Belgium's Stability Programme 2001-2005

(English version)

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The main orientations of the 2001-2005 Stability Programme

From deficit to surplus in 2001

During the last few years budgetary policy has been mainly characterised by the consolidation of the public finances. Reduction of the public deficit and lowering of the public debt ratio were strict conditions for enabling Belgium to participate in Monetary Union. As shown by Table 1, concerning the development of the financing balance and the public debt, the government has succeeded, when drawing up the 2001 budget, in turning round the budget deficit situation so as to achieve a surplus, thus bringing about a historic reversal in the consolidation of the public finances. 2001 will be the first year since 1950 in which the general government accounts close with a surplus.

Cautious active policy lines

This new favourable budgetary outlook makes it again possible to pursue an active policy. However, these budgetary margins must not make us reckless, because the present boom period will not last for ever. Furthermore, the economic and social realities of the future will differ radically from those which we have known up to the present. Budgetary policy must therefore clearly reflect the society choices which will safeguard the future.

Main political choices 2001-2005

Parallel with the 2001 budget, the government has fixed its main political choices in the 2001-2005 Stability Programme:

- **Faster reduction of the public debt**

  The progressive creation of budget surpluses steadfastly continues the consolidation of the public finances. If the development of the economy follows its current trend growth, the financing surplus will be systematically increased, rising from 0.2% of GDP in 2001 to 0.7% in 2005. This will permit a faster reduction of the public debt, which is a necessary condition for making the Belgian public finances less dependent on interest rate shocks, and which is a vital precondition for absorbing the impact of ageing during the coming decade.

♦ **Ambitious policy**

Maintenance of this budgetary target will make it possible, during the coming years, to free additional resources for an ambitious policy. This will be reflected in a new dynamism with regard to employment, especially through an appreciable reduction in the tax on labour, in a modernised social security system adapted to the new requirements of the population, in improved functioning of general government, justice and security, and in measures to promote sustainable development and mobility.

Table 1: Financing balance and debt of general government (as % of GDP) [1]

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Financing balance	-4,3	-3,8	-1,9	-0,9	-0,7	-0,1	0,2	0,3	0,5	0,6	0,7
Gross public debt	134,5	130,9	125,4	119,6	116,1	110,6	105,8	101,4	97,2	92,9	88,7

Objectives for the financing balance

Table 1 shows the objectives for the period 2001-2005 with regard to the financing balance. Disregarding the possible proceeds of the valorisation of assets, the debt ratio will be reduced to below the level of GDP before the end of the present government's term in 2003, and is expected to fall to 88.7% of GDP by 2005. Furthermore, this policy permits the creation of a substantial budgetary margin, forecast to reach 1.3% of GDP around 2005.

Conclusion

The government thus proves that there is no contradiction between a budgetary policy centred on continued reduction of the debt and an ambitious, innovative and forward-looking policy line.

The government is convinced that Parliament and the Belgian people will support the implementation of this political plan.

[1] The data contained in this Stability Programme are those adopted by the government on 17 October 2000 when drawing up the 2001 budget and the 2001-2005 multiannual programme included in it. Account was taken, of course, of the information available at that time. As a result of the re-estimation of the 1999 national accounts and the development of prices and economic activity in 2000, nominal GDP in 2000 will be higher than forecast, which may lead to changes in the figures expressing the debt ratio, revenue, expenditure and the primary balance as percentages of GDP.

1. Budgetary outturn in the period 1997-2000

1.1. Execution of the 2000 budget

Two-year-lead over the 2000-2003 Stability Programme

When the initial budget for 2000 was drawn up, a net financing requirement of 1.0% of GDP was forecast. In the 2001 budget, the net financing requirement for 2000 was estimated at 0.1% of GDP. Budgetary balance was therefore already almost achieved in 2000. The lead over the updated 2000-2003 Stability Programme, which, while being more ambitious than the first, 1999-2002 Stability Programme, forecast the achievement of budgetary balance in 2002, is therefore nearly two years.

Reasons for the remarkable budgetary performance for 2000

This remarkable performance for 2000 is attributable to two factors.

- **Growth 1999 better than expected**

  The 1999 balance proved better than initially forecast. When the 2000-2003 Stability Programme was drawn up, it was still expected, account being taken of GDP growth of 1.7%, that there would be a net financing requirement of 1.1% of GDP in 1999. According to the 1999 National Accounts published at the end of October 2000, the growth in GDP amounted to 2.7%. Thanks to, among other things, unexpectedly strong growth, the net financing requirement was reduced to 0.7% of GDP instead of the 1.1% forecast.

- **Growth 2000 better than expected and margins primarily used for debt reduction**

  For 2000, too, growth is also appreciably above the initial estimates. When the initial budget was drawn up, GDP growth was estimated at 2.5%. In the budgetary review the growth estimates were revised upwards, to 3.2%. The government decided, however, in accordance with the commitment which it subscribed in the 2000-2003 Stability Programme, to use the budgetary margin resulting from higher-than-predicted growth primarily to achieve a greater reduction in the public deficit. That is why the government continued to base itself on a growth of 2.5%

in estimating its fiscal and parafiscal revenues. The economic growth achieved in 2000 will actually be even greater than was forecast in the budgetary review. In the first quarter the growth achieved was 5.3% compared to the same period of the previous year; in the second quarter it was still 4.6%. Allowing for further slowing in the second half of the year, growth over the whole year is estimated at 3.8%.

Budgetary balance almost achieved in 2000

Under these circumstances, the Belgian government’s commitment to use the cyclical windfalls primarily for reducing the debt was of vital importance. Balance will be almost achieved in 2000. The lowering of fiscal and parafiscal levies on labour reduces revenue by 0.5% of GDP. Maintaining control of primary expenditure, which decreases by 0.9% of GDP, causes the primary surplus to rise to the historically high level of 6.9% of GDP.

1.2. Major developments during the period 1997-2000 at general government level

Uninterrupted decline in the net financing requirement since 1992

The net financing requirement has declined uninterruptedly since 1992. Even in 1999, the year when the government had to contend with the consequences of the dioxin crisis, this trend was not reversed. As stated above, a virtual balance is expected to be achieved in 2000. The net financing requirement, which was still 8.0% of GDP in 1992, will thus have been reduced to almost zero in seven years. During the same period the primary balance has been brought from 3.8% of GDP in 1993 to 6.9% in 2000.

