COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.2.2004
SEC(2004) 189 final

Recommendation for a

COUNCIL OPINION

in accordance with the third paragraph of Article 5 of Council Regulation (EC) n°1466/97 of 7 July 1997

on the updated stability programme of Belgium, 2004-2007

(presented by the Commission)

EN EN

EXPLANATORY MEMORANDUM

Council regulation (EC) No.1466/97, on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies[1], stipulated that countries participating in the single currency were to submit stability programmes to the Council and the Commission by 1 March 1999. In accordance with Article 5 of this Regulation, the Council had to examine each stability programme based on the assessments prepared by the Commission and the Committee set by Article 114 (formerly 109c) of the Treaty (from 1 January 1999, the Economic and Financial Committee). The Commission adopted a recommendation on each programme. On the basis of this recommendation and after having consulted the Economic and Financial Committee, the Council delivered an opinion, following its examination of the programme.

Belgium's first stability programme covering the period 1999-2002 was submitted on 18 December 1998 and assessed by the Council on 15 March 1999[2].

Belgium submitted its fifth and most recent update of the stability programme, covering the period 2004-2007, on 28 November 2003. The Commission services have carried out a technical evaluation of this updated programme, taking into account the information provided in accordance with the Code of Conduct[3], the Autumn forecasts as well as subsequent evaluations, the commonly agreed methodology for the estimation of cyclically-adjusted balances, the recommendations in the Broad Economic Policy Guidelines and the principles laid down in the Communication of the Commission to the Council of 27 November 2002 on strengthening the co-ordination of budgetary policies[4]. This evaluation warrants the following assessment:

> The fifth update of the stability programme for Belgium, covering the period 2004-2007, largely complies with the data requirements of the "code of conduct" on the content and format of stability and convergence programmes.
>
> Following the sharp deceleration in economic growth in 2001, economic activity remained very weak in the course of 2002 and in the first half of 2003. Real GDP growth slowed down from 3.8% in 2000 to 0.7% in 2002. It is estimated in the update to have averaged 0.9% in 2003, the third year in a row under 1%. The updated projects growth of 1.8% in 2004 and 2.8% in 2005. As to 2006-2007, growth is expected to slow down moderately to 2.3% in 2005-2007. Employment growth in the updated programme is expected to pick up from -0.1% in 2003 to 0.7% in 2004 and to an average 0.8% in 2005-2007. Inflation as measured by the HIPC is projected to remain stable at 1.4% over the 2004-2007 period after 1.6% in 2003.
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> In general, the macroeconomic scenario in the programme seems realistic. A question mark, however, concerns 2005 when GDP is assumed to grow at 2.8%, which is ½ percentage point higher than the Autumn 2003 forecast by the Commission.

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1 OJ L 209, 2.8.1997. The documents referred to in this text can be found at the following web site: http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm.

2 OJ C 124, 5.5.1999

3 Revised Opinion of the Economic and Financial Committee on the content and format of the stability and converge programmes, document EFC/ECFIN/404/01-REV 1 of 27.6.2001 endorsed by the Ecofin Council on 10.7.2001.

4 COM(2002) 668 final, 27.11.2002.

Despite the sharp slowdown in economic activity in 2003 the general government accounts posted a slight surplus (the latest estimate is 0.3% of GDP, 0.1 percentage point higher than in update) for the fourth consecutive year. Apart from the control of expenditure, some one-off measures had a decisive influence on the budget. Most important was a payment by the mainly publicly owned telecommunications company Belgacom to the government in exchange for the transfer to government of responsibility with the pensions of the employees. Eurostat is still considering whether such a payment (1.9% points of GDP) can be counted as a reduction in government deficit. The budget was also influenced by two other one-off measures for a total of 0.7% of GDP going in the opposite direction[5]. All in all, one-off measures in 2003 provided a positive contribution of about 1.2% of GDP to the budget balance. Excluding them, the budget would have recorded a deficit of about 0.9% of GDP.

In 2004, the programme targets a budget in balance, relying on one-offs gains of 0.7% of GDP, including an estimated 0.3% of GDP revenue from the capital repatriation amnesty law (*fr*. Déclaration libératoire unique). For the period 2005-2006, the target is a budget in balance and for 2007 it is a surplus of 0.3% of GDP. In the horizon of the update, the adjustment relies largely on the continuous reduction in interest payments as a result of the steady fall in the debt ratio, while the primary surplus moves from 5.6% of GDP in 2003 to 4.8% in 2005 and then stabilises.

In cyclically adjusted terms, based on Commission calculation on the programme data according to the commonly agreed methodology, the budget balance moves from a surplus of 0.8% of GDP in 2003 to a balanced budget in 2004-06 and a small surplus in 2007. Excluding one-off measures, the cyclically adjusted figures would show an improvement from a deficit of 0.4% of GDP in 2003 to a surplus of 0.3% in 2007.

Under plausible macro-economic and budgetary assumptions, a budgetary position of close to balance or in surplus should most likely be maintained over the programme period. This would also provide a safety margin against breaching the 3% of GDP threshold with normal cyclical fluctuations.

The government debt-to-GDP ratio has been falling steadily since its peak of 138% of GDP in 1993 to slightly more than 100% in 2003. It is expected to fall below 100% in 2004 and to reach 87% of GDP in 2007. As economic activity slowed down it proved more difficult to secure high primary surpluses, and keep the debt ratio on a downward trend. One-off measures such as the transfer of the Belgacom pension fund aimed at accelerating debt reduction. However, the Belgacom operation will have a negative impact on the budget and the debt in the future, when pensions have to be paid out, something that is not mentioned in the update. Also, debt figures do not take into account the assumptions by the government of part of the debt of the public railway company (SNCB) which is, planned for 2005. To cope with future budgetary costs of ageing, the authorities created in 2001 an Ageing Fund (*fr*. Fonds

[5] The two deficit-increasing one-off measures are a capital transfer to La Poste and the government decision of anticipating from 2004 to 2003 the payment of subsidies to SNCB (the public railway company).

de vieillissement). This instrument, which is funded by non-tax receipts and invested in government securities, is planned to reach 3.4% of GDP by end 2004.

