part of the government's debt management policy. The proportion represented by the consolidated debt was thus raised from around 65% at the end of

1990 to around 82% at the end of September 1999[1]. As a result of this, a general rise in interest rates feeds through only gradually into the average interest rate paid on government debt. For instance, the budgetary impact of an increase in interest rates of 50 basis points is very limited in the first year, rising to only 0.2% or so of GDP after three years.

commitment to meet target

Nevertheless, the government is committed to meeting the new twofold target, even if growth is disappointing, barring marked negative divergences from trend growth or unexpectedly large increases in interest rates. If the economy performs particularly well, part of the room for manoeuvre generated by this could be used to achieve the priorities set out in the government agreement, with any extra revenue resulting from growth in excess of 2.7% being used entirely to reduce the deficit.

[1] All the figures quoted relate to what is known as "official government debt", which consists of all borrowings raised directly or indirectly by the Federal Treasury. This debt accounts for the bulk (more than 90%) of total gross government debt.

4. Monitoring the Stability Programme

annual assessment by High Finance Council

As already mentioned in the 1999-2002 Stability Programme, in the spring of each year the "Financing Requirements" section of the High Finance Council will publish an Opinion on compliance with meeting the objectives of the Stability Programme.

In order to ensure that the budgetary policy of the Communities and Regions is compatible with national stability programmes, the Communities and Regions have each undertaken to draw up their own rolling stability programmes covering a number of years, the length of which will not be less than that of the stability programme for Belgium as a whole. In these internal stability programmes the Communities and Regions will indicate how they will set about achieving the aforementioned objectives for each of the budget years in question. As it does already for stability programmes for general government as a whole, the "Financing Requirements" section of the High Finance Council will produce an annual assessment of the progress made in implementing these stability programmes.

ANNEX 1

Revenue, expenditure and net financing requirement of general government as a whole

(as % of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999r
1. Revenues	**43.9**	**44.3**	**43.5**	**45.5**	**45.7**	**45.4**	**45.8**	**46.2**	**46.6**	**46.4**
1.1. Direct taxes	15.7	15.4	14.8	15.9	16.3	16.7	16.7	17.1	17.7	17.4
Individuals	13.5	13.2	13.1	13.8	13.9	14.1	13.9	14.0	14.1	13.9
Enterprises	2.2	2.2	1.7	2.1	2.4	2.6	2.8	3.1	3.6	3.5
1.2. Indirect taxes	13.1	13.0	12.9	13.3	13.7	13.3	13.8	13.9	13.9	13.8
1.3. Social security contributions paid	13.4	13.9	14.1	14.4	14.1	13.7	13.6	13.6	13.5	13.5
1.4. Capital taxes	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
1.5. Total fiscal and parafiscal revenues	42.5	42.6	42.1	44.0	44.5	44.1	44.4	45.0	45.5	45.2
1.6. Non-fiscal and non-parafiscal revenues	1.5	1.6	1.4	1.5	1.3	1.3	1.4	1.2	1.1	1.2
2. Expenditure excluding interest payments	**39.1**	**40.4**	**40.5**	**41.8**	**41.2**	**40.5**	**40.8**	**40.1**	**39.9**	**40.2**
2.1. Salaries and wages (actual)	8.5	8.6	8.7	9.0	9.0	8.9	8.8	8.7	8.6	8.6
2.2. Net Current purchases of goods and services	1.8	1.9	1.6	1.7	1.7	1.6	1.6	1.6	1.6	1.6
2.3. Current transfers to individuals	22.5	23.5	23.8	24.3	23.9	23.9	24.1	23.6	23.4	23.6
2.4. Subsidies to enterprises	2.3	2.2	2.1	2.1	1.9	1.9	2.0	1.7	1.6	1.8
2.5. Current transfers to the rest of the world	1.5	1.7	1.6	1.6	1.7	1.5	1.6	1.7	1.7	1.8
2.6. Total current expenditure	36.6	37.9	37.8	38.6	38.2	37.8	38.1	37.3	37.0	37.4
2.7. Gross fixed capital formation	1.7	1.7	1.8	2.0	2.0	1.8	1.6	1.6	1.6	1.7
2.8. Other capital expenditure	0.8	0.8	1.0	1.2	1.0	0.9	1.0	1.2	1.3	1.1
2.9. Total capital expenditure	2.5	2.5	2.8	3.1	3.0	2.7	2.6	2.8	2.9	2.8
3. Balance excluding interest expenditure	**4.8**	**3.8**	**3.0**	**3.7**	**4.6**	**4.9**	**5.1**	**6.1**	**6.7**	**6.2**
4. Interest expenditure	**11.6**	**11.1**	**10.9**	**10.9**	**9.5**	**9.1**	**8.7**	**7.9**	**7.7**	**7.2**
5. Financing requirement	**-6.8**	**-7.3**	**-8.0**	**-7.2**	**-4.9**	**-4.2**	**-3.7**	**-1.8**	**-1.0**	**-1.1**
6. Gross public debt	**125.0**	**126.7**	**128.1**	**134.7**	**132.8**	**129.8**	**126.5**	**121.2**	**116.2**	**114.9**

P.M. This table is in accordance with ESA 95. The data up to 1998 are based on the NAI's publication concerning the accounts of general government (July 1999). The 1999 data are provisional estimates.

ANNEX 2

Some key figures on public finances according to the ESA 79 and ESA 95 methodology

(as % of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	ESA 79									
Primary balance	5.1	3.9	3.8	3.6	5.3	5.2	5.5	6.5	6.6	6.1
Interest expenditure	10.8	10.2	10.8	10.9	10.2	9.0	8.6	7.9	7.5	7.1
Net financing requirement	-5.5	-6.3	-7.0	-7.3	-4.9	-3.8	-3.1	-1.6	-0.9	-1.0
	ESA 95									
Primary surplus	4.8	3.8	3.0	3.7	4.6	4.9	5.1	6.1	6.7	6.2
Interest expenditure	11.6	11.1	10.9	10.9	9.5	9.1	8.7	7.9	7.7	7.2
Financing requirement	-6.8	-7.3	-8.0	-7.2	-4.9	-4.2	-3.7	-1.8	-1.0	-1.1

ANNEX 3

Macroeconomic framework of the 2000 budget (Percentage changes in volume – unless otherwise indicated)			
	1998	**1999**	**2000**
Private consumption	3.4	1.9	1.8
Public consumption	1.4	2.3	1.7
Gross capital formation	3.9	3.8	0.7
Total domestic demand	4.6	2.1	1.6
Exports	3.1	2.0	5.1
Imports	5.4	2.4	4.0
Gross domestic product	2.8	1.7	2.5
Consumer prices (%)	1.0	1.2	1.3
Health index (%)	1.3	1.1	1.3
GDP-deflator (%)	1.2	0.6	1.0
Real disposable household income	2.4	1.4	2.1
Savings ratio (as % of disposable income)	14.4	14.0	14.2
Total employment (change in thousands)	53.5	40.9	38.5
Unemployment rate (standardised Eurostat rate, annual average)	9.5	9.3	9.0
Balance of current transactions (as % of GDP)	3.9	3.1	3.8