Chart 1

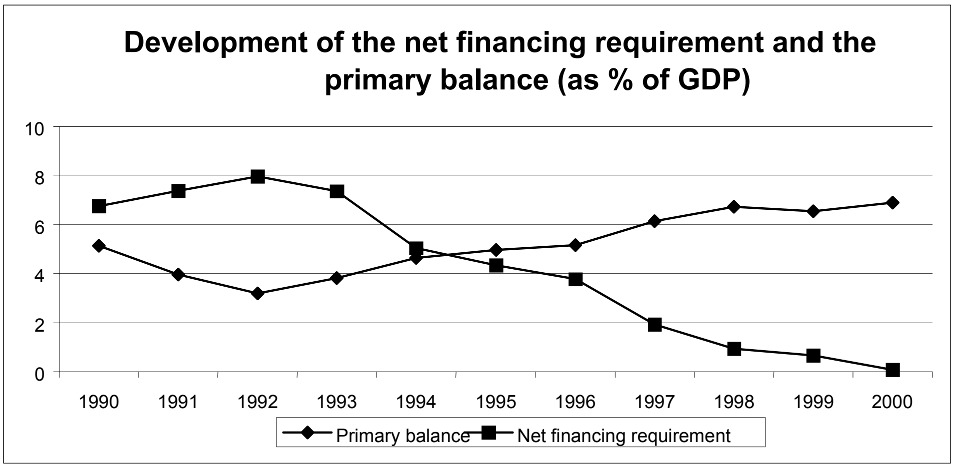


Table 2 shows the main parameters of the public finances for the period 1997-2000. The data are presented in accordance with the ESA 95 methodology.[2]

Table 2: Development of the public finances (as % of GDP)					
	1997	**1998**	**1999**	**2000**	**Difference 97/00**
Revenue	49,8	49,9	50,1	49,6	-0,2
(of which: fiscal and parafiscal revenue)	45,1	45,4	45,5	45,1	0,0
Primary expenditure	43,7	43,2	43,6	42,7	-1,0
Primary balance	6,1	6,7	6,5	6,9	0,7
Interest charges	8,0	7,7	7,2	7,0	-1,1
Financing balance	-1,9	-0,9	-0,7	-0,1	1,8
(2000-2003 Stability Programme)			(-1,1)	(-1,0)	
Debt ratio	125,4	119,6	116,1	110,6	-14,9

[2] Revenue therefore includes imputed social security contributions, but does not include either VAT or customs duties, which are paid to the EU.

General evolution public finances

In three years the net financing requirement has been reduced from 1.9% of GDP in 1997 to 0.1% in 2000. About two fifths of this improvement is due to the improvement in the primary balance. The remaining three fifths are attributable to the decrease in interest charges.

Improvement primary balance

The primary balance, which was already 6.1% of GDP in 1997, was raised to 6.9% in 2000. It is therefore considerably above the reference level set in the initial Stability Programme, namely 6%.

The improvement in the primary surplus is solely attributable to the decrease in the weight of primary expenditure expressed as a percentage of GDP. The revenue ratio, which increased in 1998 and 1999, has declined in 2000. The ratio of overall revenue has fallen back to below the 1997 level. In 2000, the fiscal and parafiscal pressure, the cumulative increase in which was about 0.4% of GDP in 1998 and 1999, has been brought back to the 1997 level. This is mainly due to the decrease in burdens on labour. The overall appropriation for the reduction of social security contributions is expected to increase by about 0.4% of GDP in 2000. Measures have also been taken with regard to personal income tax (gradual abolition of the crisis contribution, re-establishment of full indexation, etc.).

Slight decline in interest charges

Interest charges (as a percentage of GDP) declined slightly in 2000, this being solely attributable to the reduction in the debt ratio, since the implicit interest rate, having declined uninterruptedly for many years, has risen slightly in 2000, from 6.2% to 6.3%. The fall in the implicit rate on the long-term debt was counterbalanced by the rise in short-term interest rates.

1.3. The results of the various entities

Budget figures by entity

In order to analyse the Belgian public finances, a distinction must be made between Entity I and Entity II. Entity I consists of the transactions of the federal government and the social security system, while Entity II comprises the transactions of the Communities, the Regions and the local authorities.

Table 3: Budget figures by major entity (as % of GDP) (1)					
	1997	**1998**	**1999**	**2000**	**Difference 97/00**
ENTITY I					
Revenue	43,7	43,8	43,8	43,2	-0,4
(Excluding transferred tax revenue) (2)	34,1	34,1	34,0	33,8	-0,3
Primary expenditure	38,4	38,0	38,3	37,1	-1,2
(Excluding transferred tax revenue) (2)	28,7	28,4	28,5	27,7	-1,0
Primary balance	5,3	5,7	5,5	6,1	0,8
Interest charges	7,3	7,0	6,6	6,4	-1,0
Financing balance	-2,0	-1,3	-1,1	-0,2	1,7
ENTITY II					
Revenue	17,4	17,5	17,9	17,5	0,0
Primary expenditure	16,6	16,5	16,8	16,7	0,1
Primary balance	0,8	1,0	1,1	0,8	0,0
Interest charges	0,8	0,7	0,7	0,6	-0,1
Financing balance	0,1	0,3	0,4	0,2	0,1

(1) This table gives the non-consolidated revenues and expenditures of the two entities. Consequently, the sum of the revenues and expenditures of the two entities differs from the total of Table 2.

(2) This consists of the personal income tax and VAT transferred to the Communities and Regions under the Special Financing Act, and also the VAT revenues transferred to the social security office of the provincial and local administrations under the security contracts.

Improvement mostly by entity I

The improvement of 1.8 % of GDP in the net financing balance in the period 1997-2000 is almost entirely attributable to Entity I. Of the improvement in the financing balance of Entity I, 0.8% of GDP is attributable to the improvement in the primary surplus. Revenue (after deduction of tax revenue to be transferred to other public authorities) decreased by 0.3% of GDP during the same period, but primary expenditure fell even more significantly, namely by 1% of GDP. One third of this fall is attributable to the development of expenditure on unemployment benefits. As it is Entity I, and especially the federal government, that manages the greater part of the public debt, the reverse snowball effect manifests itself primarily at that level. Over the period 1997-2000, interest charges have fallen by 1.0% of GDP.

Slight fallback by entity II

After rising to 0.4% of GDP in 1999, the budget surplus of Entity II appears to have fallen again slightly in 2000, to 0.2% of GDP.

This partly reflects the development of the revenues of the Communities and Regions. Having risen sharply in 1999, the tax revenue to be transferred by the federal government to the communities and regions has increased only slightly in 2000, mainly because the calculation of the payments to the said entities is based on the previous year’s economic parameters. With a comparable growth in expenditure, this to some extent reduces the surplus created in 1999.