The budgetary strategy outlined in the programme is compatible with improving the sustainability of public finances. However, Belgium still presents some risks of long-term unbalances, linked to the consequences of aging. The outstanding level of debt requires attention and maintaining high primary surpluses in the next 10 to 15 years as planned is necessary to keep Belgium on a sustainable path. Also, as indicated in the Broad Economic Policy Guidelines, reducing the debt, increasing the retirement age, strengthening efforts to finance the Ageing Fund and pursuing the reform of the pension system are needed to prepare for the budgetary implications of population ageing.

The economic policies as reflected in the updated programme are partly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. While the programme contains a renewed commitment to allocate, as a matter of priority, proceeds stemming from higher than expected economic growth to improve the budgetary position, the updated programme lacks information on how the authorities intend to comply with the commitment to limit the increase in real expenditure in Entity I (Federal Government and Social Security) to 1.5%.

Based on this assessment, the Commission has adopted the attached recommendation for a Council opinion on the updated stability programme of Belgium and is forwarding it to the Council.

Recommendation for a

COUNCIL OPINION

in accordance with the third paragraph of Article 5 of Council Regulation (EC) n°1466/97 of 7 July 1997

on the updated stability programme of Belgium, 2004-2007

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European community,

Having regard to Council Regulation (EC) no 1466/97 of 7 July on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies[6], and in particular article 5(3) thereof,

Having regard to the recommendation of the Commission, after consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On [9 March] 2004 the Council examined the 2003 update of the stability programme of Belgium, which covers the period 2004 to 2007. The updated programme largely complies with the data requirements of the revised "code of conduct" on the content and format of stability and convergence programmes.

The budgetary strategy of the Belgian authorities continues to be aimed at: i) respecting the objectives of the Stability and Growth Pact, that is, a budget close to balance or in surplus; ii) ensuring a steady reduction in the debt to GDP ratio in a medium to long-term perspective; iii) promoting job creation consistent with the maintenance of sound public finances.

The 2003 estimate of GDP growth in the programme is 0.9%. It is the third consecutive year of GDP growth lower than 1%. For the subsequent years, the projections for GDP growth in the update are for a pick-up to 1.8% in 2004 and 2.8% in 2005. In 2006-2007, GDP growth is estimated to average 2.3%. Employment growth is expected to accelerate from -0.1 % in 2003 to 0.7% in 2004 and 0.8% on average in 2005-2007. HIPC inflation is projected to remain stable at 1.4% over the period 2004-2007.

On the basis of currently available information, the macro-economic scenario underlying the update seems realistic, with the possible exception of 2005, when GDP growth is projected in the update at 2.8%, half a point higher than in the Autumn 2003 forecast by the Commission.

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[6] OJ L 209, 2.8.1997

Despite the slowdown in economic activity, the updated programme shows a surplus of 0.2% of GDP in 2003 on the general government accounts (a more recent estimate indicates a surplus of 0.3% of GDP). However, this result is influenced by one-off measures with a net positive effect of 1.2% of GDP, notably an operation involving the mainly publicly owned telecommunication company Belgacom the admissibility of which is to be cleared by Eurostat.

The balanced budget target for 2004 relies on one-off measures amounting to 0.7% of GDP, including proceeds from a tax amnesty for 0.3% of GDP. For 2005-2006 the authorities continue to project a balanced budget and a small surplus of 0.3% of GDP is foreseen for 2007. In connection with a projected reduction in interest payments, the primary surplus moves from 5.6% of GDP in 2003 to 4.8% in 2005 and then stabilises.

In cyclically adjusted terms, based on Commission calculation on the programme data according to the commonly agreed methodology, the budget balance moves from a surplus of 0.8% of GDP in 2003 to a balanced budget in 2004-06 and a small surplus in 2007. Excluding one-off measures, the cyclically adjusted figures would show an improvement from a deficit of 0.4% of GDP in 2003 to a surplus of 0.3% in 2007.

Under plausible macro-economic and budgetary assumptions, a budgetary position of close to balance or in surplus is maintained over the programme period. This would also provide a safety margin against breaching the 3% of GDP threshold with normal cyclical fluctuations.

Public debt has been falling steadily from an all-time high level of 138% of GDP in 1993 to slightly more than 100% in 2003 and it is envisaged to reach 87% of GDP in 2007.

The budgetary strategy outlined in the programme is compatible with improving the sustainability of public finances. However, Belgium still presents some risks of long-term unbalances, linked to the consequences of aging. The outstanding level of debt requires attention and maintaining high primary surpluses in the next 10 to 15 years as planned is necessary to keep Belgium on a sustainable path. Also, as indicated in the Broad Economic Policy Guidelines, reducing the debt, increasing the retirement age, strengthening efforts to finance the Ageing Fund and pursuing the reform of the pension system are needed to prepare for the budgetary implications of population ageing.

The economic policies as reflected in the updated programme are partly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. While the programme contains a renewed commitment to allocate, as a matter of priority, proceeds stemming from higher than expected economic growth to improve the budgetary position, the updated programme lacks information on how the authorities intend to comply with the commitment to limit the increase in real expenditure in Entity I (Federal Government and Social Security) to 1.5%.