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Commission assesses the 2000 update of the stability programme of Belgium (2001-2005)

The European Commission made today a recommendation to the Council on the 2000 updated stability programme of Belgium, which was presented on 22 December 2000 and covers the period 2001-2005. The conclusion of the Commission is that the updated programme is in line with the requirements of the Stability and Growth Pact and is consistent with the Broad Economic Policy Guidelines. In the past two years, economic activity in Belgium has been more buoyant than expected and therefore budgetary results were more positive than estimated; the government deficit reached 0.7% of GDP in 1999 and turned into balance in 2000. Starting from improved results compared to expectations, the programme projects a government surplus of 0.2% of GDP in 2001 widening throughout the period to 0.7% of GDP in 2005. At the same time, the government debt to GDP ratio is expected to decline by 22 percentage points from 110.6% of GDP in 2000 to 88.7% in 2005. The projections are based on a cautious macroeconomic scenario, assuming real GDP growth at trend, estimated at 2.5% in the period 2001-2005. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the stability programme of Belgium on [12 March 2001].

The Commission recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the member states' stability programmes is an important element in the multilateral surveillance process. Given the continuous improving of economic policy co-ordination in the Union and the important spill over effects that economic policies in one member state can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which member states plan to conduct their economic policies over the short and medium term. An assessment of how member states plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis".*

The Commission main conclusions are the following.

- The updated stability programme of Belgium is in line with the requirements of the Stability and Growth Pact and is consistent with the Broad Economic Policy Guidelines.
- Opting for trend output growth as basic macroeconomic assumption underlying the budgetary projections is a cautious approach; however, it does not allow a realistic view on economic developments, at least for the nearest years.
- The government balance projections are explicit objectives which the Belgian authorities are committed to achieve even in the event that economic growth would be lower than forecast.
- The budgetary consolidation strategy continues to be based mainly on the achievement of large government primary surpluses, reaching more than 6% of GDP per year, though declining progressively over the period to 2005. This policy is particularly appropriate in the case of Belgium where the government debt is still very high.
- Expenditure control is expected to result from applying a limit of 1.5% to the increase in real terms in primary expenditure in Entity I (federal government and social security). Within this framework, budgetary margins estimated at 1.3% of GDP in 2005 are expected to become available.
- The budgetary margins are meant to be allocated to financing priority policies, such as public investment, an active employment policy and the implementation of the personal income tax reform aimed at reducing the tax burden notably on labour, projected in the period 2002-2006.
- The need existing in Belgium for budgetary interventions in priority areas can be acknowledged; however, making available budgetary margins in order to finance these policies, implies opting for slower public finance consolidation than would have been otherwise possible.
- Considering the still high level of government indebtedness, the highest priority should be given to its fast reduction in the coming years, in particular in order to better prepare for long term challenges. It is crucial that any bonus resulting from faster than expected economic growth should be totally allocated to debt reduction during the period to 2005.
- The budgetary projections provided in the Belgian updated programme are excessively aggregated; more detailed information would have been instrumental in order to assess in particular how expenditure control and use of available budgetary margins are expected to be reconciled.
- The new agreement concluded in December 2000 between the Federal government, Communities and Regions is to be considered a positive factor of co-ordination in budgetary adjustment in the medium-term.

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries participating in the euro zone to present stability programmes to the Council and the Commission. These programmes provide information on how countries intend to meet the objectives of the Pact and in particular the medium term goal of a budget close to balance or in surplus.

Key figures of the Belgian stability programme (2001-2005)

	2001	2002	2003	2004	2005
Real GDP growth (annual % change)	2.5	2.5	2.5	2.5	2.5
Gen. Gov. budget balance (% of GDP)	0.2	0.3	0.5	0.6	0.7
Primary surplus (% of GDP)	6.8	6.6	6.4	6.3	6.2
Government debt (% of GDP)	105.8	101.4	97.2	92.9	88.7