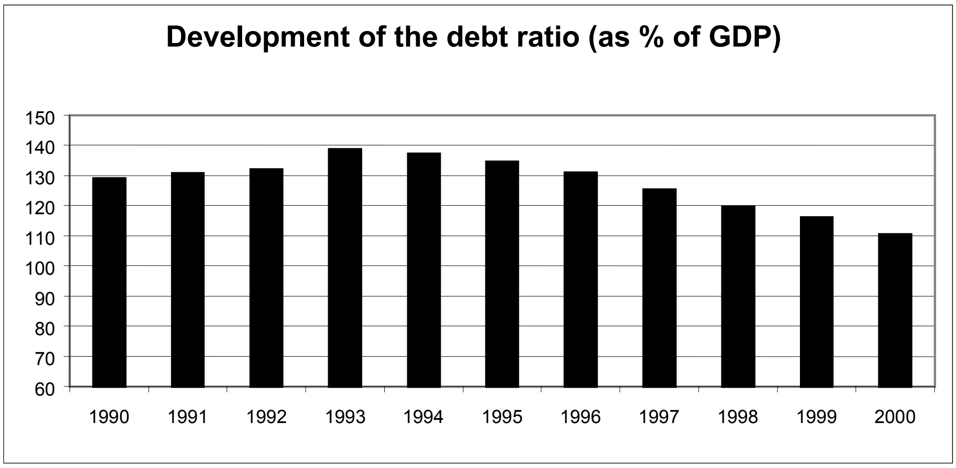
The erosion of the budget surplus is in fact also attributable to the evolution at local authority level. The budgets of the local authorities are very sensitive to the so-called electoral cycle. The year of the municipal elections and also the previous year are always characterised by a rise in investment expenditure and a decline in their budget surplus.

1.4. Fall in the debt ratio (3)

Systematic reduction debt ratio

Given the high level of the debt ratio, its reduction remains a priority of budgetary policy. The debt ratio reached a peak of 138.8% of GDP in 1993; since that date it has been systematically reduced. In 2000 it should be brought down to 110.6% of GDP, which represents some 15 percentage points less than in 1997.

Chart 2



Primary balance required to reduce debt ratio

The maintenance of a sufficiently high primary surplus is the key element of the debt rate reduction policy.

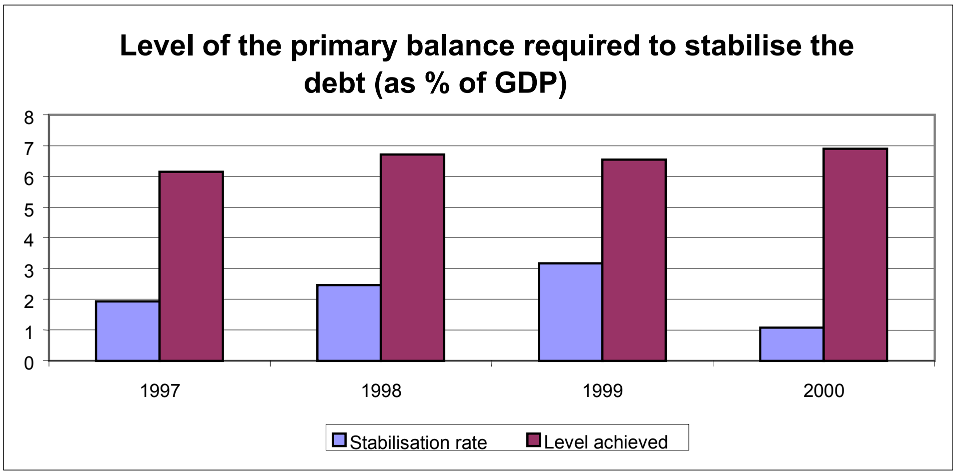
From the implicit interest rate and the nominal growth in GDP it is possible to calculate the primary surplus required in order to stabilise the debt ratio.

Primary balance period 1997-2000

Chart 3 shows that for the period 1997-2000 the value of the primary surplus achieved is always considerably above the level required to stabilise the debt ratio. This illustrates the importance attached to reducing the debt.

3 Owing to the incorporation in the public debt of the debts of the Social Housing Loan Amortisation Fund (FADELS), the figures for the debt ratio are not comparable to those of the updated 2000-2003 Stability Programme. The effect of this adaptation on the debt ratio ranges from 3.3% of GDP in 1990 to 1.7% in 2000.

Chart 3



Reverse snowball effect reduces debt ratio

Table 4 shows that the reduction in the debt ratio achieved over the period 1997-2000 is mainly attributable to the reverse snowball effect (endogenous movement) and is therefore directly due to the strict budgetary policy. Only a small proportion is attributable to other factors (privatisations, gains on transactions of the National Bank, etc.). It should be emphasised that the figures for the debt ratio have not yet been influenced by the proceeds of the UMTS licences. These proceeds will not be obtained until 2001.

Table 4: Determinants of the development of the debt (as % of GDP)

	1997	1998	1999	2000	Cumulative difference 97/00
Debt ratio	125,4	119,6	116,1	110,6	
Development of the debt ratio		-5,8	-3,5	-5,5	-14,9
Of which:					
Endogenuous development		-4,3	-3,4	-5,8	-13,5
Exogenuous development		-1,6	-0,1	0,3	-1,4

2. The 2001-2005 multiannual programme

2.1. The budget prospects are favourable

Further improvement public finances

The achievement of a balanced budget by 2002 at the latest was the central aim of the 2000-2003 Stability Programme. Thanks to the sharp recovery in economic activity recorded since the second half of 1999 and the cautious budgetary policy, the government succeeded in gaining a lead over the budgetary course outlined.

Under normal economic circumstances, a further improvement in the state of the public finances will be recorded during the coming years. This improvement results from two effects:

- on the one hand, owing to the "reverse snowball effect", the decline in the debt ratio will lead to a further reduction in interest charges expressed in relation to GDP;
- on the other hand, with an unchanged policy, the spontaneous growth in expenditure will normally be less than economic growth, unlike revenue, the spontaneous trend in which keeps closer to that of economic growth. Thus, the general government primary surplus will also display spontaneous growth in the future.

Balanced goals

The achievement of close-to-balance public accounts this year and a surplus next year means that policy can and must, in the medium term, pursue a balanced apportionment among three goals([4]):

[4] Recommended by the "General Government Financing Requirement" Section of the High Finance Council in its report of July 2000. This council is a consultative body which makes annual recommendations concerning medium-term and long-term budgetary targets.

- the unwavering continuation of the reduction of the debt ratio in order to meet, more particularly, the cost of ageing; this objective must be pursued without prejudice to the necessary measures to be taken in order, on the one hand, to increase the employment rate and, on the other hand, to maintain control over the development of expenditure connected with ageing;

- the pursuit of a budgetary policy aimed at strengthening the growth potential of the Belgian economy by a targeted increase in public investment in human capital (education and training) and physical capital and by further reduction of the fiscal and parafiscal burden in general and that on labour in particular;

- responding to a number of urgent societal needs in the fields of security, the environment, the civil service and mobility.

These budgetary targets also constitute the choices which the government has made for the 2001-2005 multiannual programme. The cutting-down of the public debt will thus be speeded up and budgetary margins will be freed for an ambitious and innovative policy.

2.2. Speeding up the reduction of the debt …

Systematic building up of a budget surplus

The systematic building up of a budget surplus during the coming years is strongly recommended. It constitutes not only a buffer against unexpected events, such as a sudden shock affecting interest charges, an increase in oil prices etc. It is also quite possible that a slowing of economic growth will occur during a certain year. This being so, the building up of a surplus makes it possible to allow the "automatic stabilisers" to operate without necessarily leading to a deficit.

Policy aimed at speeding up reduction of public debt

The gradual building up of budget surpluses also helps to speed up the reduction of the public debt. Despite the notable improvement in the Belgian public finances during the last few years, they remain particularly vulnerable owing to the still very high public debt. The debt ratio still amounts, at present, to around 110 per cent of GDP. A policy centred on speeding up the reduction of this public debt is therefore required.

Building up a demographic reserve

Speeding up the reduction of the debt is all the more called for because the inevitable effects of the ageing of the population will make themselves felt above all from 2010 onward. That is why it is necessary to build up a "demographic reserve" by the creation of the Ageing Fund.

Table 5 shows the trend of the targets relating to financing balances of general government as a whole, as well as the resultant fall in the debt ratio.

Table 5: Trend of the financing balance and the debt ratio of general government (as % of GDP).									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Primary balance	6,1	6,7	6,5	6,9	6,8	6,6	6,4	6,3	6,2
of which Entity I	5,3	5,7	5,5	6,1	5,7	5,7	5,7	5,7	5,6
Entity II	0,8	1,0	1,1	0,8	1,0	0,8	0,8	0,6	0,6
Interest charges	8,0	7,7	7,2	7,0	6,6	6,3	6,0	5,7	5,5
of which Entity I	7,3	7,0	6,6	6,4	6,0	5,8	5,5	5,3	5,1
Entity II	0,8	0,7	0,7	0,6	0,5	0,5	0,5	0,4	0,4
Financing balance	1,9	0,9	0,7	0,1	0,2	0,3	0,5	0,6	0,7
of which Entity I	2,0	1,3	1,1	0,2	0,3	0,0	0,2	0,4	0,5
Entity II	0,1	0,3	0,4	0,2	0,5	0,3	0,3	0,2	0,2
Gross public debt	125,4	92,9	116,1	110,6	105,8	101,4	97,2	92,9	88,7

Commitment for a budget surplus

The government has committed itself to building up a budget surplus which will rise from 0.2% of GDP in 2001 to 0.7% of GDP in 2005. For 2001 the proceeds of UMTS licences have not been taken into account. This commitment also applies in the event of a disappointing trend in economic activity, barring appreciable departures from trend growth or exceptional changes in interest rates.

The debt ratio will thus decrease from 110.6% of GDP in 2000 to 88.7% in 2005, representing an average fall of 4.4 percentage points per year. Account has not yet been taken in this connection of the realisation of public assets, such as the sale of public shareholdings. By the end of this government, in 2003, the level of indebtedness will already have fallen below that of GDP.

Budgetary targets communities and regions

With regard to the budgetary targets of the communities and regions, agreements given further concrete form in a new text have been concluded[5].

[5] In its report, the General Government Financing Requirements Section of the High Finance Council recommended for the communities and regions a positive financing balance of 0.3% of GDP for 2001. Application of the mechanism of the Financing Act should cause the resources of the communities and regions to show substantial growth in 2001 followed by virtual stabilisation in 2002.

In view of the exceptional growth in their revenue in 2001, the budgetary targets of the communities and regions are adapted so that these can achieve an overall surplus of 0.3% in 2001.

In view of the "electoral cycle" to which the budgetary results of local authorities are subject, it seems reasonable to assume a surplus of 0.2% in 2001 as far as they are concerned.

For the whole of Entity II this represents a financing surplus of 0.5%, which corresponds to the recommendations of the High Finance Council. In combination with the small deficit of 0.3% of GDP of Entity I, this represents, at the level of general government as a whole, a surplus of 0.2% of GDP in 2001.

2.3. … together with margins for an ambitious forward-looking policy

Needs of society

In addition to the need for quicker reduction of the public debt, sufficient attention must also be paid to the present and future needs of society.

Concretely, the government has decided, in addition to providing for additional expenditure connected with the ageing of the population, to allow for:

- a taxation system more favourable to labour and the environment;
- for the stepping up of the active employment policy;
- for appropriately adjusted funding of the communities and regions;
- for modernisation of the social security system together with additional efforts to combat poverty;
- for improvement of services for the public;
- for stimulation of communal transport, including by additional investment in public transport;
- and for the development of international cooperation.

The challenge to be met by the budgetary policy of the coming years consists in reconciling these aims within the limits of the available budgetary margins. The federal government has made, in this connection, fundamental choices, which will be set out in the next chapter.

Assumptions budgetary margin

When the budgetary margin was calculated at the level of the federal government and the social security system, the following assumptions served as a starting point:

- in accordance with the principle of making ample provision in prosperous times (the "golden hamster" principle), a rise in GDP of the order of 2.5% was assumed for 2001; for the following period, too, real growth of 2.5% was assumed, corresponding more or less to the trend growth of the Belgian economy; for 2001 inflation was estimated at 1.6% and for the subsequent period at 1.5%;

- the estimate of interest expenditure is based on the September 2000 forward rates, which assume a rise in long-term interest rates (with the interest rate on 10-year public linear bonds serving as the reference) from 5.7% at the end of 2000 to 6.2% at the end of 2005; during this same period, short-term interest rates (the reference interest rate being that on three-month Treasury certificates) will increase from 5.3% to 5.9%;

- account was taken of all the measures already adopted by the government, especially the reindexation of the tax scales and the initially planned phasing for the abolition of the additional crisis contribution;

- real medium-term growth of 1.5% in the primary expenditure of government departments and the social security system.

Strict control over primary expenditure

As mentioned, the calculation of the budgetary margins of Entity I is based on a real growth of 1.5% per year in the primary expenditure of the government departments and of social security. The government therefore considers these figures for the trend in expenditure as the targets to be reached in the coming years. Owing to the spontaneous dynamism of some expenditure items, this target may be said to be ambitious. The maintenance of strict control over primary expenditure is an essential condition for maintaining the budget margins.

Table 6: Budget targets and margins for Entity I

	2001	2002	2003	2004	2005
Financing balance (as percentage of GDP)	-0,3	0,0	0,2	0,4	0,5
Available margin (as percentage of GDP)	0,2	0,4	0,8	0,9	1,3
Available margin after measures concerning the budget year 2001 (in billions of BEF at 2001 prices)	0	23	64	93	140

As shown by Table 6, the available margins rise from 0.2% of GDP in 2001 to 1.3% of GDP in 2005.

2.4. A structural scenario

Golden hamster principle to maintain budgetary safety margin

Since the second half of 1999 the general macroeconomic context has been very favourable for budgetary policy. In June 2000 the Federal Planning Bureau estimated growth for 2001 at 3.1%. In its autumn forecasts the European Commission is counting on growth of 3.3%. However, the government does not wish to run the risk of seeing its budgetary policy thwarted by an adverse economic situation. That is why, in carrying out its 2000 budgetary review, it introduced the "golden hamster principle". This principle calls for a prudent estimate of the parameters. This approach, which includes a budgetary safety margin, makes it possible to cope with unexpected adverse events without thereby jeopardising the achievement of the budgetary targets – a measure which furthermore ultimately ensures that the favourable effects of an unexpectedly good economic situation are used to improve the balance.

Structural estimation 2001 budget

In application of the golden hamster principle, the 2001 budget estimates its fiscal and parafiscal revenue on the basis of an economic growth of 2.5% instead of the 3.1% forecast by the Federal Planning Bureau. This means that, if growth actually were to amount to 3.1% in 2001, Entity I would show a balance of 0.3% of GDP above the forecasts. Consequently, the surplus of general government would rise to 0.5% of GDP in 2001 and to 1.0% in 2005.

Structural estimation multiannual programme

The government also based its estimates on a trend growth of 2.5% in drawing up the multiannual programme and in estimating the budgetary margin in compliance with the budgetary targets.[6] The trend growth used therefore (at least for the period 2001-2002) falls short of the estimate made by the European Commission. Since, according to the European Commission's estimates, the output gap will be eliminated in 2000 and a trend-growth assumption will be used from 2001, the balances in Table 5 also reflect the structural trend.

[6] The trend growth of 2.5% used by the government corresponds to the estimates of the Federal Planning Bureau, which estimates trend growth at between 2.5 and 2.6%. In its autumn forecasts the European Commission estimates the trend growths for 2001 and 2002 at 2.9 and 3.0% respectively.

The government attaches importance to building up a structural surplus. This means that, in the event of higher growth, the additional margin will be used in priority for improving the budget balance. The part of growth above 2.7% will in any case be used to speed up the debt reduction process.

3. The main policy lines of the multiannual programme

3.1. The Ageing Fund

Ageing Fund to cope with additional outlays for pensions

In the coming years budgetary policy will have to take account of the inescapable budgetary repercussions of ageing, which will manifest themselves mainly after 2010. In order to be able to cope with the expenditure connected with ageing without jeopardising social protection and therefore without increasing either taxes or social contributions, the government will build up, in the coming years, budget surpluses and a demographic reserve for pensions. An Ageing Fund will be created in order to make it possible to pay between 2010 and 2030 the additional outlays of the various statutory pension systems due to the ageing of the population. The building up of budget surpluses also makes it possible to speed up the reduction of the public debt.

The explicit building up of reserves within the Ageing Fund confirms the government's determination to safeguard the viability of the statutory pension systems and constitutes a project – supported by the population because it is clearly identifiable – for accelerated debt reduction.

In 2001 a substantial starting capital derived from the proceeds of the sale of UMTS licences will be made available to the Ageing Fund.

3.2. A tax system which respects labour and the environment

General lowering of fiscal and parafiscal pressure

As stated in the government agreement, the government intends to bring about a steady decline in fiscal and parafiscal pressure throughout its term of office.

Measures to promote employment

In the 2000 budget a central position was occupied by employment promotion measures. A substantial reduction in wage costs was effected from the second quarter of the year 2000 onwards. In 2000, the total of the measures reducing social security contributions has risen from BEF 80 billion (EUR 2 billion) to BEF 120 billion (EUR 3 billion), or about 1.2% of GDP. In 2001 the total amount will rise to about BEF 150 billion (EUR 3.7 billion) or 1.5% of GDP.

Progressive abolition of the complementary crisis contribution

Starting with the incomes for the year 2001, the government will adapt the manner in which the progressive abolition of the special crisis contribution is passed on in the withholding tax. This gradual abolition will make itself felt more quickly in the disposable income of individuals

Multiannual programme for reforming the personal income tax

The government has approved a multiannual programme for reforming the personal income tax, pursuing the following four main lines of action:

> 1. *A reduction in the tax burden on labour* through the allocation of a tax credit; the adaptation of flat-rate occupational expenses; changing of the scales and abolition of the highest rates of 52.5 and 55%: the former element forms part of the efforts made by the government to promote (re)entry into the labour market and is centred on workers whose income is close to the minimum wage. It actually involves a considerable stepping up of this minimum wage. The other elements are aimed at reducing the tax burden on other incomes, without thereby jeopardising the principle of progressiveness.
>
> 2. *Neutrality with regard to lifestyle choices*, via an increase in the minimum taxable amount in favour of married couples, the change from a principle of partial cumulation towards an individualisation of the reduction in tax on certain replacement incomes (especially of

retired persons), the separate taxation of non-occupational incomes for married persons. Furthermore, the application of the conjugal portion is extended to persons formally committed to living together as common-law partners.

3. *Better account will be taken of dependent children.* Henceforth the tax reduction for dependent children will be repayable within certain limits for taxpayers who cannot derive full benefit from them; moreover, the ceiling on resources for dependent children of lone parents will be raised and the additional reduction for dependent children of some single-parent families will be extended to all single-parent families.

4. *More ecological taxation*. In the light of the report which the High Finance Council is to draw up on the regrouping of deductibilities in a limited number of baskets in order to make the tax system simpler and more ecological, the government will take decisions aimed at promoting energy saving in the residential sector.

Battle against tax fraud

The government will step up the battle against tax fraud. A government commissioner has been given the task of drawing up an action plan for simplifying procedures for combating tax fraud.

Impact tax reform

The impact of the planned tax reform will gradually increase from BEF 10.0 billion (EUR 0.25 billion) to BEF 80 billion (EUR 2 billion) in 2005. After that, from 2006 onwards, the reform will operate fully, causing the estimated budgetary impact to rise to BEF 134.5 billion (EUR 3.3 billion). These figures do not take account of the abolition of the supplementary crisis contribution, which has the effect of reducing the tax burden each year by about BEF 10 billion (EUR 0.25 billion) or 0.1% of GDP in the period 2001-2003.

3.3. A still more active employment policy

Targeted active employment policy

The government is aiming, by means of a set of measures, to bring about an appreciable raising of the employment rate, which is currently below the average for our neighbour countries. The highest possible degree of participation in the labour process is not only the best guarantee for being able to cope in the longer term with the costs of the ageing of the population and for guaranteeing the funding of social security, but is also an effective weapon in the battle against poverty and social exclusion.

The present economic situation is extremely favourable for job creation. As the implementation of a general and substantial reduction in social security contributions with effect from the second quarter of 2000 has given an appreciable boost to employment, the pursuit of a still more active employment policy must be better targeted during the coming years if it is to be sufficiently effective.

This entails in particular giving work to poorly educated young people, the long-term unemployed, persons receiving minimum allowances and underprivileged persons who have lived for years on the fringes of society. That is why the government is taking a positive policy line with regard to employment, with regard to the development of a modern social economy offering attractive jobs and with regard to the battle against poverty traps. Older workers must not be disregarded either. Their contribution and their participation in the labour market remain essential.

Measures to promote employment

The government proposes to step up the active employment policy by pursuing the following courses of action:

- within the framework of the consultations for arriving at a new inter-trade wage agreement for the period 2001-2002, the government is making available to management and labour the necessary *resources for financially supporting various systems of work reduction* (reduction of weekly working hours to a maximum of 38, voluntary changeover to the four-day week, introduction of a time-saving account, etc.);

- a second series of measures is aimed at *increasing the employment of older workers*, including by a reduction in social expenditure for workers aged over 58, by better working conditions for the over-45s, etc.;

- *Lifelong training is also stimulated*. The government will create a fund for financing training in new information and communication technologies.

3.4. Investment in human capital and strengthening of the state's federal structure

Building a knowledge society

The Lisbon European summit rightly placed the emphasis on the building of a knowledge society as the condition for sustained strong growth.

Education and in-service training are the key elements of future economic development. In the federal structure of the Belgian State, the communities are responsible for education. In the current financing system, the resources paid to the communities by the federal government for the financing of education are linked only to inflation (and to a factor representing the decline in the birth rate).

Refinancing regions and communities

That is why part of the available margin at federal level was used to bring about a systematic increase in the budgetary resources of the communities. According to the legislation and regulations produced, these resources are expected to exceed the level of the current system by 0.3% of GDP around 2005. Furthermore, these resources will be linked in the longer term to economic growth, account being taken of the real revenues and of the evolution of the GDP-contributions made to the European Union by the federal government.

More tax autonomy for regions and communities

Parallel with this, the government has chosen the option of strengthening the political powers and increasing the financial responsibilities of the federal entities by widening their tax autonomy.

In order to avoid harmful tax competition, the Regions will be authorised, at the level of personal income tax and within the limits of a pre-set margin, to make general adjustments – either flat-rate or expressed as percentages (reductions or increases) – or to grant general deductions connected with the exercise of their powers.

3.5. Social security and poverty policy

Building an active social state

The government is determined to turn Belgium into an active social State. The aim of an active social State is to prevent people from being marginalised and to ensure that everyone, both men and women, shall be able, with the assurance of a high level of social protection, to make a creative contribution to society in harmony with the quality of his or her personal lifestyle.

Battle against poverty

The battle against poverty is conducted by means of a policy pursuing two paths.

The first consists in *promoting employment*, on the one hand by means of a series of suitable programmes (youth recruitment plan, spring programme, social-economy cooperation agreement), and on the other hand by means of the introduction of a repayable tax credit for the lowest-paid wage-earners.

The second path consists in *increasing a number of benefits* and in implementing a number of social corrections.

3.6. Better rendering of services to the public and better mobility

Resources for mobility, communication with citizens and reforming public services

Furthermore, the government has planned to provide the necessary resources for increasing both the effectiveness of the public authorities and the diligence with which they perform their tasks.

- The government will use for this purpose the resources freed by the favourable impact on interest expenditures resulting from the sale of UMTS licences up to a maximum amount of BEF 5 billion (EUR 0.12 billion) for the following projects: e-government and information society; mobility, especially investment in the Belgian National Railway Company (SNCB); communication aimed at citizens.

- With a view to more carefully considered mobility, the federal government wishes to free more resources for investment in public transport. The resources made available to the SNCB, for instance, will be gradually increased to the extent of BEF 1 billion in 2001, tending towards an additional BEF 10 billion (EUR 0.25 billion) in 2010. The government will also make resources available to a fund whose purpose is to finance a suburban network around Brussels (regional express network).

- The federal government intends to provide a number of coordinated plans for promoting the development of Belgium towards the information society.

- The necessary budgetary resources for reforming police forces will also be provided.

3.7. International cooperation

Increase in the resources for international cooperation

With regard to cooperation policy, the government has opted for a progressive and substantial increase in the resources available. Specifically, the budget is increased by about 10% per year.

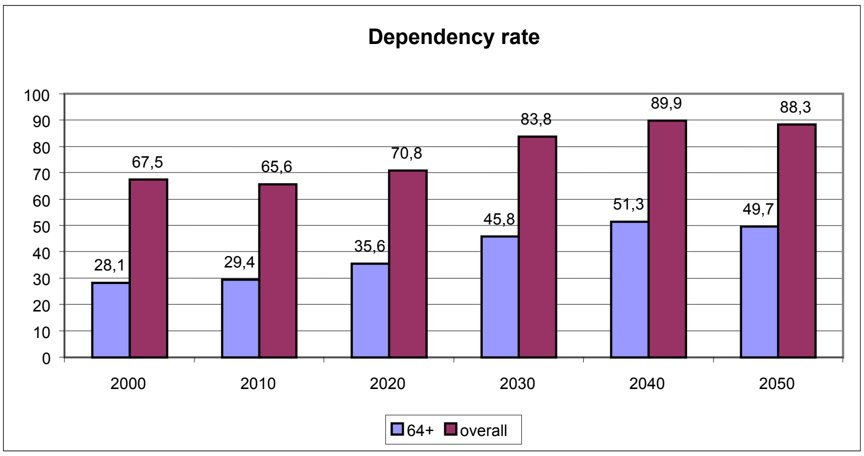
4. A long-term view of the public finances

Viewing budgetary policy in a long-term perspective

The priorities on the political agenda of the last few years were to reduce the public deficit and put an end to the destabilisation of the public finances. Now that budgetary balance has been re-established, budgetary policy is entering on a new period. This does not mean that this policy no longer has to contend with challenges. Despite the favourable developments in recent years, the debt ratio is still substantial. Moreover, a new challenge is becoming apparent: budgetary policy must henceforth anticipate the impact of ageing, which will make itself felt from 2010 onwards. This means that budgetary policy must be viewed in a long-term perspective.

Like other European countries, Belgium will be confronted from 2010 onwards with the consequences of the demographic trend. This is characterised mainly by an appreciable rise in the overall dependency rate, which represents the ratio between the populations aged under 19 and over 64 and the population of working age.

Chart 4



Source: European Commission

Increasing dependency rate

Looking only at the dependency rate of the population of over-64s, it is found that this increases slightly from 28.1% in 2000 to 29.4% in 2010. After that, the baby-boom generation reaches retiring age and the dependency rate climbs rapidly to reach over 50% in 2040. This rise is only partly offset by the decline in the dependency rate of young people, so that the overall dependency rate shows a similar rise, from 67.5% to 89.9%.

It goes without saying that this radical change in the population's demographic structure will not fail to have its consequences for public expenditure. The pressure of the demographic shift will be felt particularly by pension and health care expenditure. Certain other categories of expenditure, such as family allowances, unemployment and education, on the other hand, will develop favourably.

The following table shows the estimated movement in the main expenditure categories affected by the demographic changes.

Table 7: Development of certain categories of expenditure (as % of GDP)

	2000	2010	2020	2030	2040	2050	Difference	
							2040-2000	2050-2000
Pensions	9,4	9,0	10,4	12,4	13,0	12,6	3,6	3,2
Health care	6,2	7,0	7,7	8,4	8,9	9,2	2,7	3,0
Other social security sectors	5,6	5,1	4,7	4,4	4,1	4,0	-1,5	-1,6
Education	4,3	3,8	3,7	3,9	3,9	3,9	-0,4	-0,4
Total	25,4	25,0	26,5	29,1	29,9	29,6	4,5	4,2

Source: Federal Planning Bureau

Expenditure evolution

According to these recent estimates, expenditure items connected with the demographic trend will increase by about 4.5% of GDP by 2040. After this period, the demographic pressure on expenditure should ease slightly. Expenditure on pensions is expected to increase by 3.6% of GDP around 2040 and expenditure on health care by about 2.7% of GDP. If the policy remains unchanged, expenditure on the other social security sector (unemployment benefit, family allowances, etc.) should on the other hand decrease by 1.5%. In view of the decline in the population of school age, expenditure on education should also decline, albeit only slightly.

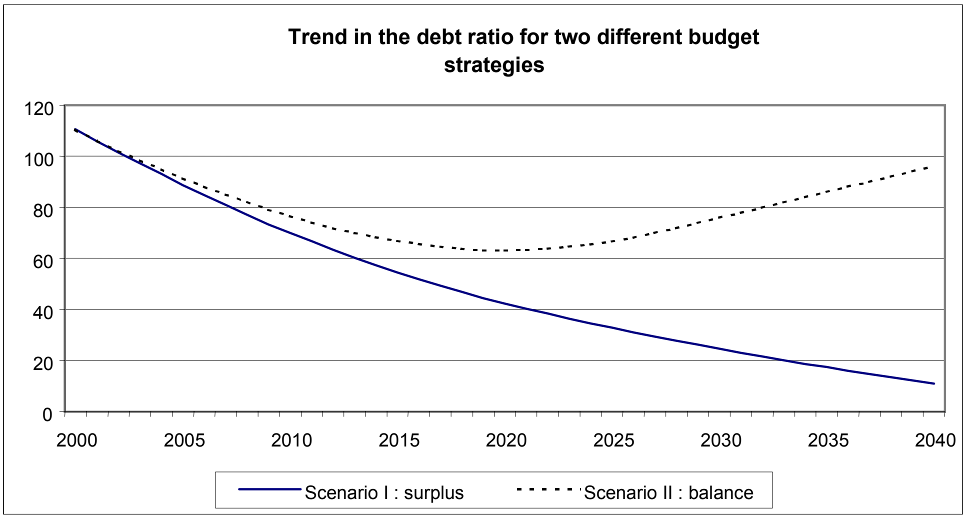
The foregoing figures are of course very sensitive to the assumptions used, both as regards the demographic and economic variables (growth, employment, etc.) and as regards social policy.

Alternative expenditure scenarios

The Federal Planning Bureau has studied a number of alternative scenarios, from which emerges that, depending on the assumptions used with regard to the trend in productivity, unemployment, the population, the participation rate of women or older workers, the additional cost ranges between 2.8% and 4.7% of GDP around 2050. In any case, however, the major challenge for budgetary policy represented by ageing cannot be disregarded.

This challenge consists in adjusting budgetary policy in such a way as to make it possible to withstand the impact of ageing without having to suffer shocks such as a drastic rise in the tax burden, drastic cuts in primary expenditure, an uncontrollable rise in the debt ratio. By way of illustration, Chart 5 outlines two scenarios concerning the public finances.[7]

Chart 5



Scenario 1: building up a budget surplus

In Scenario I, the building up of a budget surplus is sustained until it reaches 1%. After that, it is kept at this level. Owing to the fall in the debt ratio, interest charges follow a similar downward slope. This means that the primary balance required to stabilise the budget surplus at 1% of GDP also decreases (from 6.2% in 2005 to 1.7% in 2040). On the assumption that the revenues and the primary expenditure items which are not influenced by ageing follow a parallel trend to that of GDP, a budgetary margin capable of absorbing the shock of ageing without interrupting the reduction of the debt ratio is created.

[7] For economic growth the calculations were based on the assumptions used in drawing up the report of the Economic Policy Committee concerning the impact of ageing on public pension schemes. These assumptions predict a real growth of 2.5% for the period 2000-2004; owing to the decline in productivity and the trend in employment, growth is expected to slacken systematically thereafter down to 1.2% in the period 2025-2029. With regard to the implicit rate on the public debt, the basic assumption adopted is that it will continue to decline, reaching 5.5% in 2012.

Scenario 2: balancing the budget

In Scenario II the process is limited to balancing the budget. Furthermore, from 2010 onwards the cost of ageing will be counted entirely against the balance. This means that in the longer run a financing requirement of over 4% of GDP will be created again and the debt ratio will increase appreciably.

Through the building up of a structural budget surplus, the government resolutely adopts the philosophy of the surplus scenario, which ensures continuous reduction of the debt ratio.

Appropriate budget policy as an element to cope with the consequences of ageing

As there are innumerable uncertainties, the foregoing examples are purely illustrative. Nevertheless, they show that, provided that an appropriate budget policy is pursued, the cost of ageing is not necessarily insurmountable and does not necessarily jeopardise the long-term viability of the public finances.

Other elements in the strategy aimed at withstanding the impact of ageing

It thus stands to reason that budgetary policy is only one element of the strategy aimed at withstanding the impact of ageing. Other elements are equally crucial in an overall approach: the increase in the employment rate, the stimulation of the growth potential of the economy, the maintenance of control over expenditure in the health care sector, the stimulation of development and improvement of the accessibility of the second pillar.

5. Monitoring the stability programme

Yearly opinion of the High Finance Council

As already provided for in the initial stability programme, the "Financing Requirements" section of the High Finance Council will publish every year, during the spring, an opinion concerning compliance with the aims of the updated stability programme.

Stability Programmes regions and communities

To ensure that the budgetary policy of the communities and regions fits in with the national stability programmes, the communities and regions draw up every year an evolving internal multiannual stability programme, the duration of which must be at least equal to that of Belgium's stability programme. In these internal stability programmes, the communities and regions show how they will attain the above-mentioned targets for each of the budget years concerned. As it already does for stability programmes at the level of general government as a whole, the High Finance Council will carry out an evaluation of the execution of these stability programmes every year.

Annex 1: Revenue, expenditure and financing balance of general government as a whole (1) (in % of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000(e)
Revenues	46,6	46,9	46,4	48,6	48,8	48,7	49,4	49,8	49,9	50,1	49,6
Fiscal and parafiscal revenues	42,2	42,3	41,8	43,9	44,4	44,1	44,7	45,1	45,4	45,5	45,1
Direct Taxes	15,7	15,3	14,7	15,9	16,3	16,7	16,7	17,2	17,6	17,2	17,2
Of which individuals	13,4	13,1	13,0	13,8	13,9	14,1	13,9	14,0	14,0	13,7	13,8
Of which enterprises	2,2	2,2	1,7	2,1	2,4	2,6	2,8	3,1	3,6	3,4	3,3
Indirect taxes	11,8	11,7	11,7	12,2	12,5	12,2	12,8	12,9	12,9	13,3	13,5
Social security contributions paid	14,4	14,9	15,1	15,4	15,2	14,8	14,7	14,7	14,5	14,5	13,9
Capital taxes	0,3	0,3	0,3	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4
Non-fiscal and non-parafiscal revenues	4,4	4,6	4,5	4,7	4,5	4,5	4,7	4,7	4,5	4,6	4,5
Expenditure excluding interest payments	41,5	43,0	43,2	44,8	44,2	43,7	44,3	43,7	43,2	43,6	42,7
Current expenditures excluding interest payments	38,9	40,4	40,4	41,5	41,1	40,9	41,5	40,6	40,3	40,4	39,7
Salaries and wages	11,2	11,4	11,5	11,9	12,0	12,0	11,9	11,8	11,7	11,7	11,4
Intermediate consumption	2,9	3,0	2,8	2,9	2,8	2,8	2,9	2,9	2,9	3,1	3,1
Current transfers to individuals	21,6	22,3	22,6	23,1	22,7	22,7	23,0	22,4	22,1	22,0	21,5
Subsidies to enterprises	1,7	1,7	1,6	1,6	1,5	1,5	1,6	1,4	1,5	1,5	1,5
Current transfers to the rest of the world	0,3	0,4	0,4	0,5	0,5	0,4	0,6	0,7	0,7	0,8	0,8
Other transfers	1,4	1,5	1,5	1,6	1,6	1,6	1,5	1,5	1,4	1,4	1,4
Capital expenditure	2,5	2,6	2,8	3,2	3,1	2,8	2,7	3,0	2,9	3,2	3,0
Gross fixed capital formation	1,7	1,7	1,8	2,0	2,0	1,8	1,6	1,6	1,5	1,8	1,7
Other capital expenditure	0,8	0,9	1,0	1,3	1,1	1,0	1,1	1,5	1,3	1,4	1,2
Primary balance	5,1	4,0	3,2	3,8	4,6	5,0	5,1	6,1	6,7	6,5	6,9
Interest expenditure	11,9	11,3	11,2	11,2	9,7	9,3	8,9	8,0	7,7	7,2	7,0
Financing balance	-6,7	-7,4	-8,0	-,7,3	-5,0	-,4,3	-3,8	-1,9	-0,9	-0,7	-0,1

(1) The calculations for the figures above are based on the GDP as estimated by the Federal Planning Bureau in the July 2000 Economic Budget. The 1999 GDP as presented in the National accounts (published in October) is slightly higher.

Annex 2: Revenue, expenditure and net financing requirement of the various entities of the public sector (in % of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000e
	Federal state										
Revenues (1)	18,9	18,4	17,7	18,5	17,8	17,7	17,8	17,9	18,1	17,7	18,2
Expenditure excluding interest expenditure (1)	14,5	14,0	13,9	14,0	13,7	13,1	13,2	13,1	12,8	12,8	12,3
Primary balance	4,4	4,4	3,8	4,5	4,2	4,6	4,6	4,8	5,3	4,8	5,9
Interest expenditure	11,1	10,6	10,4	10,3	8,8	8,4	8,0	7,3	7,0	6,5	6,3
Financing balance	-6,8	-6,3	-6,6	-5,8	-4,6	-3,8	-3,4	-2,5	-1,7	-1,7	-0,5
	Regions and Communities										
Revenues	11,4	11,6	11,7	12,4	12,5	12,7	13,0	13,2	13,4	13,7	13,3
Expenditure excluding interest expenditure	11,7	12,3	12,5	13,0	13,0	13,2	13,1	13,1	13,0	13,1	12,9
Primary balance	-0,3	-0,7	-08,	-0,6	-0,5	-0,4	-0,1	0,2	0,5	0,6	0,4
Interest expenditure	0,1	0,1	0,2	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,2
Financing balance	-0,4	-0,9	-1,0	-0,8	-0,9	-0,8	-0,4	-0,1	0,2	0,3	0,1
	Local authorities										
Revenues	6,4	6,6	6,5	6,7	6,9	6,9	6,9	6,8	6,6	6,7	6,6
Expenditure excluding interest expenditure	5,6	5,7	5,8	6,3	6,4	6,1	6,2	6,1	6,1	6,3	6,2
Primary balance	0,8	0,9	0,7	0,4	0,5	0,8	0,7	0,7	0,5	0,5	0,4
Interest expenditure	0,6	0,6	0,6	0,6	0,6	0,5	0,5	0,5	0,4	0,4	0,4
Financing balance	0,2	0,3	0,1	-0,2	-0,1	0,3	0,2	0,2	0,1	0,1	0,0
	Social security										
Revenues	18,3	18,3	18,6	18,9	19,5	18,9	19,0	19,0	18,8	19,0	18,2
Expenditure excluding interest expenditure	18,0	18,7	18,9	19,3	18,9	18,8	19,1	18,4	18,3	18,3	17,9
Primary balance	0,3	-0,5	-0,4	-0,4	0,6	0,0	-0,1	0,5	0,5	0,7	0,3
Interest expenditure	0,1	0,1	0,1	0,0	0,1	0,1	0,1	0,1	0,1	0,1	0,0
Financing balance	0,2	-0,5	-0,4	-0,5	0,5	0,0	-0,2	0,5	0,4	0,7	0,2

(1) Without personal income tax and VAT levied by the federal state and distributed to the regions and communities or to the social security.